



National Audit Office

**REPORT BY THE  
COMPTROLLER AND  
AUDITOR GENERAL**

**HC 298  
SESSION 2009–2010**

**26 FEBRUARY 2010**

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# Preparations for the London 2012 Olympic and Paralympic Games: Progress report February 2010

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National Audit Office

# Preparations for the London 2012 Olympic and Paralympic Games: Progress report February 2010

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Amyas Morse  
Comptroller and  
Auditor General

National Audit Office

24 February 2010

The 2012 Olympic and Paralympic Games were awarded to London in July 2005. With just under two and a half years left, this report examines the progress made at a point in the programme where the focus is shifting from construction of the venues to planning for the Games themselves.

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The National Audit Office study team  
consisted of:

Hugh O'Farrell, Chris Jamieson,  
Hedley Ayres and Matthew Cain, under  
the direction of Keith Hawkswell

This report can be found on the  
National Audit Office website at  
[www.nao.org.uk/olympics10](http://www.nao.org.uk/olympics10)

For further information about the  
National Audit Office please contact:

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

Tel: 020 7798 7400

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

# Summary

1 The Government's preparations and management of the £9,325 million public funding for the London 2012 Games announced in March 2007 are led by the Department for Culture, Media and Sport. The Department, through its Government Olympic Executive (the 'Olympic Executive'), is working with a range of delivery bodies, in particular:

- the Olympic Delivery Authority (the 'Delivery Authority'), responsible for the construction of new venues and infrastructure required to host the Games;
- the London Organising Committee of the Olympic Games and Paralympic Games (LOCOG), the liaison point for the International Olympic Committee on the preparations for the Games, and responsible for staging the Games and for some temporary venues;
- the Mayor of London, who is signatory to the Host City Contract with the International Olympic Committee; and
- other Government departments, notably the Home Office, Communities and Local Government, and the Department for Transport.

2 The 2012 Olympic and Paralympic Games were awarded to London in July 2005. With just under two and a half years left, this report examines the progress made at a point in the programme where the focus is shifting from construction of the venues, (while recognising there is much construction work to be completed) to planning for the Games themselves. It takes account of three earlier reports by both the Committee of Public Accounts<sup>1</sup> and the National Audit Office<sup>2</sup>, the latest report being published in mid-2008.

1 <http://www.publications.parliament.uk/pa/cm200607/cmselect/cmpubacc/377/377.pdf>  
<http://www.publications.parliament.uk/pa/cm200708/cmselect/cmpubacc/85/85.pdf>  
<http://www.publications.parliament.uk/pa/cm200708/cmselect/cmpubacc/890/890.pdf>

2 [http://www.nao.org.uk/publications/0607/preparations\\_for\\_the\\_olympics.aspx](http://www.nao.org.uk/publications/0607/preparations_for_the_olympics.aspx)  
[http://www.nao.org.uk/publications/0607/olympics\\_2012\\_budget.aspx](http://www.nao.org.uk/publications/0607/olympics_2012_budget.aspx)  
[http://www.nao.org.uk/publications/0708/preparations\\_for\\_london\\_2012.aspx](http://www.nao.org.uk/publications/0708/preparations_for_london_2012.aspx)

**3** The primary focus of our work was the Olympic Executive and the Delivery Authority. We examined:

- progress across the Delivery Authority's construction programme;
- progress in other important areas of the London 2012 programme, including the Olympic Executive's oversight of LOCOG; and
- management of the Games budget.

Appendix 1 sets out our scope and methods.

## **Key Findings**

### **On progress across the Olympic Delivery Authority's construction programme**

**4** Despite the economic downturn the Delivery Authority has maintained good progress across its programme and is on track for delivery well before the Games. While risks inevitably remain, good practice and lessons for other public bodies are evident in how the Delivery Authority's monitoring and active intervention in its supply chains has protected its delivery programme from delays through contractor financial distress and insolvency.

**5** A clear value for money case was made for the decisions in 2009 to publicly fund the Village and Media Centre projects, with forecast gross costs of £1,126 million and £334 million respectively as at December 2009. Both are affordable within the current budget for the Games as a result of reduced scope, the use of contingency funds and savings elsewhere in the Delivery Authority's programme and, for the Village, forecast income from future sales of housing units. Despite the uncertainty over financing, the Delivery Authority maintained progress on the two projects.

**6** From the outset it has been difficult to reconcile Games-time requirements for the Media Centre with a viable use after the Games. Its location in the north west corner of the Olympic Park, away from the main public transport hub at Stratford, is a potential challenge to achieving the legacy aim of employment creation, at least in the short term. This challenge now falls to the Olympic Park Legacy Company (the 'Legacy Company' – paragraph 9).

## On progress across the wider London 2012 Programme

**7** Successful staging of the Games depends on the effective coordination of the activities of multiple delivery bodies. During 2009 the Olympic Executive made progress in establishing the work needed to bring together the plans of the various delivery bodies and develop an integrated programme. The aim is for testing to start in early 2011.

**8** Since we last reported the Home Office has prepared costed plans for policing and wider security, but important decisions on scope and costs remain to be resolved with the other delivery bodies with security responsibilities.

**9** During 2009 the Olympic Park Legacy Company was formed to take responsibility for delivering a positive legacy from the Olympic Park. The Legacy Company is building its capacity and working with its founder members to resolve its financing.

## On managing the costs of London 2012

**10** As at December 2009, the Delivery Authority had allocated £702 million of Programme and Funders' contingency (contingency is explained in Appendix 2), largely to cover the decisions to publicly fund the Village and Media Centre after it became clear private funding could not be secured on acceptable terms. According to the Olympic Executive and Delivery Authority risk assessments the remaining £1,270 million contingency is sufficient to manage risks to the Delivery Authority's programme. The Committee of Public Accounts stressed in its April 2008 report on the budget for the London 2012 Games that there should be no assumption that the entire contingency will be used.

**11** At this stage the Games remain on track for delivery to budget. Against its November 2007 baseline of £7,095 million, the Delivery Authority is forecasting costs of £7,262 million (which is within the £8,099 million potentially available to the Delivery Authority, allowing for contingency), depending on the underpinning assumptions holding good, including future receipts from the Village. However, there are cost pressures which could require further calls on contingency. For example, in January 2010 the Olympic Projects Review Group noted the potential need for additional contingency funding of up to £160 million for previously unplanned work to maintain, operate and secure the Olympic Park between completion and handover to the post Games operators in 2013.

**12** The Government is the ultimate guarantor to the International Olympic Committee against any shortfalls in LOCOG's revenues. LOCOG is ahead of schedule in securing income, an important achievement in the current economic climate. To manage the risk of LOCOG ending in a deficit position after the Games, LOCOG is working closely with the Olympic Executive to produce a balanced budget with a funded contingency. LOCOG will present the next version of its lifetime budget by October 2010. As part of this work, uncertainties between LOCOG and other delivery bodies over scope and budgetary responsibilities need to be resolved.



## Conclusion on value for money

**13** We see value for money being achieved if the facilities and other inputs to the Games come together when needed, to the required specification and within budget, the Games are successfully delivered, and the intended legacy benefits are achieved.

