



National Audit Office

Preparations for the London 2012 Olympic and Paralympic Games: Progress Report June 2008

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Preparations for the London 2012 Olympic and Paralympic Games: Progress Report June 2008

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The front cover photograph shows the stadium bowl as construction gets underway on the London 2012 Main Stadium site (May 2008, courtesy of the Olympic Delivery Authority).



SUMMARY

1 The 2012 Olympic and Paralympic Games were awarded to London in July 2005, leaving seven years to prepare. With three years now elapsed, this report examines the progress made in preparing for the Games. The scope and methods for our work are at Appendix 1.

2 The Government's preparations and the overall management of the £9,325 million of public funding for the Games announced in March 2007 are led by the Department for Culture, Media and Sport (the Department) through its Government Olympic Executive.

The Executive is working with a range of delivery bodies, particularly with the Olympic Delivery Authority, on the venues and associated infrastructure required to host the Games successfully and to deliver a large part of the intended legacy benefits.

3 The London Organising Committee of the Olympic Games and Paralympic Games (LOCOG) is the liaison point for the International Olympic Committee on the preparations for the Games, and is the organisation responsible for staging the Games.

4 This report takes account of earlier reports by the Committee of Public Accounts and the National Audit Office:

- The Committee's first report on the *Preparations for the London 2012 Olympic and Paralympic Games* was published in July 2007 and was an early look at the progress made in preparing for the Games and the areas of risk to be managed. The Government's response was published in October 2007 (Cmd 7216). The Committee's examination was based on a report by the Comptroller and Auditor General published in February 2007 (HC 252 Session 2006-2007).
- In April 2008 the Committee of Public Accounts published its second report on *The budget for the London 2012 Olympic and Paralympic Games* which focused on the development of the budget. The Committee's examination was based on a report by the Comptroller and Auditor General published in July 2007 (HC 612 Session 2006-2007).

5 The primary focus of our work was the Government Olympic Executive and the Olympic Delivery Authority. We covered the risk areas identified in earlier reports and in particular looked at the arrangements for governance and risk management, management of the budget for the Games, the progress of the programme with a focus on physical progress in preparing the venues and infrastructure, and at the approach to procurement.

Main findings

6 Our main findings are as follows.

On governance and risk management

7 An important indicator of whether the Governance arrangements for the Games are working is whether timely decision making is being put at risk. To date there have been no significant delays in the process to recommend for approval those major projects necessary for the successful delivery of the Games, and the delivery bodies meet regularly to review decision making processes. The Government Olympic Executive is developing an overarching programme plan to identify the dependencies between key activities, and any gaps, overlaps or pinch points, and expects to provide the Olympic Board with the first version by September 2008.

8 Individual delivery organisations have their own risk management arrangements. Our focus, however, was on how risk management for the programme as a whole is brought together. The Government Olympic Executive has taken on the responsibility for programme

wide risk management and identified ways in which the arrangements need to be developed. The Executive expects the framework for programme wide risk management to be in place by September 2008 and for the arrangements to be fully developed and embedded by the end of 2008. The Executive is therefore not yet in a position to provide the Olympic Board with a complete analysis of the strategic risks to delivery of the programme.

On managing the budget for the Games

9 The largest element of the £9,325 million budget announced in March 2007 was £6,090 million for the Olympic Delivery Authority's work to deliver the venues and associated infrastructure for the Games. The £6,090 million included an initial and provisional allocation of £500 million programme contingency to the Olympic Delivery Authority to meet early financial pressures. The overall budget also included £2,247 million unallocated programme contingency, of which £238 million has been set aside for policing and wider security. Since March 2007 the Authority has continued, as intended, to develop its cost estimates and that work resulted in the Authority's November 2007 'Programme Baseline Report', which is the basis against which its costs will be reported for the life of the programme.

10 In November 2007 the Ministerial Funders' Group approved the Olympic Delivery Authority's base budget of £6,090 million. The remaining £2,009 million programme contingency has been split into two categories reflecting the differing nature of risks and the ways they are to be managed:

- £968 million (hereafter referred to as the 'Olympic Delivery Authority Programme Contingency') is potentially available for Olympic Delivery Authority programme wide risks based on the Authority's quantified risk assessment. The Authority's Programme Baseline Report forecasts total expenditure of £7,095 million which includes its base budget of £6,090 million and the £968 million contingency (see Figure 5 on page 19). Arrangements for the management of the £968 million have been put in place by the Government Olympic Executive so that any application by the Authority for access to it will be subject to scrutiny by the Olympic Projects Review Group and approval by the Minister for the Olympics.
- A further £1,041 million (hereafter referred to as the 'Funders' Group Contingency') is potentially available to meet the cost of residual risks, and any application for access to it will be subject to scrutiny by the Olympic Projects Review Group and approval by the Ministerial Funders' Group.

11 The Olympic Delivery Authority regularly reviews its potential costs against the Programme Baseline Report, identifying both cost pressures and opportunities for savings. At the end of March 2008 the Authority was forecasting that its potential costs could be £7,111 million, compared to the £7,095 million set out in the Programme Baseline Report. This forecast reflected actual and targeted savings on individual projects, and potential cost increases. In broad terms, the costs for the high profile venues such as the Main Stadium and the Aquatics Centre are forecast to be higher than anticipated, with lower costs for infrastructure projects such as Structures, Bridges and Highways. The Olympic Delivery Authority continues to look for cost saving opportunities to offset the March 2008 forecasts of potential cost increases and keep within existing budgets, and has drawn the attention of funders to the potential need for a future call on contingency if it is unable to do so.

12 Since announcement of the March 2007 budget, the estimates for contingency have been refined by analyses of risk, and procedures for the control, approval and funding of contingency have been established. The Government Olympic Executive has prepared a cash flow analysis which clarifies when funds will become available. It shows that funding should be sufficient to meet the Olympic Delivery Authority's forecast needs, so long as the assumptions on which it is based hold good, whilst recognising the potential volatility of expenditure profiles.

On progress across the programme

13 The Olympic Delivery Authority has made good progress, on what is a complex and challenging site, in taking forward the physical preparation of the Olympic Park. The Authority has also started its construction activities on the Olympic Park, in some cases ahead of schedule. For example, construction of the Main Stadium started in advance of the planned date. There have been delays in finalising the deal with a developer to build the Olympic Village. On other individual projects the Authority has experienced delays, but the critical path activities remain on track for delivery during 2011 to enable handover to LOCOG in good time before the Games.

14 The Olympic Village construction, which will cost over £1 billion, is the single largest project in the London 2012 programme and is expected to be mainly financed and delivered by the private sector. The Olympic Delivery Authority was expecting to finalise the deal for the Village in December 2007, but there have been difficulties in resolving outstanding issues and securing the private sector financing for the deal in the light of uncertainties in the financial and property markets. The Authority, with the

Government Olympic Executive, is currently restructuring the deal, the financial consequences of which are unclear. Meanwhile, to maintain progress, the Authority is working with the preferred developer, and construction is underway.

15 In addition to providing for site security during construction of the venues and infrastructure, the March 2007 budget for the Games included a preliminary estimate of £600 million (plus £238 million contingency) for policing and wider security, for which the Home Office is the lead Government department. In the continuing absence of a fully costed plan, there is not a firm basis for taking forward the wider security arrangements for the Games, or for making sure that wider security requirements have been fully reflected in the planning and delivery of other activities within the London 2012 programme, including the construction of the venues, transport and staging. Steps are being taken by the Home Office to produce the costed security plans by the end of 2008, and to strengthen the governance and delivery arrangements for policing and wider security.

16 The prospect of the legacy that hosting the Games would bring was a key element of London's bid. Five permanent sports venues are to remain on the Park after the Games and the Olympic Delivery Authority's budget for these venues covers both construction for the Games and their conversion for legacy use. The legacy plans for the individual venues, however, are not yet finalised. For example, on the Main Stadium it is unclear whether the legacy use will involve football or rugby, or both, alongside athletics. The London Development Agency is leading work to develop a business plan for the future Olympic Park, which is due in 2009. Continuing discussions on venue legacy use and Park wide legacy planning could affect the assumptions underpinning the Olympic Delivery Authority budget and specifications it has agreed with contractors.

17 Besides co-ordinating the physical legacy of the venues and the Olympic Park, the Government Olympic Executive is also responsible for co-ordinating the delivery of wider economic, social, health, cultural and environmental benefits. The Government Olympic Executive had expected to publish the 'Legacy Action Plan', setting out how the wider benefits of the Games will be delivered, in late 2007. The Executive published the Legacy Action Plan on 6 June 2008.

18 LOCOG, which is responsible for the staging of the Games, and is intended to be self-financing (with the exception of a contribution from public funds towards the cost of staging the Paralympic Games, for which there is a provision of £66 million), needs to generate

income of £2 billion to cover its estimated costs. LOCOG will raise income predominantly through sponsorship, ticketing, merchandising and contributions from the International Olympic Committee. On sponsorship, LOCOG has generated £317 million, approaching half of its sponsorship target for the Games. The Government is the Guarantor for the Games which includes meeting any ultimate shortfall between LOCOG's costs and revenues. The Government Olympic Executive, however, expects LOCOG to cover its costs, and the two organisations are introducing more comprehensive arrangements for monitoring LOCOG's progress.

On applying effective procurement practices

19 In taking forward its procurement activities the Authority has worked closely with LOCOG, security advisers and other stakeholders to get an understanding of their requirements. Work is continuing to provide greater certainty about Games, legacy and security requirements, and following the 2008 Beijing Games, the Authority expects pressure for change as stakeholders refine their requirements. The Olympic Delivery Authority has had to make judgements, based on the information provided by stakeholders at the time, to take forward its projects and avoid jeopardising delivery in time for the Games.

20 The Authority has developed a robust procurement policy and process, including for change control, and actively sought independent and expert challenge of its procurement activities. On the projects we examined the Authority's approach was consistent with its procurement policy, and it has secured competition on the majority of its procurements. On the Main Stadium and, to a lesser extent on the Aquatics Centre, there has been a loss of competitive tension, but the Authority will be seeking further savings from competition down through its contractors' supply chains. The Authority has also established financial incentives for the contractors to deliver ahead of time and under budget.

21 The Authority has taken steps to mitigate risks to the successful delivery of its construction programme, including implementing dispute avoidance procedures, monitoring supplier solvency and encouraging fair payment practices. The Authority is also pursuing good practice in competition, sustainability and health and safety down through its contractors' supply chains. The successful implementation of these arrangements will depend on effective contract management by the Authority, which in turn will rely on securing timely and accurate information from contractors and their suppliers.

Overall conclusions

22 This report has been prepared with four years still to go until the start of the Games. The preparations for the Games have progressed in important ways. For example: the construction programme, while at an early stage, is broadly on track; good practice is evident in the way procurement is being handled; the cost estimates have been developed; and there is now a clear baseline for assessing costs and progress in the delivery of the venues and associated infrastructure. Work to manage cost and time pressures is continuing, and judicious use of contingency can help to alleviate such pressures by responding early to emerging problems.

23 With the fixed deadline for the start of the Games, a degree of pragmatism on the part of the Olympic Delivery Authority has been necessary in balancing the need to move forward the construction programme against the possibility of stakeholders' requirements changing. There will be a risk of cost overruns and loss of time unless a firm line is adopted on subsequent calls for changes in the designs for the venues and infrastructure.

24 Beyond the overall imperatives of delivery on time and within budget, at this stage of the preparations there are four areas of particular concern which are recognised and being addressed by the delivery organisations:

- A deal with the private sector for financing and delivering the Olympic Village, required for the Games and intended to provide homes afterwards, has not been finalised.
- The requirements for policing and wider security need to be identified early enough to be provided cost-effectively. There is still no costed plan for these elements of the programme but one is due by the end of the year. Planning for policing and security has therefore not been fully integrated with planning for the Games.
- The legacy requirements for the venues and infrastructure on the Olympic Park have not been finalised. The longer the legacy requirements remain unclear, the harder it will be to accommodate them in the design and construction of facilities, and the more likely it is that, through expediency, legacy objectives will be compromised by the need to deliver the Games on time.
- The overarching programme plan and risk management arrangements, required to draw together the detailed plans and risk assessments of the individual delivery organisations, have not been completed.

Recommendations

25 We make the following recommendations:

On programme and risk management

- a** Individual organisations involved in the Games have their own delivery plans. To help assess programme inter-dependencies the Government Olympic Executive is developing an overarching programme plan, drawing on the plans of individual organisations. Until it has that plan in place, the Executive will not have a clear basis for assessing whether critical programme inter-dependencies are being well managed. The Executive expects to have completed the first version of the plan by September 2008.
- **The Government Olympic Executive should establish with the delivery organisations arrangements for keeping its programme plan, when completed, up to date.** There are inherent differences in timescales for different elements of the programme, and on a programme of this scale and complexity changes are likely. The programme plan should at all times be up to date and reflect progress on critical path activities across the programme.
- b** Individual organisations have their own risk management arrangements, and the Government Olympic Executive is developing its arrangements for assessing key risk across the programme as a whole. The Executive plans to have a framework in place by September 2008 and to have its risk management arrangements fully embedded by the end of the year.
- **In developing its programme wide risk management arrangements the Government Olympic Executive should align its assessments of risks with the overarching programme plan** so that it has a clear view of the dependencies between key activities, and any gaps, overlaps or pinch points.
 - **The criteria being developed by the Government Olympic Executive to assess its risk information should be supported by clear definitions** so that risks are assessed and rated consistently.

On budget management

- c** The remaining contingency funds potentially available to the Olympic Delivery Authority total £2 billion. The effective use of contingency requires a balance between seeking to minimise the use of the contingency whilst also releasing funds early enough to avoid the need for more funding later in the programme, as the immovable deadline approaches and the room for manoeuvre decreases.
- **The assessment criteria for applications to use contingency funds should allow for spend to save use of contingency.** For example, the situation could arise where spending early on one project to avoid the risk of delays could help to avoid delays (and therefore increased costs) on other inter-dependent activities.

On evaluation of legacy benefits

- d** As the delivery of legacy benefits for the UK and London is a key objective of the Games, a framework for evaluating success is being developed by the Government Olympic Executive.
- **In developing the evaluation framework for assessing the impact of the Games, the Government Olympic Executive should set baselines against which it will measure whether the expected legacy benefits are achieved.** The evaluation framework should set out how the effects of the Games will be disentangled from the effects of, for example, other regeneration activities already taking place in East London.

On management of supplier performance

- e** The Olympic Delivery Authority needs to secure the effective performance of construction suppliers if it is to achieve its wider objectives for equality and inclusion, minimising environmental impacts, legacy, health and safety and fair payment. The Authority has established its contract management procedures, for time, cost and quality, but the arrangements for monitoring supplier performance and across the wider objectives are being developed. Effective contract management and the monitoring of supplier performance will rely on accurate and timely data from suppliers, and the challenge this presents will escalate as construction work begins in earnest during 2008 and the numbers of suppliers on site increases.

- **The Authority should be able to show that the systems for monitoring supplier performance across all of its objectives are in place and operating effectively by the end of 2008.** Performance data being provided by contractors and their suppliers needs to be demonstrably accurate and reliable as the programme progresses.
- f The Olympic Delivery Authority is encouraging collaborative and integrated working with its contractors and their supply chains as shown by, for example, its choice of contract and its adoption of the 2012 Construction Commitments. The Authority has developed communication channels with its main contractors to facilitate collaborative working, but has yet to determine how best to engage with the wider supply chains that will soon be operating across its construction sites.
- **The Authority should communicate to all suppliers the importance it attaches to collaborative working, and encourage suppliers to come forward as soon as possible on any matter likely to impact on performance or delivery.** It will be important that the Authority makes sure that suppliers are clear how best to contact the Authority if they identify matters that might impact on successful delivery such as, for example, potential disputes about payment.
- g Achieving competitive procurement with contractors is important if the Olympic Delivery Authority is to secure good value. The Authority is taking an active role in the procurement activities of its main contractors and has retained the right to invite further suppliers to bid for its contractors' procurements and to approve all work packages above £50,000.
- **The Authority should establish arrangements to determine whether effective competition is being achieved by suppliers in their procurement of sub-contractors.** It should collect information on packages of work being procured and the levels of competition being achieved; and on the levels of costs being incurred within contracts through the supply chain. This information should be used to target its oversight of supplier activity. Where necessary it should challenge the approaches being taken to procurement and costs being incurred.

PART ONE

Governance and risk management

1.1 This part covers:

- objectives and responsibilities for the Games;
- how the governance arrangements are working in practice;
- how the delivery bodies are addressing the need for staff continuity;
- progress towards establishing effective programme management; and
- progress towards establishing overarching risk management arrangements for the programme as a whole.

Objectives and responsibilities for the Games

1.2 The Host City Contract for the Games is between the International Olympic Committee, London (signed by the Mayor on behalf of London as the host city), the London Organising Committee for the Olympic and Paralympic Games (LOCOG), and the British Olympic Association. The London Organising Committee of the Olympic Games and Paralympic Games (LOCOG) is the organisation responsible for staging the Games and is also the liaison point for the International Olympic Committee. It is for LOCOG to satisfy the IOC Co-ordination Commission, which assists and monitors the work of Games Organising Committees, that preparations for the Games are on track. The Co-ordination Commission visited London in May 2008, and its Chairman reported that they had seen marked progress in all areas of preparation.¹

1.3. The Commitments made in London's bid and the requirements of the Host City Contract have been translated into the vision – "to host an inspirational, safe and inclusive Olympic and Paralympic Games and leave a sustainable legacy for London and the UK". This vision is supported by four underlying objectives for the London 2012 Games. **Figure 1** sets out how this report covers each of the four objectives.

