



House of Commons  
Committee of Public Accounts

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# The budget for the London 2012 Olympic and Paralympic Games

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2007–08

*Report, together with formal minutes, oral and  
written evidence*

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## The Committee of Public Accounts

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### Committee staff

The current staff of the Committee is Mark Etherton (Clerk), Emma Sawyer (Committee Assistant), Pam Morris (Committee Assistant) and Alex Paterson (Media Officer).

### Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee’s email address is [pubaccom@parliament.uk](mailto:pubaccom@parliament.uk).

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## Summary

At the time of London's bid to host the Olympic and Paralympic Games in 2012 the cost of the Games was estimated to be just over £4 billion. The costs were to be met by public sector funding of £3.4 billion, with a further £738 million from the private sector.

After London was awarded the Games, the Department for Culture, Media and Sport and the Olympic Delivery Authority reviewed the cost estimates and in March 2007 announced a budget of £9.325 billion. The Department has stated that public sector funding will not exceed this figure.

The March 2007 budget included contingency provision of £2.747 billion. This sum was not included at the time of the bid despite Treasury guidance that budgets for major projects should allow for the tendency to underestimate costs. Since March 2007, £500 million of the programme contingency has been allocated to the Olympic Delivery Authority to cope with early financial pressures. Clarification over the delivery structures for the Games means that the Olympic Delivery Authority incurs tax liabilities in the normal way, and this has added a further £836 million to the earlier cost estimates.

The March 2007 budget also included a preliminary estimate of £600 million for policing and wider security, over and above the cost of site security during construction. No estimate for the cost of policing and wider security was included at the time of the bid. In addition, the Olympic Delivery Authority's programme delivery budget has risen to £570 million, compared with an original estimate of just £16 million.

Whilst the cost estimates have increased by £5.3 billion, the public funding required to meet these costs has increased by £5.9 billion due to significantly lower expectations for private sector funding. Some £4.9 billion of this increase is to be met by the Exchequer and £675 million by the National Lottery, bringing the total Lottery contribution to £2.175 billion. The final cost to the public sector will depend on proceeds arising from the disposal of assets after the Games, in particular, the sale of land on the Olympic Park, as well as the share of profits expected once the Village is converted into housing and sold.

The estimate of £738 million private sector funding towards the cost of venues and infrastructure at the time of the bid was revised to £165 million (less than 2% of the total funding) in the March budget. In addition, whilst the Olympic Village had been expected to be fully funded by the private sector, the March budget included a £175 million public sector contribution to the Village. Private sector construction firms have a vital role in delivering the Olympic programme, but the Olympic Delivery Authority has had difficulty in achieving competition between bidders for contracts to deliver the main venues, with only one bidder emerging for the Main Stadium.

The prospect of longer term benefits from hosting the Games was central to London's bid. The Government has set out five high level legacy promises but more detailed plans have not yet been finalised. It intended to publish a 'Legacy Action Plan' early in 2008, and the Olympic Delivery Authority will be working with the London Development Agency during 2008 to set out arrangements for use of the Olympic Park after the Games.

On the basis of a report by the Comptroller and Auditor General,<sup>1</sup> we examined the Department for Culture, Media and Sport and the Olympic Delivery Authority on the budget for the London 2012 Olympic and Paralympic Games.

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1 C&AG's Report, Session 2006–07, *The budget for the London 2012 Olympic and Paralympic Games*, HC 612

## Conclusions and Recommendations

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1. **Foreseeable requirements for public sector funding were excluded from the estimates at the time of the bid to host the Games, giving an unrealistic picture of the expected costs.** Contrary to good practice, the Department did not include programme contingency, now £2.7 billion, because the scale and complexity of the undertaking were not appreciated at the time of the bid. The costs of tax and security, now estimated at over £1.4 billion, were also excluded from the estimates as they were uncertain. Yet £738 million of funding from the private sector was included, despite not being supported by robust analysis. All costs and revenues should have been included from the outset, with the uncertainties explained and a contingency provided.
2. **The revised public sector funding package of £9.325 billion does not include all of the activities on which delivery of the Games and its legacy depends.** The acquisition of land for the Olympic Park, the costs of government departments working on Games preparations and legacy planning, as well as the costs of improving wider transport links are all outside the budget. Any assessment of the costs and benefits of the Games should reflect all of the additional costs incurred.
3. **The Department has confirmed that the public sector funding of £9.325 billion will not be exceeded and the Committee will hold the Department to account against this figure.** Following our hearing, in January 2008 the Department published its first annual report summarising progress with the Olympic programme. In future, the annual reports and the six monthly updates should explain any changes to the cost forecasts and provide a breakdown of the costs incurred.
4. **There are over four years to go until the start of the Games but £500 million (18%) of the programme contingency has already been used.** Contrary to the Department's suggestion, there should be no assumption that all of the remaining £2.2 billion contingency will be used. It is for unforeseen costs and the Department should satisfy itself that options to contain costs have been fully explored before further contingency is used.
5. **Despite the £5.9 billion increase in the public funding for the Games, the Department has not specified what will be delivered in return for this expenditure and the current budget cannot be reconciled to the commitments in the original bid.** To provide a clear basis for accountability, the Department should:
  - publish a statement of what will be delivered, including the legacy plans and benefits for the programme as a whole;
  - provide an assessment of progress against that baseline in its annual reports to Parliament; and
  - show how any subsequent changes to the plans reconcile to the baseline and support them with a clear audit trail.

6. **The preparations for the Games depend on the Department's ability to co-ordinate funding from a number of sources.** The Department should maintain up to date forecasts of the cash needs for the Olympic programme and the timing of individual funders' contributions. Given that the date of the Games is fixed, the Department needs to identify any funding shortfall well in advance, and put in place contingency plans for dealing with it.
7. **Revised expectations for private sector contributions have increased the estimated cost to the public sector by £748 million.** The March 2007 budget for the Games included a £175 million public sector contribution to the cost of the Olympic Village, which was previously going to be fully funded by the private sector. In addition, the absence of legacy plans has made it harder to attract private investment, and the estimated private sector contribution has fallen by £573 million. In finalising legacy plans, the Department and the Olympic Delivery Authority should seek to reduce public sector costs by attracting private investors, who could also promote use of the facilities after the Games.
8. **The National Lottery is providing £2.175 billion (23%) of the funding for the Games, but its share of any financial benefits is uncertain.** The estimated £675 million reimbursement to the Lottery is inherently uncertain as it is based on estimated proceeds from future land and property sales, and on an agreement with the Mayor of London which is not legally binding. The long term cost to the public sector may also be offset by profits from the future sale of the Village flowing back to the Olympic Delivery Authority. The Department and the Delivery Authority should identify all potential revenue generating opportunities and establish principles for how any benefits might be shared amongst the funders, including the Exchequer and the National Lottery.
9. **The Olympic Delivery Authority is having difficulty generating supplier competition for some venues.** Ideally, contracts should be awarded after effective competition between suppliers. If this is not achieved, it is all the more important that the Olympic Delivery Authority builds cost and performance safeguards into contracts. The Olympic Delivery Authority should have rights of access to contractors' books to check costs and financial viability, and should establish clear contractual incentives for delivering to time and cost targets. The Authority should also have early warning arrangements and contingency plans in place to identify and resolve any problems with contractors, and, if necessary, replace them.
10. **The Department is aiming for wide ranging legacy benefits from the Games, but there is no basis on which to measure achievements.** The legacy planning should now be completed and for the full range of expected benefits, extending beyond East London to the United Kingdom as a whole, the Department should make sure that the plans set out: quantified objectives and how they will be achieved, how and by whom success will be evaluated, and who will be accountable.

# 1 The increasing cost of hosting the Olympic and Paralympic Games

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1. On 15 March 2007 the Department for Culture, Media and Sport announced a budget of £9.325 billion for the London 2012 Olympic and Paralympic Games. The announcement came twenty months after London was awarded the Games and just ten days after this Committee's previous hearing on preparations for the Games, at which we expressed concern about the continuing absence of an agreed budget for the Games.<sup>2</sup>

2. The revised budget does not represent the full cost of preparing for and staging the Games, but represents the cost to the public sector of building the venues and infrastructure required to host the Games, as well as policing and wider security. It excludes expenditure of £650 million by the London Development Agency to acquire the land for the Olympic Park, the private sector's contribution to the costs of the Olympic Village (which is still being negotiated), and planned expenditure of some £2 billion on staging costs. The London Organising Committee of the Olympic Games and Paralympic Games (LOCOG), the organisation responsible for staging the Games, is intended to be self-financing.<sup>3</sup>

3. The budget also excludes the costs of staff in government organisations carrying out Olympic related work (including the Government Olympic Executive set up to manage and co-ordinate the Government's interest in the Games), and the costs of improving wider transport links in London. These activities are essential to the delivery of a successful Games. Expenditure incurred by the public sector on improving transport links around London may be brought forward or be higher than it would otherwise have been without the Games.<sup>4</sup>

4. The cost estimate of £9.325 billion is £5.289 billion higher than the estimate of just over £4 billion at the time of the bid to host the Games. The increase is mostly accounted for by new provisions totalling £4.3 billion for programme contingency, tax and security, and by the increase of over £1.1 billion in core Olympic costs (**Figure 1**). Following our hearing, the Olympics Minister made a further announcement on 10 December 2007, confirming the high level breakdown of cost estimates announced in March 2007.<sup>5</sup>

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2 C&AG's Report, para 2; Committee of Public Accounts, Thirty-ninth Report of Session 2006–07, *Preparations for the London 2012 Olympic and Paralympic Games—Risk assessment and management*, HC 377

3 C&AG's Report, paras 3, 49, 73; Figures 5 and 6

4 C&AG's Report, para 49; Figure 5; C&AG's previous report, Session 2006–07, *Preparations for the London 2012 Olympic and Paralympic Games—Risk assessment and management*, HC 252, para 75

5 C&AG's Report, paras 7, 36; Figure 6; HC Deb, 10 December 2007, cols 9WS–14WS



**Figure 1: Summary of the differences between the March 2007 budget and the cost estimates at the time of the bid**

Costs and provisions	March 2007 Budget (£million)	The estimates at the time of the November 2004 bid (£million)	Difference (£million)
<b>Olympic Delivery Authority budget:</b>			
Core Olympic Costs	3,081	1,966	1,115
Infrastructure and regeneration	1,673	1,684	(11)
Contingency	500	No estimate included	500
<b>Sub-total (Note)</b>	<b>5,254</b>	<b>3,650</b>	<b>1,604</b>
<b>Other (non-ODA) Olympic</b>	<b>388</b>	<b>386</b>	<b>2</b>
<b>Other provisions</b>			
Policing and wider security	600	No estimate included	600
Tax (Note)	836	No estimate included	836
Programme contingency	2,247	No estimate included	2,247
<b>Sub-total</b>	<b>3,683</b>		<b>3,683</b>
	<b>9,325</b>	<b>4,036</b>	<b>5,289</b>

Note: The Minister's announcement on 10 December increased the ODA's pre-tax budget by £43 million to £5.297 billion, with an equivalent decrease in the tax provision to £793 million.

Source: C&AG's report: *The budget for the London 2012 Olympic and Paralympic Games*, HC612 (2006–07)

5. Asked whether it had deliberately excluded costs from the bid to help win the Games, the Department said the bid estimates had been prepared at a time when it was not certain that the Games would be awarded to London, the land was not in public ownership and detailed plans for the venues had not been drawn up. Some costs had not been included because of significant uncertainties, but the bid was the best estimate at the time and there had been no intention to deceive.<sup>6</sup>

6. The largest single increase was the £2,747 million provision for programme contingency. An initial allocation of £500 million had been made to the Olympic Delivery Authority at the time of the budget announcement in March to meet known financial pressures on the construction of venues and infrastructure. This allocation left £2,247 million to cover factors such as changes in statutory requirements (for example, environmental protection and health and safety), unforeseen ground conditions and potential increases in the cost of security and construction.<sup>7</sup>

7. HM Treasury guidance recommends that budgets for major projects include a contingency to allow for optimism bias, the tendency for the costs of projects to be underestimated. This contingency should reflect a realistic assessment of the risks of additional costs, but not be so generous as to undermine the need for costs to be kept under control. Estimates at the time of the bid included contingency provision for

<sup>6</sup> Qq 4–6, 138–139

<sup>7</sup> C&AG's Report, Figures 6 and 7

individual projects, ranging from 10 to 23.5%. There was, however, no contingency for the delivery programme as a whole, despite HM Treasury having been consulted and the bid agreed across Government. The Department said that before the bid, the size, scale and complexity of what was to be delivered, as well as the need for this scale of programme contingency, had not been fully appreciated.<sup>8</sup>

8. Following a detailed and quantified risk analysis, the Department and the Olympic Delivery Authority considered that the level of programme contingency was now prudent and realistic. The biggest risk was the immovable deadline, and to avoid cost escalation at the end of the programme it was essential to do as much work as possible early on. The Delivery Authority said good progress had been made, with some £600 million of the budget now committed to major projects, but construction price inflation remains a significant risk given the existence of other major construction projects and the high demand for skilled labour. In the Department's view, the only safe assumption was that all of the contingency would be used.<sup>9</sup>

9. Provision for tax costs was omitted from the original bid estimate because at that time the delivery arrangements for the Games, and thus the tax implications, were unclear. Following HM Treasury confirmation that the Olympic Delivery Authority would be unable to reclaim VAT, tax liabilities of £1,173 million were included in the March 2007 budget (£836 million included in Figure 1 above, plus £337 million within the programme contingency).<sup>10</sup>

10. The original bid estimate included £190 million for site security during construction, which increased to £268 million in the March 2007 budget. The March 2007 budget, however, provided an additional £600 million for policing and wider security, tasks shared between a number of bodies including the Home Office, Metropolitan Police, regional police forces and the emergency services. The Home Secretary is in overall charge of security for the Games and has appointed an Assistant Commissioner of the Metropolitan Police as the Olympic Security Co-ordinator, supported by the Olympic Security Directorate.<sup>11</sup>

11. The figure of £600 million was a preliminary estimate pending development of the detailed plan for security, and a further £238 million was included within the programme contingency. The Department confirmed that it had been consulted on the Government's plans, announced on the day of the Committee's hearing, for improving security precautions more generally in the UK (for example, restrictions on car access and checks at railway stations), and that the programme contingency was designed, amongst other things, to cover the impacts of regulatory changes.<sup>12</sup>

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8 Qq 140, 163–166, 175–180; C&AG's Report, paras 60–62

9 Qq 7–10, 92–93, 119, 131, 133, 146

10 Qq 2, 142; C&AG's Report, para 6; Figures 6 and 7

11 Qq 76, 182–184,; C&AG's Report, para 59; Figures 6 and 7. The Olympic Security Directorate, led by the Assistant Commissioner of the Metropolitan Police, comprises members from the regional police forces and the emergency services.