**14** On current indications the Delivery Authority's construction programme should be delivered on time. Following the onset of the economic downturn the Delivery Authority has had to take on the costs of the Village and Media Centre, which has had a significant financial impact on the programme and required the utilisation of savings and a large call on contingency. While managed within existing budgets, there is less contingency now available to meet both emerging and unforeseen costs. On current forecasts, and if current assumptions and contingency assessments hold true, the London 2012 Programme will be delivered within the £9,325 million public funding for the Games. There are, however, pressures on costs and income and as the Games approach there will be less flexibility to adjust the programme in response, with the risk that all the remaining contingency will be required.

**15** LOCOG is intended to be self-financing. Avoiding a call on the Government guarantee requires LOCOG to deliver within a balanced budget and work is progressing. As part of this process outstanding issues of scope and cost between LOCOG and other delivery bodies need to be resolved. To do this there must be clarity about what the Government is required to deliver to meet its commitments.

**16** Successful delivery of the Games, including the intended legacy benefits, requires the Olympic Executive and the delivery bodies to develop an effective and fully integrated programme. Work to integrate some elements of the programme necessary for the Games themselves has progressed well, but further progress is required before we can be confident that planning and delivery, including for legacy, have been gripped. In particular there is a need for clarity and agreement on scope, costs, budgets and responsibilities, so all delivery bodies can proceed with certainty for the collective and shared benefit of the programme. The need to resolve outstanding uncertainties is fully recognised by the Olympic Executive and the delivery bodies, and a priority for 2010.

## Recommendations

**17** Acknowledging that the Olympic Executive, the Delivery Authority and LOCOG are doing work in these areas, the following matters require particular attention:

- a** **Preparing for the Games is a highly complex undertaking, which depends on the coordination of contributions of multiple organisations.** With just under two and a half years to go the Olympic Executive, working with others, needs to complete the integration of the work streams required for successful delivery of the Games in time for testing in 2011. This includes fully implementing effective assurance arrangements to enable the Olympic Executive to assess progress. Integration requires clarity and agreement on the precise scope of what each delivery organisation must deliver, the costs involved and the budgets available.

- b** **There have been large calls on contingency, and although on current assessments there is sufficient left, there is potential for further cost pressures.** There is now less contingency to manage risks across the programme, and less flexibility to make savings in response to financial pressures as the Games approach. Tight control over the remaining contingency should continue to be maintained through the arrangements set out in Appendix 2.
- c** **The Village is only affordable within its current budget if future sales forecasts are achieved.** The Delivery Authority should, as planned, periodically update its market analysis to revalidate its sales strategy and forecasts, and maintain up to date plans for how it would respond in the event of any shortfall in estimated sales revenues.
- d** **It is proving difficult to resolve the legacy use of important publicly funded assets, notably the Media Centre and Main Stadium.** Responsibility now rests with the Legacy Company. The Legacy Company should set out a clear plan for mitigating the costs of maintaining assets after the Games. Securing long term legacy usage should remain the priority.
- e** **The Government has always been financially exposed should LOCOG's costs exceed its income.** LOCOG is continuing to refine its lifetime budget, working with the Olympic Executive, and will present the next version of its lifetime budget by October 2010. The budget should have robust assumptions on revenue and expenditure, a funded contingency and be balanced. We intend to examine whether the risks to public money are being managed effectively so we can provide Parliament with independent assurance.
- f** **The Delivery Authority is a temporary organisation set up to deliver the Games, with assets and liabilities which will need to be managed beyond its lifetime.** The Olympic Executive should finalise plans for post Games management of assets and liabilities, having regard to the need to avoid adverse impact on the Legacy Company's ability to fulfil its objectives.

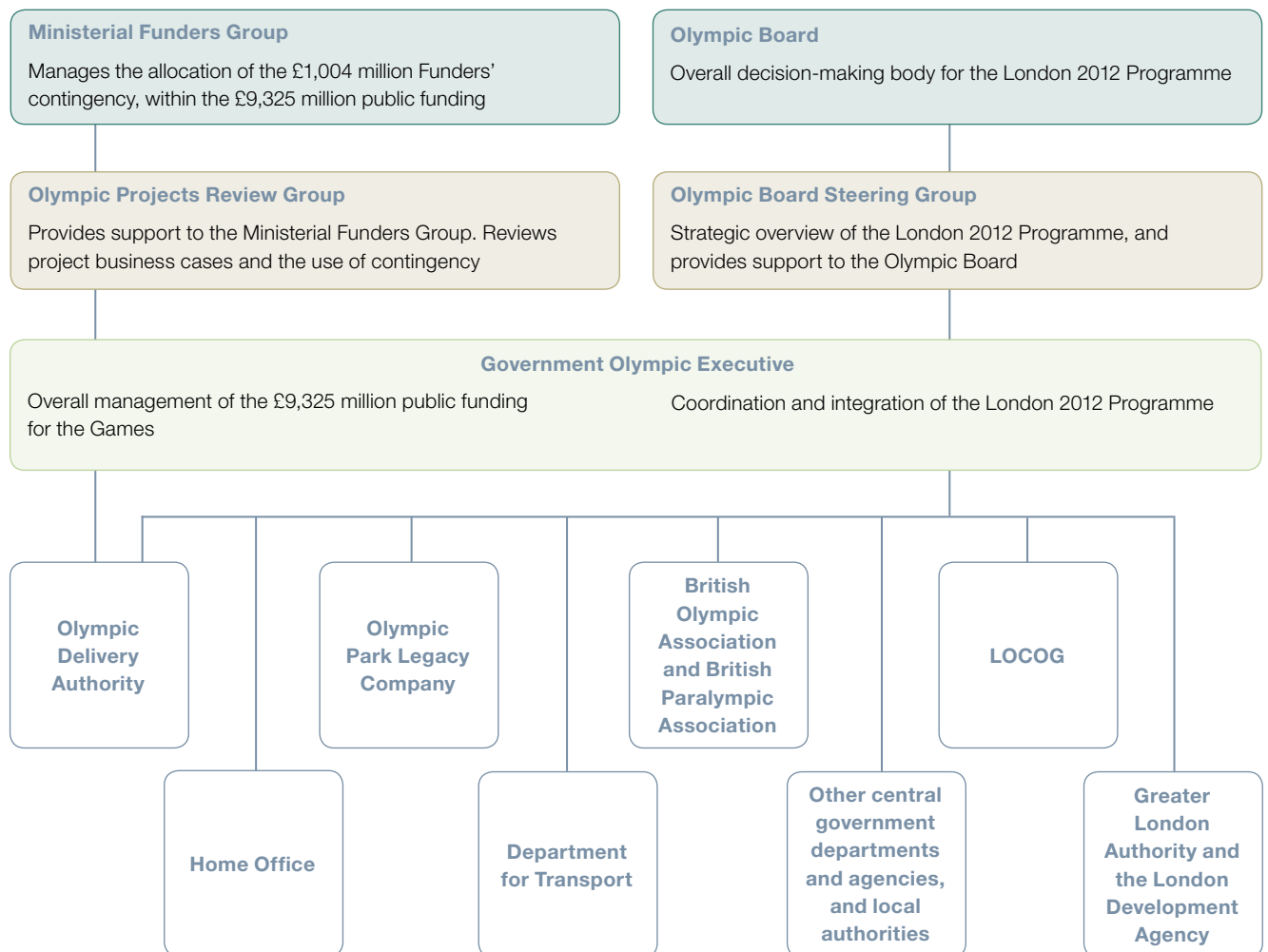
# Part One

## Introduction

1.1 A wide range of organisations and groups is involved (**Figure 1**).

**Figure 1**

The main London 2012 delivery and decision-making bodies



Source: National Audit Office

**1.2** In March 2007 the Minister for the Olympics announced that the budget for the Games would be £9,325 million including a £2,747 million provision for contingency (Appendix 2). The Exchequer was to contribute £5,975 million, the National Lottery £2,175 million, the Greater London Authority £925 million, and the London Development Agency £250 million. In November 2007 a detailed baseline budget for the Delivery Authority was agreed by the Ministerial Funders Group<sup>3</sup>.

