

Return to an Address of the
Honourable the House of Commons dated
16th October 2002 for the

English National Stadium Review

Final Report

October 2002

Patrick Carter

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Patrick Carter's covering letter to Tessa Jowell MP, Secretary of State for Culture, Media and Sport

16 October 2002

Dear Secretary of State,

English National Stadium

Following the submission of my Interim Report on 19 December 2001 you gave qualified support for the scheme to develop the English National Stadium at Wembley and set out certain conditions for Wembley National Stadium Limited (WNSL) to meet before you would commit the essential Government backing and financial support for the project to proceed. You indicated that before confirming your commitment you wished, amongst other things, to receive from me a final report. You also subsequently asked that I confirm that the conditions you had stipulated in your statement to Parliament had been met.

2. I said that the Review Team would not offer its final report until binding and irrevocable agreements had been reached. That position was reached on 26 September 2002 when my report became final. This version has been changed so as to remove commercially sensitive information for ease of publication. In view of the public interest and investment in the project I have restricted the changes to the minimum - the report remains substantially the same as that prepared for Ministers.
3. I can now confirm that in my view your four conditions have, on balance, been met. I have also considered the overall viability of the project in accordance with my terms of reference.
4. The leadership and additional commitment, which the FA has shown in now bringing the project towards fruition should be recognised. Much hard work has also been put into the project by WNSL and the public and private sector stakeholders and partners.

Financing at Wembley

5. When I reported in December 2001 I expected that the deal to deliver the stadium would evolve. So it has proved. Indeed it has turned out not to be possible to finance the stadium as was then planned.
6. As at December 2001 WNSL envisaged raising £270m of senior debt, which the lead bank would syndicate prior to financial close. It was expected that a further £100m of up front capital would then be provided through leasing, the sale of pouring rights, and the guarantee in respect of up front premium seat income.
7. During the first quarter of 2002 there was increasing concern at the lack of speed at which the project was progressing with the previous senior lender and the uncertainties surrounding the syndication process. WNSL therefore entered into negotiations with Westdeutsche Landesbank ("West LB") whereby West LB would provide senior debt to include money which would have been raised from leasing, pouring rights and upfront premium seats, without any syndication prior to financial close. This financing package, as described above, has increased the overall capital cost of the project by approximately £25m.
8. The new financing package has been structured so that WNSL will bear the cost of construction interest previously to have been borne by Multiplex. The contract price with Multiplex has been reduced to reflect the new financing mechanism. Multiplex has the same obligations associated with design, construction and insurances, as was the case at December 2001.
9. From the outset of my review I have expressed a concern that both the design of the stadium and its method of procurement have resulted in an expensive project. I now believe that the method of financing has also become expensive. In part this is a reflection of the history of the project and the nervousness engendered in potential lenders. The FA and WNSL believe that the changes made to the financial structuring of the project were essential to provide certainty and limit risk.
10. As project sponsor and provider of risk capital, I believe the FA should have the final decision as to what is built and how it is to be funded. The total public sector contribution is only 21% of the project cost, and is capped at £161m. This includes the Lottery grant of £120m paid by Sport England in 1999. The Government's contribution of £20m represents 2.6% of the total project cost. This compares to the FA's upfront funding of £148m, annual income guarantees of up to £14.9m and a repayment guarantee at the end of the 16½ year bank loan of £106m. In opting for a more expensive financing solution the FA acknowledges that it will bear the ultimate cost of this solution in the form of lower distributions over the project life. Once the construction period is over and there is an indication of the levels of premium seat income, it is likely that a refinancing exercise will take place. This should result in a lower interest rate for the senior debt, the removal of high-cost senior subordinated debt and, potentially, a longer period of repayment.
11. WNSL's own financial projections show that Wembley Stadium could turn out to be very profitable. The agreements reached ensure that the Stadium's profits are used for the benefit of football. You have rightly said that the FA should not be in a position to make windfall gains. The agreements reached are such that the FA should not be able to make such gains from refinancing. They must also retain £100m of investment in the project in the event of refinancing and there are restrictions on the sale of a minority share, both of which require your agreement, which you have absolute discretion to withhold. These are important protections to ensure the FA's continued commitment to the project. Should the stadium do well the benefits it brings to football, in part on the back of public investment, could enable other public funds for sport to be directed to areas less able to stand on their own feet.

Patrick Carter's covering letter to Tessa Jowell MP, Secretary of State for Culture, Media and Sport (continued)

Value for money

12. The total cost of the project is now estimated to be £757m. This is some £42m higher than when I reported in December 2001. The increase relates to: the additional cost of the funding package (see paragraph 7), additional costs from delay in the project, an early completion incentive fee for Multiplex to put them in the same position as they were in under the earlier DC&F contract, and beer and soft drink piping costs. This is a high cost stadium and given the history of the project you have been concerned whether the principal contract in the project, the D&C contract - with Multiplex - represents value for money.

