



National Audit Office

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COMPTROLLER AND
AUDITOR GENERAL**

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Department for Culture, Media and Sport

Preparations for the London 2012 Olympic and Paralympic Games: Progress report February 2011

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National Audit Office

Department for Culture, Media and Sport

Preparations for the London 2012 Olympic and Paralympic Games: Progress report February 2011

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Amyas Morse
Comptroller and
Auditor General

National Audit Office

11 February 2011

This report, our fifth on the 2012 Games, examines progress across the Olympic Delivery Authority's construction programme, progress with how the Government is coordinating the Olympics programme, progress with the legacy from the Games and the cost of the Games.

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This report can be found on the National Audit Office website at www.nao.org.uk/Olympics-11

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Summary

1 The 2012 Olympic Games and Paralympic Games were awarded to London on 6 July 2005.

2 The Government's preparations and management of the £9,298 million Public Sector Funding Package are led by the Department for Culture, Media and Sport (the Department), through its Government Olympic Executive. The Department is working with a range of delivery bodies, in particular:

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

3 This report, our fifth on the Games to-date, examines:

- progress across the Olympic Delivery Authority's construction programme;
- progress with how the Government is coordinating the Olympics programme;
- progress with the legacy from the Games; and
- the cost of the Games

4 Our work is not designed to review every detail of the preparations for the Games. Our focus is on the broader picture in terms of costs and progress, and on developments since we last reported in February 2010, which used costs as at December 2009. Our methods are at Appendix One.

Key findings

On progress across the Olympic Delivery Authority's construction programme

5 The Olympic Park has undergone a huge transformation since the Olympic Delivery Authority began its work, and since we last reported the Olympic Delivery Authority has maintained good progress. Five of its 24 main projects have now been delivered, and on current projections the remaining projects will be delivered on time, although the timings for handover to LOCOG on the Aquatics Centre, and 2 of the 11 plots on the Athletes' Village and are becoming tight.

6 With its programme well advanced, the Olympic Delivery Authority and Government Olympic Executive now have greater confidence in the Delivery Authority's financial projections, and as a result £778 million of the £8,099 million funding originally available to it has been released. The Delivery Authority now has £7,321 million, including £387 million of contingency. The main difference for the Olympic Delivery Authority is that if unforeseen financial pressures were to arise, and its own contingency proved insufficient, it would no longer have exclusive access to the remaining contingency in the way it used to because that money (paragraph 13, fourth bullet) is now also available to other delivery bodies.

On progress with how the Government is coordinating the Olympics programme

7 There have been changes to the programme-wide governance arrangements to strengthen operational planning. These arrangements are untested in terms of their ability to deliver the quick and informed decision making that will be essential as the Games approach, and key groups within the governance framework have differing interests.

8 The Games require a lot of different elements (security, transport and communications, for example) to come together. Coordination across the programme is much better developed than a year ago. Arrangements for identifying and tracking key risks are in place. The main risks tend to be centred on the interdependencies between different elements of the programme, where uncertainty in one area could impact on other areas. For example, one of the key coordination challenges remaining arises from the programme of non-sporting events in London during the Games, which has not yet been finalised. Without clarity it is not possible to assess fully the overall impact of these events on transport planning and available security resources.

On progress with the legacy from the Games

9 The Olympic Park Legacy Company, established in May 2009, has published its Legacy Masterplan for the Olympic Park, and is working on its business plan for delivering a lasting legacy for the Olympic Park. As when we last reported, legacy uses for the Main Stadium and Media Centre have not been agreed although the Olympic Park Legacy Company is now assessing bids for the Main Stadium and has consulted the market on possible uses of the Media Centre.

10 The Government Olympic Executive is accountable for the success of the legacy, but accountability for individual projects lies with a range of delivery bodies outside the direct control of the Government Olympic Executive. Making an assessment of the value added to legacy projects by their links to the Games will depend on being able to separate out the impacts of business as usual activities. The Government has not yet estimated the net benefits it expects to accrue which can be directly attributed to the Games. The Olympic Executive is developing a framework for evaluating the legacy, as recommended by the Committee of Public Accounts in July 2008.

11 The Committee of Public Accounts has stressed the importance of learning lessons from the Games for the benefit of the wider public sector. The Olympic Delivery Authority is leading on identifying and communicating lessons relating to construction and project management, and the Government Olympic Executive's legacy evaluation framework aims to draw out lessons from the delivery of the legacy. However, the Government has no plans in place to identify and communicate lessons from the wider cross-government working that is being required for the Games, and which could have more general applicability to the conduct of public business.

On the cost of the Games

The Public Sector Funding Package

12 The Public Sector Funding Package was announced in March 2007 to cover the core elements of the cost of delivering the Games: principally the new venues and wider policing and security (Appendix Two). Following the 2010 Spending Review, the Public Sector Funding Package has absorbed additional scope and, as recommended by the Committee of Public Accounts, responsibilities for important areas of cost have been clarified. While this puts the preparations for the Games on a firmer financial footing, the Funding Package would provide a stronger basis for accountability if there were now clear criteria for why costs should score against it, and which Games-related costs are outside the Funding Package and why. We have previously made clear that any post-Games evaluation of the costs and benefits should include all Olympic-related costs.

13 The main developments since we last reported are:

- in May 2010 the Government reduced the Public Sector Funding Package by £27 million from £9,325 million to £9,298 million;
- £498 million was earmarked in the 2010 Spending Review to areas where previously neither the cost nor responsibility had been agreed, including venue security;
- the overall cost of security during the Games has increased. As part of the bid to secure the Games, the Government provided a guarantee to the International Olympic Committee that it would underwrite the cost of security (above £29 million for Games time venue security being separately funded by LOCOG), but there was otherwise no provision in the Public Sector Funding Package for venue security. The £29 million was a significant under-estimate when bidding for the Games. We highlighted in our last report the need to finalise the costs and funding responsibilities for venue security. The Government has now agreed to provide an additional £282 million from the Public Sector Funding Package for venue security. This is in addition to the £475 million for wider policing and security that has always been within the Funding Package, bringing the total to £757 million (excluding contingency); and
- a new programme-wide contingency of £349 million has been created from the contingency money remaining in the Public Sector Funding Package, in addition to the existing £238 million of contingency only available in the event of a significant change in circumstances such as an increase in the security threat to the Games (see Figure 8 on page 31). The programme-wide contingency is now potentially available to all public sector delivery bodies and LOCOG. This contingency is the money left over following the full funding of all identified costs. However, it is not based on a full quantified assessment of the remaining risks, which the Government Olympic Executive is now undertaking.

LOCOG's budget

14 LOCOG's aim is to be self-financing through sponsorship, ticketing, merchandising and contributions from the International Olympic Committee. In addition, as has always been the case, 50 per cent of the cost of the Paralympics is to be met from the Public Sector Funding Package. As the ultimate guarantor to the International Olympic Committee of LOCOG's budget, and therefore responsible for meeting any shortfall between LOCOG's costs and revenues, the Government has always been financially exposed.

15 Since we last reported the Government Olympic Executive, working with LOCOG, has developed a much better understanding of LOCOG's financial position. There is now a clearer picture of the risks and opportunities that need to be managed if LOCOG is to break even. LOCOG has already secured over 90 per cent of its non-ticketing income, and on current projections its budget balances subject to the successful management of risks and agreement with the Government for the latter to meet specific costs.

