Agenda

For: **E20 Stadium LLP Finance and Audit Committee**

Date: **7 March 2016**

Time: **15:30 – 17:00hrs**

Location: **Room 3, LLDC Offices, 1 Stratford Place, E20 1EJ**

Committee Members Expected: David Edmonds (LLDC and Chair), David Gregson (LLDC), David Goldstone (LLDC), Lester Hudson (LBN), Kim Bromley-Derry (LBN).

Also Expected: Alan Skewis (E20), Martin Gaunt (E20), Gerry Murphy (LLDC), [redacted] (EY), [redacted] (LBN).

Apologies: Karl Havers (EY).

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1. **Welcome and Apologies**
2. **Declarations of Interest**
3. **Minutes of the meeting held on 4 November 2015**
4. **Director Summary (draft version for 30 March Board)**
5. **Quarterly financial update**
6. **LS185 business plan**
7. **E20 draft business plan**
8. **E20 Audit Plan from EY**
9. **AOB**

Minutes

For: E20 Stadium LLP

Date: 4th November 2015

Time: 11:30 – 13:00hrs

Location: Room 6, Level 10, 1 Stratford Place, Montfichet Road, E20 1EJ

Committee Members Present: David Edmonds (LLDC and Chair), David Goldstone (LLDC), Lester Hudson (NLI)

Also Present: David Thomson (E20), Alan Skewis (LBN), Gerry Murphy (LLDC), Martin Gaunt (LLDC), [redacted] (EY), Karl Havers (EY), [redacted] (E20)

Apologies: David Gregson (LLDC), Kim Bromley-Derry (LBN)

1) Welcome and Apologies:

The Chair opened the meeting at 11:45am. Apologies were noted from David Gregson and Kim Bromley-Derry.

2) Declarations of Interest

David Goldstone has been appointed to the Boards of London 2017 Limited and London Championships Limited.

3) Minutes of the meeting held 14 July 2015.

The minutes were agreed as a correct and accurate record.

4) Quarterly financial update of performance against business plan

Martin Gaunt introduced this report which presents the second quarterly update, reflecting the financial position against the Business Plan, as at the end of Q2 (30 September 2015). The latest forecast is broadly in line with the business plan but key updates were noted;

- [redacted]
- Martin Gaunt met with LS185 on 3rd November to run through their financial position. LS185 are projecting net commercial revenue of £1.1m (slightly less than that projected in the E20 business plan and the Vinci bid). It was noted that they incurred a £300,000 loss on the Rugby World Cup Fanzone.
- Disputed costs – FM Services, if these are assumed by E20 it would effectively wipe out net commercial revenue – it was agreed this should be picked up after the meeting in line with the wider issue of LS185 disputed costs.

- Insurance work – Martin is working with [redacted] (LLDC/E20's insurance adviser) to review E20 insurance requirements. This report will be presented at the January E20 Stadium LLP Board.
- It was noted that there is a GLA (TfL) shared insurance service.
- Of the E20 £200,000 contingency fund, £20,000 has been drawdown to date.
- Future Business Rates are forecast to be higher than expected and E20 intend to appoint Gerald Eve to seek to negotiate these down on E20's behalf.
- Operator Net Commercial Revenues are forecast at £5m per annum in steady state, though this is subject to review in the forthcoming LS185 business plan. It was noted that this is a risk unless LS185 can secure additional events and/or generate extra income. It was noted that the Shell Marathon event should be factored into LS185's projections.
- There are forthcoming staffing changes at Director and Assistant Director level, likely to result in payroll savings.
- Projected income from South Park events (£100,000) is included in the forecasts.

The Committee **NOTED** the financial position set out in the Q2 update report.

5) Forward Look at E20 Business Plan

Martin Gaunt presented the paper as a look ahead to the next business plan. The Committee were invited to **NOTE** the plan and key timings. Key points are noted below:

- There is no Naming Rights partner in place yet so there is a risk of reduced naming rights revenue in 2016-17.
- At the time of putting together E20's initial business plan, LS185 were mobilising and unable to input fully, however this will be addressed in the next plan.
- LS185 will be attending the January E20 Board Meeting to present their Business Plan, which will enable both the E20 Business Plan and the LS185 plan to be aligned.
- LS185 have expressed concerns regarding the operational costs for staging West Ham matches, and are concerned they may exceed the fixed fee of £2.5m payable by West Ham.
- It was AGREED that a LLDC/Newham/E20 Deep Dive should be arranged.

The Committee **NOTED** the commentary on potential changes to be reflected in the E20 Business plan and **APPROVED** the proposed timetable for developing and agreeing the plan, and **AGREED** to invite LS185 to present their Business plan to the E20 Board in January.

6) LS185 contract management

Martin Gaunt presented the LS185 Contract Management Strategy document, the report details E20's approach to managing the LS185 Contract in order to maximise the potential of the stadium. Key points to note are as follows:

- A monthly reporting process has been put in place to review LS185's general performance and KPI's. LS185 are currently achieving the required KPI's. However, E20 have expressed concern at the quality of financial reporting to date. Martin met with Linda Lennon and Damien Stephan of LS185 prior to the Committee meeting and they presented to him how they will present their financial information going forward.
- Lester Hudson raised concerns regarding LS185's late reporting of figures and wanted to make sure that E20 have confidence in what LS185 are reporting. Martin Gaunt confirmed that after the meeting he held with LS185 prior to the Committee he is now happier with LS185's financial position and the agreement to present financial information going forward.
- LS185 will be producing a rolling quarterly financial report to align with the E20/LLDC financial year; it is anticipated that these reports will be reviewed at upcoming E20 finance and Audit Committee meetings.
- Quarterly financial meetings have been arranged between LS185 and E20, it was **AGREED** that Alan Skewis and Gerry Murphy should attend where possible.
- Appendix H sets out the current meeting schedule, and E20 confirmed to the Board which meetings are being held. E20 are currently undertaking a meetings review in order to streamline and eliminate unnecessary meetings, the LS185 meetings will factor into this review.
- David Goldstone requested that a 'lessons learnt' section should be included within the post event reports provided by LS185 to E20.
- On page 44, at Appendix K (b) 'Dispute Resolution' – it was noted that there needs to be clarification as to whether the NLI Director should be amended to NLI Chief Executive.

7) AOB

Cashflow

- Ernst and Young stated that they would like further clarity on future cash flow as if this is reduced it could have an impact on the stadium valuation.
- Once the Committee have had sight of LS185's Business Plan they will have a better understanding of the potential future cash flow.

The Committee **NOTED** Ernst and Young's position on Cash flow.

Disputed Costs

- The disputed costs meeting with LS185 took place on 3rd November, and as a fundamental and significant remains, the next stage will be to enter into the dispute resolution process.
- E20 will produce a summary note regarding the current position on disputed costs and circulate to the Committee.

There being no further business to be considered the Chairman closed the meeting at 13:00hrs

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Signed (Chairman) Date

E20 STADIUM LLP

Subject:	**E20 Director Update**
Meeting date:	30.03.16
Agenda Item:	
Report to:	E20 Stadium LLP Board
Report of:	Alan Skewis, Director of E20 Stadium LLP

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1. SUMMARY

1.1. This report provides the E20 Stadium LLP Board ("the Board" or E20) with an update from the new Director and E20 team on various work streams. This report, and future reports from this Director will focus on the key risks and opportunities facing E20.

2. RECOMMENDATIONS

2.1. The Board is invited to **NOTE** the work stream updates.

3. DIRECTOR OVERVIEW

3.1. The priorities for E20, based on a risk analysis remain those in January with chmages shown in Bold:

- 3.1.1. Non-delivery of naming rights (Red Risk)
- 3.1.2. Disputed Costs (Red)
- 3.1.3. **Perception of an incomplete stadium in August 2016 (New & Red)**
- 3.1.4. Financial position required further Member contributions (Red)
- 3.1.5. Liability for retractable seating (Amber)
- 3.1.6. Operator Performance (Amber)
- 3.1.7. Managing stakeholders and tenants, especially WHU (Amber)
- 3.1.8. E20 Resourcing and Staffing (**Green**)

3.2. The direction of travel on most of the risks is positive, with negotiations entered with a naming rights partner, an improved LS185 business Plan and staff recruitment meaning E20 is better prepared for the challenging months ahead.

4. Managing WHU is a recurring theme in the narrative on each risk. The club are single minded on a successful opening for their games, and constantly seeking to exert influence and rights to protect this. A balance must be achieved between managing the club as a key concessionaire and not disrupting the wider E20 business plan.

5. NAMING RIGHTS

s.43 [redacted]

s.43 [redacted]

6. DISPUTED COSTS

6.1. There are a number of disputed costs with LS185 that are following the formal process for resolution as set out in the operator agreement. These represent a theoretical liability of up to c.£6m for E20. However the sum is likely to be less than that, assessed at c.£2m in the table in this paper.

6.2. Following the process in the operator agreement the parties are now in mediation.

6.3. The process is damaging to the relationship with LS185, so an amiable agreement is being sought. s.43 [redacted]

6.4. LS185 have rejected proposals for power and Catering work to be completed without prejudice to either parties' position. Reluctantly the E20 Director has ceased work that LLDC would have carried out on its behalf. This protects the legal position, but increases risk of WHU complaint, spectator dissatisfaction and rushed work in July 2016.

7. PERCEPTION OF AN INCOMPLETE STADIUM IN AUGUST 2016

7.1. Since 2012 the stadium has gone through a number of transformatory works. During the 2015 events E20 was able to justify areas that were incomplete on the basis of works being complete for 2016. E20 cannot revert to this in 2016. There remains a real risk that there will be a perception of deficiencies in the stadium at the 2 critical points on June 4th and 6th August 2016.

7.2. The most critical perceptions are those of the naming rights partner; WHU; the media; and those of the public visiting the stadium.

7.3. The highest risk areas are:

7.3.1. Stadium not handed over and functional for 4 June 2016 (Media)

7.3.2. Seats not in place for 6 August game (All)

7.3.3. Food and beverage offer not up to standard (All)

7.3.4. No external dressing on the stadium (Naming Rights, WHU, Media)

7.3.5. No "voids" solution (WHU, Media)

7.4. The above risks are being managed, but it is crucial that they are managed out, so they are not "Red" in late May and then late July. The issues over power and catering are pertinent in this respect as they transfer the timing for addressing issues from now to June / July.

8. FINANCIAL POSITION

8.1. E20 has finite resources, and has to match very significant risk and liability with huge aspiration and pressure from its operator, WHU and shareholders. E20 has:

8.1.1. Business plan projections for 2016/17 that are below those projected in June 2015 and require £200k working capital above the current ceiling agreed by the E20 Members;

8.1.2. An improved, but still delicate position on naming rights that could be disastrous for the business plan

8.1.3. A high likelihood of a valuation below £40m

8.2. Since the January E20 Board a number of capital improvements have progressed:

8.2.1. proposals for a stadium dressing with a £5m E20 contribution. A scheme is agreed with WHU, but the “capped” E20 and WHU funds secure a simple design with limited banner lifecycle that involves a significant risk of being rejected by the Planners;

8.2.2. Further changes to the seating and stadium structure if MLB is accommodated in 2017. These are £1m on top of the £750k already implemented to improve stadium flexibility in 2015.

8.2.3. Super gangways, that are included in the SAPA agreement at £740,000 rather than an estimate of £200,000 in the January board papers. Although this was above the estimate and the £500,000 delegation agreed at the E20 board, approval was agreed by an NLI Director and CEO of LLDC as the works are needed for the ACDC concert and they were included s.43 [redacted]

8.2.4. “Spend to save” priority changes to the stadium have come through from LS185 in line with the January Board paper. These assist operations and provide an NPV well under 10 years. E20 needs to decide if it wants to reset the limit at £1m (or more) rather than £0.5m given the gangways cost.

8.3. E20 still has an extensive list of potential liabilities, including:

8.3.1. liability for disputed costs with its operator;

8.3.2. a concessionaire who appears highly litigious, and is behaving as if it will dispute payment of the concession agreement payments;

8.3.3. a retractable seating system which does not comply with the operator agreement 7 day turnaround;

8.3.4. Working capital for 2016/17;

8.3.5. Covering naming rights deficit in income in 16/17 and future years.

8.4. An assessment of the financial impact on these risks is set out in the table below.

	Best Case(£)	**Likely Case(£)**	**Worst Case(£)**	**Comments**
Original Sum	14.2	14.2	14.2	
Allocated and Spent	1.2	1.2	1.2	1st phase MLB / Seat changes, digital wrap design, £200k Director delegation for changes
Still Available	13	13	13	
<u>Items where E20 would have no discretion:</u>				
Disputed Costs	0	2	6	Unresolved with LS185.
2016/17 Working Capital	*0.2*	*0.7*	*1*	*New item from January Board to cover business plan needs*
<u>Probable Items:</u>				
Allocation to fill Naming Rights Income in 2016/17 Business Plan	s.43 [redacted]			
Retractable Seating	0	0.5	4(?)	Unknown liability. E20 view that should be LLDC transformation works cost

Discretionary Items:				
Operator Improvements (Gangways etc)	*0.8*	*1.0*	*1.5*	Increased to reflect gangway increase in cost
[redacted]				
TOTAL	**6**	**14.2**	**27.5**	
Balance of £14.2m	**7**	**-1.2**	**-14.5**	

8.5. As the "likely" case is above £14.2m E20 will need to carefully consider any future discretionary spends until the business plan and disputed costs are resolved. This includes:

8.5.1. being firm on not extending funding into the stadium fabric wrap and digital screen over the [redacted], even though it produces a high risk planning scheme

8.5.2. limiting release of funds for "spend to save" projects that represent an excellent NPV return

9. RETRACTABLE SEATS

9.1. It is clear that the system installed is not an optimal solution, and is currently unable to meet the 7 day turnaround that the operator agreement states.

9.2. The LLDC transformation team have recently [redacted], the company responsible for the delivery of the retractable seat system. A new tender for the movement of the seats is being issued, and this should clarify the turnaround time positon going forward. However, there is no quick fix to what is a major issue with the transformation works.

9.3. E20 has to manage the risk that:

9.3.1. It inherits a system that required further capital work that it incurs. This could be millions is it accepted hand over from LLDC;

9.3.2. The seats are not in place for the events booked. The highest current risk is the WHU game on the 6 August 2016. For 2017 there is considerable risk if the MLB played on the 2/3 June 2017 weekend;

9.3.3. The 7 day turnaround is not secured by the system limiting the number of events. LS185 will claim a change to the contract as the 7 day turnaround is not achievable;

9.3.4. The agreed costs for moving the seats are above the £300,000 in the E20 business plan

10. OPERATOR

Stadium Operations

10.1. Since the January 2016 report LS185 have provided a much improved business plan. This has been tested by officers, and challenged by an NLI Director (Katharine Deas) and an LLDC E20 Board Member (Nicky Dunn). This engagement has generated more confidence in the approach being taken by LS185.

10.2. However, the financial forecasts generated by LS185 are below those in their bid and continued pressure is needed to ensure they commercialise the stadium. This is sometimes at odds with the pressure placed on them by stakeholders protecting their interests (WHU) or wanting to promote their wider London event aspirations (GLA).

11. KEY STAKEHOLDERS

11.1. Stakeholder relations remains time consuming and complex.

11.2. By far the most challenging is the relationship with WHU, who are increasingly anxious about opening, and litigious in their approach to E20. Relations with LS185 are becoming established, and E20 has to extricate itself from WHU matters where possible. This should happen as the stadium opens, but the next 6 months E20 will be dealing with WHUs single minded focus on them as a club, with little regard for other aspects of E20s business.

11.3. UKA are planning for the Diamond League meeting in 2016, and it is anticipated that there will be no major issues.

11.4. London 2017 has undergone significant change recently, and this increases risks relating to the expertise and focus on the London 2017 event.

11.5. Legatum School – E20 will have a direct lease and relationship with Legatum Academy, who will start on site later this year. The focus for recent work has been on protecting LS185 access to the stadium on event and non-event days during construction.

12. E20 STAFF

12.1. The staff resource identified at the January 2016 E20 Board has been implemented, wit the team fully in place when the new PA joins in the next month. The addition of s.40 [redacted] to the team has created a focus for the stadium dressing work, and should help build confidence with WHU on this element of the project.

12.2. The changes are in line with the 2016/17 business plan budget presented.

12.3. As this has moved to a “Green” risk it will not be routinely reported in future months.

E20 STADIUM LLP

Subject: **Quarterly Financial Update**

Meeting date: 7 March 2016

Report to: E20 Finance and Audit Committee

Report of: Martin Gaunt, Business Manager, E20 Stadium LLP

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1. SUMMARY

1.1. The Board approved the E20 business plan on 2 June 2015. E20's members have since requested updates on a quarterly basis, to indicate and explain the latest forecasts against the projections made in the business plan. The report attached at appendix 1 is the third of these quarterly updates, in the template agreed by the Committee, and reflecting the position as at the end of Q3 (31 December 2015).

2. RECOMMENDATIONS

2.1. The Committee is invited to **NOTE** the financial position set out in the Q3 update report at appendix 1.

3. 2015-16 FINANCIAL YEAR

3.1. The report indicates that E20 is forecasting a deficit of £2.78m in 2015-16, a small improvement on the £2.93m deficit in the business plan baseline. E20 is therefore on track to deliver against its business plan in this financial year.

3.2. The report also indicates that as at the end of Q3, E20 had drawn down £2.71m working capital, broadly in line with expectations. E20 expects to have drawn down a total of £4m working capital by the end of the financial year. Again, this is consistent with business plan expectations, and within the £6m working capital allowance made available by E20's members.

3.3. Future financial years are not covered in this report – these are instead covered under the E20 business plan agenda item.

Appendices

Appendix A – Quarterly Financial Report

Report originator(s): Martin Gaunt

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CONFIDENTIAL

For 7 March 2016 E20 Finance and Audit Committee Meeting

Report by Martin Gaunt, Business Manager, E20 Stadium LLP

E20 Stadium LLP - Quarterly Update of Financial Position against the Business Plan
For Quarter ended 31 December 2015

Summary: The E20 business plan was approved by the Board on 2 June 2015. As at 31 December 2015, E20 expects to deliver its business plan forecast for 2015-16. The net forecast for 2015-16 is a deficit of £2.781m (£156k favourable variance from business plan). The 2015-16 forecast deficit is the result of substantial start-up costs exceeding the revenue E20 can generate in a limited events window. E20 is currently preparing an updated business plan - to be read in conjunction with this report to provide financial forecasts from 2016-17 onwards. The report makes no provision for disputed costs with LS185, which are subject to legal proceedings.

Income and Expenditure Forecasts:

Income / (Expenditure)	2015-16 (£000s)			Commentary
	Business Plan forecast	Latest forecast	Variance	
Naming Rights	s.43 [redacted]			
Operator - payments to LS185	(5,155)	(5,180)	(24)	Slight adjustment to reflect actual RPI uplift. No provision made in estimate for disputed costs, which are subject to legal proceedings.
Operator - net commercial revenue after operator share	1,216	953	(263)	Net commercial revenues from 2015 events were generally in line with expectations (catering revenues slightly up on expectations), s.43 [redacted]
Other operating income	3,493	3,583	90	Favourable variance largely due to reallocation of £100k South Park event revenues from "Operator" to "Other Operating Income".
Other operating expenditure	(300)	(46)	254	Retractable seating not handed over to E20, so £300k E20 operating costs will not be incurred in 2015-16. This is partially offset by Westfield stewarding costs not anticipated in the business plan.
Staff costs	(343)	(343)	0	Several staffing changes broadly expected to cancel each other out, subject to confirmation of E20 pension arrangements and new starter salaries.
Operational overheads	(1,155)	(1,052)	103	Various movements resulting in net favourable £103k variance, including LBN Parking Control Zone estimate down from £500k to £400k, transport modelling overspend, and insurance underspend.
Professional fees	(227)	(240)	(13)	Overspend on legal fees largely offset by £50k saving from not undertaking lifecycle review (although this review will now take in place in 2016-17).
Member services and staff expenses	(120)	(114)	6	Member services costs are fixed (and therefore unchanged). Minor underspend on E20 staff expenses.
E20 Contingency	0	(20)	(20)	E20 was granted a £200k operational contingency at the 28 July Board meeting. To date, £20k has been drawn down (for data cable installation).
Depreciation (lifecycle investment)	0	0	0	Unchanged.
E20 net surplus / (deficit) adjusted for depreciation	(2,937)	(2,781)	156	

Working capital requirement: The business plan forecast that £4.160m working capital would be required in 2015-16 (this was the forecast net E20 deficit for the year (£2.937m), plus the forecast grant from NLI for that year (£1.223m). The latest forecast indicates that only £4.004m will be required (£2.781m deficit plus NLI £1.223m grant), well within the £6m limit agreed by E20's members. As at the end of Q3, E20 had drawn down £2.71m working capital (including £837k from NLI), broadly in line with expectations. Working capital requirements from 2016-17 onwards is covered in E20's updated business plan (under preparation).

