



National Audit Office

**REPORT BY THE  
COMPTROLLER AND  
AUDITOR GENERAL**

**HC 1596  
SESSION 2010–2012  
6 DECEMBER 2011**

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**Department for Culture, Media and Sport**

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

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**Report by the Comptroller and Auditor General**

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Amyas Morse  
Comptroller and  
Auditor General

National Audit Office

1 December 2011

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, through its Government Olympic Executive.

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This report can be found on the National Audit Office website at [www.nao.org.uk/olympics-2011](http://www.nao.org.uk/olympics-2011)

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## Key facts

**£9,298m**

size of the Public Sector  
Funding Package

**91.9%**

of the construction  
programme  
completed

**£354m**

uncommitted funds  
remaining in the  
Funding Package

**£318m**

Olympic Executive's  
assessment of most likely  
cost of meeting risks

- £6,856 million** anticipated final cost of the Olympic Delivery Authority's programme.
- 14** main projects completed by the Olympic Delivery Authority. The remaining venues are on track.
- £271 million** estimated increase in the cost of venue security since we last reported.
- 18** sporting test events already run by LOCOG.
- £529 million** net value of receipts from the sale of the remainder of the Athletes' Village, £14 million above the target of £515 million.
- 18** projects in the legacy portfolio.
- £826 million** funding allocated from public sector sources for legacy-related projects over the Spending Review period.
- 109,000** new people participating regularly in sport against a target of one million by March 2013.

# 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 Greater London Authority – the Mayor of London is a signatory to the Host City Contract with the International Olympic Committee;
- the Olympic Park Legacy Company, responsible for the transformation, development and long-term management of the Olympic Park and venues; and
- other government departments, notably the Home Office, the Department for Communities and Local Government, and the Department for Transport.

The principal forum where organisations come together to oversee the delivery of the Games is the London 2012 Senior Responsible Owners Group.

**3** This report, our sixth on the Games, examines the following areas which are central to the achievement of value for money:

- Progress across the Olympic Delivery Authority's construction programme.
- Progress with planning for Games-time.
- Progress with delivering the legacy from the Games.
- 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 progress and costs and on developments since we last reported in February 2011. Our methods are at Appendix One.

## Key Findings

### On progress across the Olympic Delivery Authority's construction programme

**5** Since our last report, the Delivery Authority has remained on track to deliver its work on the Olympic Park on time, within budget and to the standard required. The construction programme was 91.9 per cent complete by the end of September 2011, against a target of 92.5 per cent. Fourteen of the 26 projects have been completed and handed over to the satisfaction of the Delivery Authority, as the organisation letting the construction contracts, and of LOCOG as the user of facilities during the Games. The remaining projects are on track, although elements of the Athletes' Village remain tight for handover to LOCOG. The Delivery Authority has also either completed or is on track to complete its transport infrastructure projects, such as increasing capacity on the Docklands Light Railway.

**6** The Delivery Authority is forecasting that its final expenditure will be £6,856 million. This excludes £333 million of budget for transforming the Olympic Park post-Games which has now been returned to the Olympic Executive, and of which up to £302 million will be available to the Legacy Company. On a like for like basis, the grossed-up forecast total expenditure of £7,189 million is still significantly less than the £8,099 million originally available to the Delivery Authority and less than the £7,321 million available to it when we last reported. The Delivery Authority has achieved this despite the fact that, contrary to initial expectations, it had to bear the full cost of the Media Centre and Athletes' Village. The Olympic Delivery Authority has also sold its remaining interest in the Athletes' Village for a net £529 million, £14 million more than was anticipated in the 2010 Spending Review.

### On progress with operational planning

**7** Since we last reported, the delivery bodies have been engaged in intensive operational planning. Without effective planning, the public experience of the Games could be diminished. If that happened it could do abiding damage to the reputation of the London Games.

**8** Programme management information shows that, overall, good progress is being made across almost all of the principal operational work streams. It also shows that those responsible for the principal work streams are monitoring and managing risks and issues as they arise. In addition, risks affecting other areas of the programme are escalated to the London 2012 Senior Responsible Owners group, where there is challenge both to risk ratings and the adequacy of mitigating actions.

**9** The planning work has, however, identified new operational requirements and risks to delivery, with significant additional costs. In some cases, programme management information shows that planning is also behind schedule, although delivery bodies are seeking to mitigate delays. For example:

- the Home Office is responsible for setting security requirements and funding LOCOG's delivery of venue security: LOCOG is responsible for working out the operational implications of the requirements, including recruitment. In 2006, LOCOG estimated that 10,000 guards would be a reasonable basis to invite tenders from contractors and this informed the 2010 Spending Review settlement for venue security of £282 million. The guarding contract was let to G4S by LOCOG in December 2010. Detailed planning was undertaken by LOCOG and security partners only once the competition schedule and venues were finalised in early spring 2011. This planning, and the revised security requirements flowing from the implementation of the agreed security standards, have increased the peak requirement of guards to 23,700 and the likely cost to an estimated £553 million, a £271 million increase, although this sum is not yet finalised. The near doubling of the costs has increased the strain on the Public Sector Funding Package;
- the increased guarding requirement is a significant recruitment challenge and means LOCOG is having to renegotiate its contractual requirements. In addition, the Home Office is in discussions with the Ministry of Defence about the provision of military personnel to act in security roles;
- in accordance with its responsibilities under the 2006 Olympics and Paralympic Games Act, the Olympic Delivery Authority has produced a transport plan for the Games, with which other delivery bodies must cooperate. The Delivery Authority produced plans for transport operations in competition venues. Subsequent planning identified the need for transport planning for new locations – non-competition venues, such as training facilities – and this work is being funded by the Delivery Authority and taken forward by LOCOG. These plans are currently behind schedule but mitigating actions are ongoing;
- Transport for London and LOCOG have not yet fully integrated plans for the Olympic Route Network with local area transport plans and the area between main transport hubs and the venues. Until this work is fully integrated, Transport for London and LOCOG will not be able to communicate the full transport impact of the Games to businesses and individuals. As a result, consultation on the majority of Traffic Regulation Orders, led by LOCOG, will be significantly later than originally envisaged – March 2012 rather than November 2011. LOCOG recognises that leaving it this late leaves no room for further delay;
- detailed planning work on transport has so far generated an additional estimated cost of £77 million, of which £55 million has been allowed for in the Delivery Authority's budget, and the balance of £22 million will be funded from the Public Sector Funding Package; and
- the Government Olympic Executive recognised that it made a slow start to its integration and readiness work and has appointed experienced staff to recover the position. Although testing the integrated command structure is judged by the Olympic Executive to be around two months behind the ideal schedule, recent exercises have demonstrated good progress and the Olympic Executive anticipates that the programme will be on track by the end of 2011.

## On progress with delivering the legacy from the Games

**10** Part of the Government's plan for securing a legacy comprises a portfolio of 18 programmes with total allocated funding of at least £826 million over the Spending Review Period to March 2015. This expenditure comes from outside the Public Sector Funding Package. The Olympic and Paralympic Legacy Board is actively monitoring progress against delivery milestones, identifying risks and escalating issues where relevant.

**11 Much of the legacy will be delivered after the Games. For those programmes which have pre-Games objectives there has been progress but not all projects are on track:**

- the Delivery Authority is on track to deliver 20 of its 21 targets on sustainability and 4 of its 6 targets on employment and skills;
- the Delivery Authority has sold the remainder of the Athletes' Village for a net £529 million, some £14 million more than its target of £515 million; but
- Sport England is not on track to achieve its 2008 target of securing a million additional people doing 30 minutes of sport three times a week. By April 2011, three years into a five year delivery period, 108,600 additional participants had taken up more sport. The Department and Sport England view the situation as unacceptable and are working to improve it.

**12 The Olympic Park Legacy Company is largely on track to deliver its objectives of appointing operators for the Park and venues, securing planning permission for 7,000 homes and selecting a developer for the first phase of housing, all before the Games. However, two venues continue to be problematic:**

- Negotiations with a potential client to rent the £289 million Media Centre were unsuccessful. The Legacy Company promptly launched an open procurement to select a tenant to meet its target date of having a tenant agreed before the Games.
- Negotiations with the preferred bidder for the £438 million Olympic Stadium have been terminated. We have undertaken a preliminary review of the events leading to termination of those negotiations (Appendix Two). The Legacy Company is in the process of reopening the bidding process.