16 Under the agreement, the Government provided £36 million now to fund costs for which LOCOG considered it had no liability, rather than wait until any LOCOG deficit requires the Government to fund that deficit under its guarantee to the International Olympic Committee. The Government retains £27 million to meet further specific cost pressures that may arise in LOCOG. For its part, on the basis of discussions with the International Olympic Committee and revised assumptions on ticketing and other revenues, LOCOG has reported an improvement of over £100 million to its budget.

17 LOCOG has now established a funded contingency, as recommended by the Committee of Public Accounts. The Government Olympic Executive and LOCOG consider, however, that this contingency is unlikely to cover all potential financial risks between now and the conclusion of the Games and LOCOG will need to continue to focus on cost and revenue management as a way of ensuring that it breaks even. This, combined with the substantial financial risks remaining to be managed within LOCOG's budget, means that the risk remains of a call on the Government guarantee.

Conclusion on value for money

18 Overall the preparations for the Games are going well. Although there are some time pressures, the Olympic Delivery Authority remains on course to deliver its construction programme on time. The wider operational planning for delivery of the London 2012 programme is highly complex and by definition achievements will not be clear until after the Games, but since we last reported good progress has been made in establishing a more coordinated approach. There is, however, an inherent risk that given the natural priority of delivering successful Games to an immovable deadline, legacy ambitions will suffer.

19 On current assumptions, the Public Sector Funding Package should be sufficient. The final cost of the Games, however, is inherently uncertain. While the construction programme is well advanced and responsibility for important areas of cost such as security has been resolved, £498 million worth of scope has been added and there is less contingency available. With the preparations becoming increasingly intense there is, as we concluded in our last report, less flexibility to make savings in response to any unforeseen financial pressures. In addition, as guarantor, the Government has always been financially exposed if LOCOG does not break even, and while progress has been made in firming up LOCOG's finances, there remains a risk that significant pressures may yet lead to a call on the Government's guarantee to the International Olympic Committee.

Recommendations

Early actions to secure cost effective delivery of the Games

- a** **The governance arrangements have changed significantly since we last reported, and key groups within the governance framework have differing interests.** These arrangements are untested in terms of their ability to deliver the quick and informed decision making that will be essential as the Games approach. While a period of stability is desirable at this advanced stage of the preparations, the governance arrangements should be kept under review. The Government Olympic Executive should discuss with the Olympic Board who is best placed to do this.
- b** **Although coordination across the 2012 Programme has improved there are key interdependent areas of activity where the absence of clear plans could impact on other activities and organisations (paragraph 3.10).** The Government Olympic Executive should make sure that remaining areas of uncertainty are addressed as a priority. Dealing effectively with lack of clarity will be an important test of the effectiveness of the governance arrangements for the Programme.
- c** **Of the original £2,747 million contingency in the Public Sector Funding Package, £974 million remains.** As there can be no guarantee that the remaining contingency will be sufficient, the Government Olympic Executive should have plans for how it will address any funding pressures that cannot be met with the remaining contingency.
- d** **There are risks to be managed in LOCOG's budget.** The Government Olympic Executive should continue to make at least monthly assessments to satisfy itself that LOCOG is taking all steps necessary to reduce the risk to public funds.

Actions relating to longer term benefits

- e** **The Government Olympic Executive is developing an evaluation framework for assessing the impact of the Games.** As we have previously recommended, 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 separated out from business as usual activities.

- f The Government Olympic Executive is accountable for the success of the Games and their legacy but it is not delivering that legacy itself.** Having put in place an assurance plan during 2010, it is important that, given the diffused delivery arrangements, the Olympic Executive should:
- estimate the net legacy benefits to the United Kingdom which can be directly attributed to the Games;
 - satisfy itself as to progress; and
 - set out how the Olympic legacy will be coordinated and monitored when the Olympic Executive is wound up after the Games.
- g The Olympic Park Legacy Company does not yet have a business plan agreed with the Treasury which matches objectives with funding.** The absence of a business plan potentially undermines the optimal use of resources and the Legacy Company should conclude its business plan by the end of March 2011.
- h Although a bidding process is under way for the Main Stadium, legacy uses for some publicly funded assets have not yet been resolved.** The Olympic Park Legacy Company should:
- have a clear plan for how it will proceed in the event that it is unable to generate and sustain effective competition amongst potential operators; and
 - as we have previously recommended, have a clear plan for mitigating the costs of maintaining any assets for which it remains responsible after the Games, in the event that it is unsuccessful in its procurement of long-term operators, which is the Legacy Company's focus.
- i There are Games-related costs inside and outside the Public Sector Funding Package.** The Government should:
- set out criteria by which costs should score against the Public Sector Funding Package; and
 - for those costs outside the Public Sector Funding Package, set clear criteria for identifying what are costs arising from the Games. As we have previously recommended, any post-Games evaluation of the benefits should be assessed against the full costs.
- j The arrangements for learning lessons from across the 2012 Programme are not looking widely enough.** The Government should decide which body is best placed to take the lead in drawing out lessons from the wider cross-government working that is required for the Games, and make sure they are available to others involved in complex projects.

Part One

Introduction

1.1 The 2012 Olympic Games and Paralympic Games were awarded to London on 6 July 2005. The Games will begin in just over 17 months on 27 July.

1.2 In March 2007 the then Secretary of State for Culture, Media and Sport announced that the budget, also referred to as the 'Public Sector Funding Package', for the Games would be £9,325 million (Appendix Two). In May 2010, this Funding Package was reduced by £27 million to £9,298 million.