13. Cyril Sweett were commissioned by WNSL to comment on this. They concluded that the cost of the design and construction works for the new Wembley Stadium represents value for money. However, included within the contract price of £445m are £18m of insurances and securities which they have excluded in assessing value for money. West LB have confirmed that the insurances and the substantial performance bond are mandatory requirements for providing funding. WNSL's insurance brokers have provided written confirmation that the principal insurances will be placed after market testing. Further amounts are set aside to cover future policies that need to be placed after practical completion and to cover a proportion of the excess Multiplex would have to pay in respect of delayed completion before the relevant insurances become payable. To the extent that the latter is not used, due to the timely completion of the Stadium, it will represent additional profit to Multiplex.

14. Cyril Sweett also conclude that the D&C contract, following the omission of Multiplex's financing obligations, is less onerous on Multiplex and is a product that could be put to a receptive market. While they believe it is possible but not probable that this could lead to a more competitive price, they also point out the uncertainties this would introduce (the costs arising from re-tendering; inflation in building costs from the delay in construction; and other ramifications, including the cost of compensation to Multiplex and the loss of their knowledge of the project) are factors weighing against this. There will also be a loss to the impetus to the project, which the Review Team believes has been a strength of Multiplex. In addition seven acres of land necessary to the project would be lost at the end of this year.

15. Neither the financing of the stadium nor the marketing agent's fees have been formally market tested.

16. There is no certainty of savings from re-tendering and the costs of the delay could offset any savings in the construction and other prices. The project would continue to require the commitment of public money to succeed and I do not believe there is any likelihood of savings to the public purse from re-tendering, in particular in the light of the damage to confidence in the project re-tendering would cause and the significantly increased financial burden the FA has undertaken since December to ensure the project goes ahead.

Management at Wembley

17. At the time of my December report I was concerned that a fully suitable project management team and structure should be put in place, coupled with appropriate corporate governance procedures, to deliver a project as complicated as this. The project management team will have responsibility for the executive management of the project, whilst the corporate governance procedures will deal with the non-executive oversight of the executive management.

Corporate Governance

18. As to corporate governance, the WNSL board has been strengthened considerably in terms of project management oversight by the appointment of Michael Jeffries as non-executive Chairman and other experienced non-executive directors. The Chairman has stressed to me that he regards it as one of his key roles to ensure that correct corporate governance procedures are followed, and that these procedures should have regard to the significant amount of public sector money invested in the project.

19. The FA and WNSL have agreed to the continuing involvement of the Office of Government Commerce in reviewing the project. I welcome this. They have also agreed to ensure that standards of regularity and propriety appropriate to the public sector are adhered to and to establish the necessary monitoring arrangements. It is important that the public sector funders ensure that there is improved monitoring of the project.

Project Management

20. As regards project management and the executive team, there has been no strengthening of the executive involved with the project at WNSL and the FA during the course of my review, although Michael Cunnah has moved across from the FA Finance Directorship to be WNSL's Chief Executive. However the Chairman of WNSL has given me specific assurances about strengthening the WNSL executive team before the actual building of the new Stadium begins after the completion of demolition. I regard these as important assurances. Regardless of the value for money and corporate governance work that has been done there will need to be high quality project management throughout to ensure that the stadium is delivered to time and cost.

Patrick Carter's covering letter to Tessa Jowell MP, Secretary of State for Culture, Media and Sport (continued)

21. I believe the stakeholders will want to see evidence that the issues of the past have been fully dealt with as the project moves into its construction phase. Good corporate governance (predominantly by non-executives) is no substitute for good executive management and all stakeholders will need to remain focussed on this in the first five years of the project at least. It is vital the project's contingency is managed well especially as, in its role as provider of risk capital, the FA will need to support WNSL in the event it cannot recover cost overruns from Multiplex or any other party. Top quality project management is critical to the success of the project in particular so that a culture in WNSL of avoiding changes to the D&C contract is enforced to ensure there are no construction cost overruns and to maximise sales of the premium seats. Naming rights are held in reserve should the project face financial difficulty. It is undesirable to have to use them when, with good management, it should be possible to deliver the project according to the current plans and cost.

22. In the light of the above I believe an appropriate framework is in place in relation to corporate governance and executive management.

Conclusion

23. I believe the project can now be adequately financed, and is capable of proceeding to completion. West LB have carried out extensive due diligence on the construction and operation of the Stadium. Despite the issues and risks highlighted in my report the scheme as it stands should succeed.