1.4 A wide range of organisations and groups is involved in the delivery of the 2012 Games and its legacy. A summary of the key delivery responsibilities is set out in **Figure 2 on page 12**. Appendix 2 sets out the roles of the various organisations and groups referred to in this report.

How the governance arrangements are working in practice

1.5 The delivery structures for the Games reflect the wide range of stakeholders and sources of funding, and the requirements of the International Olympic Committee. In its 2007 Report, the Committee of Public Accounts concluded that the test of whether these bodies were working effectively would be whether individual projects and the programme as a whole were progressing as planned. At the time of this report, significant progress has been made in preparing the Olympic Park site and construction started in May 2008, with the start of the piling work on the Main Stadium.

¹ International Olympic Committee Press Notice 22 May 2008 "London builds up for spectacular Games".

1 The objectives for the London 2012 Games

- | | |
|--|---|
| <p>1 To stage an inspirational Olympic Games and Paralympic Games for the athletes, the Olympic Family and the viewing public.</p> | <p>The whole of this Report is relevant to the achievement of this objective.</p> |
| <p>2 To deliver the Olympic Park and all venues on time, within agreed budget and to specification, minimising the call on public funds and providing for a sustainable legacy.</p> | <p>While the whole of this Report addresses this objective, Parts 2 and 3 are particularly relevant.</p> |
| <p>3 To maximise the economic, social, health and environmental benefits of the Games for the UK, particularly through regeneration and sustainable development in East London.</p> | <p>Paragraphs 3.37 to 3.43 of this Report are relevant to this objective.</p> |
| <p>4 To achieve a sustained improvement in UK sport before, during and after the Games, in both elite performance – particularly in Olympic and Paralympic sports – and grassroots participation.</p> | <p>The Comptroller and Auditor General's Report <i>Preparing for Sporting Success at the London 2012 Olympic and Paralympic Games and Beyond</i> (HC 434 2007-2008) deals with Elite Sport.</p> |

Source: National Audit Office

1.6 Timely decision making is key to maintaining progress, including obtaining approval from funders to take forward projects. To this end the Government Olympic Executive set up the Olympic Projects Review Group to assess whether projects in excess of £20 million, or considered novel or contentious, can be recommended to the Minister for the Olympics, the Treasury and the Mayor of London for financial approval. The Group has representatives from other Government Departments, the Office of Government Commerce, the Greater London Authority, the London Development Agency, LOCOG, the Olympic Lottery Distributor and HM Treasury. On all 35 projects it has looked at the Group has reached its conclusions within the target two week period established to govern the process. The Olympic Delivery Authority confirmed that the project review process had not delayed its delivery programme.

1.7 The Committee of Public Accounts recommended that the Government Olympic Executive should periodically seek the views of the Olympic Delivery Authority and LOCOG on whether Government is taking the decisions required at a pace that will allow them to maintain the necessary progress. In response, the Department has instituted monthly meetings between its Permanent Secretary, the Director General of the Government Olympic Executive, the Chief Executives of the Olympic Delivery Authority and LOCOG, and a representative of the Mayor to discuss progress and seek solutions to any blockages.

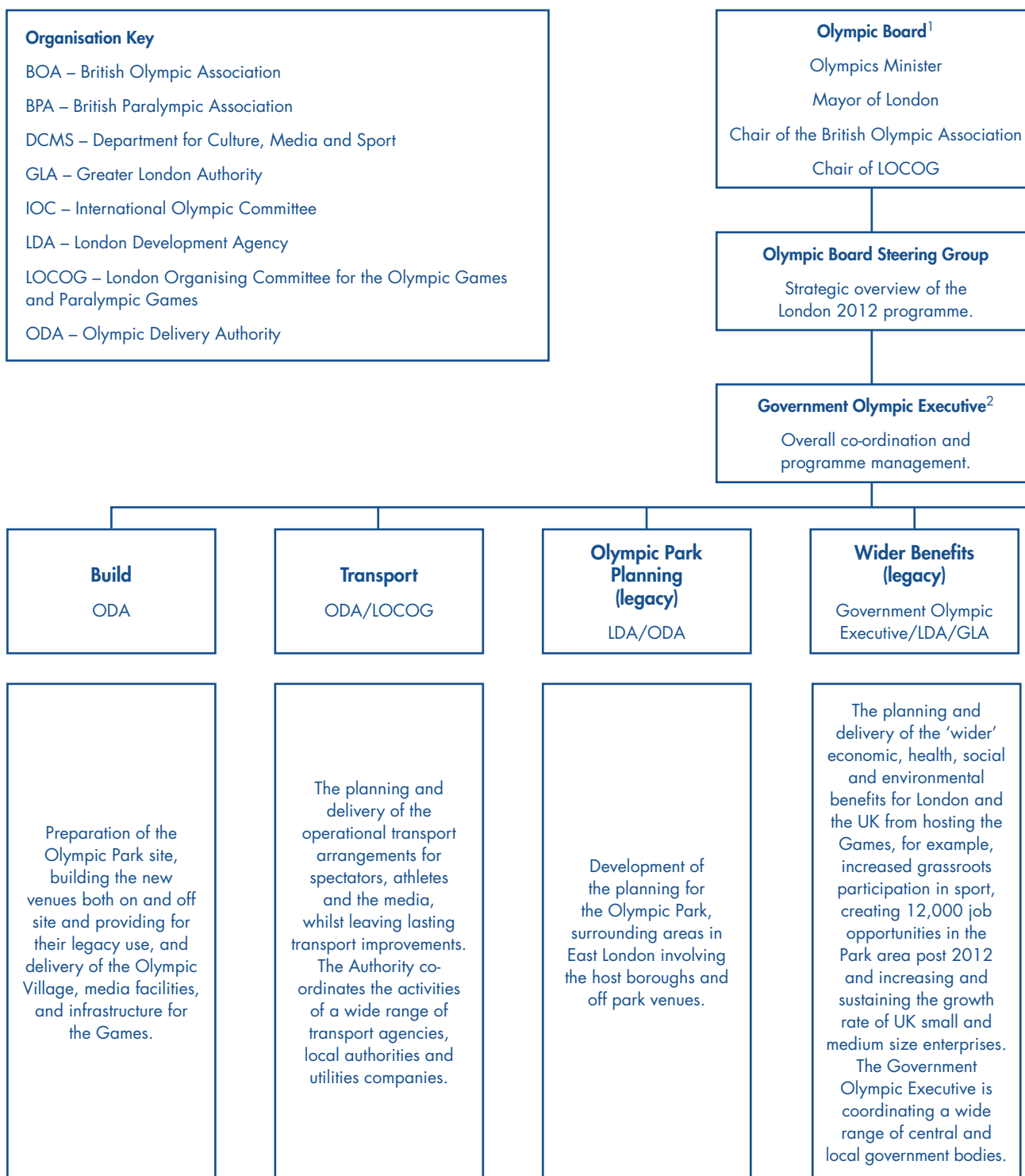
How the delivery bodies are addressing the need for staff continuity

1.8 In June 2007 the Committee of Public Accounts emphasised the importance of retaining key people on major projects, and recommended that the main delivery bodies should develop strategies for retaining individuals, knowledge and skills for the duration of the Olympic project. In its response the Department acknowledged the importance of continuity, and emphasised the need to keep staff numbers, skills and structures under constant review as the programme progresses and requirements change.

1.9 The Government Olympic Executive, the Olympic Delivery Authority and LOCOG have been building their management teams, and are developing staff retention strategies:

- Given the increasing pace of the construction programme, in July 2007 the Department appointed a civil engineer with experience of delivering major programmes. As a result of restructuring that came into effect in January 2008 the Executive has appointed: a new Director of Finance (who started in September 2007), a Director of Staging, a Director of Legacy, and a Head of Strategic Communications. A Head of Projects is to join in summer 2008. The Executive has identified a number of areas where further expertise will be needed (for example, in staging major events). The Executive has agreed its operating budget with HM Treasury.
- The Olympic Delivery Authority has conducted reviews of succession planning at director and function head level, and is planning to develop a staff retention policy with the Government Olympic Executive before the end of 2008.
- LOCOG is factoring critical staff positions into its recruitment and retention policy, which is set out in LOCOG's Annual Business plan for 2008-09.

2 The London 2012 Programme – key activities and responsibilities



Source: National Audit Office

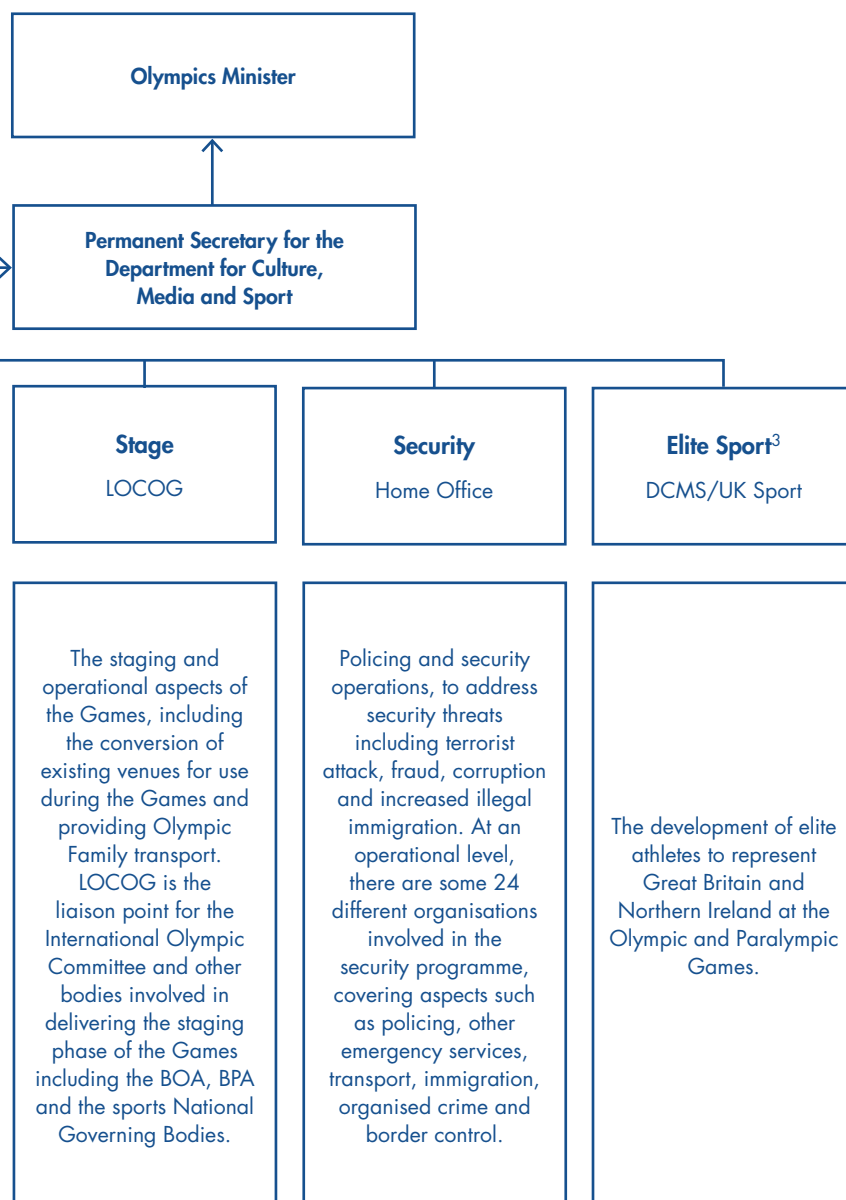
NOTES

- 1 The Commissioner of the Metropolitan Police Service and the Chair of the Olympic Delivery Authority also attend.
- 2 The Government Olympic Executive is a directorate of the Department for Culture, Media and Sport. It reports to the Minister for the Olympics, who is a Minister in the Cabinet Office reporting direct to the Prime Minister.
- 3 We looked at the progress being made on this programme in our report *Preparing for Sporting Success at the London 2012 Olympic and Paralympic Games and Beyond* (HC 434 Session 2007-08, 20 March 2008).

Progress towards establishing effective programme management

1.10 The Government Olympic Executive is responsible for providing assurance to the Government and the Olympic Board that activities are being well managed with clear programmes of work, and for providing effective governance and risk and financial management for the Games as a whole. In its June 2007 report the Committee of Public Accounts recommended that the Department should develop an agreed plan of what needs to be decided, when and by whom.

1.11 In late 2007 the Government Olympic Executive took over from the Olympic Programme Support Unit (now disbanded) the responsibility for oversight of programme wide risks and interdependencies. The Executive's priority was to make sure that robust programme plans had been prepared by the various delivery bodies, including the Olympic Delivery Authority's Programme Baseline Report in November 2007, setting out in detail the project plan, scope, timing, costs and risks associated with each project. We comment on this further at paragraphs 2.11 to 2.14. The Government Olympic Executive itself has developed an overall plan ('Legacy Action Plan') for the delivery of the wider benefits to the UK from hosting the Games, which was published on 6 June 2008. We comment on this further at paragraphs 3.41 to 3.43.



1.12 The Government Olympic Executive established a Programme Office to take on the functions of the former Olympic Programme Support Unit. One of its first tasks is to consider its own, and the delivery bodies', detailed plans and to map out the key milestones and critical path activities of all organisations involved in delivering the Games and identify the dependencies between key activities, and any gaps, overlaps or pinch points. The aim is to develop an overarching Programme Plan which embraces all delivery activities (the build, staging and sports preparations, the transport and security infrastructure and operational planning, and the legacy planning and delivery).

1.13 The Executive expects to provide the Olympic Board with a first version of the Programme Plan by September 2008.

Progress towards establishing overarching risk management arrangements for the programme as a whole

1.14 Individual organisations, such as the Olympic Delivery Authority and LOCOG, have their own risk management arrangements, and provide the Government Olympic Executive with information on risks. We did not examine in detail those risk management arrangements, but focused on the Executive's programme-wide responsibility for identifying strategic and cross-cutting risks, and providing assurance to the Olympic Board on the delivery organisations' management of risk.

1.15 The responsibility for managing risk across the programme changed in September 2007, when the Department transferred responsibility from the former Olympic Programme Support Unit to the Government Olympic Executive. The Department made the change after the Committee of Public Accounts concluded that strong risk management arrangements were not yet in place, and in the light of a review commissioned by the Department.

1.16 The Government Olympic Executive has reviewed its risk management arrangements and as a result is working to develop a new overarching framework, with improved core processes and standards. Key actions taken are:

- the appointment in January 2008 of a Head of Programme Assurance and Risk Management, supported by a risk team whose members have programme management experience;
- the preparation of a draft risk management strategy, which had been circulated to stakeholders for comment at the time of our examination; and
- commencement of work to populate a strategic risk register; and initiation of a review of how risk management can best support decision-making.

1.17 Against this background we engaged consultants (Decision Analysis Services) to examine the progress made by the Government Olympic Executive in establishing arrangements for the management of programme-wide risks. The results are summarised below.

1.18 The Government Olympic Executive has established a process where individual organisations provide it with regular risk reports on the work for which they are responsible. A programme-wide standard for risk identification, assessment and reporting has not been established, so delivery organisations have developed their own risk management approaches, and therefore the content and format of the reports varies. At the time of our examination, the Government Olympic Executive was developing criteria to enable it to assess risk information on a consistent basis.

1.19 The Executive assesses the reports it receives to identify the most important risks. To help identify cross-cutting risks to the programme, which may not be visible to individual delivery organisations, the Executive has held risk workshops attended by its senior managers and examined risk information from other programmes such as the Manchester Commonwealth Games. In doing this work, however, the Executive generally uses risk data supplied by stakeholders.

1.20 The Executive has not yet completed its own assessment of strategic and cross-cutting risks to the Olympic programme. It is currently aiming to deliver its first assessment by September 2008, when the Executive is also intending to finalise its overarching Olympic programme plan and new risk management framework. Until then, the Executive will not be able to provide the Olympic Board Steering Group and the Olympic Board with assurance that all significant programme-level risks and dependencies have been identified.

1.21 Overall, with the delivery of a number of important and potentially inter-dependent projects already underway, further progress on the Government Olympic Executive's overarching risk management arrangements is essential. The Government Olympic Executive's aim is to have a robust and embedded framework in place by the end of December 2008.

PART TWO

Managing the budget

2.1 This part of the Report considers:

- the context of the March 2007 budget for the Games;
- the management of contingency;
- development of the Olympic Delivery Authority's cost estimates between March 2007 and March 2008;
- changes in the amounts of funding expected from the private sector;
- the management of cash flow;
- arrangements for the transfer of funds to the Olympic Lottery Distribution Fund; and
- costs which are outside the budget for the Games.

The context of the March 2007 budget for the Games

2.2 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 programme contingency (Appendix 3, Figure 17). In July 2007 we reported on the process to develop this budget.²

2.3 The largest part of the March 2007 budget, £6,090 million (which included an initial and provisional allocation of £500 million programme contingency to cope with early financial pressures), was allocated to the Olympic Delivery Authority for its delivery of the venues, transport and associated infrastructure. It was clear that most of the remaining programme contingency, if used, would also be for the Authority. Therefore, in this part of the report we focus on the Olympic Delivery Authority's budget.³

The management of contingency

2.4 The position on the £2,747 million programme contingency is that, as anticipated in the March 2007 budget, £500 million has been allocated to the Olympic Delivery Authority to manage early financial pressures and has been allocated to individual project budgets. In addition £238 million has been set aside for policing and wider security. The remaining £2,009 million of programme contingency is potentially available to the Olympic Delivery Authority, taking its maximum funding for venues and associated infrastructure to £8,099 million (**Figure 3**).