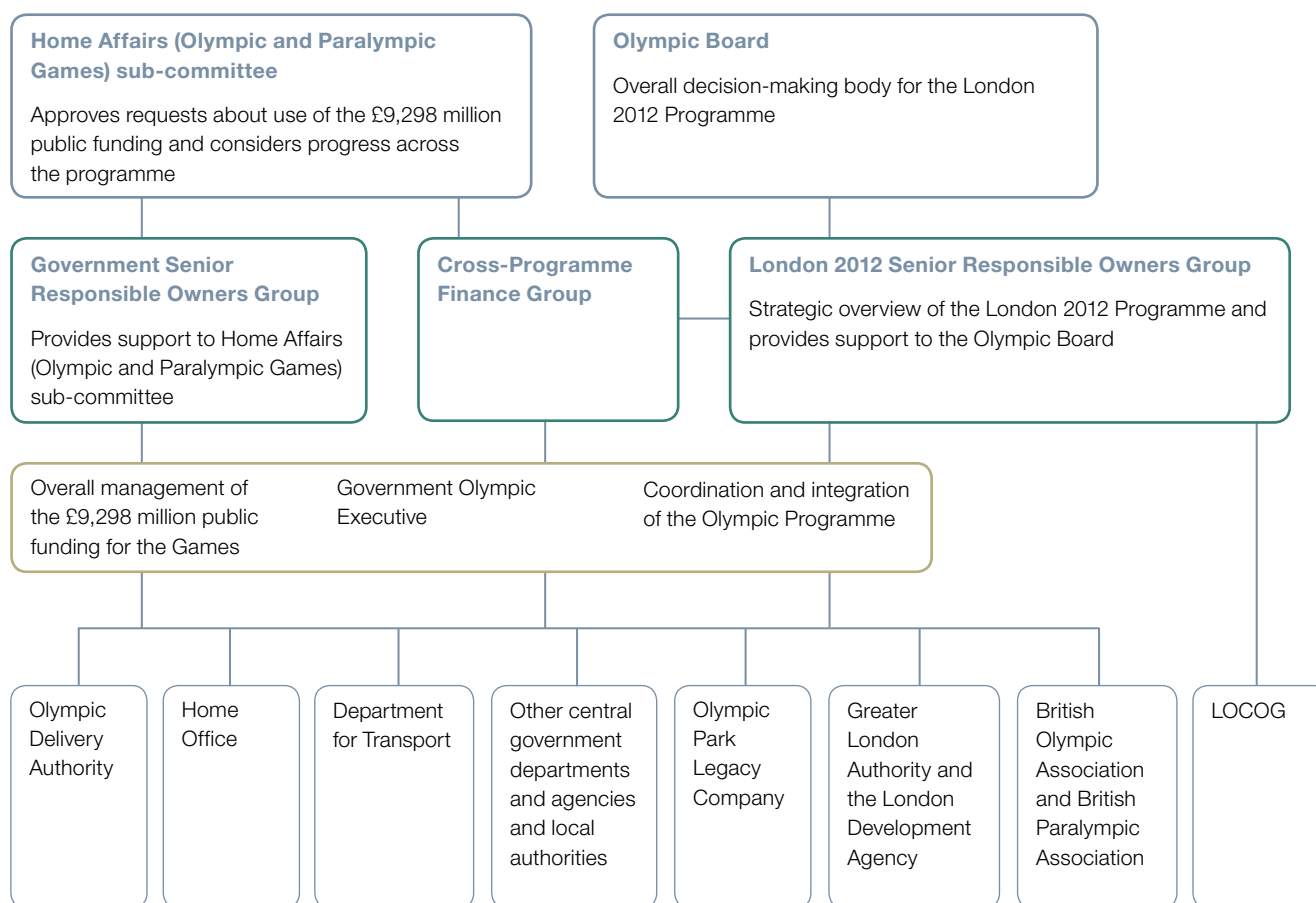
1.3 The Department for Culture, Media and Sport is the government department accountable for the success of the Games and their legacy. The Government Olympic Executive is the directorate within the Department which oversees the Olympic Programme. During 2010, there have been significant changes to the overarching governance arrangements for the Programme. The main delivery and decision-making organisations are set out in **Figure 1** overleaf.

1.4 The main changes to the governance arrangements are:

- the Home Affairs (Olympic and Paralympic Games) Cabinet sub-committee has replaced the Economic Development (Olympic and Paralympic Games) Cabinet sub-committee, which focused on the delivery of the Olympic legacy, and the Ministerial Funders Group, which made decisions about the allocation of contingency to the Olympic Delivery Authority;
- the role of the Home Affairs (Olympic and Paralympic Games) sub-committee is to consider the allocation of contingency and the planning, including security, and operational delivery of the Games and their legacy, with a focus on delivery of the Government's responsibilities and reputational risks. The new sub-committee is supported by the Government Senior Responsible Owners Group;

- the London 2012 Senior Responsible Owners Group was set up in December 2010 to support the Olympic Board and take overall executive authority for preparations for the Games, with a focus on integrated operational planning and delivery. Its membership includes the Senior Responsible Owners of the seven work streams which form the operations programme for Games time and representatives from other Olympic delivery bodies and stakeholders. It replaces the Olympic Board Steering Group and the Operations Directors Group; and
- the Cross-Programme Finance Group, comprising the finance leads of the Olympic responsibilities of each of the main Olympic delivery bodies, has been established to oversee cross-programme financial risks and issues.

Figure 1
The main delivery and decision-making bodies



Source: National Audit Office

Part Two

Progress on the Olympic Delivery Authority's programme

Progress on the construction

2.1 The Olympic Delivery Authority is responsible for construction of the new venues and infrastructure required for the Games. Over the course of our work since 2007 on the preparations for the Games, we have seen the huge transformation that has taken place on the Olympic Park.

2.2 The work to prepare the 2.5 square km site for construction was completed on time in 2008, and the Olympic Delivery Authority has continued to maintain good progress. As at December 2010 it had completed 79.5 per cent of its venues and infrastructure programme to Games time against a target of 79.8 per cent.

2.3 The Olympic Delivery Authority's works schedule shows that all 24 main infrastructure and venue projects in the delivery programme are on track to be completed on or before the target dates for handover to LOCOG (when we last reported the Delivery Authority reported against 17 main projects, it now reports against 24 as some have been divided into separate projects). The timings for handover to LOCOG of the Aquatics Centre and elements of the Athletes' Village, however, are now tight (paragraphs 2.8 and 2.11).

2.4 Meeting dates for handover to LOCOG is important to allow sufficient time for preparation ("fit out") for the Games, where this is not the responsibility of the Delivery Authority, and for testing. By December 2010 five projects had been completed on time, ahead of the target date for handover (the enabling works, power lines, the Eton Dorney rowing centre, the Weymouth and Portland sailing centre, and the Broxbourne canoeing centre).

2.5 Until early 2010 it was unclear who would be responsible for maintaining and securing the Olympic Park between construction completion and handover to LOCOG for the Games and, following the Games, to the Olympic Park Legacy Company and the Lea Valley Regional Park Authority, by 31 March 2014. This work will now be delivered by the Olympic Delivery Authority and LOCOG. The Olympic Delivery Authority now has a funded and approved business case for its portion of the work. LOCOG's work is being funded from the Public Sector Funding Package (see Figure 7 – Park-wide operations).

Updates on projects covered in our previous reports

2.6 The following paragraphs provide an update on four of the higher cost projects that have been covered in our previous reports. The costs are included in **Figure 2** on page 17 (the Aquatics Centre and Main Stadium are part of the 'venues' cost).

The Main Stadium

2.7 The Olympic Delivery Authority is on track to meet its target construction end date for the Stadium of March 2011, in advance of the laying of the track and handover to LOCOG by June 2011, and to deliver it for £486 million, 2 per cent less than its original budget of £496 million.

The Aquatics Centre

2.8 The target construction end date has slipped from April to June 2011, closer to the target for handover to LOCOG in July 2011, because the design and fabrication of the roof steel, which proved more complex and protracted than envisaged, has affected the rest of the project. The Olympic Delivery Authority is now forecasting that the project will cost £269 million, 11 per cent over its initial forecast of £242 million.

The Media Centre

2.9 The Media Centre is being built to provide a facility for around 20,000 journalists and broadcasters. It was originally to be funded with £160 million of private finance and £220 million of public money. As we have previously reported¹, the economic downturn made it difficult to secure private sector funding on value for money terms and the project is now entirely publicly funded, and will be a public asset after the Games. When the decision to publicly fund the project was made in January 2009, the estimated cost was £355 million. In December 2009, the total cost of the Media Centre project was estimated as £334 million. The Olympic Delivery Authority is now forecasting it will cost £301 million and construction will be completed in July 2011 in advance of the target date for handover.

¹ Comptroller & Auditor General, *Preparations for the London 2012 Olympic and Paralympic Games: Progress Report February 2010*, Session 2009-10, HC 298, National Audit Office, February 2010.

The Athletes' Village

2.10 The Athletes' Village is to provide accommodation for around 17,000 athletes and officials during the Games. Following the Games it will be converted into homes and form part of the wider Stratford City regeneration. The Village was originally intended to be privately financed with the exception of £272 million for improvements to the land and infrastructure on the Village site, net of a £250 million estimated share of profits from post-Games development (this estimated share of profits reduced to £100 million in 2009). As we have previously reported, the onset of the economic downturn made it difficult to secure private sector funding on value for money terms, and as a result the project is now entirely publicly funded.