12 Qq 75, 116; C&AG's Report, para 59; Treasury Minute on the Thirty Ninth Report from the Committee of Public Accounts 2006–07; <http://security.homeoffice.gov.uk/news-publications/news-speeches/PM-security-speech>

12. The other main change from the estimates at the time of the bid to host the Games was the £1.1 billion increase in the core Olympic costs. This area of costs included venues, those transport projects to which the Olympic Delivery Authority was contributing, site security and programme management. More than half the increase, from £16 million to £570 million, was for the Olympic Delivery Authority's programme management costs, including the cost of its delivery partner, CLM. The Department had modelled the original estimate on an urban development corporation and prepared it before setting up of the Olympic Delivery Authority. The Delivery Authority had since commissioned an external review of its delivery partner's costs, and considered them realistic compared with other major infrastructure projects.<sup>13</sup>

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<sup>13</sup> Qq 13, 90–91, 121; C&AG's Report, Figures 6 and 7; CLM is a consortium of three companies – CH2M Hill, Laing O'Rourke and Mace

## 2 Public funding for the Games

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13. The March 2007 budget provided for an extra £5.906 billion of public sector funding. The Exchequer will meet the majority of the increase, with the revised funding package made up as follows:<sup>14</sup>

Exchequer	£5,975 million (increase of £4,931 million)
National Lottery	£2,175 million (increase of £675 million)
Greater London Authority	£925 million (increase of £300 million)
London Development Agency	£250 million (no change)
<b>Total</b>	<b>£9,325 million (increase of £5,906 million)</b>

14. The Government wants LOCOG, the organisation responsible for the operational and staging aspects of the Games, to be self-financing. LOCOG will not receive any funding from the £9.325 billion funding package, with the exception of a £66 million contribution towards the costs of the Paralympics. LOCOG had estimated its costs at around £2 billion; its sources of revenue included sponsorship, ticket sales and merchandising, and it had secured three major sponsors. As required by the International Olympic Committee, the Government is the ultimate guarantor of funding for the Games and this guarantee includes meeting any shortfall between the costs and revenues of LOCOG.<sup>15</sup>

15. While confident that the revised public sector funding package of £9.325 billion would not be exceeded, the Department had not produced a clear statement of what will be delivered for the revised public sector funding, setting out the time, cost and quality assumptions and the legacy benefits expected.<sup>16</sup>

16. We asked for a summary of the commitments made in the bid to host the Games and their costs. The Department subsequently explained that the development of more specific plans since the bid meant that it was not possible to reconcile current cost estimates to the original, relatively broad, formulation of commitments.<sup>17</sup>

17. The Department is responsible for securing the smooth flow of funds to the Olympic Delivery Authority so that work is not delayed and suppliers can be paid. The plan was to secure the £5,975 million Exchequer funding through the Government's Spending Reviews, which would confirm the spending allocations for individual departments. Some £4,028 million was secured in this way. The Department confirmed that the spending review commitments to date, which covered the period up to and including 2010–11,

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14 C&AG's Report, para 37; Figures 7 and 8

15 Qq 15; C&AG's Report, paras 22, 57–58; C&AG's previous report, Session 2006–07, *Preparations for the London 2012 Olympic and Paralympic Games—Risk assessment and management*, HC 252, para 61

16 Qq 11, 14; C&AG's Report, paras 5, 13; <http://www.culture.gov.uk/NR/rdonlyres/39358A28-98B7-42C0-A2EE-6D78E78905F3/0/dcmgoeannualreportjan08vs2update.pdf>; <http://www.london2012.com/documents/oda-publications/programme-delivery-baseline-report.pdf>

17 Q 79; Ev 19

reflected the cash needs of the Olympic programme until then, and that the next spending review would cover the period beyond.<sup>18</sup>

18. As regards availability of other sources of funding, £1,085 million of the lottery contribution was dependent on legislation being passed. In addition, the £625 million to be provided by the Greater London Authority from the Council Tax precept was to be spread over the period up to and including 2016–17. The timing of the additional £300 million to be provided by the Greater London Authority remained to be agreed.<sup>19</sup>

19. Clarity about when funds will be needed and whether they will be available at the right time is key to making sure the delivery programme is not delayed. The Comptroller and Auditor General's report showed, however, that the Department was still preparing a forecast of the timing of expected funding needs, and that it was unclear how, when the Olympic Delivery Authority required funding, the requirement would be shared amongst each of the funders. The Department and the Olympic Delivery Authority confirmed that they now had detailed cash flow analyses, with monthly reporting to the Olympic Board.<sup>20</sup>

20. The final public sector contribution to the cost of the Games will depend on the public sector share of proceeds from the sale of assets after the Games. Land values in the Olympic Park are expected to increase, and the Government has agreed with the Mayor of London arrangements for sharing profits that may arise from future land and property sales, although this agreement is not legally binding. The Department estimated that £675 million would be available for repayment to the National Lottery, which is the amount of the extra Lottery contribution set out in the March 2007 budget. We calculate that to achieve this level of repayment to the Lottery, total proceeds from disposal of land and property owned by the London Development Agency would have to reach £1.8 billion (compared to the costs of some £650 million to purchase the land in the first place).<sup>21</sup>

21. The deal with a private sector developer to build the Olympic Village had not been finalised, but the Olympic Delivery Authority confirmed that if there was surplus profit it would be shared with the funders of the Games, including the National Lottery. The Delivery Authority expected that the funders would share the profits in ways that reflected each funder's contributions.<sup>22</sup>

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18 Qq 70–74; C&AG's Report, paras 69, 75–76; HM Treasury, *2007 Pre-Budget Report and Comprehensive Spending Review*, Annex D14

19 C&AG's Report, para 70; Olympic Funding: Revised Memorandum of Understanding between the Government and the Mayor of London, June 2007

20 Qq 16, 21, 27; C&AG's Report, para 77

21 Qq 39, 159, C&AG's Report, para 73; Calculation based on Olympic Funding: Revised Memorandum of Understanding between the Government and the Mayor of London, June 2007

22 C&AG's Report, para 53; Qq 33, 88–89

### 3 Engaging the private sector

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22. In 2004, Partnerships UK advised the Department that there was potential to secure £1,300 million of private financing for the Games, but that the information to support a robust analysis of the scope for private sector funding was not yet available. In particular, there was no legacy plan, which Partnerships UK considered would be the key to determining a more accurate assessment of potential private sector funding opportunities. After considering this advice the Department reached a more conservative estimate of £738 million for private sector funding (nearly one-fifth of the total funding then required). This was the estimate in place at the time of the bid to host the Games.<sup>23</sup>

23. In June 2005, the Department received further advice from Partnerships UK that there was little prospect of securing significant private sector funding to deliver the Olympic Park due to the tight timetable and a lack of clearly identifiable revenue streams. At the time of our hearing there were still no detailed legacy plans. In the March 2007 budget, the Department reduced the estimated private sector funding to £165 million, which comprised contributions to the media and broadcast facilities and to utilities on the Olympic Park.<sup>24</sup>

24. The Department considered the overall level of private sector contribution towards the Games was significantly higher when sponsorship contributions to the LOCOG budget and the Olympic Village were taken into account. LOCOG's budget, however, has always been separate from that for the venues and infrastructure (see paragraphs 2 and 14 above).<sup>25</sup> The Olympic Delivery Authority confirmed that it still intended that the majority of the Village would be paid for by the private sector, but with a public sector contribution of about £175 million to the cost, which was reflected in the March 2007 budget. It expected that following conversion of the Olympic Village to housing units, their sale after the Games would yield substantial profits which would be shared with the public sector funders. The contract for the Village was due to be signed shortly.<sup>26</sup>

25. Private sector construction firms will build the Olympic venues and infrastructure, and their response to the Olympic Delivery Authority's invitations to bid will have an important bearing on the cost of the Games. The Authority, however, was operating in a very competitive construction market. Whilst there had been competition for infrastructure works, it has experienced difficulties in achieving competition for the main venues, and only one bidder had emerged for the Main Stadium.<sup>27</sup>

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23 Qq 12, 61–63; C&AG's Report, para 30–31; Figure 7

24 Q 86; C&AG's Report, paras 31, 51; Figure 7

25 Qq 136–137

26 Qq 12, 33, 82, 87; C&AG's Report, para 53

27 Qq 94–96, 119; C&AG's Report, para 52

## 4 Maximising the benefits of the Games

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26. The prospect of the legacy from hosting the Games was central to London's bid. The broad concept includes the sports venues that will remain after 2012, the regeneration of the local area, the socio-economic benefits for the United Kingdom as a whole, as well as the sporting benefits, such as increasing participation at grassroots level.<sup>28</sup>

27. In June 2007, the Government had set out the five high level legacy promises which it intended to deliver.<sup>29</sup> These were to:

- make the United Kingdom a world-leading sporting nation;
- transform the heart of East London;
- inspire a generation of young people to take part in local volunteering, cultural and physical activity;
- make the Olympic Park a blueprint for sustainable living; and
- demonstrate the United Kingdom is a creative, inclusive and welcoming place to live in, visit, and for business.

28. The Comptroller and Auditor General's July 2007 report stated that the legacy plans and designs for the venues had not been finalised. The Department and the Delivery Authority told us that the legacy plans were now becoming increasingly certain. The 'Legacy Action Plan' was to be published early in 2008 by the Department, and the Olympic Delivery Authority would be working with the London Development Agency during 2008 on a 'Legacy Master Plan', setting out arrangements for the Olympic Park after the Games.<sup>30</sup>

29. With regard to specific sports facilities, the Aquatics Centre would provide two 50 metre pools and a diving pool, which would be available for both elite and community use after the Games, and the Main Stadium would be a publicly owned asset located in an area particularly short of facilities for community use. The stadium would provide an international standard athletics track and field facility, including warm-up track, and would also be available for other sports. The Olympic Delivery Authority said that the use of the stadium by a Premiership football club was considered incompatible with athletics because of the distance between the field of play and the seating, although a number of rugby and other football clubs have expressed interest.<sup>31</sup>

30. The legacy objectives for the Games include maximising for London and the United Kingdom the employment and skills benefits arising from Games-related business. The Delivery Authority's target was to employ 1,000 construction industry apprentices over the

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28 C&AG's previous report, Session 2006–07, *Preparations for the London 2012 Olympic and Paralympic Games—Risk assessment and management*, HC 252, paras 84–92

29 *Our Promise for 2012—How the UK will benefit from the Olympic Games and Paralympic Games*, Department for Culture, Media and Sport, June 2007

30 Qq 86, 160; C&AG's Report, para 51

31 Qq 122–125, 157

duration of the programme. The Authority said that some 20 were currently employed on the Olympic Park, and the major construction contractors had established a training programme on site.<sup>32</sup>

31. The Delivery Authority told us that around half of the 493 suppliers contracted by them to date came from regions of the UK outside London, and that it was planning initiatives to help businesses in the regions to bid for work. There were approximately 1,500 employees on site, of whom some 180 had previously been unemployed. Nearly half the workforce was from within London, but the Delivery Authority was unable to say how long those previously unemployed remained in employment in the longer term, and whether workers deemed to be from local boroughs were resident there before the construction programme began.<sup>33</sup>

32. Another intended legacy benefit is to increase participation in sport at community and grassroots level. The revised funding package for the Games, however, included £124 million from the four sports lottery distributors. The Department considered that the reduction in funding for community sport via the lottery, arising from funding the Olympics, was balanced by the Government's announcement of an additional £100 million investment in school and community sport and by Sport England's plans to raise an additional £50 million from the private sector.<sup>34</sup>

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32 Q 101

33 Qq 97–98, 100, 104–105; Supplementary memorandum submitted by the Department for Culture, Media and Sport

34 Qq 155–156; C&AG's Report, Appendix 4; Department for Culture and Media and Sport Press Release, 13 July 2007, Five hours of sport a week for every child—£100m campaign



# Formal Minutes

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**Monday 31 March 2008**

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon

Mr Alan Williams

Mr Keith Hill

Phil Wilson

Mr Don Touhig

Draft Report (*The budget for the London 2012 Olympic and Paralympic Games*), proposed by the Chairman, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 32 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

*Resolved*, That the Report be the Fourteenth Report of the Committee to the House.

*Ordered*, That the Chairman make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned until Wednesday 2 April 2008 at 3.30 pm.]

## Witnesses

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**Wednesday 14 November 2007**

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**Mr Jonathan Stephens**, Permanent Secretary, Department for Culture, Media and Sport, and **Mr David Higgins**, Chief Executive, Olympic Delivery Authority, gave evidence.

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# Oral evidence

## Taken before the Committee of Public Accounts

on Wednesday 14 November 2007

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Mr David Curry  
Mr Ian Davidson  
Mr Philip Dunne  
Nigel Griffiths

Keith Hill  
Mr Austin Mitchell  
Mr Don Touhig  
Mr Alan Williams

**Sir John Bourn KCB**, Comptroller and Auditor General, and **Mr Keith Hawkswell**, National Audit Office, were in attendance and gave oral evidence.