24. There is no prospect of any other scheme being put together in the foreseeable future, which will deliver a national stadium with as great a degree of certainty or at so low a cost and potential risk to the public sector. Other venues or designs would face a number of the same issues and the collapse of the project would cause severe damage to the credibility of the only possible sponsor, the FA, and make raising the debt funding for any alternative difficult and expensive. What is particularly difficult in a construction project of this complexity is to ensure that all the ingredients for success are brought together coherently at the same time. It has taken a further nine months of concerted effort between the parties since my December report to achieve this. It would be extremely difficult to replicate this degree of agreement albeit that elements of it might in other circumstances have been improved.

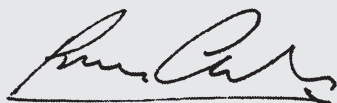
25. The additional £41m, which the public sector is putting into the project, should be contrasted with the FA's request in April 2001 for £150m to bring the Stadium to completion.

26. There is a good prospect that Wembley will give England a prestigious national stadium, which does not require continuing support from the state. This is in marked contrast with the current experience with the Stade de France and Stadium Australia. The level of public investment, which is capped (£161m), is also less than is the overseas experience for providing such a major infrastructure.

27. It is however important that the Government and other public sector partners learn the lessons of this project and I expect that you will want to commission a suitable evaluation. It has taken far too long to achieve a coherent direction and certainty of commitment. This, and the complexity of the task, has led to a high overhead in administrative and legal costs, and contributed to the overall cost of the project after infrastructure.

28. In conclusion I recommend that you go forward with the project on the terms proposed supported by continued monitoring of the corporate governance and executive management measures referred to above. This should provide a success after a troubled journey. The alternative is a bitter, expensive failure. This was not and never will be an easy project to evaluate and see through to its opening. However it does now have a sponsor in the FA, together with the financing, planning consent, a strong board of non-executives at WNSL and supportive stakeholders in place. In addition the matrix of contractual documentation is now in place. Accordingly the current project offers the only realistic option if we are to have an English National Stadium in the foreseeable future.

Yours sincerely



Patrick Carter

Background

- The terms of reference for the Review announced on 25 June 2001 were:
'In light of the FA's announcement on 1 May about the project to develop a new English National Stadium at Wembley for Football and Rugby League, to examine if the project can be funded and managed at Wembley, or if that proved impractical, at another location in England'
- The results of the first two phases of the Review were published in the Interim Report (HC479) on 19 December 2001
- The Secretary of State made a statement on this date of her qualified support setting out the Government's further conditions for WNSL to meet in order to secure public funding
- On 23 May 2002 the Secretary of State asked Patrick Carter to advise on whether the conditions had been met. The conditions were:
 - to conduct an independent value for money assessment of the Multiplex contract
 - for WNSL to ensure that papers relating to the project were made available to the Comptroller and Auditor General
 - confirmation that corporate governance changes will be made to produce a management structure capable of delivering a complex project within procedures acceptable to the public sector
 - confirmation that financial support is adequate and fully committed, after all relevant factors have been taken into account in a process of due diligence
- Appendix 1 sets out the Members of the Review Team

Final Report

- The Final Report base date is 26 September 2002 when binding and irrevocable agreements were signed ("financial close"). This version has been changed so as to remove commercially sensitive information
- After financial close there remain certain conditions precedent to be met to enable WNSL to draw down funds from their lenders

Background

Work since 19 December 2001

- Progress since the announcement of 19 December has centred on WNSL servicing the requirements of the due diligence process for their financiers and other stakeholders and agreeing the contractual documentation and is summarised below:

Date	Event
January 2002	<ul style="list-style-type: none"> ■ The then WNSL Chairman wrote to the Secretary of State on 16 January 2002 setting out proposals to meet the conditions she had set. The Secretary of State replied confirming her conditional offer of £20m on 14 February since when DCMS, Sport England and the LDA have worked with FA/WNSL and their funders to take forward the implementation of the conditions
March 2002	<ul style="list-style-type: none"> ■ LDA and London Underground reported on options for increasing capacity at Wembley Park underground station ■ Brent Council granted the Stadium outline planning permission on 20 March 2002 subject to the signing of a s106 agreement
11 April 2002	<ul style="list-style-type: none"> ■ The Office of Government Commerce gateway review of the project was delivered, concluding that the project should proceed ■ The Value for Money report on the proposed Multiplex DC&F contract by Cyril Sweett was delivered (abridged version published 20 May 2002) ■ WNSL's new board was constituted and announced
26 April 2002	<ul style="list-style-type: none"> ■ The Sport England Athletics Study was delivered (published 8 May 2002)
7 May 2002	<ul style="list-style-type: none"> ■ The Secretary of State made a statement to the House of Commons assessing that significant progress had been made on three of the conditions
23 May 2002	<ul style="list-style-type: none"> ■ The Secretary of State made a further statement to the House of Commons setting out that three of the four conditions had been broadly met: assessment of value for money, relevant papers received by the National Audit Office and corporate governance
31 May 2002	<ul style="list-style-type: none"> ■ WNSL signed heads of agreement with West LB and issued a statement that finalisation of contracts would take up to 10 weeks
24 July 2002	<ul style="list-style-type: none"> ■ An addendum to the Cyril Sweett report was delivered following the change in Multiplex contract from DC&F to D&C
20 August 2002	<ul style="list-style-type: none"> ■ West LB Board final approval (subject to documentation)
23 August 2002	<ul style="list-style-type: none"> ■ The s106 agreement was signed and planning consent granted
26 September 2002	<ul style="list-style-type: none"> ■ Binding and Irrevocable agreements are signed ("financial close")