3 The funds available to the Olympic Delivery Authority

	£m
ODA budget March 2007	6,090
Total programme contingency provision announced in March 2007	2,747
Less	
Programme contingency made available to the Olympic Delivery Authority (within the March 2007 ODA budget of £6,090 million) ¹	500
Programme contingency funds set aside for policing and wider security (non-Olympic Delivery Authority costs)	238
	(738)
Remaining programme contingency potentially available for the ODA	2,009
Maximum funding available to the ODA	8,099

Source: National Audit Office

NOTE

¹ The Ministerial Funders' Group agreed allocation to the Olympic Delivery Authority in two tranches, £340 million in June 2007 and £160 million in November 2007.

² The budget for the London 2012 Olympic and Paralympic Games (HC 612, Session 2006-07).

³ The largest element of non-Olympic Delivery Authority expenditure in the March 2007 budget was a preliminary estimate of £600 million for policing and wider security, which we comment on in paragraphs 3.30 to 3.36.

2.5 The £2,009 million of remaining programme contingency has been split, reflecting the differing nature of risks and the ways they are to be managed:

- £968 million (hereafter referred to as the **'Olympic Delivery Authority Programme Contingency'**) is potentially available for Olympic Delivery Authority programme wide risks. The Olympic Delivery Authority's quantified risk assessment, in November 2007, indicated that, at a level of 80 per cent probability, a further £968 million, in addition to the Authority's base budget of £6,090 million, would be sufficient to deliver the Authority's planned programme. Eighty per cent is a generally accepted industry standard. Olympic Delivery Authority Programme Contingency relates to identified risks with the potential to impact on projects across the Authority's programme, for example, risks concerning the interdependency of projects on the Olympic Park, the impact of exchange rate fluctuations, unexpected ground conditions, and the availability of materials. Arrangements for the management of the £968 million have been put in place by the Government Olympic Executive so that any application by the Olympic Delivery Authority for access to the Olympic Delivery Authority Programme Contingency will be subject to scrutiny by the Olympic Projects Review Group and approval by the Minister for the Olympics. Release of the lottery funded element of Olympic Delivery Authority Programme Contingency is subject to approval by the Olympic Lottery Distributor.
- A further £1,041 million (hereafter referred to as the **'Funders' Group Contingency'**) is potentially available to meet the cost of residual risks. £1,041 million is the amount, as assessed in November 2007, remaining to cover residual risks over and above those covered by the Olympic Delivery Authority Programme Contingency. These include the possibility that the financial impact of the risks covered by the Authority's quantified risk assessment is greater than assessed; the possible impact of changes to legislation or the tax regime that are outside the Authority's control; and unpredictable events. Any application by

the Olympic Delivery Authority for access to the Funders' Group Contingency will be subject to scrutiny by the Olympic Projects Review Group and approval by the Ministerial Funders' Group.⁴ Grant for any lottery funded element of Funders' Group Contingency is subject to approval by the Board of the Olympic Lottery Distributor.

2.6 In addition to the £2,009 million contingency remaining at the programme level, there is £973 million, within the Authority's base budget of £6,090 million, for contingency at the project level. **Project level contingency** relates to risks on individual projects as if they were being carried out in isolation, and design and contracting uncertainties. £973 million is the sum of individual project level contingencies, at November 2007, for each of the 50 projects within the Authority's programme.

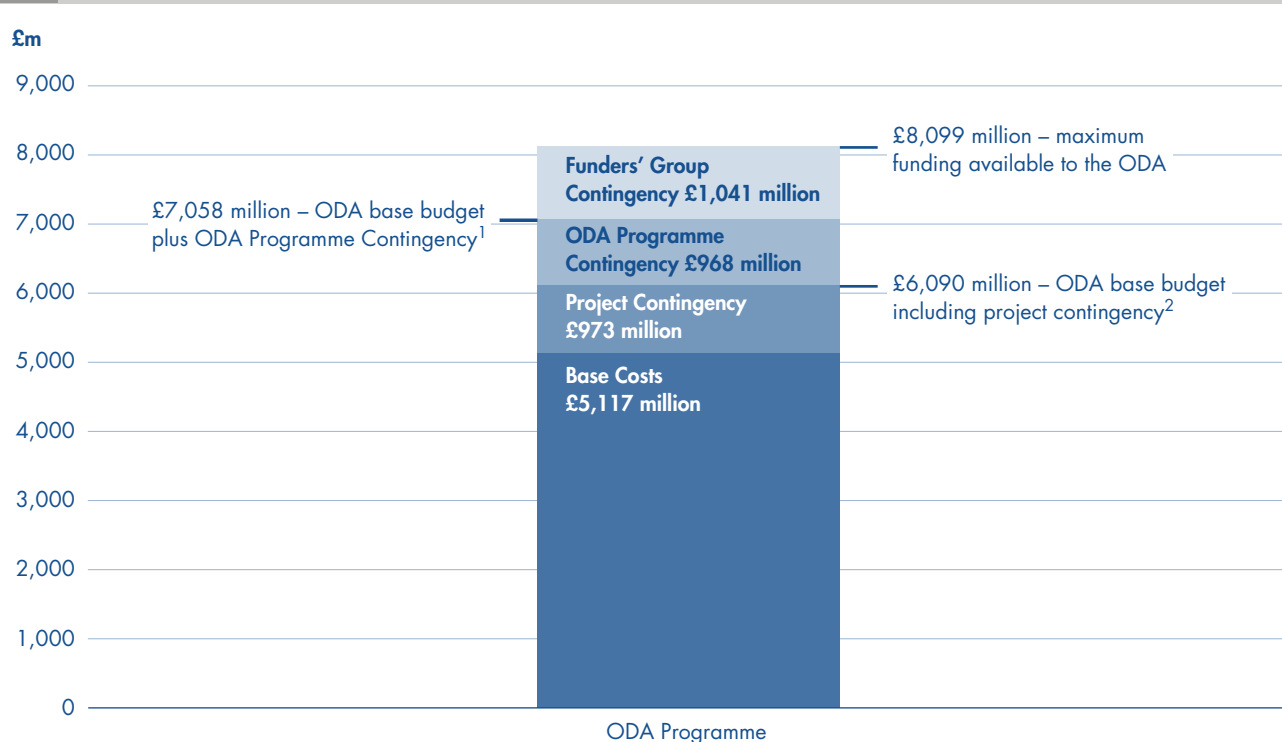
2.7 **Figure 4** shows the three different elements of contingency, as assessed in November 2007, and the maximum funding of £8,009 million potentially available to the Authority. The distinctions between the different elements of contingency and the arrangements for accessing these funds, if required, are explained in more detail in Appendix 4.

2.8 In view of the concerns expressed by the Committee of Public Accounts about any assumption that all of the contingency funds would be used, we looked at the arrangements for managing the further use of contingency, developed since March 2007. In summary, the position is that estimates of contingency needs have now been refined by a more detailed analysis of risk, and procedures for the control, approval and funding of any further calls on contingency are in place.

2.9 The Department recognises that contingency should be used only where there is a clearly demonstrated need. Circumstances may arise, however, where the early use of contingency funds lessens the risk of higher calls on contingency to bring the programme back on track at a later date. For example, if one project is delayed, and the start of other projects depends on its completion, the release of contingency funds may be justified to accelerate the first project and lessen the potential knock on effects, and costs, to the wider programme.

⁴ The Ministerial Funders' Group was established to manage the allocation of contingency funds. The Funders Group 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 may also attend.

4 November 2007 breakdown of contingency funds within the overall funding available to the Olympic Delivery Authority (ODA)



Source: National Audit Office analysis based on Olympic Delivery Authority and Government Olympic Executive papers

NOTES

1 Figure 5 sets out revised cost estimates of £7,095 million, which includes an additional £37 million for landscaping expenditure – identified as necessary by the Olympic Delivery Authority in November 2007 but funding for which will be subject to an application for release of Funders' Group contingency to be made later in 2008.

2 The budget announced in March 2007 included an initial and provisional allocation of £500 million (plus £88 million VAT) of programme contingency to cope with early financial pressures. The Olympic Delivery Authority has since allocated this funding to individual projects with some going into base costs and some into project contingency (and therefore the £500 million is within the £6,090 million base budget).

Development of the Olympic Delivery Authority's cost estimates between March 2007 and March 2008

2.10 Following the budget announcement in March 2007 (Appendix 3, Figure 17), the Olympic Delivery Authority continued its work, as intended, to develop more detailed plans for each project. By November 2007 the Authority had a clearer assessment of what it expected to pay for individual projects, reflecting: more detailed analysis of risks; maturing project specifications; revised plans for temporary venues; and progress with procurements and negotiations on deals involving private sector funding. The Authority had also allocated the March 2007 programme level provisions for contingency and additional construction inflation to individual projects.

The November 2007 Programme Baseline Report

2.11 The Olympic Delivery Authority's work to develop more detailed plans for each project led to the November 2007 'Programme Baseline Report'. The Minister for the Olympics announced the outcome of this work in December⁵, and the Department, in its first Annual Report on preparations for the Games⁶, published in January 2008 a breakdown of the Authority's budget. The Baseline Report sets out the scope, expected costs, cash flow, risks, assumptions, and key milestones for each of the Authority's projects up to and including conversion for legacy use after the Games. It sets out the Authority's plans for transformation of the Park for legacy, but does not set out, nor was it intended to, operational arrangements for the Park or venues after the Games. The Authority published a summary of the Programme Baseline Report in January 2008.⁷

2.12 The Programme Baseline Report forecasts total expenditure of £7,095 million, which includes the Olympic Delivery Authority's base budget of £6,090 million and £968 million Olympic Delivery Authority Programme Contingency. The Programme Baseline Report is the basis on which the Olympic Delivery Authority and Government Olympic Executive are now monitoring and reporting on costs for the life of the programme. Alongside completion of the Programme Baseline Report the Olympic Delivery Authority has strengthened its arrangements for monthly and quarterly performance reporting to the Department and other

funders and the Department has strengthened its capacity for understanding and challenging the Delivery Authority's reports.

2.13 The Programme Baseline Report uses different headings from the March 2007 budget (as will subsequent reporting by the Olympic Delivery Authority and Government Olympic Executive), because, since March 2007, the Authority has adjusted the budget format to better align with its internal reporting lines and groupings of projects. A reconciliation between the March 2007 budget and the November 2007 Programme Baseline Report is at Appendix 3, Figure 18, showing that the Olympic Delivery Authority's base budget, before any further use of remaining programme contingency, is the same as announced in March 2007.

2.14 An underlying assumption in the November 2007 Programme Baseline Report was that £853 million savings could be achieved from scope reductions, cost savings, and targeted efficiency savings. The savings arise mainly from re-configuration and re-specification of venues and infrastructure within the Olympic Park including, for example, moving the fencing competition from the Olympic Park to the ExCel centre in London Docklands, relocating basketball to the former fencing site, repositioning within the Park the indoor sports centre which will be used for handball during the Games, and re-specifying structures, bridges, highways and landscaping requirements.

The position in March 2008 compared with the November 2007 Programme Baseline Report

2.15 Figure 5 compares the Olympic Delivery Authority's latest forecasts (end of March 2008), in the light of emerging cost pressures and opportunities, with the Programme Baseline Report (November 2007). Overall, the Authority was forecasting a potential increase of £16 million on November 2007 and has drawn the attention of funders to the potential need for a future call on contingency if it is unable to make offsetting savings. In addition to cost changes, the overall increase of £16 million reflects the Authority's re-assessment at the end of March 2008 that £933 million, rather than the £968 million assessed in November 2007, was the level of Olympic Delivery Authority Programme Contingency required. The Olympic Delivery Authority is planning to re-run the quantified risk assessment, on which the level of programme contingency is based, every three months.

⁵ Hansard, 10 December 2007, cols 9WS-14WS.

⁶ London 2012 Olympic and Paralympic Games: Annual Report January 2008, Department for Culture, Media and Sport, January 2008.

⁷ Programme Delivery Baseline report, Olympic Delivery Authority, January 2008.

5 Comparison of the Olympic Delivery Authority's November 2007 Programme Baseline Report with the forecast of potential costs at March 2008

All figures in £ million, inclusive of VAT ¹	November 2007 Programme Baseline Report	March 2008 forecast of potential cost, after considering cost pressures and opportunities	Change
Site preparation and infrastructure	1,942	1,895	-47 ²
Venues	1,171	1,277	106 ²
Transport	897	869	-28
Other Park wide projects	868	868	0
Olympic Village, International Broadcast Centre/Main Press Centre	492	510	18
Programme delivery	647	660	13
Corporation tax and net interest	73	62	-11
Base budget before ODA Programme Contingency	6,090	6,141	51
ODA Programme Contingency	968	933	-35
Total after ODA Programme Contingency	7,058	7,074	16
Additional landscaping costs, subject to an application for release of Funders' Group Contingency ³	37	37	0
Total	7,095	7,111	16

Source: National Audit Office analysis of Olympic Delivery Authority data

NOTES

1 All costs are stated in terms of net cost to the Olympic Delivery Authority. 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); b) net of expected contributions from, and of costs to be borne by, the private sector (Olympic Village, International Broadcast Centre / Main Press Centre); and c) net of the estimated share in any future profits from the sale of the Village as housing after the Games.

2 The F10 Bridge forms part of the Aquatics Centre roof. Since November 2007, the Olympic Delivery Authority has reallocated £28 million of F10 Bridge costs from infrastructure to venues (see Figure 6).

3 The Programme Baseline Report identified £37 million expenditure on landscaping which is additional to that included within 'Site preparation and infrastructure'. The funding for this will be subject to an application for release of Funders' Group contingency to be made later in 2008.

6 Examples of changes to the Olympic Delivery Authority's forecast of potential costs since November 2007

Site preparation and Infrastructure

Infrastructure work (reduced from £1,942 million to £1,895 million, £28 million of which reflects the reallocation of F10 Bridge costs from infrastructure to venues). Good levels of market interest and competition have been achieved. The bids (and, where let, contract prices) have been on average within the November 2007 Programme Baseline Report.

For example, **on the Structures, Bridges and Highways** project, the March 2008 forecast of £688 million was £17 million less than the November 2007 baseline budget of £705 million. The four contract packages let so far were for values less than the pre tender estimates. Despite cost pressures elsewhere on the project, these savings have led to the overall reduction in forecast cost (see paragraph 4.16).

On site preparation, the March 2008 forecast was £334 million for 'enabling works', which covers the forecast cost of earthworks necessary to provide a stable platform for construction. The forecast is £30 million less than the November 2007 baseline budget of £364 million due to lower than expected levels of contamination and improved contractor performance.

Venues

On the main venues (increased from £1,171 million to £1,277 million), bids and contract prices have tended to be higher than the budgets in the November 2007 Programme Baseline Report. The Authority attributes this to maturing designs since November and to the industry viewing the venue projects as inherently high risk when factoring in the timetable for completion, high profile and reputational risk, and the outcomes on recent major projects (such as Wembley Stadium).

Source: National Audit Office

For example, **on the Main Stadium** project, the March 2008 forecast of the potential cost was £525 million, £29 million more than the November 2007 baseline budget of £496 million. This potential increase was due to:

- The outcome of the contract price negotiations, reflecting the development of the design and the lack of competitive tension in the procurement (paragraphs 4.18 to 4.21); and
- Cost pressures resulting from additional scope requirements. For example £6 million of potential additional costs arising from structural amendments to the roof of the Stadium to meet loading requirements for the opening and closing ceremonies. Who funds this remains to be agreed between LOCOG and the Authority.

On the Aquatics Centre, the March 2008 forecast of the potential cost was £247 million, £33 million more than the November 2007 baseline of £214 million. The F10 Bridge also forms part of the Aquatics Centre roof and, since November 2007, £28 million of its costs have been apportioned to the Aquatics Centre, which accounts for most of the £33 million increase in the forecast of potential costs. The latest forecasts include potential scope changes, such as additional athlete facilities. The November 2007 Baseline budget for the Aquatics Centre and the F10 bridge, combined, is £303 million, compared with the March 2008 forecast potential cost of £308 million (see paragraphs 4.22 to 4.27).

The Olympic Delivery Authority and the Government Olympic Executive are continuing to look for cost saving opportunities to offset the March 2008 forecasts of potential cost increases on the Main Stadium and the Aquatics Centre.

2.16 Since November 2007, a clearer picture has emerged on the construction industry's response to the Olympic Delivery Authority's invitations to bid for work, and progress has been made with procurements, with a broad pattern emerging where increased forecast costs for venues are offset by reduced forecasts elsewhere including site preparation and infrastructure (**Figure 6**).

Changes in the amounts of funding expected from the private sector

2.17 As the Committee of Public Accounts noted in its April 2008 report, the March 2007 budget reflected a reduction from £738 million to £165 million in the level of expected funding from the private sector. This forecast reflected a contribution towards the costs of utilities on the Olympic Park, and the forecast receipt from the sale of the International Broadcast Centre / Main Press Centre after the Games.

2.18 The expected private sector contribution, to the costs of these two projects, combined, has fallen by £5 million (we have not detailed the figures separately for these two projects because the Olympic Delivery Authority's assumptions remain commercially sensitive until contracts are finalised). Since March 2007, the nature of the deal to build the International Broadcast Centre / Main Press Centre has changed. Rather than an Olympic Delivery Authority funded asset which could be sold to the private sector after the Games, it will now be built and owned by a developer, with the Olympic Delivery Authority contributing towards the costs.

The management of cash flow

2.19 The £9,325 million budget for the Games is to be funded by central government (£5,975 million), the National Lottery (£2,175 million), the Greater London Authority (£925 million) and the London Development

Agency (£250 million). The Government Olympic Executive is responsible for securing a smooth flow of funds to the Olympic Delivery Authority so that the Olympic Delivery Authority is not delayed in taking forward its delivery programme.