S:\Quarterly Financial Reports

E20 STADIUM LLP

Subject: **LS185 Business Plan**

Meeting date: 7 March 2016

Report to: E20 Stadium LLP Finance & Audit Committee

Report of: Martin Gaunt, Business Manager, E20 Stadium LLP

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1. SUMMARY

1.1. The LS185 business plan, and notably the net commercial revenues that they expect to return to E20, will form a major element of the E20 Business Plan. LS185 have acted on the feedback on their draft business plan given by E20 at the 28 January Board meeting, and the redraft is a vast improvement. The projected revenues are much improved, but still fall short of those forecast in their bid, and E20's earlier expectations. However, there is now a need for the plan to be accepted to enable LS185 to focus on delivery.

2. RECOMMENDATIONS

2.1. The Board is invited to **APPROVE** the LS185 business plan, so that it can be adopted and incorporated within E20's own plan.

3. LS185 BUSINESS PLAN

3.1. LS185 presented their draft business plan to the E20 Board on 28 January. They had slipped behind the business plan timetable agreed with E20, and the plan presented at this stage was not acceptable. They have undertaken considerable work on it since. An assessment of the revised draft is provided below:

3.1.1. It's a vast improvement on the earlier plan they took to the E20 Board – in terms of depth, tone, quality of analysis, and improved financial projections.

3.1.2. LS185 have addressed all the feedback the Board and E20 Officers provided.

3.1.3. Compared to the Board version, the financial projections are slightly better in 2016-17, and much better in 2017-18 and beyond. They are now projecting a net payment to E20 from 2018-19 onwards (ie. from this point net commercial revenues will exceed fixed costs).

3.1.4. But their projections are still slightly down on their bid, and quite a lot down on E20's expectations (from E20's June 2015 business plan). If realised, the LS185 projections would be on the cusp of the threshold at which E20 could terminate their contract (if it wished to).

3.1.5. There is a risk that LS185 will not deliver against the plan – for instance that the event programme targeted may not be secured.

3.1.6. There is now a need accept the plan and to allow LS185 to focus on delivery, including the critical mobilisation for 2016 events.

3.2. E20 held a detailed review session with LS185 on this version of their business plan on 1 March. The E20 Board was represented by Nicky Dunn and Katharine Deas. They intend to feedback to the Committee their views on the plan.

4. FINANCIAL IMPACT

4.1. The latest LS185 financial projections are improved from the previous draft business plan presented to the E20 Board. However, the projections still fall short of their bid figures, and E20's own expectations (set out in its June 2015 Business Plan). This comparison is summarised overleaf.

4.2. LS185's forecast for net commercial revenues shows strong growth from 2016-17 to 2018-19, but then holds relatively steady. LS185 has previously verbally indicated that they expect to deliver year-on-year growth, but the plan now suggests a "steady state" event programme with no growth other than the effect of inflation. The net payment to E20 each year in steady state is forecast at c.£450k (2015 prices). In their bid the equivalent figure was c.£700-800k, and E20's own expectation in its June 2015 business plan was for c.£1.1-1.2m.

2016-17	LS185 bid (£000s)	June 2015 E20 business plan (£000s)	Latest LS185 projections (£000s, at 2015 prices)
Fixed costs E20 payment to LS185*	-5801	-5597	-5290
Net commercial revenues LS185 payment to E20	3195	5164	2508
Net position for E20	**-2606**	**-433**	**-2782**

2017-18	LS185 bid (£000s)	June 2015 E20 business plan (£000s)	Latest LS185 projections (£000s, at 2015 prices)
Fixed costs E20 payment to LS185*	-5789	-5894	-5875
Net commercial revenues LS185 payment to E20	5077	5961	5805
Net position for E20	**-712**	**67**	**-70**

2018-19	LS185 bid (£000s)	June 2015 E20 business plan (£000s)	Latest LS185 projections (£000s, at 2015 prices)
Fixed costs E20 payment to LS185*	-5789	-5936	-5875
Net commercial revenues LS185 payment to E20	6575	7056	6311
Net position for E20	**786**	**1120**	**436**

2019-20	LS185 bid (£000s)	June 2015 E20 business plan (£000s)	Latest LS185 projections (£000s, at 2015 prices)
Fixed costs E20 payment to LS185*	-5789	-5980	-5875
Net commercial revenues LS185 payment to E20	6586	7204	6324
Net position for E20	**797**	**1224**	**449**

2020-21	LS185 bid (£000s)	June 2015 E20 business plan (£000s)	Latest LS185 projections (£000s, at 2015 prices)
Fixed costs E20 payment to LS185*	-5789	-6024	-5875
Net commercial revenues LS185 payment to E20	6598	7317	6337
Net position for E20	**809**	**1293**	**462**

* Note that different inflation assumptions for fixed costs have been used in the bid, E20 business plan, and LS185's latest projections. Although these are "fixed", they are subject to RPI uplift.

5. DELIVERABILITY

5.1. Establishing the business plan is one thing, but delivering it is quite another. For LS185, the main challenge will be in securing sufficient, highly profitable, events in order to meet the net commercial revenue targets. This is in the context of a limited events window, and ongoing challenges around the operation of the retractable seating system.

5.2. The assumed level of conversion – from expressions of interest from event promoters, through to secured, profitable events – is quite high. There is therefore a risk that LS185 may fall short of its revenue projections. There is also of course the possibility that opportunities emerge that will enable them to exceed their plan. This is modelled in a simple sensitivity analysis below:

Typical "steady state" year	Net Commercial revenues paid to E20 (2015 prices)	Total net payment to/(from) E20 after fixed costs (2015 prices)
LS185 latest business plan forecast	c.£6.3m	c.£0.45m
20% reduction on revenues forecast in LS185 business plan	c.£5m	(c.£0.85m)
20% increase on revenues forecast in LS185 business plan	c.£7.6m	c.£1.75m

5.3. It is apparent that a 20% reduction in revenues secured by LS185 compared to their business plan, would mean that E20 would pay more in fixed costs than it would receive back in net commercial revenues (i.e. a deficit for E20 on the annual transaction). Conversely, a 20% improvement on LS185 revenues would take E20 into a much healthier financial position.

Appendices

Appendix A – LS185 Business Plan (please note that the various annexes to the plan have not been circulated, though are available to Committee members on request).

Report originator(s): Martin Gaunt

Email: martingaunt@e20stadium.com

E20 STADIUM LLP

Subject: **Draft E20 Business Plan**

Meeting date: 7 March 2016

Report to: E20 Stadium LLP Finance & Audit Committee

Report of: Martin Gaunt, Business Manager, E20 Stadium LLP

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1. SUMMARY

1.1. The E20 Board is due to consider and agree E20's business plan on 30 March, ahead of its adoption in the new financial year. A draft version is presented to the Committee at this earlier stage to indicate direction of travel. The report drafting is not complete at this stage, but the financial forecasts are complete and relatively firm (subject to the Committee's views on the assumptions made). The draft E20 business plan forecasts lower annual surpluses than in the previous version of the plan, and a substantial loss in 2016-17. The potential implications may be a shortfall in working capital, and a possible reduction in the stadium valuation. Nevertheless, the business plan demonstrates that E20 is on track to deliver a profitable stadium that will return an operating surplus to the taxpayer, in addition to a raft of broader economic and community benefits.

2. RECOMMENDATIONS

2.1. The Board is invited to **NOTE** the direction of travel for the business plan, and the potential implications for the profitability of the stadium, working capital requirement, and stadium valuation.

3. DRAFT E20 BUSINESS PLAN

3.1. E20 presented a look ahead to the next iteration of its business plan at the last meeting of this Committee in November 2015. The Committee noted the potential changes to be reflected in the plan, notably uncertainty on (or reduction of) naming rights income, reduction in Operator revenues, and an increase in overheads. The Committee agreed a timetable for the plan with the aim for it to be approved at the end of March E20 Board meeting.

3.2. E20's business planning process is on track. E20 has needed to undertake prolonged challenge and assessment of LS185's own business plan, though this is now recommended for approval (covered in the earlier agenda item). The LS185 plan will form a substantial element of E20's own plan. The other areas of E20's business plan have been assessed in detail and the assumptions and financial projections are presented in this draft. The focus to date has been on the financial projections, and articulating the assumptions that underpin them, rather than the supporting background text for the business plan document. For instance, chapters on introduction, business strategy and governance are undrafted at this stage, but are unlikely to offer much information the Committee do not already know. They will nevertheless be completed for the finalised version of the plan that will go to the 30 March E20 Board.

4. ASSUMPTIONS

4.1. The assumptions underpinning the E20 business plan are described in detail throughout the document, the most significant of which are as follows:

- 4.1.1. s.43 [redacted]
- 4.1.2. Net commercial revenues from LS185 as per their latest business plan (covered in the earlier agenda item).
- 4.1.3. Business rates and insurance overheads higher than the previous business plan, in line with the latest expert advice.
- 4.1.4. Slim staffing structure and very limited provision for professional advice.
- 4.1.5. All figures to grow with inflation, taken to be RPI at 3% per annum.

5. FINANCIAL PROJECTIONS

5.1. The draft E20 business plan forecasts a £2.2m deficit for E20 in 2016-17, with the LLP moving into surplus from 2017-18. E20's annual surplus is forecast to hold relatively steady at between £1m and £1.4m.

5.2. E20 forecasts to use £4m working capital in 2015-16, from the £6m allowance previously agreed by its members (see earlier agenda item on Quarterly update of financial position). Therefore the additional £2.2m deficit currently forecast in 2016-17 would narrowly breach the working capital available. It is likely that this would only occur late in the financial year, and shortly afterwards E20 would begin generating a surplus. Working capital will therefore need to be closely monitored, and E20's members should note the risk that the working capital allowance may prove insufficient. However, given the narrowness of the potential breach, and the possibility that E20 may deliver improvements on the plan, E20's members may not deem it necessary to make additional working capital arrangements at this stage.

5.3. Any E20 surplus is distributed amongst its members in accordance with the Members' Agreement on profit share entitlements. The forecast annual surpluses would all fall within tier 1 of the entitlements, and therefore be shared approximately two thirds to NLI, one third to LLDC. Therefore, on these forecasts, NLI could expect between £600-900k per annum from 2017-18; LLDC £300-500k.

6. MOVEMENTS SINCE 2015 BUSINESS PLAN

6.1. E20's existing business plan was agreed by the Board in June 2015. It was acknowledged at the time as an ambitious projection that will be challenging to achieve. The plan has been delivered in 2015-16, but this revised business plan now indicates a significantly worse performance in future years than previously forecast. E20's annual surplus from 2017-18 is now forecast at between £1m and £1.4m, compared to £3-3.5m in the previous version of the plan. Over the 10 year business plan period, this equates to a reduction in E20's total net surplus (after depreciation) from c.£24m, to c.£9m.

6.2. The main movements that are driving this change are set out in the table below. Please note this is an indicative rather than precise analysis, and compares the projections for a typical "steady state" year, between the existing business plan and this latest draft.[1]

Item	£m per annum	Notes
E20's "steady state" surplus, as forecast in June 2015 Business Plan	**3.4**	After depreciation. Forecast ranged between £3m to £3.5m depending on the financial year.
Reduction in net payment expected from LS185	-0.6	Reduction in forecast net commercial revenues in latest LS185 business plan, compared to E20's previous expectation of their performance.
Change in net naming rights income	[redacted] s.43	[redacted]
Reduced income from the wrap / screen	-0.4	Net income from the digital wrap was assumed at £500k per annum. This is now assumed at £100k per annum from the screen.
Forecast increase in business rates payable	-0.7	Previous business plan assumed rates at £1.2m. New plan assumes rates at £1.8m plus inflation.
Forecast increase in insurance costs	[redacted] s.43	Additional cost largely due to latest assessment of need to hold public liability cover.
E20's "steady state" surplus, as forecast in this draft Business Plan	**1.35**	After depreciation. Forecast ranges between £1m and £1.4m depending on the financial year.

7. STADIUM VALUATION

7.1. The existing business plan – with a 10 year net surplus of c.£24m – generated a stadium valuation of £40m. Evidently, on current projections the revised 10 year surplus will be substantially less, which would then adversely impact the valuation. Set against this conclusion is the increased confidence that may be placed in this year's business plan – forecasts for naming rights, operator income, and overheads are, for

[1] It would not be a fair comparison to do the same exercise over the full 10 year time period, as the latest business plan of course covers a 10 year period that is one year further on than the previous plan – with one less "start-up" year, and one more "steady state" year. But in very broad terms, the annual movements in the financial projections multiply up to explain the reduction in E20's total net surplus over 10 years from c.£24m, to c.£9m.

instance, much more reliable (albeit worse!) than they were a year ago. This may result in E20's valuers, GL Hearn, placing a lower risk premium on the business plan. In addition, the valuers have advised that in the past year there has been "a degree of yield compression due to an improving economy and commercial property market". Therefore, all else being equal, the macro-economic environment would support a higher valuation than a year ago.

7.2. Nevertheless, all things considered, based on current projections a stadium valuation of £40m or more appears unlikely. Newham Officers and NLI Directors are being kept abreast of this emerging scenario, so that the impact if realised can be managed effectively.

8. NEXT STEPS

8.1. E20 will finalise the business plan in light of comments from the Committee, in anticipation that it can then be approved at the 30 March Board. It will then be adopted, and E20 will report on performance against the plan to the Board on a quarterly basis (as currently). The financial projections will also be shared with E20's valuers GL Hearn, and the Valuation Office Agency, in order to inform the stadium valuation, and rateable value (business rates), respectively.

Appendices

Appendix A – Draft E20 Business Plan

Report originator(s): Martin Gaunt

Email: martingaunt@e20stadium.com

E20 STADIUM LLP

Subject: External Audit Plan 2015-16

Meeting date: 7 March 2016

Report to: E20 Stadium LLP Finance and Audit Committee

Report of: Gerry Murphy, Executive Director of Finance and Corporate Services (LLDC)

---

1 SUMMARY

1.1 EY has submitted its Audit Plan (attached) for the audit of E20's 2015-16 annual accounts.

2 RECOMMENDATION

2.1 The Committee is invited to **NOTE** the plan for the audit of E20's 2015-16 annual accounts.

3 AUDIT PLAN

3.1 EY has submitted a short report (attached) on its proposed audit approach and scope for the 2015-16 audit, in accordance with the requirements of the auditing standards and other professional requirements.

3.2 The scope of the audit, and the team conducting it, is the same as the previous E20 audit. EY has identified the key risks as being:

- Risk of misstatement due to fraud and error – this is routinely included in the scope of every audit engagement.
- Risk of fraud in revenue recognition – this is routinely included in the scope of every audit engagement.
- Stadium transformation impairment – reviewing the reasonableness of the accounting policy concerning the impairment against accounting standards, and the application of that policy; the impairment of Stadium transformation works is material to the accounts and depends on management's assessment of the total cost of transformation works and the value of the Stadium on completion of the transformation works. EY will also assess the work of the property valuers in determining the valuation of he Stadium following completion of the transformation work, consulting with their in-house property valuation team where appropriate.

3.3 EY has defined materiality as "the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements." At this stage, they have not stated the amount that they would deem material, instead indicating that it would depend on a number quantitative and qualitative factors considered in the audit itself.

3.4 EY will provide a formal report to the Audit and Finance Committee in July incorporating the outputs from its year-end procedures. The next meeting of the Committee will be timed to allow consideration of this report. Following the conclusion of the audit, EY will prepare a management letter for E20, outlining its comments on any areas where it believes control deficiencies exist, or where improvements can be made.

3.5 Following additional work undertaken by EY on the Stadium impairment during last year's audit, the Chair of the Finance and Audit Committee agreed to an additional fee of £8,000 (challenged and reduced from an original proposal of £17,315 fee), resulting in a total audit fee of £24,000 for the 2014-15 audit.

3.6 The Chair also agreed a commensurate increase to the 2015-16 base fee to reflect the current level of risk and complexity in relation to the financial statements and value for money conclusion. This means a base fee of £26,000 for the audit, which is an increase of £10,000 on the previous year's base fee of £16,000. It should be noted that the fee assumes the following information and analysis will be provided to the auditors:

- Full analysis of the potential upsides and downsides regarding the Business Plan used to support the Stadium valuation post-transformation
- Evidence of a full understand the process applied by the valuer when using the Business Case in generating that valuation
- Robust challenge of the valuer regarding the methodology and resulting valuation, particularly if changes in the Business Case are not clearly reflected in changes in the valuation
- Comprehensive documentation of the above process and communications with the valuer which is provided as part of the evidence for the audit.
- A full analysis of costs of completion of the transformation which is brought together and agreed by all parts of the business. This should clearly split between committed costs and contingencies. For the contingencies element, the estimation basis should be fully documented including calculation of the values. This information should be provided as part of the audit working papers, which includes separate consideration of associated accounting disclosures.

APPENDICES:

Appendix 1: EY Audit Plan 2015-16

Report originator(s): Richard Irish
Telephone: 020 3288 [redacted]
Email: richardirish@londonlegacy.co.uk

E20 Stadium LLP

Year ending 31 March 2016

Audit Plan

7 March 2016

Ernst & Young LLP

Building a better
working world

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INVESTOR IN PEOPLE

Private and confidential
Finance & Audit Committee
E20 Stadium LLP
Level 10
1 Stratford Place
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London
E20 1EJ

7 March 2016

Dear Committee Members

Audit planning report

We are pleased to attach our audit planning board report for the forthcoming meeting of the Finance & Audit Committee. The purpose of this report is provide the Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit, in accordance with the requirements of auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key issues which drive the development of an effective audit for 2015/16. We have aligned our audit approach and scope with these.

This report is intended solely for the information and use of the Finance & Audit Committee, Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 7 March 2016 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Karl Havers
For and behalf of Ernst & Young LLP
Enc

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2. **Key areas of audit emphasis** **3**
3. **Our audit process and strategy** **5**
4. **Independence** **7**

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1. Overview

Context for the audit

When planning the audit we take into account several key inputs:

- The Partnership's objectives and strategies and the related business and financial risks relevant to the financial statements,
- Developments in financial reporting, auditing standards.
- The quality of systems and processes.
- Changes in the business and regulatory environment.
- Matters that management or the Committee consider significant in relation to the financial statements and that they have requested we pay particular attention to.

By considering these inputs, our audit is focused on the areas that matter. And by focusing on the areas that matter, our feedback is more likely to be relevant to the business.

Key areas of audit emphasis

- As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk. We identify and respond to this fraud risk on every audit engagement.
- We have identified one other area of significant risk related to the 2015/16 audit in Section 2.

Our audit process and strategy

- We consider materiality in terms of the possible impact of an error or omission on the financial statements and set an overall planning materiality level. We then set a tolerable error to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an appropriately low level. We also assess each disclosure and consider qualitative issues affecting materiality as well as quantitative issues.
- We carry out an initial assessment of materiality based on prior year results and estimated current year results but will update this when we receive the draft and final financial statements.
- We undertake a fully substantive approach to the audit, which does not require assessment or reliance on the controls in operation in each process affecting the financial statements.
- We report significant deficiencies in internal control that we identify in the course of our work to the Finance & Audit Committee and Board.
- There has been no change to the scope of the audit compared to the previous audit. The main audit team (Lead Partner and Senior Audit Manager) remain unchanged.

2. Key areas of audit emphasis

We outline the areas of audit focus based on our assessment of:

a. Key business and financial statement risks facing E20 Stadium LLP.

b. Significant accounts and disclosures of E20 Stadium LLP.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

Significant risks (including fraud risks)	Our audit approach
Risk of misstatement due to fraud and error	
Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud. Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the poss bility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.	Based on the requirements of auditing standards our approach will focus on: ➢ Identifying fraud risks during the planning stages. ➢ Inquiry of management about risks of fraud and the controls put in place to address those risks. ➢ Understanding the oversight given by those charged with governance of management's processes over fraud. ➢ Consideration of the effectiveness of management's controls designed to address the risk of fraud. ➢ Determining an appropriate strategy to address those identified risks of fraud. ➢ Performing mandatory procedures regardless of specifically identified fraud risks.
Risk of fraud in revenue recognition	
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.	We will ➢ Review and test revenue and expenditure recognition policies. ➢ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias. ➢ Develop a testing strategy to test material revenue and expenditure streams. ➢ Review and test revenue cut-off at the period end date

Significant risks (including fraud risks)	Our audit approach
Stadium transformation impairment	
LLDC group management concluded at the outset of the transformation work that stadium transformation expenditure is to be impaired over the period of the transformation works to reflect the stadium value on completion; the impairment being recognised in proportion to spend undertaken in the period. E20 management has subsequently adopted this same accounting policy. The level of expenditure on stadium transformation, and the resulting impairment charge is material to E20 Stadium LLP and is based on two accounting judgements – the estimated total cost of the transformation work, and the valuation of the stadium following that work. The basis for the stadium valuation, post transformation, is the E20 10 year business plan for the operation of the stadium The level of expenditure on stadium transformation, and the resulting impairment charge, is expected to continue to be highly material to the financial statements in 2015/16.	Our approach will focus on ➢ Reviewing the reasonableness of the accounting policy concerning the impairment against accounting standards. ➢ Testing accounting entries to ensure that the Partnership has applied their accounting policy consistently and appropriately. ➢ Reviewing the calculation of the impairment charge for 2015/16; auditing its constituent parts, in particular forecast capital spend and the valuation of the stadium following the completion of that work. ➢ Assessing the work of the property valuers in determining the valuation of the stadium following completion of transformation work; consulting with the EY property valuation team where appropriate; and undertaking sensitivity analysis on the potential upsides and downsides in the E20 10 year business Plan that is the basis for that valuation.

