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

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 Accounts¹ and the National Audit Office², 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/olympics_2012_budget.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.