



National Audit Office

# The Regeneration of the Greenwich Peninsula: A Progress Report

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 338 Session 2007-2008 | 16 July 2008

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Tim Burr, is an Officer of the House of Commons. He is the head of the National Audit Office, which employs some 850 staff. He, and the National Audit Office, are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work saves the taxpayer millions of pounds every year. At least £8 for every £1 spent running the Office.



National Audit Office

# The Regeneration of the Greenwich Peninsula: A Progress Report

LONDON: The Stationery Office  
£13.90

Ordered by the  
House of Commons  
to be printed on 14 July 2008

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

***Tim Burr***  
**Comptroller and Auditor General**  
**National Audit Office**

**10 July 2008**

The National Audit Office  
study team consisted of:

Shireen Khattak, Alex MacNeill,  
Vincent McCarthy, Akhil Patel  
and Louise Yaxley, under the  
direction of Patricia Leahy

This report can be found on the National Audit  
Office web site at [www.nao.org.uk](http://www.nao.org.uk)

**For further information about the  
National Audit Office please contact:**

National Audit Office  
Press Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

Tel: 020 7798 7400

Email: [enquiries@nao.gsi.gov.uk](mailto:enquiries@nao.gsi.gov.uk)

© National Audit Office 2008



# CONTENTS

|   |    |
|---|----|
| <b>KEY FACTS</b>  | 4  |
| <b>SUMMARY</b>  | 7  |
| <b>PART ONE</b>   |    |
| English Partnership's approach to<br>regenerating the Greenwich Peninsula | 11 |
| <b>PART TWO</b>   |    |
| Achieving a successful regeneration                                       | 19 |
| <b>PART THREE</b>   |    |
| Financial returns to the public sector                                    | 25 |
| <b>APPENDICES</b>   |    |
| 1 Study Methodology   | 30 |
| 2 Creating a Sustainable Community  | 33 |
| 3 Timeline  | 39 |
| <b>GLOSSARY</b>   | 42 |



## The Greenwich Peninsula regeneration project

**1** From July 2001 English Partnerships (EP) led the process to find a long term user for the former Millennium Dome and the regeneration of the surrounding 170 acres of land on the Greenwich Peninsula.

**2** In 2002 a deal was agreed between EP and a private sector consortium led by Meridian Delta Ltd (MDL) to develop the site over a 20 year period. The deal was completed in 2004. The projected financial return to EP from the land deal was £216.4 million in Net Present Value terms.

**3** As part of the overall deal the Anschutz Entertainment Group Europe (AEG) are responsible for the regeneration of the Dome.

## The Greenwich Peninsula

**4** The Peninsula is a development within the Thames Gateway area. The Peninsula is situated in the London Borough of Greenwich and is surrounded on three sides by the River Thames.

## Parties involved in the deal

| Organisation                                    | Function   | Role in project   |
|---|--|---|
| <b>Public Sector participants</b>               |  |   |
| Department for Communities and Local Government | Department with overall responsibility for housing and urban regeneration policy.  | EP sponsorship team: oversight of EP's management of a portfolio of regeneration developments including the Greenwich Peninsula.<br><br>Thames Gateway Executive: as the Peninsula lies within the Thames Gateway, and housing on the Peninsula counts towards its targets, there is information sharing and collaboration with EP on the implementation of the regeneration development. |
| English Partnerships (EP)                       | Government's national regeneration agency which supports sustainable growth in England.<br><br>Will be incorporated within new organisation "Homes and Communities Agency" from 2009.                                | Principal land owner on the Greenwich Peninsula.<br><br>Responsible for working with the private sector to achieve effective regeneration of the Greenwich Peninsula and deliver expected financial returns to the public sector.   |
| <b>Private Sector Participants</b>              |  |   |
| Meridian Delta Ltd                              | Joint venture consortium comprising:<br><br>Lend Lease Europe Holdings Ltd. (the European subsidiary of an Australian residential property group)<br><br>Quintain Estates and Development plc (FTSE top 250 company) | Quintain own some plots of land on the Greenwich Peninsula which are to be developed as part of the project.<br><br>Responsible for delivering the Greenwich Peninsula development.   |
| AEG Europe                                      | The European subsidiary of a privately-owned US company. A leading global provider of entertainment and sports events.   | Responsible for the development of The O <sub>2</sub> Arena and Waterfront area (previously the Millennium Dome site).  |

The Greenwich Peninsula is located within the Thames Gateway



**5** The Greenwich Peninsula was once a large gasworks site. EP undertook large amounts of decontamination and remediation work and invested in provision of facilities, transport links and infrastructure prior to signing the deal. EP's total investment on the Peninsula between 1997 and 2004 was £225 million.

**6** EP has existing development projects on the Peninsula. There is already an established community of over 1,500 residents at the southern end of the Peninsula – the Greenwich Millennium Village, as well as social infrastructure such as a primary school and health centre. Several large retail stores are located at the southern base of the Peninsula. EP has also developed open space and park land including an ecology park.

**7** North Greenwich underground station is co-located with North Greenwich bus station, a hub for bus services in the south east of London. A Thames Clipper boat service now runs a regular, high speed commuter service to and from the Peninsula to central and east London.

### Key deliverables

**8** The Masterplan for the Peninsula envisages a new urban quarter based upon the principles of sustainable mixed-use, high density and high environmental quality.

**9** 10,000 new homes, of which 38 per cent will be affordable housing, are planned to be built on the Peninsula over the next 15 years.

**10** There will be a new business district centre situated around The O<sub>2</sub>. The project is expected to deliver 343,600 square metres of commercial space and 33,750 square metres of retail space potentially providing employment for 24,000 people.

**11** The contract makes provision for contributions towards a range of community benefits including a new secondary and primary school, school playing fields, childcare facilities and a new health centre.

**12** The former Millennium Dome has been regenerated and is now known as The O<sub>2</sub>. Within The O<sub>2</sub> there is a 20,000 capacity Arena, an 11 screen cinema, bars and restaurants, an exhibition hall and a 2,350 capacity live music club.

### Cost

**13** The value of the total investment in the Greenwich Peninsula over the life of the project is estimated to be £5 billion. Between the deal going unconditional in 2004 and April 2007, MDL had spent £44 million.

**14** AEG was obligated contractually to spend a minimum of £120 million in regenerating the Dome. AEG has in fact spent approximately £350 million in regenerating the Dome between 2004 and 2007.

**15** Between 1997 and signing the deal in 2004 EP spent £225 million on making the Greenwich Peninsula site fit for purpose.

**16** Between 2001 and the reopening of the Dome as The O<sub>2</sub> in June 2007 when their liabilities ceased, the net cost to EP on its management, maintenance, and security was £10.7 million.





**1** This report is a follow-up to the NAO's 2005 report on the *Regeneration of the Millennium Dome and Associated Land*.<sup>1</sup> The 2005 report examined the process for selling the Millennium Dome and associated land and the resulting deal. The sale was conducted under difficult circumstances following an unsuccessful competition to find a buyer solely for the Dome. We concluded that the resulting deal offered an integrated solution for the regeneration of the Greenwich Peninsula and offered the Government a sensible exit strategy from the Dome.

**2** The Department for Communities and Local Government (the Department) has strategic responsibility for delivery of the Greenwich Peninsula regeneration and English Partnerships (EP), the Department's national regeneration agency, manages the delivery. The Greenwich Peninsula lies within the Thames Gateway region, which is also undergoing an ambitious regeneration and development programme. The NAO reported on the management of this programme in 2007<sup>2</sup> and made a series of recommendations to help the programme deliver its goals more effectively. Developments on the Peninsula contribute to Thames Gateway housing targets so EP collaborates with the Thames Gateway Executive where appropriate.

**3** Under the Greenwich Peninsula project, EP manages a series of contracts agreed with its consortium partners, undertakes a broader role in fulfilling the original sale objectives, and manages wider relationships with other stakeholders. The objectives of the Greenwich Peninsula project are to: i) maximise the long-term receipts to the taxpayer from the development of land; ii) ensure that the development of the Peninsula proceeds without undue delay and along lines acceptable to EP in terms of achieving sustainable communities; and iii) ensure the development of the Dome as quickly as possible, securing its sustainable future.

**4** It is four years since the project commenced and the regenerated Dome, now called The O<sub>2</sub>, has been open for a year. The development is still at an early stage, however, and faces inherent risks and challenges which mean it is only possible to come to firm conclusions about early progress compared to the initial plans, rather than on the longer term outcomes. EP has to manage the risks over the lifetime of the project to ensure obligations are met and to achieve maximum benefit for the taxpayer. This report, therefore, looks at the evolving risks and how well they are being managed.

**5** Our main conclusions are:

## Value for money conclusion

**6** To secure the redevelopment of the Greenwich Peninsula, the Government disposed of a mixed portfolio of assets including the Dome itself and the surrounding land. The Dome has become a highly successful entertainment venue and a beacon for a new community on the Peninsula. The wider redevelopment of the surrounding land has been less successful. Some commercial and educational developments are underway earlier than planned initially. The delivery of new housing has, however, fallen behind schedule. It will be difficult for the housing programme to recover the lost ground to meet original targets because the rate of building required to do so is very demanding. As a consequence of these delays, the taxpayer's likely return from the redevelopment has fallen significantly. The structure of the deal means that the delays have affected the taxpayer more than the private sector. The Government should consider whether future deals can be structured to align better the interests of the public and private sectors.

<sup>1</sup> *The Regeneration of the Millennium Dome and Associated Land*, HC 178 Session 2004-05, 12 January 2005.

<sup>2</sup> *The Thames Gateway: Laying the Foundations*, HC 526 Session 2006-07, 23 May 2007.

## Progress of redevelopment

**7 The Dome has become a highly successful entertainment venue.** Strict contractual obligations on the Dome's new owners, AEG, meant that the Dome opened as The O<sub>2</sub> on time in June 2007. In the first six months of opening (24 June–31 December 2007) over 1.2 million tickets were sold for the O<sub>2</sub> Arena and 90 per cent of the annual target of 150 events in the Arena had been arranged. The O<sub>2</sub> was reported to be the most popular music venue in the world for 2007 according to industry figures for tickets sold for music events for the relevant period. The O<sub>2</sub> has also had a positive effect on local employment with 62 per cent of employees coming from the Thames Gateway. The O<sub>2</sub> has become a beacon for the new development.

**8 Progress on new housing has been delayed.** Although the deal was signed in 2002, it only became unconditional in 2004. The start of house-building on the site – which is the majority of this development – has been delayed by two years compared to the original 2002 forecasts which formed the basis of the deal (see paragraph 2.7). Under these plans, the first land was to be sold for development in June 2005. Conditional land sale agreements were exchanged in September 2006 with the first sale taking place in July 2007 when all conditions were satisfied. MDL now acknowledges that the original plans were overly optimistic and that the development is more difficult to deliver than originally thought.

**9 It will be difficult for progress to catch up with the original plans.** MDL's 2008-2011 forward programme involves a greater rate of building than originally anticipated. MDL has also changed its strategy towards greater direct development. While this approach has potential to put progress back on track, MDL will have to commit more of its own resources to the project, and the accelerated building rate will demand a greater commitment of time from EP and Greenwich Borough Council. To date the parties are seeking to manage the demands of planning processes, but their ability to deliver construction on site to an accelerated timetable is unproven. And the planned increase in development is constrained by the market's ability to absorb additional supply of housing. All these factors together increase the risk of the project not being able to achieve its target contribution of 4,250 housing units to the Thames Gateway regeneration programme by 2016.

**10 MDL and EP have taken advantage of opportunities to bring forward commercial and educational developments earlier than planned.** This means that a mixed-use community, which is an important basis for creating a sustainable community, will be present early on in the project. Furthermore, the project scored well against fourteen (out of our 20) key criteria for a sustainable community which means that there is potential for one to be created on the Peninsula.

## Forecast financial returns to the taxpayer

**11 The financial model used to estimate returns is out of date.** The financial return to the taxpayer from such a long term land deal is inherently uncertain and is affected by factors including the timing of development and economic conditions. As a result, it is important that EP regularly assesses the impact of changes on expected taxpayer returns by using an up-to-date financial model. The current best estimate derives from a financial model which is now out of date in that it does not reflect the current phasing and timing of development. EP and MDL have been working since end 2006 on a new more sophisticated financial model for estimating the return, but are still in the process of agreeing it, because of the complexity of the model and the contracts on which it rests.

**12 Current estimates of the taxpayer's expected return from the deal, though unreliable, show a reduction of £45–60 million compared to initial forecasts.** Subject to the caveats in paragraph 11, the current best estimate shows a forecast reduction of between £45–60 million (depending on assumptions about the appropriate discount rate) from the forecast net present value of £216.4 million calculated at the outset of the deal. While it is impossible to be precise about the reduction in value based on the current financial model, delay to the housing development has eroded financial returns, since the present value of future income is lower when received later in time compared to income received earlier because of the time value of money and the greater risks involved.

**13 The structure of the deal means that delays have a greater impact on the current estimated returns to the taxpayer than those of the private sector.** The terms of the contractual agreements mean that the bulk of EP's returns are generated later in the deal. Delay, therefore, has had a proportionately greater impact on EP than on MDL. EP receives minimum land value payments upfront and most of its profits later in the life of the agreement. In negotiating the deal, EP weighed the arguments for deferring or advancing its share of the profits. Deferring its share would mean that EP benefited if property values rose over the life of the agreement. Advancing its share, by contrast, would mean that EP was less exposed to downturns in property values and delays. EP judged that deferring its profit share was in the interests of the taxpayer, taking into account expected changes in property prices and the need for all parties to have confidence in each other's long term commitment. Without formal levers in place to accelerate the pace of development, EP has, however, had to rely on its influencing and brokering skills to ensure that the project is as profitable for the taxpayer as was first anticipated.

**14 EP has started to clarify the detailed operation of profit sharing arrangements on the O<sub>2</sub> Arena.** EP is entitled to financial returns from The O<sub>2</sub> Arena and Waterfront. Following commercial advice in 2002, EP did not take these potential returns into account when appraising the deal. The Committee of Public Accounts recommended in 2005 that Departments should attempt to quantify the likelihood and nature of such upsides to help maximise potential additional benefits to the taxpayer. EP considers that undertaking this exercise before now would not have provided meaningful data as The O<sub>2</sub> has only been operational since June 2007 and nor would the timing of the exercise impact on the level of its profit share entitlement which is governed by legal agreements. EP has begun to agree with AEG the practicalities of accessing information and calculating the profit share. The legal agreements provide for full access to the records and accounts of the tenant company, an AEG subsidiary, through which The O<sub>2</sub> business is wholly conducted. The legal agreements also contain protection provisions to ensure intra-group costs are validated and relevant records and accounts are provided. EP does not, however, have explicit legal access to the records and accounts of the AEG Group and it is not clear whether it will be difficult in future to access all relevant information to scrutinise and, if necessary, challenge the allocation of costs.

## Governance, accountability and risk management

**15 The Department seeks to hold EP to account for the delivery of this project.** The delivery of housing under the project contributes to the Department's and EP's corporate targets. The Department is responsible for holding EP to account and, given the high profile of this particular project, reviews progress with EP twice yearly.

**16 EP's ability to influence and work in partnership with other stakeholders is key to the delivery of its targets.** EP can influence the quality and profitability of the project but, as in other regeneration deals of this nature, the contract for the redevelopment of the Peninsula contains few levers for EP to control the pace of delivery, particularly where development would not be economically viable because of high cost to value ratios. In general, where public sector land is sold for housing and a rate of development above the market level is required, the developers will reflect this increased risk in the cost they are willing to pay to purchase the land or may be reluctant to accept the risk at all.

**17 There is no single forum for all stakeholders to coordinate their input into the project.** There are regular forums, principally a Project Control Group, consisting of representatives from EP and MDL, which meet regularly to review progress and discuss operational issues. EP has also facilitated bilateral relationships with different parties to address various challenges (see Case Study, p.16). But there is no strategic forum, involving all of the project's principal stakeholders, with responsibility for ensuring that the long-term vision of creating a sustainable community is realised. EP and the Department agree that it would be sensible to establish such a forum and are in the process of doing so.

## Recommendations

**18** On the basis of the study's findings, the National Audit Office recommends that:

### Progress of redevelopment

**a** **EP should conduct a full analysis of the factors which contributed to the delay to the project.** EP has started this process and should put in place a protocol for dealing with factors should they arise again in the future, whilst recognising that the process of commercial negotiation within the open market place cannot always be controllable. For example, in light of the delay to residential development EP has refined its standardised documentation for negotiating with third party developers. This now requires MDL to report any variations required.

