



National Audit Office

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



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.