Project Structure

- The Project comprises a complex series of interlocking contracts of which the principal ones are:
 - The D&C contract with Multiplex covering the design and construction of the Stadium
 - The funding agreements with West LB and CSFB covering the provision of the senior debt and the senior subordinated debt respectively and the FA Support Deed
 - The Lottery Funding agreement with Sport England (£120m) and agreements covering grants from the LDA (£21m) and DCMS (£20m)
 - The agreements with Brent Council governing inter alia planning permission
 - The staging agreements with the FA, the FL and the RFL governing the staging of matches by each of those organisations
 - The catering agreement with Delaware North Catering governing the provision of catering services at the Stadium
 - The premium seat sales agency agreement with IMG governing the sales agency and commission arrangements in respect of premium seats

Financing at Wembley

Revised cost of Wembley

- The method of funding the Stadium has changed significantly from that planned by the FA at the time of the Interim Report in December 2001. At that time the FA envisaged that a syndicated loan would be raised by April 2002. The FA also anticipated that financing of £50m would also be raised through advance payments from the marketing agency, IMG, in respect of up front premium seat income. This has not proved possible. Senior debt loan finance is now being provided by West LB who are not syndicating the loan until after financial close and senior subordinated financing is being provided by CSFB to underwrite premium seat income. Whilst the new financing is significantly more expensive, WNSL believe that the move from the previous senior debt lender to West LB was essential to bring certainty to the funding process
- At the time of the December report, Multiplex was to build the Stadium under a fixed price DC&F contract. Under the revised funding arrangements, WNSL are providing the project finance and procuring the Stadium through a fixed price D&C contract. The contract price has been reduced to remove construction interest. The value for money implications of the change are set out on page 14
- The change in the source and method of raising finance coupled with the extended timetable to reach financial close has led to a significant increase in the cost of funding the project as detailed below:

	£m
Per December 2001 report	715
Additional financing costs (fees and interest)	25
Net additional delay costs and Multiplex completion bonus	14
Beer and soft drink piping costs	3
	757

- A breakdown of the project costs is included as Appendix 2
- Additional financing costs relate to the West LB non-syndicated financing compared to the previous syndication option, and the cost of underwriting up front premium seat income plus additional interest
- The additional cost of underwriting the up front premium seat income has led to potential savings in commissions which might have been payable for guaranteed seat income over the 20 year term of the marketing agency agreement compared with the terms envisaged in December
- The net additional delay costs principally relate to increases in insurance and legal and other professional fees which have been offset in part by certain savings – principally in on-going WNSL staff costs
- The additional Multiplex completion bonus is payable if the Stadium is completed up to four months ahead of schedule i.e. in September 2005. This bonus could be offset by the benefit of hosting more events due to the earlier opening of the Stadium and earlier access to premium seat income paid in advance
- WNSL had previously assumed that the costs for the installation of beer and soft drink piping would be covered by the drinks supplier – WNSL has now revised this assumption
- At the time of the December report a performance bond of £120m was to be put in place to cover the insolvency/failure of Multiplex. It has not proved possible to place this much cover in the bond market in the more cautious climate post September 11. The bond is now £60m with a further £40m of cover being provided through increased retentions from Multiplex and insurance

Financing at Wembley

Revised cost of Wembley (continued)

- The proposed funding of Wembley at December 2001 compared to the current proposals as set out in the WNSL Management Case is shown below:

	Per December report £m	Revised £m
FA	100	148
WNSL surplus from operations	14	15
Senior debt	270	426
Senior subordinated debt	—	7
Up front premium seat income	50	—
Pouring rights/catering/leasing	50	—
Sport England	120	120
Government (DCMS)	20	20
LDA	21	21
	645	757
Shortfall	70	—
	715	757

- The £70m shortfall as at December was to be met by more debt supported by the FA
- As at operational completion of the Stadium the senior debt is envisaged to reduce as follow

	£m
Senior debt	426
Up front premium seat income	(61)
Catering up front payment	(20)
	345