### Forecast financial returns to the taxpayer

**b** **EP should agree explicitly with AEG how it will access profit share information and calculate its financial returns by the end of 2008,** which will be 18 months after the opening of The O<sub>2</sub>. This access should include the relevant records and accounts of the AEG Group, which would give EP assurance that the taxpayer will receive a fair and timely return from the activities of The O<sub>2</sub> Arena and Waterfront.

**c** **EP should implement the PAC recommendation to Departments to develop an estimate of the total expected return from this project.** Now that The O<sub>2</sub> is open this should include its share of profits made from the Arena and the Waterfront.

**d** Within a long-term deal, change is inevitable and this will have an impact on the returns to the taxpayer. **EP should ensure that the new financial model allows for an understanding of the impact of change on the value of its interest in the Peninsula land-based deal,** particularly where it is involved in approving changes. In these situations, it should review the balance between its returns and those of MDL and ensure that these are in accordance with the legal entitlement.

### Governance, accountability and risk management

**e** **The Department and EP should set up a strategic forum involving the project's principal stakeholders.** Such a forum should have the means of examining at regular intervals that the project is on track to achieve its vision. The forum should consider the Greenwich Peninsula project in the wider context of delivery within the Thames Gateway and should involve at a minimum the Department, EP, MDL, AEG, Greenwich Borough Council, the Greater London Authority, Transport for London and the Housing Corporation. The Department and EP have accepted this recommendation.

**f** **The project should be subject to robust and external accountability arrangements.** While the Department has established specific oversight arrangements for this project, the Department's level of oversight should be enhanced, particularly in terms of challenging and achieving milestones. The Department has accepted this recommendation and is taking steps to implement it.



## English Partnership's approach to regenerating the Greenwich Peninsula

English Partnerships is the key public sector agency tasked with delivering regeneration in the Greenwich Peninsula through its management of the deal with the private sector. Part 1 of this report looks at the agreements underpinning the deal and the project's governance and accountability arrangements. This section also explores the project's risk management processes and its ability to deal with change.

**1.1** Between 2001 and 2002, the Dome Sale Unit, consisting of officials from the then Office of the Deputy Prime Minister and English Partnerships (EP), entered into a sale process to find a sustainable future for the Millennium Dome and secure the regeneration of the surrounding area. The Government adopted a limited competitive process, against a background of little market enthusiasm for open competition, widespread cynicism about the risks and costs of participation and little specific interest in the Dome. A 20 year deal with Meridian Delta Limited (MDL) and the Anschutz Entertainment Group Europe (AEG), a subsidiary of the Anschutz Entertainment Group was agreed. This was the only consortium to come up with a viable bid during the process – to regenerate 170 acres of land on the Greenwich Peninsula and to redevelop the Dome. (See Key Facts for a list of the features of this redevelopment project and Appendix 3 for a timeline).

**1.2** The aim of this project is to establish the Peninsula as a landmark urban development. This process has already begun with the opening of the Dome as The O<sub>2</sub>, a major leisure and entertainment complex. EP's vision is that this once derelict parcel of land will in the future become a sustainable, mixed-use community within London and the wider Thames Gateway. **Figure 1** outlines the key risks and associated sensitivities to be managed if the project is to achieve its long term objectives but given the difficult circumstances in which the deal was signed EP's obligations in delivering its objectives are challenging.

### 1 The key risks to the successful achievement of the project

| Key risks                                | Key sensitivities  |
|--|--|
| Managerial risks                         | <p>No overall strategic forum bringing together all key stakeholders.</p> <p>The Department and EP have to rely on their influencing and brokering skills rather than on contractual levers to influence delivery, particularly where development would not be economically viable.</p> <p>EP has to maintain relationships with multiple stakeholders with diverse interests.</p> <p>The project is inherently subject to uncertainty and change.</p> |
| Delivery, market and environmental risks | <p>The project is influenced by the external housing market which is inherently uncertain.</p> <p>Environmental and design standards are continually evolving.</p> <p>The definition and expectation for what constitutes a sustainable community is continually evolving.</p> <p>These risks have an impact on progress towards achieving a sustainable community.</p>  |
| Financial risks                          | <p>Delays to the development on the Peninsula (excluding the O<sub>2</sub>) will reduce financial returns to the public sector.</p> <p>There is still uncertainty about the level of expected financial returns from The O<sub>2</sub>.</p> <p>There is uncertainty about the effectiveness of open book accounting between EP and AEG.</p> <p>There are additional risks that could potentially reduce returns from the land deal.</p>                |

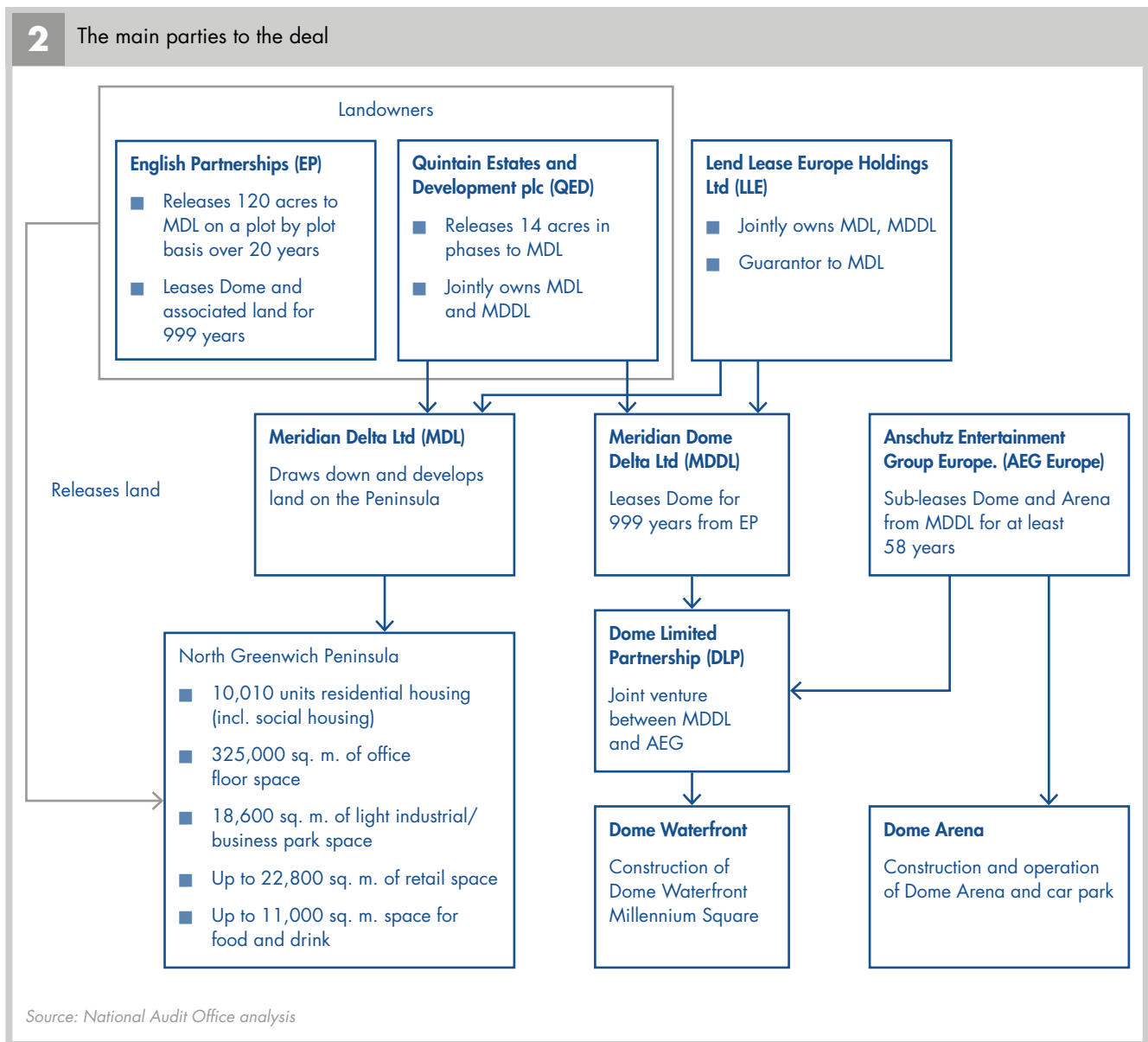
Source: National Audit Office analysis

## A complex set of legal agreements underpins the project

**1.3** The deal between EP, MDL and AEG is complex. Broadly speaking, AEG has redeveloped the Dome and Dome Waterfront area and will now run The O<sub>2</sub>. MDL is responsible for developing the associated land. The deal is underpinned by several legal agreements which prescribe how the project will be delivered and managed. Almost 80 per cent of the land covered by this project is owned by EP while 20 per cent is owned by Quintain, the co-owner of MDL.<sup>3</sup> All of this land will be released to MDL for development in discrete plots. **Figure 2** sets out the main relationships between the parties and what will be delivered. **Figure 3** shows the principal agreements which underpin the project.

## English Partnerships has few contractual levers with which to control the pace of the project

**1.4** **Figure 4 on page 14** outlines the levers through which various parties and stakeholders can control this complex project. The levers encompass both the legal contracts as well as wider means of influencing the project. EP's leverage over the project and its returns is based on its role in approving business plans, submissions to the Council for the consent to develop land and in scrutinising costs incurred by MDL (the latter function relates to its economic interest in the project under the profit sharing arrangement – see Part 3). Greenwich Borough Council provides the overall planning consent for work to take place.



<sup>3</sup> There are also third party landowners – London Underground and AXA (its plot of land is currently the subject of a Compulsory Purchase Order).

**1.5** EP has levers for ensuring that the project meets its objectives in terms of quality and financial returns (Part 3 addresses challenges relating to the latter objective). But as is usual for similar developments none of the public sector parties, including EP, are in a position to place general delivery obligations on house builders to speed up the pace of delivery.<sup>4</sup> EP and the Council are able to slow the pace of development down through the approvals and planning process: neither, however, within the terms of the deal can increase the pace. The pace of development is dependent on the objectives of MDL and third party developers, as well as prevailing market conditions. The impact of this is discussed in Parts 2 and 3.

**1.6** The Land Disposal Agreement sets out Minimum Development Obligations (MDOs) for the development and marketing of land which have to be met by MDL within a series of five year periods. MDL is required to develop 330,000 square feet and market 670,000

square feet of land over each five year period.<sup>5</sup> Failure to comply with the obligations can result in financial sanctions except in circumstances where development would not be economically viable. Such an economic viability test on the imposition of penalties is common in most regeneration contracts.<sup>6</sup> These obligations, however, do not serve as milestones to ensure that the pace of development is being kept up because it would take almost 200 years to develop the Greenwich Peninsula, if the developers met their minimum obligations but did no more. The MDOs were put in place to prevent MDL land banking and are not a means of ensuring that the pace of development is being kept up.

**1.7** EP also has a role in assisting MDL so that it can fulfil its obligations under the agreement. This can, for example, take the form of acquiring third party interests in the land, entering into planning agreements and in its capacity as landlord, ensuring that the terms of the agreement are met

### 3 The principal agreements within the deal

| Agreement   | Function  |
|---|---|
| The Masterplan  | MDL's original blueprint for development on the Peninsula designed by Terry Farrell and partners (London based architects and urban designers) to create a high-quality, modern, urban community.   |
| Master Implementation Agreement (MIA)                 | The MIA controls all of the legal agreements for the project. It also governs the interaction of various parties during the planning process and sets out how the project will deal with the withdrawal or default of a party during the life of a project.   |
| Land Disposal Agreement (LDA)                         | Governs the implementation of development throughout the Peninsula, other than the Dome Arena and Waterfront, to be led by MDL. Contains EP's controls and approvals over the development process, and the right for MDL to draw down plots on a phased basis.<br><br>The arrangements under the LDA have an expected life of 25 years. |
| Land Assembly Agreement                               | Incorporates the adjacent land, owned by Quintain, into the development process and sets out the basis for distributions of returns between EP and Quintain.  |
| Call option agreement                                 | Gives AEG an option to develop a hotel on a plot of land outside the Arena and Waterfront.  |
| Agreement for Leases                                  | The main agreement which regulates the development and use of the Dome, including the construction of the Arena and Dome Waterfront.<br><br>Contains the provisions for the grant of a 999-year headlease to MDDL and separate sub-leases to AEG covering the Dome and the Waterfront.  |
| Planning Agreements (sections 106 and 278 agreements) | The planning agreements with the London Borough of Greenwich which triggered the grant of planning consents for the development of land. Section 106 agreements cover community benefits; section 278 agreements cover road links.  |

Source: National Audit Office analysis

- 4 The independent Callcutt Review of housebuilding delivery commissioned by Government (November 2007) makes no recommendations that Government should attempt to do so, but suggests it creates a framework in which the private sector can deliver targets for new housing. The report also suggests that there is no reason why Government should not stipulate faster build out rates for housebuilding providing any loss of value incurred can be justified.
- 5 Should MDL exceed the quantum of development required to meet the obligations within one five year period, the additional development can be counted under obligations for the next five year period. 330,000 sq. ft is approximately the area of four football pitches.
- 6 Should these minimum obligations not be met within a five year period, EP may serve notice on MDL requiring the requisite amount of development to be carried out so that the prescribed level is achieved and MDL is required to commence works within a year of this notice. There are, however, restrictions on the use of these sanctions if the development was projected to fail to meet a return threshold for MDL; if there were no realistic prospect of selling residential (or selling and letting commercial) property to meet the minimum land value payments due to EP and other landowners on the Peninsula (e.g. Quintain) and to cover project expenditure; or if there were no implementable planning permissions or other conditions.

## 4 The main levers to control the project

|   | Quality of development  | Pace of development  | Cost/Financial returns  |
|---|---|--|---|
| English Partnerships (EP)   | <p>EP holds monthly Project Control Group meetings which are an overall mechanism for controlling the quality and pace of development and cost/financial returns. The meetings are a forum for undertaking many of the specific actions described below.</p> <p>EP approves MDL's rolling business plan and detailed planning submissions and can refuse to do so on the grounds that these are inconsistent with the Masterplan and design criteria.</p> <p>Monthly design review meetings between EP and MDL.</p> <p>EP uses its influencing skills to push for enhanced quality of the development as appropriate.</p> | <p>EP, via its Project Control Group, approves a three year rolling business plan on an annual basis which sets out key deliverables over the period.</p> <p>Within contractual arrangements with third party developers there are time limitations imposed upon planning, start of site and completion.</p> <p>EP relies on its influencing skills where it wants to encourage the pace of development.</p> | <p>EP signs off the financial model.</p> <p>EP signs off all invoices above £25k and a sample of those over £10k.</p> <p>EP checks that tenders have been competitively bid for to ensure that they represent best value for money.</p> |
| Department for Communities and Local Government   | A biennial meeting with EP will look at progress in terms of financial returns from the project.  |  |   |
| Greenwich Borough Council (GBC)   | <p>GBC provided outline planning consent to the Masterplan for the project which set out the parameters for the project.</p> <p>GBC grants detailed planning consents to develop land based on a range of criteria, including design of buildings.</p> <p>GBC monitors the implementation of the planning consents it has granted.</p>  | <p>Once planning consent has been granted, there is a time-lag until the consent is "unconditional" (i.e. when the conditions of planning permission have been satisfied). Following this, a long-stop date (a time by which work must have started on site) may be imposed as a planning condition.</p> <p>GBC does not set a timetable for development once the work is underway.</p>                      | Establishes the financial contributions made to the project under the section 106 planning agreements.  |
| Housing Corporation   | The Housing Corporation only provides grants to developments that are consistent with sustainable community principles (good sustainable design, employment creation, mixed-use).   | <p>Developers and Registered Social Landlords have one year from confirmation that a social housing grant is available to begin building affordable housing. After this, developers will have to re-apply for the grant.</p> <p>Following the start of works, the Corporation does not hold the developers to any timetable.</p>   | Provides a social housing grant to subsidise the cost of providing affordable housing.  |
| Statutory Consultees (e.g. Health & Safety Executive, Environment Agency, Transport for London) | <p>Provide advice to GBC on whether the proposed plans for development comply with relevant legislation, though the final decision is made by GBC.</p> <p>There are also statutory regulatory roles for other stakeholders to undertake on site.</p>  | TfL has an influencing role in the pace of delivery over major transport decisions.  | TfL can seek significant cost contributions for transport improvements and build-over agreements.   |

Source: National Audit Office analysis



by other influential parties such as London Underground. These various roles depend on EP's ability to create and maintain sustainable relationships with other key parties to achieve its objectives (see paragraph 1.12).