**1.3** There are other costs associated with delivery of the Games which sit outside of the £9,325 million. In particular, LOCOG's £1,949 million budget for staging the Games, the purchase of the land for the Olympic Park by the London Development Agency, and the costs incurred by government departments and their agencies on Olympic related work, including the costs of the Olympic Executive.

**1.4** The delivery of the Games also depends on non-Olympic projects, in particular some £5,000 million of transport enhancements around London and across the UK being delivered by the Department for Transport and its delivery partners.

<sup>3</sup> The Ministerial Funders Group was established to manage the allocation of Funders contingency. It is chaired by the Chancellor of the Exchequer and includes the Minister for the Olympics, the secretaries of State for Transport and for Communities and Local Government and the Chief Secretary to the Treasury. The Mayor of London also attends. Further details on the management of contingency are in Appendix 2.

# Part Two

## Progress across the Olympic Delivery Authority's Construction Programme

### Progress against programme milestones and forecasts

**2.1** The Delivery Authority's Programme Baseline of November 2007 set out the scope, expected costs, cash flow, risks, assumptions and key milestones for each of its projects, and is the basis against which its costs will be reported for the life of the programme. The scope of some projects has changed and new ones have been added, with all changes requiring approval by the Delivery Authority's Change Control Board, which is attended by the Olympic Executive, and material changes reported to the Olympic Projects Review Group.<sup>4</sup> Changes requiring a call on contingency are subject to approval under the arrangements set out in Appendix 2.

**2.2** The Delivery Authority reports the anticipated final cost of its programme each quarter to reflect approved changes, cost pressures and savings opportunities. During the second half of 2009, the Delivery Authority produced a detailed report setting out the scope and cost of each project to reflect all changes to the Programme since November 2007.

**2.3** As at December 2009 the Delivery Authority had completed 49.4 per cent of its capital programme against a target of 50.3 per cent. The capital programme includes Olympic venues and infrastructure, capital transport projects, the Olympic Village and post Games venue transformation work.

**2.4** The Delivery Authority has agreed completion dates for handover to LOCOG. All 17 main construction and infrastructure projects are planned to complete to this timetable. Three have been completed. The Delivery Authority has also set itself more challenging target completion dates to accommodate any potential slippage in its delivery programme. Of the remaining 14 projects, seven are on target to meet these dates, while seven will be completed after them but in time for handover. Achieving handover dates is important to allow sufficient time for the preparation ('fit out') of the venues for the Games, where this is not the responsibility of the Delivery Authority, and for testing and other preparations necessary before the Games.

<sup>4</sup> The Olympic Projects Review Group was established to review project business cases and the use of contingency funding. It is chaired by the Olympic Executive, and consists of representatives from the funders of the Games and other key stakeholders.

**2.5** By December 2009 the Delivery Authority's expenditure was £3,234 million, £722 million (18 per cent) less than its forecast in the November 2007 baseline. The difference is explained by cost savings and approved changes to projects that, on the Delivery Authority's current estimates, should not affect construction completion and handover dates. The Delivery Authority's critical procurements have been delivered to schedule or are on track to be delivered as planned.

**2.6** The Delivery Authority is scheduled to wind up in March 2014, following its conversion of the Olympic Park and venues for legacy use. The Delivery Authority and the Olympic Executive expect to have an agreed exit strategy no later than December 2010 as stipulated in the Authority's Management Statement. Until then it will be unclear who will assume responsibility for the Delivery Authority's assets, liabilities, rights and obligations.

## Changes to the Village and Media Centre projects

**2.7** **Box 1** outlines the Village and Media Centre projects. The projects were originally to be delivered by private developers appointed to secure private finance towards the costs of the projects and for the developers to retain an interest in the assets after the Games. With the onset of the economic downturn it became increasingly clear that it would be difficult to secure private sector involvement and funding on terms which provided value for money to the public sector. During the course of 2009 the Ministerial Funders Group gave approval for public funding for the two projects, including an application to the Olympic Lottery Distributor for the lottery funded share.

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### Box 1

#### The Olympic Village

Part of the wider Stratford City regeneration in East London and sited adjacent to the Olympic Park. Will house 17,000 athletes and officials. Mainly comprises 68 apartment blocks across 11 residential plots, which will, when the Games are over, be converted into 2,818 homes, including up to 1,379<sup>1</sup> affordable homes.

#### The Media Centre

Designed to provide a secure and modern facility during the Games for around 20,000 journalists and broadcasters. Consists of three projects: the International Broadcast Centre, which will provide studio space; the Main Press Centre, which will be office space for journalists; and a 1,300 space multi-storey car park.

#### NOTE

<sup>1</sup> The agreement with Triathlon Homes (paragraph 2.10) includes an arrangement whereby the Delivery Authority is entitled to require up to 264 of the 1,379 affordable housing units to be sold as private sales after the Games.

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**2.8** **Figure 2** compares the Delivery Authority's November 2007 budget for the Village and Media Centre with its December 2009 forecast. At November 2007:

- Village: the Delivery Authority's budget did not include costs for the Village construction, which was assumed to be wholly funded by a private developer, with a gross investment of around £1.5 billion.
- Media Centre: £160 million was expected to come from a private developer, with the Delivery Authority contributing £220 million of the £380 million gross cost.

**Figure 2**

The Delivery Authority's November 2007 baseline for the Village and Media Centre and its December 2009 forecast

All figures in £ million, inclusive of VAT	November 2007 baseline	Revised budget approved by funders in 2009	Latest forecast of potential costs December 2009
<b>Village and Stratford City land and infrastructure</b>			
Land and infrastructure – public sector funding	522	553	560
Estimated share of profits from post Games development	(250)	(250)	(100) <sup>1</sup>
<b>Net Olympic Delivery Authority budget</b>	<b>272</b>	<b>303</b>	<b>460</b>
<b>Village development</b>			
Village construction and sales (gross) costs	0	1,095	1,126 <sup>2</sup>
Agreed sale of 1,379 units to Triathlon Homes	0	(268)	(268)
Estimated receipts from private sales – to fund construction	0	(177)	(177)
Village development – sub total	0	650	681
Estimated receipts from private sales – to repay funders	0	(324)	(324)
<b>Net Olympic Delivery Authority budget</b>	<b>0</b>	<b>326</b>	<b>357</b>
<b>Media Centre<sup>3</sup></b>			
Media Centre	220	355	334
<b>Net Olympic Delivery Authority budget</b>	<b>220</b>	<b>355</b>	<b>334</b>
<b>Total net cost to the Olympic Delivery Authority</b>	<b>492</b>	<b>984</b>	<b>1,151</b>

Source: National Audit Office

**NOTES**

- 1 See paragraph 4.10.
- 2 Increased costs include site security improvements and enhancements to specifications.
- 3 Land and infrastructure costs are not separately identified for the Media Centre because, unlike the Village, it is located on the Olympic Park where land purchase costs have been met by the London Development Agency, and infrastructure costs are met from the Delivery Authority's site preparation and infrastructure budget for the entire Olympic Park.

