



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

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

Department for Culture, Media and Sport

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