**1.8** In their 2005 report *The Regeneration of the Millennium Dome and Associated Land*<sup>7</sup>, the Committee of Public Accounts concluded that monitoring the successful delivery of this regeneration programme will require a long term commitment from EP. In the absence of levers to control the pace of development, EP will need to make use of its partnership working skills to bring due pressure to bear to ensure that the project meets its objectives in a timely manner. EP will also need to continue to develop systematic and effective risk management processes to deal with change as it arises (see paragraph 1.14).

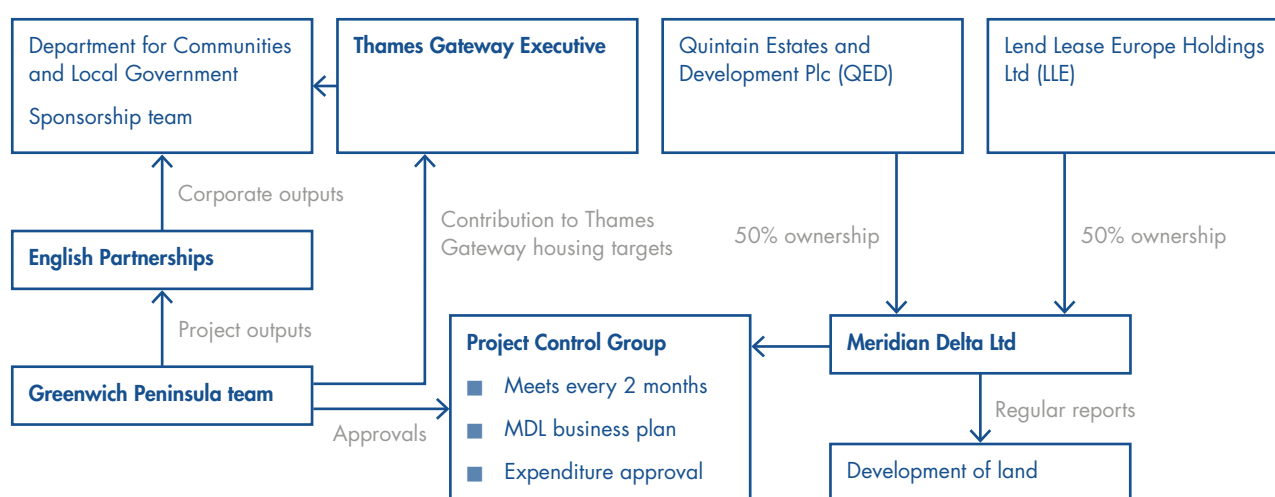
## A broader strategic level of oversight would strengthen the current governance arrangements for the project

**1.9** Figure 5 outlines the governance and accountability relationships involving the project's participants. A monthly Project Control Group is the main forum for EP and MDL to discuss the project's progress, generally with reference to a rolling, three-year business plan. Our review of the minutes of these meetings suggests that the issues discussed are largely operational rather than strategic. Moreover, progress is not monitored by

the Group against the initial plans for development and financial returns from 2002 and 2004 respectively (see Parts 2 and 3). While there is some strategic oversight of the project through the Group, there is potential for EP's Board to be more involved in this process and in challenging the project team given that the Peninsula is a high profile, flagship development. It is important that there are strong accountability arrangements in place for this specific project.

**1.10** The Department has two teams with an interest in progress; the EP sponsorship team and the Thames Gateway Executive. The sponsorship team looks at the project as one of many developments and focuses on holding EP to account at a high level for delivery of its corporate objectives. Since early 2007 the Department's sponsorship team has also held twice yearly review meetings with EP specifically on the project. The Department has accepted that its accountability arrangements need to be strengthened further, and has told us it is taking steps to accomplish this. In particular the Department accepts that it needs to challenge EP more on delivery issues, such as achievement against baselines and current plans for development. The Department intends that any new arrangements stay in place after the establishment of the new Homes and Communities Agency (HCA), which from 2009, will take over direct responsibility for delivering the project from EP. As the project is located within the Thames Gateway, the Thames Gateway Executive also has a specific interest in its progress and is kept advised of developments.

### 5 The chain of accountability for the deal



Source: National Audit Office analysis

<sup>7</sup> See report by the Committee of Public Accounts, HC 409 Session 2004-05, 22 September 2005.

**1.11** Beyond the direct chain of accountability, other parties outside the deal have a level of influence over the project and statutory regulatory roles to perform. These include, for example, Greenwich Borough Council, the Housing Corporation, the Health and Safety Executive and the Environment Agency. Others have various degrees of involvement in the planning process; for example the London Mayor and the Greater London Authority, which set policy for London and Transport for London, which runs the services on which the planned population of the Peninsula will depend. Engagement with the project and cooperation from these organisations is important to the success of the development. But there is no forum or process for bringing together the interests of all these stakeholders.

## English Partnerships has facilitated good relationships with third parties

**1.12** In the absence of a formal strategic forum to bring all parties together, EP has facilitated relationships with third parties. The stakeholders who were consulted in the course of this study were generally supportive of EP's approach and said they had good relationships with it. The case study below presents an example of how good working relationships have had a positive impact on the project.

**1.13** Consultation by EP and the private sector partners with local community groups is well thought out and comprehensive. The main channel for consultation is through the Greenwich Peninsula Partnership which represents a large number of small community stakeholders. As the project is at an early stage there is, however, no resident population on the northern part of the Peninsula. We convened a focus group of community representatives, which was observed by two academic urban regeneration experts<sup>8</sup>, to review the consultation process in more detail. The experts thought it was likely that more detailed issues will arise as the project progresses and that consultation would continually need to evolve so as to avoid reinforcing "engagement with the engaged". There has been some good work to date with marginalised groups but the experts felt that even more targeted, persistent and imaginative initiatives could be required.

### CASE STUDY

#### Successful downsizing of London Underground car park at North Greenwich Station

The 1,000 space car park adjacent to the North Greenwich station was very popular with commuters from South East London and Kent and was one of the very few such car parks within zone 2 of the London Underground system. The proposed closure of approximately 50 per cent of parking bays, to provide sufficient car parking facilities for visitors to The O<sub>2</sub>, was expected to create widespread disapproval and lead to illegal parking in the surrounding Peninsula.

This public protest did not materialise. EP brought MDL, AEG, Greenwich Borough Council and London Underground together into a working group to manage the closure process. A planned communications programme run jointly by all of the parties meant that the public was well-informed and directed throughout, and disruption minimised, allowing this car park to be provided under the contractual arrangements in time for the opening of The O<sub>2</sub>.

Source: English Partnerships

## Effective risk management is essential in a long term project

**1.14** Over the course of a 20 year deal of this magnitude and complexity, change is inevitable. At the early stages of the project it is important that EP assesses whether the risks identified during the sale process have materialised or not, whether any changes alter the project's risk profile and whether this compromises the deal's value for money. EP will also need to review its risk management plan and ensure updated procedures can address changes in future circumstances.<sup>9</sup> Even though the deal has been running for four years, change has already been encountered on several fronts and the risks have generally been well managed by EP and MDL as is demonstrated in the following paragraphs.

### The Olympics

**1.15** One change which the project has already had to deal with is the impact of the London 2012 Olympics which was announced in July 2005 after the deal was signed. The partners have engaged positively with the Olympic authorities and the Peninsula will be a venue for several events, including basketball and gymnastics at The O<sub>2</sub>. The impact of the Olympics on the Peninsula is uncertain but over the next few years it is expected

<sup>8</sup> Professor Paul Lawless of Sheffield Hallam University and Professor Marilyn Taylor of the University of the West of England.

<sup>9</sup> Considerations for the general management of risk at the early operational stage of a project are outlined in the NAO's *Framework for Evaluating the Implementation of Private Finance Projects: Volume 2* (Report by the National Audit Office, 15 May 2006).

to contribute to a restriction in the supply of labour and materials for large construction projects, particularly in the East London area. EP and MDL need to manage these risks so the planned rate of development can be maintained in this environment. There is also a potential legacy issue after 2013 when there will be a large increase in the supply of housing, commercial and retail spaces after the conversion of the Olympic sites following London 2012. Any resulting risk to demand and thus the price of property and rental values in Greenwich needs careful management.

**1.16** Interviewees and the expert panel thought that the scale of housing shortages in London should prevent this flooding of the market, particularly if MDL's current strategy – to take advantage of the period to 2013 to establish the Peninsula's presence within the housing market – is successfully executed. The location of the Peninsula, closer to Canary Wharf and central London, may also mean that MDL can target a different segment of the market than the Olympic sites at Stratford.

### Physical constraints on the Greenwich Peninsula

**1.17** Another change which requires effective risk management is the rising number of physical constraints to development on the Peninsula. **Figure 6 overleaf** shows the constraints and the areas affected. At the time of signing the deal a third river crossing at Silvertown was planned. No decision has yet been taken on whether this is to go ahead and what form it will take. A tunnel would affect development of 1,378 planned units and a bridge would affect 1,053 units. While EP has pressed TfL on the issue, until a decision on the river crossing has been made, the development of these residential units cannot take place.<sup>10</sup>

**1.18** Development has also been delayed on a plot owned by AXA which is subject to a Compulsory Purchase Order undertaken by EP (Figure 6).<sup>11</sup> AXA initially applied for a judicial review of the plot, but EP has since negotiated a deal with AXA avoiding the need for recourse to the courts. Delays to developing the AXA plot, which was planned within the first phase, have had an impact on the overall phasing of development which has changed to accommodate this restriction.

**1.19** A larger – and unexpected – constraint arose out of a 2005 Health and Safety Executive (HSE) review of hazardous sites. A gasholder site lies to the south-west of the Peninsula. The HSE consultation distance around the gasholder has now been extended from a 60 metre to a 375 metre distance around the gasholder. Under the current Masterplan, the development of 1403 residential units, 48,604 square metres of commercial space and the John Roan School are affected. EP and MDL have facilitated dialogue about how to resolve the problem both with the HSE, the Council and the gas company owning the gasholder. The main option under discussion would remove the gasholder and relocate it underground using new technology. Timely resolution of the gasholder issue is important to the overall phasing of the development, particularly with respect to the school which needs to be completed by 2010 in order to take advantage of a funding commitment under the Building Schools for the Future programme (see Part 2).

### Business continuity is needed in a long-term deal

**1.20** During a 20 year deal, personnel changes are inevitable. The EP personnel with current responsibility for delivery of the project are not the same as the team which negotiated the deal. Knowledge management is particularly important for the current deal because the contracts are large and complex and there is a heavy burden on EP in its management of it. EP needs to ensure it has a structure in place where staff clearly understand their roles (this could include job descriptions describing roles and responsibilities). EP also needs to develop processes for learning lessons and improving systems for managing the contract.<sup>12</sup> Procedures also need to be in place for dealing with loss of staff and knowledge associated with management of the contract. For example, if EP lost knowledge of the contracts and legal agreements over time it could lead to differing interpretations of legal clauses.

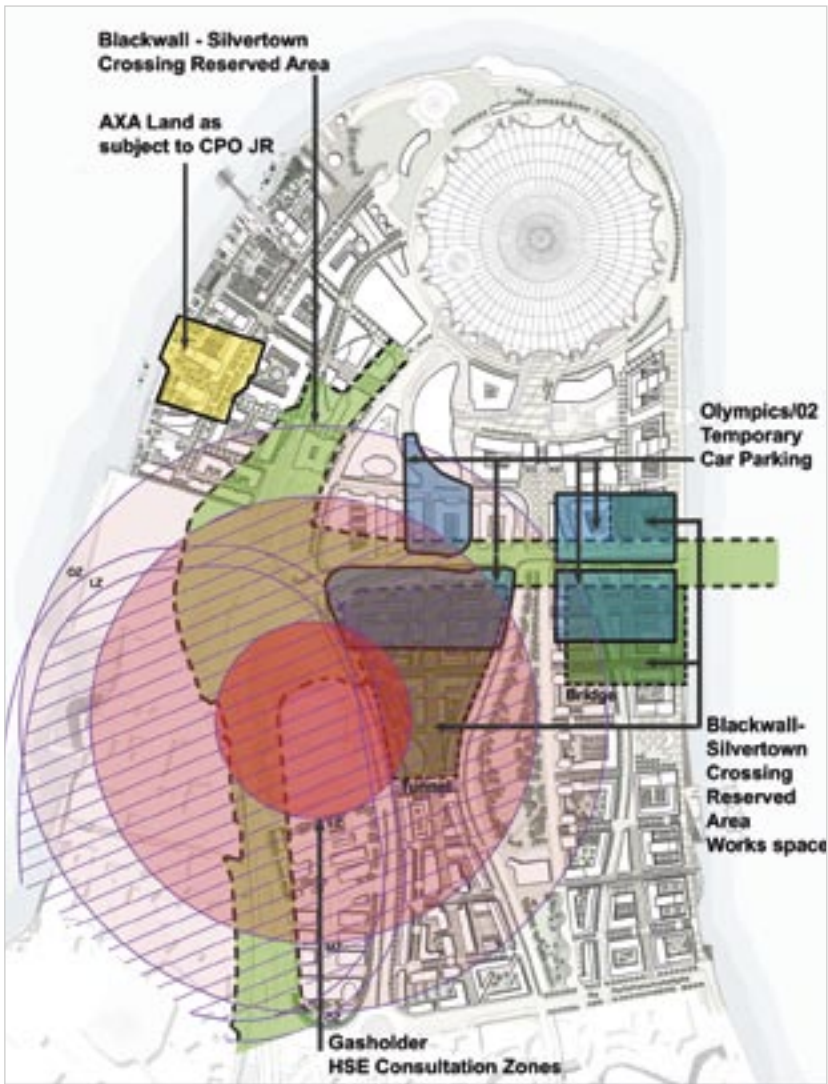
**1.21** In the coming months, there will also be a high degree of organisational change for EP to deal with as it is merged into a new agency – the Homes and Communities Agency. This new body's function will also include the Housing Corporation and some functions currently undertaken by the Department. The Boards of EP and the new Homes and Communities Agency need to ensure that management of the deal is not compromised.

<sup>10</sup> These units are planned for a later phase of development: but a lengthy decision-making process could have an impact on the project's timetable.

<sup>11</sup> The AXA land affects development of four plots on the north western edge of the Peninsula, earmarked for high value residential riverside properties with views across the river to Canary Wharf.

<sup>12</sup> Considerations for good quality project management at the early operational stage of a project are outlined in the NAO's *Framework for Evaluating the Implementation of Private Finance Projects: Volume 2* (Report by the National Audit Office, 15 May 2006).

## 6 Physical constraints to development on the Peninsula



Source: English Partnerships (map courtesy of MDL)



## Achieving a successful regeneration

Two of the main objectives of the project are to ensure that the development of the Peninsula proceeds without undue delay and along lines acceptable to English Partnerships in terms of achieving sustainable communities and to ensure that the development in the Dome by AEG itself proceeds as quickly as possible, securing its sustainable future within set timetables. In its 2005 report, the Committee of Public Accounts stressed that a long term commitment from EP would be needed and it would need to be as fully engaged as the private sector partners in decision making. Part 2 of this report looks at how the project has proceeded towards the achievement of these challenging objectives.

### The O<sub>2</sub> opened on time and is having a positive impact on the Peninsula

**2.1** On 24 June 2007 the former Millennium Dome opened as The O<sub>2</sub> hosting a concert featuring Jon Bon Jovi in the new 20,000 capacity Arena. The completion of the Arena prior to this event took place as set out in the legal agreement between EP, MDL and AEG which said that work was to commence on the redevelopment of the Dome within twelve months of the Unconditional Date (17 June 2004) and to be completed within two years. The legal obligations placed on AEG to bring about the timely completion of the Arena therefore worked as planned.<sup>13</sup>

**2.2** To date, a large number of people have visited the site and have attended the Arena with over 1.2 million ticket sales for events at the Arena during 2007. The programme of events is varied and includes major artistes as well as sporting events such as a US National Basketball Association European Tour, the opening game of the season

for the National Hockey League and the Tennis Masters event. The O<sub>2</sub>'s target of hosting 150 events per year is on track to being achieved with over 90 per cent of that target being confirmed in the first six months. Over the six months since it opened (24 June to 31 December 2007) The O<sub>2</sub> Arena was reported to be the most popular venue in the world according to industry figures based on music tickets sold. The O<sub>2</sub> has become a beacon for the new development.

#### Inside The O<sub>2</sub>...

The O<sub>2</sub> has created a multi-purpose leisure and entertainment district that makes the Peninsula a destination for visitors regionally, nationally and internationally. In addition to the Arena The O<sub>2</sub> incorporates a 2,350 capacity live music club, a multi-screen cinema capable of holding film premieres, 26 bars and restaurants and an exhibition bubble, which from November 2007 has hosted the Tutankhamun exhibition.