2.20 The Executive has prepared a cash flow forecast for the life of the programme which clarifies when funds will become available from each source and shows that the funding should be sufficient to meet the Olympic Delivery Authority's forecast needs so long as the assumptions on which it is based hold good. The Executive recognises that the profile of expenditure is volatile given the scale and complexity of the programme. The main risk is that Olympic Delivery Authority expenditure differs from the profile, in particular that expenditure peaks more sharply than profiled (which may arise if work is brought forward in order to mitigate the risk of the immovable deadline). The Government Olympic Executive has developed a range of options for how to respond if this were to happen.

Arrangements for the transfer of funds to the Olympic Lottery Distribution Fund

2.21 The National Lottery is providing up to £2,175 million of the total funding for the Games. Besides the £750 million to be raised by designated Olympic Lottery games, and £340 million spending by the sports lottery distributors out of their existing funds, £1,085 million is to be transferred from general lottery proceeds held in the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund.⁸ The first transfer is scheduled for February 2009 and transfers will then take place quarterly through to August 2012. The effects of this transfer on individual lottery distributors were detailed in our July 2007 report on the budget for the Games.

2.22 The Department aims to repay £675 million to the National Lottery, which is reflected in the June 2007 agreement with the Mayor of London to share in profits generated by the increase in land and property values in the Olympic Park. Any profits arising from the sale of land and property after the Games will first be used to reimburse the London Development Agency's acquisition costs (currently estimated at £650 million), before being shared with the Lottery. To repay £675 million to the Lottery, receipts from the sale of land and property will need to reach a total of £1,800 million.

Costs which are outside the £9,325 million budget for the Games

2.23 In its first Annual Report on preparations for the Games, published in January 2008, the Department set out areas of expenditure associated with successful delivery of the Games and its legacy which are not part of the £9,325 million budget for the Games. These included:

- LOCOG costs for staging the Games. LOCOG has a budget of some £2 billion and is expected to be self-financing (with the exception of a contribution from public funds towards the cost of staging the Paralympic Games, for which the £9,325 million budget includes a provision of £66 million), through sponsorship, ticketing, merchandising and contributions from the International Olympic Committee. We comment further on LOCOG at paragraphs 3.26 to 3.29.
- The purchase of the land for the Olympic Park by the London Development Agency. The Government and the Mayor agreed in June 2007 to arrangements for sharing profits once the London Development Agency has first been reimbursed from sales of land and property after the Games (paragraph 2.22).
- The costs incurred by government departments and their agencies on Olympic related work. These costs include the Government Olympic Executive, within the Department for Culture, Media and Sport, which had running costs of £5.4 million in the year ending March 2008 and currently employs 75 staff. The costs incurred by government departments and their agencies also include delivery of the wider legacy commitments detailed in the Legacy Action Plan (paragraph 3.43), which are to be funded out of their existing resources.

2.24 The Olympic Delivery Authority's budget includes provision for the costs of transport projects which the Authority is delivering itself, and for its contributions to projects for delivery by others. The wider costs, however, of improving transport links in and around London are not included within the £9,325 million budget for the Games. These projects are not specifically being delivered for the relatively short period of the Olympic and Paralympic Games themselves, but are essential to their successful staging. The Olympic Delivery Authority's transport strategy has been prepared on the basis of some £5 billion worth of transport improvements, primarily being funded by the Department for Transport and Transport for London.

⁸ The National Lottery Distribution Fund holds the money raised for good causes by the mainstream (i.e. non-Olympic) lottery games. The Olympic Lottery Distribution Fund holds the money raised for the Games from both the designated Olympic lottery games and that transferred from the National Lottery Distribution Fund.

PART THREE

Progress across the programme

3.1 The Olympics will begin in London on 27 July 2012 and end on 12 August, with the Paralympics following from 29 August to 9 September 2012, so the organisations involved in delivering the Games have a fixed deadline. We looked at the progress made on:

- the Olympic Delivery Authority's construction programme;
- securing the deal for the Olympic Village;
- LOCOG's preparations towards successfully staging the Games;
- the arrangements for the policing and wider security of the Games;
- legacy planning; and
- developing and implementing strategies for sustainable development.

Progress made on the Olympic Delivery Authority's construction programme

3.2 The majority of the Authority's spending will be on developing the Olympic Park, some 500 acres of previously used and contaminated land in the Lower Lea Valley in East London where access is severely limited by existing roads, railways and waterways. The preparation of the Olympic Park site and the procurement of the main construction contractors for the venues and infrastructure started in earnest in mid-2006. As plans for the design and layout of the Olympic Park have been firmed up, and stakeholders have provided more information on their requirements, the Authority has continually reviewed its plans for delivering the venues and infrastructure for the Games. In November 2007 the Authority produced the Programme Baseline Report which details the activities which are critical to the successful completion

of its delivery programme, sets out the scope, expected costs, cash flow, risks and key milestones for individual projects, and is the baseline against which progress will be reported for the life of the programme (we comment on development of the Programme Baseline Report in paragraphs 2.11 to 2.14).

3.3 The scale of the Authority's activities, which consists of 50 individual projects across three main areas of activity, is illustrated by **Figure 7**.

3.4 The Olympic Delivery Authority appointed the CLM Consortium in September 2006 as its Delivery Partner to provide expert support and resource in managing the delivery of the programme and to take control of overall management of construction activities. The Delivery Partner is supplementing the Authority's own resources by bringing construction and programme management expertise and experience of previous Games and other large scale construction projects. Since November 2007 the Authority has continued to draw on the expertise of CLM to help it assess the feasibility of the construction schedules proposed by contractors, negotiate to keep them within or as close as possible to the baseline milestones, and develop the arrangements for monitoring contractors' progress.

3.5 At the end of March 2008 the Olympic Delivery Authority was broadly on track against its milestones for the major infrastructure and venue projects, and in some cases is ahead of key targets. **Figure 8** shows the progress made on preparing the Olympic Park, a complex site with a history of contamination. In particular:

- Over 80 per cent of the existing buildings on the Olympic site had been demolished, four per cent ahead of the planned schedule, with some being retained (in non-critical areas) as on-site stores and offices to save on budgets for temporary buildings.

7 The Olympic Delivery Authority's main construction activities

Site preparation and infrastructure, comprising 9 projects

- The preparation of the site ready for construction including 'enabling' works (such as earthworks, remediation, and demolition), utilities, power line under grounding, landscaping and the construction of structures, bridges and highways. 27 new permanent bridges will be built and 10 existing bridges refurbished, dissecting waterways, railways and roads on the Olympic park site.

The venues and other facilities, comprising 16 projects

- The newly built permanent venues in the Olympic Park will include the Main Stadium, Aquatics Centre, Velodrome, Eton Manor, and an indoor sports centre (used for handball during the Games).
- The Olympic Village and the International Broadcast Centre/Main Press Centre – where the Authority is making a capital contribution to lever in private sector financing and is procuring developers to design, build, finance, own and operate the asset both during and after the Games.

- Off Park venues such as Broxbourne (canoe and kayak slalom), Eton Dorney (rowing) and Weymouth and Portland (sailing).

Other programme activities, comprising 25 projects, including:

- The logistics sub-programme to manage and co-ordinate the supply and movement of workers, materials and equipment around the Olympic Park site to service the various projects and contractors.
- Transport – a range of projects contributing to wider transport rail, underground and road programmes and projects that are essential to the successful staging and delivery of legacy benefits. Most of the Authority funded or led work is where external transport projects interface with the Olympic Park.
- Other projects such as site security.

Source: National Audit office analysis of the Olympic Delivery Authority's November 2007 Programme Baseline Report

8 Progress on the Olympic Park site preparation

Site Activity	Unit	Performance against planned position at the end of March 2008			Progress made by the end of March 2008 against the total work required to prepare the site		
		Plan ¹	Actual	% of actual to plan	Total	Actual	% Complete
Vacant Possession	Number	206	204	99	217	204	94
Demolitions	Number	176	183	104	222	183	82
Site Clearance ²	m ²	1,149,536	1,035,505	90	1,600,000	1,035,505	65
Site Investigations ³	Number	2,719	2,728	100	2,800	2,728	97
Cut ⁴	m ³	644,653	828,969	129	1,900,000	828,969	44
Fill ⁵	m ³	520,696	509,467	98	1,700,000	509,467	30
River walls ⁶	m	670	670	100	1,100	670	61
Soil treatment ⁷	m ³	134,989	117,477	87	850,000	117,477	14

Source: National Audit Office examination of Olympic Delivery Authority site works progress reporting

NOTES

- 1 As detailed in the November 2007 Programme Baseline Report.
- 2 The area to be cleared of materials on the ground such as vegetation, minor structures and concrete.
- 3 The number of locations investigated across the Olympic Park site.
- 4 The volume of material (such as soil) excavated to shape the Olympic Park site.
- 5 The volume of material (such as soil) placed to shape the Olympic Park site.
- 6 Piling activity on river walls.
- 7 The volume of cut material (in particular soil) treated (washed) to make it suitable to be used as fill.

- Over 97 per cent of the site had been investigated for issues such as contamination. The treatment (decontamination) of otherwise unusable material is behind schedule because of a lower than expected throughput of the soil washing machine. To address the delays in soil washing, extended working hours are currently in place and an additional soil washing machine became operational in May 2008. The Olympic Delivery Authority does not expect the delays in soil washing to delay any of the main venue projects.
- Two thirds of the site had been cleared of materials on the ground, such as vegetation, and in some individual project sites work been accelerated to bring forward the start dates on major venue projects, in particular the Main Stadium. Site clearance is, however, behind schedule overall, as some areas of the site have been used to stockpile material for reuse across the park rather than being cleared. The Authority considers that these areas are not critical to the construction programme.
- The volume of earth excavated (cut) from the site to shape the Olympic Park was 29 per cent ahead of schedule.

3.6 On 6 May 2008, the Authority handed over formal authority for the management of the construction activities on the Olympic Park site to CLM. This is a key milestone because, under its contract with the Authority, payments to CLM are linked to the delivery of the agreed construction projects to time and budget.

3.7 The Authority started its construction activities on the Olympic Park in 2008, in some cases earlier than planned, and still expects to complete construction activities during 2011 as forecast. **Figure 10 on pages 26 and 27** shows the forecasts in place at the end of March 2008 for the start and completion dates of the major infrastructure works, venues and other facilities to be delivered by the Authority, compared with the dates set out in the November 2007 Programme Baseline Report.

3.8 On the main venues, the changes in forecast construction completion dates, in some cases later than planned, reflect the outcome of discussions with contractors on the length of the construction phase. In these cases the Authority has sought to manage the impact on delivery by securing earlier start dates, and incentivising contractors to come within the agreed target completion dates (paragraphs 4.32 to 4.34).

3.9 A key date on each venue and facility is the planned hand over to LOCOG which has responsibility for overlay (the temporary works required for the staging of the Games) and the operation of the venues and other facilities during test events and the Games. Experience across many construction projects shows that the teams who will operate the asset need sufficient time to familiarise themselves with, and to fully test, the facility before it becomes operational. On both the Main Stadium and the Aquatics Centre, although the construction periods agreed with the main contractors are longer than the Authority forecast in November 2007 there is limited impact on the planned dates for the test events. The Authority has sought to manage the impact on LOCOG overlay work by building early access dates for LOCOG into the Main Stadium and Aquatics Centre contracts, so that LOCOG can carry out the initial overlay work necessary to prepare the venues for test event readiness in parallel with construction. Figure 10 shows, at the end of March 2008, no delay in the forecast date for readiness for test events on the Main Stadium, and the Aquatics Centre is scheduled to be complete one month later than forecast in November 2007.

The progress in providing logistical support for construction activities

3.10 The Olympic Park site is complex as it comprises a series of individual projects each with its own teams of contractors and sub contractors, combined with adjacent non-Olympic projects such as the Stratford City Retail development that will require access through the Olympic Park site. Recognising that complex site interfaces could be a source of inefficient working, disruption and dispute, the Authority has decided to assume central responsibility for logistics management rather than leave this to the project contractors or contract it out to a third party. The Authority has concluded it is in a better position than individual contractors to manage the risks, that reducing the risk for contractors makes the programme more attractive to the market, and that it will enable more efficient site management and more effective delivery of logistics and site security. The Authority recognises that there is a risk of claims should delays caused to contractors be directly attributable to the Authority's logistics management.

3.11 The Logistics sub-programme is designed to be responsive to the demand from the various construction activities, and consists of over 60 individual packages of work. Just over half of the planned procurements are complete, and while running just behind the planned procurement target for the end of March 2008, the Authority considers the delays are in line with demand and are not putting at risk overall progress at this stage. The November 2007 baseline budget for the Logistics sub-programme is £337 million.

Progress on Olympic Park site security

3.12 The Authority is responsible for security on the Olympic Park site during construction and the Programme Baseline budget includes £354 million for this project. During the course of 2008 the Olympic Project Review Group has approved five Authority business cases for different aspects of physical security on the Olympic Park including, for example, access control which will involve turnstiles, proximity passes and swipe cards for entry to the park during construction. All the site security projects have to date been approved by the Olympic Security Directorate (see paragraph 3.31 for an explanation of the role of the Directorate).

Whether the Olympic Delivery Authority's expenditure is on track

3.13 Tracking actual spending against forecasts provides a broad indicator of whether progress on construction is being made at the required rate to deliver the Games on time and budget. By March 2008 the Olympic Delivery Authority had recorded cumulative gross expenditure for the programme to date of £941 million, which is £115 million, or 11 per cent, below its forecast of £1,056 million (**Figure 9**). Net expenditure, which takes account of contributions from the London Development Agency to enabling works, was £108 million below forecast. Contributions received from the London Development Agency are lower than forecast because expenditure on activities to which the Agency will contribute (site preparation) is lower than expected.⁹

9 Olympic Delivery Authority expenditure to 31 March 2008

Figures in £ million	Forecast	Actual	Variance
Total Expenditure to 31 March 2008	1,056	941	(115)
Contributions received	(90)	(83)	7
Net Expenditure	966	858	(108)

Source: Olympic Delivery Authority, draft statutory accounts for the period to the end of March 2008

3.14 At this stage in the programme the Olympic Delivery Authority considers that the underspending does not indicate a problem with overall progress against the timetable. The main reasons for the underspending are:

- some delays to procurement activities to reassess designs and costs, mainly on the structures, bridges, highways and utilities projects;
- savings on some activities within the enabling works project, combined with delays on soil treatment works and site clearance; and
- payments associated with the deal for the Olympic Village, which have not been made because the deal has not yet been finalised.

The progress made on procurement

3.15 The Authority plans to directly procure 121 main (or 'first tier') contractors, and to do so via the Official Journal of the European Union (OJEU)¹⁰. The 121 procurements are for infrastructure, venue, security, transport, logistics, and corporate procurements over the OJEU threshold, or those deemed by the Authority to be of strategic importance. Of the 121 main procurements, 63 are considered by the Authority to be on the programme critical path, or are likely, if delayed, to impact on the completion of the programme to schedule. Of these 63 procurements, the Authority had awarded 23 of the 33 contracts that it had planned to award by the end of March 2008.

3.16 The delays in procurement of the main contractors are mainly attributable to the time taken to produce specifications, obtain project specific planning permissions, obtain necessary stakeholder input, and project teams having to work with contractors to reassess designs and costs. For example, the contract for the Main Stadium was signed on 17 March 2008, five months behind schedule. The delay mainly reflects the length of time needed to resolve design and legacy uncertainties and to reduce the cost of the project following the contractor's initial bid which was considerably higher than the target budget.

3.17 To avoid holding up the design and construction work the Authority entered into a Memorandum of Understanding with the contractor to enable the design work to continue in parallel with the procurement. In the meantime, site clearance work was proceeding ahead of schedule enabling the start of the Main Stadium construction in May 2008, two months ahead of the planned date of early July.

⁹ Expenditure figures are taken from the Olympic Delivery Authority's draft statutory accounts for the period to the end of March 2008. Final audited accounts had not been produced at the time of this report.

¹⁰ The Official Journal of the European Union is the official means of informing UK and international contractors about procurement opportunities above a defined threshold value.

10 The start and completion dates for the construction of the main venue and infrastructure projects delivered by the Olympic Delivery Authority at the end of March 2008 compared with the milestones in the November 2007 Programme Baseline Report

Project	Construction start date			Construction end date		
	November 2007 programme baseline	March 2008 Forecast	Change in start date (months)	November 2007 programme baseline	March 2008 Forecast	Change in end date (months)
Enabling Works (site preparation)	October 2006	October 2006	0	September 2009	September 2009	0
Power Lines Under Grounding (switchover only)	July 2008	July 2008	0	September 2008	November 2008	2
Structures, Bridges and Highways	April 2008	April 2008	0	December 2011	December 2011	0
Utilities	January 2008	January 2008	0	December 2011	August 2011	-4
Main Stadium	July 2008	May 2008	-2 ¹	Construction end date February 2011	Construction end date April 2011	2
				Completion date for construction and initial overlay for test events June 2011	Completion date for construction and initial overlay for test events June 2011	0
Aquatics Centre	September 2008	September 2008	0	Construction end date April 2011	Construction end date August 2011	4
				Completion date for construction and initial overlay for test events July 2011	Completion date for construction and initial overlay for test events August 2011	1
Velopark	March 2009	March 2009	0	April 2011	February 2011	-2
Handball/Indoor Sports Arena	August 2009	June 2009	-2	April 2011	March 2011	-1
Basketball	July 2009	November 2009	4	April 2011	April 2011	0
International Broadcast Centre/ Main Press Centre	May 2009	March 2009	-2	June 2011	July 2011	1
Olympic Village	June 2008	May 2008	-1	December 2011	December 2011	0
Eton Manor (training facilities and Paralympic events)	March 2010	January 2010	-2	February 2012	April 2011	-10
Broxbourne (white water canoeing)	August 2008	May 2009	9	June 2010	October 2010	4
Eton Dorney (rowing)	March 2009	January 2009	-2	April 2010	July 2009	-9
Weymouth and Portland (sailing)	May 2008	January 2008	-4	February 2009	January 2009	-1

Source: National Audit Office examination of actual and forecast progress against the November 2007 Programme Baseline

NOTE

¹ The planned construction start date on the Main Stadium was July 2008. The contractors were given access to the Main Stadium site three months earlier, in April 2008, and construction work on the site began in May 2008, two months ahead of the planned construction start date.