**13** The prospect that hosting the Games would bring a legacy was a key element of London's bid, so the legacy is a vital part of achieving value for money. The Olympic Executive has, as recommended by the Committee of Public Accounts in July 2008, set in train work to evaluate the legacy. A consortium of consultants and academics will examine the costs and benefits of the 18 programmes that comprise the legacy portfolio, with an interim report due in 2012. The evaluation approach, as currently scoped, follows Treasury guidance. The evaluation approach does, however, face complex methodological challenges in identifying, capturing and quantifying the full costs and benefits of the programmes.

## On the cost of the Games

### The Public Sector Funding Package

**14** The likelihood that the Games can still be funded within the Public Sector Funding Package is finely balanced, with minimal room for costs to increase beyond those anticipated in the Government Olympic Executive's assessment of risks.

**15** When we last reported, forecast expenditure against the £9,298 million Funding Package was £8,711 million, including spending by the Delivery Authority, with £587 million in cross-programme contingency remaining. With eight months still to go before the Games begin, on the latest available figures, there is still around £354 million available to meet any programme-wide risks should they materialise. Against this is the Department's £318 million estimate of the most likely cost of meeting assessed risks, leaving £36 million in headroom.

**16** The principal demands on the Funding Package since our last report are:

- an additional £271 million for Games-time venue security costs (paragraph 9 above);
- an additional £22 million for transport (paragraph 9 above);
- an additional £41 million available to LOCOG, to fund the Government's expectation of opening and closing ceremonies; and
- a reduction of £112 million in the Delivery Authority's Anticipated Final Cost as some risks have been mitigated and savings secured.

### LOCOG's budget

**17** LOCOG's aim is to be self-financing through sponsorship, ticketing, merchandising and contributions from the International Olympic Committee. As the ultimate guarantor, and therefore responsible for meeting any shortfall between LOCOG's costs and revenues, the Government has always been financially exposed. When we last reported, LOCOG had announced a budget which balanced, subject to a number of assumptions about future income and expenditure.

**18** LOCOG has told us it is on track to meet its ticketing income target and has secured over £700 million in domestic sponsorship. However, it now has cost pressures which increase the chance of a call on the Government's underwriting guarantee. LOCOG told us it is on track to overcome its main income risk – ticketing revenue – and has sold out all tickets currently available, apart from 1.5 million for football. It has new cost pressures which, unless they are reduced or balanced by additional savings or income, would use its entire contingency and the £27 million of previously agreed Government funding. Using the funds currently available to it would leave LOCOG with no ability to meet further cost increases without calling on further Government support.

## Conclusion on value for money

**19** Consistent with all our reviews to date, value for money will be achieved if the venues and infrastructure are completed to time, specification and budget; operational delivery of the Games is successful and within budget; and the legacy benefits of the Games are delivered as planned and cost-effectively. While there is still some way to go:

- On the Olympic Delivery Authority's programme to deliver the venues and infrastructure, it looks as if value for money will be achieved overall.
- On operations, there are many areas where planning is rolling-out well. However, there are significant challenges remaining in the important areas of venue security and transport, which are crucial for the safe and successful delivery of the Games. Rising costs for venue security, in particular, have put increased pressure on the Public Sector Funding Package. The Government remains confident that, given the contingency available to meet assessed risks, the Funding Package will not be exceeded. However, in our view the Funding Package of £9,298 million is currently so finely balanced there is the real risk that more money will be needed unless there is rigorous action to control costs in ways that represent value for money.
- On legacy it is too early to conclude on overall value for money, indeed, it will be years before the wider legacy can be assessed fully. Although progress has been made towards providing a legacy from the Olympic Park and Village, the disposal of a major site – the Olympic Stadium – has not progressed as planned.

## Recommendations

- a** **On current projections, almost the whole Public Sector Funding Package of £9,298 million is likely to be required, with little scope for further unforeseen costs in the eight months before the Games begin.** In view of the risk of further cost increases, and the guarantees provided to the International Olympic Committee, the Department should make a clear plan for how any further cost pressures would be managed.
- b** **If anticipated cost pressures occur, LOCOG will use all its own contingency before the Games, and a further £27 million of public money.** The Department needs a clear plan for how it would respond if LOCOG were to need more money.
- c** **Forecast venue security costs funded from the Public Sector Funding Package have nearly doubled in the last year.** The recruitment for, and funding of, venue security are a serious challenge to the cost-effective delivery of security for the Games. The Department and the Home Office should seek assurances from LOCOG that:

- plans to recruit additional staff for guard duty are subject to adequate scrutiny as to their practicality;
  - possible trade-offs between requirements, risks and budgets are assessed fully; and
  - there are change control procedures which operate effectively before any further costs are added to the programme.
- d Delays to the completion of integration of some elements of the transport operations programme mean that consultation on the majority of Traffic Regulation Orders will be significantly later than originally envisaged.** The Delivery Authority and the Department for Transport should, as a matter of urgency, ensure that its delivery partners complete the integration of all elements of the transport programme in order to communicate fully the implications of Olympics transport to stakeholders.
- e The Legacy Company has experienced setbacks in securing legacy use for two of its main assets, the Olympic Stadium and the Media Centre.** As the Games approach, there is an increasing risk that the Legacy Company will not have resolved the legacy use of all of its main assets prior to the Games. The Legacy Company should have clear plans for mitigating the costs of maintaining any major assets it remains responsible for after the Games, should its current plans to find tenants prove unsuccessful.
- f The Department is evaluating 18 legacy projects, but faces challenges in quantifying the costs and benefits.** Without a robust counterfactual it will be difficult to distinguish the legacy impact from what would have occurred without the legacy programme. The Department should set out its baseline assumption in advance of its evaluation of the legacy impact and make sure that where benefits are claimed the costs are recognised.

# Part One

## Introduction

**1.1** The International Olympic Committee awarded the 2012 Olympic Games and Paralympic Games to London on 6 July 2005. The Olympic Games will open on 27 July 2012. The Paralympic Games will close on 9 September.

**1.2** The Government's high level objective for London 2012 is to deliver a safe and successful Games, and deliver a genuine and lasting legacy throughout the country. The Department for Culture, Media and Sport (the Department) is the Government Department accountable for delivery of this objective. The Government Olympic Executive, which is part of the Department, is responsible for overseeing delivery of the overall Olympic programme, managing the £9,298 million Public Sector Funding Package and maximising value for money from the Games. The roles of the other main delivery bodies are set out in paragraph 2 of the Summary.