- The effect of the above is that the up front premium seat income and pouring rights/catering/leasing funds are now provided under the senior debt facility which is reduced as the up front receipts from these income streams are realised
- Under the WNSL Management Case up front premium seat income is forecast to exceed the level of premium seat underwriting, and consequently there is no further draw down of the senior subordinated debt. Under the other scenarios that have been modelled up front premium seat income does not exceed the level of premium seat underwriting and consequently part of the senior subordinated debt facility is drawn down
- The Stadium caterer is to provide a £20m up front capital receipt on practical completion as part of the consideration for supplying all catering at the Stadium for a 25 year period. Under certain cases of default the FA is underwriting this payment to West LB. The FA's total support to the project is set out on page 11
- Up front net premium seat income under the Management Case is forecast to be £93m. In addition the Management Case assumes that £10m will be received at practical completion for advance pouring rights
- The senior debt is a 13 year facility post practical completion. The interest rate is 2½% over LIBOR, with a 2½% arrangement fee and a ½% annual commitment fee
- The Review Team consider that the overall financial package (including the cost of insurances and the bond required by West LB) is expensive reflecting in part the difficult history of this project

Financing at Wembley

Project viability

- Staging agreements have been signed which commit the FA's events for 30 years and the FL's and the RFL's events for 20 years
- The sale of premium seats is critical to the success of the project. There are 16,958 premium seats, including 1,856 in boxes. Premium seats are to be sold by IMG on a commission basis. The commission structure incentivises IMG to maximise sales
- WNSL and the banks have assessed the viability of the project based on numerous different scenarios. The key difference between the various scenarios is the assumptions used in respect of premium seat sales. The Review Team have analysed the project viability under four of the different models: WNSL Management Case and the Bank Target, Mandatory and Senior Subordinated cases
- WNSL and West LB believe that a project refinancing will take place shortly after the Stadium has opened. At this stage construction risk will have been removed and there will be much more certainty surrounding premium seat sales. Assuming that the Stadium is completed on time and within budget, and that premium seat sales are reasonably successful, refinancing should result in:
 - lower interest rates on the senior debt, probably by up to 1% per annum
 - The repaying of the senior subordinated debt which would then form part of the senior debt. The senior subordinated debt has an interest rate of between 2% per annum and 4% per annum above the senior debt interest rate
 - a longer loan period probably 20 years compared to the current 13 years post the construction period
- The FA's pre and post inflation IRRs under the Management Case assuming a refinancing are 11% and 13% respectively which is in line with the 10-15% ranges indicated in the December report. Under the Senior Subordinated Case and Bank Target Case, the pre and post inflation IRR's assuming a refinancing are 4% and 7% and 0% and 3% respectively reflecting the more pessimistic assumptions used regarding premium seat sales
- As the ultimate owner of the project equity the FA bears the cost of the lower returns
- If the Management Case is achieved the project will generate significant cash flows. Financial projections for 2017, a typical year of operation, show pre tax free cashflow at £17m or if the effect of inflation is taken into account over the intervening period £39m
- If a refinancing took place soon after practical completion it is possible that a larger debt facility could be negotiated enabling the FA to be repaid part of its original investment. However the FA is legally committed to maintaining £100m of subordinated debt for 50 years. Therefore on any refinancing, the FA could be repaid up to £48m of its original investment plus interest and any other debt invested, but thereafter can only extract cash permanently through dividends. By March 2008 distributable reserves under the Management Case are £11m. Therefore the FA's ability to extract significant amounts from WNSL on a refinancing in the early years post practical completion is limited. Under the Senior Subordinated and Bank Target cases WNSL has negative reserves for over 10 years post practical completion and therefore cannot pay dividends to the FA during this period

Financing at Wembley

FA support

- The FA support to the project is set out below:

Capital	£m
Subordinated debt to be maintained throughout the project life	100
Subordinated debt	43
Staging payments during construction	5
	148

Annual revenue guarantee	£m
General revenue support, sponsorship support and premium seat income	14.9
	14.9

- The FA contributes £137m of capital to the project before any debt finance is drawn down. The FA's subordinated debt is not interest bearing in the financial model although the FA have the right to charge a commercial rate of interest. The FA may choose to make some of its capital contribution by way of payment for tax losses and reduce the amount of subordinated debt accordingly
- The FA is underwriting the £20m caterer capital payment under certain cases of default should WNSL terminate the catering contract
- The sponsorship and premium seat income guarantees broadly cover income up to Bank Target Case levels and fall away if certain stringent income targets are met
- The FA is guaranteeing the repayment of the West LB facility at the end of the 16½ year facility. Under the Bank Mandatory Case this would amount to £106m. Under other cases the bank debt is repaid by the end of the 16½ year period
- At the time of the December report the FA had indicated that it was prepared to commit £100m of capital to the project, £7m per annum towards meeting the then project shortfall of £70m, and would provide an annual income guarantee to the project of £10m. The £7m per annum has effectively been used to fund the additional £48m of up front capital. Overall, therefore, since December the FA's commitment has increased by £4.9m per annum in terms of revenue guarantees, by £20m in terms of its underwriting of the advance receipt from the caterer, and by the repayment guarantee of up to £106m
- The FA's major source of income is expected to continue to be the sale of its television rights. The FA has informed the Review Team of its level of contracted television income over the next two years and that it is satisfied that future television income will be at a level to enable it to meet its ongoing obligations
- The commitment to fund £148m capital by 2004 could not be easily increased. However, in 2005 and 2006 the Review Team considers that the FA could have further funds to commit to the project if there were significant cost overruns
- WNSL does not currently have the right to sell naming rights for the Stadium. This represents a potentially significant source of income which could be pre-sold for a ten year period. This represents a valuable reserve should the project have financial difficulties
- In addition to the support set out above, the FA has made substantial financial commitments to WNSL through its Staging Agreement