Comments

Elements of enabling works are critical to the Authority's delivery programme. Good progress has been made and where delays have occurred this has not delayed the start of construction activities. See paragraphs 3.5 and Figure 8.

The PLUG project is critical to the delivery of the Olympic Park as it will remove overland power lines from the site and allow the switchover to under ground power cables. In June 2007 the Authority achieved a critical project milestone, completion of the two main 6km power line tunnels on time and to budget. This was a high risk activity given the need to bore tunnels through a complex site and had the potential to seriously delay the site preparations. The Authority expects to switch power to the underground cables by November 2008.

Elements of the Structures, Bridges and Highways project are critical to the Authority's delivery programme. Progress is on track, with the first four contract packages successfully procured and work underway (the four most critical elements of the project).

The Utilities project is critical to the Authority's delivery programme. The Authority has re-scheduled utilities works to meet the planned needs of venues on the park, in particular the utility requirements for test events.

Construction of the Main Stadium and its readiness for test events is critical to the Authority's delivery programme. At the time of the November 2007 Programme Baseline Report, which was before contract signature, construction of the Main Stadium was scheduled to be completed in February 2011, to be followed by LOCOG overlay works for test events which were to be completed by June 2011. To date good progress has been made on site preparation, which has allowed construction to start in May 2008, two months earlier than planned.¹ As a result of contract negotiations the Authority has agreed a longer construction period than anticipated (35 months rather than 32). The Authority has, however, built early access dates for LOCOG overlay works into the contract so overlay can be carried out in parallel with the construction work. The forecast date for readiness for test events remains at June 2011.

Construction of the Aquatics Centre and its readiness for test events is critical to the Authority's delivery programme. At the time of the November 2007 Programme Baseline Report, which was before contract signature, construction of the Aquatics Centre was scheduled to be completed in April 2011, to be followed by LOCOG overlay works for test events which were to be completed by July 2011. As a result of contract negotiations, the Authority has agreed a longer construction period. The Authority considers, however, at this stage the impact on the date of readiness for test events is minimal. The Authority has built early access dates for LOCOG overlay works into the contract so that overlay can be carried out in parallel with the construction work. The forecast date for readiness for test events of August 2011 is one month later than originally expected.

Broadly on track (and currently forecast to be completed ahead of schedule).

Started early and currently forecast to be completed ahead of schedule.

The start date for construction of this temporary venue was put back four months, but the project remains on track for delivery in April 2011.

The construction of the International Broadcast Centre/Main Press Centre is critical to the Authority's delivery programme. The Authority expects to sign the contract on the deal by the end of June 2008. In the meantime, the design and construction is on track.

The Olympic Village site is now clear. Planning applications for the first three blocks of the apartments have now been submitted and piling started in May 2008. See paragraphs 3.20 to 3.25 on the progress towards finalising the deal for the Village.

The delivery strategy for the Eton Manor area on the Olympic Park has been significantly refined since the November 2007 Programme Baseline. Construction of the different elements making up the Eton Manor project (for example Paralympic Tennis and Archery) will now be procured as one package of work and, as at the end of March 2008, the Authority expects that construction will be complete in April 2011.

Investigations into ground contamination at the Spitalbrook site in Broxbourne, Hertfordshire, (planned for the white water canoeing course) revealed the site is unsuitable. The venue will be relocated to an alternative site, six miles south of the planned site, at the Showground in Broxbourne.

The latest planned start and finish dates for the project (which is non-critical to the delivery of the Authority's programme) have been determined using improved information on Games time requirements.

Construction started ahead of schedule and is forecast to be delivered one month early.

3.18 To date delays in individual procurements have been managed within the overall programme timetable. The Authority recognises, however, that if delays were to continue, it would become increasingly difficult to manage the potential impacts on the budget and schedule of work and that, for example, delays in resolving design issues could create pressure for late changes with the potential for cost increases.

3.19 By the end of March 2009 the Olympic Delivery Authority expects to have entered into contractual arrangements on individual projects which it anticipates will result in £5,088 million of expenditure (including management overheads) – 83 per cent of its base budget, before programme contingency, of £6,090 million. At the end of March 2008 the Olympic Delivery Authority had awarded contracts to the value of £2,700 million (45 per cent of its base budget of £6,090 million). The contracts awarded include the relatively larger and more complex contracts for the Main Stadium, Aquatics Centre, and 70 per cent (by value) of the contracts to be awarded under the Structures Bridges and Highways project (the single biggest wholly Authority funded project in the programme).

Progress on securing the deal for the Olympic Village

3.20 For the Games, the Olympic Village will have to accommodate some 17,000 athletes and officials during the Olympic Games (and some 6,500 for the Paralympic Games). The Village accommodation will be converted after the Games into around 3,500 residential units, 30 per cent of which are to be affordable housing.

3.21 The development of the Village is to be led, and mainly financed by, the private sector (with the private sector financing for this project outside the March 2007 budget). It has, however, always been the intention that any Olympic Delivery Authority contribution would come out of the public funding for the Games. Taking private and public sector contributions together the Olympic Village is the single biggest project in the London 2012 programme in terms of value and physical scale, and the Authority estimates that construction will cost over £1 billion in total.

3.22 The deal for the Olympic Village is complex involving a number of parties including, for example, the private sector developer of the adjacent Stratford City Retail Centre. In February 2007, following a competitive procurement process Lend Lease¹¹, was selected as the

preferred developer for the Village. Since then the Authority has been working with Lend Lease and the other interested parties, including LOCOG on the Games requirements for the Village, to resolve design and planning matters, and to finalise the deal in terms of the respective levels of financial contribution, costs, specification, the risks to be borne by each party, and the share in any future profits from the sale of housing after the Games.

3.23 The Authority was expecting to agree the deal by December 2007, but at the time of this report negotiations were ongoing. The uncertainty in the financial and property markets has increased the difficulties in securing private sector finance and required reconsideration of the commercial viability of the deal. On current estimates the Authority considers that a deal can be agreed in principle with the developer by the end of September 2008. Any such deal would, however, be conditional on the developer securing funding, which the Authority considers could realistically be before the end of 2008. In the meantime, to keep the project on track, work has continued on the preparation of the site for the Olympic Village and procurement of the main contractors, and construction on the Village, which started in May 2008, has not been delayed. The Olympic Delivery Authority has paid for the site work to date as part of its planned capital contribution to the project.

3.24 It is likely that the existing deal will require restructuring, although the precise details have not been finalised and remain commercially sensitive. Any restructuring of the deal could give rise to cost pressures on the London 2012 programme, and the Department and the Authority are considering how they can be managed within existing budgets and contingency.

3.25 The Authority informed us that if a call on the contingency did arise it would seek a share of future profits to offset its increased investment in the project. There is also the possibility that the deal might fall through, so the Government Olympic Executive and the Authority are developing alternatives for how the financing might be put together, within the available public sector funding for the Games. Given the uncertainty over potential cost pressures on the Village project, and the ongoing consideration of alternative ways to finance the deal, it is not possible at this stage to determine the impact on the budget for the Games.

11 A multi-national property group specialising in project management and construction, real estate investment and development.

LOCOG's preparations towards successfully staging the Games

3.26 LOCOG has a budget of some £2 billion, which is not included in the £9,325 million budget for the Games because it is intended to be self-financing (with the exception of a contribution from public funds towards the cost of staging the Paralympic Games, for which there is a provision of £66 million), predominantly through sponsorship, ticketing, merchandising and contributions from the International Olympic Committee. The Committee of Public Accounts has previously noted that, as the guarantor of funding for the Games (which includes meeting any ultimate shortfall between LOCOG's costs and revenues) the Government is financially exposed. The Committee recommended that the Department develop a plan for satisfying itself that LOCOG's costs are under control and revenues are on track.

3.27 The Government Olympic Executive has set up arrangements for monitoring LOCOG's progress and has formed a Staging Team to do this. The Executive has a series of regular stock-taking meetings at various levels with LOCOG; and the Minister for the Olympics has appointed an experienced business figure to LOCOG's Board who also sits on the Audit Committee. LOCOG is introducing more comprehensive financial and programme management reporting to the Executive, with the first of new quarterly reports from LOCOG to cover the period to the end of June 2008. The Executive plans to increase the capability of the Staging Team as planning for the Games moves into the London Olympiad (after the Beijing Games).

3.28 By the end of March 2008 LOCOG had secured six domestic sponsors for deals worth a total of £317 million, approaching some 50 per cent of its target for the Games. By the end of March 2008 LOCOG's spending had reached £76 million, of which £51 million was spent in 2007-08 compared with a forecast of £57 million. The underspending in 2007-08 was mainly due to reduced expenditure on staff and property compared with original forecasts. Cumulatively, LOCOG had spent less than four per cent of its total budget by March 2008; its spending will peak in the months immediately prior to the Games.

3.29 LOCOG was established by a joint venture agreement between the Secretary of State for Culture, Media and Sport, the Mayor of London and the British Olympic Association. In addition to being the central government organisation to which LOCOG is accountable (as well as to the other two principal stakeholders), the

Department, through the Government Olympic Executive, has the role of co-ordinating 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 infrastructure projects necessary for the staging of the Games, and to make arrangements for the entry of Games related personnel to the UK.

The arrangements for the policing and wider security of the Games

3.30 The Government has committed to delivering a secure Olympic and Paralympic Games. The objectives are to:

- deliver effective and proportionate security;
- provide a full state of operational readiness;
- ensure fully joined up governance in relation to the security approach; and
- ensure community confidence, reassurance and satisfaction with the security approach.

3.31 Management of the policing and wider security programme is the responsibility of the Home Office, and is overseen by a Cabinet Office Committee, chaired by the Home Secretary (**Figure 11 overleaf**). It is distinct from the responsibilities of the Olympic Delivery Authority for site security on the Olympic Park during construction, on which we comment at paragraph 3.12. As part of its overall responsibility for Games security, and under revised arrangements established in April 2008, the Home Office has taken on responsibility for developing the overall costed safety and security plan (operational planning for the security programme was previously headed by an Olympic Security Co-ordinator – the Assistant Commissioner of the Metropolitan Police). The Home Office is supported by the Olympic Security Directorate, based in the Metropolitan Police, which brings together the various departments and agencies involved in providing safety, security and resilience for the Games. The Government Olympic Executive's role is to keep the security arrangements closely aligned with the Olympic programme through its membership of the Home Office's Olympic Safety and Security Strategic Steering Group.

11 Governance of policing and wider security



Source: National Audit Office

3.32 The Home Office appointed a Security Programme Director in March 2008 and, in April, assigned overall responsibility to a Board level official. Important security work, such as the assessment of transport security threats, has previously been carried out by a working group established by the Olympic Delivery Authority. The Olympic Security Programme Director will now have oversight of that work. The Home Office is also looking to strengthen capacity and skills, particularly in financial and programme management, within its Olympic security programme team.

3.33 The budget for the London 2012 Games announced in March 2007 included a preliminary estimate of the cost of policing and wider security of £600 million and a further £238 million for security programme contingency.¹² The costs were to be met from within existing funding allocations for those departments and agencies responsible for policing and wider security. Detailed budgets or financial forecasts for policing and wider security are not yet in place but are being developed.

3.34 In March 2007 the Department for Culture, Media and Sport told the Committee of Public Accounts that an operational plan for wider policing and security was being drawn up by the then Olympic Security Co-ordinator (Metropolitan Police). Limited progress was, however, made during 2007 in developing an overall costed programme plan. In January 2008 the Home Office was tasked by the Ministerial sub-Committee on Protective Security and Resilience with overseeing the delivery of a costed security programme plan, and the first draft was expected by March 2008. Following progress discussions with Ministers in March, the Home Office is now planning to prepare by June 2008 high-level costed options on the scope of the security programme, and to deliver a fully costed programme plan by the end of 2008 within a £600 million funding limit. The Home Office is also in the process of establishing arrangements to provide the Government Olympic Executive on a regular basis with the information it needs to monitor security spending within the overall £9,325 million budget for the Games.

3.35 Delays in determining a comprehensive set of policing and security requirements could impact on taking forward security activities that require an early start, and impact on other parts of the London 2012 programme. For example, no decision has been made about the requirement for a National Olympic Co-ordination Centre to accommodate a strategic command and intelligence centre for Games security operations. If a permanent

¹² This excludes the Olympic Delivery Authority's budget of £354 million for on-site security during construction of the Olympic Park and other venues and LOCOG's £23 million provision for in-venue security.

structure with legacy benefits were required, project plans would require approval in 2008-09 for it to be completed in time for the Games. The option of using a temporary Centre, which would reduce the lead time, is also being considered. The Home Office has confirmed that it will consider time-critical business cases that cannot be deferred until an overall costed plan has been agreed.

3.36 More widely, the development and procurement of the Olympic Delivery Authority's venue and infrastructure construction projects should have been informed by the wider security programme plan. In the absence of such a plan, however, security advisers have been closely involved in the Authority's development of the venue and infrastructure specifications, and the Authority, to keep the construction programme on track, has adopted a pragmatic approach and proceeded with the best security information available while work on the wider security programme plan continues. The delay in security planning increases the risk of time delays and cost overruns to venues and infrastructure if late and significant changes in security are required once security planning has been completed.

Progress on legacy planning

3.37 The prospect of the legacy that hosting the Olympic and Paralympic Games would bring was a key element of London's bid. Legacy can be viewed in terms of the venues, infrastructure, the Park that will remain after the Games, and the wider benefits that the Games are expected to bring to London (including training and employment opportunities) and the UK more generally. The Committee of Public Accounts has previously highlighted a lack of clarity over how venues will be used after the Games and over plans for delivering wider UK benefits from the Games, so we looked at progress in these areas.

Legacy planning for the Olympic Park

3.38 Five permanent sports venues are to remain on the Park after the Games (Figure 12), and the Olympic Delivery Authority's budget covers construction of the venues and their conversion for legacy use.

3.39 The London Development Agency was designated by the Olympic Board, in April 2007, as the 'interim legacy client' for the Olympic Park, pending confirmation of the body which would assume responsibility, after the Games, for the operational management of the Park. The London Development Agency, working with the Olympic Delivery Authority, is now leading work to develop a business plan for the future of the Olympic Park and a 'Legacy Masterplan Framework', due in May 2009,

12 The five permanent venues on the Olympic Park and their planned legacy use

Venue	Planned legacy use
Main Stadium	25,000 seat stadium for staging athletics events and other potential uses such as football and/or rugby.
Aquatics Centre	Two 50-metre pools and a 25-metre diving pool to accommodate users at the elite, development, local club and community levels. Permanent capacity for 2,500 spectators.
Velo Park	A 6,000-seat velodrome, a one mile road circuit, BMX track, mountain biking course, and cycle speedway circuit.
Indoor Sports Centre	The Handball arena for the Games is to be converted into a multi-use sports facility for community use, athlete training and small to medium scale events.
Eton Manor	Eton Manor is the northern most area of the Olympic Park, with facilities for Olympic Games athlete training and Paralympic Games tennis and archery. In legacy, the area will provide a community and elite facility, incorporating hockey pitches, tennis courts and five-a-side football pitches.

Source: National Audit Office

setting out the strategy and action plan for transforming the Park after the Games and for its integration with surrounding communities.

3.40 The continuing legacy planning could affect the assumptions underpinning the Olympic Delivery Authority budget and the specifications it has agreed with contractors, with any late changes impacting on time and cost or on deals negotiated with developers.

Planning for delivery of wider UK benefits from the Games

3.41 Besides the physical legacy of the Olympic park, the concept of legacy encompasses the sporting, economic, social, health, cultural and environmental benefits of the Games for the UK. The Government Olympic Executive is responsible for co-ordinating legacy activities across UK Government and its agencies.

3.42 In June 2007, having re-appraised the legacy objectives for the Games the Department for Culture, Media and Sport published 'Our Promise for 2012 – How the UK will benefit from the Olympic Games and Paralympic Games', setting out five key legacy promises that the Government intends to deliver (Figure 13 overleaf).

13 The five legacy promises

- We will make the UK a world-leading sporting nation
- We will transform the heart of East London
- We will inspire a new generation of young people to take part in volunteering and physical activity
- We will make the Olympic Park a blueprint for sustainable living
- We will demonstrate the UK is a creative, inclusive and welcoming place to live in, visit, and for business

Source: Our Promise for 2012 – How the UK will benefit from the Olympic Games and Paralympic Games, Department for Culture, Media and Sport, June 2007

3.43 The Department anticipated publishing a Legacy Action Plan by the end of 2007, setting out how these commitments would be delivered and by whom, clarifying the expected outputs and outcomes, which the Department would update and report on annually. The Department published the Legacy Action Plan on 6 June 2008. The Department is aware of the need to establish clear baselines against which to measure progress against the Legacy Action Plan, and for evaluation arrangements which will address the added value of the Games compared with what would have been delivered through regeneration activities without the London 2012 Games taking place.