**2.9** In May 2009 the Delivery Authority submitted a clear and well evidenced value for money case to the Ministerial Funders Group for a publicly funded approach for the Village, based on an appraisal of the preferred developer's offer against a public sector comparator and drawing on a range of independent expert advice. The Funders Group's approval recognised that the Delivery Authority would not be able to secure private funding on terms that represented value for money, and would now have to take on risks that previously would have rested with the preferred developer, Lend Lease, such as the uncertainty over future sales revenue of the Village units (paragraph 4.11).

**2.10** When the funders approved the decision to publicly fund the Village construction, it was estimated to cost £1,095 million, of which £650 million was agreed to be from funds available to the Delivery Authority, including contingency (paragraph 4.6). The remaining funding is to be from receipts from the sale of Village housing units:

- £268 million from the agreed sale of 1,379 units to Triathlon Homes (a consortium of two Registered Social Landlords and an urban development and investment company). Triathlon Homes have been supported by a grant from the Homes and Communities Agency of £110million; and
- £177 million from future private sales. The Funders Group's agreement to release contingency assumed £324 million of the receipts from private sales would be returned to funders after the Games, meaning £501 million will be needed from private sales. The Delivery Authority received independent assurance from professional property advisors confirming that the value of receipts is achievable.

At December 2009 the forecast gross cost to develop and sell the Village was £1,126 million. Assuming the receipts set out above, the net cost to the Delivery Authority is £357 million.

**2.11** In October 2008 the Delivery Authority terminated the deal with the developer for the Media Centre because it considered that the developer's offer did not represent good value for money. The main justification presented to the Delivery Authority Board and Olympics Projects Review Group was that the developer had significantly reduced its proposed funding contribution and the overall costs of the project had increased, which would have required the Delivery Authority to increase its contribution. When the Funders Group gave approval to publicly fund the Media Centre it was estimated to cost £355 million. At December 2009 the forecast had reduced to £334 million.

**2.12** The Delivery Authority identified ways to reduce the scope and costs of both projects:

- The Village is now smaller than originally planned (2,818 housing units instead of 3,700). This will require some temporary modifications to the accommodation, but still meets the International Olympic Committee's requirements.
- The Media Centre cost was reduced by introducing some temporary elements to the design and reducing the scope to focus predominantly on Games time requirements, although an element of 'future-proofing' has been incorporated into the design of the International Broadcast Centre to provide more flexibility for legacy use.



**2.13** Despite the funding uncertainty, the Delivery Authority had a clear focus on the immovable deadline and the need to keep the two projects on track, securing early release of Funders Group contingency to allow preparation of the Village site to continue whilst negotiations with the preferred developers were ongoing.

**2.14** The Delivery Authority has retained Lend Lease on the Village in a project management capacity for the development as a whole. Lend Lease has appointed its subsidiary, Bovis Lend Lease, as the managing contractor on five of the eleven residential plots. On the Media Centre, Carillion, the construction partner in the Delivery Authority's preferred development consortium, Carillion-Igloo, has been retained as the main contractor. In both cases the companies were originally appointed via a competitive process and had developed a detailed understanding of the projects and were already progressing construction. Replacing them would have involved significant delay and cost. In the case of the Village, in 2009 following the decision to publicly fund the project, the Delivery Authority competitively tendered the remaining six plots to benefit from competitive market conditions and reduce its reliance on one contractor on such a large project.

**2.15** The legacy use of the Village for residential accommodation is clear, and an estate management company has been established by the Delivery Authority and Triathlon Homes to manage the residential development after the Games.

**2.16** On the Media Centre the main challenge has been finding a viable legacy use that meets the Government's aspirations for job creation after the Games. While options were considered, the decision to locate the Media Centre in the north west corner of the Olympic Park was determined by security, cost, and operational considerations and the desire to create local employment opportunities. Its location, away from the main public transport hub of Stratford, is a potential challenge to the commercial viability of any future legacy use. Determining the legacy use of the Media Centre is now the responsibility of the Olympic Park Legacy Company (paragraph 3.9).

### **Managing the heightened risk to delivery from contractor insolvency and financial distress**

**2.17** Since the onset of the economic downturn the Delivery Authority has faced a heightened risk of delay and increased costs as a result of one or more of its main contractors experiencing financial distress or becoming insolvent. To date the Delivery Authority's programme has not been delayed by contractor insolvency or financial distress, nor have any of its critical contractors become insolvent. As the Delivery Authority recognises, however, economic conditions remain uncertain and the risk remains high.

**2.18** From the outset the Delivery Authority placed a strong emphasis on selecting financially stable contractors; and operating design development, project management and change control processes to minimise the risk of creating or failing to identify unnecessary financial pressure on contractors. The Delivery Authority also implemented a counter insolvency strategy including:

- establishing a senior level 'Insolvency Management Team' to assess contractors' financial health and market trends and initiate interventions where necessary;
- enhanced (daily) monitoring and analysis of the financial standing of prospective and existing contractors, plus any market trends that might impact on them;
- tightening the financial security and protection in its contracts with suppliers, including increased use of vesting certificates<sup>5</sup> to protect key supplies; and
- developing contingency plans for the event of a major supplier suffering financial difficulties or insolvency.

**2.19** The Delivery Authority has made over 100 interventions, including accelerated payment to contractors and requests to main contractors to reconsider their choice of partner contractor (in around 80 per cent of these cases the main contractor changed its choice of partner).

5 Vesting certificates confirm the construction client's entitlement to specific goods, materials or work in progress held at a contractor or suppliers' premises.

# Part Three

## Progress across the wider London 2012 Programme

### Policing and wider security

**3.1** Management of the Olympic Safety and Security Programme, which covers the policing and wider security for the Games, is the responsibility of the Home Office. A £600 million provision and £238 million contingency are within the £9,325 million public funding for the Games, and are distinct from the Delivery Authority's Olympic Park site security (currently expected to cost £322 million, which is within the budget for 'other parkwide projects' in Figure 4 on page 23) and LOCOG's Games time in-venue responsibilities.

**3.2** Our last report in June 2008 highlighted delays in developing the security strategy and a fully costed plan. The Committee for Public Accounts was informed in July 2008 that the Home Office expected to deliver a fully costed security programme plan by the end of 2008.

**3.3** By February 2009 the Home Office had prepared an overarching Olympic and Paralympic Safety and Security Strategy for the Government, LOCOG, the Olympic Delivery Authority and the multiple police forces and other agencies involved in security. It also prepared an overall Concept of Operations. The Home Office has overall responsibility for implementing the security strategy.

**3.4** During 2009 the programme plans have been further developed, and costed, and an investment board to review and approve the budgets for security project business cases has been established. So far the agencies leading each project have secured approval from the investment board for 5 out of 26 planned business cases. The lead agencies seek financial approval for business cases shortly before projects begin incurring expenditure. This means that uncertainty remains about the final potential programme costs. However, the Home Office considers that this is necessary to provide it with flexibility to respond to changing circumstances. The Home Office and LOCOG have not yet agreed the precise responsibilities, scope and costs for venues security operations across the whole programme, including the main transport hub and Village site at Stratford. The Delivery Authority is also involved in negotiations with the Home Office and LOCOG on Olympic Park security. Work is in hand, facilitated by the Olympic Executive, to provide the necessary definition and fully agree responsibilities.