3. Our audit process and strategy

3.1 Objective and scope of our audit

Our objective is to form an opinion on the Partnership's financial statements under International Standards on Auditing (UK and Ireland).

3.2 Audit process overview

Our financial statements audit involves:

- Assessing the key internal controls in place;
- Reliance on the work of experts in areas such as valuations; and
- Substantive tests of detail of transactions and amounts.

In addition to the key areas of emphasis outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards, company law and other regulations. We outline below the procedures we will undertake during the course of our audit.

Mandatory procedures required by auditing standards on:

- Addressing the risk of fraud and error.
- Significant disclosures included in the financial statements.
- Entity-wide controls.
- Reading other information contained in the financial statements and reporting whether it is materially inconsistent with the audited financial statements or incorrect/inconsistent based on knowledge acquired in the course of the audit, or otherwise misleading.
- Reading the board's statement and reporting if it is inconsistent with the knowledge acquired in the course of performing the audit.
- Reading the Board section (in the Annual Report and Accounts) and reporting if it does not appropriately address matters we have communicated to the committee.
- Auditor independence.

Procedures required by Company law

- Opining on whether the information contained in the directors' report is consistent with the financial statements.
- Auditing the disclosures that unquoted companies are required to make with respect to directors' remuneration.

3.3 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

3.4 Fees

Following discussion of the E20 LLP audit fee for 2015/16 with the Chair of the Finance & Audit Committee, the audit fee for 2015/16 has been set at £26,000.

3.5 Your audit team

The engagement team is led by Karl Havers, who has significant experience of company accounts. The main audit team (Lead Partner and Senior Audit Manager) remain unchanged.

3.6 Timetable of communication and deliverables

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2015/16.

We intend to provide a formal report to the Finance & Audit Committee in July incorporating the outputs from our year-end procedures. From time to time matters may arise that require immediate communication with the Committee and we will discuss them with the Committee Chair as appropriate.

Following the conclusion of our audit we will prepare a management letter for the Partnership, outlining our comments on areas where we believe control deficiencies exist or where improvements can be made. This is circulated to senior management and to the Committee.

Audit phase	Timetable	Committee & Board timetable	Deliverables
Planning: Risk assessment and setting of scopes.	**March**		Audit Plan
Year-end audit	**June / July**		Audit Results Report
	November		Management Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights, updates on corporate governance and regulatory matters.

4. Independence

4.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
▸ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence.	▸ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that we are independent; ▸ Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▸ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed and analysed in appropriate categories.

4.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Partnership.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Partnership has approved and that are in compliance with the Audit Commission’s Standing Guidance.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Partnership. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self-review threats at the date of this report

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Karl Havers, the audit engagement partner and the audit engagement team have not been compromised.

4.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here:

http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015

Appendix A UK required communications with the those charged with governance

There are certain communications that we must provide to the Board of UK clients. These are detailed here:

<table>
<tr><th>Required communication</th><th>Reference</th></tr>
<tr><td>Terms of engagement
Confirmation by the Board of acceptance of terms of engagement.
EY to provide a copy of the engagement letter.</td><td>Engagement letter issued 24 July 2014</td></tr>
<tr><td>Planning and audit approach
Communication of the planned scope and timing of the audit including any limitations.</td><td>Audit plan</td></tr>
<tr><td>Significant findings from the audit
► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures
► Significant difficulties, if any, encountered during the audit
► Significant matters, if any, arising from the audit that were discussed with management
► Written representations that we are seeking
► Expected modifications to the audit report
► Other matters if any, significant to the oversight of the financial reporting process
Unless covered by other communications on planning matters or significant findings, this information shall include views on:
► Business risks relevant to financial reporting objectives, the application of materiality and the implications of our judgments in relation to these for the overall audit strategy, the audit plan and the evaluation of misstatements identified.
► The significant accounting policies (both individually and in aggregate);
► Management’s valuations of the entity’s material assets and liabilities and the related disclosures provided by management;
► Internal control, specifically on:
  ► The effectiveness of the entity’s system of internal control over financial reporting; and
  ► Other risks arising from the entity’s business model and the effectiveness of related internal controls,
► Any other matters identified in the course of the audit that we believe will be relevant to the board or the Board in the context of fulfilling their responsibilities referred to above.</td><td>Audit results report</td></tr>
<tr><td>Misstatements
► Uncorrected misstatements and their effect on our audit opinion
► The effect of uncorrected misstatements related to prior periods
► A request that any uncorrected misstatement be corrected
► In writing, corrected misstatements that are significant</td><td>Audit results report</td></tr>
<tr><td>Fraud
► Enquiries of the Board to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity
► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist
► A discussion of any other matters related to fraud</td><td>By letter
Audit results report</td></tr>
<tr><td>Related parties
Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:
► Non-disclosure by management
► Inappropriate authorisation and approval of transactions
► Disagreement over disclosures
► Non-compliance with laws and regulations
► Difficulty in identifying the party that ultimately controls the entity</td><td>Audit results report</td></tr>
</table>

Required communication	Reference
External confirmations ► Management’s refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report
Consideration of laws and regulations ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the Board into poss ble instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Board may be aware of	By letter Audit results report
Independence Communication of all significant facts and matters that bear on EY’s objectivity and independence Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as: ► The principal threats ► Safeguards adopted and their effectiveness ► An overall assessment of threats and safeguards ► Information about the general policies and process within the firm to maintain objectivity and independence	Audit results report
Going concern Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including: ► Whether the events or conditions constitute a material uncertainty ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ► The adequacy of related disclosures in the financial statements	Audit results report
Significant deficiencies in internal controls identified during the audit	Audit results report

Agenda

For: E20 Stadium LLP Finance and Audit Committee

Date: 11 July 2016

Time: 13:30 – 15:00hrs

Location: Marketing Suite, LLDC Offices, 1 Stratford Place, E20 1EJ

Committee Members Expected: David Edmonds (LLDC and Chair), David Gregson (LLDC), David Goldstone (LLDC), Lester Hudson (LBN), Kim Bromley-Derry (LBN).

Also Expected: Alan Skewis (E20), Martin Gaunt (E20), Gerry Murphy (LLDC), Richard Irish (LLDC), s.40 [redacted] (E20), Phillip King (EY), s.40 [redacted] (EY), s.40 [redacted] (LBN)

Apologies:

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1. Welcome and Apologies

2. Declarations of Interest

3. Minutes of the meeting held 7 March 2016

4. Latest forecast against business plan and cash flow projections

5. Potential measures to improve business plan projections

6. E20 Accounts

7. AOB

Exempt Information: These minutes are exempt from disclosure pursuant to Section 43 of the Freedom of Information Act 2000 in that they contain commercially confidential information.

Minutes

For:	**E20 Stadium LLP**
Date:	**7th March 2016**
Time:	**15:30 – 17:00hrs**
Location:	**Room 5, Level 10, 1 Stratford Place, Montfichet Road, E20 1EJ**

Committee Members Present: David Edmonds (LLDC and Chair), David Goldstone (LLDC), Lester Hudson (NLI), David Gregson (LLDC via telephone)

Also Present: Alan Skewis (E20), Gerry Murphy (LLDC), Martin Gaunt (E20), s.40 [redacted] (EY), s.40 [redacted] (E20), s.40 [redacted] (E20)

Apologies: Kim Bromley-Derry (LBN), Karl Havers (EY)

1) **Welcome and Apologies:**

The Chair opened the meeting at 15:30hrs. Apologies were noted from Karl Havers and Kim Bromley-Derry.

2) **Declarations of Interest**

None reported.

3) **Minutes of the meeting held 4th November 2015.**

The minutes were agreed as a correct and accurate record.

4) **Director Summary (draft version for 30th March Board)**

Alan Skewis presented his report emphasizing that the Risks should be viewed against the context of the stadium being in a pre-opening period. All risks were moving in the right direction although the Board should particularly note the Operator Performance and Liability for retractable seating risks.

David Gregson noted paragraph 6.4 of the report – E20's reluctance to cease the permanent power upgrade works. David Goldstone outlined the without prejudice proposal that LS185 had refused before explaining that the critical deadline for the works was, in fact, West Ham United's first home match since events prior to this had less catering, and therefore power, demand. David Gregson requested that this explanation be included within the Board paper.

As a point of accuracy, David Gregson noted that the figures contained within Table 8.4 should match those detailed in Paragraph 8.2.

5) **Quarterly financial update**

Martin Gaunt introduced this report which presents the third quarterly update, reflecting the financial position against the Business Plan, as at the end of Q3 (31 December 2015). The latest forecast is broadly in line with the business plan but key updates were noted;

- The report indicated that E20 is forecasting a deficit of £2.78m in 2015-16, a small improvement on the £2.93m deficit in the business plan baseline. E20 is therefore on track to deliver against its business plan in this financial year.
- The report also indicated that as at the end of Q3, E20 had drawn down £2.71m working capital, broadly in line with expectations. E20 expects to have drawn down a total of £4m working capital by the end of the financial year. Again, this is consistent with business plan expectations, and within the £6m working capital allowance made available by E20's members.

The Committee **NOTED** the financial position set out in the Q3 update report.

6) LS185 Business Plan

Martin Gaunt presented the paper as a review of the LS185 Business Plan in order that it can be adopted as base assumptions to E20's Business Plan. The Committee were invited to **APPROVE** the plan. Key points are noted below:

- Although far more comprehensive than the original plan submitted, three areas remain as causes for concern, namely:
  - The financial impact of the numbers submitted against those contained within LS185's bid;
  - The risk that the financial projections within the plan may not be delivered; and
  - The presentation of forecast revenues and costs from West Ham matches. David Gregson suggested that the catering income attributable to West Ham should be shown against the West Ham revenue line. This was **AGREED**.
- David Edmonds questioned whether this is the best plan LS185 could produce. Martin Gaunt confirmed this to be the case and Lester Hudson, although he felt there was scope for future improvements,agreed it was a vast improvement on the previous submission.

The Committee **NOTED** the discussion and **APPROVED** the plan with the following provisos, namely:

- A letter is written to LS185 outlining that the figures contained within the plan should not be assumed to be the base case and that additional efforts are required to that the surplus returned to E20 grows year on year.
- The aforementioned letter should also recognise an assumption concerning the current retractable seating issue. Alan Skewis confirmed that the 7 day turnaround would not be achievable for a couple of years. It was therefore **AGREED** that LS185's Business Plan should reflect this in both figures and narrative.

7) E20 Draft Business Plan

Martin Gaunt presented the draft E20 Business Plan and invited the Committee to **NOTE** the following key points:

- The assumptions articulated within the plan that result in the overall

financial forecasts.
- The plan forecasts a c£2m deficit for E20 in 2016-17, and a c£1m surplus per annum from 2017-18 onwards.
- Potential implications for the stadium valuation, the level of working capital required, and how the benefits of the stadium (financial and otherwise) are presented in public.

David Goldstone highlighted the need to emphasise the risks and opportunities within the plan. He also enquired as to the situation concerning the potential dilution of secondary naming rights should both LS185 and West Ham seek different partners in the same category. Alan Skewis advised that the base position is that the rights were LS185's to give unless specified otherwise, although pre-existing rights should be recognised. It was **AGREED** that this point should be articulated for the Board, as should the issues concerning retractrable seating movements and its associated cost.

David Edmonds advised that the wider Net Economic Benefit of the Stadium should be written into the plan.

Lester Hudson questioned how much below the £40m Stadium Valuation threshold the Stadium is likely to be when the valuation is received from the Assessors. Gerry Murphy, Alan Skewis and Martin Gaunt advised that this was extremely difficult to predict due to the macro economic climate and the methodologies that the Assessors use.

The Committee **NOTED** the plan and requested that Martin Gaunt include the agreed points when submitting the Plan to the Board.

8) E20 Audit Plan from EY

Gerry Murphy presented EY's Audit Plan and invited the Committee to **NOTE** it. In particular, Gerry highlighted paragraph 3.6 concerning EY's fees and deliverables. Phillip King also highlighted paragraph 3.2 and that the Stadium Transformation Impairment along with significant movements in the Business Plan will affect the valuation.

s.40 [redacted] advised that EY's fee could be reduced from previous years if some of the data gathering could be collated internally unlike previous years. Gerry Murphy agreed to take these activities on but needed to understand discount rates and yields from the Valuers. David Goldstone suggested that the audit should be very simple once the Stadium operation is in a steady state and that although a major asset, the Stadium business will generate few transactions and this should be reflected in the fee. s.40 [redacted] **AGREED** to discuss this with Karl Havers and advise on their potential audit fees for future years. Alan Skewis noted that a similar reduction during "steady state" operations could be expected for Legal Fees.

The Committee **NOTED** Ernst and Young's Audit Plan.

There being no further business to be considered the Chairman closed the meeting at 16:15hrs.

E20 Finance and Audit Committee – 4 November 2015
Exempt Information: These minutes are exempt from disclosure pursuant to Section 43 of the Freedom of Information Act 2000 in that they contain commercially confidential information.

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Signed (Chairman) Date

E20 STADIUM LLP

Subject: **End of Q1 Financial Update**

Meeting date: 11 July 2016

Agenda Item: 4

Report to: E20 Finance and Audit Committee

Report of: Martin Gaunt, Business Manager, E20 Stadium LLP

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1. SUMMARY

1.1. This paper, and the annexes attached, provide a comprehensive update on E20's financial position and projections as at the end of Q1 2016-17 (30 June 2016). It presents:

1.1.1. The 2015-16 outturn position, £200k better than the business plan baseline.

1.1.2. Updated forecasts against the business plan for 2016-17, 2017-18 and 2018-19. The forecasts have deteriorated, but E20 remains on track to generate a surplus from 2017-18.

1.1.3. Monthly cashflow projections through to March 2019, and the additional working capital that may be required.

1.2. The paper presents a precise picture based on the best information available at this moment. However, very substantial risks and opportunities remain that will almost certainly see significant revisions – in either direction – to these forecasts over time.

2. RECOMMENDATIONS

2.1. The Committee is invited to **NOTE**:

2.1.1. The 2015-16 outturn position;

2.1.2. The latest forecasts against the business plan;

2.1.3. The monthly cashflow projections.

3. 2015-16 OUTTURN

3.1. E20's previous business plan, agreed in June 2015, budgeted for a deficit for E20 of £2.93m in the 2015-16 financial year. Following year end reconciliations, the final outturn position is now confirmed as a deficit of £2.74m. This represents a saving against the business plan of nearly £200k. This is consistent with the quarterly projections presented to the Board throughout the year. The main variances with the business plan were:

3.1.1. Net commercial revenues paid to E20 from LS185 were £274k lower than the business plan, mainly due to the loss from Rugby World Cup fanzone.

3.1.2. £300k saving on retractable seating as the system was not handed over to E20.

3.1.3. £225k net saving on overheads and staff costs, most significantly the reduced cost for the LB Newham Parking Control Zone.

3.1.4. £61k saving on naming rights fees and marketing costs.

3.2. A host of other minor movements account for the remaining variance between the plan and the outturn position. A detailed breakdown has been shared with members.

4. LATEST FORECAST AGAINST BUSINESS PLAN

4.1. The E20 Board agreed a ten year business plan for E20 on 30 March 2016. E20 provides quarterly updates on its forecast position against the business plan. An updated forecast, for 2016-17, 2017-18 and 2018-19 has been prepared as at 30 June 2016 (i.e. end of Q1). This is summarised below:

Financial Year	Business Plan baseline (£m)	Latest (end Q1) forecast (£m)	Variance (£m)
2016-17	(3.732)	(5.203)	(1.472)
2017-18	0.689	0.127	(0.562)
2018-19	1.063	0.675	(0.388)

4.2. A full breakdown, describing the source of the variances and the latest assumptions made, is shown at annex 1. The forecast indicates that E20 to set to be significantly down against its business plan in 2016-17, mainly as a result of lower net commercial revenues from LS185, and lower and later naming rights income than that assumed in the business plan. The forecast position in 2017-18 and 2018-19 is also down against the business plan, though the variance is not as great. The reduced value of naming rights is a long term issue (at least 5 years), whereas operator performance is forecast to gradually improve so that by 2018-19 LS185 will be back on plan. With regard to overheads, E20 is forecasting to deliver savings on insurance and also possibly business rates, whilst legal costs in the short term will exceed the business plan provision.

4.3. In total, the latest forecasts indicate a large (£5.2m) deficit for E20 in 2016-17, with the LLP moving into surplus from 2017-18 – albeit a very narrow surplus. The position is forecast to improve further in 2018-19, where the surplus grows to £675k. Longer term (i.e. 2019-20 onwards), E20 forecasts to achieve its business plan (assuming the ongoing shortfall in naming rights can be offset elsewhere).

4.4. Members are reminded that very substantial risks and opportunities remain that will almost certainly see significant revisions to these forecasts over time. Chief among the risks is the cost of retractable seating movements, which – as per the business plan –

continue to be forecast at £300k per annum. There is not yet a firm basis on which to adjust this forecast, but this may change by the time of the Q2 update.

4.5. A further risk to E20 may also be crystallising. Under the terms of the Operator Agreement, LS185 are permitted to undertake an asset survey upon handover. Any variation found and substantiated in comparison to the specification provided at the time of the Vinci bid, may lead to an adjustment in the annual fixed costs payment, in order to fully reflect stadium maintenance requirements. We already know that the asset survey will show some changes against the specification, but we do not yet know how this will impact the "fixed" costs. This paper assumes that the fixed cost payment remains unchanged. Therefore, any subsequent increase in fixed costs would worsen the position presented here. E20 will very closely monitor and challenge the asset survey to mitigate this risk.

4.6. E20 are vigorously pursuing cost savings and other income generating opportunities in order to improve the position against the business plan – see next agenda item and paper. However, the really big wins for E20 come down to:

4.6.1. s.43 [redacted] This includes ensuring E20 has flexibility to secure significantly more naming rights income in five years' time, once the stadium and the naming opportunity is fully established.

4.6.2. Driving improved operating revenues from the stadium, either via improved LS185 performance, or a more radical overhaul of the stadium operating structure. The Board is due to consider this matter in depth in September.

5. CASHFLOW PROJECTIONS

5.1. The latest forecasts described above naturally have implications for E20's cashflow, and its working capital requirement. E20, with input from LLDC Finance (who provide the financial transaction service into E20), has prepared a monthly cashflow projection through until March 2019. This is based upon on the latest forecasts, together with the expected timing of payments and income. It is prepared on a cash basis (as opposed to the accruals basis upon which the forecasts against the business plan are shown). The monthly cashflow projection is shown at annex 2.

5.2. E20's members have previously agreed to meet E20's working capital needs arising from any cash flow deficit before 31 March 2018. Contributions were limited to £6m (£3.9m from LLDC and £2.1m from NLI). The business plan agreed by the E20 Board in March demonstrated that this working capital provision would not be sufficient to see E20 through to the point where it consistently generates a surplus. As such, E20 wrote to Members in April, forecasting an additional working capital requirement, beyond the original £6m provision, of £7m. Both LLDC and NLI have recently responded:

5.2.1. LLDC has agreed to provide up to an additional £4.5m working capital, on the basis that this is matched in accordance with the members' ratio (i.e. that NLI also contributes £2.5m, meaning total additional working capital for E20 of up to £7m), is treated as loan finance, and is given a priority return to members in line with their contribution.

5.2.2. NLI, with the support of its shareholder LB Newham, has confirmed it will continue to meet its current and ongoing obligations as set out in the Members Agreement, for 2016-17 and beyond. It has requested additional information in order to further assess E20's working capital needs.

5.3. NLI requested a detailed income and expenditure forecast, and monthly cashflow projections through to March 2019, both of which are fulfilled by this paper. However, NLI have stressed the need for E20 to take a prudent view with respect to emerging risks. E20 stand ready to repeat the projections made in this paper, but from a more pessimistic outlook, if this would be of assistance.

5.4. As at the end of 2015-16, E20 had, since its formation, drawn down a total of £6.934m working capital from its members: £6.615m from LLDC and £0.319m from NLI. An additional contribution from NLI of £2.089m was received in June 2016.