**Mr Marius Gallaher**, Alternate Treasury Officer of Accounts, HM Treasury, was in attendance and gave oral evidence.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL THE BUDGET FOR THE LONDON 2012 OLYMPIC AND PARALYMPIC GAMES (HC612)

*Witnesses:* **Mr Jonathan Stephens**, Permanent Secretary, Department for Culture, Media and Sport, and **Mr David Higgins**, Chief Executive, Olympic Delivery Authority, gave evidence.

**Q1 Chairman:** Good afternoon and welcome to the Committee of Public Accounts. I should like to welcome, first of all, members of the Public Accounts Committees from Guyana and Nigeria; you are very welcome and thank you for attending our hearing today. Our hearing today is on the Comptroller and Auditor General's Report *The Budget for the London 2012 Olympic and Paralympic Games*, and this is the Committee's second hearing on the preparation for the Games and we welcome back Jonathan Stephens, who is the Permanent Secretary for the Department for Culture, Media and Sport, the lead government department for the Games, and we also welcome David Higgins, who is the Chief Executive of the Olympic Delivery Authority. You are both very welcome and thank you for coming today. Mr Stephens, maybe I could put a couple of general questions to you first, and you might want to look at Figures 6 and 7 on page 17, on the main reasons for the increase in costs from the time of the bid to the budget announced in March 2007. I might say, Mr Stephens, it is a matter of regret to me that the Department announced the revised budget totalling over £9 billion on 15 March, just ten days after our last hearing. I am sure that was not coincidental, was it, Mr Stephens?

**Mr Stephens:** Well, I recall that hearing and I remember you asked me when we would have a final budget and I replied it would be soon and you pressed me again, quite rightly, on what I meant by "soon" and I said, "I meant soon and I do not have a date", and I did not at that time, and the final details were not resolved at that time.

**Q2 Chairman:** So ten days later you announced that, and this is now our first chance. Anyway, we are here now to ask these questions, so I am looking now at

this Figure 7, the main reason for the increase in costs, but what I cannot understand is why you could not budget for such obvious factors, such as tax, contingencies, security and running costs in your initial estimate. Is this bad management?

**Mr Stephens:** Well, Figure 6 sets out the increase in gross costs of £5.3 billion. Of that, the tax accounts for £1.2 billion, as the NAO Report makes clear, and that is a cost to the Games, it is not a cost to the Exchequer because it is a receipt to the Exchequer, so, net of tax, the increase in costs is £4.1 billion. Of that, more than half, £2.4 billion, is set aside for contingency in various forms.

**Q3 Chairman:** It is £2.7 billion, is it not?

**Mr Stephens:** If you net the tax off, it is £2.4 billion in total. Of the remainder, £600 million is set aside for wider policing costs. This was a known uncertainty at the time of the bid, which indeed caused my predecessor to notify the Committee of a contingent liability which could not be estimated at the time.

**Q4 Chairman:** But in a sense you have not answered my question. We bid for these Games in an era of heightened security tensions, we all knew about the problem of security and presumably there was uncertainty about tax which you could have offset at the time. Some people might say to you, Mr Stephens, uncharitable people, that you deliberately put in a low bid to get these Games and fool the people, knowing that the bid that you put in at the time to the British taxpayer was totally unrealistic.

**Mr Stephens:** Well, the bid was supported, as the NAO Report makes clear, by a succession of expert input and analysis, three separate reports going into

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the costs in as much detail as was possible, given the state of knowledge and development at the time, remembering of course that this was not an event that was certain, that the land was not in public ownership, that detailed site investigations could not be undertaken, and that the detailed plans of venues and so on could not, in the time available or within reasonable cost constraints, be drawn up.

**Q5 Chairman:** I put it to you, Mr Stephens, that all these uncertainties you knew about at the time. You could have offset them and you either acted in bad faith or you were incompetent. Were you incompetent or did you act in bad faith?

**Mr Stephens:** Well, you are quite right, there were a number of uncertainties—

**Q6 Chairman:** Which were entirely foreseeable.

**Mr Stephens:**—and that is why the Department commissioned, on the foot of the first Arup report on the specimen Games, a further PwC report to assess the risks around the Games and that suggested that the costs would lie in the region of £1.1 billion to £2.1 billion. Further, on the basis of the detailed PwC assessment that fed into the final bid, a risk assessment was done around that which suggested that, with an 80% probability, the costs would lie within plus or minus 10% of the sum that they suggested, so attempts were made to assess the risks at the time that the bid was made and also to register that there were some elements that were fundamentally uncertain, including policing where, as I said, my predecessor notified the Committee about contingent liabilities, saying that it could not be estimated at the time, but that the Home Office anticipated that there were wider policing costs. I have to say that, eight years out from an event, I do not know of any other event where you would expect the detailed policing plans—

**Q7 Chairman:** No, but we would just expect the taxpayer, who is generally very happy to have these Games, to have an honest estimate at the time that we bid for these Games of what it is going to cost us. Now, we are looking at contingencies now of anything between £2.4 billion and £2.7 billion. The suspicion is that this is a very large contingency because you want to make absolutely certain now that this £9 billion is an upper limit, so really for this purpose you have deliberately made the contingency very large, it is puffed up with loads of uncertainties which we have not got to the bottom of, it is not very transparent, and you are using that as a safety net so that you can come back to us in five years' time and say, "We've achieved our aim; we are within budget". Is that fair? In other words, the contingency fund is over-generous and, as my colleague said, it is what I would do!

**Mr Stephens:** I think it is a prudent, but realistic, attempt to manage the very significant and considerable risk around this project. This is—

**Q8 Chairman:** So that is a yes, is it, as my colleague Mr Davidson would say?

**Mr Stephens:** No, this is the equivalent of building something twice the size of Terminal 5 in half the time. At its height, there will be 20,000 workers on site and the spending will increase from currently just over £1million a day to more than £5 million a day; it is a very big and complex construction project. There will be a number of risks that we must expect to materialise over the course of the life of the project. This is a realistic and prudent way of managing those risks which over the last six months or so has been backed up and supported by a detailed and quantified risk analysis, so what we have done is, project by project, identify the risks that may arise on the individual projects at the level of the programme as a whole. External to the project is—

**Q9 Chairman:** I will stop you there—

**Mr Stephens:** Well, if I may just say, we have quantified each of these risks, then modelled them across all possible scenarios and, on top of that, we have sought to make an allowance for, what you might call, unknown unknowns, and all of this—

**Q10 Chairman:** Why did you not do that originally? If you can do it so well five years before the Olympic Games, why not originally?

**Mr Stephens:** Well, if I may just complete the point, all of this supports the contingency at £2 billion or so outside of the £500 million that has been allocated to the ODA already that is set out in the budget, so there is now a detailed and quantified analysis modelled against all the possible scenarios that supports this contingency.

**Q11 Chairman:** It begs the question why we could not do it originally. You will resign if it now goes above £9.3 billion, will you?

**Mr Stephens:** I am absolutely clear, this is the public sector funding package and it will not be exceeded, there will not be any more money for the construction of the Games and I am confident, on the basis of the risk analysis that has been done—

**Q12 Chairman:** Anyway, you have not answered my question, so I will now go on to the next question about how you got it so incredibly wrong about the contributions from the private sector, and this is dealt with in paragraph 30. We were told £738 million and we are now told a measly £165 million. Why were these contributions from the private sector so wildly over-optimistic?

**Mr Stephens:** Well, again this reflects the state of knowledge and development at the time. At the time, this was not an event that was certain and you could not approach individual private sector contractors with a specific proposition. The Department turned to its advisers, Partnerships UK, as the NAO records, and they actually identified potential opportunities of £1.3 billion and the Department discussed that and reached for the more conservative estimate of £730 million, but that was clearly at the time subject to a large number of uncertainties. What I would say is that, going forward, it is clear that the private sector will be making a very

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significant contribution. There will be the Village, which will almost exclusively be built and paid for by the private sector, there is the much wider Stratford regeneration, which would not have gone ahead at the scale and pace that it will without the Olympic Games, and, in addition, the budget takes no account of potential future land sales and development opportunities beyond the Olympic Games with the private sector, so the picture overall is that there will be a very significant private sector contribution.

**Q13 Chairman:** Looking at Figure 7 again, why do you need a budget of more than £½ billion just for the Olympic Delivery Authority's programme management? This again has increased dramatically from £16 million to £570 million. The £16 million does seem to be very low estimate and we are now up to nearly £½ billion, but why do you need such a large budget and why did you get your estimate so wrong? Perhaps Mr Higgins might help me with that actually because it is his organisation.

**Mr Higgins:** Figure 7, it shows actually that the £570 million is made up of a number of figures, the 344, which covers the Delivery Authority staff and the Delivery Partner costs. We did go out externally in May 2007 when Ernst & Young carried out a comprehensive review of the Delivery Partner's forecast costs and they confirmed that these fell within an acceptable range to enable the ODA to agree commercial terms for our task order. They did recommend that it be subject to periodic review and the next major review of the Delivery Partner costs will be next June.

**Q14 Chairman:** Mr Higgins again, you might look at page 8, paragraph 13 of the Comptroller and Auditor General's Report. We are being expected to provide all this money and it seems to me that we have not really got a very clear statement from you as to what the budget will actually deliver. Is that a fair criticism? It is all very vague at the moment, is it not, and, if not, why have we not got it?

**Mr Higgins:** We fully support the recommendation that comes through in section 13 and indeed the table on the following page sets out items (a) to (g) and we have worked through those now since the budget was announced and we are presenting them to the Funders Committee within the next few weeks, so that work has been carried out.

**Mr Stephens:** And I can say that we expect, once the detailed scope has been signed off by the Funders Committee, to publish an account of that early in the New Year.

**Q15 Chairman:** Mr Stephens, how are you going to make sure that LOCOG breaks even or, preferably, makes a surplus?

**Mr Stephens:** We have a close relationship with LOCOG and we monitor their budget monthly. The Minister for the Olympics appoints one member of their board who is currently the Chief Executive of the Government's Shareholder Executive. We review their budget with them and their performance against it and of course they are, as the IOC

reported, on track and on time. They have secured three major tier one sponsors, which is far in advance of previous Olympic Games which have been lucky to secure one major sponsor before the previous Olympic Games.

**Q16 Chairman:** What worries me is that, judging by your record so far, I do not have any confidence in your ability to plan ahead. I think what is going to happen in the run-up to these Games in 2012 is that you are going to start panicking, things will be half-finished and you will start throwing money at it. Is that a fair criticism or an unfair criticism? It has happened in every previous Olympic Games, as far as I can see, and it will happen here and one of the reasons why I am asking the Comptroller and Auditor General to try and have these reports and these hearings now is so that this does not happen and that we do shine the spotlight on to you and Mr Higgins now.

**Mr Stephens:** Indeed, and it has been very useful to have the NAO's engagement. Their Report says that the budget process leading up to the March 2007 announcement was thorough, that it was based on detailed analysis and expert input and that it represents a significant step forward in putting the Games on a sound financial footing, and that is one of the reasons why, alongside the NAO's own interest, Tessa Jowell invited the Comptroller and Auditor General to review the budget that she had announced. Indeed, we are keen that the NAO continues to review the further work that has gone on since the budget was announced, in particular, the work that follows through on all the recommendations on page 9, which means that we have now completed work on the cashflow analysis, but the detailed scope, as Mr Higgins said, is there and ready for consideration by the ministerial Funders Committee and the linking of the detailed budget breakdown with the scope is also there, ready and waiting, and with all of that we are happy for the NAO to continue to review.

**Q17 Mr Dunne:** I would like to follow directly on the point you have just raised. Now that you have a budget which is set out to us in Figure 6, is it fair to say that you have each component by project, that each component of the plan has its own budget?

**Mr Stephens:** Yes, that is the work that has gone on since then, the report which has gone to the ministerial Funders Committee which will provide the basis for a more detailed breakdown and budget which I hope will be published in the New Year.

**Q18 Mr Dunne:** Is it phased by stages for each project?

**Mr Stephens:** Yes, we have a detailed cashflow analysis year by year, and indeed that has gone into, and informed, what was published in the Comprehensive Spending Review as well as the basis for the requirements from the Lottery.

**Q19 Mr Dunne:** Did I hear you right, that the cashflow is year by year? Do you have a month-by-month cashflow?

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**Mr Higgins:** Yes.

**Q20 Mr Dunne:** Is that part of what you have just described?

**Mr Stephens:** Yes, we monitor the cashflow on a monthly basis.

**Q21 Mr Dunne:** That is not what I asked. Do you have a monthly cashflow per project?

**Mr Higgins:** We have a monthly cashflow per project and we monitor it also monthly and report it to the Olympic Board.

**Q22 Mr Dunne:** Has that been made available to the NAO?

**Mr Higgins:** Well, the NAO sit at our Audit Committee and in fact there is one on Friday which will go through the monthly reports on projects.

**Q23 Mr Dunne:** Sir John, could I ask you whether it was available when you prepared this Report?

**Mr Hawkswell:** I think the position is that, when we prepared the Report, there was a recognition that there was still further work to do in terms of working through some of that underpinning detail.

**Mr Stephens:** We have no problem with providing it to the NAO.

**Q24 Mr Dunne:** Well, I am pleased to hear you say that because *The Daily Telegraph* two weeks ago had a member of the London Olympic Board, saying, "We need a very clearly defined budget, a very clearly defined cashflow analysis which is regularly updated and a very clear focus on the contingency and how it is allocated to specific project lines in the budget", and that is a member of your Board. Do you not provide the regular financial information to your board members?