**2.3** Not only has The O<sub>2</sub> opened on time, it has also had a positive effect on local employment. AEG is involved in a scheme with Greenwich Borough Council to train local unemployed people and encourage them back into work. Of those currently working in The O<sub>2</sub>, 45 per cent are Greenwich residents with a further 17 per cent living in the Thames Gateway. AEG, with support from EP, has also invested beyond The O<sub>2</sub>, for example by part-funding and operating the David Beckham Academy which offers a range of football based activities to local schoolchildren and by establishing a fast daily river transport commuter service between the Peninsula and the rest of London – The O<sub>2</sub> Thames Clipper service. AEG anticipated that the award of a licence for a super casino would have brought in additional jobs.<sup>14</sup>

<sup>13</sup> AEG's parent company, Anschutz, provided a company Guarantee backing the various contracts entered into by AEG. In the event that AEG had failed to start works on the site, it would have forfeited its Leases of the Arena site and MDL would have had the right to step in to assume the obligations with the Dome. In addition, AEG provided a performance bond guaranteeing completion of the Arena, to be called on should the works not be completed. These guarantees were never drawn upon.

<sup>14</sup> The licence for the super casino was awarded by an independent panel to Manchester in January 2007. The Government dropped plans to build a super casino in Manchester in February 2008 following a review of the plans.

**2.4** The need to open The O<sub>2</sub> also meant that EP had to ensure adjacent developments were completed on time to cope with the demands on the northern tip of the Peninsula by the visiting population. The most notable of these were the upgrading of the Jubilee Line and North Greenwich underground station and completion of Peninsula Square, which is an open space in front of The O<sub>2</sub> built to accommodate the large number of visitors and to host special events.<sup>15</sup>

## The pace of residential development on the rest of the Peninsula has been slower than forecast

**2.5** The pace of residential development on the rest of the Peninsula has been slower than forecast at the outset of the deal (see paragraph 2.9). MDL and EP initially expected that the first residential land would be sold for development in June 2005 and that by December 2007 this would have risen to almost 1.5 million sq. ft.<sup>16</sup> MDL now acknowledges that these initial forecasts were overly optimistic and that the development is more difficult to deliver than it originally thought.

**2.6** This has not been the only delay. MDL's 2005-06 business plan (created in April 2005) stated that the first residential developments (comprising 550,000 sq. ft) would be underway by March 2006 and by December 2007 this area would be just over 960,000 sq. ft.

**2.7** In fact, conditions were not fulfilled for the first sale of land for development until July 2007, two years after the original plans. The first plot of residential land was drawn down in July 2007 and preliminary works on site have commenced. This first plot is expected to be completed in March 2010. The overall picture is thus one in which residential development on the Peninsula has been pushed back.

**2.8** The context in which these delays took place is that the legal agreements do not give EP any levers with which to control the pace of development (see Part 1). EP is reliant on using its influence with MDL as part of its involvement in the Project Control Group without the support of contractually binding provisions to meet a specified timetable for development. This form of agreement is normal in similar, large scale regeneration

developments and such delays are not untypical, including in other parts of the Thames Gateway, on which the NAO has previously reported.

**2.9** An important – but not complete – explanation for the delay is that MDL made a false start in negotiating with a third party house builder, Wimpey, for the development of almost 500,000 sq. ft of land, equivalent to around 650 housing units, between June 2005 and February 2006. Wimpey were selected as preferred bidder for the plots, largely because the value of their bid was greatly in excess of others. Negotiations with Wimpey dragged on for nine months before they pulled out of the deal and eventually exited the London housing market (see Appendix 3). MDL said that it pursued the bid as long as it did because of its obligation to EP to obtain best value. MDL subsequently entered into a deal with Bellway Homes<sup>17</sup> for residential development of part of that land. MDL told us that in response to this episode and to accelerate delivery it changed its strategy and now plan to carry out 45 per cent direct development compared to the 25 per cent anticipated in its original plans drawn up in 2004. EP and Greenwich Borough Council both consider they are well positioned to deal with the demands placed on them through accelerated delivery.

## An increased rate of delivery by MDL will be needed if English Partnerships is to meet its project level housing targets

**2.10** To meet the needs of an increasing and ageing population, the Government has stated that housing delivery is now a key priority and has set a target of building three million new homes by 2020, including more affordable homes to rent and buy.<sup>18</sup> The Department and EP will be key agencies in helping the Government achieve this target.

**2.11** EP has an annual housing output target, as set out in **Figure 7**. EP's portfolio of projects, of which the Greenwich Peninsula redevelopment is one, contribute in proportion to their size, a number of housing units towards this corporate target.<sup>19</sup> The development of over 1,000 housing units of EP's overall target of just over 23,000 units is due to get underway on the north Greenwich Peninsula within the period 2007 to 2009. This is an indicator of the size and strategic importance of the project.

<sup>15</sup> The upgrades involved updating the signalling system, adding a carriage to trains on the Jubilee Line and adding four trains to the fleet. This increases the capacity of the Line by up to 6,000 at peak hours. These were completed in December 2005. The escalators at the North Greenwich Station were also upgraded to cope with the increased outflow of passengers at peak times: this was completed in January 2007. The totality of Jubilee line upgrades will be completed by 2009. The Peninsula Square reached practical completion on 14 June 2007.

<sup>16</sup> As outlined in the financial model developed to assist with both parties' due diligence of the deal. See Part 3 for more information.

<sup>17</sup> Wimpey and Bellway Homes are both major UK housebuilders.

<sup>18</sup> See the Prime Minister's statement to the House of Commons, 11 July 2007 about the Government's priorities. See also the Housing Green Paper, published on 23 July 2007 which stated the Government's intention to increase the annual rate of house building to 240,000 homes by 2016.

<sup>19</sup> Individual projects also feed into regional targets, providing an additional layer of control over EP's outputs. The Greenwich Peninsula project is a part of the London and Thames Gateway region.

## 7 English Partnerships' corporate output targets

| Output delivery target              | EP total |         | Greenwich Peninsula project contribution |         |
|-------------------------------------|----------|---------|--|---------|
|                                     | 2007-08  | 2008-09 | 2007-08                                  | 2008-09 |
| Housing starts on site <sup>1</sup> | 11,043   | 11,993  | 229                                      | 803     |
| Housing completions                 | 6,721    | 7,398   | 0  | 0       |

Source: EP corporate and regional plans

### NOTE

<sup>1</sup> Housing starts on site are defined as when the unconditional contract and detailed planning permission are achieved. Physical work on site may not actually start within the timeframes. For both starts on site and completions the 2007-08 EP total is based on a combination of actual and forecast figures. The 2008-09 EP totals are forecasts.

**2.12** Further delay to development could mean that the project level targets are not met. At a corporate level, however, EP manages its delivery on a portfolio basis. Therefore, any shortfall in one project could be made up by delivering a surplus in other projects so that the overall target is met. Because of this approach to programme management, any shortfall on the Peninsula is unlikely to lead to EP missing its corporate target.

**2.13** Progress on this development also contributes to the Department's targets for housing development within the Thames Gateway. The Thames Gateway Interim Plan targets 100,000 new homes to be built by 2016 within the London portion of the Thames Gateway. This project has the potential to contribute 4,250 of these units.<sup>20</sup>

**2.14** The delayed start to the housing development means that it will be more difficult to meet this target. Given the longer timescale involved in this Plan, there is time to make up for the slow start and MDL plans to accelerate development during the next few years. There is, however, a constraint on the extent to which the project can accelerate development to make up for lost time. Property developers refer to a "market absorption" or "build out" rate as the number of units that can be sold within a given site per year

without affecting the price of housing, which is a key driver of profitability for private developers. The highest absorption rate achieved from a single site within London so far is releasing 180 private (i.e. not affordable) dwelling units into the market in a given year.<sup>21</sup>

**2.15** As the first housing units are not expected to be completed until January 2010 the project has a maximum of seven years in which to build the 4,250 housing units to meet the Thames Gateway target. At a constant rate, MDL will have to bring just over 600 units per annum to the market to ensure that EP meets this target, of which it expects 200 to be affordable homes. This rate of building is possible according to MDL because the size of the Peninsula allows for zoning of residential areas into three separate districts and hence for development on more than one front and because the rate can be maintained owing to the mix of affordable and private housing.<sup>22</sup> EP also considers that its work to broaden the market audience, for example through the First Time Buyers' Initiative<sup>23</sup> allows for higher absorption rates than is usual.

**2.16** **Figure 8 overleaf** shows that this planned acceleration is feasible but that this is an ambitious rate of development which allows little contingency for further delay. It will be dependent on EP, MDL and Greenwich Borough Council being able to manage the planning and execution of several simultaneous developments in order to match the highest rate achieved in London over an extended period of time. This in turn is dependent on market conditions, namely a buoyant housing market, a stable construction industry in the run up to and following the Olympics in 2012 and some insulation from the effects of large and competing residential developments in or around East London.<sup>24</sup>

**2.17** Further delay to the build programme will mean the risk of EP not delivering as expected towards the London Thames Gateway target.<sup>25</sup> Furthermore, even if this ambitious build out rate of 600 housing units per year is maintained, the year 2026 is the earliest in which all of the 10,000 residential units will have been released into the market place. This is four years later than was anticipated when the deal was signed.

20 Thames Gateway Interim Plan, Department for Communities and Local Government, 2006.

21 By Ballymore at their New Providence Wharf development (source: MDL 2006-07 Business Plan). A house builder consulted as part of this study confirmed that this rate was achievable but challenging.

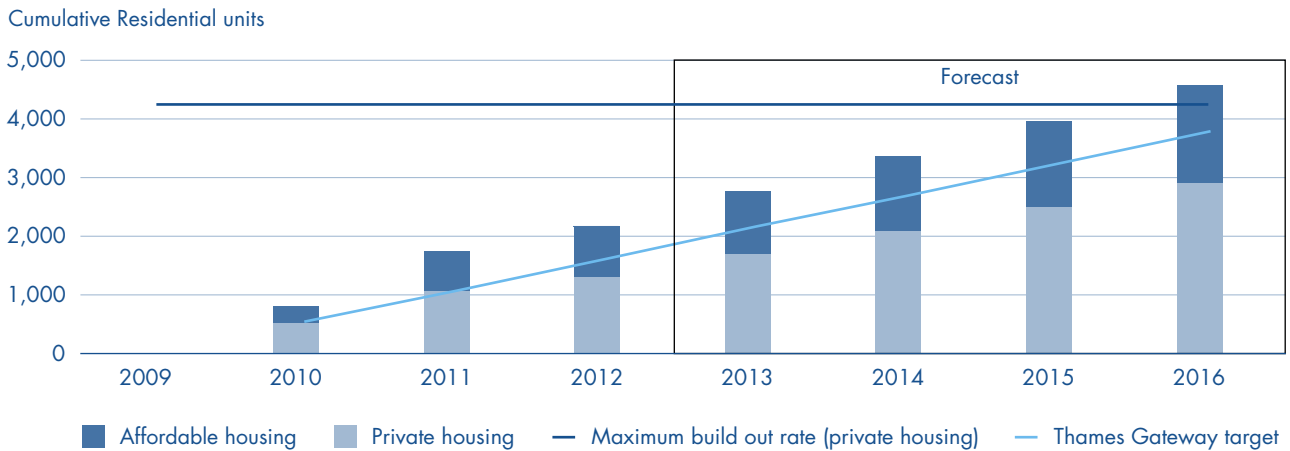
22 Development of private dwellings on three separate sites could achieve an upper limit of 540 private housing units per year. As affordable housing units will account for 200 of the target rate of just over 600 it is only necessary for MDL to build 400 private housing units. This gives them a buffer of 140 private housing units.

23 This initiative is positioned to target key workers and other eligible groups with sufficient income to sustain home ownership, but who are currently prevented from buying a house because of high house prices.

24 Ebbsfleet Valley, Barking Riverside and Stratford City are all large residential-led developments (of over 10,000 residential units) in fairly close proximity to Greenwich which benefit from good transport links. MDL's strategy is to market the Peninsula as a high quality, riverside development in central London – it hopes that this will differentiate the Peninsula from the other East London/Thames Gateway development.

25 Our 2007 report *The Thames Gateway: Laying the Foundations* concluded that in order to meet the 2016 targets for new homes the build rate would need to now double. If EP is unable to make its due contribution to this 2016 target, this increases the likelihood that the Government is unable to achieve its plans for the Thames Gateway within the timescale originally envisaged.

## 8 Only an ambitious rate of build will enable the project to meet its Thames Gateway housing target



Source: National Audit Office analysis

### NOTE

The data for years 2010-2012 is taken from MDL's forward plans. The data for years 2013-2016 is based on an assumption that MDL maintains an average rate of 600 dwellings per year released into the market place, of which 400 per year will be private and 200 will be affordable housing. The maximum build out rate was calculated based on the assumption that it is possible to separate the north Greenwich Peninsula into three separate areas for development purposes and then to achieve the maximum build out rate yet achieved for a single London site within each area.

## Other parts of the development have been brought forward and quality has been enhanced

**2.18** The delay in getting the residential developments started may have one positive effect in the future. The original plans envisaged residential developments preceding the development of other spaces. For example, the original agreements<sup>26</sup> stated that a school had to be developed by the time the 7,000th dwelling was occupied. Work on the first office properties was not expected to begin until 2010.

### Educational and office development

**2.19** The project has subsequently taken advantage of opportunities to bring educational and commercial development forward. There is a planned relocation of the John Roan secondary school from Blackheath to the Peninsula under a Building Schools for the Future programme funding package.<sup>27</sup> Greenwich is a pathfinder local authority under this programme and the planned completion of the school has been brought forward to 2010 to take advantage of the available financing.

**2.20** There is also an approved planning application to relocate Ravensbourne College of Design and Communication, currently based in Chislehurst, next to The O<sub>2</sub>. The development of a higher education institution on the Peninsula was not anticipated in the original plans, but given the creative and media focus of the college and its synergies with The O<sub>2</sub> there were benefits to its inclusion. Ravensbourne will open in 2010 and the college is already collaborating with nearby institutions and the local community with an interest in creative industries.

**2.21** Office accommodation on the Peninsula is now planned to be delivered in March 2009, much earlier than originally anticipated. The 2002 plans originally anticipated that work would not start on the first commercial plot until the end of 2010. Over the period of the deal to date the market for office space in London has largely been unpromising with poor take up of accommodation. Both MDL's and our advisers' analyses of the market show that there was an upturn in demand for space during 2005-2006 and MDL said that it wanted the Peninsula to take advantage of this opportunity before other competing developments did so.

<sup>26</sup> Section 106 planning agreements give local authorities powers to negotiate community benefits as part of the planning process.

<sup>27</sup> Building Schools for the Future is Government's investment programme which aims to rebuild or renew every secondary school in England over a 10 to 15 year period. The financing for BSF schools is provided outside of the Greenwich Peninsula project contracts by the Department for Children, Schools and Families and by private companies contracted to work with Local Authorities in joint venture partnerships.



**2.22** The benefits of this altered timetable is that the Peninsula's first inhabitants will be moving into a mixed-used area in which it will be possible to live, work, enjoy recreational activities and raise a family. The greater number of people on site on a daily basis should increase the likelihood of attracting retailers to the site as well. Regeneration experts consider the creation of mixed-use spaces to be an important aspect of developing a sustainable community (see Part 3). EP, MDL and the Council have made good use of the opportunities to bring other types of development forward so that a mixed-use community is created on the Peninsula from the outset.

## Environmental regulations and design quality

**2.23** Since the deal was signed, there have been numerous changes to the environmental regulations on new buildings. From April 2007 EP is required to meet level 3 of the Government's Code for Sustainable Homes which is 25 per cent above current industry standards. By the end of the development new buildings will have to achieve level 6. Given its role in delivering sustainable homes and communities, EP has persuaded MDL to agree that residential plots will already target a level 4 rating which is likely to increase the costs borne by MDL. In line with its corporate objectives EP is also championing higher quality design for the Peninsula than has been achieved generally across the Thames Gateway.

**2.24** The Government has also introduced an overall zero-carbon target for 2016. This target goes beyond what was agreed in outline planning permission and the parties will need to agree how they can work towards the target in line with their commitment to sustainability.