5.5. The detailed cashflow projections shown in annex 2 may be summarised as follows:

Period	Forecast E20 net cashflow in the period (£m)	Forecast E20 cumulative working capital requirement	Forecast LLDC cumulative working capital contribution (65% share)	Forecast NLI cumulative working capital contribution (35% share)
Up to 2015-16	(6.934)	(6.934)	6.615 (actual)	0.319 (actual)
2016-17	(6.123)	(13.057)	8.487	4.570
2017-18	(1.623)	(14.680)	9.541	5.138
2018-19	0.091	No further working capital requirement		

5.6. This analysis demonstrates that, subject to a number of assumptions on E20's performance as detailed in annexes 1 and 2, E20 will require a total of £14.680m working capital before it reaches the point where it consistently returns a surplus and no longer requires support from its members. The cumulative working capital requirement is forecast to peak in March 2018, with E20 then in cash surplus from April 2018 onwards.

5.7. The total £14.680m working capital requirement represents an additional £8.680m beyond the original £6m provision made by members. This is slightly more than the £7m additional requirement forecast by E20 in April, as the worsening financial picture (as described in section 4 of this paper) means E20 may now exceed the cashflow contingencies made at that point.

5.8. The challenges and pressures placed upon E20's members as a result of the working capital requirement is understood, and certainly not taken for granted. Nevertheless, for planning purposes this paper does assume that members continue to contribute in the previously agreed proportions (LLDC 65%, NLI 35%). It follows that the increased working capital provision made by LLDC (original £3.9m + additional £4.5m = £8.4m) may yet prove insufficient, if the assumptions hold true and E20 requires a total of £9.541m from LLDC as shown in the table above. However, the provision LLDC already has in place appears likely to be sufficient until at least November 2017.

5.9. NLI has yet to commit to a specific amount of additional working capital. However, the analysis above demonstrates that a total of £5.138m may be required from NLI (a £3.038m increase on its original £2.1m provision).

5.10. These cashflow projections make the same assumptions as those stated in section 4 and annex 1. Therefore, once again, very substantial risks and opportunities remain that will almost certainly see significant revisions to E20's actual cashflow requirement. In addition, the timing of income and expenditure may not precisely follow the profile set out in annex 2. In preparing this profile, E20 has reflected the payment terms set out in E20's contracts, as well its best understanding of when transactions will take place. As E20 moves towards more "steady state" operations, a simpler and more predictable cashflow pattern should emerge. In practice, E20 is currently seeking to minimise the working capital drawdown by delaying payments (where permitted), and seeking prompt payment. For instance, E20 has requested an interim payment of 2016 net commercial revenues from LS185. E20 has also invoiced West Ham for its £15m one-off usage fee – West Ham have agreed to make payment on 22 July (though to note this funds transformation rather than the E20 business plan). The timing of other significant transactions are as follows:

5.10.1. West Ham's annual usage fee (£2.5m) is paid to the Operator on a quarterly basis commencing October 2016. This flows to E20, after West Ham matchday costs, in the net commercial revenues paid by LS185 (see below).

5.10.2. Net commercial revenues are due from LS185 in April each year (for the prior Jan-Dec period), though E20 may also seek an interim payment in July for the first half of the year. E20 is enforcing this.

5.10.3. Fixed costs are payable to LS185 quarterly. In practice, E20 has, where justified, delayed this payment – for instance, the latest payment was recently withheld until LS185 had settled the net commercial revenues due to E20.

5.10.4. Naming rights income is expected quarterly, commencing 1 August 2016. Fees and any share due to West Ham will then be paid shortly after.

5.10.5. E20's insurance premiums are payable in August this year, and annually in April thereafter.

5.10.6. E20 currently assumes it will make its £300k contribution to the retractable seating move in August 2016, coinciding with the bulk of the works. The paper presented in the next agenda item asks whether LLDC would accept payment at the end of the financial year, in order to reduce E20's more immediate working capital needs.

<u>Annexes</u>

Annex 1 – End Q1 forecast against business plan

Annex 2 – Monthly cashflow projections

Report originator(s): Martin Gaunt

Email: martingaunt@e20stadium.com

Annex 1: End Q1 Forecast against Business Plan for 2016-17, as at 30 June 2016

£000s	2016-17 Business Plan	End Q1 Forecast	Variance	Commentary
Operator (LS185)				
Fixed costs	-5449	-5449	0	
Net Commercial Revenues	2583	1873	-710	[redacted] previously assumed in June 2016 did not take place. [redacted]
Total LS185	**-2865**	**-3576**	**-710**	
[redacted]				
Other operating income and costs				
Fanstallation	200	20	-180	Heads of Terms under discusion with West Ham that may result in £20k/annum for 10 years, as opposed to one-off £200k assumed in business plan.
Asset disposal	100	100	0	
Net income from the wrap	100	0	-100	Discussions ongoing with LS185 regarding commercial opportunity presented by the wrap. The screen's ability to generate any income for E20 (beyond NR uplift) has been called into question.
UKA contribution to track	35	35	0	
West Ham performance payments	0	0	0	
West Ham share of catering revenues	[redacted]			
Retractable seating movement	-300	-300	0	
Total Other operating income and costs	[redacted]			
Staffing				
Director	-132	-132	0	
Business Manager	-82	-82	0	
Assistant Business Manager	-49	-49	0	
PA & Team Administrator	-36	-36	0	
Transformation Interface Manager	-15	-15	0	
Contingency	-20	-20	0	
Staff expenses	-5	-5	0	
Total Staffing	**-339**	**-339**	**0**	
Overheads				
LLDC Member Services	-124	-124	0	
Estate charge payable to LLDC	-252	-252	0	
Estate charge payable by school to E20	0	0	0	
Business rates	-1500	-1350	150	Now assumes a £150k part year contribution from West Ham. This is not yet agreed. E20 has proposed a higher contribution; negotiation is ongoing.
Insurance	[redacted]			
Brand and marketing	-40	-40	0	
Legal advice	-80	-250	-170	Full reconciliation and forecast underway, but very likely to overspend due to necessary legal advice for disputed costs and [redacted]. Assumed at same level as legal costs incurred in 2015-16.
Accounting advice	-50	-50	0	
External audit fees	-26	-26	0	
Transport advice	-134	-134	0	
Technical advice	-50	-50	0	
Lifecycle review	-50	-50	0	
Event tickets	-70	-91	-21	Ticket requirements not yet agreed. In the meantime the forecast reported to 26 May Board is assumed.
Total Overheads	[redacted]			
E20 net position before depreciation				
Depreciation (lifecycle investment)				
E20 net position after depreciation				

End Q1 Forecast against Business Plan for 2017-18, as at 30 June 2016

£000s	2017-18 Business Plan	End Q1 Forecast	Variance	Commentary
Operator (LS185)				
Fixed costs	-6233	-6233	0	
Net Commercial Revenues	6159	5909	-250	s.43 [redacted]
Total LS185	**-74**	**-324**	**-250**	
Naming Rights				
s.43 [redacted]				
Other operating income and costs			0	
Fanstallation	0	20	20	Heads of Terms under discusion with West Ham that may result in £20k/annum for 10 years, as opposed to one-off £200k in 2016-17 assumed in business plan.
Asset disposal	0	0	0	
Net income from the wrap	103	0	-103	Discussions ongoing with LS185 regarding commercial opportunity presented by the wrap. The screen's ability to generate any income for E20 (beyond NR uplift) has been called into question.
UKA contribution to track	36	36	0	
West Ham performance payments	191	191	0	
West Ham share of catering revenues	s.43 [redacted]			
Retractable seating movement	-309	-309	0	
Total Other operating income and costs	s.43 [redacted]			
			0	
Staffing			0	
Director	-136	-136	0	
Business Manager	-84	-84	0	
Assistant Business Manager	0	0	0	
PA & Team Administrator	-37	-37	0	
Transformation Interface Manager	0	0	0	
Contingency	0	0	0	
Staff expenses	-5	-5	0	
Total Staffing	**-262**	**-262**	**0**	
			0	
Overheads			0	
LLDC Member Services	-127	-127	0	
Estate charge payable to LLDC	-303	-303	0	
Estate charge payable by school to E20	61	61	0	
Business rates	-1854	-1654	200	Now assumes a £200k full year contribution from West Ham. This is not yet agreed. E20 has proposed a higher contribution; negotiation is ongoing.
Insurance	s.43 [redacted]			
Brand and marketing	0	0	0	
Legal advice	-52	-52	0	
Accounting advice	-30	-30	0	
External audit fees	-20	-20	0	
Transport advice	-60	-60	0	
Technical advice	0	0	0	
Lifecycle review	0	0	0	
Event tickets	-72	-72	0	
Total Overheads	s.43 [redacted]			
E20 net position before depreciation				
Depreciation (lifecycle investment)				
E20 net position after depreciation				

End Q1 Forecast against Business Plan for 2018-19, as at 30 June 2016

£000s	2018-19 Business Plan	End Q1 Forecast	Variance	Commentary
Operator (LS185)				
Fixed costs	-6420	-6420	0	
Net Commercial Revenues	6896	6896	0	
Total LS185	**476**	**476**	**0**	
Naming Rights				
s.43 [redacted]				
Other operating income and costs				
Fanstallation	0	20	20	Heads of Terms under discusion with West Ham that may result in £20k/annum for 10 years, as opposed to one-off £200k in 2016-17 assumed in business plan.
Asset disposal	0	0	0	
Net income from the wrap	106	0	-106	Discussions ongoing with LS185 regarding commercial opportunity presented by the wrap. The screen's ability to generate any income for E20 (beyond NR uplift) has been called into question.
UKA contribution to track	37	37	0	
West Ham performance payments	0	0	0	
West Ham share of catering revenues	s.43 [redacted]			
Retractable seating movement	-318	-318	0	
Total Other operating income and costs	s.43 [redacted]			
Staffing				
Director	-140	-140	0	
Business Manager	-87	-87	0	
Assistant Business Manager	0	0	0	
PA & Team Administrator	-38	-38	0	
Transformation Interface Manager	0	0	0	
Contingency	0	0	0	
Staff expenses	-5	-5	0	
Total Staffing	**-270**	**-270**	**0**	
Overheads				
LLDC Member Services	-131	-131	0	
Estate charge payable to LLDC	-305	-305	0	
Estate charge payable by school to E20	101	101	0	
Business rates	-1910	-1710	200	Now assumes a £200k full year contribution from West Ham. This is not yet agreed. E20 has proposed a higher contribution; negotiation is ongoing.
Insurance	s.43 [redacted]			
Brand and marketing	0	0	0	
Legal advice	-53	-53	0	
Accounting advice	-31	-31	0	
External audit fees	-21	-21	0	
Transport advice	-60	-60	0	
Technical advice	0	0	0	
Lifecycle review	0	0	0	
Event tickets	-74	-74	0	
Total Overheads	s.43 [redacted]			
E20 net position before depreciation				
Depreciation (lifecycle investment)				
E20 net position after depreciation				

Annex 2: E20 Monthly Cashflow Forecast 2016-17 to 2018-19

£000s	Prior Years		Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Total
			2016/17												
Operator (LS185)															
Fixed costs					-1,274		-1,274			-1,274			-1,513		-5,335
Net Commercial Revenues						942									942
Payment for Late/Complex Handover of Stadium in 2015						-95									-95
E20 Event Income			159	21	5										185
Total LS185			**159**	**21**	**-1,269**	**847**	**-1,274**	**0**	**0**	**-1,274**	**0**	**0**	**-1,513**	**0**	**-4,303**
Naming Rights															
[redacted]															
Other operating income and costs															
Fanstallation														20	20
Asset disposal							13	13	13	13	13	13	13	13	100
Net income from the wrap															0
UKA contribution to track														35	35
West Ham performance payments															0
West Ham share of catering revenues	[redacted]														
Retractable seating movement							-300								-300
Event Costs 2015/16						-173									-173
Total Other operating income and costs	[redacted]														
Staffing															
Director			-11	-11	-11	-11	-11	-11	-11	-11	-11	-11	-11	-11	-132
Director - 15/16 costs to be charged by L B Newham						-32									-32
Business Manager			-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-82
Assistant Business Manager			-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	-2		-49
PA & Team Administrator			-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-36
Transformation Interface Manager								-15							-15
Contingency											-10			-10	-20
Staff expenses			0	0	0	0	0	0	0	0	0	0	0	0	-2
Payroll Administration (Cintra)			0	0	0	0	0	0	0	0	0	0	0	0	-1
Total Staffing			**-26**	**-26**	**-26**	**-58**	**-26**	**-41**	**-26**	**-26**	**-36**	**-26**	**-23**	**-31**	**-369**
Overheads															
LLDC Member Services						-31			-31			-31			-93
LLDC Recharges 15/16						-533									-533
LBN Recharges 15/16					-251										-251
Estate charge payable to LLDC											-252				-252
Estate charge payable by school to E20															0
Business rates				-124		-136	-136	-136	-136	-136	-136	-136	-136	-138	-1,350
Insurance	[redacted]														
Brand and marketing					-38										-38
Legal advice						-63			-63			-63			-188
Accounting advice					-20			-13			-13			-13	-58
External audit fees														-26	-26
Transport advice					-34			-34			-34			-34	-134
Technical advice						-13			-13			-13			-38
Lifecycle review					0			0			-50			0	-50
Event tickets							-91								-91
BT Conferencing			0	0	0	0	0	0	0	0	0	0	0	0	-2
Total Overheads	[redacted]														
E20 net position			**133**	**-129**	**-1,643**	**-182**	**-1,534**	**-455**	**-255**	**-423**	**-552**	**-256**	**-660**	**-219**	**-6,176**
NLI Working Capital 15/16															0
VAT Recovery								53							53
E20 Net Cashflow			**133**	**-129**	**-1,643**	**-182**	**-1,534**	**-402**	**-255**	**-423**	**-552**	**-256**	**-660**	**-219**	**-6,123**
E20 Cumulative Cashflow				**4**	**-1,639**	**-1,821**	**-3,355**	**-3,757**	**-4,013**	**-4,436**	**-4,989**	**-5,244**	**-5,904**	**-6,123**	
Funding Requirement															
LLDC							**-90**	**-244**	**-166**	**-275**	**-359**	**-166**	**-429**	**-142**	**-1,872**
NLI					**-2,089**	**-639**	**-537**	**-158**	**-89**	**-148**	**-193**	**-89**	**-231**	**-77**	**-4,251**
Cumulative Funding Requirement															
LLDC	**-6,615**														**-8,487**
NLI	**-319**														**-4,570**
Total Funding Requirement	**-6,934**														**-13,057**
Cash Funding Received as at 30 June 2016															
LLDC	**-6,615**														**-6,615**
NLI	**-319**				**-2,089**										**-2,408**
Total Cash Funding Received	**-6,934**														**-9,023**
Additional Funding Requirement from 1 July 2016															
LLDC	**-6,615**														**-1,872**
NLI	**-319**														**-2,162**
Total Additional Funding Requirement	**-6,934**														**-4,034**

E20 Monthly Cashflow Forecast 2016-17 to 2018-19

2017/18

£000s	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Total
Operator (LS185)													
Fixed costs		-1,558			-1,558			-1,558			-1,558		-6,233
Net Commercial Revenues	1,873				2,363								4,236
Payment for Late/Complex Handover of Stadium in 2015													0
E20 Event Income													
Total LS185	**1,873**	**-1,558**	**0**	**0**	**805**	**0**	**0**	**-1,558**	**0**	**0**	**-1,558**	**0**	**-1,996**
Naming Rights													
[redacted]													
Other operating income and costs													
Fanstallation												20	20
Asset disposal													0
Net income from the wrap													0
UKA contribution to track												36	36
West Ham performance payments			191										191
West Ham share of catering revenues	[redacted]												
Retractable seating movement					-309								-309
Event Costs 2015/16													0
Total Other operating income and costs	[redacted]												
Staffing													
Director	-11	-11	-11	-11	-11	-11	-11	-11	-11	-11	-11	-11	-136
Director - 15/16 costs to be charged by L B Newham													0
Business Manager	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-84
Assistant Business Manager													0
PA & Team Administrator	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-37
Transformation Interface Manager													0
Contingency													0
Staff expenses	0	0	0	0	0	0	0	0	0	0	0	0	-5
Payroll Administration (Cintra)													0
Total Staffing	**-22**	**-22**	**-22**	**-22**	**-22**	**-22**	**-22**	**-22**	**-22**	**-22**	**-22**	**-22**	**-262**
Overheads													
LLDC Member Services	-31			-32			-32			-32			-126
LLDC Recharges 15/16													
LBN Recharges 15/16													
Estate charge payable to LLDC									-303				-303
Estate charge payable by school to E20									61				61
Business rates	-138	-138	-138	-138	-138	-138	-138	-138	-138	-138	-138	-138	-1,654
Insurance	[redacted]												
Brand and marketing													0
Legal advice	-63			-13			-13			-13			-102
Accounting advice			-8			-8			-8			-8	-30
External audit fees												-20	-20
Transport advice			-15			-15			-15			-15	-60
Technical advice													0
Lifecycle review													0
Event tickets				-72									-72
BT Conferencing													0
Total Overheads	[redacted]												
E20 net position	**933**	**-733**	**-38**	**-431**	**1,352**	**-229**	**-204**	**-703**	**-471**	**-204**	**-703**	**-192**	**-1,623**
NLI Working Capital 15/16													0
VAT Recovery													0
E20 Net Cashflow	**933**	**-733**	**-38**	**-431**	**1,352**	**-229**	**-204**	**-703**	**-471**	**-204**	**-703**	**-192**	**-1,623**
E20 Cumulative Cashflow	**933**	**200**	**162**	**-268**	**1,083**	**855**	**650**	**-53**	**-523**	**-728**	**-1,431**	**-1,623**	
Funding Requirement													
LLDC								**-34**	**-306**	**-133**	**-457**	**-125**	**-1,055**
NLI								**-18**	**-165**	**-72**	**-246**	**-67**	**-568**
Cumulative Funding Requirement													
LLDC													**-9,541**
NLI													**-5,138**
Total Funding Requirement													**-14,680**
Cash Funding Received as at 30 June 2016													
LLDC													**-6,615**
NLI													**-2,408**
Total Cash Funding Received													**-9,023**
Additional Funding Requirement from 1 July 2016													
LLDC													**-2,926**
NLI													**-2,730**
Total Additional Funding Requirement													**-5,657**

E20 Monthly Cashflow Forecast 2016-17 to 2018-19

2018/19

£000s	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Total
Operator (LS185)													
Fixed costs		-1,605			-1,605			-1,605			-1,605		-6,420
Net Commercial Revenues	3,545				2,758								6,304
Payment for Late/Complex Handover of Stadium in 2015													0
E20 Event Income													
Total LS185	**3,545**	**-1,605**	**0**	**0**	**1,154**	**0**	**0**	**-1,605**	**0**	**0**	**-1,605**	**0**	**-116**
Naming Rights													
[redacted]													
Other operating income and costs													
Fanstallation												20	20
Asset disposal													0
Net income from the wrap													0
UKA contribution to track												37	37
West Ham performance payments													0
West Ham share of catering revenues	[redacted]												
Retractable seating movement					-318								-318
Event Costs 2015/16													0
Total Other operating income and costs	[redacted]												
Staffing													
Director	-12	-12	-12	-12	-12	-12	-12	-12	-12	-12	-12	-12	-140
Director - 15/16 costs to be charged by L B Newham													0
Business Manager	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-87
Assistant Business Manager													0
PA & Team Administrator	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-38
Transformation Interface Manager													0
Contingency													0
Staff expenses	0	0	0	0	0	0	0	0	0	0	0	0	-5
Payroll Administration (Cintra)													0
Total Staffing	**-23**	**-23**	**-23**	**-23**	**-23**	**-23**	**-23**	**-23**	**-23**	**-23**	**-23**	**-23**	**-270**
Overheads													
LLDC Member Services	-32			-33			-33			-33			-130
LLDC Recharges 15/16													
LBN Recharges 15/16													
Estate charge payable to LLDC									-318				-318
Estate charge payable by school to E20									101				101
Business rates	-143	-143	-143	-143	-143	-143	-143	-143	-143	-143	-143	-143	-1,710
Insurance	[redacted]												
Brand and marketing													0
Legal advice	-13			-13			-13			-13			-53
Accounting advice			-8			-8			-8			-8	-31
External audit fees												-21	-21
Transport advice			-15			-15			-15			-15	-60
Technical advice													0
Lifecycle review													0
Event tickets				-74									-74
BT Conferencing													0
Total Overheads	[redacted]												
E20 net position	**2,629**	**-770**	**-235**	**-444**	**1,701**	**-235**	**-211**	**-740**	**-453**	**-211**	**-740**	**-199**	**91**
NLI Working Capital 15/16													0
VAT Recovery													0
E20 Net Cashflow	**2,629**	**-770**	**-235**	**-444**	**1,701**	**-235**	**-211**	**-740**	**-453**	**-211**	**-740**	**-199**	**91**
E20 Cumulative Cashflow	**2,629**	**1,858**	**1,623**	**1,179**	**2,879**	**2,644**	**2,433**	**1,693**	**1,240**	**1,029**	**290**	**91**	
Funding Requirement													
LLDC													**0**
NLI													**0**
Cumulative Funding Requirement													
LLDC													
NLI													
Total Funding Requirement													
Cash Funding Received as at 30 June 2016													
LLDC													
NLI													
Total Cash Funding Received													
Additional Funding Requirement from 1 July 2016													
LLDC													
NLI													
Total Additional Funding Requirement													

E20 STADIUM LLP

Subject: **Measures to reduce E20 Costs and Increase Income**

Meeting date: 11 July 2016

Agenda Item: 5

Report to: E20 Stadium LLP Finance & Audit Committee

Report of: Alan Skewis, Director of E20 Stadium LLP

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1. SUMMARY

1.1. Other reports on the agenda show that E20 is showing a forecast for 2016-17 of over £1m worse than the agreed business plan.