2.11 The Olympic Delivery Authority is currently forecasting completion of the Village before its January 2012 target date for handover to LOCOG. By December 2010 the project was 66.8 per cent complete to Games time, compared to the planned 72.8 per cent. For 2 of the 11 residential plots where construction is taking place, the time between completion and handover to LOCOG has reduced from 26 weeks to 11 weeks.

2.12 In December 2010, the Olympic Delivery Authority was forecasting that the net cost to develop, build and sell the Athletes' Village and surrounding land and infrastructure would be £898 million, £81 million more than forecast when we last reported. The increase is largely due to the increased forecast cost of acquiring additional surrounding land, infrastructure costs and matching security operations with those for the Olympic Park.

2.13 As we have previously reported², the Village is smaller than first planned when it was going to be developed by the private sector (2,818 housing units instead of 3,700). Our previous report set out that of the 2,818 housing units 1,379 affordable homes have already been sold to Triathlon Homes (a consortium of two Registered Social Landlords and an urban development and investment company) for £268 million.

2.14 The Olympic Delivery Authority's forecast cost (and therefore the adequacy of the Public Sector Funding Package) is dependent on achieving income of at least £501 million from sales of the remaining residential units in the Athletes' Village. The Delivery Authority has taken professional advice that the £501 million is achievable, but the level of future income is inherently uncertain. In October 2010 the Delivery Authority invited organisations to register their interest. The Delivery Authority has shortlisted nine expressions of interest from private sector organisations.

² Comptroller & Auditor General, *Preparations for the London 2012 Olympic and Paralympic Games: Progress Report February 2010*, Session 2009-10, HC 298, National Audit Office, February 2010.

The overall position on the Olympic Delivery Authority's costs

2.15 The Olympic Delivery Authority now has £7,321 million available to it, including £387 million contingency (£367 million plus £20 million in Figure 2), rather than the £8,099 million originally available to it. The £778 million reduction in the funding available to the Olympic Delivery Authority reflects a combination of factors:

- the need to return £27 million to HM Treasury as part of Government cost reductions;
- some elements of the Delivery Authority's programme are costing less than originally anticipated (Figure 2); and
- the construction programme is now sufficiently advanced for the Olympic Delivery Authority to be confident that it does not need all of the contingency made available in its November 2007 Programme Baseline (Figure 2).

As a consequence, £498 million of work not identified when the Public Sector Funding Package was established in 2007 can be paid for from within the Public Sector Funding Package (paragraph 5.5).

2.16 The anticipated final cost of the Olympic Delivery Authority's programme at December 2010 was £7,301 million, compared with £7,262 million when we last reported. Figure 2 sets out the position on the Olympic Delivery Authority's costs. The Olympic Delivery Authority's November 2007 Programme Baseline set out the scope, costs, cash flow, risks and key milestones for each of its projects.

Figure 2

Comparison of the Olympic Delivery Authority's November 2007 baseline cost to public money and subsequent forecasts

All figures in £ million, inclusive of VAT ¹	November 2007 baseline	December 2009	December 2010	Change between December 2009 and December 2010
Site preparation and infrastructure	2,058 ²	1,848 ²	1,941	93
Venues	1,055 ²	1,222 ²	1,181	-41
Transport	897	835	861	26
Park-wide operations	0	19	213	194
Other park-wide projects	868	847	796	-51
Athletes' Village, surrounding land and infrastructure	272	817	898	81
Media Centre	220	334	301	-33
Programme delivery	647	687	718	31
Corporation tax and net interest	73	24	25	1
Base budget	6,090	6,633	6,934	301
Additional landscaping costs	37	0	0	0
Revised base budget	6,127	6,633	6,934	301
Anticipated contingency requirement ³	968	629	367	-262
Anticipated final cost	7,095	7,262	7,301	39
Additional contingency available ⁴	1,004	837	20 ⁵	-817
Total funding available to Olympic Delivery Authority	8,099	8,099	7,321	-778
Total contingency available	1,972	1,466	387	-1,079

NOTES

- 1 All figures are the net cost to the Olympic Delivery Authority, but inclusive of VAT. The gross costs of some projects are higher: costs stated are a) net of expected contributions from the London Development Agency (site preparation) and from the private sector (utilities projects within infrastructure); and b) net of the estimated receipts for the Village development.
- 2 Since we last reported some items of expenditure have been reclassified by the Olympic Delivery Authority so these are not directly comparable to those previously reported.
- 3 Based on a quantified assessment of the risks with the potential to impact on more than one project.
- 4 Added to the anticipated contingency requirement was unallocated contingency exclusively available for the Delivery Authority's use. At November 2007 this was £1,004 million, at December 2009 this was £837 million and by December 2010 this was £20 million.
- 5 The £587 million referred to in paragraph 5.9 is potentially available to the Olympic Delivery Authority, as well as other delivery bodies.

Source: National Audit Office analysis of Olympic Delivery Authority data

Part Three

Progress with coordinating the programme

3.1 Successful delivery requires coordination of the activities of a large number of organisations. The Government Olympic Executive is responsible for overseeing all operational planning.

The developing governance arrangements

3.2 With construction well under way there was a need to provide a clearer focus on operational planning and delivery. In March 2010 the Committee of Public Accounts recommended that the Department should make clear who has overall executive authority for delivery of the Games. In May 2010 the Operations Directors Group was established as a sub-group of the Olympic Board Steering Group to take overall executive authority. This Group and the Olympic Board Steering Group have now been replaced by the London 2012 Senior Responsible Owners Group.

3.3 So far the revised governance arrangements set out in Figure 1 and paragraph 1.4 are untested in terms of their ability to deliver the quick and informed decision-making that will be essential as the Games approach. We note, however, that while there is some overlap in the concerns of the different participants in the arrangements, there is also a difference in how the parties may see their financial and operational interests:

- Both the Home Affairs (Olympic and Paralympic Games) sub-committee representing Government's financial and policy interests and the London 2012 Senior Responsible Owners Group, with its 14 members representing the interests of delivering the Games, consider important aspects of the operational delivery of the Games, including security and transport.
- The Home Affairs (Olympic and Paralympic Games) sub-committee considers and HM Treasury approves allocation of contingency above the Department for Culture, Media and Sport's delegated limit.

Progress with coordinating the London 2012 programme

3.4 An outcome of the 2010 Spending Review was that the Department for Culture, Media and Sport became the sole central government funder of non-security elements of the programme (the Home Office coordinates funding for security). Previously, central government funding was spread across several departments, and their approval was required for changes in the allocation of funding.

3.5 The change means that as the programme progresses the Department, through the Government Olympic Executive, will be able to re-allocate savings from one area of the programme to meet cost pressures elsewhere. In addition, in 2012-13 the Department will have delegated authority for the use of contingency up to £10 million at a time (paragraph 5.9) to allow quick decisions.

3.6 When we last reported there were significant areas of the programme where responsibility had not been agreed, such as safety and security in the Olympic venues during the Games. In March 2010 the Committee of Public Accounts highlighted the need for clarity about who is responsible for funding and delivering each element of the programme. Since then responsibility for delivering venue security has been resolved with LOCOG now responsible. Other significant areas such as “Last mile”, which refers to the management of spectators in the space between transport hubs, such as tube stations, and the venues, are being addressed but final allocation of funding is yet to be agreed.