### Governance of the Olympic Programme

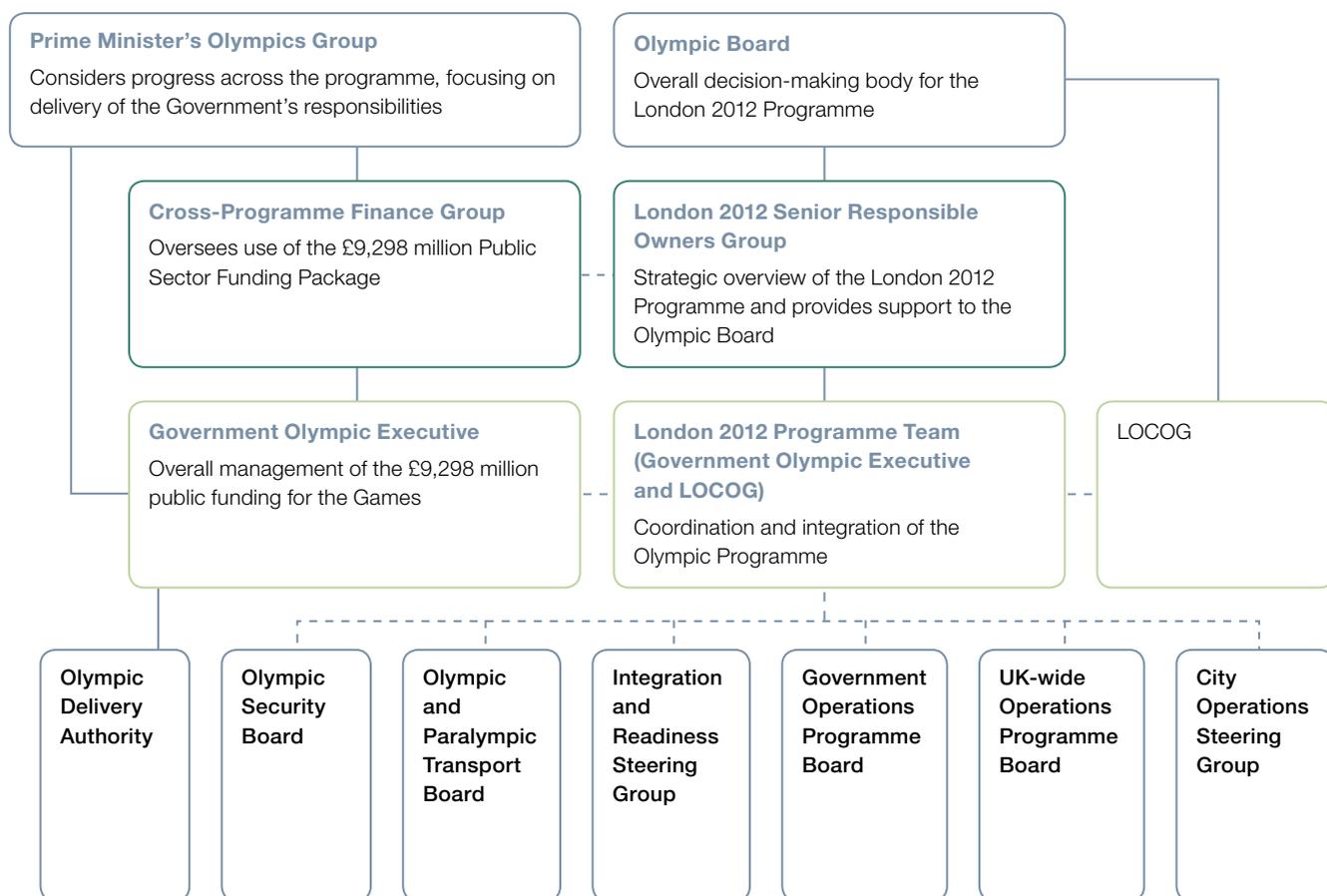
**1.3** **Figure 1** shows the high level governance arrangements. The role of the Olympic Board is to provide strategic coordination of the programme with a focus on delivering the commitments given in the Host City Contract. The signatories to the Host City Contract are the Mayor of London, the British Olympic Association and the International Olympic Committee.

**1.4** The Prime Minister's Olympic Group replaced the Home Affairs (Olympic and Paralympic Games) Cabinet sub-committee in October 2011) and considers the progress of Government preparations for the Games. The Cross-Programme Finance Group, chaired by the Finance Director of the Olympic Executive, oversees use of the £9,298 million Public Sector Funding Package. The London 2012 Programme Team collates and coordinates programme and risk management information across the Programme.

**1.5** The Olympic Programme has no single Senior Responsible Owner. Rather the London 2012 Senior Responsible Owners Group is the main forum for programme-wide operational decision-making. This Group is chaired by the Director General of the Government Olympic Executive and includes the Senior Responsible Owners of the main operational work streams (paragraph 3.2 and Figure 2) and representatives from other delivery bodies and stakeholders.

**1.6** The representatives of the main delivery bodies who we spoke to consider that the London 2012 Senior Responsible Owners Group is a more effective forum for decision-making than its predecessor, the Olympic Board Steering Group. We have seen evidence that the Group is well attended and that risks and issues raised at meetings of the Group result in agreed mitigating actions.

**Figure 1**  
Governance arrangements



Source: National Audit Office

## Part Two

### Delivery of the Olympic Delivery Authority's programme

#### Progress on the construction programme

**2.1** The Olympic Delivery Authority is responsible for construction of the new venues and infrastructure required for the Games. The Delivery Authority will have delivered value for money if it delivers its programme on time, to budget and to the required quality.

**2.2** Regarding **timely delivery**, as at September 2011, the Delivery Authority was on track, having completed 91.9 per cent of its pre-Games construction programme against a target of 92.5 per cent. Fourteen of the Delivery Authority's 26 main non-transport projects had been completed and the remainder were on track to be completed on or before the target dates for handover to LOCOG, with most of the key venues already handed over to LOCOG. As when we last reported, the timing for handover to LOCOG of elements of the Athletes' Village by the end of January 2012 remains tight, partly due to one of the project's contractors going into administration and time taken to address safety concerns. The Delivery Authority has completed most of its transport infrastructure projects, such as increasing capacity on the Docklands Light Railway, and is on track to complete the rest.

**2.3** We have seen evidence that the Delivery Authority has a thorough process for assuring the **quality** of its projects as they finish. The process requires relevant parties at each stage, including LOCOG, to agree that what has been delivered is what was expected. The receiving parties gain assurance through a series of tests and inspections.

**2.4** The current anticipated final **cost** for the Delivery Authority is £6,856 million after returning £333 million of Olympic Park transformation budget to the Olympic Executive which will fund the post-games delivery of that work by the Olympic Park Legacy Company. The grossed-up forecast total expenditure of £7,189 million is significantly less than the £8,099 million budget originally available to the Delivery Authority and less than its £7,321 million available to it when we last reported. It has achieved this despite the fact that, contrary to initial expectations, it had to bear the full cost of the Media Centre and Athletes' Village. The Olympic Delivery Authority has also sold its remaining interest in the Athletes' Village for a net £529 million, £14 million more than was anticipated in the 2010 Spending Review.

### **Changes to the scope of the Olympic Delivery Authority's work**

**2.5** The scope of the Delivery Authority's work has increased since its original scope and budget was set in November 2007. The largest change was the Government's decision in May 2009 to provide all the funding for the Athletes' Village and the Media Centre. On current estimates, this represents a total net increase of £723 million. Separately the scope of the Olympic Delivery Authority's programme has also been reduced by the Government's decision to ask the Olympic Park Legacy Company to transform the Olympic Park and venues for use after the Games (paragraph 2.4 above)

# Part Three

## Planning and delivering Games-time operations

### The Olympics and Paralympics operations delivery structure

**3.1** LOCOG is responsible for staging the Games. At the time of London's bid, the Government provided guarantees to the International Olympic Committee that it would provide certain services which would enable LOCOG to stage the Games successfully. For example, the Government has guaranteed to:

- deliver transport infrastructure projects;
- coordinate and deliver all matters of security and the emergency services; and
- ensure that the United Kingdom's main entry points are prepared to deal with the increase in arrivals and departures due to the Games, including athletes and officials.

The Government Olympic Executive is responsible for coordinating delivery of the Government's non-security guarantees and the Home Office for the oversight and funding of work in support of the security guarantee.

**3.2** Value for money would be achieved with timely and effective planning which will support the delivery of cost-effective operations and a positive experience for Londoners, spectators and visitors. Without effective planning, the public experience of the Games could be diminished. If that happened it could do abiding damage to the reputation of the London Games. The Olympic operations programme is divided into six main operational work streams (**Figure 2**). Each work stream has a Senior Responsible Owner, and is overseen by a delivery board or steering group.

### Progress with operational planning and delivery

**3.3** Since we last reported, the Olympic delivery bodies have been engaged in intensive operational planning. We have also seen evidence that those responsible for each of the work streams are monitoring and managing risks and issues as they arise. In addition, risks affecting other areas of the programme are escalated to the London 2012 Senior Responsible Owners Group, where there is challenge both to risk ratings and the adequacy of mitigating actions.

**Figure 2**  
The operational work streams

Work stream	Lead organisation	Purpose
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.
Integration and Readiness	Government Olympic Executive	Delivering an effective and coordinated programme of testing and exercising, and delivering command, coordination and communication arrangements for the Games.
Transport	Department for Transport	Assuring and coordinating the transport network for spectators in venues, 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 analysis of programme documentation*

**3.4** Programme management information for each of the work streams shows that, overall, good progress is being made across the work, milestones are being met, and where milestones are at risk, action is taken to keep the work stream on track. However, new operational requirements and risks to delivery have emerged, some of which have generated significant additional costs pressure and in some cases planning is behind schedule (paragraphs 3.7 to 3.20 below).