1.2. It is imperative that the Director seeks to find a way to recover this position, both in the short and longer term.

1.3. This report sets out:

1.3.1. A number of short term measures that E20 are taking to manage the current forecast against the business plan position;

1.3.2. Ideas for generating additional income E20 and its Members could pursue.

1.4. With the exception of those items in section 3.2, the other proposals and ideas are yet to be implemented, and would need a period for further work before they could be. They are presented as provisional options for discussion.

2. RECOMMENDATIONS

2.1. The Board is invited to:

2.1.1. **NOTE** the report.

2.1.2. **AGREE** that the immediate measures in paragraph 3.2 are implemented.

2.1.3. **AGREE** to receive further reports on the other measures and ideas set out in this report.

3. IMMEDIATE MEASURES TO LIMIT E20 SPENDS

3.1. The Director has reviewed the current business plan, and recommends that to control costs a number of immediate measures are brought into place. It should be noted that:

3.1.1. The measures have been in place to date, and the change will be to further limit any discretionary spend;

3.1.2. the scale of these measures is only expected to create savings of c.£100k in the year;

3.1.3. There are implications, although these can be managed.

3.2. The immediate measures recommended are:

3.2.1. A moratorium on any non-essential spend.

3.2.2. No spend on a lifecycle review. This means E20 will not have an updated position. However, the work could at least be deferred to 2017/18 (£50k saving)

3.2.3. Technical Advice limited to £30k rather than £50k (£20k saving)

3.2.4. E20 Members review level of tickets purchased, currently at £91k and proposed to cap at £70k (£20k saving).

3.2.5. Exclusion of the E20 staff contingency from the budget (£20k).

3.2.6. Ceiling of £200k on legal fees, with an aggressive approach to reclaim from parties bringing actions / responsible for incurring legal expenses.

3.2.7. Direction to pay external organisation invoices at the latest possible date to help cash flow.

4. FURTHER MEASURES TO LIMIT E20 SPENDS

4.1. A number of other measures are being considered and will be presented to the E20 Board in September. This timing will allow discussion in parallel with the LS185 contract review.

4.2. The measures are:

4.2.1. Reduce the 30 E20 Hospitality seats for West Ham games from 30 to 15 seats (Saving of £30k pa), or even forego (saving of £60k pa). (Note this will require decision before the start of the football season.)

4.2.2. Reduce or exclude the Executive Box from the Mahindra deal (s.43 [redacted] saving).

4.2.3. Implement the E20 staff structure in line with the business plan (i.e. Director, Business Manager and PA from early 2017 onwards). This reduces the E20 payroll by c£100k per annum (albeit this is already captured in the business plan).

4.2.4. Consult with E20 staff about flexible / reduced hours working (e.g. 5 days to 4 days per week), or working across organisations (e.g. supporting LLDC and/or Newham too).

4.2.5. Reduce the “transport advice” budget to £100k from £135k. The risk is that the planners require further survey work. A better position will be known after the initial transport survey has been conducted and the extent of the transport issues is better known.

4.2.6. Seek to pass on transport management costs committed to in the planning application to WHU if the issues prove to have an impact on customer experience rather than safety / licencing. This will only be known after the initial set of football matches, so reviewed in October 2016.

4.2.7. There are a number of payments made by E20 to LLDC and LBN which it is understood the Members are not willing to forego in 2016/17. Members may be asked to re-consider this position. These include:

- Business rates (£1,350k) paid to LBN on monthly basis;
- LLDC estate charge (£252k);
- LLDC Member services (£124k);
- Retractable seat move (£300k).

5. CASH FLOW

5.1. E20 members are being asked to provide working capital and understandably are asking to minimise the cash flow and impact on their accounts. Depending on the importance LLDC and LBN put on their own cash flow and E20s, an alternative to foregoing the items listed in 4.2.4 above is for the payments to be made at the end of the financial year in March 2017.

6. MID TO LONG TERM BUSINESS PLAN OPPORTUNITIES

6.1. The above measures deal primarily with E20 costs, and are relatively small in the scale of the gap in the long term business plan to that presented by PwC at the time of decisions in 2013 and 2015.

6.2. The E20 Director believes that the organisation must find means to increase its revenues from other sources.

6.3. The E20 business plan approved on 30 March 2016 identified a number of opportunities beyond the existing financial projections. These are set out again below, updated as necessary, and with an updated assessment of the likelihood that they will be realised:

Opportunity	Potential value per annum from 2020-21 onwards	Assessment of likelihood
LS185 exceed business plan projections (in line with their expectation to "find additional sources of commercial revenues together with costs savings to grow the net contribution year on year" (pg.5, LS185 business plan)	Short term not delivering £200k cumulative growth per annum from 2020-21, until LS185 is delivering an additional £1.2m net income to E20 by 2025-26 (year 10).	Not being achieved in short term
s.43 [redacted]		
s.43 [redacted]		
Ground share with another football club	£2m per annum, but only likely for a short-term (1-3 year) period from 2018	10%. Speculative from 2020-21 onwards, as dependent on the redevelopment plans of other football clubs.
Savings on E20 overheads, notably business rates and insurance	s.43 [redacted]	s.43 [redacted] Saving on business rates may be achieved by gaining agreement from West Ham to contribute. May also be influenced long-term by Government policy.
Additional hospitality revenue from installing additional facilities in the East Stand	£4m per annum (but one off capital investment necessary of c.£20m)	20%. Not currently a priority, but recognised as a major future opportunity for the stadium. Hospitality sales for ACDC did not support case
E20 share of any potential sale of West Ham by current owners	One-off windfall dependent on value of sale. In broad terms, if the owners sell within 10 years: s.43 [redacted]	20%. Purely speculative – E20 does not know the likelihood of the potential sale of West Ham, but notes the regular churn in the sale of Premier League clubs more generally.

7. FURTHER IDEAS FOR GENERATING ADDITIONAL INCOME FOR E20 AND ITS MEMBERS

7.1. Appendix 1 summarises possible further means to improve the position identified since May 2016, with a short profile on each below.

Early Payment of Rick Roberts Way Funds

7.2. The current arrangements are for payment of £5m by LLDC/LBN for E20 accommodating the school planned for Rick Roberts Way on the stadium island.

7.3. This £5m was earmarked for building an initial lifecycle fund for E20. Changing this has longer term consequences for E20's ability to meet its future obligations at the stadium.

7.4. However, LLDC and LBN could bring forward and re-allocate some or all of the £5m to meet working capital needs.

7.5. This is not the preferred option of E20, but in the spirit of seeking solutions to the immediate financial position is offered for consideration.

Aquatics Welcome Zone "Pop Up" Pub

7.6. A proposal was made by LBN to LLDC by LBN in December 2016. The responsibility for it could lie with E20, or equally with LS185 or LBN. Whichever way, E20 would support it as a means of securing funds for LBN and LLDC that could then be used to support working capital.

Pay remaining discretionary funds money into E20 account and support cash flow

7.7. E20 has spent around £4m from the £14.286m discretionary fund for stadium works. The majority of the remaining funding has then been either committed or earmarked for particular projects.

7.8. Currently E20 receives this funding when required for payment to contractors and partners.

7.9. LLDC and NLI could pay all the funds into the E20 account now.

7.10. This would primarily assist E20 cashflow (albeit capital funding), although there would also be a minor benefit to E20 in terms of its income as it would receive interest on the funds while in their account.

7.11. The reverse would, of course, apply to LLDC and NLI/LBN.

LBN International Paralympic Championships Funding

7.12. LBN have an agreement to pay £1m for the IPC event with London 2017.Those funds were expected to pay for LBN services (£200k) and for the stadium venue (£800k).

7.13. While the IPC agreement does not state that LBN should keep efficiencies from a lower stadium hire costs, LBN could seek to arrange matters to do so. E20 could support this approach, with pressure on LS185 and London 2017 to open the stadium to reflect ticket sales (probably lower tier only).

Charitable Status for Stadium / Community Track

7.14. The stadium could save significant business rates through achieving charitable status. However, it may not be feasible (or reputationally acceptable) to do so. This option was considered in the past and dismissed by PwC and other advisers.

7.15. However, the option of carving out areas that could be charitable (e.g. community track) may be more likely and acceptable. However the savings are then not "game changing" and may not be worth pursuing.

Diversify E20 Portfolio

7.16. In the longer term this may include diversifying its portfolio away from the Stadium. It could client other venues in the QEOP, Newham and other locations.

s.43 [redacted]

7.17. s.43 [redacted]

Appendix 1: Further Proposals being Explored

Proposal	Annual Financial Level	Total Financial Benefit	Benefits	Obstacles	Current Status with LLDC and LBN
Welcome Zone Pub	£500k pa	£2.5m	Financial Support Egress Extra Income on Dry Europa League games	LLDC Approval Ownership Licencing	On Hold with LLDC LBN would do
Rick Roberts Way Payment Early (2017-2018 rather than 2020-2024)	£1m	£5m	Replaces cash flow from LLDC and LBN	E20 Long term lifecycle impact Cash flow for LBN and LLDC Not new money, just brought forward to help cash flow	Unlikely but being considered
Payment of all Discretionary Funds into E20 account	NA	c.£1.5m	Helps cash flow, but limited benefit to working capital needs	Governance Accounting complexity	Unlikely but being considered
LBN IPC Funding	NA	£500k	LBN able to free money for IPC into working capital	IPC agreement with LBN Requires saving from IPC	Possible, LBN to pursue
Charitable status for Stadium	£1.6m (net £800k for GLA/LBN)	£8m (net £4m for GLA/LBN)	Reduce	Advice says not able to get charitable status 50% of rates lost to LBN and GLA	Not pursued
Charitable status for Stadium Community track	£100k (£50k net to GLA/LBN)	£500k (£250k net to GLA/LBN)	E20 reduce business rates	Advice says limited benefit	Possible

s.43 [redacted]

Item: **6**

Subject: **2015/16 financial statements**

Meeting date: 11 July 2016

Report to: E20 Stadium LLP Finance and Audit Committee

Report of: Gerry Murphy, Executive Director of Finance and Corporate Services (LLDC)

For recommendation to the Board

1. SUMMARY

1.1. This report presents the financial statements for the financial year ended 31 March 2016.

2. RECOMMENDATIONS

2.1. The Committee is asked to **RECOMMEND** the draft 2015/16 financial statements to the Board for approval.

3. REGULATORY CONTEXT

3.1. The Limited Liability Partnerships (Application of Companies Act 2006) Regulations 2008 (the 2008 Regulations) requires members to prepare financial statements for each financial year. Members have elected to prepare the financial statements in accordance with IFRS as adopted by the EU and applicable law.

3.2. In line with the Regulation, the Partnership must:

3.2.1. Have its annual accounts certified by an external auditors;

3.2.2. File its audited annual accounts no later than nine months after the end of the reporting period at Companies House (31 December for 2015/16 accounts).

3.3. E20 Stadium LLP commenced trading in 2013, and awarded the contract to provide External Audit services to Ernst & Young ("EY"). 2015/16 is the third year of that appointment.

4. BACKGROUND

4.1. The draft financial statements and supporting working papers were submitted to EY on 13 June, enabling them to begin their audit as planned the same day.

4.2. The audit of the financial statements is substantially complete – at the time of writing the key outstanding items are:

4.2.1. Review of the business plan (EY are reviewing the assumptions used in the business plan and require representations from management in respect of the judgements used in the business plan) to support the Stadium valuation.

5. KEY AREAS OF JUDGMENT

5.1. The Partnership's draft financial statements include various management judgements and estimates. The key area to bring to the Committee's attention is the impairment methodology used for the Stadium.

The Stadium is held as property, plant and equipment under construction. Property, plant and equipment are stated at fair value.

As the Stadium could be used for different purposes, management believes that the Stadium has a fair value at any point in time during the transformation work. However it is not cost effective to obtain a valuation considering alternative uses during the construction phase, and therefore the impairment has been based on the expected transformation costs or budget in excess of the expected post-transformation fair value.

5.1.1. Expected post-transformation fair value

The fair value of property, plant and equipment under construction is determined by external, independent property valuers (GL Hearn), who hold appropriate recognised professional qualifications. The independent valuers determine the fair value of the partnership's property, plant and equipment portfolio annually.

The fair value of the Stadium after the transformation work is determined by considering what market value a hypothetical purchaser would be willing to pay. This assessment considers the level of income that the Stadium can generate in excess of operating expenditure, as well as market data of the performance of other European stadium developments.

The future profit that the Stadium can generate is based on the business plan approved by the E20 Board on 30 March 2016. As the Stadium has no history of trading, the business plan is based on assumptions that require significant judgements to be made by management.

The fair value of the Stadium post-transformation as per 31 March 2016 is £22.5m. Any change in the assumptions used in the business plan would have a direct impact on the valuation of the Stadium post-transformation.

5.1.2. Expected transformation costs

The estimated cost to complete the Stadium transformation scope as defined by the Members' agreement is £297.8 million. The anticipated final cost used in the impairment includes transformation works and other enhancements, which together underpin the assumptions in the business plan. Note the carrying value of the Stadium in the accounts is £19.8 million based on the percentage of transformation and other enhancements work completed as at 31 March 2016.

Any change in the transformation budget would have a direct impact on the percentage of fair value recognised as at 31 March 2016.

6. ALLOCATION OF IMPAIRMENT LOSS

6.1. According to the Members' Agreement, the allocation of profits to the members of the partnership during the financial year is at the discretion of the Board. Additionally, under the Members' Agreement (clause 3.6.1), any impairment of the assets of the partnership is to be funded by a reduction in the London Legacy Development Corporation's ("LLDC") Capital account in the first instance, and then by the Newham Legacy Investment's ("NLI") Capital account.

6.2. E20 members agreed, at the Board meeting on 28 July 2015, which the members will allocate the impairment loss on completion of the transformation work in 2016/17.

6.3. As such, no allocation of the loss for the year ended 31 March 2016 has been made in the financial statements as at 31 March 2016.

7. AMENDMENTS TO DRAFT STATEMENT OF ACCOUNTS

7.1. A number of numerical and disclosure changes were identified during the course of the audit. The key change to the draft Statement of Accounts submitted for audit is:

- Recognition of the London Marathon Charitable Trust grant towards the community track. The grant of £1.6m was initially recognised in revenue for the year; however the grant is now being recognised as deferred income on the balance sheet and will be recognised over the life of the asset as stipulated by International Accounting Standard (IAS) 20.

7.2. The External Auditor's Audit Results Report (Appendix 3 attached) provides further details on the financial statements presented for audit and subsequent amendments.

7.3. The impact of the audit amendments, insofar as they impact the business plan outturn for 2015/16, are summarised below:

	Budget **£m**	**Actuals** **£m**	**Variance**	**Comment**
Pre-audit net profit/(loss)	**(2.93)**	**(2.61)**	**0.32**	Draft outturn pre-audit of statutory accounts
Adjustment 1	-	(0.08)	(0.08)	Reduction in net commercial revenues from LS185 (based on actuals confirmed by LS185 post year-end)
Adjustment 2	-	(0.16)	(0.16)	Reclassification of England Rugby contribution towards retractable seating costs from revenue to customer contributions to PPE
Adjustment 3	-	(0.42)	(0.42)	Abortive digital wrap design fees reclassified from capital expenditure. Note that this is funded from the discretionary spend budget.
Post-audit net profit/(loss)	**(2.93)**	**(3.27)**	**(0.34)**	
Change	-	*(0.66)*	*(0.66)*	

7.4. Note that an additional accounting policy (1.9 Members' Contributions) has been added to the accounts to clarify how capital contributions from members of the partnership are recognised in the accounts.

8. AUDIT RESULTS REPORT

8.1. The External Auditor's Audit Results Report (Appendix 3) including their opinion on the financial statements will be separately presented to the Committee by EY.

9. LIST OF ANNEXES TO THIS REPORT

Appendix 1 – Letter of representation
Appendix 2 – Draft audited financial statements 2015/16
Appendix 3 – EY Audit Results Report

10. AUDIT RESULT

10.1. The External Auditors' Audit Results Report returned an unqualified opinion on the financial statements.

Report originator(s): Richard Irish
Telephone: 020 3288 [redacted]
Email: richardirish@londonlegacy.co.uk

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Karl Havers
Ernst & Young LLP
One More London Place
London
SE1 2AF

July 2016

Dear Karl,

This representation letter is provided in connection with your audit of the financial statements of E20 Stadium Company LLP ("the Company") for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of E20 Stadium Company LLP as of 31 March 2016 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated 24 July 2014, for the preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

2. We acknowledge, as members of management of the LLP, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of (or 'present fairly, in all material respects') the financial position, financial performance (or results of operations) and cash flows of the LLP in accordance with International Financial Reporting Standards as adopted by the European Union and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management of the LLP, we believe that the LLP has a system of internal controls adequate to enable the preparation of accurate financial

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statements in accordance with International Financial Reporting Standards as adopted by the European Union, that are free from material misstatement, whether due to fraud or error.

5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud

2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the LLP's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the LLP.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.

   - Additional information that you have requested from us for the purpose of the audit and

   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all minutes of the meetings of members, directors and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period.

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4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the LLP's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We have disclosed to you, and the LLP has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 11 to the financial statements all guarantees and/or commitments that we have given to third parties.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

2. Accounting estimates recognised or disclosed in the financial statements:

- We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.

- The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework(s).

- The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.

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- No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H. Specific representations

Classification of Property

1. We confirm that the classification of property assets across property, plant & equipment, as assets under construction, is based on the best information we hold at this point in time.

Environmental Liabilities

1. We have disclosed to you all liabilities or contingencies arising from environmental matters. These liabilities or contingencies have been recognised, measured and disclosed, as appropriate, in the financial statements. Any environmental liability included in the balance sheet represents our best estimate of the potential losses using assumptions that we believe represent the expected outcomes of the uncertainties. With respect to the valuation of related assets, we have considered the effect of environmental matters, and the carrying value of the relevant assets is recognised, measured and disclosed, as appropriate, in the financial statements. Any commitments related to environmental matters have been measured and disclosed, as appropriate, in the financial statements.

Income and Indirect Taxes

1. We acknowledge our responsibility for the tax accounting methods, including VAT, adopted by the LLP which have been consistently applied in the current period.

Use of the Work of an Expert

1. We agree with the findings of the experts engaged to evaluate the valuation of property, plant and equipment and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

Stadium Transformation Costs and Impairment

1. We believe that the assumptions used in estimating the cost of transformation of the stadium and in estimating the value of the stadium following transformation to be appropriate. We also confirm our view that the adopted accounting treatment for the estimated impairment arising from stadium transformation (spreading the total estimated impairment over the transformation period in proportion to expenditure incurred) is appropriate.

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2. We confirm that the valuation of the Olympic Stadium at £22.5m, based on the E20 Stadium LLP business plan, is the result of a number of factors considered in the valuation process. We confirm that the valuation process has not been manipulated by management to achieve a desired valuation.

3. We have disclosed to you all current and future liabilities or contingencies arising from the transformation of the stadium. These liabilities or contingencies have been considered when calculating the estimated impairment that will arise on stadium transformation and the recognition of the estimated impairment over the transformation period.

Yours Faithfully,

Alan Skewis
Director

David Edmonds
Chairman

E20 Stadium Company LLP

Report to the Finance and Audit Committee & Board

For the period ended 31 March 2016

Audit Results Report – ISA (UK & Ireland) 260

11 July 2016

Karl Havers, Partner
s.40 [redacted]

Philip King, Senior Manager
s.40 [redacted]

Building a better working world

Contents

- Executive summary
- Extent and scope of our work
- Addressing audit risk
- Financial statements audit – issues and findings
- Independence and audit fees

Executive summary

Key findings

Audit results and other key matters

International Standard of Auditing (ISA) 260 requires us to report to those charged with governance – the Board of E20 Stadium Company LLP (E20) - on the work we have carried out to discharge our audit responsibilities, together with any governance issues identified.

This report summarises the findings to date from the 2015/16 audit, which remains in progress. It includes the messages arising from our audit of your financial statements and our review of your governance arrangements.

Financial statements

- The nature of the audit report we issue will be dependant on the conclusions drawn from the completion of our outstanding work, specifically the valuation of the Olympic Stadium post transformation. Our audit results demonstrate, through the small number of, albeit significant, matters we have to communicate, that E20 has prepared its financial statements to an appropriate standard. There are a small number of areas of our work that are still in progress as at the date of drafting this report , as highlighted on page 7. We will discuss progress on these with the Finance and Audit Committee on 11 July 2016.