Progress with the operational work streams

3.7 When we last reported, the Government Olympic Executive and the other delivery bodies were in the process of establishing the seven cross-cutting work streams which form the operations programme for Games time (**Figure 3** overleaf).

3.8 Good progress has been made over the last year. There is now an overarching Programme Brief, which provides an overview of how the overall programme is structured. This helps the work streams to understand their position in the programme. Each work stream now has a lead delivery body, a designated Senior Responsible Owner, a Board or Steering Group, and a delivery plan with clear milestones. To promote coordination, the Board for each work stream has representation from the others. The people we have spoken to from across the programme have been generally positive about the effect on collaboration across the programme.

3.9 When we last reported the Government Olympic Executive expected assurance plans to be in place for each of the work streams by June 2010. Assurance plans are now in place, and provide a basis for the Government Olympic Executive satisfying itself that work streams are progressing as they should.

3.10 The Government Olympic Executive’s oversight has been strengthened by requiring information on progress and risks to effective coordination of the programme from each work stream to a consistent format. We saw evidence of the top risks and risk ratings changing, which is indicative of an actively managed process. As at December 2010 among the top risks were:

- the lack of clarity about the timing and nature of non-sporting events taking place across London during the Games. Without clarity, it is not possible to assess fully the overall impact of these events on transport planning and security resources. The Government Olympic Executive expects the full schedule of events to be completed by the end of March 2011;

- uncertainty about how effective the measures to reduce day-to-day demand for London transport during the Games to accommodate the influx of spectators and other visitors will be; and
- the continuing lack of a final schedule of programme-wide testing activities, which are scheduled to begin in August 2011; in particular, the fact that there is currently no event planned to test the resilience of the transport network and the impact on the rest of London of multiple events happening simultaneously.

3.11 As LOCOG is responsible for staging the Games, the Government Olympic Executive and LOCOG are establishing a joint programme office to oversee progress across the work streams and minimise duplication in monitoring and assurance work.

Figure 3
The seven work streams

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

Source: National Audit Office

Part Four

Delivering the promised legacy

4.1 The legacy was a key element of London's bid for the Games. In June 2008, the Government published five key legacy promises. A further promise, to transform the life experience of disabled people, was added in December 2009. In December 2010, the Government set out four main strands of the legacy programme. **Figure 4** shows how these four strands and the earlier promises are related.

Figure 4

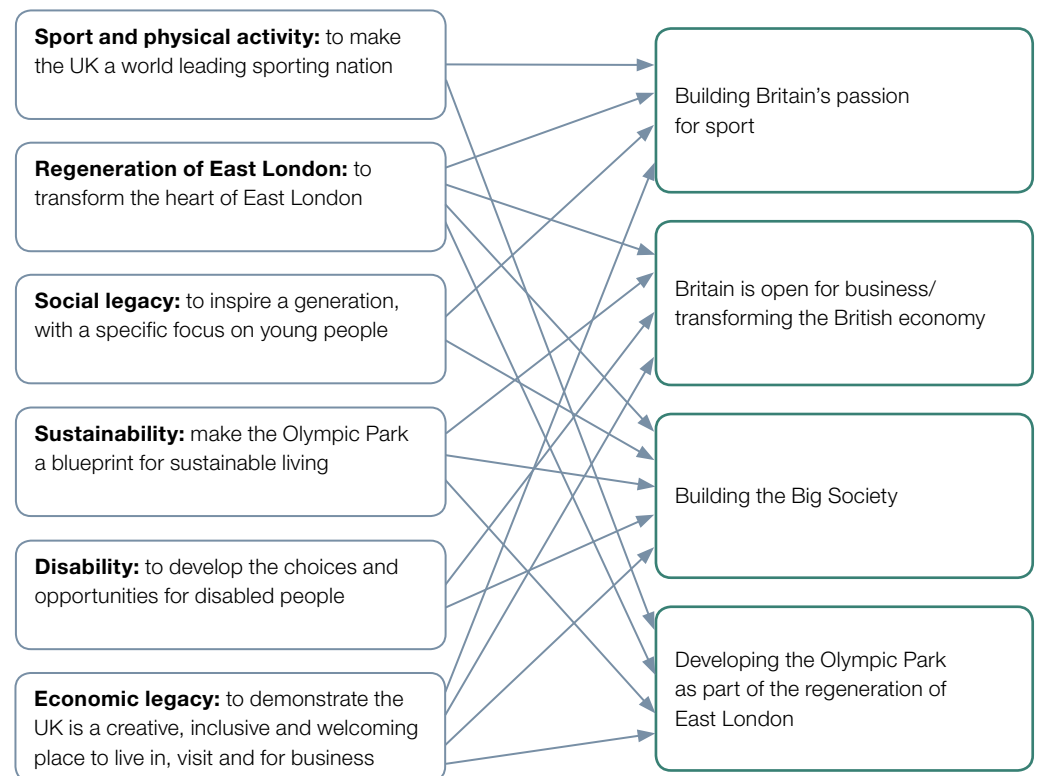
How the current four strands of the legacy programme are related to the earlier promises

The six key legacy promises

(June 2008, disability promise added in December 2009)

The four strands of the legacy programme

(December 2010)



Source: Department for Culture, Media and Sport, Government Olympic Executive

4.2 Although the Olympic Delivery Authority's work provides the foundation for the delivery of the Olympic Park legacy, the cost of the legacy programme is mostly outside of the £9,298 million Public Sector Funding Package. The exceptions are £290 million for elite and community sport, and £350 million for the Olympic Delivery Authority to convert the Olympic Park and venues for use after the Games (paragraph 4.9).

Planning for the delivery of legacy

4.3 The legacy programme comprises approximately 15 different projects, delivered by a range of organisations, with discrete objectives, and which are expected to contribute to the four strands of the legacy programme shown in Figure 4. While the Government Olympic Executive is accountable for the success of the legacy and has produced an overarching legacy plan, accountability for delivering the individual projects lies with the organisations funding them. Our focus has been on the work of the Government Olympic Executive in coordinating the programme, rather than the detailed delivery work undertaken in the individual projects.

4.4 There are challenges posed by the diffused delivery arrangements for the legacy:

- The Government Olympic Executive has little control over delivery of the legacy and is dependent on the cooperation of other organisations to prioritise the legacy programmes for which they are responsible. During 2010 the Olympic Executive put in place an assurance plan. The Olympic Executive considers that the legacy projects all provide a sound basis for successful delivery.
- There are no plans for how delivery of the legacy will be monitored and coordinated when the Government Olympic Executive is wound up after the Games.
- Making an assessment of the value added to legacy projects by their links to the Games will depend on being able to separate out the impacts of business as usual activities. The Government has not yet estimated the net benefits it expects to accrue that can be directly attributed to the Games. The Olympic Executive is developing a framework for evaluating the legacy, as recommended by the Committee of Public Accounts in July 2008.

4.5 Some elements of the legacy are being delivered in advance of the Games. For example, the Olympic Delivery Authority has targets for employment and skills, which contribute to the economic and social legacy. As at December 2010, the Olympic Delivery Authority's figures showed that: 21 per cent of workers on the site were living in one of the five host boroughs, against a target of 15 per cent; 13 per cent had been on training programmes and apprenticeships provided by either the Olympic Delivery Authority or one of its main contractors, against a target of 4 per cent; and 12 per cent had been previously unemployed, against a target of 7 per cent. However, the Olympic Delivery Authority is forecasting that it will miss its targets for employing women (4 per cent against a target of 11 per cent) and disabled people (1 per cent against a target of 3 per cent).