### On security

**3.5** The Home Office is responsible for funding and coordinating national policing and security. £475 million is currently budgeted for this work, the same as when we last reported and within the original provision of £600 million.

**3.6** LOCOG and the Government are operationally responsible for providing safety and security in and around the Olympic venues. Under the security guarantee provided to the International Olympic Committee by the Home Office, LOCOG is fully funded for any work it undertakes above its agreed contribution of £29 million. In our February 2010 report we highlighted the need to finalise the costs of venue security.

**3.7** LOCOG is responsible for planning and delivering venue security in line with the agreed concept of operations. When we last reported, as part of the 2010 Spending Review the cost of venue security to be funded from the Public Sector Funding Package had increased from nothing to £282 million. Although detailed planning was still underway, LOCOG decided that the procurement process should not be delayed, but that the contract should be flexible and allow for variations to LOCOG's 2006 estimate of 10,000 guards. A contract was let by LOCOG to G4S in December 2010 to recruit 2,000 personnel and manage a total security workforce of 10,000 guards (8,000 personnel coming from volunteers and a government funded programme through colleges of further education).

**3.8** LOCOG, the Home Office and other security-related bodies subsequently conducted a number of planning exercises to establish a 'bottom-up' figure for the manpower required and taking into account the competition schedule and venues, which were finalised in spring 2011, and the revised security requirements flowing from the implementation of the agreed security standards. As a result, LOCOG has increased the estimated requirement for security guards from 10,000 to a peak of 23,700, with an estimated increase in costs to the Funding Package in November 2011 of £271 million, bringing the total to £553 million, although this is yet to be finalised.

**3.9** The need for additional manpower has also produced a significant recruitment challenge. LOCOG is in discussions with its security contractor to revise its contractual requirements. Given the scale of the change in the proposed number of guards to be recruited by G4S, the parties decided to renegotiate elements of the contract. The Home Office is in discussions with the Ministry of Defence about the provision of military personnel to act in security roles.

## On transport

**3.10** Transporting athletes, officials and spectators to and from the venues during the Games, while keeping the rest of London running efficiently, is a major operational challenge. The transport challenge is increased by the fact that 109 miles of London's roads will be used for the Olympic Route Network during the Games. Thirty-five miles of special lanes on the Olympic Route Network will be used primarily by Olympic athletes and officials. These lanes will only exist where there is at least one other lane. Normal traffic will be obliged to use the other lane. The delivery bodies have recognised the Government will be unable to meet all its commitments under the Olympic Route Network requirements.

**3.11** In accordance with the 2006 Olympic and Paralympic Games Act, the Olympic Delivery Authority has developed a transport plan for the Games. Under the Act, the main transport delivery bodies must cooperate with the Delivery Authority for the purpose of implementing the transport plan. A Department for Transport official is the Senior Responsible Owner of the Transport work stream (Figure 2), and transport operations activity involves a range of delivery bodies, including LOCOG and Transport for London.

**3.12** In April 2011 Transport for London agreed with the Olympic Delivery Authority that it would take over the responsibility for reducing travel demand from businesses and individuals during the Games, and that the Delivery Authority would continue to fund the work. Transport for London has estimated that the number of journeys made during August in London in a non-Games year will need to reduce by an average of 13 per cent each day and around 30 per cent on busy days in certain areas if target journey times for athletes, officials and spectators are to be met.

**3.13** The Department for Transport is leading on managing travel demand across Whitehall and confirms that so far 16 of the 19 government departments with a significant London base are aiming to change 50 per cent of their travel footprint and will be given a toolkit developed by the Department to aid them.

**3.14** A key part of Transport for London's approach to reducing travel demand is to provide the public with information and engage businesses to promote alternative working arrangements for staff, such as home working. Transport for London told us it is working directly with 400 London businesses in transport hotspots which are collectively responsible for 525,000 employees out of four million employees in the London area, with outreach programmes to other businesses. The impact of changed transport flows has been modelled, and the delivery bodies have held events to test parts of the network. The delivery bodies have judged it will not be practical to carry out a London-wide transport test exercise.

**3.15** In January 2011 LOCOG agreed with the Olympic Delivery Authority and the Government Olympic Executive to take responsibility for planning and delivering transport operations in and around Olympic venues from the Olympic Delivery Authority. The scope of the Delivery Authority's original venue transport operations plans included only the spectator transport at competition venues. Subsequent planning identified the need for transport planning at new locations – non-competition venues such as training facilities – and this work is being funded by the Delivery Authority and taken forward by LOCOG. These plans are currently behind schedule but LOCOG is working to address this.

**3.16** A major part of venue transport operations is local area traffic management, the plans for which have also been delayed. Transport for London has, however, been working with LOCOG to integrate this work with planning for the Olympic Route Network and the Last Mile – LOCOG's project to manage spectators in the space between transport hubs, such as tube stations, and the venues. Transport for London and LOCOG have begun to discuss the implications of this work for the London transport network with local authorities. Until this work is fully integrated, Transport for London and LOCOG will not be able to communicate the full transport impact of the Games to businesses and individuals. As a result, consultation on the majority of Traffic Regulation Orders, led by LOCOG, will be significantly later than originally envisaged – March 2012 rather than November 2011. LOCOG recognises that leaving it this late leaves no room for further delay but told us it has agreed the process for engagement with local authorities and is confident it will have the necessary legal and operating arrangements in place.

**3.17** The Olympic Executive estimates that changes to the transport programme will cost around £77 million. Around £55 million of this is the result of the crystallisation of risks that were provided for within the Delivery Authority's contingency. Of the remaining £22 million of previously unidentified work, £17 million is to pay for travel to venues to enable the volunteer workforce and key contractors to fulfil their Games-time duties.

### On integration, testing and Games readiness

**3.18** Since we last reported, the Government Olympic Executive has recognised that its integration and readiness work was behind schedule and had not been adequately resourced. In Spring 2011, the Olympic Executive appointed experienced planners to recover the position.

**3.19** Although at this stage the Games-wide testing and exercising plan is judged by the Olympic Executive to be two months behind the ideal schedule, there is now a plan in place which sets out the milestones that each operational work stream will need to meet to provide assurance that it is ready to deliver in 2012. Recent exercises, including the first of three major cross-programme exercises to test readiness, command and control and communications, have demonstrated improved readiness and delivery bodies now have increased confidence that the programme will have caught up by the end of 2011. However, the timetable to test and assure systems and processes remains tight.

**3.20** The information technology system that command, coordination and communication centres will use to communicate during the Games is currently being adapted for the Games. A failure of technology systems and processes could impact the delivery of operations and services. In June 2011, the Olympic Executive, with LOCOG's technology team began a project to gain further assurance about the resilience and adequacy of critical IT systems. While a number of positive assurances have already been gained and weaknesses identified, work is ongoing to address the gaps.

# Part Four

## Delivering the promised legacy

**4.1** The prospect that hosting the Games would bring a legacy was a key element of London's bid, so the legacy is a vital part of achieving value for money. Legacy can be viewed as the venues that will remain after 2012, the regeneration of the local area, and the wider benefits that the Games are expected to bring to London and the UK. Value for money would be achieved through benefits exceeding costs, and Legacy objectives being met.

**4.2** With the exception of the commitments regarding the permanent sporting venues to be constructed in the Park and transport infrastructure, the legacy aims were expressed in general terms in the bid to host the Games. The bid stated that the Games would provide "an unparalleled opportunity to achieve sporting, social, economic and environmental objectives for London and the UK". In December 2010, the Government set out four legacy themes which collectively seek to capture these legacy objectives:

- Increasing school-based and grass-roots sports participation.
- Economic growth.
- Promoting community engagement.
- Ensuring that the Olympic Park can be developed as one of the principal drivers of regeneration in East London.

Two further themes, sustainability and disability, run across the four themes.

### Planning for the delivery of legacy

**4.3** The Government's legacy plan comprises a portfolio of 18 programmes, delivered by a range of organisations (**Figure 3** overleaf). While the Department is accountable for the success of the legacy and has produced the overarching legacy plan, it only directly manages two of the programmes – Opportunity 'inspired by' 2012 and the International Inspiration programme. Accountability for delivering the individual programmes lies with the various organisations funding them. Our focus has been on the work of the Olympic Executive in coordinating the overall legacy portfolio, rather than the detailed work on the individual programmes.