## Realising the vision of creating a sustainable community on the Peninsula will be challenging but is achievable

**2.25** Given that the project has only been underway for four years, it is difficult to make a firm judgement on whether the project is likely to meet its long-term objective of creating a sustainable community on the Peninsula. We therefore looked at whether the necessary elements for building a sustainable community are in place, or are accounted for in the project's plans. Our expert panel advised us on the criteria used for evaluating "placemaking" which form the basis of this investigation. **Figure 9** shows a summary of the results of our assessment presented as 'traffic light' indicators. More detail about the assessment is given at Appendix 2.

## 9 Early indicators suggest the project has the potential to create a sustainable community

| Sustainability key criteria  | Traffic light indicator |
|--|-------------------------|
| Developers and other key parties committed to forming a sustainable community    | G                       |
| Buildings are environmentally friendly and of good quality                       | G                       |
| Reasonable provision of affordable housing                                       | G                       |
| A mix of types of housing for different people and tenures                       | G                       |
| Enough houses will be built and sold or rented to form a sustainable community   | A                       |
| A sound and diverse economic base  | A                       |
| Adequate provision of shops, retail, leisure outlets, etc.                       | G                       |
| Adequate and diverse transport provision   | A                       |
| Adequate provision of utilities  | G                       |
| Good schools   | A                       |
| Good health care, good community social care                                     | G                       |
| Clean safe environment, low crime and anti-social behaviour                      | G                       |
| Successful management of flood risk  | G                       |
| Reasonable provision of green spaces and recreational areas                      | G                       |
| Measures to work towards carbon neutrality                                       | G                       |
| Consultation of the community in the development and outside                     | G                       |
| Arrangements for the community to govern itself and for management of the estate | A                       |
| Measures to create a sense of community identity and a brand for the development | A                       |
| Good leisure and cultural facilities   | G                       |
| An iconic building or feature to act as a focus of the community                 | G                       |

### Key

- Significant risk criterion may not be met R
- Not yet clear project will meet criterion A
- Project has plans in place to meet criterion G

*Source: Advice from National Audit Office Expert Panel; National Audit Office evaluation of data and plans of principal bodies involved with the project*

**2.26** Our assessment is not a prediction about what will happen against each of the criteria. It presumes that current plans are delivered in full in a timely fashion and that these new challenges are addressed as they arise.

## The project incorporates many of the requirements for a sustainable community

**2.27** On the whole, we found that the project is on target to achieve a sustainable community. EP already has some experience of creating a sustainable community on the Peninsula through its work on the Greenwich Millennium Village, which is well advanced. Against fourteen out of our twenty criteria the project was assessed to currently have adequate and achievable plans in place and for these it was given a green traffic light. These criteria include: robust arrangements for well-designed and environmentally friendly buildings; provision for affordable housing and

a diverse, mixed community; plans for a clean and safe low-carbon environment; provision of extensive green spaces and ecological features; and a comprehensive, well thought-out programme of consultation with the local community and stakeholders. Further details of our assessment methodology are provided in Appendix 2.

## But we found that the project was at risk of not achieving a number of key requirements for a sustainable community

**2.28** We found, however, that progress against a number of indicators gave us concerns or revealed significant uncertainties. The key organisations tasked with delivering a sustainable community on the Greenwich Peninsula will need to resolve these issues if successful “placemaking” outcomes are to be achieved in the long term (see **Figure 10** for additional detail).

## 10 Risks to a sustainable community

**Sufficient housing.** A sustainable community needs a certain critical mass of settlement for other developments on site to thrive. This is a challenging risk to manage because a critical mass cannot be achieved until residential housing is progressed and this will mean insufficient demand for other services. These services, however, equally need to be developed alongside residential housing for the development of a mixed-use and sustainable community.

**Economic base.** A key part of a sustainable community is an economic base supporting the financial viability of the community and providing local employment and opportunities for skills development. MDL intends to provide this through planned office and retail space, which will provide the majority of a forecast 25,000 end-user jobs in the development. There are, however, a number of risks to the achievement of these plans. Part of the land earmarked for commercial development has had to be reserved pending a decision on the Silvertown Link (see paragraph 1.17). Skills targets for future job provision in the development have not yet been set. And there are no contingency plans for the event that insufficient jobs are generated.

**Transport.** Actual and planned transport provision for the development is good. It is, however, subject to a number of risks. There is divided strategic control between Transport for London and Greenwich Council. The development is heavily dependent on one transport mode, the Jubilee tube line, although there are existing bus links, cycleways and footpaths and the Thames Clipper Service has recently opened. There are long term plans such as the Greenwich Waterfront Transit (planned for 2011) and Crossrail which will help alleviate problems. There is also a risk the Jubilee Line may be overloaded in the future by through traffic from and to Stratford. And there is a risk that the development might be at a relative competitive disadvantage in attracting residents and commercial tenants from areas such as Stratford with better transport links.

*Source: National Audit Office analysis*

**School provision.** While the existing Millennium primary school has a good reputation, the current state secondary schools in Greenwich generally have poor results. The secondary school designated to serve the development, the John Roan School, is one of the Borough’s poorer performing schools. The relocation of the school to the Peninsula is being delivered earlier than school place demand. There is a risk that if low levels of attainment continue once the school is open on the Peninsula, families with children will be deterred from staying on the Peninsula once their children reach secondary school age. While EP cannot directly influence school performance the project principals are taking action to address this risk – e.g. additional funding to the John Roan through the Government’s Building Schools for the Future programme. EP also considers that parents in London are more likely to send their children to schools outside their immediate catchment area than in other parts of the UK.

**Community self-governance and estate management.** These are key factors in the formation of a sustainable community. MDL and EP, however, are still in discussion about how the community will be governed. While agreements have been reached with the Council to adopt all principal highways and with Southern Water to adopt sewers and site pumping stations, there is no complete resolution for how the estate should be managed and individual responsibilities.

**Community identity.** Our Expert Panel and a number of others stressed that a clear sense of common identity in the new community and a distinctive identifying brand for the new development were important factors for forming a sustainable community. EP has experience of creating community identity for the Greenwich Millennium Village and MDL has made a number of commitments and plans to do this, but whether they will be effective is still in doubt at this stage. An important part of a community identity is arrangements for the community to be self-governing and as we have seen these are yet to be formulated.



# PART THREE

## Financial returns to the public sector

Part 3 of this report looks at the financial returns to the public sector. It compares those expected in 2007 against those predicted at the outset of the deal in 2004. This section explores each element of English Partnerships returns both from land development and additional profit streams. The relationship between risk and returns is also considered.

**3.1** The deal to regenerate the Greenwich Peninsula is a complex land transfer and property development deal under which the public sector will earn a return from the development of land and a share of the value that this creates. The source of financial returns is set out in **Figure 11 overleaf**. EP will receive a guaranteed minimum return, a share of the profits created by MDL's property development and there is potential for super-profits from AEG's operation of The O<sub>2</sub> Arena and Waterfront.

### Monitoring returns from the complex profit-sharing land development deal will be challenging

**3.2** A value for money assessment carried out in 2004 estimated EP's returns from the development of land on the Peninsula at £216.4 million in net present value terms in 2004 (**Figure 12 on page 27**). This represented the expected return to EP under the terms of the Land Disposal and Land Assembly Agreements and excluded returns arising from other agreements that EP was party to, such as a share of profits made from The O<sub>2</sub> (see Figure 11). A financial model, created by MDL in 2002 to assist with its due diligence of the deal, provided the basis on which this assessment of EP's expected return from the deal was carried out.<sup>28</sup>

**3.3** Just over half of EP's returns from the land-related portion of the project are based on a share of profits from the development of individual plots of land across the

Peninsula. To be confident that it is getting its fair share of profits, EP has negotiated a good level of access to MDL's accounts. This will allow EP to scrutinise each line of expenditure and revenue against each plot of land. **Figure 13 on page 27** illustrates the level of detailed scrutiny required to ensure that costs are reasonable and, where common costs are incurred (such as for building infrastructure common to several plots of land), they are allocated in ways that are consistent with the legal agreements.<sup>29</sup> MDL provides updates on total project expenditure at each meeting of the Project Control Group and has to submit invoices above £25,000 for scrutiny. And under the terms of the Land Disposal Agreement, EP also receives annual audited accounts from MDL.

**3.4** Nevertheless, constant vigilance and a thorough understanding of the deal are required to ensure that EP is getting its due returns under these complex profit sharing arrangements. This will include managing the transfer of knowledge very carefully, as personnel move to and from the project, to ensure that the proper level of scrutiny can be maintained for the duration of this long-term deal (see paragraph 1.20).

### EP has yet to quantify the likely return from The O<sub>2</sub> Arena and Waterfront developments

**3.5** The returns referred to above are derived from the bulk of the development taking place on the Peninsula (as seen from Figure 11). EP is, however, entitled to additional returns from a share of AEG's profits made in The O<sub>2</sub> Arena and the Waterfront (under the Arena Lease and Waterfront Lease agreements) after priority return to AEG. The expected returns from this source are not covered by the 2002 financial model referred to above and on the basis of commercial advice were not taken into account by EP in deciding to go ahead with the overall deal.

<sup>28</sup> The financial model was created to reflect the financial arrangements within the legal agreements. It also made a number of assumptions about what might happen within the market and wider economy for the duration of the deal e.g. the costs of construction and general inflation.

<sup>29</sup> A new financial model was created by MDL in 2007 and should assist EP in its scrutiny of the profit-sharing arrangements. The financial model is not yet complete because it does not include the arrangements between EP and Quintain under the Land Assembly Agreement.

## 11 The source of financial returns to English Partnerships

### Property Development

| Source                | Legal Agreement         | How financial returns are generated   |
|-----------------------|-------------------------|---|
| Minimum Land Payment  | Land Disposal Agreement | <p>As MDL draws down land for development, it makes an index-linked, minimum payment to EP based on the square footage of land drawn down.</p> <p>This minimum land payment is not paid to EP where land is acquired from other existing landowners on the Peninsula (e.g. Quintain and AXA), nor to land used to develop a hotel and land used to fulfil obligations outlined in the section 106 agreement.</p>  |
| Variable Land Payment | Land Disposal Agreement | <p>Profits from land developed by MDL, net of allocated costs of development (defined under a separate formula) are shared with EP. Up to 4 million square feet of development, EP shares 15 per cent of profits. Between 4 and 7 million sq. ft, EP shares 20 per cent.</p> <p>Profits from land sold to third party developers is shared between EP (or other owner of land) and MDL. Up to 4 million sq. ft, EP receives 40 per cent rising to 75 per cent above 10 million sq. ft (should this much land be sold by MDL).</p> |
|                       | Land Assembly Agreement | <p>EP is entitled to a share of profits made by Quintain (which is the other main landowner on the Greenwich Peninsula) from the sale of its land to third party developers. Before this mechanism is triggered, Quintain is allowed to make a 13.5 per cent priority return.</p> <p>EP's profits from this agreement are capped (on an index-linked basis).</p>  |

### Operation and Maintenance of The O<sub>2</sub>

|   |                                 |   |
|---|---------------------------------|---|
| Profit share from The O <sub>2</sub> Arena and Waterfront | Arena Lease<br>Waterfront Lease | <p>EP will be entitled to share in the profits from The O<sub>2</sub> in several ways:</p> <p><b>Arena Profits Share:</b> EP receives 15 per cent of the net profits after AEG has received a priority return on its total investment (subject to a cap) in the Arena. The profit share is paid for 25 years and is payable at the end of each five yearly period.</p> <p><b>Sale of the Arena to a third party (Arena Disposition Rent):</b> EP receives 15 per cent of any net sale proceeds in excess of a "payout" to AEG, if AEG sells greater than 50 per cent of its interest to a third party within 25 years of completion of the Arena. AEG's "payout" is basically a return of a pro rata share of its investment (subject to a cap) together with a percentage return.</p> <p><b>Waterfront Rent:</b> EP is entitled annually to 40 per cent of the gross rents and revenues received from the Waterfront less allowable expenditures and less AEG's priority return of 15 per cent on its total investment in the Waterfront. After a specified quantum of space has been occupied in the Waterfront, EP's return decreases to 33.33 per cent.</p> |
| Hotel option  | Call Option (Hotel) Agreement   | A payment for the hotel site next to The O <sub>2</sub> which will be at least £3.5 million depending on which of three options is used to calculate the payment.   |

Source: National Audit Office analysis

## 12 The value of EP's financial returns from MDL's development of land on the Peninsula (2004 valuation)

|  | Nominal<br>£ million | Net Present value<br>£ million <sup>1</sup> |
|--|----------------------|---|
| Guaranteed Minimum Land payment  | 305.4                | 131.3                                       |
| Variable Land Payment  | 273.2                | 98.8  |
| Adjustments, (including share of profits made by Quintain, land acquisition costs etc) | (5.7)                | (13.7)                                      |
| <b>Total</b>   | <b>572.9</b>         | <b>216.4</b>                                |

Source: National Audit Office analysis of valuation by EP's financial advisers, 2004

### NOTE

1 An 8.5 per cent discount rate was used to calculate this net present value (NPV). Using the NPV rather than the nominal figure is better because it takes into account the timing of returns to English Partnerships. Returns generated later are lower, in net present value terms.

**3.6** The Committee of Public Accounts has previously expressed concern about profit sharing mechanisms, particularly the exposure to risk when the receipt of returns to the public sector is deferred, and about the inherent scope for returns to be undervalued.<sup>30</sup> The Committee's 2005 report *The Regeneration of the Millennium Dome and Sale of Associated Land* recommended that Departments should "attempt to quantify the likelihood and nature of such upsides so as to understand and manage the project and maximise the potential additional benefits to the taxpayer". EP considers that undertaking to produce a robust estimate before now would not have provided meaningful information because The O<sub>2</sub> has an insufficient operating history as it has only been open since June 2007. Instead EP focussed its attention on the construction, practical completion and handover of The O<sub>2</sub> to AEG. The timing of this exercise will not impact on the level of EP's profit share entitlements which is governed by legal agreements. Developing an estimate is feasible, however, and would help EP ensure that it extracts maximum value from the profit share arrangements in the future.

**3.7** The formula for calculating profit sharing and the timing of receipt is prescribed in the respective leases. The contractual agreements negotiated by the parties allow EP full access to the records and accounts of the tenant company (a subsidiary of AEG) responsible for operating The O<sub>2</sub>. The business of running the Arena and hence the production of accounts must be conducted wholly through the tenant company. EP considers that this stipulation

## 13 Illustrative example (no actual numbers included) showing how MDL's profits will be determined and shared with EP on the basis of revenue and expenditure on individual plots of land

| Revenue                                |            | Notes   |
|--|------------|---|
| Land Sales Revenue (incl. car parking) | x          |   |
| Interest Income                        | x          |   |
| Other Income                           | x          |   |
| <b>Total</b>                           |            | <b>X</b>  |
| Common costs                           |            | Notes   |
| - Utilities                            | (x)        |   |
| - s106 & s278                          | (x)        | See Glossary for explanation of s106 and s278 costs |
| - Landscaping                          | (x)        |   |
| - Other Infrastructure costs           | (x)        |   |
| - Operational costs                    | (x)        |   |
| - Shareholder interest                 | (x)        |   |
| <b>Total common costs</b>              |            | <b>(x)</b>  |
| <b>Other plot expenses</b>             | <b>(x)</b> | <b>This could include irrecoverable VAT</b>         |
| -                                      |            |   |
| <b>Landowner variable land payment</b> | <b>(x)</b> |   |
| - Gross variable land payment          | (x)        |   |
| - Affordable housing adjustment        |            |   |
| <b>Profit before Tax</b>               | <b>x</b>   |   |
| Corporation Tax                        | (x)        |   |
| <b>Profit after Tax</b>                | <b>x</b>   |   |

Source: Meridian Delta Limited 2007 financial model

### NOTE

The figure illustrates (without using actual numbers) the income and costs against each plot of land that need to be scrutinised by EP to ensure that it gets a fair return from the project. EP will need to ensure that costs incurred are reasonable and consistent with the legal agreements so that profits are calculated appropriately. MDL will bear the increased cost of a change to the way that the percentage of affordable housing is calculated. This is now based on gross external area rather than number of units.

30 See the Committee's 2005 report on *The Regeneration of the Millennium Dome and Associated Land* (Second report of session 2005-06, 18 July 2005) and *The Sale of County Hall (Riverside Building) to Shirayama Shokusan Company Ltd* (forty-fifth report 1994-95, 4 December 1995).

provides for full sight of all relevant revenues and costs. It also considers that there is some protection for EP in terms of its profit share from the Waterfront as any disputes about the calculation are subject to review by an independent third party with a decision binding on the parties. The legal contracts also contain protection provisions to ensure intra-group costs are validated and relevant records and accounts are provided. The provisions, however, do not explicitly give EP access to the AEG Group records and accounts which would enable EP to scrutinise and challenge effectively the fairness of costs allocated to The O<sub>2</sub> Arena and Waterfront. EP has started the process of agreeing with AEG how it will access information and satisfy itself that fair returns are received. The results of this exercise should highlight whether there are likely to be any future complications arising in terms of EP's access rights.