**Mr Stephens:** That is the Olympic Board which approved the ODA's budget for 2007–08 in March and that is publicly available. It sets out the planned spending by categories, like the Olympic Park, master planning, enabling works, structures, bridges, highways, power lines, undergrounding, utilities, Olympic Stadium, Aquatic Centre, and—

**Q25 Mr Dunne:** But are you not providing them with regular monthly information?

**Mr Stephens:** Indeed. We report against that on a monthly basis to the Olympic Board.

**Q26 Mr Dunne:** So this board member was asleep, was he, and he was not reading his papers?

**Mr Stephens:** Well, all I can say is that we report against the 2007–08 ODA budget, as agreed by the Olympic Board, on a monthly basis to the Olympic Board.

**Q27 Mr Dunne:** Does this go to the level of detail of monthly cashflows per project? This is the issue: reporting on a top-line basis does not allow either board members or the NAO to have a proper test of whether you are on track to achieve the budget. The reason why I am pressing you on this is because, in order for this Committee to have a real sense of how

we are achieving the milestones in order to get the projects delivered on time and within budget, unless you have budgets which are broken down on a project basis by month for cashflows and for contingency, we are not going to get the answers.

**Mr Higgins:** We report to the Olympic Board on the cashflow every month, the overall cashflow, and to the Funders Committee. The actual individual projects are reported through a wide range of other reviews, including our own Board and our own various committees.

**Q28 Mr Dunne:** Can you make those available to the NAO for their next report?

**Mr Higgins:** Yes.

**Q29 Mr Dunne:** Sir John, perhaps you will be able to take that up when you do your next report.

**Sir John Bourn:** Certainly.

**Q30 Mr Dunne:** Can we just look at contingency for a moment, paragraph 66, and the Chairman has already referred to the £360 million released to the ODA last June. Has the contingency been allocated on a project basis, firstly, and, secondly, on a time basis, on a monthly basis?

**Mr Stephens:** Each project has an element of contingency and that has been budgeted in from the start at the project contingency level. As the NAO Report explains, of the initial £500 million allocated, the extra contingency allocated to the ODA, £360 million of that has been approved for allocation to individual projects over and above the contingency built into individual project baselines. That leaves more than £2 billion of programme contingency—

**Q31 Mr Dunne:** I am sorry, Mr Stephens, but I have very limited time, so could you answer the question: has each project got a contingency allocated to it and has that been allocated on a time-phase basis?

**Mr Higgins:** No, we do not allocate the contingency on a project basis on a monthly basis. We cashflow the underlying project, but we do not anticipate spending—

**Q32 Mr Dunne:** So you do not know, and we will not be able to track, how you are doing and spending and, to get back to the Chairman's question, how you are doing in using up the contingency because you have not got a plan for that?

**Mr Higgins:** No. Absolutely we do have a plan, of course, but we do not allocate contingency to be spent in advance of it being required.

**Q33 Mr Dunne:** Can I turn to the back end of the project. You have mentioned, Mr Stephens, that there will be some profit to be taken from land sales at the end of the project. On completion, at the end of the Olympics in 2012, how much income has been assumed would be generated from the onward sale of assets in this budget?

**Mr Stephens:** Nothing from the sale of land, with the exception of a profit share from the Village which is currently under negotiation in the contract that will be signed shortly.

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**Q34 Mr Dunne:** Is it anticipated that any other assets would be sold, that any constructed assets would be sold?

**Mr Stephens:** None of that is assumed within the budget.

**Q35 Mr Dunne:** So any revenue generated would be a gain back to the Exchequer on some basis?

**Mr Stephens:** Yes, and indeed that is reflected in the Memorandum of Understanding, reflecting the share of profits from the land between the Mayor and the Lottery.

**Q36 Mr Dunne:** Has there been any assumption made for rectification work for the equivalent to dilapidations in a residential property when that might revert either for sale or to a previous owner?

**Mr Higgins:** Is this in the Village?

**Q37 Mr Dunne:** Any of the projects.

**Mr Higgins:** There is certainly an allowance within the Village to repair the Village or to make the Village good for sale after it has been used for the Games.

**Q38 Mr Dunne:** And the main stadium itself is going to be taken down in part?

**Mr Higgins:** Yes, there is money allowed in the main stadium budget to transform that to legacy.

**Q39 Mr Dunne:** What provisions are there in any of the asset purchase contracts for reversionary interests on the resale or subsequent sale of land?

**Mr Higgins:** The land in the Park is owned by the LDA and, when the LDA sells that land, there is clearly an agreement between the Government and the LDA to recover surplus profits which are shared by the Lottery.

**Q40 Mr Dunne:** When the LDA purchased the land or whoever was the entity that purchased the land from the original owners, are there any clauses in those contracts which give the original owners some right to proceeds on subsequent sale?

**Mr Higgins:** Not that I am aware of.

**Q41 Mr Dunne:** Mr Stephens, are you aware of any?

**Mr Stephens:** No.

**Q42 Mr Dunne:** The Finance Department has recently been brought back into Whitehall from the ODA. That is referred to in here and the purpose of my question is to ask, is there a clear delineation between the ODA and the Department as to who is responsible for monitoring progress against budget?

**Mr Stephens:** Yes, the ODA is a separately constituted, non-departmental public body that has a corporate plan that reports against its budget to the Department, to the Government Olympic Executive which is responsible for monitoring its spend, acting as the client within government for the Olympics as a whole.

**Q43 Mr Dunne:** Have I been confused then at the notion that the Finance Department has been brought back to Whitehall?

**Mr Stephens:** I think that is a confusion. The Finance Director sits within the Olympic Delivery Authority for the Delivery Authority. The Government Olympic Executive has its own Finance Director responsible, as I say, for overall monitoring and scrutiny of the Olympic budget.

**Mr Higgins:** I believe you are referring to the secretariat services that advise the Board which has recently been brought into the Department.

**Q44 Mr Dunne:** Mr Higgins, which nation do you give credit to for the origins of the Modern Olympic Movement?

**Mr Higgins:** Well, clearly it was established in France, but we know that there is a record of a number of years, going back 250 years, of Olympic sports which occurred in England, yes.

**Q45 Mr Dunne:** Mr Stephens, you perhaps have not had an opportunity to brief Mr Higgins that it was not France, but it was England that was the inspiration for the French.

**Mr Stephens:** Indeed, Much Wenlock, and I had the benefit of meeting representatives of Much Wenlock in recent months and clearly it is important that in the run-up to the Games we claim full credit for that.

**Q46 Mr Dunne:** I am very pleased to hear you say that, and indeed I am hoping, Mr Higgins, that you will find space within the Olympic site to have a commemorative block of stone from the Much Wenlock quarry which we can suitably inscribe to make sure that people who arrive at the Olympics recognise where it started. Can I have an answer to that—do you think there will be space in the Olympic site?

**Mr Higgins:** We did discuss this very issue, if I remember, in Brighton recently.

**Q47 Mr Dunne:** And I think you said yes, but can you say yes, for the record?

**Mr Higgins:** Yes, though I am not sure which part of the site.

**Q48 Mr Touhig:** Mr Stephens, when you came before us last time, it was 5th March, several Members, including myself, criticised the complex and confusing governance structure in place for the delivery of the 2012 Games. Have you acted on the recommendations of our 39<sup>th</sup> Report?

**Mr Stephens:** Yes, we have. The structure, I believe, has worked effectively. We have taken action to ensure that within the Government Olympic Executive, within the DCMS, we have the capabilities and skills to manage a major, complex project of this sort and that is in place now, I believe.

**Q49 Mr Touhig:** It does not give me much confidence, I am afraid, on my part. On that occasion when you came before us, we recognised, according to the Comptroller and Auditor General's Report, that there are three stakeholders, the



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Government, the Mayor and the British Olympic Association. Below that, we have the Olympic Board with responsibility for oversight, then we have the Olympic Delivery Authority which is responsible for venues and infrastructure with a budget of £3 billion, then we have the London Olympics Committee and they are then supported by the Olympic Programme Support Unit and the Olympic Board Steering Group. With a structure like that and no one person taking charge and in view of the huge increase in your budget so far, how do you think we can be confident that such a structure can deliver this on budget?

**Mr Stephens:** Well, as we discussed last time, in the delivery of any Olympic Games, there are the fundamental three partners that you have outlined there, the Government, the host city and the Olympic Movement itself, and there is no getting away from that fundamental tripartite structure at the heart of any Olympic Games. For this Games, we have consciously sought to learn the lessons of previous Games, and we have learnt a lot of lessons from Sydney, in particular, and sought to put in place from the beginning the structure that they eventually ended up with and it also, if I may say so, reflects lessons learned and brought out in previous PAC reports, so within this structure there are really just two new focused delivery bodies, the Olympic Delivery Authority responsible for the construction of the Games—

**Q50 Mr Touhig:** But nobody takes overall charge?

**Mr Stephens:**—and the Organising Committee responsible for the running of the Games. The Olympic Board brings together all those interests to provide a clear oversight—

**Q51 Mr Touhig:** But I understand the last time you came before us that it was not in a position to direct any of these subordinate bodies to do anything.

**Mr Stephens:** There is a clear line of accountability for each of these bodies and within government the Olympics Minister is clearly responsible.

**Q52 Mr Touhig:** So that is where the buck is going to stop, the Olympics Minister, just so we know?

**Mr Stephens:** Well, as I say, within government clearly the Olympics Minister is responsible.

**Q53 Mr Touhig:** Well, you have already made a £5 billion error in estimating the cost of the Games. Surely that is going to get into the Guinness Book of Records for the most catastrophic financial mismanagement in the history of the world?

**Mr Stephens:** Well, if I may say so, we went through pages 16 and 17 in going through the detail of that. That, as I said earlier, gross increase in costs on the big cost of £4 billion is £5.3 billion and, of that, tax is £1.2 billion which, as the NAO Report brings out, returns to the Exchequer, so it is not an additional cost to the taxpayer, so that is an increase of £4.1 billion. Of that £4.1 billion, more than half is set aside for contingency and it is not yet spent.

**Q54 Mr Touhig:** I accept that and I listened to your argument and the points you made earlier and I do not want you to go over the figures again as our time is limited.

**Mr Stephens:** If I may say so, because I think it is important—

**Q55 Mr Touhig:** The Department has managed to produce a budget for the Games which is now double what your original estimate was, and you are asking us to be confident that you are going to do this okay and you are going to manage this well with your complex structure and with nobody taking any real responsibility, although you have passed the buck back to your Minister on the record today if anything does go wrong, and you are asking us to be confident that you are going to manage this?

**Mr Stephens:** Well, I return to the NAO Report which says that the process leading up to the budget announced in March 2007 was thorough, that it was based on detailed analysis and expert input and that it provides a significant step forward in providing a sound footing for the finances of the Games.

**Q56 Mr Touhig:** Well, we are going to have ongoing reports and we will see that your revised budget means, Mr Stephens, that the National Lottery Fund is going to have to contribute £2.17 billion and that is an increase of £675 million. Now, I cannot see either of you two in green tights, but you might be a modern-day Robin Hood because you are really robbing Peter to pay Paul, are you not?

**Mr Stephens:** Well, the original funding package had a contribution from the Lottery of something like 60% of the original funding package. It was always clear that costs over and above that might be a call on the Lottery, and that was never hidden. In fact, the arrangement that was put in place has put the overall burden on government expenditure and the proportion being borne by the Lottery has fallen from more than 65% to under 25%.

**Q57 Mr Touhig:** It is £2.17 billion. Now, the friends of the Newbridge Memo in my constituency are seeking to rejuvenate and reuse the wonderful building built by the pennies of miners for those who died in the First World War and they need £4.9 million from the Heritage Lottery Fund. Do you think they are going to get it in competition with the Olympics?

**Mr Stephens:** Well, that of course is a matter for the Heritage Lottery Fund. The Lottery distributors act independently of government—

**Q58 Mr Touhig:** What are you going to do though to ensure that the Lottery Fund is not actually causing great grief to worthy projects like that right across the country in order to fill a gap here because you really made a foul-up of the estimate in the first place?

**Mr Stephens:** Over the period in which that extra £675 million is proposed to be taken from the Lottery, the various Lottery distributors will gain income of more than £5.2 billion that will still be

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available for those existing good causes, and it is not a matter for me, but I very much hope that the miners—

**Q59 Mr Touhig:** I will let you know how the Newbridge Memo has got on when you come again. Have you had any talks with the National Lottery operator to see if they are using other ways of maximising Lottery income now to make up for the fact that you are taking £2.17 billion from them?

**Mr Stephens:** Well, there has been extensive consultation with the distributors that has informed the proposal as to how this extra money is taken from the Lottery. In addition, of course over this period, since the Report was published, a new Lottery licence has been awarded by the National Lottery Commission and that was awarded on the basis of maximising the returns to good causes, and we look forward to seeing what opportunities it provides for increasing the overall income from the Lottery in the next licence period.

**Q60 Mr Touhig:** Offer up a prayer then and light a big candle when you go to church next week! It has got about as much hope as that, has it not?

**Mr Stephens:** Well, as I have explained, over this period there will be an extra £5.2 billion, on existing projections, going to the existing Lottery distributors. The Lottery licence-holder and regulator are under an obligation to maximise returns to good causes. The new licence, we hope, does provide an opportunity for looking again at those projections.

**Q61 Mr Touhig:** So we will keep it under review. The Chairman referred to paragraphs 30 and 31 on page 14 of the Report. Now, Partnerships UK warned your Department in 2004 that its estimate of £738 million raised from the private sector was not based on any robust analysis whatsoever, yet you still included that £738 million in your budget. Why?

**Mr Stephens:** Well, at the time of the bid, ministers were looking to ensure that there was a significant private sector contribution, as indeed there will be. We look to our advisers for advice, as the NAO Report records, and the first indicative estimate from them was of more than £1.3 billion and we reduced that down to a more conservative estimate.

**Q62 Mr Touhig:** But you were warned that the figure was not based on any robust analysis whatsoever and you still included it.