**Figure 3**  
Programmes overseen by the Olympics Legacy Board

Programme	Description	Theme	Delivery body	Funding <sup>1</sup>
School Games	Annual sport competition open to every school in England with a first national final in the Olympic Stadium	Sport	Youth Sport Trust	£131 million from Lottery and Government Departments
Places People Play	Programme to enhance local sports facilities and support mass participation in sport in England	Sport	Sport England	£135 million of lottery awards through Sport England between 2010-11 and 2014-15
Elite Sport	Funding to support Olympic and Paralympic athletes	Sport	UK Sport	Work on Elite Sport is business as usual for UK Sport
Sports participation	Increasing the number of people who do sport three times a week by 1 million by 2013	Sport	Sport England	Work on sustaining and growing sports participation is business as usual for Sport England
International Inspiration	Programme to inspire young people around the world to choose sport	Sport	Department for Culture, Media and Sport	£26 million from Government funds for lifetime budget 2007-2014 with a further £19 million from private sources
Secure a legacy from investment in the Olympic Park	Programme to make the Olympic Park a focal point for London's growth and a catalyst for regeneration	East London	Olympic Park Legacy Company	£292 million from the Department for Communities and Local Government and £40 million from the Greater London Authority. There is separate funding in the Public Sector Funding Package for the transformation of the Park after the Games (paragraph 2.4)
East London socio-economic legacy	Regeneration of the East London host boroughs to enable socio-economic convergence with the rest of London	East London	Host Boroughs	Funding is predominantly from the host boroughs
Tourism	Support for benefits to tourism as a result of the Games	Economy	Visit Britain	The Department for Culture, Media and Sport, Visit England and Visit Britain will provide nearly £55 million towards marketing campaigns valued at £110 million, to 2014. Private sector financial commitments are required for remaining £55 million
Employment and Skills	Project to maximise Games-related employment and skills development	Economy	Olympic Delivery Authority/ LOCOG	This programme will coordinate £38 million of training investment, with public sector agencies and private sector funding jointly

Programme	Description	Theme	Delivery body	Funding <sup>1</sup>
Business	Support for a lasting business and economic legacy from the Games	Economy	Department for Business, Innovation and Skills	At least £10.5 million funding from the Department for Business, Innovation and Skills
Trade and investment	Programme using the Games to stimulate international trade and investment into the UK	Economy	UK Trade & Investment	UK Trade & Investment has realigned its business as usual activity in an effort to capitalise on opportunities provided by the Games
Sustainable procurement	Programme to use the example of the Olympic Delivery Authority to promote sustainable procurement in other major projects	Sustainability	Department for Environment, Food and Rural Affairs	From the Olympic Delivery Authority's budget
Opportunity 'inspired by' London 2012	Project to inspire disadvantaged young people	Social	The Prince's Trust	Delivered through funding for other programmes and projects using the Inspire mark taking on other funding, e.g. Lottery, Sport England
Cultural Olympiad	Series of events to showcase the UK's arts and culture to the rest of the world	Social	LOCOG	Committed funding of £97 million. Principal funders of the Cultural Olympiad and London 2012 Festival are Arts Council England, Legacy Trust UK and the Olympic Lottery Distributor
Get Set	Creation of a network of educational institutions demonstrating the Olympic and Paralympic values	Social	LOCOG	Some funding from the Department for Education's core budgets
Volunteering	Providing volunteers to support the Games and inspiring and strengthening the third sector	Social	LOCOG	Funded by LOCOG and supported by Games sponsors and volunteer organisations
Inspire	Promotes non-commercial projects that promote participation in legacy areas by officially recognising them	Social	Department for Culture, Media and Sport	Committed funding of £1.6 million
Inspiring Sustainable Living	Four projects that will use the Games to inspire sustainable living among individuals and communities up to and beyond the Games	Sustainability	Department for Environment, Food and Rural Affairs	The Department for Environment Food and Rural Affairs has given start-up funding of £200,000 to each project

**NOTE**

<sup>1</sup> Some projects receive no additional Olympic funding. The Government Olympic Executive was unable to provide figures for funding of all programmes.

Source: National Audit Office analysis of Olympic Legacy Board papers

**4.4** The size, nature and cost of the programmes varies enormously, from the 20-year plan to develop the Olympic Park as a key contribution to the regeneration of East London, to the Cultural Olympiad, a series of events to showcase the UK's arts and culture in the run-up to and during the Games. The Department required that no programme would be in the portfolio without assured funding. Funded business plans are in place for all of these programmes.

**4.5** There is no central fund for legacy, and the related expenditure (a mixture of existing programmes adapted to take advantage of the legacy opportunities afforded by the Games and new programmes) does not form part of the £9,298 million Public Sector Funding Package, although to an extent all legacy programmes benefit from the expenditure in the Funding Package. Each programme within the legacy is assessed on its own merits and approved by the appropriate delivery body. The total cost to the public sector of the 18 programmes is subject to considerable uncertainty, as, for example, spending on the socio-economic regeneration of East London is expected to take place over the next 20 years. On current estimates, however, the expenditure across the programmes is likely to be at least £826 million in the Spending Review Period to March 2015, although there will be additional expenditure not quantified in the Figure, for example on ongoing work by local authorities.

**4.6** The Olympic Legacy Board oversees delivery of the overall programme and each theme has its own governance and reporting arrangements. The Board is actively monitoring progress against delivery milestones and identifying and managing risks. As at September 2011, among the top risks identified by the Olympic Legacy Board were:

- sports' National Governing Bodies may not deliver to the plans agreed with Sport England, leading to lower levels of sports participation (paragraph 4.7);
- as the majority of volunteering opportunities are for Games time, unsuccessful applicants may be discouraged, leading to a failure to engage with hard to reach groups that results in less buy-in for the community engagement agenda; and
- the opportunities offered by the physical transformation of the Olympic Park as a result of the Games are not fully seized to deliver the plans for the regeneration of East London.

### **Progress in delivering the legacy before the Games**

**4.7** Some elements of the legacy are being delivered in advance of the Games. There has been progress but not all are on track:

- Some of the Delivery Authority's completed transport infrastructure projects, for example, improvements to Stratford and Stratford international stations and increased capacity on the Docklands Light Railway and the North London Line are now in operation and being used.

- The Olympic Delivery Authority has targets for employment and skills and for sustainability, which contribute to the economic and sustainability legacy. As at September 2011, the Delivery Authority's figures showed that: 25 per cent of workers on the site were living in one of the host boroughs (target 15 per cent); 26 per cent of its workers were from black or ethnic minority background (target 15 per cent); 15 per cent had been on training programmes and apprenticeships provided by either the Delivery Authority or one of its main contractors (target 4 per cent); and 14 per cent had been previously unemployed (target 7 per cent). The Delivery Authority is forecasting it will miss its targets for employing women (5.4 per cent of its workforce against a target of 11 per cent) and declared disabled people (1.2 per cent of its workforce against a target of 3 per cent).
- The Olympic Delivery Authority's figures show that it is on course to meet 20 of its 21 targets on sustainability. The Commission for a Sustainable London 2012 in its annual review of the programme commented that it was 'confident' that the Delivery Authority would meet its overall target to achieve a 50 per cent reduction in carbon emissions.
- In 2008 the previous Government set Sport England a target to increase the number of adults participating in 30 minutes of sport three times a week by one million by March 2013. Sport England spends approximately £155 million a year<sup>1</sup> on sustaining and growing sports participation. By April 2011, three years into the five-year delivery period, there had been an increase of 108,600 adults to 6,924,000. The Secretary of State for Culture, Media and Sport and the Chief Executive of Sport England have written to sports' National Governing Bodies stating that this is an 'unacceptable situation' and funding has been withdrawn from four which have underperformed against targets.<sup>2</sup>
- By the end of November 2011 10,000 schools had registered an interest in the School Games, against an aspiration of 12,000 schools signed up by summer 2012.

**4.8** The Olympic Park is intended to be a catalyst for the wider regeneration of East London. The Olympic Park Legacy Company was formed in 2009 to take over lead responsibility for the Park legacy from the London Development Agency.