## The estimated return to the public sector from the Peninsula land deal is now lower than initially forecast in 2004

**3.8** EP's forecast financial returns from the Peninsula land deal (excluding The O<sub>2</sub>) are inherently uncertain and any assessment provides only a snapshot as at that point in time. As with any long term, market-based deal, EP's returns will be affected by changes in the timetable of development and are sensitive to fluctuations in economic conditions (e.g. changes in the rate of inflation, interest rates, housing supply and demand etc). EP and MDL have been working since end 2006 to develop a more sophisticated financial model for forecasting returns to replace the 2002 model which is not detailed enough for monitoring profits and is out of date in terms of the phasing and timing of the development. The time taken is explained by the complexity of the model and the contracts on which it rests. Against expectations in 2004 that EP's returns from the development of land on the Peninsula would be £216.4 million, EP's forecast financial return as at June 2007 in net present value terms, is lower than was forecast in 2004 (see Figure 14).

**3.9** The June 2007 calculation is based on an update to the value for money assessment carried out in 2004 and on assumptions used in subsequent valuation exercises carried out by EP's advisers.<sup>31</sup> This calculation is based on the best information presently available but is uncertain because it is derived from the current, out of date financial model. On the basis of a methodology which uses a 4.55 per cent

discount rate for the first three years of the deal rather than the 8.5 per cent originally used in 2004, EP estimates the financial return to be in the region of £171 million. The 4.55 per cent discount rate reflects the Government opportunity cost of money rather than a future risk rate on the basis that any risk to the project is still in the future and all that has happened is that timescales have slipped. Using a constant 8.5 per cent discount rate as in the original forecast, the forecast returns would be some £156 million. The application of a constant 8.5 per cent discount rate is on the basis that an opportunity cost of money would only apply if EP's contribution was not already at risk. In this case, however, once the deal became unconditional in 2004 EP had effectively committed itself to the deal and as a consequence its investment was at risk.

**3.10** Most of this reduction in expected returns can be attributed to the delay in getting residential development on the Peninsula started. Delayed development leads to delayed income to EP, which in turn reduces its returns in net present value terms. In addition, build costs so far have risen more quickly than anticipated in 2004 and this has also affected EP's returns, though the impact of this has been partially offset by increased land values.

**3.11** MDL's plan to accelerate development, if successfully implemented and maintained over a number of years, could reverse this reduction in returns over the lifetime of the deal, as could any unexpected rise in property values. On the other hand, high build cost inflation, uncertainty in the property market and delay in development will have the opposite effect. Owing to the structure of the contract EP's returns are spread over a longer period of time than MDL's which means that losses caused by delay affect EP financially more than MDL.<sup>32</sup> In structuring the deal, there were arguments both for and against deferring EP's share of the profits. If property values increased in real terms then deferral would mean EP would receive higher returns. It was recognised, however, that property values might not increase consistently in real terms. Deferral would also give confidence in the incentive on Government to provide essential public infrastructure and mean that MDL bore most of the costs and risks of setting up the project. On the other hand deferral meant that EP was more exposed to downturns in property values and delays. Government also needed confidence in MDL's commitment to invest in infrastructure and keep up the pace of development in later years. Following professional advice EP judged that the balance of risk and reward

31 These annual valuation exercises value EP's freeholder interest in the deal with MDL. These make use of a financial model (see paragraph 3.2) with updated assumptions mainly relating to movements in inflation and property values in the year covered by the valuation exercise. The updated value for money assessment took these update assumptions and looked at their impact on the income EP can expect to receive over the lifetime of this deal, which went unconditional in 2004.

32 Given that money has a time value, an acceleration of development will also benefit MDL's overall returns more than EP's.

## 14 Updated assessment of EP's estimated returns from the land deal with MDL (June 2007), on the basis of the out of date financial model available

|   | Estimated returns 2007 |   | Change from 2004     |                                |
|---|------------------------|---|----------------------|--------------------------------|
|   | Nominal<br>£ million   | Net Present Value<br>£ million <sup>1</sup> | Nominal<br>£ million | Net Present Value<br>£ million |
| Guaranteed Minimum Land Payment   | 305.4                  | 104.9–116.1                                 | 0.0                  | (26.4)–(15.2)                  |
| Variable Land Payment   | 234.9                  | 65.3–72.3                                   | (38.3)               | (33.5)–(26.5)                  |
| Adjustments (including share of profits made by Quintain, land acquisition costs etc) | (21.5)                 | (14.0)–(17.1)                               | (15.8)               | (0.3)–(3.4)                    |
| <b>Total</b>  | <b>518.7</b>           | <b>156.2–171.3</b>                          | <b>(54.2)</b>        | <b>(60.2)–(45.1)</b>           |

Source: National Audit Office and EP's analysis of valuation by EP's financial advisers, June 2007

### NOTE

1 Using the NPV rather than the nominal figure is better because it takes into account the timing of returns to EP. Returns generated later are lower in net present value terms.

provided for in the contract was in the interests of the taxpayer, taking into account expected changes in property prices and the need for all parties to have confidence in each other's long term commitment.<sup>33</sup>

**3.12** In its 2005 hearing on the NAO's *Regeneration of the Millennium Dome and Associated Land* report, the Committee of Public Accounts was informed that £33 million of proceeds were anticipated to be returned to the taxpayer during 2008-09, on the basis of the development plans at the time. EP now anticipates that actual receipts generated from the land-based deal with MDL at the end of this period will be in the region of £25 million.

## Ongoing challenges faced by the project have potential to put at risk returns due to EP generated through the land deal

**3.13** It is difficult to predict only three years into the project whether MDL can successfully deliver against their objectives. Going forward the project will be subject to new uncertainties. Following initial delays to residential development a new phase of high activity is projected over a shorter period which could help to make up some of the reduction in expected returns caused by delay to developments. Part 2 of this report concluded that achieving this pace of residential development will be challenging for all of the parties involved.

**3.14** MDL also faces greater financial risks from delayed development because it will take longer to achieve a return on the capital it has already invested in the scheme and because it is now shifting its strategy to greater direct development of land. While this strategy has potential to get progress back on track, it equally has potential to place a greater burden on MDL's resources and finances.

**3.15** New risks to the project, discussed in Part 1, will also have an impact on the project and the returns to the parties. The estimated cost of rectifying the gasholder issue is around £12 to 15 million and while not significant given the overall size of the deal it is not clear who will bear this. There is also a deadline by which this issue has to be resolved – 2010 – so that the school can be opened on time. Without a timely resolution of this issue, there is a risk that the school could be built but not used, or that the funding for the school under Building Schools for the Future will be put back to the next phase of the programme. To support the longer term, a decision on the Silvertown crossing must be made because this also provides a large constraint on the development of housing.

**3.16** The estimated return to EP from the MDL development is also based on assumptions surrounding future economic conditions. Over the course of a long term deal there will inevitably be both positive and negative variance on original predictions. The current values are based on an assumed scenario of residential value growth outstripping inflation in every year for almost twenty years. Any downturn in the housing market, which is likely in such a long term project, will not be compatible with maintaining the proposed accelerated pace of development on the Peninsula. This could further erode the value of EP's financial returns.

<sup>33</sup> The arguments for and against deferral of EP's share of the profits are outlined fully in Figure 17 of the NAO's previous report on this subject *The Regeneration of the Millennium Dome and Associated Land*, HC 178 Session 2004-05, 12 January 2005.

# APPENDIX ONE

## Study Methodology

This section outlines the research methods used in the course of our examination.

### Study Scope

In 2005 the National Audit Office published *The Regeneration of the Millennium Dome and Associated Land* (HC178 2004-05) which examined English Partnership's sale of the Millennium Dome and the resulting deal with the private sector.

While the long term relationship between the parties extends over 20 years, the objective of this early progress report was to examine whether the relationship between English Partnerships, Meridian Delta Limited and the Anschutz Entertainment Group is effectively delivering its original objectives for the Greenwich Peninsula. In particular:

- Whether the outputs from the relationship are on track to being achieved;
- Whether the relationship is working effectively to date; and
- Whether the relationship and development plan is adapting to change.

### Methodology

The following research methods were used in the course of this study:

#### Use of advisers

We commissioned property development advisers, Drivers Jonas, to advise us on the reasonableness of assumptions being made by English Partnerships and Meridian Delta Limited and on the property market more generally. In particular Drivers Jonas analysed the impact of changes in the property market between 2004 and 2007, the changing risk profile of the deal and the changes between financial models for the deal between 2004 and 2007.

### Interviews

We conducted in-depth interviews with staff from key stakeholder organisations. Below is a list of organisations involved in the interviews. These interviews generally lasted 90 minutes and were largely semi-structured.

- AEG Europe
- The David Beckham Football Academy
- Department for Communities and Local Government
- English Partnerships
- Environment Agency
- Greater London Authority
- Greenwich Local Labour and Business
- Greenwich London Borough Council
- Greenwich Peninsula Partnership
- Health and Safety Executive
- Housing Corporation
- London Development Authority
- London First
- Meridian Delta Ltd
- Olympic Delivery Authority
- Port of London Authority
- Transport for London

We were also in telephone or email contact with the Academy for Sustainable Communities, the Sustainable Development Commission and Berkeley Group plc during the course of our examination.



## Review of previous National Audit Office work

Synthesis of previous and current NAO work was a major component of our methodology. It helped to shape the study and focus direction on certain aspects identified in earlier Dome reports as well as factor in more contemporary developments, like the 2012 Olympics, in particular:

- *The Thames Gateway: Laying the Foundations* (HC 526 2006-07)
- *Preparations for the London 2012 Olympic and Paralympic Games – Risk Assessment and Management* (HC 252 2006-07)
- *Regeneration of the Millennium Dome and Associated Land* (HC 197 2004-05)
- *The Sale of County Hall (Riverside Building) to Shirayama Shokusan Company Ltd* (HC 314 1994-95)
- *Department of the Environment: Urban Development Corporations* (HC 492 1987-88)

## Documentary Review and Analysis

We have reviewed a range of external documentary evidence, including:

- The Department's documentation in relation to overseeing English Partnership's management of the Dome redevelopment and Greenwich peninsula regeneration
- Legal agreements governing the development and regeneration, principally the Land Disposal Agreement, the Land Assembly Agreement, the Agreement for Leases, the Construction License and Completion Assurance and the Section 106 Agreement
- English Partnerships' documentation relation to management of the partnership with Meridian Delta Ltd including business plans, Project Control

Group minutes, construction works progress reports, expenditure reports, surveyor reports and partnership risk register

- English Partnerships' documentation in relation to liaison with third party stakeholders in the development and regeneration
- Financial documentation including update valuations of the 2004 financial model, 2007 financial model and English Partnerships output results and targets.

## Literature Review

The study team examined published papers, policy research and existing literature on creating sustainable communities. This work allowed us to obtain a detailed understanding of best practice in creating sustainable communities.

## Project fieldwork visits

Visits to The O<sub>2</sub> and discussions with site staff were carried out both before and after the official opening.

## Expert Reference Panel

We put together an Expert Panel to review and challenge our work and thereby provide quality assurance. The panel consisted of a range of experts in the fields of urban regeneration, property development and regeneration project management. They were invited to comment on the scope of the study, the emerging findings as we completed our fieldwork as well as the draft report itself. Panel members were:

- Mrs Lorraine Baldry, Chairman, London Thames Gateway Development Corporation
- Professor David Banister, Director of Transport, Transport Studies Unit, Oxford University Centre for the Environment, University of Oxford

- Professor Michael Parkinson, CBE, European Institute for Urban Affairs, Liverpool John Moores University
- Professor Peter Roberts, OBE, Chair, Academy for Sustainable Communities
- Professor Tony Travers, Director of the Greater London Group, London School of Economics
- Mr Brian Weddell, Head of Medway Renaissance

Internal advice was also sought from National Audit Office staff with experience of regeneration projects, prior Dome-related studies and with understanding of the 2012 Olympic plans.

### Greenwich Community Representative Focus Group

The Greenwich Peninsula Partnership assisted us in convening a focus group comprising members of the local residential and business community. The focus group was asked to comment on how effectively the principal organisations responsible for the project had consulted with the local community and whether they thought a sustainable community was being created on the Greenwich Peninsula.

The focus group was observed by two academics, Professor Paul Lawless of Sheffield Hallam University and Professor Marilyn Taylor of the University of the West of England. Professors Lawless and Taylor both have considerable experience in urban regeneration and community consultation. Following their observation of the focus group we commissioned them to jointly write a paper reflecting on the process of consultation and likely regeneration impacts.

### Sustainable Community Assessment

An assessment was conducted of whether the key elements for creating a sustainable community on the Greenwich Peninsula are in place, and as far as possible at this stage, are likely to be achieved. See Appendix 2 for details of the methodology used in this assessment.



# APPENDIX TWO






## Creating a Sustainable Community

**1** We concluded in Part 2 of our report that realising the vision of creating a sustainable community on the Peninsula will be challenging, but is achievable. It is inherently difficult to make a firm judgement on whether the project is likely to meet its long term objective of creating a sustainable community, not least because the project has only been underway since 2004. Our approach was therefore to look at the key elements that make a sustainable community and assess whether, as far as they should be at this stage, they are in place or accounted for in project plans.






**2** Our expert panel (see Appendix 1) advised us in developing 20 criteria which form the basis of this assessment. Our evaluation against each of the criteria was made by looking at key documentation (planning

agreements, business plans, strategy documents etc.) and through discussion and interviews with key parties. On the basis of our evaluation we then assigned traffic light indicators to each criteria to indicate whether the project is on target to meet the criterion (green), whether it is not yet clear the project will meet the criterion (amber) or whether there is a significant risk the criterion will not be met (red). We did not assign weightings to the criteria. This approach does not provide a prediction about what will happen against each criterion, but allocates an indicator on the basis of current information available and the assumption that plans are delivered as projected. While the project appears to be on track to meet most criteria, our evaluation did give us concern in some areas. The table that follows is a full record of our evaluation against each criterion:


| Criterion  | Risk if criterion not met  | National Audit Office's assessment of action taken against criterion  | Risk evaluation   |
|--|--|---|---|
| <b>1</b> There is systematic commitment to a sustainable community and processes and plans in place to ensure the characteristics of a sustainable community are taken into account. | Inadequate direction and planning to achieve a sustainable community                                 | The three main parties involved in the project – EP, MDL and Greenwich Council – have all made key statements committing themselves to a sustainable community and have taken significant actions and drawn up significant plans to achieve this. EP has experience in creating sustainable communities through its work with the Greenwich Millennium Village which is now a well advanced development on the Peninsula.   |  |
| <b>2</b> There are environmentally sound, quality buildings. (Environmental soundness defined in terms of the Code for Sustainable Homes).   | Poor quality buildings that people do not want to live in and which impoverish their quality of life | NAO's property consultants for the study, Drivers Jonas, concluded it was very likely that these standards would be achieved throughout the development. The outline planning permission for the project requires MDL to achieve excellent BREEAM ratings for buildings to be verified by the Building Research Establishment (BREEAM is an accepted standard for sustainable design issues). MDL's 2006 Business Plan contains an objective to 'Make the Greenwich Peninsula a world leader in design measured in terms of quality and innovation'. From April 2007 EP is required to meet level 3 of the Code for Sustainable Homes. By the end of the development new buildings will have to achieve level 6 (the highest rating). |  |