Control environment and governance arrangements

- We obtained an understanding of the LLP's control environment and governance arrangements to assist us in identifying factors that may lead to an increased risk of material misstatement when preparing financial statements. We obtained audit evidence that the elements of the control environment are in operation. There were no matters which we need to report to you.

Extent and scope of our work

E20 responsibilities

E20 is responsible for preparing and publishing its Financial Statements.

Scope of our work

Our audit was designed to express an opinion on the 2015/16 financial statements.

In addition, this report contains our findings related to the areas of audit emphasis, our views on E20's accounting policies and judgments and significant deficiencies in internal control.

This report is intended solely for the information and use of the Board of E20. It is not intended to be and should not be used by anyone other than the specified party.

Addressing audit risk

Audit risk

We identified the following audit risks during the planning phase of our audit. Here, we set out how we have gained audit assurance over that risk.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Audit risks (including fraud risks)		
Fraud and management override risk Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud. Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.	• Identification of fraud risks during the planning stages. • Inquiries of management about risks of fraud and the controls put in place to address those risks. • Understanding the oversight given by those charged with governance of management's processes over fraud. • Consideration of the effectiveness of management's controls designed to address the risk of fraud. • Determined an appropriate strategy to address those identified risks of fraud. • Performed mandatory procedures regardless of specifically identified fraud risks.	Our planned procedures in relation to this risk are complete. We have identified no findings that would indicate there is a risk of material misstatement due to fraud or error. The most significant matters in the financial statements that we will review with enhanced professional scepticism are the stadium costs to complete and business plan which drive the impairment charge and asset valuations. See below
Risk of fraud in revenue recognition Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.	• Reviewed and tested revenue and expenditure recognition policies. • Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias. • Developed a testing strategy to test material revenue and expenditure streams. • Reviewed and tested revenue cut-off at the period end date	Our planned procedures in relation to this risk are complete. We have identified no findings that would indicate there is a risk of material misstatement due to fraud or error.

Addressing audit risk (Cont'd)

Audit risk

We identified the following audit risks during the planning phase of our audit. Here, we set out how we have gained audit assurance over that risk.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Audit risks (including fraud risks)		
Stadium transformation impairment LLDC group management concluded at the outset of the transformation work that stadium transformation expenditure is to be impaired over the period of the transformation works to reflect the stadium value on completion; the impairment being recognised in proportion to spend undertaken in the period. E20 management has subsequently adopted this same accounting policy. The level of expenditure on stadium transformation, and the resulting impairment charge is material to E20 Stadium LLP and is based on two accounting judgements – the estimated total cost of the transformation work, and the valuation of the stadium following that work. The basis for the stadium valuation, post transformation, is the E20 10 year business plan for the operation of the stadium. The level of expenditure on stadium transformation, and the resulting impairment charge, is expected to continue to be highly material to the financial statements in 2015/16.	• Reviewed the reasonableness of the accounting policy concerning the impairment against accounting standards. • Tested the accounting entries to ensure that the Partnership has applied their accounting policy consistently and appropriately. • Reviewed the calculation of the impairment charge for 2015/16; auditing its constituent parts, in particular forecast capital spend and the valuation of the stadium following the completion of that work. • Assessed the work of the property valuers in determining the valuation of the stadium following completion of transformation work; and undertaking sensitivity analysis on the potential upsides and downsides in the E20 10 year business Plan that is the basis for that valuation.	Our planned procedures in relation to the estimated total cost of the transformation work are complete. Our planned procedures in relation to the valuation of the stadium following transformation work are still in progress but nearing completion. Both of these elements of the impairment charge are based on highly significant judgements made by LLP management. Further details on these issues are provided on pages 7 and 8. We have reviewed the business plan, which is the basis for that valuation, with professional scepticism. As last year, we think the balance of sensitives should be discussed at the audit committee and the judgements will require representations from management on this issue.

Financial statements audit

Issues and findings arising from the audit

Progress of our audit

- A small number of areas of our work programme remain to be completed. These include:
  - Final assessment and conclusion on the valuation of the Olympic Stadium post transformation; based on the E20 10 year Business Plan
  - Final audit closing and review procedures
  - Receipt of a letter of representation and signed accounts
- We will provide the Finance and Audit Committee with an update of progress at the meeting on 11 July.
- The nature of the audit report we issue will be dependant on the conclusions drawn from the completion of our work on the above items, specifically the valuation of the Olympic Stadium post transformation.

Uncorrected misstatements

- On the basis of the work completed to date, we have not identified any misstatements within the draft financial statements, which management has chosen not to adjust.

Corrected misstatements

- The need for a number of numerical and disclosure changes were identified during the course of our audit. All of these required changes have been made. Any further amendments required as a result of the completion of our final assessment and conclusion on the valuation of the Olympic Stadium post transformation; based on the E20 10 year Business Plan will be discussed with management if they arise.

- A material misstatement has been noted within revenue, regarding the recognition of the London Marathon Charitable Trust grant. The grant of £1.545m was initially recognised in revenue for the year; however this grant has been taken to deferred income on the balance sheet and will be recognised over the life of the related capital project as stipulated by International Accounting Standard 20.
- A number of narrative disclosure amendments were required to the draft statements; the majority of these were made to provide more clarity regarding the fair value of the Olympic Stadium and the service concession to the stadium operator.

Financial statements audit (continued)

Issues and findings arising from the audit

We wish to report to you regarding the impairment charge on the Olympic Stadium. The impairment charge is based on two accounting estimates, both requiring very significant accounting judgements to be made by management:

- Estimated total cost of the stadium transformation
- Estimated value of the stadium post transformation.

Estimated total cost of the stadium transformation

The current estimated total transformation cost stands at £323.6m (£300.4m as at 31.3.15). The total transformation cost consists of Transformation works as defined in the Partnership Members Agreement (£297.8m), plus further enhancements subsequently agreed by the members (£25.8m). The majority of the increase in the cost of transformation works has been driven by project delays and disruption, acceleration, changes in scope and increased retractable seating costs. The total estimated cost has been included in the impairment calculation.

Estimated value of the stadium post transformation

The basis for the stadium valuation, post transformation, is the E20 10 year business plan for the operation of the stadium. In order to drive the stadium business, the plan is challenging and potentially optimistic in places. The risk that this presents, is that the business plan may therefore overstate the estimated value of the stadium post transformation. We have considered the potential upsides and downsides in the business plan in the context of assessing their impact on the estimated valuation.

A number of potential upsides, when compared to the current plan, have been identified by management:

- The potential for net commercial revenues to increase by 20% over the course of the business plan, generating £1.3m in additional income. However, there is also the possibility that LS185 will fall short of their business projections and a 20% fall in net commercial revenues would lead to a £1.3m fall in income.

[redacted] s.43

[redacted] s.43

Financial statements audit (continued)

Issues and findings arising from the audit

Estimated value of the stadium post transformation (cont'd)

- The possibility of WHFC ground sharing with another premier league club for a season could generate £2m in net revenues
- Insurance cost savings of £0.1m pa appear likely as current available information suggests that the projections appear to be overstated by approximately that amount.
- NDR could fall by approximately £0.2m pa from 2020/21 if a lower rateable value is negotiated, WHFC contribute to the cost or there is a change in government policy. However, it is also entirely possible that the rateable value could increase resulting in a £0.2m pa increase in NDR costs.

s.43 [redacted]

The following potential downsides have also been identified:

- Snagging costs not covered by warranties which could arise in areas not covered by any warranty or could arise during the 10 year plan period after specific warranties have expired.
- £0.7m pa of additional costs could be incurred if the retractable seating system proves more costly to operate than expected, and the 7 day turnaround target is not achieved. A number of initiatives are underway to mitigate this risk, including:

-enhancements to the original design with the inclusion of air skates, which are proven technology in filming, theatre and warehousing, to facilitate the movement out and in of the stands, anticipated to make a significant improvement to the time taken to move the seating;

-adjustments to the original design of the east stand which allows the first 6 seating rows to be removed, which allows for athletics mode without moving this stand; and

-procurement of a seat move operator (this autumn) incentivised to reduce the time and cost taken to move the seats.

- The provisions of the agreement mean that E20 revenues will be reduced by £1.25m for each year that West Ham Utd are not in the Premier League. The business plan assumes that this will not occur, but recent history indicates that this potential downside could occur.
- The signing of the naming rights deal has been delayed and this is going to lead to a approximately £1m shortfall in revenues in 2016/17.

Financial statements audit (continued)

Issues and findings arising from the audit

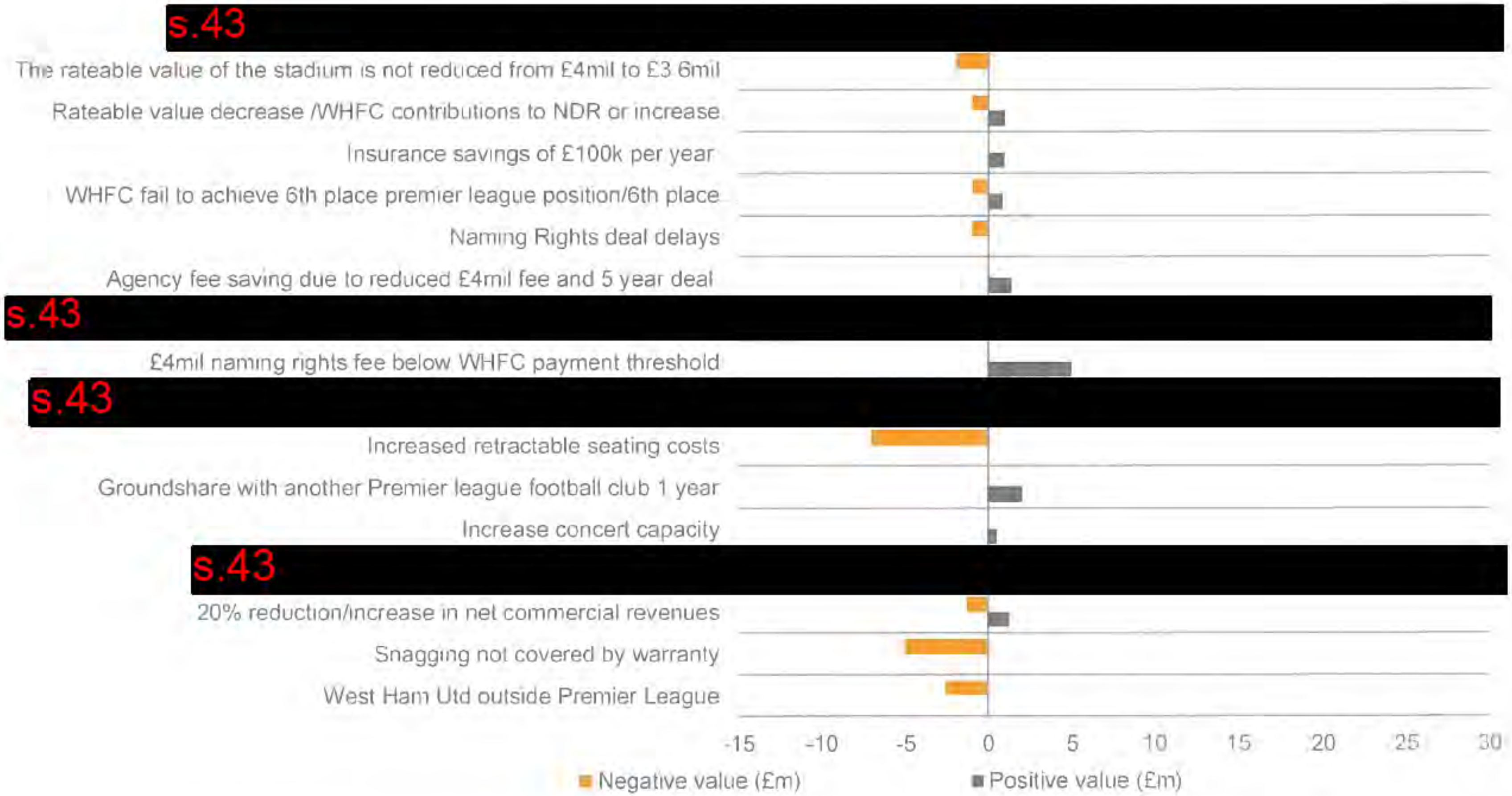
- Estimated value of the stadium post transformation (cont'd)
  - The business plan assumes that WHFC will finish sixth in the Premier League every other year, resulting in additional income of £0.185m pa. WHFC may perform below expectations and this payment may not materialize. Alternatively, WHFC's performance may exceed expectations and they could cement themselves as a top six club, resulting in additional revenues of the same amount pa.
  - The reduction in the rateable value of the stadium may not be achieved, resulting in a £0.2m pa increase in NDR costs

- The following page contains a graph that pictorially shows the scale of the potential upsides and downsides in the E20 business plan.
- The sensitivities are always judgemental by their nature and we would expect any assessment to change over time as events unfold.

Financial statements audit (continued)

Issues and findings arising from the audit

The scale of the potential upsides and downsides in the E20 business plan.....



Financial statements audit (continued)

Issues and findings arising from the audit

- Estimated value of the stadium post transformation (cont'd)

On balance, the potential upsides are greater than the downsides within the business plan, with the non risk adjusted downsides totalling [redacted] £55.1m [redacted]

[redacted]

- The retractable seating system is sufficiently operationally flexible and cost effective to host a number of events outside of WHFC's usage of the stadium; and
- Potential additional costs can be effectively managed and offset by efficiency gains in other areas of the business plan.

Member's should therefore consider and focus on those upside and downside sensitivities that are most likely to occur when assessing the accuracy of the estimated post transformation valuation of the stadium of £22.5m. We look forward to discussing the sensitives around the business plan with the Finance and Audit Committee.

E20 have adopted an accounting policy in relation to the impairment of the Olympic stadium which apportions the impairment charge over the transformation period in line with capital spend. If the stadium valuation post transformation is overstated then the impairment charge in year would be understated, resulting in a larger balancing impairment charge at the end of the transformation period, the one thing the adopted policy was designed to avoid.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of E20's financial reporting process, including the following:

- Qualitative aspects of your accounting practices, estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest.

We have nothing to report regarding these other matters.

Financial statements audit (continued)

Internal controls

Internal control

It is the responsibility of management to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether management has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of E20 only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control. We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters. As was the case in the previous two years, we have requested a number of specific representations regarding the estimated costs to complete the stadium transformation; the estimated valuation of the stadium post transformation; the appropriateness of the accounting policy regarding the impairment charge arising; and the independent construction of the E20 business plan, which is the basis for the stadium valuation, post transformation

Independence and audit fees

Independence

- We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 7 March 2016.
- We complied with the Auditing Practices Board's Ethical Standards for Auditors. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- We confirm that we are not aware of any other relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.

If you wish to discuss any matters concerning our independence, we will be pleased to do so at the Finance and Audit Committee & Board meetings in July 2016.

- We confirm that we have met the reporting requirements to the Board, as 'those charged with governance' under International Standards on Auditing (UK&I) 260.

Audit fees

The table below sets out the planned and final proposed audit fee.

	Proposed final fee 2015/16	Planned fee 2015/16	Variation comments
	£s	£s	
Total audit fee	26,000	26,000	None

- Our proposed final fee is dependant on the satisfactory clearance of the outstanding audit work, specifically the additional procedures required on the impairment charge and the two highly material accounting judgements that support it.

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The contents of this report are subject to the terms and conditions of our appointment as set out in our engagement letter of 24/07/2014

This report is made solely to the Finance and Audit Committee, Board of Directors and management of E20 in accordance with our engagement letter. Our work has been undertaken so that we might state to the Finance and Audit Committee, Board of Directors and management of E20 those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Finance and Audit Committee, Board of Directors and management of E20 for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

[redacted]

EY

Agenda

For: **E20 Stadium LLP Finance and Audit Committee**

Date: **21 March 2017**

Time: **10:00 – 11:30**

Location: **Rooms 1 and 2, LLDC Offices, 1 Stratford Place, E20 1EJ**

Committee Members Expected: Lester Hudson (Chair/LBN), David Gregson (LLDC), David Goldstone (LLDC), Kim Bromley-Derry (LBN).

Also Expected: Alan Skewis (E20), Martin Gaunt (E20), Gerry Murphy (LLDC), Richard Irish (LLDC), s.40 [redacted] (E20), s.40 [redacted] (EY), Karl Havers (EY), s.40 [redacted] (LBN), Paul Middlemas (LLDC)

Apologies:

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1. Welcome and Apologies

2. Declarations of Interest

3. Minutes of the meeting held 11 July 2016, as previously noted (without comment) at 29 July 2016 Board Meeting

4. Report of LLDC internal audit of E20

5. EY external audit plan

6. Draft E20 Business plan – early version for comment, not decision

7. AOB

Minutes

For: **E20 Stadium LLP**

Date: **11th July 2016**

Time: **13:30 – 15:00**

Location: **Marketing Suite, Level 10, 1 Stratford Place, Montfichet Road, E20 1EJ**

Committee Members Present: David Edmonds (LLDC and Chair), David Goldstone (LLDC), Lester Hudson (NLI), David Gregson (LLDC),

Also Present: Alan Skewis (E20), Gerry Murphy (LLDC), Martin Gaunt (LLDC), [redacted] (EY), Karl Havers (EY), [redacted] (E20), [redacted] (LBN), Richard Irish (LLDC), Paul Middlemas (LLDC)

Apologies: Kim Bromley-Derry (LBN)

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1) Welcome and Apologies:

The Chair opened the meeting at 13:30. Apologies were noted from Kim Bromley-Derry

2) Declarations of Interest

No declarations of interest were stated.

3) Minutes of the meeting held 7th July 2016

The minutes were agreed as a correct and accurate record.

4) Latest forecast against business plan and cash flow projections

Martin Gaunt introduced this report and asked the Committee to note the following –

- The 2015-2016 outturn position
- The latest forecasts against the business plan
- The monthly cash flow projections

- In 2015-16, E20 made a saving against the business plan of nearly £200K due to a number of factors which are set out in the paper.
- The forecast against the Business Plan in 2016-17 is significantly down due to lower net commercial revenue from LS185 and the naming rights income being delayed as the long form contract is yet to be signed.
- Gerry Murphy noted that a process for more detailed tracking of working capital with a line by line breakdown is being implemented. Gerry also noted that LLDC has, to date, funded a disproportionately high amount of E20 working capital.
- It was also noted that NLI need to provide its proportionate share of

working capital.

- [redacted] noted that NLI can only secure additional funds from the Council twice yearly, including a budget review in September/October for NLI members.
  Action – NLI and LLDC members to discuss funding to E20 and agree "smoothing" the pathway towards proportionate funding of E20.
- As noted above, the naming rights partner has not yet signed the long form contract meaning payments into E20 have been delayed. Once they sign, payment should be made immediately. Ideally, this needs to be by 1st August 2016.
- Lester Hudson asked what level of assurance could be given that 2017/2018 forecasts would be achieved. Martin Gaunt noted that there is no certainty at present based on LS185's latest projections. Alan Skewis noted that E20 are putting pressure on LS185 to get concerts and events booked into the Stadium. [redacted]
- Gerry Murphy asked for a table to be produced for LS185 on what they need to achieve to hit financial targets. This will create a way of tracking their progress and deadlines. ACTION – Martin Gaunt to provide for September Board meeting.
- It was noted that a wider review of LS185's contract will be reviewed in September to see what they are achieving/under achieving.
- David Gregson asked what incentives LS185 have to achieve higher income. ACTION – Alan Skewis to produce a table of incentives to put in the Directors update for E20 Board due to be held on 29th July 2016.
- Martin Gaunt noted that a review of life cycle costs would ideally be commissioned based on the "as built" stadium. However, given the financial position of E20, it is not be an appropriate time to pursue this.
- ACTION – Martin Gaunt to provide details of fixed costs and life cycle costs for LS185
- Alan Skewis noted that upon handover of the Stadium, LS185 will complete an asset survey in which they have 90 days to complete and feed back into E20. This survey compares actual stadium assets with those previously stated in the contract specification, and can lead to an adjustment in the fixed costs payment from E20 to LS185.
- The chairman asked whether the new air skate system would reduce retractable seating costs. The assumption is yes but E20 will know more in September.
- David Gregson noted that, as stated previously, [redacted]

5) Measures to reduce E20 costs and increase income

Alan Skewis noted the following update to the committee:

- Members agreed the following –

  That the immediate measures in paragraph 3.2 are implemented.

  To receive further reports on the other measures and ideas set out in this report.

- Alan asked members to look at the longer term options in section 4 of the paper which will be covered in the September E20 Board meeting.

- David Goldstone asked whether the naming rights partner is going to utilize the Executive Box? Alan Skewis noted that this is going to be looked into as part of ongoing contract negotiations.
- Under section 6 of the paper (mid to long term opportunities), Alan Skewis noted that not much has changed but E20 are continuing to drive progress where appropriate.
- s.43 [redacted]
- Lester Hudson asked about ground share and if there had been any discussions with Chelsea. Alan Skewis noted that LS185 are responsible for these discussions but will encourage them to have them.
- Gerry Murphy asked if we knew about potential costs/revenue from ground share. Martin Gaunt noted that E20 does have a model and will share with members.