<sup>1</sup> Comptroller and Auditor General, *Increasing participation in sport*, Session 2010–2011, HC 22, National Audit Office, 27 May 2010, paragraph 1.20.

<sup>2</sup> Rugby union, golf, basketball and rugby league.

**4.9** 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 received a £332 million settlement to March 2015 to fund its up front investment in the Park and cover its running costs (£292 million from the Department for Communities and Local Government and £40 million from the Greater London Authority). This money does not come from the Public Sector Funding Package for the Games.

**4.10** The Olympic Executive transferred the responsibility for converting the Olympic Park and venues after the Games from the Delivery Authority to the Legacy Company in June 2011 on the grounds that the Legacy Company will be better placed to oversee this work and will have resources available while the Delivery Authority winds down. The Delivery Authority has returned £333 million to the Olympic Executive which has, in turn made £302 million available to the Legacy Company to deliver its work. The Government will set the Legacy Company's budget for 2012-14 following consideration of the Legacy Company's full business case which is due in December 2011. The target date for starting to re-open the Park after the Games was May 2013 and this is now being reviewed and a later date considered.

**4.11** When we last reported, the Olympic Park Legacy Company had published its Legacy Masterplan for use of the remainder of the Park. As part of the wider development of the Park, the Legacy Company is largely on track to deliver its objectives. It has:

- launched the procurement for the first phase of housing, and aims to have a developer in place in time for the start of the Games;
- completed and submitted a planning application for a further 7,000 homes, and aims to secure approval before the start of the Games;
- shortlisted potential contractors for estates and facilities management of the Park, and expects to make an appointment in January 2012; and
- selected three potential contractors for the other sporting venues it owns; the Aquatics Centre and the Handball Arena. The Legacy Company aims to make a final decision by the end of 2011.

**4.12** Two of the main venues continue to be problematic:

- In our previous reports we have highlighted delays in securing a legacy use for the £289 million Media Centre. The Legacy Company had been in discussions with a potential user but these were not successful. However, the Legacy Company had contingency plans and was able to launch an open procurement within three weeks. The Legacy Company still expects to meet its timetable of having a tenant for the Media Centre by the start of the Games.

- In October 2011, the Legacy Company terminated negotiations for the conversion and lease of the £438 million Olympic Stadium following the Games. A consortium of West Ham United and the London Borough of Newham had been appointed in March 2011 with the aim to open the stadium for the 2014 football season. By October 2011, a number of financial and commercial issues relating to the negotiations remained unresolved. A Judicial Review into aspects of the bidding process was launched in August 2011, and in October the Legacy Company was notified of a complaint to the European Commission about state aid. In October the Founder Members of the Legacy Company decided to terminate negotiations rather than risk further delays to completion. The results of our preliminary review of this process are in Appendix Two.

**4.13** There is an increasing risk that the Legacy Company will not have resolved the legacy use of all of its main assets prior to the Games. In our previous reports we have 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 cost of maintaining assets is rather to focus on securing long-term operators and increasing revenue for the Park. As a result it does not have contingency plans for generating income or minimising the cost of ownership of its main assets in the event there are delays in securing legacy users.

### **Delivering the wider legacy after the Games**

**4.14** We have previously highlighted the challenge of making sure that the legacy programmes continue when the Government Olympic Executive is wound up.<sup>3</sup> The Olympic Legacy Board is currently considering post-Games arrangements for the legacy programmes, including which programmes will have a life after the Games, who will fund and own them, which programmes will be wound up and how, and who in Government will have responsibility. As at October 2011, 11 of the 18 legacy programmes will continue after the Games.

**4.15** Currently the Legacy Company is jointly owned by the Departments for Culture, Media and Sport and Communities and Local Government (50 per cent) and the Mayor of London (50 per cent). The ultimate Accounting Officer for Government is the Permanent Secretary at the Department for Communities and Local Government. Subject to Parliamentary approval, the Legacy Company is scheduled to be absorbed into a Mayoral Development Corporation in April 2012.

<sup>3</sup> Comptroller and Auditor General, *Preparations for the London 2012 Olympic and Paralympic Games: Progress report February 2011*, Session 2010-2011, HC 756, National Audit Office, 16 February 2011.

## Evaluating the impact and legacy of the Games

**4.16** The Department has contracted with a consortium of consultants and academics to carry out a full evaluation of the legacy and impact of the Games. The Department expects the consortium to publish an interim evaluation report focused on pre-Games activities in autumn 2012 and a final evaluation report for the current phase of work in summer 2013.

**4.17** The evaluation approach is in line with the principles set out in HM Treasury guidance (the Magenta Book). However, the approach that the consortium is taking to the evaluation, collating and synthesising evaluations by others of individual legacy programmes, means there is a risk that not all costs and benefits will be included. The evaluation will not, as currently scoped, capture the costs and benefits of the unintended consequences of hosting the Games, such as the costs of disruption to individuals and businesses.

**4.18** There are also key risks the consortium are aware of and will have to manage:

- the evaluation will largely be relying on evaluations carried out by the same bodies who delivered the programmes. The consortium will need the skills to assess how robust all of these evaluations have been and ensure that conflicts of interest are managed;
- as the various evaluations are being carried out by different bodies, there is a risk that costs and benefits will be duplicated between evaluations and that a meta-evaluation 'double-counts' some of these; and
- the Department needs to maintain focus on the evaluation over a long period to secure outcome data. There are currently no firm plans to carry out a full final assessment but one is provisionally planned for 2020, when many of the full benefits will be more apparent.

**4.19** The key challenge for the evaluation will be to collect complete data and to establish which costs and benefits are attributable to the impact of London hosting the Games and would not otherwise have occurred. Key to this is developing a realistic 'counterfactual' that models what was likely to have happened had the Games not occurred. The Department recognises this and the challenge of capturing complete data on 2012 impacts is its key risk to be managed through oversight of its appointed consultants.

### **Ensuring that lessons are learned from the Games**

**4.20** The Committee of Public Accounts has previously recommended the Department and the Delivery Authority take the lead in identifying the lessons from the preparations from the Games. As when we last reported, in February 2011, the Delivery Authority is running a 'learning legacy' programme to collate and communicate lessons from the construction programme, and in October 2011 launched a website to make these lessons publicly available. The Olympic Executive is developing a framework for evaluating the legacy which aims to draw out some lessons (paragraphs 4.18 and 4.19). It will also be important to make sure that the lessons from the operational planning for the Games are identified.

# Part Five

## The costs of London 2012

### Projected final cost of the Games

**5.1** The £9,325 million Public Sector Funding Package, established in 2007, was reduced to £9,298 by the new Government in May 2010. The main changes to the estimated cost since we last reported are in **Figure 4**.

**5.2** The delivery bodies' latest **approved cost of delivery is £8,641 million**, representing costs the delivery bodies consider will occur and to which they can give a firm figure (Figure 4). Consequently, there is currently £657 million unallocated within the available Public Sector Funding Package (**Figure 5** on page 32).

**5.3** However, set against the unallocated funding of £657 million are two further elements of potential expenditure. As at November 2011, the delivery bodies are forecasting **£303 million of further cost pressures where the actual expenditure has not been approved** and therefore charged against the Funding Package. This is primarily the increase in venue security costs. As a result, likely expenditure from the Public Sector Funding Package, after allowing for these cost pressures, is £8,944 million (Figure 4). The Department and the Home Office are discussing with the Treasury how the largest single cost pressure – the £271 million for venue security – will be funded.

**5.4** This leaves a balance of £354 million within the Public Sector Funding Package to meet any residual risks. The best case estimate for the cost of meeting residual risks is estimated by the delivery bodies at £127 million and the worst case estimate at £999 million. The delivery bodies' **estimate of the most-likely cost of meeting residual risks is £318 million**. These risks include national security planning, supply chain issues, those costs beyond existing contingencies and a £50 million allowance for unknown risks. If all these risks were to materialise as quantified, in line with the Olympic Executive's most-likely estimate, the Funding Package would have £36 million remaining. As a result, the Public Sector Funding Package is finely balanced.