| Criterion continued  | Risk if criterion not met continued   | National Audit Office's assessment of action taken against criterion continued   | Risk evaluation   |
|--|---|--|---|
| 3 There is reasonable provision of affordable housing. (The Housing Corporation told NAO 30 to 40 per cent would be an appropriate range).   | Inadequate social diversity – community alienated and disconnected from surrounding society – failure of community to contribute to wider social good   | A target of 38% of affordable housing has been set out in the planning agreement and is enforceable by Greenwich Council. MDL have included provisions in their 2006 Business Plan to monitor achievement of this target and ensure compliance.  |    |
| 4 There is a mix of provision of housing for different types of people (e.g. housing with different numbers of bedrooms) and a mix of types of tenure. The development is 'tenure blind' – there are no visible indications of type of tenure. | Inadequate social diversity – community alienated and disconnected from surrounding society – failure of community to contribute to wider social good   | The planning agreement requires MDL to provide a number of different types of tenure – social rented, privately owned, part-socially rented, part-bought, sold at discount. It also requires a mix of types of housing – e.g. one-bedroom, two-bedroom. 350 sheltered accommodation places are also provided for elderly people. There is provision in the development plans for student accommodation of 120, but MDL plan to provide accommodation for about 450 students in 2008. Key workers on the Peninsula and workers on the Peninsula from disadvantaged groups will be eligible for consideration to benefit from the affordable housing in the development.   |    |
| 5 People will actually buy or rent homes in the development – they will settle in the development in sufficient numbers to form a sustainable community.   | Not enough people to form a thriving community – inadequate diversity   | There was wide agreement from a number of sources the NAO consulted that the development would be able to find takers at reasonable prices for the development's housing. A sustainable community, however, needs a certain critical mass of settlement for other developments on site to thrive. This is a challenging risk to manage because a critical mass cannot be achieved until residential housing is progressed and this will mean insufficient demand for other services. These services, however, equally need to be developed alongside residential housing for the development of a mixed-use and sustainable community.   |    |
| 6 There is a sound and diverse economic base and availability of jobs both locally and outside the area.   | Community is not financially viable – poor economic opportunities for people in the community – people do not work or work outside the community, which becomes a dormitory area with little community spirit | The project plans envisage that the final development will include 343,600 square metres of commercial space, 33,750 square metres of retail space and will provide for 24,000 new jobs. 18,000 of these are forecast to be in the office development. These plans if achieved would provide the development with a robust, sustainable economic base. Some of the land scheduled for commercial development has had to be reserved because of uncertainty about what land will be needed for the planned Silvertown Link (a river crossing between the Royal Docks and the Greenwich Peninsula); there is a risk that not all the office space will be marketable over the whole life of the project; no skills targets have yet been set for future job provision; and neither MDL nor EP have contingency plans for the event that insufficient jobs are generated.   |  |
| 7 There is adequate provision of shops, retail, leisure, entertainment and other activities.   | Poor quality of life – people have to travel outside the community to socialise and shop  | The project has plans for significant retail provision and land use for this has been allocated. MDL's 2006 Business Plan analysis predicts retail growth of 3 per cent a year and that there will be healthy retail demand on the Peninsula. But the Sustainable Development Commission identifies a risk from its general research of Growth and Regeneration areas that there may be difficulty in attracting retailers to new developments because of insufficient early market demand. This risk may be mitigated for the Greenwich Peninsula development by the fact that there is already significant customer footfall in the Peninsula from The O <sub>2</sub> , the North Greenwich interchange and (in the near future) Ravensbourne College. Even in the absence of new retail provision in the development itself, there is significant availability of retail at easily accessible distances in and around The O <sub>2</sub> and the retail park to the south of the development. |  |



| Criterion<br><i>continued</i>   | Risk if criterion not met<br><i>continued</i>  | National Audit Office's assessment of action taken against criterion<br><i>continued</i>   | Risk<br>evaluation |
|---|--|--|--------------------|
| <p>8 There is adequate and diverse transport for the development. (Does the development overall provide adequate parking, rail and tube transport, pedestrian and cycling facilities, bus and river transport? Has an adequate assessment and risk analysis of transport provision been carried out.)</p> | <p>Community is isolated – people do not want to settle or remain there – business does not want to invest</p> | <p>An in-depth Transport Assessment was produced which endorsed the MDL Masterplan as providing a robust transport strategy. Detailed targets and obligations to meet the need have been firmly embedded in the outline planning permission and in MDL's Business Plan. £22 million of investment has been allocated to transport upgrades by MDL. This is in addition to further planned investment by TfL on tube and bus route enhancements. The project is well-served by the Jubilee Line, bus links and a network of cycleways and footpaths. There are, however, risks from divided strategic control of transport, heavy dependence on and overloading of the Jubilee Line, competition from other developments which are better served by public transport (e.g. Stratford) and perceived weaknesses in liaison with the local community about transport plans. Dependence on the Jubilee Line is decreasing – The O<sub>2</sub> Thames Clipper river service opened in 2007 and the Greenwich Waterfront Transit (for delivery in 2011) and Crossrail will alleviate problems in the longer term. Completion of planned upgrades to the Jubilee Line will also increase capacity by 23 per cent by 2009. TfL consider that competition from Stratford was understood at the time the planning application for the Peninsula was determined and the transport assessment recommended various mitigation measures. Local perceptions that TfL's communication about transport plans could have been better, is thought to result specifically from one instance where bus routes were changed prior to the opening of The O<sub>2</sub>.</p> | ●                  |
| <p>9 There is adequate provision of an infrastructure of utilities for the development. (a) electricity (b) gas (c) water (d) sewerage (e) telecoms).</p>   | <p>Poor quality of life – people do not want to settle in the community or stay there</p>                      | <p>MDL have legal obligations under the project Land Disposal Agreement to make appropriate utility provision consistent with the development Masterplan, Environmental Policy and common development obligations. EP has discretion to issue leases and licences in support of this. MDL has an objective in its 2006 Business Plan to deliver utilities infrastructure and the objective is supported by a number of strategies and action plans. MDL has been carrying out an ongoing detailed utility assessment since the inception of the project. MDL's lifetime investment in utilities is projected at £55m. This is in addition to substantial investment in utilities provision to the site made by EP before the inception of the project.</p>   | ●                  |
| <p>10 There are good schools.</p>   | <p>Poor quality of life – affluent parents will not want to settle or stay in the community</p>                | <p>An analysis of the requirement for educational provision was carried out as part of the outline planning stage of the development and has been updated by Greenwich Council. To meet the requirement, the planning permission requires MDL to provide a primary and secondary school on-site and funding for additional primary and secondary provision off-site. A good existing primary school already exists on the Peninsula and provision for the planned secondary school, the John Roan School, is in advance of pupil place demand. Secondary school results in Greenwich, however, are poor. The NAO were told that there is a risk that if schools on the Peninsula have continued levels of low attainment this will deter families with children from remaining on the Peninsula once their children reach secondary school age. The John Roan school will be developed under the Building Schools for the Future initiative which aims to deliver transformational change in education. It should be noted that it is difficult for EP to have a direct influence over the quality of school provision. EP also considers that parents in London are more likely to send their children to schools outside their immediate catchment area than in other parts of the UK.</p>   | ●                  |

| Criterion continued  | Risk if criterion not met continued  | National Audit Office's assessment of action taken against criterion continued   | Risk evaluation   |
|--|--|--|---|
| 11 There is good health care and other community social care provision.                      | Poor quality of life – people will not want to settle or stay in the community   | The Environmental Impact Assessment submitted as part of the outline planning application identified health care requirements for the development. The outline planning permission requires MDL to fund health care provision, provide a health care centre and submit a Community Services Plan part of which covers health care. Greenwich Council must approve the level of health centre provision and is in a position to ensure that requirements are met. MDL has to fund intermediate care facilities before 3200 dwellings are occupied and, in the initial phase of development, residents can use health facilities in the Greenwich Millennium Village and outside the Peninsula: this ensures that there is no gap between early occupation of the development and provision of health facilities. Overall, therefore, on present evidence, the criterion is on target to be met.           |    |
| 12 There is a clean, safe environment with security against crime and anti-social behaviour. | Poor quality of life – high crime reduces community spirit, promotes sense of alienation - people will not want to settle or stay in the community | The planning documents provide for a Low Emission Zone to reduce vehicle pollution (the first such Zone in the UK) and a waste disposal strategy. MDL, in agreement with EP, is funding strategies to promote an injury free and crime free culture. EP has agreed that the developer should apply minimum environmental standards to all development plots – these standards cover low energy use construction, reduced car and road use, reduced waste and use of water and greater recycling. The Environment Agency told the NAO that they regard the development as 'a best practice example for a number of environmental issues'. The MDL 2006 business plan has an objective to minimise real and perceived risk of personal accident and crime on the Peninsula. This is supported by funded strategies.  |    |
| 13 There is management of flood risk.  | People are deterred from settling or staying in the community – possible physical damage to fundamental physical infrastructure of community       | The Environment Agency told the NAO that MDL had put in place good flood defences, and the Agency has monitored MDL's compliance with flood regulations. MDL and Greenwich Council told the NAO that they relied on and complied with advice from the Agency for this aspect of the project. The Agency, however, also told NAO that flooding was a major issue for the Thames Gateway areas in general. The Agency through the Thames Estuary 2100 project is assessing the options to manage the flood risk until the end of the century taking into consideration climate change and the related sea level rise.  |  |
| 14 There is reasonable provision of green spaces, parks, open recreational areas.            | Poor quality of life – people will not want to settle or stay in the community   | The outline planning permission requires MDL to agree a plan for open spaces on the development with the Council, to implement the plan, to maintain the open spaces and to provide for the public to have access to the open spaces. The development includes extensive green spaces – 1/6th of development site is given over to parkland and public open space. There is a four acre ecology park, river terracing, and a detailed plan to protect and enhance the area's wildlife and habitats. There are also measures to promote low car use. The Environment Agency was very positive about this aspect of the development, noting to NAO that the development is a good one with substantial sustainable development features including a number related to green spaces – e.g. Dome Waterfront Ecology Park, introduction of ecological reed beds and extensive green roof top pumping station. |  |
| 15 There are measures for the development to work towards carbon neutrality.                 | Failure to contribute to wider social good   | In 2006, EP agreed a legally enforceable standard with MDL for carbon emissions for development plots of 30 kilograms per square metre per year. They also agreed standards for low carbon emission buildings and measures to reduce car use in the development (e.g. 0.7 car parking spaces per dwelling). MDL plans significantly to exceed the standards for low carbon emission buildings.   |  |

| Criterion<br><i>continued</i>   | Risk if criterion not met<br><i>continued</i>  | National Audit Office's assessment of action taken against criterion<br><i>continued</i>   | Risk<br>evaluation  |
|---|--|--|---|
| <p><b>16</b> There is provision for the wider community in Greenwich and for the community in the development (as it emerges) to be consulted about the development (excluding consultation about transport).</p>   | <p>Poor sense of belonging to a community and being responsible for it</p>           | <p>There is extensive consultation prior to each planning application by MDL and Greenwich Council. MDL also consult after planning applications through a consultative community forum of local interest groups. In addition, there is separate consultation on design issues, MDL's arts strategy and MDL's education and business programmes. The Council's consultations include neighbouring Boroughs where appropriate. New residents to the Peninsula will be included in these consultative processes. EP told NAO that this programme of consultation would continue throughout the development. MDL told NAO that it considered consultation and engagement of the community as very important to the regeneration of the Peninsula. NAO held a focus group of interest groups and residents from the Peninsula and the surrounding area: feedback on the amount and quality and results of consultation with MDL were positive, especially in regard to consultation with disabled groups. Two academic experts employed by the NAO to observe the focus considered the consultation had, subject to some caveats, been 'well thought out and comprehensive'.</p> |    |
| <p><b>17</b> (A) There is 'good governance' – that is, there are arrangements for the community to govern and manage itself and run a management company which has powers to maintain and manage the estate. (B) There is clear provision for an 'estate management function.</p>   | <p>Poor sense of belonging to a community and being responsible for it</p>           | <p>No decisions have yet been taken about how arrangements for governance and representation will be taken forward. EP and MDL are currently in discussions about this subject. MDL and Greenwich Council have still to reach agreement about the estate management function and responsibilities for managing the public realm (roads, area maintenance etc). Given the project is now four years old, we thought there was a risk in not having yet resolved these issues. We note that an Agreement has been reached with the London Borough of Greenwich to adopt all principal highways and with Southern Water to adopt sewers and a site pumping station.</p>   |    |
| <p><b>18</b> There are measures in place or planned to create a sense of identity and a recognisable brand for the development and project. There is provision for some focus for community activities likely to help produce a sense of community (e.g. a community centre, arrangements for use of local schools for community activities).</p> | <p>Poor sense of belonging to a community – poor sense of pride in the community</p> | <p>The planning agreement commits MDL to finance and promote cultural events and community projects, provide civic art, and provide and finance a multi-faith community centre. In its 2006 Business Plan, MDL includes a £2 million funded strategic objective to increase the 'brand awareness' of the Peninsula through a website, Business Centre, a communications strategy and relationships with key stakeholders. How successful these measures will be is uncertain at this stage. In addition, many possibly key influences such as governance and estate management arrangements have still to be settled (see Criterion 17). There are concerns about how the running costs of the multi-faith community centre will be met. EP does, however, have experience in creating community identity through its work on the Greenwich Millennium Village.</p>  |  |

| Criterion continued   | Risk if criterion not met continued   | National Audit Office's assessment of action taken against criterion continued  | Risk evaluation   |
|---|---|---|---|
| <p><b>19</b> There are things for people to do, to enjoy themselves in their leisure time in reasonably satisfying and rounded ways: facilities for socialising – leisure facilities, restaurants, night life etc.; and cultural provision. (Including facilities for office workers and students – e.g. lunch time eating establishments, lunchtime shopping).</p> | <p>People have to travel outside to socialise – impoverished quality of life – little sense of attachment to or pride in community – community is unattractive as place to settle or stay</p> | <p>The planning permission requires MDL to pay Greenwich Council £1m for playing fields and agree with Greenwich Council to provide a leisure facility and up to £1/2m towards securing access to it. In addition The O<sub>2</sub> alone should provide a wide range of leisure facilities, restaurants etc. The development plans also make provision for cultural activities (see under Criterion 18 above).</p>   |  |
| <p><b>20</b> The development possesses some iconic building or other feature which can act as a symbol and focus of the community.</p>  | <p>Poor sense of belonging to a community – poor sense of pride in the community</p>  | <p>MDL's 2007 Strategic Plan identifies The O<sub>2</sub> as an asset of this type. Advice from some members of the NAO's expert panel was that the Dome was associated with failure and controversy – but if AEG make a success of The O<sub>2</sub> (and indications so far are good), it may function in this regard in the future. The relocation and rebuild of Ravensbourne College on the Peninsula should provide (according to plans and drawings) another striking and innovative iconic building. Overall, we assessed the prospects against this criterion as good.</p> |  |

**Key**

-  Project has plans in place and the potential to meet criterion
-  Not yet clear that project will meet criterion
-  Significant risk that criterion will not be met with critical effect on prospects for achieving a sustainable community