**3.5** Assurance arrangements to assess capabilities and capacity, and test the alignment of security projects with ongoing security risk assessments, are being developed. Two major testing and rehearsal exercises are planned in the first half of 2010 and the assurance arrangements are planned to be fully implemented by the end of the year.

### **Development of the transport network**

**3.6** The Delivery Authority's November 2007 baseline included £534 million of capital investment in London's transport infrastructure, including enhancements to the capacity of Stratford Regional Station and the Docklands Light Railway. These projects are on schedule and in December 2009 were forecast to be completed for £508 million.

**3.7** The Delivery Authority's November 2007 baseline also included £363 million for transport operations up to and during the Games. The Delivery Authority has analysed transport demand during the Games and the anticipated final cost at December 2009 was £327 million.

**3.8** The Department for Transport is accountable for a wider range of road and rail infrastructure projects. These projects are not being delivered specifically for the Games but are essential to their success. The cost of these projects is some £5,000 million, and is separate from the £9,325 million public funding for the Games. Projects include upgrading the main rail links to the Olympic venues such as the West Coast mainline and the Channel Tunnel Rail Link, and the widening of parts of the M25. The Department of Transport is forecasting all the projects to be completed in time for the Games. Transport for London is accountable for further projects not being delivered specifically for the Games, but essential to their success.

### **Securing a lasting legacy from the Olympic Park**

**3.9** A lasting legacy for the Olympic Park is crucial to the delivery of the Government's legacy commitments<sup>6</sup>, in particular that the Olympic Park will be a blueprint for sustainable living and help to transform the heart of East London. In May 2009 the Olympic Park Legacy Company (the 'Legacy Company') was formed to take over lead responsibility for the Olympic Park legacy from the London Development Agency, including finalising the legacy use of the Media Centre and Main Stadium. It is also to deliver the Legacy Masterplanning Framework, the strategy for transforming the Olympic Park after the Games and integrating it with surrounding communities. Publication of the Framework was scheduled for the end of 2009; the Legacy Company is reviewing the Framework and aims to complete its review in April 2010.

<sup>6</sup> The government published its five Olympic Legacy promises in commitments in June 2007, and its detailed Legacy Action Plan in June 2008 ([http://www.culture.gov.uk/reference\\_library/publications/5161.aspx](http://www.culture.gov.uk/reference_library/publications/5161.aspx)).

**3.10** The founder members of the Legacy Company are the Mayor of London, the Minister for the Olympics, and the Secretary of State for Communities and Local Government. Accounting Officer responsibility for the Legacy Company within Government rests with Communities and Local Government. The Chair and Chief Executive and most of the senior executive team have been appointed, and they are currently recruiting staff, in addition to those transferring from the London Development Agency.

**3.11** Discussions are underway on transferring control of the Olympic Park land owned by the London Development Agency to the Legacy Company. A decision is expected in early 2010 about whether the freehold to the land will be transferred to the Legacy Company, or whether the Legacy Company will have control of the land with the London Development Agency retaining the freehold. Also in early 2010, the Government expects to reach agreement with the London Development Agency on the related issue of the management of the debt incurred by the London Development Agency in acquiring the land.

**3.12** The Legacy Company's operating costs are not part of the £9,325 million public funding for the Games and are currently funded by the London Development Agency and Communities and Local Government. The Legacy Company is currently working to a preliminary delivery plan, based on previous financial modelling work carried out with the founder members and HM Treasury, and its first corporate plan is scheduled for completion in Summer 2010.

**3.13** The Delivery Authority is responsible for converting the Olympic Park and venues for use after the Games. The Delivery Authority's budget includes £350 million ring-fenced to cover this work, including £38 million of Programme contingency. The scope and specification of the work has been agreed by the Olympic Projects Review Group, of which the Legacy Company and the London Development Agency are members. The Delivery Authority submitted planning applications for the work in December 2009.

### **Developing a well coordinated and fully integrated London 2012 programme**

**3.14** In July 2008 the Committee of Public Accounts recommended that the Department for Culture, Media and Sport produce a "programme plan that brings together the key activities of the delivery organisations and identifies any overlaps, gaps or critical dependencies between different elements of the programme." The Olympic Executive presented its first version of this plan to the Olympic Board in September 2008. Since then, partly as a result of lessons learnt from its observation of Games-time operations in Beijing in 2008, the Olympic Executive has focused closely on developing its planning for the delivery of the Games themselves.

**3.15** Up to 2009, the London 2012 programme was characterised by individual organisations focusing on specific elements of the programme for which they are responsible, such as construction, security and transport. Successful delivery of the programme, however, requires integration and coordination across its various activities. For example, successful staging of the Games themselves, which is being led by LOCOG, requires the transport system to be secure and operating effectively, so for the Games to be staged successfully, staging, transport and security plans need to be integrated.

**3.16** The Olympic Executive is working to achieve greater integration across the programme, and has established seven cross-cutting work streams which are critical to the operational success of the Games themselves (**Figure 3**). At the end of December 2009 the Olympic Executive had identified the lead bodies for these seven cross-cutting work streams, and made progress in establishing the governance arrangements, agreeing implementation plans and putting in place the necessary resources. Challenges remain, including:

- City Operations (London) has proved challenging to progress because of the complex inter-dependencies with other areas, particularly transport. In October 2009 the Greater London Authority recruited a programme Director to lead the City Operations programme. A recruitment process for other senior roles has been completed. In the interim, at the request of the Greater London Authority, the Olympic Executive seconded staff from its Programme Integration and Assurance team to the Greater London Authority to help progress planning for City Operations.
- Although the plans for the testing programme are not yet finalised, the testing is broadly scheduled to begin in early 2011. The Olympic Executive confirmed that preparation of plans is being given high priority.
- Only the Command, Coordination and Communication cross-cutting work stream has an assurance plan in place, though the Olympic Executive expects the remaining assurance plans to be in place by the end of May 2010. Assurance plans allow the Olympic Executive to assess whether plans are being delivered on time in ways that maximise the prospect of successful delivery.

**3.17** Until recently planning has depended upon cross-organisation cooperation and consensus. The Olympic Executive recognised, however, that as the Games approach and budgetary and delivery pressures increase, consensus could collapse. The Olympic Executive has proposals for a decision-making body which would have overall executive authority for Games-time operations. This body would be a sub group of the Olympic Board Steering Group and would comprise LOCOG's recently appointed Director of Games Operations and the respective Operations Directors for integrated delivery of transport, security, Government Operations, City Operations and Nationwide Operations.

**Figure 3**

## The London 2012 operational 'cross-cutting' work streams

Work stream	Lead organisation	Purpose
Command, Coordination and Communication	LOCOG	Delivering a command, coordination and communication centre for the Games to provide the delivery bodies with Games-time guidance and direction.
City Operations (London)	Greater London Authority	Running London during the Games, taking account of the impact on the wider London transport network and the staging of other events in the city.
Government Operations	Government Olympic Executive	Preparing public bodies, including those not responsible for delivery of the Games, for the change in demand for services that the Games will bring about.
Nationwide Operations	Government Olympic Executive	Preparing the areas of the UK outside London which are, for example, hosting Olympic events and athletes' training camps to deliver effectively.
Integrated testing	LOCOG	Delivering an effective and coordinated programme of testing (scheduled to start in March 2011).
Transport	Delivery Authority	Coordinating the transport network in London and across the country during the Games.
Security	Home Office	Coordinating security and policing in and around the Olympic Park and across London and the rest of the country during the Games.