**Figure 4**  
The position on the Public Sector Funding Package

	Spending Review 2010 (£m)	November 2011 (£m)	Change (£m)
<b>Approved costs</b>			
Olympic Delivery Authority programme	7,321	6,856	-465
Return of transformational scope from Delivery Authority to Olympic Executive	0	333	333
Policing and wider security	475	475	0
Elite and community sport	290	290	0
Venue security	282	282	0
Contribution to Paralympic Games	95	95	0
LOCOG Park Operations	67	67	0
LOCOG	65	77	12
LOCOG ceremonies (paragraph 5.12)	0	41	41
Operational provisions <sup>1</sup>	62	53	-9
Look of London	32	33	1
City operations	22	22	0
Greater London Authority programmes	0	13	13
Torch tourism	0	4	4
<b>(A) Total approved costs</b>	<b>8,711</b>	<b>8,641</b>	<b>-70</b>
<b>New cost pressures where the actual expenditure has not been approved</b>			
Utilities resilience		12	
Last Mile/Road Events <sup>2</sup>		8	
Venue Security Guarding		271	
Transport scope gaps		22	
GREAT <sup>3</sup>		21	
Transfer of Park transformation		-31	
<b>(B) Total new cost pressures</b>	<b>0</b>	<b>303</b>	<b>303</b>
<b>Likely expenditure from the Public Sector Funding Package (A + B)</b>	<b>8,711</b>	<b>8,944</b>	<b>233</b>

**NOTES**

1 Provision to be allocated to: Integration and Readiness (Figure 2); Last Mile (paragraph 3.16); and City Operations (Figure 2)

2 Additional funding to cover increased costs of Last Mile (Paragraph 3.16) and road events such as the cycling road race

3 GREAT is a new programme designed to promote the UK in the run-up to and during the Games

Source: National Audit Office analysis of programme documentation

**Figure 5**

## Money remaining in the Public Sector Funding Package

	<b>£ million</b>
Security Contingency	238
Programme Savings	124
Contingency held by Olympic Executive	50
Contingency held in Treasury Reserve	245
<b>Total</b>	<b>657</b>

*Source: Government Olympic Executive*

**The position on costs outside the Public Sector Funding Package**

**5.5** There have always been costs outside the Public Sector Funding Package, for instance:

- the purchase of Olympic Park land by the London Development Agency (at a cost of £766 million to the London Development Agency but expected to be recouped from land sales after the Games);
- £826 million of the cost of the legacy programme (paragraph 4.5);
- the costs incurred by government departments and their agencies, and local authorities on Olympic-related work. These costs include staffing Olympics teams within government departments, for example, the forecast £57 million lifetime cost of the Government Olympic Executive; and
- £86 million for departmental costs relating to the Government Operations work stream (Figure 2).

**5.6** 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.

## The position on LOCOG's budget

**5.7** 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 Secretary of State for Culture, Media and Sport, the Mayor of London, and the British Olympic Association.

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

**5.9** When we last reported, LOCOG had approved a £2,164 million budget which balanced subject to a number of assumptions about future income and expenditure. Consistent with the recommendations of the Committee of Public Accounts, LOCOG had set aside a funded contingency. The Olympic Executive and LOCOG considered, however, that the contingency was unlikely to cover all potential financial risks up to the conclusion of the Games. To support its budget LOCOG has raised over £700 million in sponsorship, hitting its upper sponsorship target during difficult economic conditions.

**5.10** LOCOG continues to seek to minimise costs and maximise revenues. However, the anticipated final cost of its self-funded activities (that is, excluding venue security and other work it is undertaking on behalf of Government), unless it is reduced or balanced by additional savings or income, would use its entire contingency and the £27 million of previously agreed Government funding from the Public Sector Funding Package.

**5.11** The Olympic Executive's position is that allowing LOCOG to use the £27 million would be acceptable as the Government has already guaranteed to underwrite LOCOG's budget and providing funding now would enable LOCOG to move forward more confidently. This is not a call on the Government's guarantee to the International Olympic Committee, as that can only be triggered by a request from the International Olympic Committee. The risk of a call on the Guarantee has increased however as LOCOG's current financial projections allow no scope for costs to increase.

**5.12** There is also provision in the Public Sector Funding Package for LOCOG to receive up to £41 million to add to its own budget to meet the Government's ambitions and expectations for the opening and closing ceremonies.

**5.13** When we last reported, LOCOG had set a target to be raised from ticket sales. To maximise access to tickets, LOCOG rejected a 'first come, first served' application process as impractical and likely to collapse under the expected demand. It therefore proposed a ballot system. This was approved by the LOCOG Board, along with the proposed pricing structure. The Olympic Executive and the Greater London Authority were briefed on the approach and have nominees on the LOCOG Board and representatives on the Olympic Board, both of which approved the approach taken.

**5.14** As LOCOG's commercial activities are not audited by the National Audit Office we have not audited the information in **Figure 6**, provided by LOCOG. However, we include it to provide a picture of LOCOG's ticketing programme. LOCOG has told us it is on track to meet its ticketing income target but has not disclosed its current ticketing target or achievements.

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### **Figure 6** LOCOG Ticketing Facts and Figures

Goals:

- to offer affordable and accessible tickets; and
- to fill Olympic stadia for events.

Outcomes:

- 75 per cent of tickets available to UK public.
- 13 per cent of tickets available to sponsors, stakeholders, broadcast rights holders, the International Olympic Committee, International Federations, travel and hospitality.
- 12 per cent of tickets available to the international public through National Olympic Committees.
- 90 per cent of tickets cost less than £100 and 66 per cent less than £50.
- 175,000 Ticketshare free tickets for schoolchildren, funded by hospitality partner.
- 1.9 million ticket applications.
- 850,000 successful applicants on first or second round of applications.
- All available tickets sold out apart from 1.5 million football tickets.

*Source: LOCOG*

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# Appendix One

## Methodology

Selected Method	Purpose
<p><b>1</b> Review of key documents including:</p> <ul style="list-style-type: none"> <li>● London 2012 Senior Responsible Owners Group papers and minutes;</li> <li>● work stream management reports supporting papers and minutes;</li> <li>● Legacy Board papers and minutes; and</li> <li>● departmental documentation.</li> </ul>	<p>To inform our understanding on preparations for the Games and their legacy, and our assessment of the main governance bodies' oversight of the programme.</p>
<p><b>2</b> Interviews with:</p> <ul style="list-style-type: none"> <li>● the Government Olympic Executive;</li> <li>● the Olympic Delivery Authority;</li> <li>● LOCOG;</li> <li>● the Home Office;</li> <li>● the Department for Transport;</li> <li>● the Department for Communities and Local Government;</li> <li>● the Olympic Park Legacy Company;</li> <li>● Transport for London;</li> <li>● Sport England;</li> <li>● Visit Britain; and</li> <li>● the London Boroughs of Newham, Hackney, Barking and Greenwich</li> </ul>	<p>To inform our understanding on preparations for the Games and their legacy, and our assessment of the main governance bodies' oversight of the programme.</p>
<p><b>3</b> Financial analysis of the data provided by the Government Olympic Executive and the Olympic Delivery Authority.</p>	<p>To determine the financial position of the delivery bodies.</p>
<p><b>4</b> Review of the Department's approach to evaluating the costs and benefits of the Games.</p>	<p>To determine whether the Department has established a reasonable approach to evaluating the costs and benefits of the Games.</p>

# Appendix Two

## Disposal of the Olympic Stadium

### Scope of this review

**1** The Olympic Park Legacy Company was established in 2009 to lead on securing the legacy of the Olympic Park, including the Olympic Stadium. In February 2011, the Olympic Park Legacy Company recommended to its Founder Members that a consortium of West Ham United and the London Borough of Newham be appointed as the preferred bidder to enter into detailed negotiations for a lease of the Stadium. The Founder Members approved this decision in early March 2011.

**2** In October 2011, as we were preparing this report, the process of negotiating the lease of the Stadium was terminated. We have therefore carried out a preliminary review of the events leading up to the decision to terminate the process. We have not at this stage carried out a detailed examination of the Legacy Company's strategy for disposing of the Stadium, the relative merits of the bids it received or their process for selecting the preferred bid. In addition, it has not been appropriate for us to examine the new process which is underway to secure bidders for the Stadium, or to report details of the previous proposals that could compromise commercial discussions.