The Olympic Park legacy

4.6 In June 2007 the Committee of Public Accounts recommended that legacy plans for using the five new venues that will remain after 2012 (the Main Stadium, the Aquatics Centre, the Velodrome, the Handball Arena and Eton Manor) should be finalised.

4.7 The Olympic Park Legacy Company was formed in 2009 to take over lead responsibility for the Olympic Park legacy from the London Development Agency. The founder members are the Mayor of London, the Minister for the Olympics, and the Secretary of State for Communities and Local Government.

4.8 The Olympic Park Legacy Company receives its funding from the Department for Communities and Local Government and the Greater London Authority. As part of the 2010 Spending Review, the Olympic Park Legacy Company will continue to receive funding from Department for Communities and Local Government to March 2015 to cover legacy projects. The level of this funding has not been agreed and is dependent on the Legacy Company agreeing its business case with HM Treasury, which it aims to do by the end of March 2011.

4.9 The Olympic Delivery Authority is responsible for converting the Olympic Park and venues for use after the Games, and its budget includes £350 million for this work, spread across a number of lines in Figure 2 on page 17. Based on current plans, the target date for starting to re-open the Park after the Games is May 2013.

4.10 The Olympic Park Legacy Company has made progress in the following areas we identified in our previous report as key to achieving value for money from the Park. It has:

- secured the transfer of the Olympic Park land from the London Development Agency in September 2010. As a condition of the transfer, the London Development Agency's contribution to the Public Sector Funding Package for the Games has reduced by £300 million (paragraph 5.4);
- entered negotiations with two bidders for the future use of the Main Stadium. The Legacy Company aims to decide on the future use of the Stadium by April 2011;
- consulted the market about uses for the other permanent sporting venues it owns; the Aquatics Centre and the Handball Arena, and launched an open procurement for operators of both venues; and
- published its Legacy Masterplan for use of the remainder of the Park after the Games. This sets out the Legacy Company's overall vision for the Olympic Park, including plans for up to 11,000 new homes.

4.11 The Olympic Park Legacy Company has consulted the market on possible uses for the Media Centre. However, as we have previously reported, the main challenge continues to be finding a viable legacy use that meets the Government's aspirations for job creation after the Games. Its location away from the main transport hub of Stratford may make it difficult to secure a commercial use. The Legacy Company told us that it has received nearly 50 expressions of interest in the facility.

4.12 In view of the difficulty resolving the legacy use of assets, in our previous report we recommended that the Legacy Company set out a clear plan for mitigating the costs of maintaining assets after the Games. The Legacy Company's approach to mitigating the costs of maintaining assets is to focus on procuring long-term operators. It does not have plans for generating income or minimising the cost of ownership after the Games, in the event that it is unsuccessful in its procurement of long-term operators.

Ensuring that lessons are learned from the Games

4.13 In its previous report, the Committee of Public Accounts recommended the Department and the Olympic Delivery Authority take the lead in identifying the lessons from the preparations from the Games.³

4.14 The Olympic Delivery Authority has been running the Learning Legacy Project, collating and communicating lessons from the construction programme including areas such as health and safety and sustainability for sharing with industry, Government and others. The Government Olympic Executive is developing a framework for evaluating the legacy which aims to draw out lessons.

4.15 The Government has no plans in place for making sure that wider lessons are identified from the operational planning for the Games, particularly in terms of cross-Government working and partnership working with local authorities and other delivery bodies. Lesson learning also depends, however, on making sure that the experience, skills and knowledge of individuals are not lost.

³ Committee of Public Accounts, twenty eighth report of session 2009-10, Preparations for the London 2012 Olympic and Paralympic Games.

Part Five

The costs of London 2012

5.1 The Government made commitments to the International Olympic Committee so that LOCOG can deliver the Games in accordance with the Host City Contract. For example, the Government has guaranteed to deliver planned and additional transport infrastructure projects and security. In March 2007, the Government announced a Public Sector Funding Package. There are also costs associated with meeting these commitments which are outside the Public Sector Funding Package. In addition, the Government is responsible for meeting any shortfall between LOCOG's costs and revenues.

The Public Sector Funding Package

5.2 When the Public Sector Funding Package was announced, it was allocated to specific elements of delivering the Games, principally the venues and other facilities, and policing and wider security (Appendix Two). Since we last reported, the Funding Package was reduced by £27 million by the Government in May 2010, and, as an outcome of the Government's 2010 Spending Review, the Funding Package now includes additional Games-related costs. **Figure 5** overleaf summarises the changes, which include: a £778 million reduction in funding allocated to the Olympic Delivery Authority since March 2007; a £402 million net increase in funding for other work, including new, previously uncoded work (Figure 7, page 28); and a £349 million provision for programme-wide contingency (Figure 8, page 31).

5.3 As a result of the Olympic Delivery Authority's forecast expenditure being lower than its previously available funding, and lower expenditure forecasts for policing and wider security, the Public Sector Funding Package has been able to absorb additional scope, demonstrating that the Funding Package can be adapted to meet the needs of the programme. The Department has previously assured the Committee of Public Accounts that the Games will be delivered within the Public Sector Funding Package. There would be a stronger basis for accountability if there were clear criteria for which costs should score against it.

Figure 5
Changes to the Public Sector Funding Package

	March 2007 announcement of Funding Package	May 2010	December 2010	Change between March 2007 and December 2010	References in the text
	(£m)	(£m)	(£m)	(£m)	
Funding exclusively available to the Olympic Delivery Authority	8,099	8,072	7,321	-778	Paragraphs 2.15–2.16 and Figure 2
Funding for other, (non-Olympic Delivery Authority) work	988	988	1,390	402	Figure 7
Security contingency	238	238	238	0	Paragraph 5.9 and Figure 8
Programme-wide contingency	0	0	349	349	Paragraphs 5.9–5.10 and Figure 8
Total	9,325	9,298	9,298	-27	

Source: National Audit Office

The sources for the Public Sector Funding Package

5.4 Figure 6 shows how the sources of funding for the Public Sector Funding Package have changed. The one change since we last reported – a result of ownership of the Olympic Park being transferred from the London Development Agency to the Olympic Park Legacy Company – is that the London Development Agency's contribution to the Public Sector Funding Package has fallen by £300 million, to £250 million from £550 million. As a result, the Exchequer contribution increases to £6,248 million; the increase is £273 million rather than £300 million because of the £27 million reduction in the overall Public Sector Funding Package.

Figure 6

Sources of funding for the Public Sector Funding Package

	March 2007 (£m)	December 2010 (£m)
Exchequer	5,975	6,248
National Lottery	2,175	2,175
Greater London Authority	625	625
London Development Agency	550	250
Total	9,325	9,298

Source: National Audit Office

The position on other (non-Olympic Delivery Authority) costs within the Public Sector Funding Package

5.5 Figure 7 overleaf provides a breakdown of the non-Olympic Delivery Authority costs within the Public Sector Funding Package. The Funding Package now includes a new provision for £498 million of work for which, as we highlighted in our last report, the costs, funding and delivery responsibility previously had not been agreed. Anticipated savings in other areas mean the overall increase in non-Olympic Delivery Authority costs in the Funding Package is £402 million (Figure 7).