  ACTION – LLDC and NLI to have discuss financial arrangements for Rick Roberts Way, and specifically the timing of payment to E20.
- Alan Skewis noted that "pop up pubs" were still an option for the Park. NLI made a proposal but need to understand LLDC's point of view. David Goldstone noted that LLDC are not ruling this option out but LLDC have, to date, focused on naming rights opportunities for the London Aquatics Centre and Copper Box Arena. The Committee noted that there is a concern around what "pop up pubs" may look like.

  ACTION – The Board will revisit the opportunity presented by "pop up pubs" in due course.

6) 2015/2016 financial statements

Gerry Murphy, Richard Irish and Paul Middlemas gave the following update to the committee with input from s.40 [redacted] and Karl Havers from EY:

- The Committee were asked to recommend the draft 2015/2016 financial statements to the Board for approval – This was agreed by committee.
- It was noted that E20 funding is dependent on both members, LLDC and NLI.
- The main issue that came out of the audit was the valuation of the Stadium.
- Lester Hudson noted that he wanted to firm up the valuation over the next couple of years for the Stadium.
- David Goldstone noted that in the letter to Karl Havers, the wording under Use of the work expert should be "We accept" rather than "We agree" in the opening sentence.
- It was also noted that the signatories at the end of the letter should be the Finance and Audit Committee chair and the E20 Director. This was agreed by all Committee members.
- A note circulated at the meeting by Richard Irish, stating that E20 remained a "going concern "was approved subject to , some grammatical changes which were noted by Richard.

There being no further business to be considered the Chairman closed the meeting at 15:15hrs

…………………………………………………… ………………………………………

Signed (Chairman) Date

E20 Stadium LLP

Year ending 31 March 2017

Audit Plan

7 March 2017

Ernst & Young LLP

Building a better working world

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INVESTOR IN PEOPLE

Private and confidential
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7 March 2017

Dear Committee Members

Audit planning report

We are pleased to attach our audit planning board report for the forthcoming meeting of the Finance & Audit Committee. The purpose of this report is provide the Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit, in accordance with the requirements of auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key issues which drive the development of an effective audit for 2016/17. We have aligned our audit approach and scope with these.

This report is intended solely for the information and use of the Finance & Audit Committee, Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 21 March 2017 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Karl Havers
For and behalf of Ernst & Young LLP
Enc

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1. Overview

Context for the audit

When planning the audit we take into account several key inputs:

- The Partnership's objectives and strategies and the related business and financial risks relevant to the financial statements,
- Developments in financial reporting, auditing standards.
- The quality of systems and processes.
- Changes in the business and regulatory environment.
- Matters that management or the Committee consider significant in relation to the financial statements and that they have requested we pay particular attention to.

By considering these inputs, our audit is focused on the areas that matter. And by focusing on the areas that matter, our feedback is more likely to be relevant to the business.

Key areas of audit emphasis

- As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk. We identify and respond to this fraud risk on every audit engagement.
- We have identified one other area of significant risk related to the 2016/17 audit in Section 2.

Our audit process and strategy

- We consider materiality in terms of the possible impact of an error or omission on the financial statements and set an overall planning materiality level. We then set a tolerable error to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an appropriately low level. We also assess each disclosure and consider qualitative issues affecting materiality as well as quantitative issues.
- We carry out an initial assessment of materiality based on prior year results and estimated current year results but will update this when we receive the draft and final financial statements.
- We undertake a fully substantive approach to the audit, which does not require assessment or reliance on the controls in operation in each process affecting the financial statements.
- We report significant deficiencies in internal control that we identify in the course of our work to the Finance & Audit Committee and Board.
- There has been no change to the scope of the audit compared to 2015/16.

2. Key areas of audit emphasis

We outline the areas of audit focus based on our assessment of:

a. Key business and financial statement risks facing E20 Stadium LLP.

b. Significant accounts and disclosures of E20 Stadium LLP.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

Significant risks (including fraud risks)	Our audit approach
Risk of misstatement due to fraud and error	
Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud. Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.	Our approach will focus on: ► Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ► Reviewing accounting estimates for evidence of management bias, and ► Evaluating the business rationale for significant unusual transactions
Risk of fraud in revenue recognition	
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.	We will ► Review and test revenue recognition policies. ► Review and discuss with management any accounting estimates on revenue for evidence of bias. ► Develop a testing strategy to test material revenue streams. ► Review and test revenue cut-off at the period end date. ►
Stadium Valuation	
The stadium transformation works were completed during 2016/17. This year, the stadium will be revalued on completion. The basis of this valuation is highly judgemental and, as in previous years, will be reflected as an impairment in the Partnership's accounts	Our approach will focus on ► Assessing the work of the property valuer in determining the valuation of the stadium; and ► Consulting with the EY property valuation team if appropriate.

Significant risks (including fraud risks)	Our audit approach
Onerous Contract Provision	
Each year, the LLP revisits its 10 year business plan. This year the LLP will need to consider the profitability of its ongoing contracts and whether or not a provision is required in relation to these under IAS 37.	Our approach will focus on ► Understanding the judgements included within the 10 year business plan and conducting sensitivity analysis. ► Reviewing key contracts to determine their profitability in the context of management's forecasts. ► Reviewing the reasonableness of the accounting policy concerning any provision against accounting standards. ► Testing accounting entries to ensure that the LLP has applied their accounting policy consistently and appropriately.

3. Our audit process and strategy

3.1 Objective and scope of our audit

Our objective is to form an opinion on the Partnership's financial statements under International Standards on Auditing (UK and Ireland).

3.2 Audit process overview

Our financial statements audit involves:

- Assessing the key internal controls in place;
- Reliance on the work of experts in areas such as valuations; and
- Substantive tests of detail of transactions and amounts.

In addition to the key areas of emphasis outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards, company law and other regulations. We outline below the procedures we will undertake during the course of our audit.

Mandatory procedures required by auditing standards on:

- Addressing the risk of fraud and error.
- Significant disclosures included in the financial statements.
- Entity-wide controls.
- Reading other information contained in the financial statements and reporting whether it is materially inconsistent with the audited financial statements or incorrect/inconsistent based on knowledge acquired in the course of the audit, or otherwise misleading.
- Reading the board's statement and reporting if it is inconsistent with the knowledge acquired in the course of performing the audit.
- Reading the Board section (in the Annual Report and Accounts) and reporting if it does not appropriately address matters we have communicated to the committee.
- Auditor independence.

Procedures required by Company law

- Opinion on whether the information contained in the directors' report is consistent with the financial statements.
- Auditing the disclosures that unquoted companies are required to make with respect to directors' remuneration.

3.3 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

3.4 Fees

The planned fee for 2016/17 is £26,000.

3.5 Your audit team

The engagement team is led by Karl Havers. Karl is supported by Eli Johns who is responsible for the day-to-day direction of audit work and is the key point of contact for the financial controller.

3.6 Timetable of communication and deliverables

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2016/17.

We intend to provide a formal report to the Finance & Audit Committee in July incorporating the outputs from our year-end procedures. From time to time matters may arise that require immediate communication with the Committee and we will discuss them with the Committee Chair as appropriate.

Following the conclusion of our audit we will prepare a management letter for the Partnership, outlining our comments on areas where we believe control deficiencies exist or where improvements can be made. This is circulated to senior management and to the Committee.

Audit phase	Timetable	Committee & Board timetable	Deliverables
Planning: Risk assessment and setting of scopes.	March		Audit Plan
Year-end audit	June / July		Audit Results Report
	November		Management Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights, updates on corporate governance and regulatory matters.

4. Independence

4.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
► The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence.	► A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that we are independent; ► Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ► An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed and analysed in appropriate categories.

4.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Partnership.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Partnership has approved and that are in compliance with the Audit Commission's Standing Guidance.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Partnership. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self-review threats at the date of this report

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Karl Havers, the audit engagement partner and the audit engagement team have not been compromised.

4.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2016 and can be found here:

http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2016

Appendix A UK required communications with the those charged with governance

There are certain communications that we must provide to the Board of UK clients. These are detailed here:

Required communication	Reference
Terms of engagement Confirmation by the Board of acceptance of terms of engagement. EY to provide a copy of the engagement letter.	Engagement letter issued 24 July 2014
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit plan

Significant findings from the audit
► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures
► Significant difficulties, if any, encountered during the audit
► Significant matters, if any, arising from the audit that were discussed with management
► Written representations that we are seeking
► Expected modifications to the audit report
► Other matters if any, significant to the oversight of the financial reporting process
Unless covered by other communications on planning matters or significant findings, this information shall include views on:
► Business risks relevant to financial reporting objectives, the application of materiality and the implications of our judgments in relation to these for the overall audit strategy, the audit plan and the evaluation of misstatements identified.
► The significant accounting policies (both individually and in aggregate);
► Management's valuations of the entity's material assets and liabilities and the related disclosures provided by management;
► Internal control, specifically on:
    ► The effectiveness of the entity's system of internal control over financial reporting; and
    ► Other risks arising from the entity's business model and the effectiveness of related internal controls,
► Any other matters identified in the course of the audit that we believe will be relevant to the board or the Board in the context of fulfilling their responsibilities referred to above.
	Audit results report

Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	Audit results report
Fraud ► Enquiries of the Board to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► A discussion of any other matters related to fraud	By letter Audit results report
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions	Audit results report

Required communication	Reference
► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity	
External confirmations ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report
Consideration of laws and regulations ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the Board into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Board may be aware of	By letter Audit results report
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ► The principal threats ► Safeguards adopted and their effectiveness ► An overall assessment of threats and safeguards ► Information about the general policies and process within the firm to maintain objectivity and independence	Audit results report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ► Whether the events or conditions constitute a material uncertainty ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ► The adequacy of related disclosures in the financial statements	Audit results report
Significant deficiencies in internal controls identified during the audit	Audit results report

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E20
STADIUM LLP

Subject: **Draft Report of LLDC Internal Audit of E20**

Meeting date: 21 March 2017

Report to: E20 Stadium LLP Finance & Audit Committee

Report of: Martin Gaunt, Business Manager, E20 Stadium LLP

1. SUMMARY

1.1. LLDC – whose internal audit function is outsourced to the Mayor's Office for Policing and Crime – has undertaken an internal audit of E20. The terms of reference were:

> "To review the budgetary control arrangements at E20 Stadium LLP for the delivery of the E20 Stadium Business Plan to generate the income figures and capital requirements in LLDC's 10 Year Plan. In particular we will look at the controls in place covering the development of E20 Stadium LLP's business plan; budget performance reporting; partnership arrangements between LLDC and E20 Stadium LLP; and E20 Stadium LLP's procedures for identifying savings and opportunities."

1.2. The draft report, potentially subject to minor revisions, is at Appendix A. It will be formally considered by the LLDC Finance & Audit Committee in due course. It is shared with the E20 Finance & Audit Committee for information.

1.3. The draft conclusions of the audit are as follows:

Area of Scope	Overall Effectiveness of Area	Recommendations and Priority		
		High	Medium	Low
E20 Stadium LLP Business Plan	Effective	0	0	0
Budget Performance Reporting	Partly Effective	0	0	1
Partnership Arrangements	Partly Effective	0	2	0
Savings & Opportunities	Effective	0	0	0

1.4. The report makes recommendations that are currently being considered / adopted.

2. RECOMMENDATIONS

2.1. The Committee is invited to **NOTE** LLDC's draft internal audit report.

Report originator(s): Martin Gaunt

Email: martingaunt@e20stadium.com

DIRECTORATE OF AUDIT, RISK AND ASSURANCE
Internal Audit Service to the LLDC

E20 Stadium LLP Budgetary Control
Internal Audit Report – Draft v2
March 2017

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1. Introduction

1.1 E20 Stadium LLP (E20) is a limited liability partnership between LLDC and Newham Legacy Investment (NLI), a wholly owned subsidiary of London Borough of Newham. The partnership is currently loss making and LLDC and NLI are currently providing working capital to E20. The audit reviewed the arrangements in place by E20 for the management of budgets and delivery of capital requirements.

1.2 Our objective was to review the budgetary control arrangements at E20 for the delivery of the E20 Stadium Business Plan and capital requirements in LLDC's long term financial model. This included a review of the controls in place covering the development of E20's business plan; budget performance reporting; partnership arrangements between LLDC and NLI; and E20's procedures for identifying savings and opportunities. At the outset of the review, the potential key risks identified to achieving the business objective were:

- Inadequate business plan setting processes;
- Failure to establish and operate effective budgets and savings;
- Inadequate performance reporting resulting in ineffective management of budgets;
- Lack of E20 Stadium LLP staff accountability leading to failures in generating income;
- Failure to provide LLDC with agreed capital requirements resulting from inadequate management of Stadium business plan and contracts;
- Ineffective identification of savings through opportunities at the Stadium; and
- Failure to maintain progress towards required delivery of planned budget savings.

2. Audit Assurance

Adequate Assurance

The control framework is adequate and controls to mitigate key risks are generally operating effectively, although a number of controls need to improve to ensure business objectives are met.

3. Areas of Effective Control

3.1 An E20 Business Plan has been developed and documented for the ten year period covering 2016/17 - 2025/26; it was approved by the E20 Board on 30th March 2016. The plan was developed following detailed consultations with all stakeholders involved, including LS185 (Stadium Operator), LLDC (Member), NLI (Member) and E20 officers. It incorporates the operator LS185 Business Plan as this forms a significant element of the E20 Business Plan.

3.2 The plan consists of 13 sections, seven of these covering the key areas Stadium Transformation, Operator, Naming Rights, Staffing, Overheads, Full Financial Summary, and Opportunities & Risks. Each section of the plan provides sufficient detail to guide staff on the ten year plan and what is hoped to be achieved. Following production of the

E20 Business Plan it is sent to the Members for their review a week prior to the Finance & Audit Committee at the beginning of March. The NLI ensured it aligned with the Newham position. Similarly LLDC ensured the plan flowed into the LLDC's budget and long term financial plan.

3.3 The E20 Business Plan has a dedicated full financial summary section which includes the 2016-17 budget, 10 year business plan income and expenditure projections, working capital requirements, and a summary of payments to/ from West Ham United Football Club (WHUFC). In addition each section of the Business Plan has a financial summary where activities have a financial impact. The Stadium Transformation section contains a discretionary funding subheading which documents the agreed provision of £14.286m for additional stadium works, funded 65% by LLDC and 35% by NLI.

3.4 Budget monitoring is undertaken on a monthly basis by the E20 Business Manager with support from LLDC Finance who provide transactional support services to E20. These meetings are attended by the LLDC Business Partner and Financial Controller on a regular basis along with the Finance Director who attending occasionally. The Finance team review the forecast and cash flow with the E20 Business Manager to ensure they are realistic. The review will include an update from the E20 Business Manager on any actions being undertaken to address issues.

3.5 During the monthly meetings the cashflow is reviewed in detail to highlight any areas where issues may arise with budgets which would require additional working capital contribution requirements from the members. After this review a request for additional funds may be sent to E20 officers and the respective member contacts from LLDC and NLI. The cashflow is based on the E20 Business Plan and updated quarterly. The E20 10 year cashflow is also updated at this point. An E20 bank reconciliation is undertaken on a monthly basis to ensure all monies are appropriately accounted for, where any issues are identified these are discussed and rectified.

3.6 Financial underperformance is actioned and monitored during quarterly financial reviews at the E20 Board and Finance & Audit Committees. The E20 Business Plan is currently underperforming financially which has been highlighted to the Board with options being put in place to try to mitigate these issues. In part, this is due to LS185's financial position; as a result LS185 has been given an improvement plan of 10 steps. The 10 steps were identified following a detailed deep dive on the operator performance. An update on the improvement plan is provided at every Board meeting. The 10 steps are regularly monitored and assigned a Red, Amber, Green (RAG) rating to ensure appropriate actions are taken and there is a clear view of performance improvement following these actions.

3.7 E20 wrote to LLDC and NLI as per the Members' Agreement in June 2016 to request additional working capital for 2016/17. The request for funds was in line with the Members' Agreement obligations, both partners agreed to provide the additional funding.

3.8 An E20 Members' Agreement has been produced which clearly identifies the members' respective roles and responsibilities. The latest version of the agreement is dated 28th October 2015. Key areas of the Members' Agreement include the purpose of the partnership, investment and funding required from NLI and LLDC, accounting procedures and policies, other funding, timing for contributions, subsequent contributions, deadlock events and resolution, serving notices, legacy benefits and events calendar, initial profit share entitlements, and the NLI Drawdown Schedule. Review of the full Members' Agreement confirmed it contained sufficient and clear detail for each member in relation to their roles, responsibilities, delegated authorities, profit share returns and powers.

3.9 Savings and opportunities have all been identified by E20 in the Business Plan and throughout the year at Board meetings. The main focus for E20 is based on opportunities; savings can be made by reducing insurance premiums etc. Throughout the year savings and opportunities are monitored and any new opportunities are identified to ensure E20 are seeking and working on all available avenues.

3.10 Opportunities are constantly reviewed at Board and Finance & Audit Committee level, during these reviews actions are agreed and taken to realise the opportunities. Activities that are not being actively pursued are due to failings which have been identified and actions are being taken to remedy theses. Progress being made against the opportunities and savings are identified as part of the weekly E20 Director Updates.

3.11 Where opportunities are not progressing as expected the mitigating actions employed vary in terms of action type and the length of time in which it will take to pull the underperformance back to the appropriate level. Discussions with key officers during the audit identified five main savings/opportunities which are not at the expected stage. These were naming rights; LS185 failure to generate expected income; the stadium seating system; the handover of the stadium; and the s.43 [redacted]. While these five areas are currently challenging E20 are aware of each case and have put in place actions which are being worked to mitigate these issues.

4. Key Risk Issues for Management Action

4.1 The E20 Business Plan is reviewed and amended on an annual basis, within 40 business days before the end of each accounting period, in line with the requirements set out in section 2.1 (j) of the Members' Agreement. However, discussions with Members identified this process does not does not align with LLDC's or LBN's budget processes. Failure to provide LLDC and LDN with an indicative Business Plan which aligns with their budget setting timings will lead to an increased risk Members' cannot fund the plan as required from their approved budgets.

4.2 The Members' Agreement is reviewed on an ad hoc basis; the latest update was completed in October 2015. Review of the Members' Agreement identified under section 21 (page 36) - Notices, the agreement provides the addresses for the parties to whom notices are to be served. The E20 Board addressee no longer works for E20 or LLDC. Failure to ensure an up to date Members' Agreement is available could lead to an increased risk notices cannot be served appropriately which could lead to a failure to respond within the allocated time frame.

4.3 Key Members from each of the partners (LLDC and NLI) meet regularly at weekly Stadium Executive Group (SEG) meetings. LLDC and LB Newham officers have regular monthly routine meetings at which E20 issues can be raised. The Chief Executives of LBN and LLDC jointly meet regularly with the Director of E20 Stadium LLP, however, they occur of a more informal basis. Failing to hold and attend regular performance meetings of the members could lead to an increased risk of issues or disputes going undocumented which could lead to reputational damage and a breakdown of the Members Agreement. In addition, failure to review E20 performance and financial data between members could result in ineffective monitoring and scrutiny leading to inadequate identification of E20 performance failings.

4.4 While the E20 Business Manager and the LLDC Finance Business Partner review the cashflow in detail to highlight any areas where issues may arise, and the E20 Board and the Finance & Audit Committee are given quarterly financial information related to the E20 Stadium to review and scrutinise, no regular financial information is provided to the Members (LLDC and NLI) on a monthly basis for scrutiny. Failure to update the Members on a monthly basis of the financial data may lead to a lack of understanding in the event working capital requests are raised and data cannot be adequately scrutinise by all members.

5. Summary Table of Recommendations

5.1 The following table summarises the effectiveness of the areas reviewed during the E20 Stadium LLP Budgetary Control audit, the number of recommendations raised and their priorities:

Area of Scope	Overall Effectiveness of Area	Recommendations and Priority		
		High	Medium	Low
E20 Stadium LLP Business Plan	Effective	0	0	0
Budget Performance Reporting	Partly Effective	0	0	1
Partnership Arrangements	Partly Effective	0	2	0
Savings & Opportunities	Effective	0	0	0

1. Annual Business Plan Review - Medium Priority

Rationale	
Finding (paragraph 4.1 refers) The E20 Business Plan is reviewed and amended on an annual basis, within 40 business days before the end of each accounting period, in line with the requirements set out in section 2.1 (j) of the Members' Agreement. However, discussions with Members identified this process does not does not align with LLDC's or LBN's budget processes.	**Recommendation** E20 and Members' will need to review the timings for setting the E20 Business Plan. An indicative plan will need to be sent to Members' during their budget setting processes to ensure funding commitments can be appropriately accounted for prior to budget finalisation and approval.
Risk Failure to provide LLDC and LDN with an indicative Business Plan which aligns with their budget setting timings will lead to an increased risk Members' cannot fund the plan as required from their approved budgets.	**Management Response** Recommendation accepted. E20 has agreed a revised timeline with Members for E20's annual business plan. Future E20 business plans (after the version currently being considered) will be presented to the E20 Board for approval each December (starting in December 2017).