Source: National Audit Office examination of Olympic Executive papers

**3.18** Resolution of outstanding questions over scope, responsibilities, costs and budgets for the work required across delivery bodies is required before full integration can be achieved. An important strand of the continuing work is that LOCOG, working with the Olympic Executive, aims to complete the next version of its lifetime budget by October 2010 (paragraphs 4.16 to 4.25). As part of the process, outstanding issues of scope and cost between LOCOG and other delivery bodies on issues such as safety and security need to be resolved (paragraph 3.4). To do this there must be clarity between the Olympic Executive and LOCOG about what the Government is required to deliver to meet its commitments to the International Olympic Committee.<sup>7</sup>

<sup>7</sup> The Olympic Executive has the role of coordinating delivery of Government commitments to the International Olympic Committee so that LOCOG can deliver the Games in accordance with the Host City Contract. For example, commitments to the International Olympic Committee to make available sufficient and suitable radio broadcasting frequencies for staging operations during the Games, to deliver the planned and additional transport projects necessary for the staging of the Games, and to make arrangements for the entry of Games related personnel to the UK (paragraph 3.29, Comptroller and Auditor General's report *Preparations for the London 2012 Olympic and Paralympic Games: Progress Report June 2008*, HC 490 session 2007-2008, June 2008).

# Part Four

## Managing the costs of London 2012

### The Olympic Delivery Authority's forecast costs

**4.1** The largest part of the March 2007 budget was for the Delivery Authority. At November 2007 in its baseline budget the Delivery Authority had available £7,095 million, including £968 million Programme contingency. A further £1,004 million of Funders' contingency is also potentially available to the Authority, giving it potential funding of £8,099 million.

**4.2** When we last reported in June 2008, the Delivery Authority's forecast of potential cost was £7,111 million, £16 million more than its November 2007 baseline. By December 2009 the forecast had increased to £7,262 million, reflecting scope and cost increases, but also savings, on individual projects. It also reflects the use of contingency and the latest assessment of risks (**Figure 4**). The single biggest change at December 2009 is the Delivery Authority's £659 million increase in net costs for the Village and Media Centre following the decision to publicly fund the two projects.

**4.3** As we said in our earlier reports there are areas where responsibilities, plans and budgets have not been established. In particular, until early 2010 it was unclear which organisation(s) would be responsible for delivering and meeting the costs of, maintaining, operating and securing the Olympic Park following its construction (currently scheduled for completion in summer 2011), through the test events and the Games, to handover to the post-Games operators. These activities were not included in the March 2007 budget for the Games, or LOCOG plans. However, the Delivery Authority's November 2007 Programme Baseline included an initial £50 million Programme contingency provision to cover some facilities management elements of this work. Since then this figure has increased to £116 million.

**4.4** In February 2010 the Olympic Board approved a broad proposal for the Delivery Authority to fill this gap in planning and coordinate work to secure licences for the venues, provide services to support and facilitate the sports events, and protect the venues while they are not in use. The Delivery Authority is currently working on a detailed budget and plan for this work and its latest estimate is that it will cost between £226 million and £276 million, with £116 million provided for in Programme contingency.



**Figure 4**

Comparison of the Delivery Authority's November 2007 baseline with its December 2009 forecast of potential costs

All figures in £ million, inclusive of VAT <sup>1</sup>	November 2007 baseline	December 2009 forecast of potential cost after considering cost pressures and opportunities	Change between November 2007 and December 2009
Site preparation and infrastructure	1,942	1,728	(214) <sup>2</sup>
Venues	1,171	1,342	171 <sup>2</sup>
Transport	897	835	(62)
Other park-wide projects	868	866	(2)
Village and Media Centre	492	1,151	659
Programme delivery	647	687	40
Corporation tax and net interest	73	24	(49)
<b>Base budget before Olympic Delivery Authority Programme contingency</b>	<b>6,090</b>	<b>6,633</b>	<b>543</b>
Additional landscaping costs, which had been subject to an application for release of Funders Group contingency, which was approved in 2008	37	0	(37)
<b>Base budget before Olympic Delivery Authority Programme contingency</b>	<b>6,127</b>	<b>6,633</b>	<b>506</b>
Olympic Delivery Authority Programme contingency <sup>3</sup>	968	772	(196)
Headroom	0	(102)	(102)
Retained savings	0	(41)	(41)
<b>Revised Programme contingency</b>	<b>968</b>	<b>629</b>	<b>(339)</b>
<b>Total</b>	<b>7,095</b>	<b>7,262</b>	<b>167</b>

Source: National Audit Office analysis of Delivery Authority data

**NOTES**

- 1 All figures are the net cost to the Delivery Authority, but inclusive of VAT. The gross costs of some projects are higher: costs are stated a) net of expected contributions from the London Development Agency (site preparation) and from the private sector (utilities projects within infrastructure); and b) net of the estimated receipts for the Village development.
- 2 In our last report we explained an earlier broad pattern of increased costs for venues offset by savings on site preparation and infrastructure projects.
- 3 See paragraphs 4.5 to 4.7.

**The contingency funds**

**4.5** The management of contingency is described in Appendix 2. Applications to use contingency must demonstrate that enough is left to cover the remaining risks. The Delivery Authority assesses how much of its Programme contingency it expects to need over the life of the programme by quantifying the remaining risks using established methods of risk identification and quantification. The Olympic Executive uses a similar process for the Funders Group contingency. The applications to use contingency to pay for the Village and Media Centre were supported by thorough analyses of the residual risks.

**4.6** The largest call on contingency has been for the Delivery Authority's increased contribution to the Village and Media Centre (**Figure 5**). While contingency had not been explicitly set aside to meet the costs of the Village and Media Centre, the calls on contingency were reduced because:

- savings had been identified elsewhere on the programme which reduced the impact of the call on contingency; and
- other quantified risks had not materialised or had been mitigated by the Delivery Authority, particularly on high risk site preparation activities which are largely completed, leaving headroom in contingency for unforeseen risks.

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### Figure 5

Sources of funding for the Delivery Authority's increased contribution to the Village and Media Centre

Source	Village	Media Centre	Total
Funders Group Contingency	375	68	443
Delivery Authority's Programme Contingency	111	67	178
Savings from other Delivery Authority projects	63	–	63
Reduced assessment of inflation	77	–	77
Expected savings from the reduced rate of VAT (17.5 per cent to 15 per cent from December 2008 to the end of 2009)	24	–	24
<b>Total</b>	<b>650</b>	<b>135</b>	<b>785</b>

Source: National Audit Office analysis of Delivery Authority data

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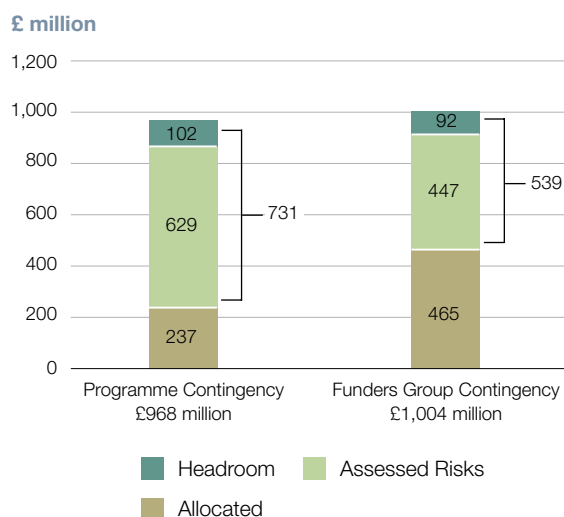
**4.7** At December 2009 the quantitative risk assessments for Delivery Authority Programme and Funders Group contingency indicated that sufficient contingency remained to cover identified risks. In addition, the Delivery Authority also held some £41 million in retained savings (including new savings opportunities emerging).