Management at Wembley

Corporate Governance and Project Management

- The December report made clear the importance of this to the project's credibility. In particular it concluded that: only the FA could accept the role as credible project sponsor; that WNSL needed to secure a strong and credible board and management with the requisite experience to make the project succeed; and that WNSL must demonstrate that it has secured strong contract management capacity. The Review Team's view has not changed
- The Review Team believes that it is vital for the success of the project going forward that there is a clean break with the concerns of the past
- At the time of the December report the FA was already taking the position of credible project sponsor. Since then the FA has continued to take a leadership role in taking the project forward as evidenced in the FA's increased financial commitment and in the time invested in addressing the issues raised by Tropus, David James and the process of due diligence
- The Review Team regard the implementation of the corporate governance and project management procedures set out below to be fundamental to the timely and efficient completion of the project within the current budget and its subsequent operation

Corporate Governance

- The Secretary of State called for improvements to corporate governance procedures as one of her conditions. The Review Team consider the condition met
- A new WNSL Board was appointed on 11 April 2002 and has been strengthened considerably in terms of project management oversight with the appointment of a Chairman with a construction and project management track record and other experienced non-executive directors. This is to be welcomed as the project moves into the construction phase. A proactive approach to drive the project forward is envisaged. The Chairman has made clear to the Review Team that he will continue to work closely with the stakeholders
- The Review Team has considered the proposals for governance which seek to adopt the principle of the Combined Code and have been approved by the WNSL Board. The Review Team especially supports the preponderance of non-executive directors on the Board and its sub-committees and particularly the establishment of the construction, risk and audit committees. WNSL have also agreed to ensure that standards of regularity and propriety appropriate to the public sector are adhered to
- Proposals for a joint monitoring process and the appointment of a compliance officer in WNSL were recommended in a review by the Office of Government Commerce for the three public sector funder accounting officers. The compliance officer should give assurances on the Wembley project akin to the role of an accounting officer for a public sector body. WNSL have agreed to establish the necessary arrangements. The Review Team support the proposal for a single monitoring gateway, but consider it important that the public sector funders ensure there is improved monitoring of the project
- The December report commented that any solution would require strong, unified and enduring commitment from the stakeholders to succeed. It will be important for the relationship between the stakeholders to continue to develop from financial close to ensure this commitment is delivered

Management at Wembley

Corporate Governance and Project Management (continued)

Project Management

- Project management capability has been enhanced on the construction side through the appointment of Symonds Group. The executive involved with the project at WNSL and the FA is substantially the same as it was last summer when the review began. Michael Cunnah, who was Finance Director at the FA, has now been appointed Chief Executive of WNSL. The Chairman of WNSL has given the Review Team specific assurances about strengthening the WNSL executive team before actual building of the new Stadium begins after demolition. The Review Team regard these as important assurances

- It is essential that WNSL and Multiplex have a clear understanding of the design through the employer's requirements. Davis Langdon & Everest and Citex, acting for the public sector funders, have reviewed these (together with other contract documentation) and within the scope of their own terms of reference are, between them, satisfied that they are sufficiently robust to serve as the basis of the D&C contract between WNSL and Multiplex