Progress on developing and implementing strategies for sustainable development

3.44 In July 2006 The Olympic Board published its overarching sustainable development policy for the Games 'Towards a Sustainable Games', which was followed in November 2007 by publication of the more detailed 'Towards a One Planet 2012: The London 2012 Sustainability Plan'. The latter set out how objectives on five key themes of climate change, waste, biodiversity and ecology, inclusion, and healthy living are to be delivered. The London 2012 Sustainability Group¹³, which was established in 2006, intends to track the delivery of the commitments in the plan, and the Olympic Board intends to update the sustainability plan annually.

3.45 In line with a commitment made to the International Olympic Committee, in January 2007 the Commission for a Sustainable London 2012 was established to provide assurance over how well the principles of sustainability are being embedded and implemented across the programme. In November 2007 the Commission published its first progress report¹⁴, in which it stressed the need for sustainable development programmes to be established across the activities of all the delivery organisations in line with the five key themes. The Commission concluded that a good start had been made to strategy and planning by delivery bodies, but that they needed to follow up with tangible actions. In particular, concerted action was required to develop a carbon footprint for the Games, and to develop ethical procurement practices.

3.46 In January 2007 the Olympic Delivery Authority published its Sustainable Development Strategy which sets out its approach to delivering the venues, facilities and infrastructure for the Games in a sustainable way. For example, the Authority has obtained planning permission for the Energy Centre and wind turbine, which together are expected to deliver over 85 per cent of the immediate post Games legacy commitment for one fifth of the Olympic Park energy to be supplied from renewable sources. The Authority has established a dedicated team to implement its sustainability strategy, and:

- has established quantified and measurable targets;
- provided guidance to project teams on how to incorporate sustainability into designs;
- requires every contractor to set out a plan for how it will minimize environmental impacts during construction, including with its own sub contractors, and subject to random audits by the Authority; and
- has developed a system for monitoring and managing the main suppliers' performance against targets for sustainable development, with the main suppliers in turn responsible for cascading sustainability targets down their supply chains.

13 The London Sustainability Group comprises senior representatives from the Olympic Delivery Authority, LOCOG, British Olympic Association, Government Olympic Executive, Greater London Authority and Defra. The Government Olympic Executive provides secretariat support.

14 'On track for a sustainable legacy? Review of Governance Arrangements for the London 2012 Olympic Games and Paralympic Games Programme' Commission for a Sustainable London 2012, November 2007.

PART FOUR

Applying effective construction procurement practices

4.1 The Olympic Delivery Authority is at a critical stage of its construction programme with designs, specifications, prices and timetables being finalised with contractors to enable the construction work to start as planned from mid-2008. This part therefore looks at:

- how the Authority's procurement policy has been implemented in practice;
- how the input of key stakeholders to the development and procurement of projects is being managed;
- whether the Authority's main construction contractors have been procured on the basis of competition and value for money;
- the extent to which appropriate incentives have been established with contractors for delivery to time, cost and quality, and;
- the Authority's performance on construction health and safety.

How the Authority's procurement policy has been implemented in practice

4.2 In March 2007 the Olympic Delivery Authority published its Procurement Policy¹⁵ which sets out the principles it intends, and in turn expects its suppliers, to follow. The Committee of Public Accounts in its June 2007 report recommend that any departures from the Authority's stated procurement policy deemed necessary to deliver the Games should be made clear and explicit.

4.3 We confirmed that:

- The Authority's Procurement Policy has been translated into processes which are consistent with the Official Journal of the European Union¹⁶ rules to promote fair and transparent competition, the Office of Government Commerce's procurement guidelines and the Public Contract Regulations 2006.
- The Authority's generally preferred construction procurement and contracting approach is to use "Design and Build"¹⁷ and the New Engineering Contract¹⁸, both endorsed by the Office of Government Commerce.
- The Authority's procurement approach is consistent with the '2012 Construction Commitments'¹⁹, which were developed by a Task Group of the Strategic Forum for Construction (an industry body) in conjunction with the Department and others in central government. The purpose of the Commitments is to demonstrate and develop good practice in the UK construction industry. Suppliers who wish to work on the Authority's construction projects are encouraged to sign up to the Commitments. The Authority provides support to Small and Medium Sized Enterprises to enable them to meet the requirements of the Commitments, for example, on health and safety training for employees. The Commitments are also integrated into the Authority's criteria for assessing bids and are being integrated into its arrangements for monitoring supplier performance.

15 Olympic Delivery Authority Procurement Policy, published March 2007 www.london2012.com/documents/business/oda-procurement-policy.pdf

16 The Official Journal of the European Union is the official means of informing UK and international contractors about procurement opportunities above the relevant threshold to the market.

17 Design and Build involves the appointment of a main contractor through competition to design and construct the asset with the contractor normally paid a combined price for each. The risk of the design not working is mainly borne by the contractor and is reflected in the price paid by the client. The Office of Government Commerce endorses this approach (amongst others) on the basis that it is more likely to encourage integrated team working and collaborative behaviour than separately contracting designers and construction contractors.

18 The 'New Engineering Contract' is a standard family of contracts for engineering and construction projects which encourages collaborative behaviour.

19 The 2012 Construction Commitments were in early 2008 renamed the 'Construction Commitments' and are in the process of being rolled out by the construction industry umbrella bodies (with support from the government bodies with policy lead for construction) across the UK construction industry and other major public sector construction programmes.

- The Authority's approach to each of the four projects we examined in more detail was consistent with its Procurement Policy with the exception of the Aquatics Centre, the procurement for which was initiated by the London Development Agency before the establishment of the Authority. Whereas the Authority's preferred approach is to procure an integrated design and build solution for its construction projects, for the Aquatics centre the designer and contractor were appointed separately.

4.4. We commissioned KPMG LLP to assess the maturity of the Olympic Delivery Authority's procurement practices up to the point of contract award, focusing on the areas of: procurement policies, strategies and planning; the capability of the procurement function; sourcing process; planning for contract management; and procurement performance and risk management. On the basis of this review we concluded that the design and deployment of the Authority's processes and procedures were fit for purpose if operated as laid down in its procurement strategy, and were generally well developed.

Engaging the construction market

4.5 The success of the Olympic Delivery Authority's procurement process depends on an effective response from industry. To this end the Authority has been engaging with industry trade associations, holding industry days and conducting regional conferences to explain the opportunities and procurement approach, and taking feedback on how the approach might be improved. On individual procurements the Authority has sounded out potential suppliers to identify how the procurement approach might be flexed, and the work packaged, to stimulate market interest, and to get market advice on what might constitute the most efficient way forward. The Olympic Delivery Authority expects that all procurement opportunities will be listed on the 'CompeteFor' website²⁰, which was developed by the London Development Agency, working closely with LOCOG and the Authority. The intention is that UK businesses of all sizes will be able to understand the nature and timing of procurement opportunities, express interest in competing for the work, and receive 'e-alerts' about new opportunities.

4.6 By the end of March 2008 the Olympic Delivery Authority had awarded some 1,200 contracts across all of its activities, including construction and corporate procurements, to 623 suppliers. Of these procurements:

- over 47 per cent were awarded to companies outside London; and
- 52 per cent were awarded to Small and Medium sized enterprises (**Figure 14**).

14 Olympic Delivery Authority suppliers by location and size as at end March 2008¹

A. By location

Location	Suppliers	Percentage (%)
Rest of UK ²	291	47
Rest of London	243	39
Host Boroughs ³	77	12
EU	9	1
Other or unknown	3	1
Total	623	100

B. By size (annual turnover)

Size	Suppliers	Percentage (%)
Large ⁴	137	22
Medium ⁵	100	16
Small ⁶	224	36
Unknown	162	26
Total	623	100

Source: National Audit Office examination of the Olympic Delivery Authority's procurement progress reports

NOTES

- 1 Construction and corporate procurements managed directly by the Authority, as opposed to those managed by contractors through supply chains.
- 2 Over 97 per cent have been awarded to companies in England.
- 3 The five local authority boroughs in East London on which the Olympic Park site is located.
- 4 Large is defined as annual turnover of £34 million or more.
- 5 Medium is defined as annual turnover of £6.8 million or more, and less than £34 million.
- 6 Small is defined as annual turnover of less than £6.8 million.

²⁰ www.competefor.com/london2012business.

External oversight

4.7 The Authority has actively sought independent and expert challenge and support for its procurement activities. By the end of March 2008 ten of the largest and higher risk projects had been subject to external scrutiny through Office of Government Commerce Gateway Reviews, and in some cases individual projects are on their second or third reviews.

4.8 The Authority, drawing on good practice established in commercial and PFI projects, has established an external Compliance and Oversight Group to examine its major procurements for compliance with good practice, minimise the risks of legal challenges and their disruptive impact, and advise on the handling of potentially difficult issues. Membership of the Group includes Partnerships UK, the Office of Government Commerce, the Treasury, and the Government Olympic Executive. As at March 2008 the Group had examined 35 procurements including those for the Main Stadium, the Aquatics Centre, the Structures Bridges and Highways project and the International Broadcast Centre/Main Press Centre.

How the input of key stakeholders to the development and procurement of projects is being managed

4.9 The Olympic Delivery Authority has faced challenges in keeping its construction programme moving while managing timely inputs from the array of stakeholders with interests in the design of the infrastructure and venues.

4.10 For example, the Authority has received input from LOCOG on staging needs and from the London Development Agency on legacy requirements, and has secured conditional LOCOG sign off on the various project stage design reports. While the inputs on Games time and legacy requirements reflect the available information, a degree of uncertainty exists on both Games time and legacy requirements for the venues and infrastructure and a number of scoping matters on individual projects remain to be resolved. For example, work to arrive at definitive Paralympic operational requirements for the venues is continuing, although the Authority has confirmed that it has received sufficient information from LOCOG on Games time requirements for the venues to enable it to make the necessary progress at this stage of design and construction. On legacy, the uncertainty stems from the absence of, for example, fully developed business plans for, and confirmation of, the ultimate owners and operators for the permanent venues.

4.11 The Olympic Delivery Authority and LOCOG have been working together to define their responsibilities on individual projects, for construction and for overlay respectively, and decisions were reflected in the November 2007 Programme Baseline Report (paragraphs 2.11 to 2.14). The Authority and LOCOG have established a joint Cost and Scope Reconciliation Steering Committee to work through unresolved items and resolve emerging issues going forward.

4.12 LOCOG has deferred a decision on whether to contract with the Olympic Delivery Authority to deliver the overlay works as it wants to explore the potential to obtain this service through 'value-in-kind' sponsorship deals (where the sponsor will provide a service rather than cash). The Authority has, however, included in the contracts with its main contractors the option to use them to deliver LOCOG's overlay requirements, and the flexibility to start this work before construction is complete if necessary. The Authority has also included within its contracts the ability to use main contractors to provide facility management services once construction is complete. The respective responsibility for meeting the costs of facility management during Games time has yet to be resolved.

4.13 Experience from other Games indicates that once the preceding Games finishes significant attention and pressure for change in venue and infrastructure specifications is brought to bear on the organisers of the next Games. The Authority is anticipating pressure for change after the 2008 Beijing Games, at a time when construction work should be well under way. There may also be changes in the overlay works required from LOCOG. The Authority, working with the Government Olympic Executive, has established change control arrangements and procedures for managing the use of contingency funds. Any changes to project budgets or scope, compared to the November 2007 Programme Baseline, require approval at the Authority's monthly senior management Change Board on which the Government Olympic Executive is represented. If the changes involve the use of programme contingency, this is subject to approval of an Olympic Delivery Authority application for further contingency funds (see Appendix 4).

The extent to which the Olympic Delivery Authority's main construction contractors have been procured on the basis of competition and value for money

4.14 The Authority has engaged with the market to stimulate interest from potential suppliers and generate competition on its procurements (paragraph 4.5). At the end of March 2008 the Olympic Delivery Authority had completed 37, almost one third, of its 121 main procurements (paragraph 3.15). Of the 37 completed, 28 had received three or more bids. Of the nine procurements where less than three bids were received:

- Two were for the high profile Main Stadium and Aquatics Centre projects. (See paragraphs 4.18 to 4.27).
- Four more procurements, worth a total of £1.4 million, were open to competitive bidding from the market, but attracted bids from less than three suppliers. In these cases, the Authority considers that only a limited number of suppliers had the capability and capacity at the time of going to market, and the small value of the contracts were unattractive to suppliers. For example, in the case of the procurement for a contractor to test piling work, the technical nature of the contract meant that only two suppliers were in a position to bid for the contract.
- Three contracts, with a total value of £5.9 million, were let as the result of single tender actions. The Authority considers that all three could be justified on the basis of value. For example, in the case of Eton Dorney, the Olympic rowing venue, the Authority contracted a supplier to build bridges who already owned the design copyright for existing bridges at the site after concluding that this would offer best value. The use of an alternative supplier would have required the purchase of design licences at extra cost.

4.15 On the four projects we looked at in more detail, while all started as competitive procurements, on two there was a loss of competitive tension (at different stages in the process) as the procurement progressed and one supplier was left with which to agree the final contract (**Figure 15**). All four projects bids were assessed in accordance with the Authority's balanced scorecard approach for assessing value for money and not just price.

4.16 On the Structures, Bridges and Highways project.

The work was broken down into discrete contract packages to make it attractive to different types and sizes of contractor. Of the four contract packages let so far, 24 firms expressed interest at the pre-qualification questionnaire stage with between three and five viable and compliant tenders received for each contract package. The bids received were lower than pre-tender estimates and the Authority considers that the competitive procurement process contributed to the March 2008 forecast cost of £688 million, which is below the November 2007 baseline programme budget (of £705 million).

4.17 On the International Broadcast Centre/Main Press Centre.

This is a complex project with risks to both the client and potential developer in terms of finding a commercially viable use after the Games, for a building with some 120,000 m² of floor space. To stimulate market interest the Authority engaged with developers in advance of issuing an outline brief and initial Invitation to Negotiate. The procurement went through a series of stages during which more information on designs, construction approach and financing was required from a narrowing field of bidders. At the point where two final bidders remained the Authority agreed that it would meet the losing bidder's costs to maintain competition up to the selection of the preferred developer, and to have a viable fallback option should the negotiations with the other party falter. The Authority expects that the contract will be signed before the end of June 2008 (and therefore, at the time of this report, the potential cost of the project and level of Authority contribution remain commercially sensitive).

4.18 On the Main Stadium. The procurement of a contract for the design and construction of the Olympic Stadium was launched by the Authority in July 2006, with the pre-qualification questionnaire stage completed in October 2006. The Authority received seven bids, but concluded that only one was both viable and compliant with its requirements. For example, one of the bids did not have a construction contractor, despite the requirement for an integrated design and build bid. The Authority considers that the low level of interest stemmed from the perceived risk of taking on a high profile stadium contract in the UK public sector, especially at a time when there was considerable uncertainty about the required design, combined with the knowledge that the team that had successfully constructed the Emirates Stadium ('Team Stadium'²¹) was going to bid.

²¹ The 'Team Stadium' consortium consists of: Sir Robert McAlpine (main contractor), HOK (architects) and Buro Happold (structural engineers). The same consortium was responsible for the successful delivery of the Emirates Stadium in North London.

15 Key findings on the procurements we examined

	Structures, Bridges and Highways	International Broadcast Centre/ Main Press Centre	Main Stadium	Aquatics Centre
Procurement start date	March 2007	March 2007	July 2006	March 2007 ¹
Pre-Qualification Questionnaires ²	24	22	7 (Only one was compliant and viable)	8 (Three were compliant and subject to detailed competitive dialogue)
Number invited to tender	12 ³	5	1	2
Responses to Invitation to Tender	3-5 ⁴	5 ⁵	1	1
Competitive tension maintained up to contract award?	Yes	Yes	No	Initially yes, but lost at the Tender submission stage
Assessed on the basis of value for money criteria	Yes	Yes	Yes	Yes
(Percentage weighting given to commercial factors including cost)	60% ⁶	30%	30%	30%
Contract signature date	February 2008	Not yet signed	March 2008	March 2008

Source: National Audit Office

NOTES

1 Procurement of the construction contractor only. The designer had been separately procured in 2005 before the establishment of the Olympic Delivery Authority.

2 A Pre-Qualification Questionnaire is used to create a shortlist of potential suppliers by obtaining enough information to evaluate the suitability of potential suppliers. The numbers in the cells are the total number of Pre-Qualification Questionnaires received (not the number compliant with the Authority's specifications).

3 12 invited to tender across four separate contract packages.

4 The number of tenders received on each of four contract packages let by the end of March 2008. Of the 12 companies invited to tender, some bid for more than 1 of the 4 contract packages. Each contract package had at least 3 responses to the invitation to tender.

5 Level of response at the final stage of a two stage Invitation to Negotiate process.

6 The civil engineering work on Structures, Bridges and Highways is relatively less complex than the venue projects, and therefore the Authority was able to provide greater certainty on its requirements and give greater emphasis to commercial factors in the tender evaluation process.

4.19 After attempts to improve the non-compliant bids the Authority proceeded on a single tender basis with the 'Team Stadium' consortium. The Authority considered rerunning the procurement on the same or a different basis, but concluded that there would be significant loss of time with no guarantee of a different result, and the risk that Team Stadium might not bid a second time.

4.20 The March 2008 forecast of the potential cost of the main Stadium was £525 million, compared to the November 2007 baseline budget of £496 million, the potential increase reflecting both the loss of competitive tension in the procurement and the changes in the design and scope requirements (see Figure 6). The contract to design and build the Main Stadium was signed on 17 March 2008. While the potential final cost is £525 million the budget remains at £496 million.

The Olympic Delivery Authority is working to keep within the budget and is incentivising the contractor to achieve further savings.