**Mr Stephens:** We knew at the time that there were uncertainties across the whole range in the nature of the fact that this was not an event that was certain, that the land was not in public ownership, that the detailed site investigations could not be undertaken and that the detailed plans at that stage could not practically or affordably be drawn up, so inevitably the estimates reflected the state of knowledge and developments at the time, but were based—

**Q63 Mr Touhig:** But the decision was taken, Mr Stephens, to ignore the advice. They did warn you that the figure was not robust and you did not take any notice of that and they are proving to be right, are they not?

**Mr Stephens:** We took full account of the advice as a whole which is set out in paragraphs 30 and 31 of the NAO Report.

**Chairman:** It is staggering that the Accounting Officer could include an estimate of £738 million when he has actually been warned that it is not based on any kind of accurate information. That is an appalling negation of your duties as an Accounting Officer.

**Q64 Mr Bacon:** I would like to start, Mr Stephens, with your answer to a question from Mr Dunne. Can you just clarify that you are absolutely certain, are you, that none of the landowners who sold land to the Olympics has retained any reversionary interest?

**Mr Higgins:** We can respond in writing, but I am not aware of it. This is the land that was sold to the LDA and the LDA was not involved in consolidating the land of the Olympic Park, so it would be an issue for the LDA. If there is a liability—

**Q65 Mr Bacon:** What would help us if you could send the Committee a schedule of all the land involved that has been acquired for the Olympics, each parcel, because it would be interesting to see for each one how much was paid for it and then to check for each of those parcels whether there are, or are not, any reversionary interests.

**Mr Higgins:** There are over 2,000 parcels of land and legal rights.

**Q66 Mr Bacon:** But presumably it is documented somewhere, is it not?

**Mr Stephens:** Well, it will be the responsibility of the LDA, the London Development Agency, which secured the land and owns the land, but I am happy to pass the request on.

**Q67 Mr Bacon:** Well, what I would like is a letter to the Committee confirming, and I am actually less interested in whether there are 2,000 or 1,300 or 100 parcels of land, but I am interested that none of them has any reversionary interest, and you did not say that they did not.<sup>1</sup>

**Mr Higgins:** To our knowledge, there is not. It is actually an issue for the LDA because the LDA are the accountable body who purchased the land.

**Q68 Mr Bacon:** Who owns the LDA?

**Mr Higgins:** It is controlled by the Mayor, by the GLA. It is not controlled by central government at all.

**Q69 Mr Bacon:** It is a public body, that is the point.

**Mr Higgins:** Yes, and it obviously accounts through to December.

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**Q70 Mr Bacon:** Mr Stephens, I would just like to ask you about the Comprehensive Spending Review because there was a lot of extra money announced recently. There has been the £405 million which has been around for a long time and in the Comprehensive Spending Review there was announced another, I think it was, £3.623 billion. This is referred to in a paragraph on Exchequer funding, although it does not actually talk about the £3.6 billion as announced on 9 October because this Report, I think, was published prior to that, but, so far as I can see, you have now committed funding of £4.028 billion, leaving about £2 billion or £1.9 billion still to be committed. The Comprehensive Spending Review announcement covers culture, media and sport, transport, communities and local government. The £2 billion or £1.9 billion has not yet been committed. When is that going to be announced and committed because the next Comprehensive Spending Review, at least theoretically, takes us to 2011, does it not, so you are expecting an announcement before then presumably?

**Mr Stephens:** No, I am sorry, I did not instantly recognise the various numbers that you read out.

**Q71 Mr Bacon:** It is the amount that is not committed.

**Mr Stephens:** The amount that is not committed reflects the cashflow analysis and it will need to be committed in the next Spending Review, the 2011–12—

**Q72 Mr Bacon:** Yes, that is my point, but you are not going to wait until 2011 to announce the remaining £2 billion of uncommitted funding, are you?

**Mr Stephens:** Well, it will be committed in the next Spending Review period.

**Q73 Mr Bacon:** Yes, but when will it be announced?

**Mr Stephens:** If the question is, “Is the Government committed to it?”, yes, it is because it is set out in the first-year budget.

**Q74 Mr Bacon:** The question is: when will it be announced? The Government announced on 9th October a further £3.5 billion or £3.2 billion, bringing up the total of committed funds to just over £4 billion, but in total we are looking for £5.975 billion, I think the number is, so my point is that there is £1.9 billion which has not yet been committed and the present Spending Review takes us up to 2011 and presumably you are expecting to make announcements about the commitment of those other funds prior to the end of the 2011 Spending Review cycle, are you not?

**Mr Stephens:** It is committed in the sense that the Government is committed to the £9.3 billion budget that is set there. It will be funded, in the normal way of funding of public spending reviews, through the CSR process, so the current CSR sets that out to 2010–11 and the next Spending Review, whenever that will happen, will set out the working-through of the £9.3 billion for the years beyond 2010–11.

**Q75 Mr Bacon:** You mentioned a figure of £600 million for security. Presumably, that is not yet covered by this money, is it? The committed funding that has been announced so far does not cover the £600 million.

**Mr Stephens:** Not the figure set out in the CSR, although, as the original statement makes clear and the NAO makes clear, on security this is a preliminary estimate and the detailed security strategy, plan and budget is being drawn up under the leadership of the Home Office and through the office of the Olympic Security Directorate, and obviously further discussions about funding to back that up will need to be pursued by the responsible departments.

**Q76 Mr Bacon:** You mentioned earlier what an enormous problem security is and also how you cannot be expected, fair enough, to predict many years out exactly what the circumstances will be, but it will plainly be a big, big issue, as previous Olympics have shown. Who is going to be in overall charge and who will be accountable for security?

**Mr Stephens:** The Home Secretary is in overall charge. She has appointed the Olympic Security Co-ordinator, Mr Tarique Ghaffur, Deputy Commissioner, and he is supported by a multi-agency group, the Olympic Security Directorate.

**Q77 Mr Bacon:** I would like to go back to the Olympic bid in Singapore. Can you say for sure that the Government is going to deliver on all the commitments in the bid book given to the IOC in Singapore?

**Mr Stephens:** Yes, that is the Government’s commitment and those bid commitments, particularly as far as the construction of the Games is concerned, are reflected in the budget.

**Q78 Mr Bacon:** Have all those commitments been costed?

**Mr Stephens:** All the commitments in the bid book, as far as I am aware, have been costed.

**Q79 Mr Bacon:** Could you send us a note, do you think, with a summary of all the commitments in the bid book and the costs that are attached to them?

**Mr Stephens:** Yes.<sup>2</sup>

**Q80 Mr Bacon:** I would like to move on to insurance which, for something like this, is going to be quite a significant item. How much do you reckon it is going to be for insurance roughly?

**Mr Higgins:** We have allowed roughly £50 million.

**Q81 Mr Bacon:** So that leaves you £175 million for the Olympic Village, does it not, roughly?

**Mr Higgins:** I am not sure. How did you work that out?

**Q82 Mr Bacon:** Well, if you look at paragraph 48, you will see that it is £161 million for additional inflation. Have I got that right? Yes, I have. On page

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21, £161 million for additional inflation. If you then go to Figure 6, you will see that figure of £386 million, the third one down, and it says, "Additional inflation allowance, contribution to the Olympic Village and insurance". Well, if you knock off the additional inflation that we know about, £161 million, that only leaves you £225 and, if you knock off £50 million, that leaves you £175 million for the Olympic Village. Is that correct? Have I got something wrong?

**Mr Higgins:** No, that is about right. That is about the right figure for the Olympic Village at that point, yes.

**Q83 Mr Bacon:** Which works out at about £10,000 or £10,294, in this little spreadsheet I have got here anyway, per bed in the Olympic Village, does it not?

**Mr Higgins:** I think it is probably inaccurate to take that figure—

**Q84 Mr Bacon:** Because it is only the public sector contribution, I appreciate that. How many dwellings are there going to be in the Olympic Village?

**Mr Higgins:** Roughly 4,000.

**Q85 Mr Bacon:** And your actual expectation is that they will pretty much all be sold off as private dwellings afterwards or a mixture of affordable and private, but that they will all be used afterwards for dwellings?

**Mr Higgins:** Absolutely, and 30% are affordable and that is set out in the planning approval.

**Q86 Mr Bacon:** Could I ask you about the legacy because the Chairman mentioned the drop in funding from £738 million down to £165 million. It seems to me that one of the reasons why the private sector has not been throwing money at you is because there is still an enormous amount of uncertainty about who will own the venues afterwards and who will cover the conversion costs before the legacy, as it were, can take effect. When do you think you will have more certainty about all of that?

**Mr Higgins:** Progressively, we are getting much more certainty about the legacy. In terms of the private sector contribution, the two major items making up this revised figure are for the broadcast facilities, both the media and broadcast, and the figure is roughly around £90 million and we have got every expectation of getting a good contribution from the remaining tenderers on that part there. Then, the second part of that element is utilities and again we have had a very good response from the private sector for a substantial contribution to the utilities network and the power centre that is going to be built up on the Olympic site, so that is strong. The private sector contribution on the Village, as this Report notes here, there is some £600 million in the 2004 costs for the costs of the Village and we expect the vast majority, or all of that, to be paid by a private sector partner.

**Q87 Mr Bacon:** And you expect that it will yield a substantial profit overall, the Village site?

**Mr Higgins:** Yes, yes, it will.

**Q88 Mr Bacon:** How will that be shared? Presumably, the Lottery, which is putting a lot of money into this, over £2 billion, will be getting something back, will it?

**Mr Higgins:** The agreement on the London Development Agency's land allows the Lottery to recoup profits after the LDA's costs, and you will see that is covered in the Report here. On the balance of the land, we have allowed for recovery of some profit from the Village and we are still finalising the Village details, we have not released the complete details of that, but, if there is surplus profit that comes through from those deals, they obviously will be for the benefit of the funders of the Games, which include of course the Lottery.

**Q89 Mr Bacon:** Will that put them, as it were, *pari passu* to their original contribution? Is that the idea?

**Mr Higgins:** No doubt it will reflect their contribution when their contribution is finalised on what parts goes to the overall funding and contingency.

**Q90 Mr Bacon:** I would just like to ask one final question about programme management costs. The Chairman referred to how they have exploded from £16 million to £570 million which is plainly just a failure to get a grip on what it was likely to be to start with, although the £16 million does sound very low. You, I think I am right in saying, got that wrong because it was modelled on an urban development corporation.

**Mr Higgins:** Yes, that is right.

**Q91 Mr Bacon:** Who was the bright spark who said, "Oh, this looks really like an urban development corporation, let's model it on that" because they were 3,500% out, were they not?

**Mr Higgins:** I can cover that because at the time, and they still are, there is not one established for the Games site already in place, so that modelling covers that. Now, on the actual structure of the Games, the Act had not been drafted at the time, therefore, what structure and whether there was to be an ODA or a LOCOG or a central corporation running the entire project was yet to be determined and, therefore, the actual costing and the appointment of the delivery partner was yet to be determined, so when, after the successful bid, the drafting of the Act and the passing of the Act in April 2006 establishes the ODA, the ODA then goes out to competitively find a delivery partner and we can start to work out the brief and finally work out the cost of the delivery partner. Now, the money allowed here for the delivery partner from an external benchmarking point of view is quite realistic, and it is very realistic compared to other major infrastructure projects, the Channel Tunnel Rail Link or major projects at airports, that is quite a standard charge, but it is a very different model from what was envisaged. The model envisaged originally was based on urban development corporations which, frankly, worked

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very well for the Docklands, if you look at the way that the Docklands and Canary Wharf were delivered, or Milton Keynes or other major projects. **Chairman:** Well, thank you very much, Mr Higgins, and the one thing which has emerged from that line of questioning is that such is the uncertainty of these future profits from land sales that we cannot be sure that the Lottery will be reimbursed at all, and I find that very concerning.

**Q92 Mr Davidson:** I wonder if I could just say at the beginning, Chairman, that I wonder whether or not by the end of this hearing our visitors from Nigeria will think themselves lucky that Abuja did not win the Commonwealth Games! Could I ask about construction costs. Because of the booming economy that we have and the growth in construction across the South East and the UK in general, is construction cost inflation rising more than expected?

**Mr Higgins:** The original bid had 5% and you will note that that figure of 167 allows for it to be 6%. You will have seen market evidence on rising steel prices, so obviously iron ore and steel prices have gone up considerably, so there are inflation pressures. If, for example, inflation was to go up by 2% in the next two years, that would probably add around a figure of £50 million to the cost pressure if it then returned to its original figure, so yes, we are exposed to cost pressures, as any other major project is.

**Q93 Mr Davidson:** But you have not detected so far that construction cost inflation is greater than that anticipated in your bid and your contingency?

**Mr Higgins:** We are well in the process of tendering at the moment and now we have major tenders closing on the major venues, the Village, roads and bridges, so it is different. In fact, with roads and bridges and highways, infrastructure, we do not see the same cost pressures that we are seeing in other venues and buildings, so with the building boom in the City of London, and there is a massive number of commercial projects under way, that is probably creating more pressures in that area than it is in the area of infrastructure.

**Q94 Mr Davidson:** One of the things that does worry us a bit is that builders, whilst not quite as voracious as farmers, are nonetheless somewhat keen to exploit the situation where perhaps the client is over a barrel. I am a bit concerned with the lack of competition for some of these contracts. As I understand it, the Olympic Stadium has only got one bidder and the Aquatic Centre has only got one bidder, which is not quite the strongest position for yourselves to be in. Did you anticipate having only one bidder at this stage when you were drawing up the initial estimates?