5.6 The largest change relates to venue security during the Games, for which £282 million has now been added to the Public Sector Funding Package in recognition of previous under-provision and the completion of recent work on likely costs. Previously there was no provision in the Funding Package for this work, continuing the underestimation of venue security costs in the bid to host the Games (the bid included £29 million for this work, to be funded by what became LOCOG, rather than the public sector). The Government is responsible for funding any expenditure above the £29 million in line with the security guarantee provided to the International Olympic Committee as part of the bid.

5.7 As Figure 7 shows, the effect on the Public Sector Funding Package is to increase the total provision for security from £600 million to £757 million (£475 million plus £282 million). The overall increase of £157 million comprises £282 million for venue security less a £125 million reduction in wider security costs. These figures exclude £238 million of security contingency.

Figure 7

The position on non-Olympic Delivery Authority costs within the Public Sector Funding Package, excluding contingency

	March 2007	December 2009	Spending Review 2010	Change	Comments
	(£m)	(£m)	(£m)	(£m)	
Paralympic Games	66	66	95	29	Government share of additional cost of staging Paralympic Games (paragraph 5.16)
Elite and community sport	290	290	290	0	Training and development of the UK athletes, and investment in grass-roots community sport
Look of London	32	32	32	0	Improvements to the appearance of London during the Games
Wider policing and security	600	600	475	-125	Reflecting more up-to-date forecasts of likely spend
Total for costs identified in March 2007	988	988	892	-96	
Venue security	0	0	282	282	Work to secure the perimeter of the Olympic Park and the Olympic venues during the Games
City Operations (London and Weymouth)	0	0	22.5	22.5	To help meet the costs of additional, Olympic-related services required in Weymouth and London boroughs during the Games
Operational provisions	0	0	63.5	63.5	Provision to be allocated to: Game-wide readiness (Figure 3); Last Mile (paragraph 3.6); and City Operations (Figure 3)
Contribution to the cost of the Athletes' Village	0	0	25	25	Funding for LOCOG from the Public Sector Funding Package to make this payment to the Olympic Delivery Authority (paragraph 5.19)
Costs arising from venue changes	0	0	11	11	Funding for LOCOG from the Public Sector Funding Package (paragraph 5.19)
Provision for LOCOG	0	0	27	27	Funding set aside for LOCOG and held by the Government Olympic Executive (paragraph 5.19)
Park wide operations (LOCOG delivery)	0	0	67	67	Payment to LOCOG to deliver part of the work to manage the Olympic Park and venues between the end of construction and handover (paragraph 2.5)
Total provision for previously unidentified costs	0	0	498	498	
Total	988	988	1,390	402	

NOTE

1 The position at the time of our last report (which used figures as at December 2009) was the same as that at the time of the March 2007 announcement of the Public Sector Funding Package.

Source: National Audit Office

The contingency within the Public Sector Funding Package

5.8 The Public Sector Funding Package announced in 2007 created a contingency provision of £2,747 million. Until the Government's 2010 Spending Review, £238 million of this was specifically for security, upon which a call could be made in the event of a significant change of circumstances, and the remainder was exclusively available to the Olympic Delivery Authority.

5.9 As a result of the Spending Review, there are now three discrete contingency pots:

- £387 million is exclusively available to the Olympic Delivery Authority to manage known risks to its programme. This sum has been arrived at using established methods of risk identification and quantification. If the Olympic Delivery Authority should need more money, it could apply to use the programme-wide contingency, described below. But whereas the Olympic Delivery Authority previously had exclusive access to additional contingency, now its requirements beyond its existing funding would have to be assessed against any competing needs across the programme;

and £587 million for:

- the existing £238 million security contingency that can be applied to security issues across the programme, but which can only be called upon if there is significant change in circumstances such as an increase in the security threat to the Games; and
- a £349 million programme-wide contingency. With the exception of £50 million, which the Government Olympic Executive has authority to release during 2012-13 to meet emergency cost pressures, applications to use this contingency must be considered by the Home Affairs (Olympic and Paralympic Games) sub-committee and approved by HM Treasury.

5.10 The £349 million programme-wide contingency is not based on an assessment of risk. Rather, it is the amount of money left after the changes to the allocations in the Public Sector Funding Package, following the Spending Review exercise to fund all currently identified costs. The Government Olympic Executive is now making a quantified risk assessment. There is no guarantee that the Public Sector Funding Package will be sufficient, even allowing for the fact that the amount of contingency available can rise as well as fall as risks are mitigated or realised.

5.11 In considering the potential for calls on contingency, it is important to note that as part of the Spending Review, departments were asked to identify all Olympic-related costs as part of their bids. Settlement letters to departments made clear that allocations for the Spending Review period were final. Nevertheless, uncertainty remains:

- There are inherent risks on such a large and complex programme with a fixed deadline and fixed commitments. As the Games approach, there will be less flexibility to adjust the programme in response.
- In a difficult property market the Olympic Delivery Authority budget, and therefore the Public Sector Funding Package, is reliant on forecast income of £501 million from the sale of the remaining units in the Athletes' Village (paragraph 2.14).

5.12 **Figure 8** sets out the position on how contingency has been allocated across the life of the programme.

The position on costs outside the Public Sector Funding Package

5.13 There have always been costs associated with delivering the Games and their legacy outside the Public Sector Funding Package, for instance:

- the purchase of Olympic Park land by the London Development Agency (expected to be net nil cost after post-Games land sales by the Olympic Park Legacy Company);
- the cost of the legacy programme, with the exception of £350 million in the Olympic Delivery Authority's budget for converting the Olympic Park and venues for use after the Games, and £290 million for elite and community sport;
- the cost incurred by government departments and their agencies, and local authorities on Olympic-related work, including the cost of staffing Olympics teams within government departments, for example the forecast £29 million lifetime cost of the Government Olympic Executive; and
- £86 million, identified as part of the 2010 Spending Review, for departmental costs relating to the Government Operations work stream (Figure 3), which would not be incurred were it not for the Games.

5.14 We have previously made clear that any post-Games evaluation of the costs and benefits should, within practical limits, include the costs to the public sector that would not have been incurred had London not won the 2012 Games.

Figure 8

The allocation of contingency across the life of the London 2012 Programme

	Type of contingency			Total (£m)	Comment
	Olympic Delivery Authority (£m)	Wider policing and security (£m)	Programme- wide (£m)		
Original Public Sector Funding Package	2,509	238		2,747	
Contingency allocated to the Olympic Delivery Authority to meet early financial pressures	(537)			(537)	
Contingency remaining at the time of the Olympic Delivery Authority's November 2007 Programme Baseline Report	1,972	238		2,210	
Contingency released to Olympic Delivery Authority between November 2007 and 2010 Spending Review process	(1,066)			(1,066)	Majority released to fund the Athletes' Village and Media Centre (paragraphs 2.10 and 2.9)
Forecast return of contingency following sale of Village units	324			324	£324 million of the minimum £501 million of receipts required from sale of flats in the Athletes' Village to be retained by the Olympic Delivery Authority (paragraph 2.14)
Contingency remaining at the start of the 2010 Spending Review process	1,230	238		1,468	
Contingency not required by Olympic Delivery Authority	(751)		751	0	£67 million of this is transfer of Olympic Delivery Authority contingency to LOCOG to pay for elements of the Park-wide operations work (Figure 7 and paragraph 2.5)
Contingency allocated to work for which costs, responsibility and funding previously had not been agreed			(498)	(498)	Figure 7
Allocation of contingency for increase in cost of Paralympics			(29)	(29)	Figure 7
Transfer of savings on policing and wider security programme to programme-wide contingency			125	125	Figure 7
Allocation of contingency to cost pressures within Olympic Delivery Authority budget	(92)			(92)	Money held by the Olympic Delivery Authority but allocated to specific projects
Contingency remaining following the 2010 Spending Review	387	238	349	974	

Source: National Audit Office

The position on LOCOG's budget

5.15 LOGOG is responsible for staging the Games in line with commitments given to the International Olympic Committee when the Games were awarded to London. It is a company limited by guarantee and established by a joint venture agreement between the stakeholders in the company: the Secretary of State for Culture, Media and Sport; the Mayor of London; and the British Olympic Association.

