



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

**HC 756
SESSION 2010–2011**

16 FEBRUARY 2011

Department for Culture, Media and Sport

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

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.