4.21 The Authority checked that the costs for the final specification were reasonable by getting its CLM Delivery Partner to examine the costs CLM would have expected given the estimated material, labour and other inputs involved. The Authority concluded that the main contractor's fee was higher than it would have expected for the project, and at the upper end of industry comparators.

4.22 On the Aquatics Centre. Unlike the procurement of the other venues and facilities that we examined, the procurement of the Aquatics Centre started before the establishment of the Olympic Delivery Authority and involved the separate procurements for the designer and the contractor. The designer for the Aquatics Centre was appointed in January 2005 by the London Development Agency and estimates of the likely costs started to be developed from this time onwards.

4.23 The Olympic Delivery Authority took over formal responsibility for the designs in February 2007 and held industry days to stimulate market interest in the project and discuss ways in which the project scope might be improved in advance of the procurement starting. One direct outcome of this process was the inclusion of the F10 Bridge within the project, for technical and risk management reasons. The F10 Bridge is a major access bridge that runs through part of the Aquatics Centre and links the Olympic Park to Stratford City station. Given the physical proximity and connections between the two projects the Authority, based on advice from prospective contractors, concluded that it would be risky and potentially inefficient to treat the F10 Bridge as a separate project from the Aquatics Centre.

4.24 In March 2007, the Olympic Delivery Authority launched the procurement of a contractor to construct the Aquatics Centre. The Authority received eight responses to its pre-qualification questionnaire, and of these:

- three were compliant, with all three taken forward into structured competitive negotiations (using the ‘competitive dialogue’ procedure²²) maintaining competitive tension up to this stage of the process;
- one potential bidder pulled out in advance of an Invitation to Tender being issued;
- the second potential bidder withdrew after being invited to tender but before submitting a formal bid, leaving Balfour Beatty as the sole bidder from November 2007 onwards.

4.25 The Authority decided to continue with the single bidder for reasons similar to those for the Main Stadium. The Authority estimated that re-running the procurement process would have resulted in up to six months delay to the Aquatics Centre programme with no guarantee of a better outcome.

4.26 The initial price received from Balfour Beatty was higher than the Olympic Delivery Authority’s cost plan. The principal areas of difference included changes to the design and scope, the work packages for steelwork, services, walling and roofing, and the contractor’s fee for overheads and profit which are at the upper end of what the Authority expected for this project. The Authority considers the loss of competitive tension from the single bidder situation has contributed to cost increases since the March 2007 budget, alongside other factors such as the iconic nature of the design, the risk associated with the high profile of the project and site constraints.

4.27 The Authority held a series of clarification meetings with Balfour Beatty over several months to clarify risk and scope, enabling the Authority to agree a target cost for the contract, which was signed in late March 2008. Subsequently, the potential need for up to £5 million for athlete facilities outside the Aquatics centre itself has been identified and so the Authority currently forecasts total potential costs of £308 million for the Aquatics centre and F10 Bridge combined (which includes the contract sum, overheads, Delivery Partner direct fees, project contingency, VAT and inflation). While the potential final cost at March 2008 was £308 million, the budget remains at £303 million and the Olympic Delivery Authority is working to identify cost savings to keep within the budget. **Figure 16** shows the movement in the Olympic Delivery Authority’s cost estimates for the Aquatics Centre and F10 Bridge since the March 2007 budget, including the allocation of programme contingency funds (included within the March 2007 budget to meet known financial pressures across the programme).

4.28 The Authority expects one of the main mitigating strategies for loss of competitive tension on the procurement of the main contractor for both the **Main Stadium and Aquatics Centre** projects will be incentivised cost reductions achieved by the main contractors in securing competition and value for money throughout the procurement of sub contracted work packages. On the Main Stadium the Authority expects 63 per cent of the work (by value) will be let competitively by Team Stadium and its sub-contractors with the remaining 37 per cent going to pre-selected suppliers. On the Aquatics Centre 65 per cent of the sub contracted work is to be let competitively. Some 28 per cent of sub contracted work will, however, go to pre-selected suppliers. The remaining work (7 per cent) will be self performed by Balfour Beatty.

²² ‘Competitive dialogue’ is an EU procedure which allows for a stage of dialogue and clarification between client and potential suppliers before a formal bid is submitted, and is useful where the client wants bidders to contribute to the development of solutions.

16 The history of Aquatics Centre and F10 Bridge cost estimates since March 2007

Figures in £ million, including VAT	Cost estimate included within the March 2007 budget ¹	Allocation of March 2007 programme level provisions ¹	March 2007 budget plus allocation of March 2007 programme level provisions	November 2007 Programme Baseline Report	Forecast of potential cost at end-March 2008
Aquatics centre	134	80	214	214	247
F10 Bridge	89	0	89	89	61
Total	223	80	303	303	308

Source: National Audit Office examination of Olympic Delivery Authority data

NOTE

¹ In March 2007 the budget announcement included programme level provisions for additional construction price inflation and for an initial and provisional allocation of programme contingency, which had not been allocated to individual projects at that time. In November 2007 the Funders Group approved the Olympic Delivery Authority's application to make March 2007 programme contingency funds available to the Aquatics Centre project.

4.29 The Authority requires its main contractors to outline the individual work packages which make up the contract price and detail who they intend to invite to compete for these packages. The Authority has the option to invite further suppliers to bid, and retains approval rights on all work packages above £50,000. Where the Authority has agreed that main contractors can use pre-selected sub-contractors it intends to benchmark the pre-selected work against industry standards, and the cost plans and prices on its other projects, to provide assurance that it is getting good value for money. The Authority also requires that its contractors operate on an open book accounting basis so that it can conduct independent checks on the costs of all work done by sub-contractors and satisfy itself that it is receiving good value.

4.30 The Olympic Delivery Authority is alert to the need to counter the risks of anti-competitive behaviour on the part of potential suppliers. The need to address this issue was reinforced by the April 2008 Office of Fair Trading announcement of its Statement of Objections on alleged bid rigging activities by construction firms on local authority construction contracts.²³

4.31 The steps taken to address anti-competitive behaviour by the Authority include the provision of fraud awareness training for its procurement and contract management staff. All of its procurement staff have undergone the training and its contract management staff are currently undertaking it. The Authority also operates an open and transparent procurement process, with all opportunities required to be advertised on the 'Competefor' website (paragraph 4.5); and all bidders have

to sign, as a condition of bid acceptance, a non-collusive behaviour clause. Any procurement where, for example, bidders drop out late or where levels of competition are low, are subject to additional scrutiny by the Authority drawing on the CLM Delivery Partner's knowledge of the market and reviewed by the Compliance and Oversight Group (paragraph 4.8). The Authority is also in the process of setting up a hotline to enable suppliers or any individuals to alert them to amongst other things anti-competitive behaviour, and is considering what further steps may be necessary in the light of the Office of Fair Trading's announcement.

The extent to which appropriate incentives have been established with contractors for delivery to time, cost and quality

4.32 The Olympic Delivery Authority has decided to use the latest version of the Office of Government Commerce endorsed New Engineering Contract (NEC3) for almost all the construction elements of the programme (with the exception of some specialist areas such as utilities). The underlying form of the NEC3 used on the Authority's major construction procurements is mainly NEC3 'Option C' based on a target price and activity schedule where the contractors price the activity schedule (or 'programme') and in negotiation with the client determine a final target price at a point where there is sufficient certainty about the design.

23 Office of Fair Trading Press Release 52/08, 17 April 2008.

4.33 In its June 2007 report the Public Accounts Committee emphasised the need for the Olympic Delivery Authority to establish incentive arrangements with their contractors which specifically address the enhanced risk of cost overruns and quality shortfalls. At the time of our examination the contracts for the Aquatics Centre, Main Stadium and four of the Structures, Bridges and Highways contracts had been agreed and signed. All include an incentive mechanism for delivering the agreed specification ahead of the deadlines and under the target price. In light of the immovable deadline the incentives for the venues in particular are weighted towards reward for delivery under the target price and in advance of the timetable.

4.34 On the high profile and more complex venue projects, and in view of the Authority's assessment that these are seen as high risk projects by the market, the Authority has chosen to limit the level of loss that contractors might ultimately bear by capping the 'pain share' element of the incentive to make the projects more attractive to the market. On the contracts for the Structures, Bridges and Highways project the Authority included a more significant 'pain share' for delays and cost overruns reflecting the relatively higher levels of competition generated on the procurements and its assessment that the market perceived a lower level of risk on this project.

4.35 The Authority intends for each tier one contractor to drive the use of the NEC3 contract down through the supply chain to achieve a coherent and consistent approach. The Authority has developed a training programme ranging from Executive briefings to courses for both internal staff and suppliers in case any of the firms in the supply chain are unfamiliar with the contracting approach.

4.36 Working with its CLM Delivery Partner, the Authority has established and implemented formal contract management procedures to measure supplier performance against cost, time and the quality of the work performed, including early warning of compensation events.²⁴ The arrangements for monitoring supplier performance in accordance with other criteria built into the Authority's balanced scorecard, such as equality and inclusion, environmental impact, legacy, health and safety, and fair payment are being implemented. The Authority expects its system for monitoring supplier performance will be fully functional by the end of 2008. The effectiveness of the system will depend on timely and accurate performance data from suppliers throughout the supply chain.

4.37 Along with the adoption of the NEC3 contract to promote collaborative and open working, the Authority has agreed with each of its main contractors a system for dealing with potential disputes. Disputes have the potential to cause significant delay and cost overruns if not quickly identified and handled. Under the arrangements put in place initial concerns must be escalated through the senior management of the Authority and the main contractor with timed responses, with the aim of tackling issues before they turn into disputes. The Authority operates an 'Independent Dispute Avoidance Board' comprising independent industry experts who will act, if all parties agree, to try and resolve the issues and secure early resolution to the benefit of the programme. The Authority, through the NEC3 contract, also provides suppliers with access to an adjudication procedure should disputes occur.

4.38 The risk of supplier insolvency could lead to delays and increased costs. With the impact of the 'credit crunch' and the tightening of credit terms and increased costs of capital, the Authority is now preparing against the eventuality of a higher than anticipated number of insolvencies within its construction supply chains. The NEC3 contract gives the Authority the right of audit should it need to examine any emerging risks, and the Authority also requires its contractors to closely monitor sub-contractor performance. The Authority is looking at where potential financial pressures might arise for contractors and whether the contractors concerned are engaged on critical activities or activities that are specialised in nature and where it would be difficult to quickly find a replacement. Its ultimate fallback is to bring in its CLM Delivery Partner to manage work where a replacement contractor cannot be quickly identified.

4.39 The increased risk of insolvency increases the importance of the Authority implementing payment practices that will secure fair and timely payment for contractors in the supply chain, enabling them to manage cash flow and financial pressures. The Authority encourages its contractors to sign up to the Construction Commitments (see paragraph 4.3) which include a commitment to providing an effective and equitable cash flow to all parties. The Authority has implemented a fair payment policy which it expects all contractors to adhere to (to avoid, for example, one contractor unfairly withholding payment for work done by its sub-contractors). This will require strict enforcement if it is to be effective. The NEC3 contract allows for rights of audit if the Authority sees fit.

²⁴ 'Compensation events' are events, which if they occur, and are not the fault of the contractor, allow the contractor to be compensated for any effect the event has on price and completion date.

The Authority's performance on construction health and safety

4.40 The Olympic Delivery Authority intends to be a leading client in Health, Safety, and Environmental Management performance. The Health and Safety Executive considers the Authority's strategy, policies and the key performance indicators it has incorporated into contracts are in line with current industry best practice. All suppliers for design, construction and maintenance works commissioned by, or on behalf of, the Authority are required to comply with *'The Health, Safety and Environment Standard'* issued by the Authority, and the standard is used as part of the tender evaluation process.

4.41 The Authority monitors the Accident Frequency Rate (accidents per thousand working hours) across all of its construction sites. In the last five months reported up to March 2008 there were no reported accidents. At March 2008 the cumulative rolling 12 month Accident Frequency Rate for the Olympic Park stood at 0.12 accidents per thousand working hours (one tenth of the industry average).

APPENDIX ONE

The methods we used

1 This report is about the progress made towards delivering the London 2012 Olympic and Paralympic Games. It is the third report by the National Audit Office on the preparations for hosting the Games, and our work reflects the six risk areas identified in our first report on risk assessment and management. The report also follows up the recommendations made in the 2007 Committee of Public Accounts report on Preparations for the London 2012 Olympic and Paralympic Games²⁵. In doing our work, our emphasis was on progress across the programme, particularly those areas falling within the responsibilities of the Government Olympic Executive and the Olympic Delivery Authority, rather than a detailed examination of the many individual projects and activities making up the programme.

2 The main elements of our fieldwork, which took place between January 2008 and May 2008, are listed below:

- review of key strategy documents, policies and other papers; and analysis of performance reports and data on physical and financial progress;
- interviews with the organisations involved in delivering the Games;
- examinations of four large Olympic projects ;
- reconciling the current cost estimates to the March 2007 budget; and
- engaging independent expert consultants to review the programme wide risk management arrangements at the Government Olympic Executive, the Olympic Delivery Authority's approach to procurement, and to support us in our review of the Authority's construction activities to date.

3 We drew together these elements of fieldwork to assess the overall progress made by the end of March 2008 towards preparing for the London 2012 Games, focusing in particular on the arrangements for governance and risk management within the Government Olympic Executive; the management of the budget for the Games; the physical progress made in preparing the venues and infrastructure; and the approach to procurement.

Review of key strategy documents, policies and other papers

4 We reviewed key documents produced by the Government Olympic Executive, the Olympic Delivery Authority, and other organisations responsible for delivering the Games: These included:

- Documents produced by the Government Olympic Executive concerning the Olympic Delivery Authority's budget, for example on the arrangements for accessing programme contingency, the preparation of progress reports to funders, and on cash flow management. We reviewed these to examine the effectiveness of the Government Olympic Executive's arrangements for financial management of the £9,325 million budget for the Games, and in particular the £8,099 million which relates to the Olympic Delivery Authority;
- The Olympic Delivery Authority's November 2007 Programme Baseline report, which sets out the scope of individual projects, their cost estimates, programme timetables and quantified risk assessment. We examined this report as it is the basis against which costs and progress will be reported for the life of the programme;

²⁵ Committee of Public Accounts, Thirty-ninth Report of Session 2006–07, *Preparations for the London 2012 Olympic and Paralympic Games – Risk assessment and management*, HC 377.

- Performance reports and data on progress, including the Olympic Delivery Authority's monthly reports on the progress of the construction programme, the status of procurement activity, and the quarterly update to funders on progress by the 31 March 2008, were reviewed to establish whether the Olympic Programme is on track in terms of both time and budget;
 - LOCOG's "2008/09 Business Plan – Summary of Priorities, Milestones, Budget and Resources", and the draft arrangements for their quarterly financial and programme management reporting to the Government Olympic Executive, to consider LOCOG's progress on the preparations for staging the Games;
 - The Government Olympic Executive's documentation on the emerging arrangements for programme wide risk management, to assess their maturity and effectiveness; and
 - The Government Olympic Executive's financial management procedures for managing contingency and cash flow.
- 6** We interviewed senior officials at the Government Olympic Executive, including the Director General and the individual directors responsible for building and staging. These interviews examined the Government Olympic Executive's support and oversight of the Olympic programme as a whole, and the maturity and effectiveness of their risk management arrangements.
- 7** We spoke to other stakeholders involved in the delivery of the Games. These included: the London Development Agency and the Greater London Authority on risk management and legacy planning; and the Home Office to discuss the progress made on security arrangements.

Project examinations

8 We looked at four of the largest and highest profile projects in the Olympic Delivery Authority's construction programme to get an appreciation of the changes to the Olympic Delivery Authority's cost forecasts since November 2007, the progress made to date, and the extent to which the Authority's construction contracts had been procured on the basis of competition. The projects were: Main Stadium, Aquatics Centre, Structures Bridges and Highways, and the International Broadcast Centre / Main Press Centre

9 In doing our work we interviewed project assurance managers from the Government Olympic Executive and members of the project teams at the Olympic Delivery Authority. We also reviewed documentation on the scope and development of the projects, their procurement, current financial position and the progress made to date. These included: business cases; submissions to the Olympic Delivery Authority Board and Olympic Projects Review Group; procurement strategies; tender evaluation reports; and assurance reports produced by the project teams over the contracts (where they had been signed).

Interviews with the organisations involved in delivering the Games

5 We interviewed senior staff at the organisations responsible for delivering the Games, including the Olympic Delivery Authority and LOCOG. Our interviews focussed on their financial management, delivery strategies, and the physical progress which has been made to date.

10 We also interviewed the Government Olympic Executive, and Olympic Delivery Authority staff, and reviewed key papers, on the progress of the negotiations towards finalising a deal on the Olympic Village.

Reconciling the latest cost forecasts to the March 2007 budget

11 We carried out a reconciliation to compare the Olympic Delivery Authority's budget at the time of the March 2007 to the November 2007 Programme Baseline Report and to the cost forecasts at the end of March 2008.

Engaging independent expert consultants

12 We engaged independent external consultants to assist us with several aspects of our work:

- Decision Analysis Services Ltd conducted an examination of the Government Olympic Executive's arrangements for risk management of the London 2012 Programme, using a maturity matrix to assess the arrangements;
- KPMG LLP carried out an assessment of the maturity and fitness for purpose of the Olympic Delivery Authority's procurement policy and processes; and
- An independent construction expert (Caroline Cree from C Agreements Ltd) was appointed to inform our approach and support our work on the Olympic Delivery Authority's construction programme.