5.16 With the exception of a 50 per cent contribution towards the cost of the Paralympic Games, LOCOG is expected to be self-financing through sponsorship, ticketing, merchandising and contributions from the International Olympic Committee. As the ultimate guarantor to the International Olympic Committee, including LOCOG's budget, and therefore responsible for meeting any shortfall between LOCOG's costs and revenues, the Government has always been financially exposed should LOCOG fail to break even.

5.17 Given the Government's potential liability should LOCOG's expenditures exceed its revenues, we examined what the Government Olympic Executive had done to assure itself that LOCOG's budget was complete and adequately costed. We confirmed that the Olympic Executive:

- had sight of the known cost and revenue figures, assumptions and risks that were used to create the LOCOG budget;
- applied a thorough process for assuring itself that major items of expenditure in LOCOG's budget were based on robust evidence and assumptions;
- tested whether LOCOG's revenue targets, and its assumptions about unsecured revenue, were based on robust evidence and assumptions;
- had taken steps to assure itself that LOCOG's November 2010 budget was complete; and
- had a thorough process for assuring itself that the risk of a call on the Government's guarantee of LOCOG's finances has been minimised.

LOCOG's budget

5.18 In November 2010 LOCOG's Board approved a £2,164 million budget. The budget balances, subject to the successful management of risks and an agreement that the Government would meet specific costs. In preparing its budget, LOCOG confirmed to the Government that, on the basis of discussions with the International Olympic Committee and revised assumptions on ticketing and other revenues, the projected benefit to the LOCOG budget would be over £100 million.⁴ As a result, the Government, in addition to settling its responsibility for security costs of £282 million (paragraph 5.6), has made available up to a further £63 million from the Public Sector Funding Package.

⁴ The elements of the increased revenue projections are commercially sensitive.

5.19 The £63 million covers:

- **£25 million** contribution for use of the Athletes' Village (Figure 7). LOCOG considered that, under the Host City Contract, it no longer had any liability for using the Village at Games time once the Village was taken into public ownership. The Government did not agree, but provided the £25 million to allow LOCOG to pay the sum to the Olympic Delivery Authority as the Delivery Authority had already budgeted to receive this money and still considered it had a valid claim for the money;
- **£11 million** to meet the residual cost to LOCOG of the impact of venue changes made to save public money (Figure 7); and
- **£27 million** currently retained by the Government Olympic Executive.

5.20 The Olympic Executive provided the £25 million and £11 million to allow LOCOG to proceed with a balanced budget as, although LOCOG considered it had no liability, the Olympic Executive concluded that this was preferable to LOCOG proceeding with financial uncertainty now and potentially making a post-Games claim on the Government underwriting guarantee in the event of a deficit.

Risks for LOCOG to manage

5.21 Within the budget set by LOCOG there are risks that need to be managed to avoid a deficit and a consequent call on the Government guarantee.

5.22 As recommended by the Committee of Public Accounts, LOCOG has now established a funded contingency (the amount of which is commercially sensitive for LOCOG). The Government Olympic Executive and LOCOG consider, however, that this contingency is unlikely to cover all potential financial risks between now and the conclusion of the Games, and that LOCOG will therefore need to continue to focus on cost and revenue management as a way of ensuring that it breaks even. They also agree that as much as possible of this contingency should be maintained for the period in the immediate lead up to and during Games time where the flexibility to reduce costs will be largely lost.

5.23 As regards managing cost risks, the Government Olympic Executive has registered with LOCOG that within its budget there are quantified expenditure risks ranging from £50 million to £100 million. LOCOG expects to mitigate expenditure risks through maximising its revenues and minimising costs (including targeted procurement savings of £75 million) to reduce calls on its contingency.

5.24 As regards managing revenue risks, in September 2010, of the £688 million in unsecured revenues in LOCOG's budget at that time, the Olympic Executive rated £482 million as low risk; £119 million as medium risk, requiring further work from LOCOG; and £87 million as high risk, either because of the lack of plans or the ambitious nature of the targets, beyond what had been secured in previous Games.

5.25 In December 2010 the Government Olympic Executive recognised what it called the 'outstanding' progress LOCOG has made in securing income. LOCOG has already secured over 90 per cent of its non-ticketing income. Of the £536 million revenues still to be secured, the Olympic Executive estimates that around 80 per cent relates to ticket income, on which it has a high degree of confidence, although it has not updated the detailed risk assessment it carried out in September 2010. The Olympic Executive has also noted that the ticketing income, apart from some packages, cannot be assumed as it is dependant on customer demand. LOCOG told us it has already achieved its budgeted revenues for corporate sales. Public ticket sales open on 15 March 2011.

5.26 In the event that these risks lead to additional cost pressures that LOCOG is unable to meet within its budget, the sources available to LOCOG would be:

- its contingency;
- the remaining £27 million from the agreement with the Government (paragraph 5.19);
- the programme-wide contingency within the Public Sector Funding Package (paragraph 5.9). This represents a change in the Government's previous position that the contingency within the Public Sector Funding Package would not be available to LOCOG; and
- the overall Government guarantee in the event that the above sources are insufficient. This would formally be accessed through the International Olympic Committee invoking the Government's guarantee.

5.27 The Government Olympic Executive plans to use its assessment of the forecast cost assumptions and risks in LOCOG's November 2010 budget as the baseline against which it will monitor LOCOG's performance in mitigating the risks to its budget.

Appendix One

Methods

Selected Method	Purpose
<p>1 Review of key documentation including management reports, supporting papers and minutes produced by the Government Olympic Executive and the other delivery bodies.</p>	<p>To inform our understanding on preparations for the Games and their legacy.</p>
<p>2 Interviews with officials and teams at the Olympic Executive and Delivery Authority and other relevant organisations, including LOCOG, the Home Office, the Department for Communities and Local Government and the Department for Transport.</p>	<p>To further inform our understanding on preparations for the Games and their legacy.</p>
<p>3 Financial analysis of the data provided by the Government Olympic Executive and the Olympic Delivery Authority.</p>	<p>To determine the current financial position of the bodies involved with delivery the Games and its legacy.</p>
<p>4 Carried out a review of partnership working on the operational programme with independent project and programme management experts from Aspire Europe and Outperform UK applying the principles of the our Partnership Audit toolkit.</p>	<p>To determine whether bodies responsible for the delivery of the Games are working together effectively.</p>

Appendix Two

The Olympic Budget

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 9**).

Figure 9

Breakdown of costs and provisions announced in March 2007

Olympic Delivery Authority Costs	£ million	£ million	£ million
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			290
Paralympics			66
Look of London			32
Policing and wider security			600
General programme contingency (including £238 million for policing and wider security)			2,247
Total			9,325

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



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