### The Objectives of the Olympic Park Legacy Company for the Olympic Stadium

**3** When London submitted its bid for the Games it promised that the Olympic Park would provide a legacy of long-term community and sporting assets. The Olympic Delivery Authority's anticipated final cost for the Stadium is £438 million, and it planned from 2007 to meet the bid commitment that after the Games it would convert the Stadium into a 25,000 seat stadium with athletics at its core (the base case). The Delivery Authority had provided £35 million in its budget to do this.

**4** Market research by the Olympic Park Legacy Company between March and June 2010 indicated that at the time there was little demand for a 25,000 seat Stadium, and no interest in a small stadium with athletics at its core. The Legacy Company determined that the most appropriate solution was likely to be a larger stadium with an anchor tenant, most probably a professional football team. In August 2010 the Legacy Company opened the process to bids that were not tied to the post Games 25,000 seat base case.

**5** In going to the market in August 2010 the Olympic Park Legacy Company and its founder members set five objectives, structured around the legacy commitments in London's bid to host the Games:

- to achieve a viable long term solution for the Olympic Stadium that was deliverable and provided value for money;
- to secure a partner with the capability to deliver and operate a legacy solution for a venue of the Stadium's size and complexity;
- to re-open the Stadium for operational use as soon as possible following the 2012 Games;
- to ensure the Stadium remained a distinctive physical symbol supporting the economic, physical and social regeneration of the area; and
- to allow flexible usage of the Stadium, accommodating a vibrant programme of events allowing year round access for schools, the local community, the wider public and elite sport.

**6** The bid documentation required bidders to indicate how their proposed Stadium solution could support the London 2012 bid commitments for athletics and accommodate a range of sports, from community through to elite, or provide a credible alternative. It did not stipulate that bidders' proposals had to include an athletics track in the Olympic Stadium.

**7** The Olympic Park Legacy Company received three bids for the Stadium at Pre-Qualification Questionnaire stage, and evaluated them against criteria based on the five objectives. It concluded that two of these submissions (from the Tottenham Hotspur Football Club/AEG consortium and from the West Ham United/London Borough of Newham consortium) should be taken to the next stage of the process. The Legacy Company then received preliminary offers from both bidders in December 2010 and final offers in January 2011.

### **Appointing the preferred bidder**

**8** The West Ham United and London Borough of Newham consortium was appointed as the preferred bidder in early March 2011. The West Ham United and London Borough of Newham consortium proposal to secure the sporting and community legacy was to take the Olympic Stadium on a long-term lease from the Legacy Company and convert it to a multi-use stadium for athletics, football and non-sporting and community events, with provision of a community athletics track alongside the Stadium. The consortium proposed setting up a Special Purpose Vehicle to which the London Borough of Newham would loan money and West Ham United would invest money for conversion of the Stadium, and from which West Ham United would rent the Stadium.

**9** Both bids assumed that the £35 million available from the Public Sector Funding Package for the Games (paragraph 3) could be used as a contribution to the costs of their stadium proposals. The £95 million funding for the conversion work proposed by the West Ham/Newham Consortium was to consist of the £35 million from the Public Sector Funding Package, £20 million from West Ham United, and a loan of £40 million from the London Borough of Newham. The consortium would bear the financial risk if the conversion went over the budgeted £95 million.

**10** The bid from the West Ham United/Newham consortium was judged by the Legacy Company to be the strongest, although there were some outstanding issues to address. The Legacy Company had assessed the financial and commercial viability of bids before selecting the preferred bidder. It concluded that there were a number of significant risks relating to the financial robustness of the Consortium's bid, particularly if West Ham United were relegated from the Premier League, as subsequently happened in May 2011. The Legacy Company also had concerns about the commercial viability of the bid. The Founder Members had been clear that before any lease could be awarded outstanding issues, including financial viability and state aid compliance needed to be resolved.

**11** As part of the bid, the majority owners of West Ham United provided guarantees to the club itself in relation to the club's finances and the £20 million capital funding for the conversion works. They also undertook to provide further guarantees that they would cover any cost overruns for the conversion works, as well as the rent that West Ham United had agreed to pay to the Special Purpose Vehicle in the event that the club were relegated and unable to pay. In addition, the club proposed to build up a reserve fund over a period of time once they had been awarded the lease which could be used to cover the rent. In awarding preferred bidder status to the consortium, the Legacy Company considered that, provided it could negotiate guarantees from the majority owners of West Ham United which the Legacy Company could enforce itself, it would be able to mitigate the financial and commercial risks.

**12** While it is normal for the detail of a deal to be hammered out once preferred bidder status has been awarded, an option for the Legacy Company would have been to defer the award or hold another round of bidding. The Legacy Company told us that, in deciding to recommend that the Founder Members award preferred bidder status, they reached a judgement that it would be preferable to resolve remaining issues through negotiations with the single preferred bidder rather than through continuation of the competition process.

**13** The successful West Ham United/Newham bid committed to a stadium athletics track and to opening the Stadium by the beginning of the 2014 football season. In August 2011 the Olympic Park Legacy Company backed the Mayor of London's commitment to bid to host the World Athletics Championships in 2017, which involved committing to athletics in the Olympic Stadium. On 11 November, the International Association of Athletics Federations awarded London the right to host the Championships. This means that the new process to secure tenants for the Stadium will be on the basis that the athletics track will be retained.

## Subsequent negotiations with the preferred bidder

**14** In March 2011, the Olympic Park Legacy Company put in place a plan to progress the negotiations from preferred bidder stage to completion. In August, the Legacy Company devised a route map highlighting unresolved issues with the aim of completing the process in time to meet the consortium's deadline of opening for the football season in 2014. The key outstanding issues were that:

- the terms of the loan from the London Borough of Newham to the Special Purpose Vehicle had not been finalised (paragraph 8);
- the way the £35 million contribution from the Public Sector Funding Package was to be used had not been finalised;
- a position acceptable to the Legacy Company on guarantees from West Ham United's majority owners had not been concluded (paragraph 11); and
- the Special Purpose Vehicle and West Ham United had provided draft business plans but the Legacy Company considered that they had not reached a point where they were sufficiently complete to be acceptable to it.

**15** The period during which discussions were taking place between the Legacy Company and the consortium was one of significant turmoil with alleged propriety issues, and challenges over alleged state aid and to the Legacy Company's decision to recommend that the Founder Members appoint the West Ham United/London Borough of Newham consortium as the preferred bidder. These issues became subject to Judicial Review. Both West Ham United and the London Borough of Newham told us that the legal challenges delayed the resolution of outstanding issues.

**16** The starting premise for the Legacy Company and Founder Members was that any successful bid must ensure that the risk of a breach on state aid grounds was negligible. The parties had to establish either that there was no state aid involved, or that it was compatible with state aid rules. The Legacy Company told us that, given the range of outstanding issues, at no point was it in a position either to complete its own state aid analysis of the public sector contributions, or to provide sufficient detail for formal clearance to be requested from the European Commission.

## Termination of the process

**17** On 6 October 2011, the Olympic Park Legacy Company was notified that, following an anonymous complaint to the European Commission about state aid, the Commission was considering opening a formal investigation.

**18** On 10 October 2011, the Chief Executive of the London Borough of Newham notified the Olympic Park Legacy Company that, with the on-going Judicial Review and the anonymous complaint to the European Commission alleging state aid, its ability to deliver its original commitments made in the bid were seriously compromised, which meant that it would not be able to maintain its commitment to achieve conversion of the Stadium by 2014.

**19** On 11 October, the Founder Members of the Olympic Park Legacy Company agreed to the Legacy Company's recommendation to terminate negotiations with West Ham United and the London Borough of Newham. The key factors cited by the Legacy Company were: lack of progress in the commercial negotiations with the preferred bidder and uncertainties surrounding its ability to deliver an executable deal; the continuing Judicial Review proceedings; and the complaint to the European Commission. The Legacy Company stated that these factors resulted in paralysis over negotiations which was creating considerable uncertainty over the future of the Stadium. In addition, the Legacy Company considered that it might also have an adverse impact on the bid to host the World Athletics Championships in 2017.

**20** Since the decision to terminate negotiations for the lease of the Stadium, the Judicial Review has been discontinued. The European Commission has also closed its inquiries into the anonymous complaint. The Stadium will now be retained as a public asset and, whilst athletics will remain part of the Stadium, the Legacy Company is starting a new process to secure tenants.



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