**Figure 6** shows that in December 2009 £702 million of contingency has been allocated leaving £1,270 million:

- £731 million (76 per cent) of Delivery Authority Programme contingency, including £102 million remaining contingency (or 'headroom') after all residual risks have been quantified;
- £539 million (54 per cent) of Funders Group contingency remains, including £92 million 'headroom'.

**Figure 6**

The contingency allocated and remaining as at end December 2009



Source: National Audit Office analysis of Delivery Authority data

**4.8** Financial pressures continue to emerge which could increase costs across the programme and require calls on contingency. In particular, should the cost of operating and maintaining the Olympic Park post construction completion be as high as £276 million (the top of the range currently forecast), the Delivery Authority would require £116 million from Programme contingency, the provision made, with the remaining £160 million from Funders' contingency (paragraphs 4.3 and 4.4). The Delivery Authority expects that by the time it requires the funds, risks on the programme may have lapsed, leaving headroom in both the Programme and Funders' contingency to cover some of this cost. The Delivery Authority also considers it may be able to make savings elsewhere on the Programme to cover some of the cost.

**4.9** Other potential cost pressures include:

- increased costs and delays from changes to the Delivery Authority's scope of work as a result of external stakeholder influences. For example, as the Games approach there is potential for change requests to increase as operational and legacy requirements become clearer; and
- the potential for lower than assumed revenues from future sales of Village assets (paragraphs 4.10 to 4.11).

## The Village

**4.10** The Delivery Authority's November 2007 budget for the Village and Stratford City land and infrastructure assumed a £250 million receipt (£175 million after assumed corporation tax) from its interest in land planned to be developed post Games and from a share of future profits from the pre-Games Village and Stratford City development if it had been privately developed (Figure 2 on page 13). The likely receipts were independently assessed in 2007. In view of the subsequent deterioration in the property market, and because the Village is now publicly owned, the Delivery Authority obtained an updated valuation from professional advisors and now forecasts receipts at £100 million (£70 million after assumed Corporation Tax).

**4.11** The affordability of the Village construction and repaying £324 million of Funders Group Contingency is dependent on achieving income of at least £501 million from the sales of residential units (paragraph 2.10). The level of future income is inherently uncertain and will in part, depend on market perception and future sales growth. There may also be pressure to recover receipts from private sales as soon as possible to meet the Delivery Authority's cash flow assumptions (for example, the Delivery Authority's current budget assumes a pre-Games receipt of £61 million). A clear value for money case will be needed to support any sales and marketing decisions, in particular:

- The Village is a unique residential development in that a large number of housing units will be constructed and ready at the same time for conversion post Games. The Delivery Authority has engaged residential property consultants to advise on its emerging sales and marketing strategy. Sensitivity analysis has been carried out to determine the optimum timing of sales, and the consultants' current sales forecast indicate £501 million is achievable.
- There are plans for two further developments on publicly owned land around the Olympic Park: London Continental Railway's<sup>8</sup> post Games development of the land adjoining the Village, and future residential development by the Legacy Company. The Olympic Executive is facilitating a coordinated approach across relevant parties, to maximise legacy potential and overall value to the public sector, for example, when developing the common spaces and for the phasing and sale of units.

## The redistribution of receipts

**4.12** In February 2010 the Funders Group approved, subject to the outcome of ongoing discussions between the Government and the Greater London Authority, the Olympic Executive's proposed strategy on how any excess sale receipts from the Village, after repayment of Funders Group contingency, will be redistributed to funders. In particular, the Department agreed a Memorandum of Understanding, in January 2010, with the Olympic Lottery Distributor that provides assurance that the Olympic Lottery Distributor will receive a proportionate share of receipts arising from its share of funding for the Village.

<sup>8</sup> London Continental Railways is wholly owned by the Department for Transport.

**4.13** In 2007, the Government agreed a Memorandum of Understanding with the Mayor of London setting out the arrangements for apportioning receipts to funders from the land and assets owned by the London Development Agency, including a targeted £675 million return to the National Lottery Distributors. The existing Memorandum still stands, including the arrangements for securing for the National Lottery Distributors a share of the future receipts as land and assets are sold after 2012, although the future timing and value of these sales remain uncertain.

### **The position on non-Delivery Authority costs within the Olympic budget**

**4.14** Policing and wider security is the largest non-Delivery Authority cost. £600 million and £238 million contingency was allocated from the £9,325 public funding to pay for new, specific, safety and security requirements for the Games. In addition, the Home Office's current plans for Olympic safety and security show that the police and a number of other agencies are expected to divert some of their existing resources to Olympic work. The cost of these resources is not part of the £9,325 million public funding for the Games and does not involve any additional cost to the taxpayer. However, they represent an opportunity cost for these agencies.

**4.15** The Home Office's latest assessment is that the cost is within the £600 million provision. Only 5 of the 26 planned projects, however, have received financial approval (paragraph 3.4). As is the case with the whole London 2012 Programme, exchequer funding for the safety and security programme has been secured up until 2010-11. Decisions on funding for the following two years will be decided in the next Comprehensive Spending Review settlement. At the end of 2009, £51 million had been spent.

### **The position on LOCOG's budget**

**4.16** LOCOG is responsible for the staging of the Games. It is a company limited by guarantee established by a joint venture agreement between the stakeholders in the company: the Secretary of State for Culture, Media and Sport, the Mayor of London, and the British Olympic Association.

**4.17** With the exception of a 50 per cent contribution towards the cost of the Paralympic Games (for which there is a £66 million provision in the £9,325 million public funding for the Games) LOCOG is expected to be self-financing through sponsorship, ticketing, merchandising and contributions from the International Olympic Committee. As the ultimate guarantor to the International Olympic Committee of LOCOG's budget, and therefore responsible for meeting any shortfall between LOCOG's costs and revenues, the Government has always been financially exposed.

**4.18** In 2008 the Committee of Public Accounts recommended that the Department develop arrangements for satisfying itself that LOCOG's costs are under control and revenues are on track.

**4.19** In October 2008 the Permanent Secretary of the Department for Culture, Media and Sport wrote to the Chief Executive of LOCOG to establish a protocol for the action required should the risk of a call on the government guarantee materialise (with the aim of avoiding such a call). The Permanent Secretary made it clear that the contingency within the March 2007 public funding for the Games was not available to LOCOG.

**4.20** By January 2010, LOCOG had secured £1,361 million (70 per cent) of its income target for the Games. This included £603 million of local sponsorship revenue against a lifetime target of £700 million. The majority was achieved through the economic downturn. Of the remaining as yet unsecured revenue, over 60 per cent is expected from the sale of tickets from 2011 onwards, where LOCOG has a high degree of confidence. Securing income reduces the risk to the Government of a shortfall. By January 2010, LOCOG had spent £253 million (13 per cent) of its current lifetime budget of £1,949 million, against a planned cumulative spend of £251 million.