13 During our planning and fieldwork we consulted with other bodies involved in scrutinising the London 2012 Games to inform our work:

- The Office of Government Commerce;
- The Commission for a Sustainable London 2012 on sustainability issues;
- The Compliance and Oversight Group on the procurements made to date; and
- The Health and Safety Executive.

APPENDIX TWO

The organisations and groups involved in the London 2012 Olympic and Paralympic Games referred to in this report

This appendix sets out details of the organisations and groups involved in delivering and funding the London 2012 Games from the perspective of this report. They are shown in alphabetical order.

Organisation/group	Background	Role in relation to the London 2012 Games
British Olympic Association	The National Olympic Committee for Great Britain and Northern Ireland.	<p>Co-signatory to the Host City Contract, signed with the International Olympic Committee.</p> <p>Co-signatory to the joint venture agreement which established LOCOG.</p> <p>The Chairman is a member of the Olympic Board.</p> <p>Represented on LOCOG's Board, the Olympic Board Steering Group and other stakeholder groups.</p>
British Paralympic Association	The National Paralympic Committee for Great Britain and Northern Ireland.	Represented on LOCOG's Board, the Olympic Board Steering Group and other stakeholder groups.
CLM Consortium	Consortium of three companies – CH2M HILL, Laing O'Rourke and Mace.	As the Olympic Delivery Authority's Delivery Partner, CLM will project manage the delivery programme for the Olympic venues and infrastructure.
Commission for a Sustainable London 2012	Independent body launched in January 2007 meeting a commitment made in the original bid.	Will provide advice to the Olympic Board and report independently to the public on sustainable development across the entire Games programme, from delivery to staging and legacy.
Compliance and Oversight Group	External group established by Olympic Delivery Authority. Membership includes Partnerships UK, HM Treasury, Office of Government Commerce, the Government Olympic Executive, and the Greater London Authority.	Provides advice and assurance to the Olympic Delivery Authority on major project procurements, and examines their compliance with good practice. and procurement law.
Department for Culture, Media and Sport	Government department.	The lead government department for the Games, with overarching responsibility for managing the Government's interests and responsibilities.

Organisation/group	Background	Role in relation to the London 2012 Games
Funders' Group	Ministerial group, chaired by the Chancellor of the Exchequer, including the Minister for the Olympics, Secretaries of State for Transport and for Communities and Local Government, and the Chief Secretary to the Treasury.	Manages the allocation of contingency to the Olympic Delivery Authority within the overall budget.
Government Olympic Executive	Dedicated unit within the Department for Culture, Media and Sport, reporting direct to the Minister for the Olympics.	The team responsible for handling Olympic matters within the Department for Culture, Media and Sport. Provide assurance to the Olympic Board and the Minister for the Olympics that activities across the London 2012 programme are being well managed, and provide effective governance and risk and financial management for the Games as a whole.
Greater London Authority	Strategic governing body for London covering transport, policing, fire and emergency services, economic development, planning, culture and the environment. Comprises the Mayor of London, the executive of the Authority, and the London Assembly which scrutinises the Mayor's activities.	Contributing up to £625 million to the public sector funding package for the Games, to be generated from council tax receipts. The funding package for the Games includes up to a further £300 million which the Mayor of London agreed to make available over the lifetime of the programme. The Mayor of London is a co-signatory to the Host City Contract, signed with the International Olympic Committee. The Mayor of London is a member of the Olympic Board. The Mayor of London is a co-signatory to the joint venture agreement which established LOCOG.
Home Office Safety and Security Strategic Steering Group	Comprises the Metropolitan Police Service, Security Services, Home Office, Ministry of Defence, Government Olympic Executive, Department for Transport, Greater London Authority, Olympic Delivery Authority and LOCOG.	Brings together the relevant government departments and agencies to discuss Olympic Security Issues.
International Olympic Committee	International non-governmental organisation and creator of the Olympic Movement. Its primary responsibility is to supervise the organisation of the Summer and Winter Olympic Games.	Elected London as the host city for 2012 in July 2005. Has Host City Contract with the City of London, the British Olympic Association and LOCOG to deliver the Games as planned, or as amended by mutual agreement.
London Development Agency	The Regional Development Agency for London, co-ordinating economic development and regeneration. Accountable to the Mayor of London.	Responsible for acquiring the land on the Olympic Park site, and leading on the development of the legacy Masterplan Framework. Contributing up to £250 million to the public sector funding package for the Games, in addition to funding the land acquisition. Planning and implementation of a strategic regeneration plan for East London to secure Olympic legacy benefits.

Organisation/group	Background	Role in relation to the London 2012 Games
London Organising Committee of the Olympic Games and Paralympic Games (LOCOG)	A company limited by guarantee, established by a joint venture agreement between the Secretary of State for Culture, Media and Sport, the Mayor of London and the British Olympic Association.	Responsible for the operational and staging aspects of the Games. The liaison point for the International Olympic Committee and a party to the Host City Contract, signed with the International Olympic Committee. The Chairman of LOCOG is a member of the Olympic Board.
London 2012 Sustainability Group	Comprises senior representatives from the Olympic Delivery Authority, LOCOG, British Olympic Association, Government Olympic Executive, Greater London Authority and Defra. Other Government departments and Olympic stakeholders may be invited to attend. The Commission for a Sustainable London 2012 is invited to attend for part of meetings. The group meets every two months.	Responsible for the sustainability agenda, including overseeing, co-ordinating, monitoring and delivering sustainability commitments in the Sustainability Plan. Provides collective advice and assurance on the progress of sustainability commitments across the programme and shares best practice across the programme. Co-ordinates internal and external stakeholder engagement in relation to all sustainability and environmental issues.
Olympic Board	Established by a Memorandum of Understanding between the Secretary of State for Culture, Media and Sport, the Mayor of London and the British Olympic Association. Comprises the Minister for the Olympics, the Mayor of London, and the Chairs of the British Olympic Association and LOCOG. The Chair of the Olympic Delivery Authority and the Commissioner of the Metropolitan Police Service attend Board meetings. Chaired alternately by the Minister for the Olympics and the Mayor of London.	Responsible for resolving and determining issues raised by members of the Olympic Board to ensure the delivery of the Games, and for ensuring that a sustainable legacy is achieved following the staging of the Games. Oversees the Olympic programme, and receives reports and plans from the bodies involved in staging the Games.
Olympic Board Steering Group	Comprises senior officials from the Government Olympic Executive, the Greater London Authority, the British Olympic Association, LOCOG, the Olympic Delivery Authority, the Olympic Lottery Distributor, the Department for Communities and Local Government, and the British Paralympic Association. Chaired by the Director General of the Government Olympic Executive.	Supports the Olympic Board at official level. Takes a strategic overview of the work of the stakeholders in relation to the Olympic programme as a whole. Responsible for ensuring that the Olympic Board is kept informed and regularly briefed on all relevant matters.
Olympic Delivery Authority	Established by the London Olympic and Paralympic Games Act 2006. Non-departmental public body, sponsored by the Department for Culture, Media and Sport.	Will prepare the Olympic Park site, build the new venues and provide for their legacy use, and deliver the Olympic Village, media facilities, certain off Park venues, and infrastructure for the Games. The planning authority for the Olympic Park area – any application relating to land within the area is considered by the Olympic Delivery Authority's Planning Committee rather than the local borough. Responsible for developing an Olympic transport plan and for delivering certain Olympic transport projects.

Organisation/group	Background	Role in relation to the London 2012 Games
Olympic Lottery Distributor	A Non Departmental Public Body established by the Horserace Betting and Olympic Lottery Act 2004.	Making National Lottery grants for the purpose of, or in connection with, the provision of facilities, or any other service or function that is necessary or expedient if London is to be the host city of the 2012 Olympic Games and Paralympic Games. Grants made by the Olympic Lottery Distributor will principally go the Olympic Delivery Authority but it is not precluded from funding other bodies.
Olympic Projects Review Group	Working group of officials including from the Government Olympic Executive, the Treasury, the Greater London Authority, the London Development Agency, LOCOG, the Office of Government Commerce, and the Olympic Lottery Distributor. Chaired by the Finance Director of Government Olympic Executive.	Assesses whether projects over the Olympic Delivery Authority's financial delegation limit of £20 million or which are deemed "novel or contentious" can be recommended to Minister for the Olympics, the Treasury and the Mayor of London for financial approval.
Olympic Programme Support Unit (disbanded in September 2007, after which functions were absorbed into the Government Olympic Executive)	A dedicated unit to support the Olympic Board and the Olympic Board Steering Group.	Was responsible for tracking the overall health of the Olympic Programme and providing reports to the Olympic Board and the Olympic Board steering Group. Provided a secretariat function to the Olympic Board and the Olympic Board Steering Group.
Olympic Security Directorate	Directorate established within the Metropolitan Police.	Responsible for: coordinating the Departments and agencies involved in providing safety, security and resilience to the London 2012 Olympic and Paralympic Games; and the strategic and operational planning of security for the Games.

APPENDIX THREE

Reconciling the budget announced by the Secretary of State in March 2007 to the November 2007 Programme Baseline Report

1 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 17).

17 Breakdown of costs and provisions announced in March 2007

	£ million
Olympic Delivery Authority Costs	
Core Olympic Costs	
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
Sub-Total	3,081
Infrastructure and regeneration costs associated with the Olympic Park and other venues	1,673
Initial and provisional allocation of programme contingency to cope with early financial pressures	500
Total Olympic Delivery Authority budget before tax	5,254
Tax (predominantly £736 million VAT)	836
Total Olympic Delivery Authority Budget	6,090
Other costs and Provisions	
Support for elite and community sport, Paralympics, and Look of London	388
Policing and wider security	600
General programme contingency	2,247
Total	9,325

Source: National Audit Office report on 'The budget for the London 2012 Olympic and Paralympic Games' (Figure 6 on page 16 of that report)

2 Following the budget announcement in March 2007, the Olympic Delivery Authority continued its work, as planned, to develop more detailed plans for each project. By November 2007 the Authority had a clearer assessment of what it expected to pay for individual projects, reflecting more detailed analysis of risks, maturing project specifications, revised plans for temporary venues, progress with procurements and with negotiations on deals involving private sector funding. The Authority also allocated the March 2007 programme level inflation and contingency provisions to individual projects.

3 The November 2007 Programme Baseline Report uses different headings from the March 2007 budget because, since March 2007, the Authority has adjusted the budget format to better align with its internal reporting lines and groupings of projects, but the totals are the same. The Government Olympic executive has agreed with the Authority that this will be the basis of all future reporting. **Figure 18** provides a reconciliation between the March 2007 budget and the November 2007 Programme Baseline Report.

18 Reconciliation of the Olympic Delivery Authority's budget, as announced in March 2007, to the November 2007 Programme Baseline Report

All figures in £ million, inclusive of VAT ¹	March 2007 budget, re-ordered and including VAT	Allocation of March 2007 programme level provisions ²	March 2007 budget plus allocation of March 2007 programme level provisions	Other adjustments as plans developed between March and November 2007	November 2007 Programme Baseline Report (base budget, before programme contingency)
Site preparation and infrastructure	1,577	331	1,908	34	1,942
Venues	1,071	172	1,243	-72	1,171
Transport	862	25	887	10	897
Other Park wide projects	607	253	860	8	868
Olympic Village International Broadcast Centre/Main Press Centre	570	-2	568	-76	492
Programme delivery	526	0	526	121	647
Corporation tax and net interest	100	-2	98	-25	73
Other provisions in place at March 2007²:					
Additional construction inflation	189 ³	-189	n/a	n/a	n/a
Unallocated contingency	588 ³	-588	n/a	n/a	n/a
Total	6,090	0	6,090	0	6,090

Source: National Audit Office analysis of Olympic Delivery Authority data

NOTES

1 All costs are stated in terms of net cost to the Olympic Delivery Authority. 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); b) net of expected contributions from, and of costs to be borne by, the private sector (Olympic Village, International Broadcast Centre/Main Press Centre); and c) net of the estimated share in any future profits from the sale of the Village as housing after the Games.

2 In March 2007 the budget announcement included programme level provisions for construction price inflation and for an initial and provisional allocation of programme contingency, which had not been allocated to individual projects at that time. The Funders' Group approved applications from the Olympic Delivery Authority to allocate the programme contingency to specific projects at two meetings, in June and November 2007.

3 In our previous report on the March 2007 budget we referred to £161 million provision for construction inflation and £500 million programme contingency within the Olympic Delivery Authority's budget. The March 2007 budget also included a separate £836 million provision for tax, which included VAT on all Olympic Delivery Authority costs. The March 2007 provisions for construction inflation and programme contingency are re-stated here as £189 million and £588 million respectively, which include the applicable elements of the £836 million tax provision.

APPENDIX FOUR

Contingency funding potentially available to the Olympic Delivery Authority

1 Paragraphs 2.5 to 2.7 briefly outlined the distinctions between the three categories of contingency illustrated in Figure 4. This Appendix provides more detail on the distinctions between these elements of contingency and the arrangements for accessing these funds, if required.

2 **ODA Project Contingency (£973 million)** is the sum of individual project level contingencies, at November 2007, for each of the 50 projects within the Authority's programme, covering project specific risks such as design and contracting uncertainties. Individual project contingencies are based on quantified risk assessments which generally assume that the project is being carried out in isolation rather than being part of the wider programme. Project contingency is within the Olympic Delivery Authority's base budget of £6,090 million.

3 The Authority has established Change Control Procedures which require that project contingency is not used (above defined thresholds) without a clear justification presented to and approved by a Change Control Board, which comprises senior managers and a representative from the Government Olympic Executive. Delegated authorities for the use of project contingency below these thresholds are aimed at balancing the need for speed of decision making and project management flexibility with the need for overall financial control, and all changes are reviewed by the Change Control Board.

4 **Olympic Delivery Authority Programme Contingency (£968 million)** covers risks that are programme-wide, with the potential to impact on more than one project, for example risks concerning the interdependency of projects on the Olympic Park, the impact of exchange rate fluctuations, unexpected ground conditions, and the availability of materials. The calculation of Olympic Delivery Authority Programme Contingency, at November 2007, was based on a detailed quantified risk assessment to assess the probability of each risk occurring and the impact on time and cost.

5 The Olympic Delivery Authority's quantified risk assessment in November 2007 indicated that, at a level of 80 per cent probability, a further £968 million, in addition to the Authority's base budget of £6,090 million, would be sufficient to deliver its planned programme, and this is the level at which Olympic Delivery Authority Programme Contingency was set. Eighty per cent is a generally accepted industry standard. The Olympic Delivery Authority is planning to re-run the quantified risk assessment, on which the level of programme contingency is based, every three months.

6 **Figure 19 overleaf** shows a selection of the confidence levels, at November 2007, for how much Olympic Delivery Authority Programme Contingency would be required for the Authority to deliver its planned programme; for example, the risk assessment indicated that the Authority could be 50 per cent confident that its costs would be no more than £6,872 million. To reach 100 per cent confidence that funds would be sufficient, the quantified risk assessment indicated that Olympic Delivery Authority Programme Contingency would have to be set at £2,055 million, which would take costs, even before residual risks picked up by the Funders' Group Contingency (below), over the £8,099 million maximum funding available to the Olympic Delivery Authority.

7 Procedures on how the Olympic Delivery Authority Programme Contingency would be applied for by the Authority have been documented and agreed. If the Authority wishes to use the Olympic Delivery Authority Programme Contingency, it must make an application to the Government Olympic Executive and be able to demonstrate that the risk has materialised, the sum requested is justified and not available from savings elsewhere in the Authority's budget, and that appropriate steps have been taken to mitigate the risk and its impact. If the Executive endorses the application, it will be reviewed by the Olympic Projects Review Group and, if agreed, submitted for approval to the Minister for the Olympics.

19 Confidence percentiles for assessment of Olympic Delivery Authority Programme Contingency being sufficient for delivering the Authority's programme as planned

Confidence level (per cent)	ODA Programme Contingency required to achieve confidence level (£ million)	Effect on costs of programme (i.e. £6,090 million base budget plus ODA Programme contingency) (£ million)
10	610	6,700
25	684	6,774
50	782	6,872
80	968	7,058
95	1,295	7,385
100	2,055	8,145

Source: Olympic Delivery Authority Programme Baseline Report

8 There is a distinction between the Minister's approval of an application for programme contingency and the spending of programme contingency. For example, the Olympic Delivery Authority applied for programme contingency for site preparation in order to have sufficient funding in place before entering into contract, but some time before having to spend the money. On the basis of latest estimates, however, the final cost of site preparation will be less than estimated in the November 2007 Programme Baseline Report, enabling release of contingency back to the overall programme. This example relates to release of the programme contingency which was included in the March 2007 budget announcement and the Authority's base budget of £6,090 million. None of the £968 million Olympic Delivery Authority Programme Contingency has yet been applied for.

9 The Funders' Group²⁶ Contingency (£1,041 million)

is the amount assessed, in November 2007, remaining to cover the cost of 'residual risks', if they materialise, over and above those covered by the Olympic Delivery Authority Programme Contingency. Risks were assessed under three categories:

- Increasing confidence in the adequacy of Olympic Delivery Authority Programme Contingency to 95 per cent;
- The possibility that the financial impact of risks which are covered by the Authority's project and programme contingency could be greater than assessed; and
- The financial impact of risks borne entirely by the Funders' Group, such as changes to legislation or the tax regime, a fundamental failure by the Olympic Delivery Authority to manage the construction programme, or "completely unpredictable events".

10 Should risks materialise which require a call on the Funders' Group contingency, a process similar to that for the Olympic Delivery Authority Programme Contingency is to be followed, but with approval also required from the Ministerial Funders' Group. None of the £1,041 million Funders' Group Contingency has yet been requested by the Olympic Delivery Authority.

²⁶ The Funders Group 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.

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