Value for money

- The Secretary of State required the conduct of an independent value for money assessment of the Multiplex contract. On balance, the Review Team considers the value for money condition met. The Review Team's remit has not been to give a separate view on the value for money of the Multiplex contract
- DCMS and Sport England were consulted on the terms of reference for the assessment. Cyril Sweett were appointed by WNSL on 20 February 2002 and reported on 10 April 2002. The Secretary of State made statements to the House of Commons on 7 and 23 May accepting Sweett's conclusion that the proposed Multiplex DC&F (£498m) contract offered value for money when compared to other stadia
- Cyril Sweett were re-commissioned on 31 May to assess the change in the Multiplex contract from DC&F to D&C. They concluded that the revised contract price remains value for money, but less so since their original report. The reduction in value for money relate to insurance and financial security elements retained in the revised contract price to a value of £18m which Cyril Sweett viewed as being a residual element of the original financing provision. They questioned whether this insurance and financial security package represents value for money. West LB has however confirmed that they require insurances of this scope and a performance bond as a condition of their funding. WNSL's insurance brokers have provided the Review Team with written confirmation that the principal insurances will be placed after market testing. Further amounts are set aside to cover future policies that need to be placed after practical completion and to cover a proportion of the excess Multiplex would have to pay in respect of delayed completion before the relevant insurances become payable. To the extent that the latter is not used, due to the timely completion of the Stadium, it will represent additional profit to Multiplex
- Cyril Sweett have pointed out that the construction contract following the change from a DC&F to a D&C contract is something to which the construction market might be receptive. They have told the Review Team that were the project to be re-tendered a lower price is possible but not probable and that such a process would take a minimum of six months to reach a conclusion. In addition the Review Team note that such a timescale would mean seven acres of land required for the project would revert to the owner, as WNSL would not be on site by 31 December 2002
- In addition there are a number of issues, which Cyril Sweett discussed with the Review Team, that would substantially erode the chance of any such reduction:
 - cost of re-tendering and further negotiation, including on the contract terms
 - inflation on construction cost during the tender period
 - the cost of compensation to Multiplex
 - loss to WNSL and the project of Multiplex's knowledge
- There was no formal market testing of the sales agency on the revised basis. Neither the senior debt nor senior subordinated debt funding package was formally market tested. However there is no certainty of savings from market testing the banking and any attempt to do so now would lead to the collapse of the project
- The level of public sector investment in the Stadium is £161m with no scope for any increase. This has not increased since that envisaged in December, even though the project cost overall has increased by £42m since that time. The FA's commitment has on the other hand increased substantially
- The Review Team considers that there is no likelihood that the public sector contribution of £41m which was offered in the light of the December report would be reduced as a result of re-tendering either the main construction contract or the banking and marketing arrangements

National Audit Office

- The Secretary of State asked for WNSL to ensure that papers were made available to the Comptroller and Auditor General. The Review Team considers this condition to be met
- The Secretary of State confirmed on 7 May that WNSL had carried out her request to make papers available to the Comptroller and Auditor General
- The National Audit Office has confirmed to the Review Team that it has received relevant papers. As the National Audit Office has yet to carry out its audit work on the project its relationship with WNSL is largely untested under audit conditions, but WNSL has provided assurance about continued co-operation
- Given the public investment in the project and the need for Parliament to be informed it will be important for WNSL to ensure the co-operation they have provided to date continues. The issue will need to be monitored for compliance

Athletics at Wembley

- The Secretary of State set out on the 7 May that the athletics study prepared for Sport England in close co-operation with UK Athletics, British Olympic Association, UK Sport and the IAAF had confirmed that the design conforms to the standards required by the IAAF
- The report concluded that the new platform was quicker to install and remove, and that costs associated with it have been substantially reduced. The report also highlights that sites have been identified in the locality that would meet the IAAF requirements for warm-up facilities
- The Sport England lottery funding agreement requires that the Stadium is provided at cost for athletics use and that WNSL does not recover any lost profits from not staging events or staging events at reduced capacity. The issue of provision of the Stadium at cost has been resolved. Appendix 3 outlines the principles for calculating 'at cost'
- Under the Management Case, WNSL is forecast to make annual profits of circa £40m pre depreciation, tax and debt service costs. Provided that the athletics solution enables the key events to be held at the Stadium without disruption to the premium seat holders, WNSL should still make sufficient profits in an athletics year to meet its debt service costs. In this case no compensation would be payable over and above the cost of installing and removing the athletics platform and any contractual compensation

Moving Forward

Project Risks and Credibility

- The Review Team believe that the principal risks involved in the project and the steps taken to minimise them are as follows:

Risk	Steps taken
<ul style="list-style-type: none"> ■ The accuracy of employer’s requirements in the D&C contract and the extent to which these properly reflect the requirements of the staging, catering, seat sales agency agreements and overall Stadium operating and the extent to which any inaccuracies in these or other issues might give rise to cost overruns ■ The extent to which any cost overruns can be funded if they are not borne by Multiplex under the terms of the D&C contract 	<ul style="list-style-type: none"> ■ Davis Langdon & Everest and Citex have reviewed the employer’s requirements against the D&C contract and are content ■ The WNSL Board will monitor the construction contract to create a no change culture ■ WNSL assurances on strengthening the WNSL executive team before building of the new Stadium begins after demolition
<ul style="list-style-type: none"> ■ Failure or insolvency of Multiplex 	<ul style="list-style-type: none"> ■ A mixture of performance bond and insurance and retentions will provide up to £100m of cover against the performance and insolvency of Multiplex
<ul style="list-style-type: none"> ■ Ensuring that WNSL has a management team of sufficient skill and expertise to project manage such a large and complex construction project ■ Ensuring that corporate governance arrangements are in place to ensure that the issues identified in the James Report do not re-occur 	<ul style="list-style-type: none"> ■ WNSL’s Board has been strengthened considerably in terms of project management oversight by the appointment of a new non-executive Chairman and other experienced non-executive Directors ■ WNSL assurances on strengthening the WNSL executive team before building of the new Stadium begins after demolition ■ WNSL has worked with DCMS and Sport England over the last eight months to construct a corporate governance framework that would meet public sector standards
<ul style="list-style-type: none"> ■ WNSL/IMG’s inability to meet forecast sales of premium seats once the Stadium has been built ■ FA TV income falling, reducing the income available to the FA 	<ul style="list-style-type: none"> ■ Detailed due diligence has been carried out with regard to the demand for the key events and the level of premium seat sales to ensure the projects on-going viability ■ Naming rights to the Stadium are held in reserve against financial difficulties
<ul style="list-style-type: none"> ■ Because of the history of the project any future weakness or failure will have a significant impact. This will particularly affect the reputation of all the stakeholders in the project 	<ul style="list-style-type: none"> ■ Stakeholder monitoring and consultation procedures within the corporate governance arrangements are being used to address this risk

Conclusions

- The project is now capable of proceeding to completion. Whilst improvements over the current project probably could have been made in different circumstances, it is the only option that is likely to result in a National Stadium being built in the foreseeable future
- Adequate financing for the project can be put in place and the Stadium can be successful commercially
- The public sector investment of £41m (£21m LDA and £20m DCMS) remains necessary to ensure progress of the project to completion. The risks to and financial input of the public sector funders are however finite. The principal risk to the public sector is reputational should the project fail or the problems of the past re-emerge
- On balance the Secretary of State's four conditions have been met
- But crucial to the project's succeeding will be high quality project management and the WNSL Board must ensure it approaches the actual building of the new Stadium with an executive team of the right size and skills

Recommendation

- The Government should be invited to go forward on the basis of continued monitoring of the corporate governance and executive management issues highlighted in this report

Glossary

CSFB	Credit Suisse First Boston
DCMS	Department for Culture, Media and Sport
DC&F	Design, Construction and Finance
D&C	Design and Construction
FA	The Football Association
FF&E	Fixtures, Fittings and Equipment
FL	Football League
IAAF	International Association of Athletics Federations
IMG	International Management Group
IRR	Internal Rate of Return
LDA	London Development Agency
LIBOR	London Inter Bank Official Rate
Multiplex	Multiplex Constructions (UK) Ltd
West LB	Westdeutsche Landesbank
WNSL	Wembley National Stadium Limited

Appendix 1

Review Team Members

- The final stage of the Review was led by Patrick Carter, assisted by Robert Raine and Stephen Poole of the Department for Culture, Media and Sport. KPMG LLP provided structured finance and business planning advice, legal advice was provided by Ashurst Morris Crisp. In addition the Review drew on professional advice from Davis Langdon & Everest on capital costs and project management

Appendix 2

Comparison of project costs December 2001 to September 2002

	December 2001 £m	September 2002 £m
Multiplex (excluding bank and legal)		
Base construction	358	364
Fees, FF&E, inflation for delayed start, insurances, contingency and other	84	81
	<u>442</u>	<u>445</u>
Other		
Acquisition of Stadium	106	106
Section 106	21	21
Construction interest	47	57
Bank arrangement fees/finance costs	8	22
Legal and other professional fees	9	11
WNSL management fee	16	19
WNSL costs	28	39
Project contingency	20	20
Other	18	17
	<u>715</u>	<u>757</u>

Appendix 3

Principles for the calculation of athletics at cost

- Compensation is to be paid by the event holder to WNSL as follows:
 - all costs of installing the athletics platform and reinstating the Stadium after the event will be borne by the event holder
 - any operating deficit (excluding depreciation) incurred by WNSL whilst the Stadium is in athletics mode will be repaid by the event holders as compensation
 - if WNSL makes an operating deficit pre debt service charges during athletics mode the event holder will pay to WNSL its debt service payments up to the Bank Target Case. The interest element of these payments will be treated as compensation. The capital element will be treated as a loan to be repaid when bank borrowings have been repaid
 - to the extent that WNSL makes a surplus before debt service costs this will be offset first against loan repayments and secondly against interest. If the surplus exceeds both interest and debt payments the only compensation payable will be the costs of adapting the Stadium
 - The FA/WNSL must take all reasonable steps to mitigate any loss, i.e.:
 - FA to agree to reschedule its events if possible
 - the potential to add events to be explored
 - operating costs to be saved where possible

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