**4.21** LOCOG is continuing to refine its lifetime budget, working closely with the Olympic Executive. In July 2009 the LOCOG Board agreed Version 4 of its lifetime budget. This showed a balanced budget but without a funded contingency and recognised that to reach a funded contingency, savings would need to be delivered through a combination of scope changes, value engineering and smart procurement. It was recognised that there were still certain budgetary responsibilities that needed to be resolved across the programme.

**4.22** LOCOG's latest assessment as at the end of January 2010 identified risks which, should they materialise, would have an impact on LOCOG's programme of between £150 million and £270 million. LOCOG has also identified potential savings and additional revenue generating opportunities of between £130 million and £350 million. This assessment does not capture every possible outcome; rather the figures represent LOCOG's current view of the most likely range of outcomes. The balance of risks and opportunities will continue to evolve and LOCOG's management of these risks and opportunities will determine whether, ultimately, LOCOG has a surplus or a deficit. In the meantime, LOCOG has secured additional sponsors and the Olympic Executive has confirmed that LOCOG has continued to identify and capture savings, for example on its workforce, but that the risk of a LOCOG deficit needs to continue to be managed.

**4.23** The Permanent Secretary wrote to LOCOG in January 2010 welcoming: LOCOG's outstanding progress on revenue raising and its strong plans to secure the remainder; the development of detailed programme plans; and the strengthening of internal governance arrangements and capability. There continued to be financial risks and opportunities which would need to be managed and there would need to be a contingency. As the Games approached LOCOG would be less able to make real choices on scope and timing of activities to stay within budget.

**4.24** In his response to the Permanent Secretary LOCOG's Chief Executive confirmed that LOCOG remained highly committed to delivering the Games within a balanced budget. LOCOG's Chief Executive added that as well as its close management of the risks and opportunities, LOCOG's ability to create a funded contingency was dependent on securing additional revenue, and on Government and other key delivery partners delivering against their own financial and operational commitments. LOCOG is developing Version 5 of its business plan and budget which is scheduled for completion by October 2010. LOCOG is working closely with the Olympic Executive on the development of this budget.

**4.25** There are areas where the precise scope of LOCOG's remit and responsibilities, and therefore budget, are unclear, for example, on security (paragraph 3.4). The need for clarity on scope and boundary issues between LOCOG and the Delivery Authority is a point that has been emphasised in successive NAO reports. Both organisations have taken steps to resolve boundary and scope uncertainties, and outstanding issues have been recorded in the detailed report of the current scope of the Delivery Authority's programme (paragraph 2.2).

# Appendix One

## Study scope and methods

### Scope

This is our fourth report on the preparations for London 2012. We focused mainly on:

- The Delivery Authority's overall physical and financial progress with its programme.
- The loss of private finance deals for the Village and Media Centre projects, focusing on the evidence and analysis behind the Delivery Authority's key decisions and the plans to manage the costs, risks and opportunities associated with owning these assets.
- The Delivery Authority's management of the risks of contractor financial distress and insolvency. We developed a framework to assess the Delivery Authority's approach, which can be found on the NAO website [www.nao.org.uk](http://www.nao.org.uk).
- The Olympic Executive's progress towards fully integrating the programme and a high level assessment of important areas of the programme.
- The Olympic Executive's arrangements for monitoring LOCOG.

We also looked at the arrangements for delivery of a positive legacy from the Olympic Park. We did not examine the delivery of wider legacy benefits from London 2012.

Our examination was not intended to identify all potential risks to the Olympic programme.

### Methods

- **We examined management reports, supporting papers and minutes** produced by the Delivery Authority and the Olympic Executive and presented to, amongst others, the Ministerial Funders Group and the Olympic Projects Review Group; plus third party papers, correspondence and expert reports commissioned by the Delivery Authority.



- **We interviewed key officials and teams at the Olympic Executive and Delivery Authority and other relevant organisations**, including LOCOG, the Home Office, Communities and Local Government, and the Department for Transport.
- **We engaged independent expert consultants to assist in specialist areas:**

<b>Consultant(s)</b>	<b>Expertise</b>	<b>Area of work:</b>
King Sturge	Property consultants	The Delivery Authority's case for publicly funding the Village and Media Centre developments
Avalon Corporate Development	Commercial management of construction suppliers	The Delivery Authority's management of the risk of supplier insolvency
Aspire Europe and Outperform UK	Portfolio, programme and project management	The Olympic Executive's progress towards programme integration

# Appendix Two

## The Olympic budget and contingency

### A The overall public budget for the Games

On 15 March 2007 the Secretary of State for Culture, Media and Sport, now Minister for the Olympics, announced to Parliament the budget for the Games and infrastructure associated with the Olympic Park and other venues (**Figure 7**).

#### Figure 7

Breakdown of costs and provisions announced in March 2007

Olympic Delivery Authority costs	£ million	£ million	£ million
<b>Core Olympic costs</b>			
Venues	1,063		
Transport infrastructure and operating costs	794		
Additional inflation allowance (£161 million), net contribution to the Olympic Village (£175 million) and Insurance (£50 million)	386		
Programme Management	570		
Site security	268		
<b>Sub-Total</b>		<b>3,081</b>	
<b>Infrastructure and regeneration costs associated with the Olympic Park and other venues</b>		<b>1,673</b>	
Initial and provisional allocation of programme contingency to cope with early financial pressures		500	
<b>Total Olympic Delivery Authority budget before tax</b>			<b>5,254</b>
Tax (predominantly £736 million VAT)			836
<b>Total Olympic Delivery Authority budget</b>			<b>6,090</b>
<b>Other costs and provisions</b>			
Support for elite and community sport, Paralympics, and Look of London			388
Policing and wider security			600
General programme contingency (including £238 million for policing and wider security)			2,247
<b>Total</b>			<b>9,325</b>

Source: National Audit Office report on 'The budget for the London 2012 Olympic and Paralympic Games' (HC 612, 2006-07)

## **B The management of contingency**

Initially £2,747 million contingency was available, but as shown in Figure 7, £500 million had been allocated to the Delivery Authority to manage early funding pressures and £238 million was set aside for policing and wider security. A further £37 million of Funders Group contingency was allocated in 2008. The remaining £1,972 million was potentially available to the Delivery Authority, taking its potential to £8,099 million.

The £1,972 million of contingency was split, reflecting the differing nature of risks and the ways they were to be managed:

- £968 million **Delivery Authority Programme Contingency**, based on a quantified assessment of the risks with the potential to impact on more than one project, for which there is separate project contingency, such as exchange rate fluctuations or materials availability. Release of contingency requires scrutiny by the Olympic Projects Review Group and approval from the Minister for the Olympics and, for the lottery funded element, by the Olympic Lottery Distributor.
- £1,004 million '**Funders Group Contingency**', based on an assessment of the amount to meet the costs of residual risks outside of the control of the Delivery Authority, including unpredictable events and changes in legislation. Release of contingency requires scrutiny by the Olympic Projects Review Group and approval by the Ministerial Funders Group. Any lottery funded element is subject to an application to the Board of the Olympic Lottery Distributor.



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