Responsibility	**Martin Gaunt**
Deadline	**December 2017**

2. Review of the Members' Agreement - Medium Priority

Rationale	
Finding (paragraph 4.2 refers) The Members' Agreement is updated as required; the latest update was completed in October 2015. During the audit a review of the Members' Agreement identified under section 21 (page 36) - Notices, the agreement provides the addresses for the parties to whom notices are to be served. The E20 Board addressee is stated as David Thomson who was previously the E20 Interim Director, he no longer works for E20 or LLDC.	**Recommendation** The Members' Agreement will need to be updated to amend the E20 Board key contact for notices. During this review the agreement should be reviewed completely to ensure appropriate.
Risk Failure to ensure an up to date Members' Agreement is available could lead to an increased risk notices cannot be served appropriately which could lead to a failure to respond within the allocated time frame.	**Management Response** Recommendation accepted. Schedule and undertake annual reviews of the Members' Agreement.

Responsibility	Gerry Murphy and s.40 [redacted]
Deadline	June 2017

3. Regular Members Performance Meetings - Medium Priority

Rationale	
Finding (paragraph 4.3 refers) Key Members from each of the partners (LLDC and NLI) meet regularly at weekly Stadium Executive Group (SEG) meetings. LLDC and LB Newham officers have regular monthly routine meetings at which E20 issues can be raised. The Chief Executives of LBN and LLDC jointly meet regularly with the Director of E20 Stadium LLP, however, they occur of a more informal basis. **Risk** Failing to hold and attend regular performance meetings of the members could lead to an increased risk of issues or disputes going undocumented which could lead to reputational damage and a breakdown of the Members Agreement. In addition, failure to review E20 performance and financial data between members could result in ineffective monitoring and scrutiny leading to inadequate identification of E20 performance failings.	**Recommendation** Regular members partnership meetings will need to be formalised to discuss the performance of the agreement and E20 as well as ensuring any members issues or disputes are identified quickly and resolved prior to reaching, in some cases, a deadlock. During these meetings the monthly financial reports as identified in Recommendation 3 should be discussed to ensure members are fully aware of the E20 Stadium LLP financial status on a more regular basis. **Management Response** To be confirmed.

Responsibility	Gerry Murphy and s.40 [redacted]
Deadline	June 2017

4. Monthly Accounting Information for Key Members - Low Priority

<table>
<tr><th colspan="2">Rationale</th><th></th></tr>
<tr><td colspan="2" rowspan="2"><u>Finding</u> (paragraph 4.4 refers)

The E20 Board and the Finance & Audit Committee are given quarterly financial information related to the E20 Stadium which they review and scrutinise. Although both the Board and Finance & Audit Committee receive information on a quarterly basis and the Business Manager reviews the accounts on a monthly basis no financial information is provided to Key Stakeholders (LLDC and NLI) on a monthly basis for scrutiny.

<u>Risk</u>

Failure to update key Members on a monthly basis of the financial data may lead to a lack of understanding in the event working capital requests are raised and data cannot be adequately scrutinise by all Members.</td><td><u>Recommendation</u>

Monthly accounts will need to be produced which include financial information on cashflow and actuals vs forecast. This monthly accounts information should be distributed between key contacts within the Members Agreement (LLDC and NLI) to provide financial transparency.</td></tr>
<tr><td><u>Management Response</u>

The E20 Business Manager has established a process to produce monthly accounts (cashflow position and actuals vs forecast). From February 2017 these are being shared with Members monthly (with the opportunity to meet to run through).</td></tr>
<tr><td>Responsibility</td><td colspan="2">Martin Gaunt (E20 Business Manager) and s.40 [redacted] (LLDC Finance Business Partner)</td></tr>
<tr><td>Deadline</td><td colspan="2">31 March 2017</td></tr>
</table>

Staff Consulted During Review

Name	Job title
Martin Gaunt	E20 Stadium LLP Business Manager
Paul Middlemas	LLDC Director of Finance
Richard Irish	LLDC Financial Controller
[redacted]	LLDC Finance Business Partner
Ian Bright	LLDC Commercial Director
Alan Skewis (optional attendance at close out meeting)	E20 Stadium LLP Director
Gerry Murphy (optional attendance at close out meeting)	LLDC Deputy Chief Executive

Introduction

As part of the London Legacy Development Corporation (LLDC) internal audit plan for 2016/17, we are undertaking an audit of E20 Stadium LLP Budgetary Control Arrangements.

E20 Stadium LLP is comprised of shareholders/ partners; including LLDC, London Borough of Newham, and E20 Stadium LLP operators. LLDC are currently providing subsidiaries to E20 Stadium LLP, this audit is to review the arrangements in place by E20 Stadium LLP to ensure effective processes are in place for the management of budgets and delivery of capital requirements.

Principal contacts

Name	Job title
Martin Gaunt	E20 Stadium LLP Business Manager
[redacted]	Finance Business Partner
Oliver Shepherd	Senior Programme Manager

Audit objective and scope

To review the budgetary control arrangements at E20 Stadium LLP for the delivery of the E20 Stadium Business Plan to generate the income figures and capital requirements in LLDC's 10 Year Plan. In particular we will look at the controls in place covering the development of E20 Stadium LLP's business plan; budget performance reporting; partnership arrangements between LLDC and E20 Stadium LLP; and E20 Stadium LLP's procedures for identifying savings and opportunities.

Key risks

- Inadequate business plan setting processes;
- Failure to establish and operate effective budgets and savings;
- Inadequate performance reporting resulting in ineffective management of budgets;
- Lack of E20 Stadium LLP staff accountability leading to failures in generating income;
- Failure to provide LLDC with agreed capital requirements resulting from inadequate management of Stadium business plan and contracts;
- Ineffective identification of savings through opportunities at the Stadium; and
- Failure to maintain progress towards required delivery of planned budget savings.

Audit Assurance Criteria Definitions

Overall Rating	Criteria	Impact
Substantial	There is a sound framework of control operating effectively to mitigate key risks, which is contributing to the achievement of business objectives.	There is particularly effective management of key risks contributing to the achievement of business objectives.
Adequate	The control framework is adequate and controls to mitigate key risks are generally operating effectively, although a number of controls need to improve to ensure business objectives are met.	Key risks are being managed effectively; however, a number of controls need to be improved to ensure business objectives are met.
Limited	The control framework is not operating effectively to mitigate key risks. A number of key controls are absent or are not being applied to meet business objectives.	Some improvement is required to address key risks before business objectives can be met.
No Assurance	A control framework is not in place to mitigate key risks. The business area is open to abuse, significant error or loss and/or misappropriation.	Significant improvement is required to address key risks before business objectives can be achieved.

Recommendation Criteria Definitions

Agreed Action Priorities	Criteria
High priority rating	Risk issues which arise from major weaknesses in controls that expose the business to high risk of loss or exposure in terms of fraud, impropriety, poor value for money or failure to achieve objectives. Remedial action should be taken urgently.
Medium priority rating	Risk issues which, although not fundamental, relate to shortcomings in control which expose the individual systems to a risk of exposure or loss.
Low priority rating	Risk issues which could be implemented to strengthen the control environment and demonstrate best practice.

E20 STADIUM LLP

Subject: External Audit Plan 2016-17

Meeting date: 21 March 2017

Report to: E20 Stadium LLP Finance and Audit Committee

Report of: Gerry Murphy, Deputy Chief Executive (LLDC)

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1 SUMMARY

1.1 EY has submitted its Audit Plan (attached) for the audit of E20's 2016-17 annual accounts.

2 RECOMMENDATION

2.1 The Committee is invited to **NOTE** the plan for the audit of E20's 2016-17 annual accounts.

3 AUDIT PLAN

3.1 EY has submitted a short report (attached) on its proposed audit approach and scope for the 2016-17 audit, in accordance with the requirements of the auditing standards and other professional requirements.

3.2 The scope of the audit, and the team conducting it, is the same as the previous E20 audit.

3.3 EY has identified the key risks as being:

- Risk of misstatement due to fraud and error – this is routinely included in the scope of every audit engagement.
- Risk of fraud in revenue recognition – this is routinely included in the scope of every audit engagement.
- Stadium valuation – reviewing the work of the property valuers in determining the valuation of the Stadium following completion of the transformation work, consulting with their in-house property valuation team where appropriate.
- Onerous contract provision – E20 management will review its key contracts to determine their profitability in the context of latest forecasts (including retractable seating operational costs) and make a provision for any that are deemed to be onerous – i.e. where the costs of fulfilling the contract exceed the benefits derived. EY will review the reasonableness of any resulting provision against the relevant accounting standards and the associated accounting entries.

EY will seek to validate their risk assessment at this meeting.

3.4 EY define materiality as “the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.” At this stage, they have not stated the amount that they would deem material, instead indicating that it would depend on a number quantitative and qualitative factors considered in the audit itself.

3.5 EY will provide a formal report to the Audit and Finance Committee in July incorporating the outputs from its year-end procedures. The next meeting of the Committee will be timed to allow consideration of this report. Following the conclusion of the audit, EY will prepare a management letter for E20, outlining its comments on any areas where it believes control deficiencies exist, or where improvements can be made.

3.6 EY’s planned audit fee for 2016-17 is £26,000 for the audit, which is consistent with last year.

APPENDICES:
Appendix 1: EY Audit Plan 2016-17

Report originator(s): Richard Irish
Telephone: 020 3288 [redacted] s.40
Email: richardirish@londonlegacy.co.uk

E20 STADIUM LLP

Subject: **Draft E20 Business Plan**

Meeting date: 21 March 2017

Report to: E20 Stadium LLP Finance & Audit Committee

Report of: Martin Gaunt, Business Manager, E20 Stadium LLP

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1. SUMMARY

1.1. The E20 Board is due to consider and agree E20's business plan on 30 March, ahead of its adoption in the new financial year. A working draft is presented to the Committee at this earlier stage to indicate direction of travel. The report drafting is not complete at this stage, and the financial forecasts are firming up (subject to the Committee's views on the assumptions made).

1.2. The draft E20 business plan forecasts very significant losses for E20 in 2017-18, and on into steady state. It forecasts a net loss for E20 of between £19m and £26m in 2017-18, depending on the realisation of known risks and opportunities. The base business plan as currently drafted requests approval of a net loss of £20.098m in 2017-18.

1.3. The forecast position in 2018-19 is a net loss of between £13m and £25m, with the base business plan requesting approval of a forecast loss £14.463m. Under direction from Members, the business plan does not consider the potential for radical changes to improve this position. Unless there are significant changes to operational arrangements, the Concession Agreement, and/or the cost of relocatable seats, annual losses of this scale are forecast to continue.

1.4. The E20 business plan has been prepared at a time of heightened uncertainty in the E20 business. At the time of writing:

1.4.1. The LS185 business plan has not been approved, and LS185 have yet to provide the further information requested by the E20 Chair and Director;

1.4.2. Naming rights discussions with Vodafone are encouraging, but at a fluid and critical stage;

1.4.3. E20's seating contractor is mobilising, and seating budgets are under review;

1.4.4. s.40 [redacted]

1.4.5. There are substantial contractual matters with LS185 unresolved, including handover/defects and disputed costs;

1.4.6. E20 has no up to date information on which to base future facility management costs or stadium lifecycle investment. Holding numbers are used in the draft business plan, until LS185 provide their initial report on 22 March.

1.5. There are other more minor areas of uncertainty, as identified in the draft plan. In this context, there is clearly scope for significant revisions before the business plan goes to the E20 Board for approval. However, it is clear that not all these areas of uncertainty will be resolved by then. As such, the business plan will clearly need to present a snapshot based on the best current information, with a quantification of the outstanding risks and opportunities.

1.6. The Committee could consider delaying the Board's approval of the plan until substantial issues are (more) settled. However, this would have knock-on implications for E20's valuation and accounts.

2. RECOMMENDATIONS

2.1. The Committee is invited to **NOTE** the direction of travel for the business plan, and the potential losses for E20. It is invited to provide any feedback for incorporation into the final version to the Board.

Appendices

Appendix A – One page draft full financial summary (print on A3)

Appendix B – Draft E20 Business Plan

Report originator(s): Martin Gaunt

Email: martingaunt@e20stadium.com

Appendix A: E20 10 year business plan forecast as at 31 March 2017

£000s	2016-17 (prior year comparator)	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	10 year total (2017-18 to 2025-26)
Operator (LS185)												
Fixed costs (base), including:	-5080	-6049	-6230	-6417	-6610	-6808	-7012	-7222	-7439	-7662	-7892	-69342
Base provision for utilities	*-813*	*-1008*	*-1039*	*-1070*	*-1102*	*-1135*	*-1169*	*-1204*	*-1240*	*-1277*	*-1316*	*-11559*
Base provision for Facility Management	*-1692*	*-1984*	*-2044*	*-2105*	*-2168*	*-2233*	*-2300*	*-2369*	*-2440*	*-2514*	*-2589*	*-22747*
Adjustment to fixed costs for higher utilities costs	-1111	-1144	-1179	-1214	-1251	-1288	-1327	-1367	-1408	-1450	-1493	-13120
Adjustment to fixed costs for additional Facility Management (potential outcome of asset survey)	-300	-309	-318	-328	-338	-348	-358	-369	-380	-391	-403	-3542
Other payments to LS185 (contract changes)	-200	-206	-212	-219	-225	-232	-239	-246	-253	-261	-269	-2362
Net Commercial Revenues after Operator share, as forecast in LS185 business plan, including:	-461	3574	3664	5118	5272	5430	5593	5760	5933	6111	6294	52748
West Ham matchdays (excluding catering)	s.43 [redacted]											
Concerts	s.43											
Other Stadium event income	*114*	*750*	*350*	*1900*	*1957*	*2016*	*2076*	*2138*	*2203*	*2269*	*2337*	*17995*
Commercial Partnerships	*113*	*1620*	*2015*	*2060*	*2122*	*2185*	*2251*	*2319*	*2388*	*2460*	*2534*	*21953*
South Park	*860*	*1200*	*180*	*180*	*185*	*191*	*197*	*203*	*209*	*215*	*221*	*2981*
Catering (West Ham and UKA event days)	s.43 [redacted]											
Other	*-58*	*443*	*848*	*876*	*902*	*929*	*957*	*986*	*1015*	*1046*	*1077*	*9079*
Total LS185 before risks or opportunities	**-7152**	**-4134**	**-4276**	**-3060**	**-3151**	**-3246**	**-3343**	**-3444**	**-3547**	**-3653**	**-3763**	**-35617**
Naming Rights												
s.43 [redacted]												
Other operating income and costs												
Fanstallation	20	20	20	20	20	20	20	20	20	20	20	200
Asset disposal (Own the Track)	63	40	0	0	0	0	0	0	0	0		40
West Ham performance payments	0	0	0	0	0	0	0	0	0	0	0	0
West Ham share of catering revenues	s.43 [redacted]											
Minor South Park events (managed by LLDC)	100	10	0	0	0	0	0	0	0	0		10
Matchday costs (non LS185)	-273	-100	-103	-106	-109	-113	-116	-119	-123	-127	-130	-1146
Total Other operating income and costs before risks or opportunities	s.43 [redacted]											
Staffing												
Total Staffing before risks or opportunities	**-363**	**-300**	**-284**	**-292**	**-301**	**-310**	**-320**	**-329**	**-339**	**-349**	**-359**	**-3183**
Overheads												
LLDC Member Services	-124	-138	-124	-128	-132	-135	-140	-144	-148	-153	-157	-1398
Estate charge payable to LLDC	-228	-325	-335	-345	-356	-366	-377	-389	-400	-412	-425	-3731
Estate charge payable by school to E20	0	0	61	101	121	131	141	145	150	154	159	1163
Business rates	-1517	-2100	-2100	-2100	-2295	-2295	-2295	-2508	-2508	-2508	-2740	-23447
Insurance	s.43 [redacted]											
Brand and marketing	-35	0	0	0	0	0	0	0	0	0	0	0
Legal advice	-392	-350	-175	-88	-90	-93	-96	-98	-101	-104	-108	-1303
Accounting advice	-50	-39	-10	0	0	0	0	0	0	0	0	-49
External audit fees	-26	-26	-21	-21	-22	-23	-23	-24	-25	-25	-26	-235
Transport advice	-59	0	0	0	0	0	0	0	0	0	0	
Technical advice	-101	-100	-20	0	0	0	0	0	0	0	0	-120
Event tickets	-100	-72	-74	-76	-79	-81	-84	-86	-89	-91	-94	-827
Total Overheads before risks or opportunities	**-3176**	**-3773**	**-3438**	**-3317**	**-3531**	**-3562**	**-3594**	**-3846**	**-3886**	**-3927**	**-4202**	**-37077**
Seating (liability not agreed between members)												
Contractor transition and maintenance costs	-50	-8670	-6514	-6330	-6247	-6215	-6401	-6593	-6791	-6995	-7205	-67960
Project Management	0	-415	-428	-440	-454	-467	-481	-496	-511	-526	-542	-4760
Capital investment	0	-805	0	0	0	0	0	0	0	0	0	-805
Compensation to stadium users	0	-150	0	0	0	0	0	0	0	0	0	-150
Other (including storage)	0	-216	-209	-271	-279	-287	-295	-304	-313	-323	-333	-2830
Saving required to remain within existing budget	0	257	0	0	0	0	0	0	0	0	0	257
Total Seating before risks or opportunities	**-50**	**-10000**	**-7150**	**-7041**	**-6979**	**-6969**	**-7178**	**-7393**	**-7615**	**-7844**	**-8079**	**-76248**
												0
Lifecycle												0
Lifecycle investment (assets over £10k in value)	0	-2000	-2060	-2122	-2185	-2251	-2319	-2388	-2460	-2534	-2610	-22928
Total Lifecycle before risks or opportunities	**0**	**-2000**	**-2060**	**-2122**	**-2185**	**-2251**	**-2319**	**-2388**	**-2460**	**-2534**	**-2610**	**-22928**
Risks												
Further Facility Management costs (potential outcome of asset survey)	-300	-309	-318	-328	-338	-348	-358	-369	-380	-391	-403	-3542
LS185 underperformance against their business plan	0	-2508	-1899	-1958	-2017	-2078	-2140	-2204	-2270	-2338	-2409	-21822
Payment of London Living Wage	0	-800	-824	-849	-874	-900	-927	-955	-984	-1013	-1044	-9171
"Ipswich Ruling" Policing costs	s.43 [redacted]											
s.43												
No naming rights	s.43											
West Ham relegation	0	0	0	0	-1407	0	0	0	-1583	0	0	-2990
Additional matchday costs (non LS185)	0	-170	-175	-180	-186	-191	-197	-203	-209	-215	-222	-1949
Clean Stadium requirements	0	-150	0	0	0	0	0	0	0	0	0	-150
Failure to secure business rates contribution from West Ham	-150	-200	-206	-212	-219	-225	-232	-239	-246	-253	-261	-2293
Seating requirements exceed cost provision (excluding risk of East Stand move)	0	-1000	-500	-500	-500	-500	-515	-530	-546	-563	-580	-5734
Requirement to move East Stand seats	0	0	-3000	-3000	-3000	-3000	-3090	-3183	-3278	-3377	-3478	-28405
Total risks	**-450**	**-6358**	**-10864**	**-11812**	**-12869**	**-11594**	**-12313**	**-12561**	**-14399**	**-13079**	**-13350**	**-119199**
Opportunities												
Groundshare with another football club	Not modelled as highly uncertain, and E20 has limited control											
E20 share of potential sale of West Ham	Not modelled as highly uncertain, and E20 has no control											
Utilities savings from improved efficiency	0	200	400	412	424	437	450	464	478	492	507	4264
s.43 [redacted]												
West Ham deliver good Premier League performance	0	0	202	0	214	0	227	0	241	0	255	1138
Business rates saving secured via appeal	0	400	412	424	437	450	464	478	492	507	522	4586
Insurance premium savings	s.43 [redacted]											
Seating project management savings	0	0	200	206	212	219	225	232	239	246	253	2032
Total opportunities	**0**	**1050**	**1727**	**1620**	**1882**	**1718**	**1997**	**1823**	**2118**	**1934**	**2247**	**18117**
Overall position												
E20 net position before risks and opportunities	**-11116**	**-20098**	**-14463**	**-12281**	**-13091**	**-13296**	**-13251**	**-13914**	**-14378**	**-14856**	**-15581**	**-145210**
E20 net position after opportunities, before risks	**-11116**	**-19048**	**-12736**	**-10661**	**-11209**	**-11578**	**-11254**	**-12091**	**-12260**	**-12922**	**-13334**	**-127093**
E20 net position, after risks, before opportunities	**-11566**	**-26455**	**-25328**	**-24093**	**-25960**	**-24891**	**-25564**	**-26475**	**-28778**	**-27935**	**-28931**	**-264410**