**Mr Higgins:** I suppose high-profile, iconic structures are not the sort of projects that the industry necessarily is originally attracted to, and there is some history on stadiums across the country which does not make it easy. I suppose the best of describing it is to say that we have spent £13 million

now on the Stadium since we appointed McAlpine's in design development work and in testing the design, what is termed as Stage D which was launched last week. You could not do that sort of work with three other competitive bids or two other teams working together, we just would not have the capacity to do that, so at some stage on these sorts of projects you have to get to one bidder. We are not in the luxury of being able to complete the design and go out and do a fixed-price tender. That would be one way of doing it, but we do not have the years it would require, so our protection, to answer your question as briefly as I can, is that we do choose a partner, but then we insist on absolute transparency to drill down to the actual trades, tenderers and suppliers and hope for greater competition there. One of the benefits of having a delivery partner, like our partner CLM, is that they can act and allow us to scrutinise the tender process of the trades.

**Q95 Mr Davidson:** So I should not be worried?

**Mr Higgins:** It is a concern. It is set out in paragraph 51 of this Report, that it is one of the major risks, inflation, but also market appetite, so as much as possible we try and make the Olympics an attractive site to work on and we invest money in infrastructure, in strong plans on health and safety and in speedy decision-making.

**Q96 Mr Davidson:** On the question of the other contracts on the infrastructure, are you happy with the state of competition for those contracts?

**Mr Higgins:** Yes, we are. We are well down the track on all of the enabling works and we have got over £½ billion worth of work contracted to all the enabling works, the tunnelling work is completed, we will be awarding the major bridge contracts in the next month or so and the competition levels there were very strong and we are very pleased with that.

**Q97 Mr Davidson:** Can I now go on to the question of employment. We have discussed before issues relating to the scale of direct employment which was considered to be one of the reasons for success in previous big contracts. How well are you doing here in relation to having a proportion of direct employment as distinct from full self-employment?

**Mr Higgins:** It is still early days, but we do have around 1,500 employees on the site there with around three-quarters at this stage, we understand, that are directly employed, which is very high in the industry standards, and we hope to increase that, so we are putting a lot of time into getting the right data and facts, so we are really requiring complete disclosure of our sub-contractors and suppliers and we are having good figures on that. Probably the most encouraging figures are that nearly 50% of our workforce and our suppliers are coming from outside the direct London area, so that should put less pressure on inflation, and around 180 of those people currently employed on the site have come from positions where they have not been employed for a considerable time, so getting unemployed

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people into work on the project is something we have put a lot of time and effort into, so we are quite pleased with that.

**Q98 Mr Davidson:** My understanding was that around 50% of those who are employed on the site presently are from within London, but I am not clear whether or not that includes Poles and other Eastern Europeans who are presently living in London or whether or not it actually is London inhabitants who have been living in London, say, for the last five or ten years.

**Mr Higgins:** I do not have that detail, but I do know that these are people who are living in London. We have strong figures in the boroughs, so we looked at the five boroughs of the London area and around roughly a quarter of people—

**Q99 Mr Davidson:** Well, the figure from the five London boroughs was, I think, 20%, but, if somebody has moved into one of those boroughs yesterday from Warsaw, then the capital in which they live in a sense is Warsaw rather than London and I am, therefore, just seeking clarification as to the percentage of the workforce that have actually originated in Eastern Europe and how many are actually genuinely of the London community. Again the fact is welcomed that I think you said that 10%, and that was my figure, had been previously unemployed.

**Mr Higgins:** That is right.

**Q100 Mr Davidson:** But the fact is that they could have been unemployed in Latvia, so I think it would be helpful if we had some sort of clarification about their location prior to their engagement.

**Mr Higgins:** I do know, of that group of previously unemployed, that around 60% have come from BAME communities within the five boroughs, black and Asian minority groups, so the people that were currently employed and have been recruited is a direct result of the job brokerage programmes that we have put in place in Stratford, and they are targeting local people. I can send you those figures.<sup>3</sup>

**Q101 Mr Davidson:** I wonder if we could have the figures because I particularly want to separate the number who are, as it were, genuinely London inhabitants rather than those who happen to be living here just now. Could I ask about the training of apprentices. In the latest set of figures I have for the training of construction industry apprentices, in the last year for which we have figures, Scotland had 2,600 and London had two. Now, I find that uninspiring, I must confess, and those figures came from the CITB. If London is only producing two as compared to Scotland's 2,600, that would not inspire me with hope that you are going to have lots of fully qualified tradesmen in the next period flooding on to this site.

**Mr Higgins:** Well, I know we have 20 apprentices on the site right now and we are targeting 1,000 apprentices on this site in the duration of the programme. We take apprentice recruitment very, very seriously and we spend a lot of time with the major contractor groups who have established on the Olympic site a training programme for excavator drivers and we are getting people to be certificated in—

**Q102 Mr Davidson:** Maybe you could let us have a look at that.

**Mr Higgins:** Yes.<sup>4</sup>

**Q103 Mr Davidson:** I presume those 1,000 apprentices you have mentioned are young apprentices. Do you have opportunities for mature returners, either returners or recruits to the industry? Is that also an apprentice programme that you have been pursuing?

**Mr Higgins:** There is certainly no differentiation on age, but I do not have those statistics of that division. We are now collecting a lot more data. It is one of the first times that this level of data is being collected and once we have got it we can then work out intervention we need to do in terms of how effective are the skilling programmes to get people back in work.

**Q104 Mr Davidson:** Particularly in relation to those who were previously unemployed, have you got data for their stickability, as it were? There is no point in starting somebody who was previously unemployed and they only last a week. Unless we are following them through and can identify that they are still there after maybe 26 weeks and then 52 weeks, it is going to be disguising the position.

**Mr Higgins:** I do know that of those stats I quoted earlier on, over 30 of them started with tunnelling projects. These were people who had never worked in tunnelling before, were unemployed and came into the project run by our contractor then, Murphy's, and I met a number of them. I do not know whether they all stayed for the life of that project but it was a complex project and it would give them a good record of having served on a project like that.

**Q105 Mr Davidson:** I can see that, but I want to check whether or not they remain in employment. I have no objection to people who get a job in something like that and then go on to something else in construction and stay in work. What I am worried about is that quite often people produce figures indicating there were so many starts but some of them only last a week. I have had this in projects in my own area, some only last a week, some only last a month, and so on, and it gives a completely different position. The final point I want to ask about, and this may be best for Mr Stephens, is in terms of the amount of Lottery funds which would otherwise have been spent in Scotland. Can you tell me what the latest running total is?

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<sup>3</sup> Note by witness: At the end of October 2007, 918 (54%) of the ODA's total workforce of 1,715 people, lived in London. The ODA does not collect information on the location of employees before their engagement with the ODA.

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**Mr Stephens:** I am sorry, I do not have the breakdown by devolved countries but I am very happy to write to you with them.

**Q106 Mr Davidson:** Maybe you can give us them for Wales and Northern Ireland as well.

**Mr Stephens:** Yes.<sup>5</sup>

**Q107 Mr Curry:** Mr Higgins, in the Queen's Speech the Government announced its intention to introduce a roof tax, a tax which captured the gain in planning permission. It had intended to introduce a planning gain supplement and this has now become a sort of Milton Keynes job. Will that have an impact upon your project? It will become law presumably by this time next year.

**Mr Higgins:** The planning gain supplement, as you say, is no longer around. I know the Milton Keynes' roof tax, as it is termed, very well, I was Chief Executive of English Partnerships that introduced that programme with my executives. It was a comprehensive development programme with a mechanism to capture the value uplift for the public sector. The advantage of this site here is the land is owned by the public sector anyway, so value uplift is captured by that, however the Government does have the urban development corporation which covers all of this valley here.

**Q108 Mr Curry:** The private sector is going to build the Village, is it not?

**Mr Higgins:** Yes, it is.

**Q109 Mr Curry:** The Village is destined ultimately to be affordable housing, is it not?

**Mr Higgins:** One-third, 30%.

**Q110 Mr Curry:** A significant element is going to be affordable housing.

**Mr Higgins:** Yes. There is a profit share arrangement on the Village and on the shopping centre, so if there is windfall profit made then the public sector has the benefit.

**Q111 Mr Curry:** So when the Government introduces the tax that will have no impact on the ultimate costs of building the Village or disposing of the Village, that is all accounted for in the existing arrangement, is that correct?

**Mr Higgins:** The potential tax comes through section 106 planning, so that which has planning through section 106 is the method of capturing this planning gain.

**Q112 Mr Curry:** We do not know exactly what the mechanisms of this tax are going to be, do we?

**Mr Higgins:** Unless there is retrospective legislation it should not affect it because the Government benefits anyway. There is a profit share on the Village and there will be a profit share on the rest of the Stratford land that is subject to development and benefits from the Olympics.

**Q113 Mr Curry:** If that were to change you would obviously wish to let us know.

**Mr Higgins:** Of course.

**Q114 Mr Curry:** The second contemporaneous event is the Prime Minister today announced a whole new set of measures on improving security: areas where cars will not be able to go, much more robust construction, a huge number of new checks of one sort or another at stations. What impact do you think that may have on the security arrangements envisaged for the Games?

**Mr Higgins:** Within the Olympic site the ODA has accountability for security for delivering the venues and infrastructure for the Games. We are not accountable during the Games, that is the responsibility of LOCOG.

**Q115 Mr Curry:** I appreciate that.

**Mr Higgins:** We have had embedded experts in our organisation, including people from various security services and government bodies, to advise us on design and planning.

**Q116 Mr Curry:** So you are confident nothing the Prime Minister said today will represent an additional cost to what you are currently envisaging?

**Mr Higgins:** I have not seen what the Prime Minister announced today but we have done everything we can to plan for the infrastructure of the venues on the Park to cater for the risk which is appropriate to the Games.

**Mr Stephens:** I can say that DCMS was involved and consulted on Lord West's report, which is the basis for some of the Prime Minister's announcements today and, indeed, the model of planning and embedding security in the Olympics is actually a model that people want to adopt more widely. I should also just say that one of the risks that has been modelled against which the contingency stands is the risk of wider regulatory change. That is one of the risks that the £2 billion contingency is there to cover.

**Q117 Mr Curry:** The word "change" means "increase", I take it. "Wider regulatory change", you mean more regulation, do you not?

**Mr Stephens:** Yes, that is the upward pressure obviously but it could go the other way.

**Q118 Mr Curry:** Well, we all live in hope, but not very much hope as far as I am concerned. Can I pursue the line of questioning from Mr Davidson. The construction industry is actually quite heavily dependent on migrant labour and I think there is a figure of 40,000 to 50,000 Poles who work in the construction industry and are a hugely important part of it. Again, being very contemporaneous, we have had all the problems about illegal immigrants working in security and other activities. What sort of discussions have you had, or are you likely to have, with the firms which are building your project to make sure the people they employ are entirely legal?

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**Mr Higgins:** We have certainly had discussions with the firms that we are going to engage to carry out the work but, in addition, we have had extensive discussions with the Met Police that covers both our access to the Games site and vetting of staff. We are working through a vetting process that is practical but also allows us the right level of security. Most importantly, we need a system that is scaleable because what we do not need is the most secure site in the country but nothing is built because it has scared away every single contractor, but equally so we need a system that can be rapidly scaled up if the risk level increases.

**Q119 Mr Curry:** Talking about scaring off contractors, the article in the *Times* may have been what Mr Davidson was referring to which points out that: “building contractors are refusing to put in bids for venues at the Olympic Park because the projects carry too much risk and too little profit”. The construction industry is relatively buoyant, although there are one or two offers on residential housing now which show they are concerned about what is happening, but the Government has got a project to build three million houses by 2020. Are you concerned that the attractions of bidding into your programme are going to be significantly less for what I suspect will be significantly easier projects in more familiar territory to fulfil what is already looking to be a challenging target for housing?

**Mr Higgins:** If you look at our major projects, the Village, the adjacent shopping centre, the roads and bridges, we have £600 million of the work already committed now on the enabling works and the utilities contracts are close to completion on contracting. The power lines contract is fully committed. We have good progress on committing work. Yes, it is a very competitive market and it is unique really because it is not only competitive here, it is competitive in the Middle East and Asia and in other markets. It is not just the plumbers who are in high demand, it is also the engineers, the planners and the programmers. We have to make sure that we are attractive and efficient as a client to attract the industry.

**Q120 Mr Curry:** You think that is going to happen?

**Mr Higgins:** So far we have had a good response. It is not always the tier one or the high level contractors because tier one contractors contract to tier two down to tier six and we have to make sure that the small businesses and their workforce get in. One thing we do have which benefits our site is that it is an incredibly connected site and, therefore, the workforce getting here by public transport and rail is good.

**Q121 Mr Curry:** Can I just come back to this remarkable £18 million figure for the original cost for the urban development corporation. I was Minister for Regeneration for a while and, in fact, I suppose I was responsible for some of the development corporations. You have said that the Olympics is the biggest construction project in the Western World practically. I do find it inconceivable

that anybody could then postulate a model based on an urban development corporation, it just beggars belief. Had you said you cannot postulate on this because there is no basis for comparison, but to move from that £18 million to where we are, I simply find it Harry Potter-ish really.

**Mr Stephens:** It is very clear that was a very significant underestimate. That was the first attempt to put an estimate on these costs at a time when the decisions had not been taken on the delivery structure and it reflects the constant way in which these estimates are updated. That was the first attempt, obviously a very significant underestimate, and within a matter of months that was being revised by the time the bid was successfully won to £160 million.

**Q122 Mr Curry:** I understand the explanation and I am sure when it was put forward there must have been some querulous comments in the Department and a few raised eyebrows, but we are clearly not going to get any further on that. The Stadium, you have not got a final end user lined up, have you?

**Mr Higgins:** The end owner. It will be publicly owned. It is a publicly owned asset and the land is owned by the LDA.

**Q123 Mr Curry:** But you want somebody to do something in it.

**Mr Higgins:** We do need multiple use. The key thing with the Stadium going forward is effectively you have to have multiple use. You either have one single tenant privately owned football stadium or you have publicly owned multiple use stadiums and around the world we have seen many examples that these can be effectively established. There is not an international standard athletics track and field facility in London and a city this size needs it. It will have a standard track plus warm-up track, which will be a first. It will also be a facility that can be used for other sports. We have had a number of interests expressed from football through to rugby, and particularly community use. This area of East London is particularly short of community use venues.