Source: National Audit Office analysis

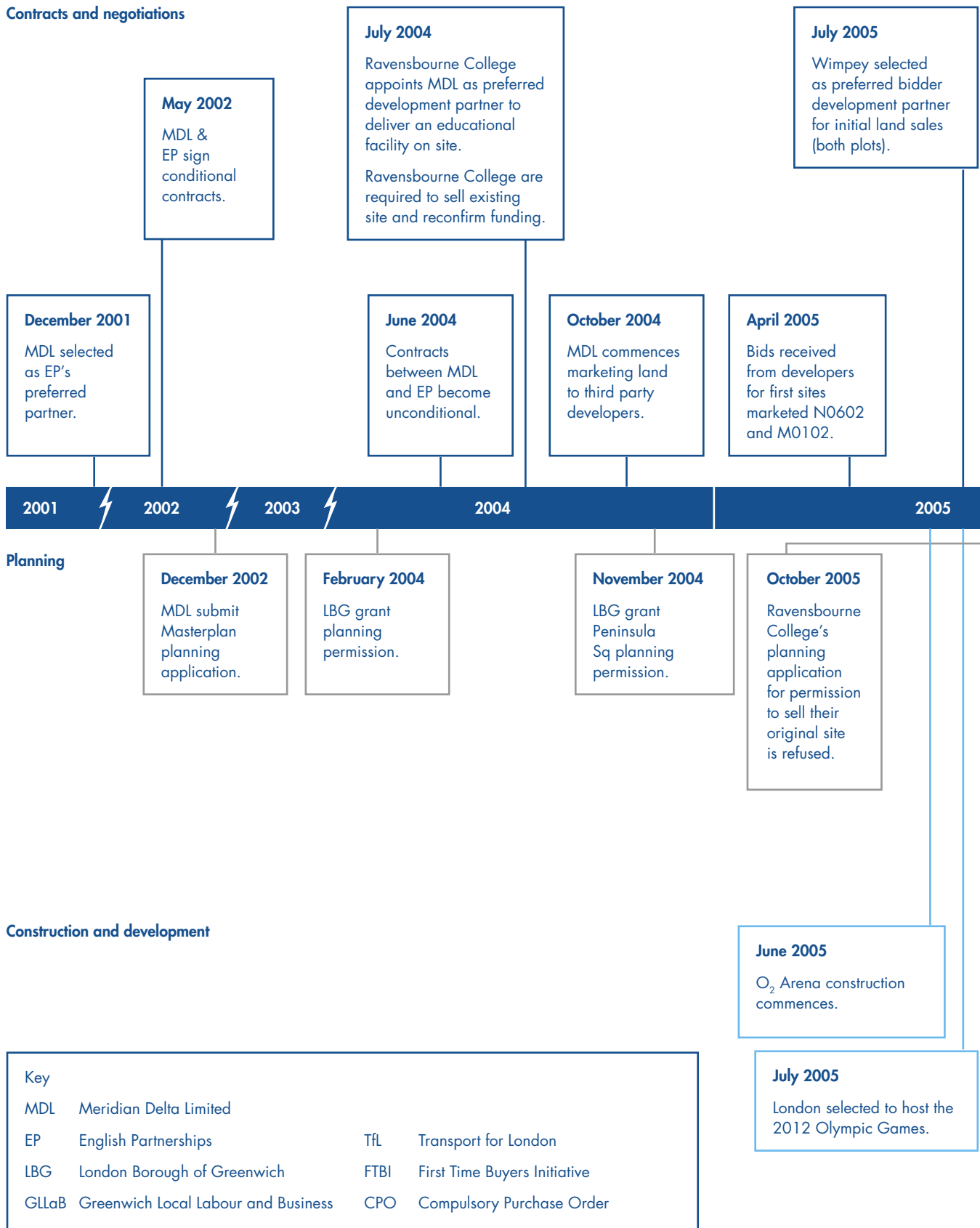


# APPENDIX THREE

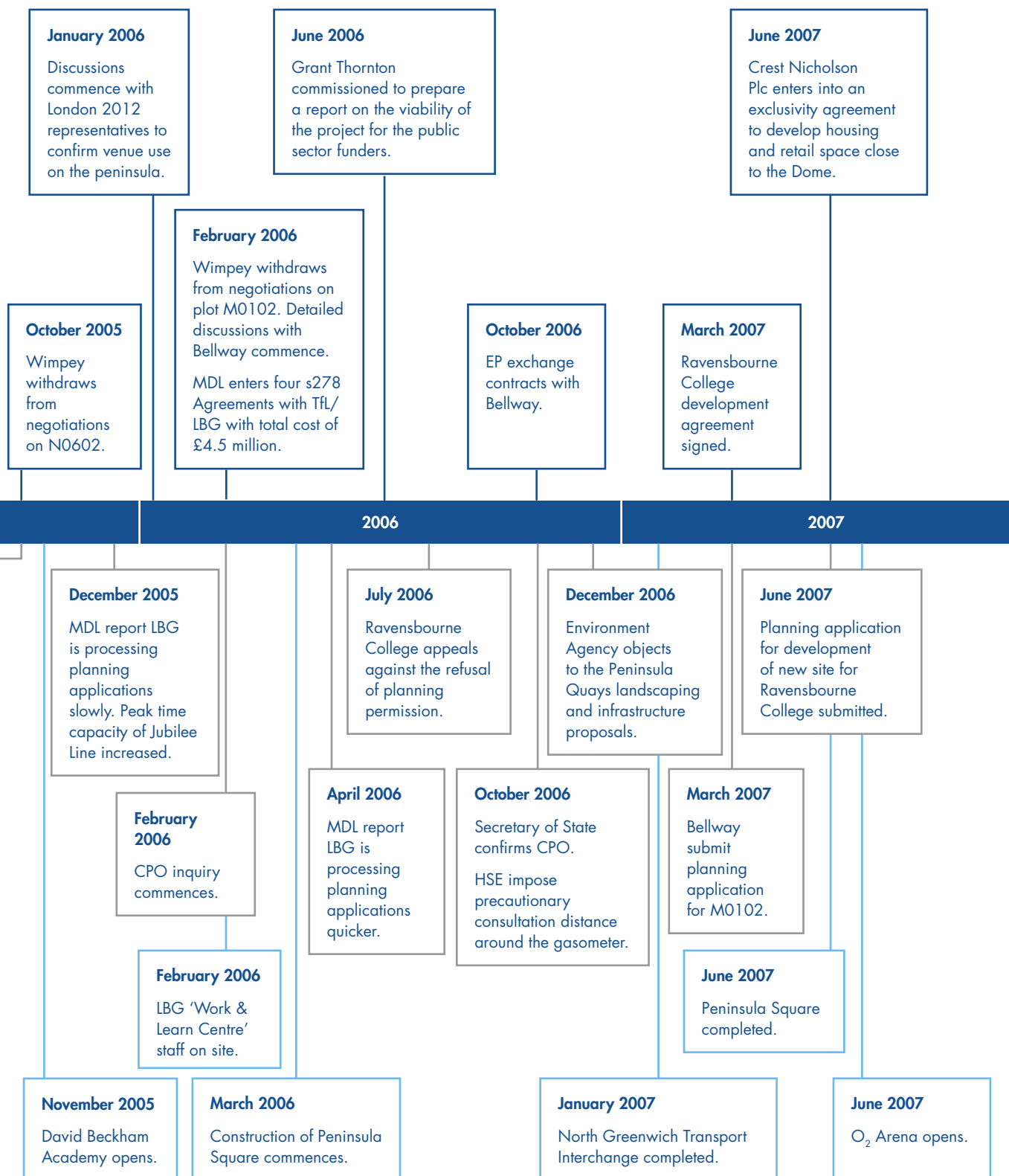
## Timeline

See Timeline overleaf.

A Timeline of Progress on the Greenwich Peninsula Redevelopment Project



Source: National Audit Office analysis



# GLOSSARY

| Term  | Acronym     | Description  |
|---|-------------|--|
| Affordable Housing                              |             | A range of both subsidised and non-subsidised housing designed for those whose incomes generally deny them the opportunity to purchase or rent housing on the open market.   |
| Anschutz Entertainment Group Europe             | <b>AEG</b>  | A leading sports and entertainment presenter, which sub-leases The O <sub>2</sub> Arena and Waterfront from Meridian Delta Ltd.  |
| AXA   |             | An insurance and asset management group, which owns land on the Greenwich Peninsula intended for inclusion in the regeneration programme.  |
| Bellway   |             | A nationwide house building company, selected by Meridian Delta Ltd to undertake construction work on the Greenwich Peninsula following Wimpey's withdrawal from the negotiating table.  |
| Building Schools for the Future                 | <b>BSF</b>  | A programme managed by the Department for Children, Schools and Families with the aim of rebuilding or refurbishing every secondary school in England over a 10 to 15 year period.   |
| Code for Sustainable Homes                      |             | A new national standard for sustainable design and construction of new homes introduced from April 2007. The code uses a 1 to 6 star rating system to communicate the overall sustainability performance of a new home and sets minimum standards for energy and water use at each level.                                |
| Compulsory Purchase Order                       | <b>CPOs</b> | Compulsory Purchase Orders are an important tool for local authorities to use as a means of acquiring land needed to help deliver social and economic change. CPOs can help bring about urban regeneration, the revitalisation of communities and the promotion of business, leading to improvements in quality of life. |
| David Beckham Football Academy                  |             | The David Beckham Academy is a football training facility aimed at children aged 8 to 15, and located on the Greenwich Peninsula. It is the largest sporting facility of its kind in Europe and is operated by AEG.  |
| Department for Communities and Local Government | <b>DCLG</b> | Government department whose remit is to encourage the growth and development of communities, with the aim of providing a safe, healthy and sustainable living environment for everybody.   |

| Term                                | Acronym | Description   |
|-------------------------------------|---------|---|
| Discount Rate                       |         | The interest rate used in calculating the present value of expected yearly benefits and costs.  |
| English Partnerships                | EP      | The Government's national regeneration agency, with a remit to deliver high quality, sustainable growth in England sponsored by the Department for Communities and Local Government.  |
| Environment Agency                  | EA      | A public body responsible for the protection and improvement of the natural environment in England and Wales.   |
| Environmental Impact Assessment     | EIA     | A process that must be followed for certain types of development before they are granted planning consent. The developer is required to compile a statement describing the likely significant effects on the environment and proposed mitigation measures.  |
| Gasholder/Gasometer                 |         | An expanding storage tank for gas. The gasholder on the Greenwich Peninsula (operated by Scottish and Southern Energy and owned by Scotia) has been declared a hazard by the HSE and consultation distances have been mapped around it. This safety precaution has had an impact upon the regeneration works, in particular the south-west of the Peninsula (which includes the proposed new site of the John Roan school). |
| Greater London Authority            | GLA     | Strategic governing body for London covering transport, policing, fire and emergency services, economic development, planning, culture and the environment, and headed by the Mayor of London.  |
| Greenwich Local Labour and Business | GLLaB   | Initially established to help with regeneration and renewal projects, Greenwich Local Labour and Business is a local labour initiative. It works in partnership with employers and a range of organisations to maximise job opportunities for local people and secure business opportunities for local companies.   |
| Greenwich Millennium Village        | GMV     | A millennium community developed at the southern end of the Peninsula. The Village is being developed by Greenwich Millennium Village Ltd (GMVL), a joint venture between Countryside Properties and Taylor Woodrow. The first residents occupied new homes in December 2000. 671 homes are already built and occupied, including a number of live/work units. A school and health centre funded by EP opened in 2001.      |

| Term                            | Acronym    | Description  |
|---------------------------------|------------|--|
| Greenwich Peninsula             |            | One of the largest development sites in London and one of Europe's biggest regeneration projects, the peninsula is located in the South-East of the city and is bordered to the north, east and west by the River Thames. The area contains the site of the Millennium Dome and is the projected location for 10,000 new homes and additional community, leisure and employment facilities.  |
| Greenwich Peninsula Partnership | <b>GPP</b> | The Greenwich Peninsula Partnership is the regeneration partnership for the Peninsula area. The GPP is made up of a wide range of stakeholders from both the community, voluntary and business sectors as well as the range of public sector agencies involved in regeneration and private sector developments. Key members of the GPP include the Council, English Partnerships, Meridian Delta Ltd, Anschutz Entertainment Group, Greenwich Millennium Village Ltd, the University of Greenwich and Morden College. The GPP works very closely with local communities and runs a consultative forum consisting of 150 representatives. |
| Health and Safety Executive     | <b>HSE</b> | An enforcing authority which works on behalf of the Health and Safety Commission, aiming to protect people's health and safety by ensuring risks in the workplace are properly controlled.   |
| Homes and Communities Agency    | <b>HCA</b> | The planned new agency which from 2009 will bring together the functions of English Partnerships, the Housing Corporation and a range of work carried out by DCLG.   |
| Housing Corporation             | <b>HC</b>  | The Housing Corporation is the government agency that funds new affordable homes and regulates housing associations in England.  |
| The John Roan School            |            | A school in Greenwich which is to be completely rebuilt in a new location on the Peninsula as part of both the Building Schools for the Future programme and the Peninsula regeneration scheme. The plan to relocate the school, however, is being opposed by many local residents due to the perceived unsuitability of the projected site.   |
| Judicial Review                 |            | A type of court proceeding in which a judge reviews the lawfulness of a decision or action made by a public body. It is a challenge to the way in which a decision has been made, rather than the rights and wrongs of the conclusion reached.   |
| Land remediation                |            | Activities to improve the physical condition of land such as the removal of contaminated soil, required before many brownfield sites in the Thames Gateway are suitable for redevelopment.   |
| Lend Lease                      |            | An international retail and residential property group, integrated with investment management and construction management businesses. Part of the Meridian Delta Ltd consortium.   |
| London Assembly                 |            | The London Assembly holds the Mayor of London to account and investigates issues that matter to Londoners. Its 25 members are elected at the same time as the Mayor.   |
| London Borough of Greenwich     | <b>LBG</b> | The Local Authority under whose remit responsibility for the Greenwich Peninsula falls.  |

| Term                       | Acronym    | Description  |
|----------------------------|------------|--|
| London Development Agency  | <b>LDA</b> | The Mayor of London's agency responsible for driving London's sustainable economic growth.   |
| London First               |            | A business membership organisation lobbying for investment in London to maintain its international competitiveness and status as a world city.   |
| London Underground         | <b>LU</b>  | A transit system that serves much of Greater London and some neighbouring areas. Since 2003, the Underground has been managed by Transport for London, which also administers numerous other transport-related functions.  |
| Low emission zone          | <b>LEZ</b> | An area that has restrictions about the type and age of vehicles permitted in it so as to limit high levels of pollution. The Greenwich Peninsula is a designated low emission zone.   |
| Mayor of London            |            | The Mayor is an elected representative whose role as the executive of the strategic authority for London is to promote economic development and wealth creation, social development, and the improvement of the environment.   |
| Meridian Delta Ltd         | <b>MDL</b> | The private Anglo-Australian consortium managing the Greenwich Peninsula regeneration project. Members of the group include Lend Lease and Quintain Estates And Development Plc.   |
| Net Present Value          | <b>NPV</b> | A method that evaluates the difference between the present value of all cash inflows and outflows of an investment using a given rate of discount. If the discounted cash inflow exceeds the discounted outflow, the investment is considered economically feasible.                         |
| The O <sub>2</sub>         |            | A 20,000 capacity arena for music, entertainment and sports along with 26 bars and restaurants, a 2,350 capacity live music club, 11 cinema screens, and an exhibition bubble located within the former Millennium Dome.   |
| Olympic Delivery Authority | <b>ODA</b> | The delivery body responsible for creating the infrastructure for the Olympic and Paralympic Games in London in 2012, as well as undertaking some operational work while the Games are underway, such as the provision of transport.   |
| Port of London Authority   | <b>PLA</b> | The Port of London Authority is a self-financing public trust that works in partnership with commercial, recreational, community and amenity groups and organisations in order to ensure navigational safety along the Tidal Thames, promote use of the River and safeguard the environment. |
| Quintain                   |            | A property investment and development company specialising in strategic property acquisition, redevelopment and asset management across the UK. Part of the Meridian Delta Ltd consortium.   |
| Ravensbourne College       |            | A specialist college of design and communication located in Chislehurst, which in 2009-10 plans to relocate to a new site on the Greenwich Peninsula, next door to The O <sub>2</sub> on Peninsula Square.   |

| Term                               | Acronym | Description  |
|------------------------------------|---------|--|
| Section 106                        |         | Section 106 agreements give local authorities powers to negotiate community benefits as part of the planning process, as provided for in the Town and Country Planning Act 1990 (substituted by the 1991 Planning and Compensation Act).   |
| Section 278                        |         | Agreements for the private sector funding of trunk road works are made under section 278 of the Highways Act 1980, as amended by section 23 of the New Roads and Street Works Act 1991. A section 278 agreement is essentially a financial mechanism: it is not a contract to carry out works.   |
| Sustainable Community              |         | A place where people want to live and work, now and in the future.   |
| Sustainable Development Commission | SDC     | The Government's independent advisory body on sustainable development.   |
| Thames Gateway                     |         | The Thames Gateway is an area of land stretching 40 miles (60 km) eastwards from East London on both sides of the River Thames and the Thames Estuary. The area, which includes much brownfield land, has been designated a national priority for urban regeneration, and is the largest project of its kind in Western Europe. It stretches from Westferry in Tower Hamlets to the Isle of Sheppey. |
| Transport for London               | TfL     | A local government body responsible for most aspects of the transport system throughout Greater London.  |
| Waterfront                         |         | The Waterfront is the entertainment district located within The O <sub>2</sub> . It excludes The Arena and its service area.   |
| Wimpey                             |         | A house builder of new homes and investment properties with developments throughout the UK (now Taylor Wimpey).  |



Design and Production by  
NAO Marketing & Communications Team  
DP Ref: 8286VC

This report has been printed on Consort Royal Silk and is produced from a combination of ECF (Elemental Chlorine Free) and TCF (Totally Chlorine Free) wood pulp that is fully recyclable and sourced from carefully managed and renewed commercial forests. The range is manufactured within a mill which is registered under the BS EN ISO 9001 accreditation, which provides the highest standard of quality assurance.



Published by TSO (The Stationery Office) and available from:

**Online**

[www.tso.co.uk/bookshop](http://www.tso.co.uk/bookshop)

**Mail, Telephone, Fax & E-mail**

TSO

PO Box 29, Norwich, NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline

Lo-call 0845 7 023474

Fax orders: 0870 600 5533

E-mail: [customer.services@tso.co.uk](mailto:customer.services@tso.co.uk)

Textphone 0870 240 3701

**TSO Shops**

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

**The Parliamentary Bookshop**

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax Orders 020 7219 3866

Email [bookshop@Parliament.uk](mailto:bookshop@Parliament.uk)

Internet [bookshop.Parliament.uk](http://bookshop.Parliament.uk)

**TSO@Blackwell and other Accredited Agents**

£13.90

ISBN 978-0-10-295307-7



9 780102 953077