**Q124 Mr Curry:** For football and rugby the spectators are going to be a very long way away from what is happening, are they not?

**Mr Higgins:** The same as they were in Wembley before Wembley was demolished.

**Q125 Mr Curry:** So you are still looking for what I used to call some Third Division south team to come and—

**Mr Higgins:** There are plenty of examples where this works but we all understand that premiership football sides are incompatible with athletics because they do not want the distance between the edge of the field of play and the seating, and that is understandable.

**Q126 Keith Hill:** I would like to explore some of the components of the apparent more than doubling in the projected costs of the development. Let me turn



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first to this question of taxation. There is a new £836 million but I think you referred, Mr Stephens, to a possible total of £1.2 billion. Why does taxation appear as an additional cost in the budget?

**Mr Stephens:** As the Report says, it is a cost to the Games but it is a receipt that returns to the Exchequer, so it is not an additional payment by the taxpayer, if you like. The ODA is actually paying tax, it is liable for VAT and, if it incurs it, it will be liable for corporation tax, but obviously its source of funds is entirely the public sector so it will pay that out of the funds it receives and those will return to the Exchequer.

**Q127 Keith Hill:** So about 20% of the apparent increased cost which has so alarmed the newspapers, and possibly taxpayers, is actually an entirely paper transaction?

**Mr Stephens:** Yes, that is correct. The increase net of tax is £4.1 billion.

**Q128 Keith Hill:** There is evidence of good news, is there not, in these new figures in that I notice the ODA's infrastructure and regeneration budget is down by nothing less than £11 million. Why is that?

**Mr Stephens:** That will reflect the latest estimates. Something that is important to understand is that all the time developments are happening, so since this budget has been composed, there have been significant developments with the first major project, the tunnels, completing on time and on budget. We have now got full access to the land on time. We are now able to undertake the full site investigations which are confirming that there are no serious unexpected problems with remediation. Planning applications, which were uncertain at this time, have now been completed. A number of tenders have been received against individual contracts. All the time there are these developments and at successive stages those need to be reflected in the new and revised estimates. On a project of this size and scale within the overall envelope, and we have set the overall envelope at 9.3, it is not a surprise to see individual projects going up or down and we should expect that going forward.

**Q129 Keith Hill:** When we look at changes, for example in the infrastructure and regeneration budget, and in the core Olympic costs where there has been a very significant growth in anticipated costs, nevertheless you are saying that these estimates already include calculations about likely rates of inflation, construction cost inflation and you are seeking to take into account other variables which could affect the costs as well. In other words, these estimates that we have here represent your best calculation of the likely costs of the scheme.

**Mr Higgins:** I can confirm that the Secretary of State's statement in March of this year, which is reflected in table one which sets out the base budget for the ODA of 5.25, and then with adding the VAT £6.1 billion, was as a result of work that was carried out by the ODA and CLM leading up to March 2007 and now as we report to the Funders Committee in two weeks' time I can confirm the work we have

done since then, so nine months further on. We are further on site investigation, tendering for the site, planning is now approved, vacant possession has been achieved and we can confirm that base budget still stands and we are not asking the Funders Committee for any further base budget above that total figure of the 5.25 and the VAT that applies to that. The bottom line general programme contingency, the £2.2 billion, remains unallocated and that will remain unallocated after our Funders Committee at the end of this year.

**Q130 Keith Hill:** I notice in that part of the budget we have just been talking about that there is, nevertheless, a £500 million contingency. Have you any idea whether that is going to be spent?

**Mr Higgins:** That was announced by the Secretary of State in March and that identified known cost pressures at the time. The statement was in March 2007 and it reflected work that we had done leading up to that statement in partnership with CLM, so it did identify areas where we saw known cost pressures on individual projects, particularly projects which we were starting, so the enabling works, the utilities, the early works on the rail, works at Stratford regional station, so it provided prudent contingencies within those individual projects. Within that overall figure, that figure of £6.1 billion, including VAT, there is project level contingency, so that £500 million was recognising that.

**Q131 Keith Hill:** Would I be right in thinking that actually the overall contingency in the programme, which amounts to £2.7 billion, is extremely prudent. It represents 42% of the new budget less contingency, does it not? The NAO itself observes that this is at the higher end of the range for non-standard civil engineering projects set out in Treasury guidance. Why has it been put at such a very high level?

**Mr Higgins:** This is a project of a size and scale that has not been achieved before in this country and uniquely to a fixed deadline and, therefore, we think it is a prudent, realistic contingency. We expect part of that contingency to be spent, that is sensible practice. A contingency is not there to be locked in a box and never touched; a contingency is there to be utilised to reduce risk and our biggest risk on this project is time.

**Q132 Keith Hill:** You expect some of it to be spent?

**Mr Higgins:** Yes.

**Q133 Keith Hill:** How much? What proportion?

**Mr Higgins:** That is yet to be determined but certainly it is realistic to expect some of the contingency to be spent.

**Mr Stephens:** If I may, the only safe assumption is to expect it all to be spent and that would be compatible with the £9.3 billion budget, and it has been set at a prudent but, I believe, realistic level. Obviously we are all working to ensure that, if possible, less is spent, but on a project of this size and complexity we must expect risks to materialise and as they

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materialise that will result in contingency being transferred from the programme to the ODA budget to ensure that those risks are managed.

**Q134 Keith Hill:** I understand that, but we should also be aware, picking up Mr Higgins' point, that there is absolutely no guarantee that the entirety of that £2.7 billion in contingency will be spent.

**Mr Stephens:** No.

**Q135 Keith Hill:** In other words, if you include the taxation element and the contingency element in these new figures, there is really quite a lot which does not inevitably represent any real increase or any real extra burden on the taxpayer.

**Mr Stephens:** You are absolutely right. None of that contingency has been spent as we speak. I think it is prudent and realistic to expect a significant amount of it to be spent on a complex and high risk project of this sort, particularly given the fixed deadline which, as the NAO Report brings out, produces particular risks. We are seeking to manage those, not least by advancing the timetable as much as possible so as to reduce the cost pressures. Whatever is not spent will be returned to the funders but it is realistic to expect a significant amount, if not all of the contingency, to be required.

**Q136 Keith Hill:** One final question, and I come back to an issue that has been raised before. You had warnings perhaps about the figure that you put down for the private sector contribution, but why has the private sector contribution to this great national project proved so disappointing?

**Mr Stephens:** I think as an overall picture it would be wrong to say that it is disappointing. As we have been explaining, that particular sum does not include a very significant private sector contribution to the Village which is being built and largely funded by the private sector. There is the wider Stratford regeneration multi-billion pound scheme which would not have proceeded at this scale and pace without the Olympics.

**Q137 Keith Hill:** Well, I challenge you on that. As a Minister I had direct responsibility for the Thames Gateway and that development and I think that would have gone ahead in any circumstances. I do not think you can count the Stratford development as part of the private sector contribution to this development.

**Mr Stephens:** I am not. I am illustrating that around the Park there is the wider public sector contribution. My point was at this scale and pace. There is a very significant wider private sector contribution and they are also making significant contributions to the separate LOCOG budget and this takes no account of true land sales and returns from the private sector in that sense. It is a rather narrow part, as it were, of the private sector contribution of what overall I think is a very significant private sector contribution.

**Chairman:** Still, it is extraordinarily low. In a budget of £9 billion, the 100 and something from the private sector is unbelievably low when the buzzword in

modern government is supposed to be about public-private partnership. I am staggered. I think that one of your problems is that loads of members of this Committee now are ex-ministers, so you had better be careful what you say, but Mr Mitchell has never been a minister and never wants to be a minister.

**Q138 Mr Mitchell:** I do not know about "never wants to". The original low estimate of £4 billion, was that a deliberate attempt to deceive or was it just an accidental by-product of excessive optimism?

**Mr Stephens:** Neither, I have to say.

**Q139 Mr Mitchell:** Why was it so low then?

**Mr Stephens:** This is the first Arup report and then the PwC risk assessment around that first estimate, the cost of the specimen Games, and then the more detailed PwC contribution to the bid document. I think that reflected the degree of expert input provided to it but it also reflected the state of knowledge and developments at the time, a time when it was not certain that the Games would be required in London, the land was not in public ownership and the delivery structures were not in place.

**Q140 Mr Mitchell:** The Treasury always keeps an eagle eye on expenditure and it was going to guarantee the project. Did the Treasury not demur in any sense?

**Mr Stephens:** The bid was collectively agreed across government but, of course, the undertakings were signed personally by the then Chancellor of the Exchequer.

**Q141 Mr Mitchell:** It would be nice if the Treasury adopted the same approach to projects in the North or infrastructure sector projects. The tax status is reported here to be unclear. I thought the Treasury had some responsibility for VAT and who paid it.

**Mr Stephens:** I think the tax status now is very clear.

**Q142 Mr Mitchell:** It is clear now, yes, but it was not then.

**Mr Stephens:** At the time of the bid it was unclear, largely because the delivery structures were not clear and the tax status often depends upon the delivery structure. For example, if it had been delivered through a local authority type body then it would have been entitled, as local authorities are, to reclaim the VAT as, for example, Manchester did for the Commonwealth Games.

**Q143 Mr Mitchell:** That is amazing. Leaving it out of the calculations does give the impression that the original costings were intended to deceive.

**Mr Stephens:** As Mr Hill was bringing out earlier, the tax is a receipt to the Exchequer so it is not an additional cost to the taxpayer. In one sense it is perhaps painting a false picture to suggest that the tax is a cost increase to the taxpayer.

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**Q144 Mr Mitchell:** Okay. How many of the original people, the original pool of people, who developed the original estimates were also in the team that upped them by £5 billion in the latest estimates?

**Mr Stephens:** I am sorry, I do not know that.

**Q145 Mr Mitchell:** But there was some continuation of personnel?

**Mr Stephens:** Yes, in various forms, but I cannot give you a precise answer.

**Mr Higgins:** Just on that issue of the VAT, it was very, very clear in the bid documents that were public in Singapore that VAT was not included as a cost. It was clear that it was yet to be determined what the delivery vehicle would be. There was not any issue that it was not public, it was always very public that VAT was not included.

**Q146 Mr Mitchell:** Let us move on to a point that other people have raised, and that is inflation of construction industry costs. Here you are at a time when we have got Crossrail roaring ahead, or digging ahead, we have got the Thames Gateway roaring ahead, we have got the Government embarking on a big new housing programme and construction firms have got you by the short Olympic rings because you have got a finite date. The new Wembley Stadium had a date but it was not as inflexible as yours and look at the cost escalation there. Are you seriously telling me that there will not be a massive cost inflation on this project?

**Mr Higgins:** The biggest risk on the project is time. We have been really, really clear from day one that the biggest thing we can do to protect public money is gain as much time as possible as we can at the start and be incredibly transparent about our timelines, so we have published a public document to the general public about what milestones we are going to hit by July next year, and I have got a copy here if you wish to see it, and we are sticking to those deadlines. Where the big cost will come is not cost escalation, it is acceleration. If Wembley really did have to finish on its original date no matter what the cost that is when you spend very serious amounts of money. Our point is to avoid acceleration costs at the end of the project by hitting our milestones now.

**Q147 Mr Mitchell:** What kind of cost inflation occurred in Sydney? You had the same finite date there.

**Mr Higgins:** It is really not applicable to compare Sydney. Sydney was a site where the site was completely controlled by the government and cleared at bid stage and, in fact, the budget was finished prior to the bid stage.

**Q148 Mr Mitchell:** There was cost inflation.

**Mr Higgins:** Yes, of course there was cost inflation on the project but it did meet its budget and its budget was published two years before the Games finished.

**Q149 Mr Mitchell:** So I am more optimistic about London. It says in the Report that you will not know the full extent and costs of land contamination until

you have got vacant possession of the land and, therefore, access to the full site. You got that in summer this year. Have the estimates of the costs of land contamination increased?

**Mr Higgins:** No, they have not. Around 84% of the soil investigation is now completed on the site. You are right, until we had vacant possession there were businesses there which we could not disrupt in terms of drilling through their floors, but there is nothing we have discovered since we have taken over the site. We have not done all the site, there is a bus depot site which we are waiting until the end of the year to take possession of. There is no advice that I have, and I have reviewed the project extensively, that there is any contamination that is unexpected. It is a contaminated site. As you know, just a month ago we discovered radium on the site and there are other issues, we have found Roman ruins and other things on it.

**Q150 Mr Mitchell:** You have walked over it and you are still healthy!

**Mr Higgins:** Something like that, yes.

**Q151 Mr Mitchell:** I take a somewhat more jaundiced view of all of this looking at it from the North than London Members might take. What are you going to do to mitigate the reduction of £1.6 billion of Lottery funding available for projects in my area? What is being done to mitigate that? Not all the £1.6 billion is going to Grimsby!

**Mr Stephens:** I was going to say that sounded slightly generous! In terms of spreading benefits across the UK from the Olympic Games, of course there are a number of venues outside of London. Mr Higgins has already described some of the steps that have been taken to ensure that the business opportunities are available and spread beyond London. There are the tourist opportunities.

**Q152 Mr Mitchell:** What, beforehand?

**Mr Stephens:** Before, during and after the Games.

**Q153 Mr Mitchell:** Yes, but this £1.6 billion affects the next few years, does it not?

**Mr Stephens:** Yes, but, as I said earlier, over the course of time in which that £1.6 billion is being taken, the period from 2005–06 to 2012–13, the total income to the Lottery will be something like £11 billion.

**Q154 Mr Mitchell:** You hope.

**Mr Stephens:** So very significant sums will still remain.

**Q155 Mr Mitchell:** Let me take another area, and that is funding of community sport. Here we are, building an Olympic project that it is going to better increase participation in sport and make us a healthy nation, but meanwhile, to get that £1.6 billion, you are reducing by £124 million the funding for community sport. That makes no sense, we need that spending to train the athletes who are going to participate in the Olympic Games.

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**Mr Stephens:** Well, of course, that includes the Lottery contribution that was always set out well before.

**Q156 Mr Mitchell:** Yes, but £124 million is a lot to take out of community sport.

**Mr Stephens:** The additional being taken is £70 million from community sport. At the same time, the sport distributors across the UK will have about £686 million still to invest in public sport and, of course, at the same time, in the summer the Government announced the investment of an extra £100 million in school and community sport to enable a 5R offer to children and young people. Sport England have also announced that they are planning to raise an additional £50 million from the private sector. This is against a background in which Government funding for Sport England in particular has risen from £50 million ten years ago to £350 million now.

**Q157 Mr Mitchell:** That is the same private sector that has cut its contributions to the Olympics. Let me just give you a concrete example. I was on holiday in California this year, in a little place of 100,000 people, and it has got five Olympic size swimming pools. London has two, and one of those has now closed. We need more spending and funding to train the athletes, do we not, on a big scale?

**Mr Stephens:** Of course, the Olympics and the Aquatics Centre will provide two 50 metre pools and a diving pool within London that will be available both for elite and community use after the Games.

**Q158 Mr Mitchell:** The agreement on the benefits of the legacy and what happens to it between the Mayor and the Department is not legally binding. What guarantee is there that the funding from the Lottery that has been taken from the Lottery will be made good out of the profits accruing from the Games?

**Mr Stephens:** The Memorandum of Understanding covers the Mayor's contribution to the Games. That is currently being paid over.

**Q159 Mr Mitchell:** It does not cover any guarantee for the Lottery.

**Mr Stephens:** The Mayor has signed a Memorandum of Understanding under which he is currently paying London's contributions to the Games and if there were any doubt as to whether profits would be shared in the future no doubt Government could take steps to make that legally binding. I have no reason to think that will be necessary.

**Q160 Mr Mitchell:** Conversely, when it comes to disposing of the facilities somebody has got to run them after the Games are over and the local authorities down there have got you over a barrel because they can say, "Sorry, we can't contribute, we are not going to pay" and what are you going to do with it? Is their contribution anticipated in the profits which are estimated?

**Mr Stephens:** No, no contribution is anticipated from the boroughs. Early in the next year we will be setting out a Legacy Action Plan which sets out specific actions the Government will take to secure the legacy both in London and wider afield. Over the course of 2008 the ODA will be working with the LDA in the local boroughs on the Legacy Master Plan to set out the arrangements for the Park and management of the Park after the Games

**Q161 Mr Mitchell:** I have just one final question and that is the North does not seem to get the benefit from this kind of thing, the South gets the jobs while they are going and the legacy of the facilities, but the rest of us pay for it. What do we in Grimsby get out of this?

**Mr Higgins:** Firstly, there is the opportunity for businesses to be involved in delivering the Games. To date we have contracted out 493 suppliers, that is as of this month.

**Q162 Mr Mitchell:** You will not have any from Grimsby, will you?

**Mr Higgins:** 50% of those 493 come from outside London, 48% from London, 1% from the rest of Europe and 1% from the rest of the world. That is a good start. It is probably because the site is very well connected transport-wise, particularly rail. Within the next two months we are launching a programme called Competefor, which will be an electronic brokerage service, plus a business assistance service to help businesses in the regions supply services to the Games. We are hoping that there will be significant economic benefits for businesses throughout the UK to deliver services for the Games and benefit long-term from that in business that will flow from the Games with other clients.

**Mr Stephens:** We are working with each region on the specific legacy plans that each region will put in place to maximise the opportunities and benefits from the Games.

**Q163 Mr Williams:** When we started in November 2004 we were around the ballpark figure of £4 billion and just over two years later it had increased by £5.29 million. Half the total increase was accounted for by the contingency. That is a staggering proportion, is it not? When you think of it, the contingency was virtually 75% of the original total price you had in mind. How could you overlook it? Did you not notice?

**Mr Stephens:** As I say, in the expert analysis that we commissioned and took into account in the run-up to the bid, we sought to anticipate the risks, we commissioned a risk assessment and that was reflected at the time of the bid. I think it is fair to say that there was not as full an appreciation before the bid as was possible after the bid of the size, scale and complexity of what was being delivered and the need for this scale of prudent but realistic contingency.

**Q164 Mr Williams:** Can I turn to our Treasury colleague. This must have been a kick in the teeth to you. We are told by the NAO that the Treasury has

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“longstanding HM Treasury Guidance” about programme contingency plans. Did anyone not tell you about them?

**Mr Stephens:** As I said earlier, the bid—

**Q165 Mr Williams:** Were you aware of them?

**Mr Stephens:** The bid costs—

**Q166 Mr Williams:** Were you aware of them?

**Mr Stephens:** —were agreed collectively across Government.

**Q167 Mr Williams:** Were you aware of them? Were you aware of the long-term Treasury guidelines on programme contingency funding?

**Mr Stephens:** I am sorry, I am not in a position to say precisely whether—

**Q168 Mr Bacon:** —whether you were aware or not.

**Mr Stephens:** —whether that was specifically brought to the Department’s attention at the time.

**Q169 Mr Williams:** In that case, if you do not know it suggests you did not know then either. In that case, Treasury, where were you? We had all been through the fiasco of the Dome and there was a key element accounting for an addition of 75% on the additional costs and they did not note it despite the fact that you had guidance that you had to look out for these things.

**Mr Gallaher:** The bid was estimated at the time based on the facts available to those who were constructing the estimate and the bid at the time. In the light of London winning the Olympics there was going to be a clear re-evaluation of those estimates to take account of contingencies.

**Q170 Mr Williams:** That may be so, but why not do it at the beginning so we had a clearer idea what they needed? That is what the Treasury guidance is about.

**Mr Stephens:** What I can say is that in all the considerations and expert analysis, as far as I am aware no suggestion was made that a specific amount for programme contingency should be provided over and above the contingency that was already included project-by-project within the bid estimate.

**Q171 Mr Williams:** What contingency was already in?

**Mr Stephens:** There was an existing contingency built into the various projects at varying levels up to 20%.

**Q172 Mr Williams:** In paragraph 62 we are told at the time of the bid that no provision was made for contingency on the Olympic bid as a whole. You have agreed to that, you have signed up to that.

**Mr Stephens:** Yes.

**Q173 Mr Williams:** That contradicts what you have just told me.

**Mr Stephens:** That is for the Olympic programme as a whole. That is the programme contingency. Elsewhere, at paragraph 61 the report makes clear that it did include contingency provision at the level of individual projects.

**Q174 Mr Williams:** It goes on to say: “During the course of the budget review process, however, the Department and the Olympic Delivery Authority concluded that it would be appropriate to increase the budget to include programme contingency . . .” It needed this because—these were great surprises that you discovered—“because of the general risk of ‘optimism bias’”, in other words an underestimate of what happened on building costs. You were unaware of that risk before, obviously. “ . . . and more specifically because of the complexity . . .”, perhaps no-one had drawn your attention to the complexity of the project, “..and scale of the Olympic programme”, you must have noticed the scale of the Olympics. It gets worse: “ . . . the interdependencies of different elements of the programme, and the immovable deadline for delivering the Games. These factors bring significant risks of cost pressures . . .”, which my colleague, Mr Mitchell, referred to. Are you saying that you were not aware of all of these dangers at the beginning, they came as a surprise to you, a revelation, partway along the route that suddenly you needed to do something that the Treasury had been saying you should have done at the outset anyway?

**Mr Stephens:** I return to the point that the estimates at the time of the bid were compiled on the basis of the knowledge and advice on developments available at the time of the bid. The expert advice that has been published is fully available and reflects the risk factors.

**Q175 Mr Williams:** Sorry, let us come back to that. The advice at the time was unaware of complexity, unaware of scale, unaware of the interdependencies, unaware of the danger of cost escalation in the building industry. On all of these things you were naïve and innocents in the economic world and you did not realise these things went on, but suddenly it dawned on you and you made provision which the Treasury should have been insisting on you making from the outset. Did the Treasury get involved at any stage in insisting that a proper contingency provision be made?

**Mr Gallaher:** I believe the Treasury was consulted in the construction of the bid.

**Q176 Mr Williams:** It was consulted at the beginning on the construction?

**Mr Gallaher:** Of the estimate.

**Q177 Mr Williams:** At that stage, therefore, Treasury would probably have indicated its long-term guidance, would it not?

**Mr Stephens:** What is clear is that the bid was collectively agreed across Government.

**Q178 Mr Williams:** Sorry, first of all I want an answer from the Treasury.

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**Mr Gallaher:** The Treasury would have pointed to the guidance available.

**Q179 Mr Williams:** There we are. Despite what you just said, the guidance was drawn to your attention right at the beginning but you chose to ignore it. Why? Was it incompetence?

**Mr Stephens:** I repeat, the bid was collectively agreed across Government. It reflected the state of knowledge and expert advice on developments at the time. The expert advice on which it was based has been largely published and is publicly available and can be reviewed. That shows that it did include an attempt to analyse risks and provide for contingency project-by-project on those risks. The bid was constructed at a time when the delivery structure was not in place, the land was not in public ownership and the detailed plans for venues could not be drawn up.

**Q180 Mr Williams:** In that case, the provision for the contingency at that stage should have been even higher because of all the unknowns, should it not?

**Mr Stephens:** I come back to the point that in the detailed and expert analysis which the Department commissioned and took into account, which was available across Government, there was risk analysed, contingency built in project-by-project, but no suggestion that over and above that there should be a programme contingency fund.

**Q181 Mr Williams:** It was the same with the security side. We are told that the provision made for security was, in fact, only site security during the construction phase. There was no provision whatsoever for security during the Olympics. Had anyone ever mentioned Munich to you?

**Mr Stephens:** Had anyone mentioned?

**Q182 Mr Williams:** I will spell it out to you: M-U-N-I-C-H. There was a little incident there some years ago.

**Mr Higgins:** The bid did include costs for running the Olympic security during the Games within the Olympic Park. That is covered for in the local budget.

**Mr Stephens:** If I may say so, my predecessor, the Accounting Officer at the time, wrote to the Committee at the time of the bid and she said: "While an allowance of £190 million for security costs has also been made, which is covered by the Olympic budget, the Home Office consider that there may be wider costs associated with policing

and counter-terrorism. At present it is not possible to quantify these wider costs precisely". That was brought to the attention of the Committee at the time.

**Q183 Mr Williams:** No, no, what was the last word?

**Mr Stephens:** "... not possible to quantify these wider costs precisely"

**Q184 Mr Williams:** "Precisely". So it was possible to calculate. It may have been wrong but there could have been a calculation. You did not even make a calculation because you only took in the construction phase. Why did you not make a calculation at the beginning? I come back to my original question on this issue: had you not noticed what happened at Munich some years ago?

**Mr Higgins:** If I could clarify the scope of the security. There are three areas of security. To cover your issue of Munich, the cost of securing the Olympic Village and the Games venues during Games time is a LOCOG cost, is budgeted for and was always budgeted for. The cost of security of the Games venues and infrastructure during the construction of the Games and up until handover to LOCOG during the 60 day period of the Games is covered within the ODA allowance and there always was a budget. There was a budget of some £190 million allowed for at the time of the bid. That has been increased since then but there always was an allowance. The cost that we are talking about, the £600 million, is a cost to cover the other security costs which are covered by Home Office or Met Police outside the Olympics. That covers the arrival of dignitaries and securing the rest of UK and London during Games time. That is a Home Office and a Met Police cost. These are for covering major events, whether it be G8 or a Wembley Final. These costs are obviously substantial because of the size and scale of the Olympics. That is the issue which was notified to the Committee, that these were unknown at the time. They are difficult to determine even now.

**Mr Williams:** From where I am sitting this smacks of convenience rather than competence. Thank you, Chairman, my time is up.

**Chairman:** I think that last line of questioning sums up what has been a difficult afternoon for you, Mr Stephens, and I think you can expect a critical report from this Committee. It seems to me that you, or rather your predecessor, grossly underestimated the entirely foreseeable costs and it would have been a lot better if you had taken the public into your confidence at the time. Thank you very much.

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Supplementary memorandum submitted by the Department for Culture, Media and Sport

Question 67 (Mr Richard Bacon): *Reversionary interest on land purchased by the LDA*

The London Development Agency (LDA) have reviewed the transactions that have facilitated the land assembly of the Olympic Park from the point of view of reversionary interests, which might require additional payments to be made out of capital receipts received.

Two transactions, which both pre-date London winning the bid, have been identified. The first relates to land which has a potential overage payment due on sales of land up to October 2007. This provision has now expired. The second relates to a small plot which has potential for an overage payment but this will expire on July 2010 (ie: before any disposal of the land).

On the basis of this, I can confirm that there are no “reversionary” interests in relation to land purchased by the LDA in the Olympic Park, that would bear on the capital receipts from land sales.

Questions 77-79 (Mr Richard Bacon): *Costing of commitments in the bid book*

The commitments that were made in the candidate file submitted to the IOC in 2004 will be delivered under the four Olympic programme objectives (and their sub-objectives) that were developed and announced in 2006. Beneath those objectives, more specific and up-to-date plans have now been developed, and budgeted for, by each of the Olympic delivery bodies. It is therefore not possible, three years on, to provide a summary of costs directly against the original, relatively broad formulation of commitments in the bid.

Costs attached to delivery of the first two Olympic objectives—building and staging the Games—are contained in:

- The funding package of £9.325 billion that was announced to Parliament in March 2007. The Minister for the Olympics will be providing a progress up-date on the ODA baseline budget, which falls within this package, in a statement to Parliament on the 10 December; and
- LOCOG’s £2 billion budget for staging the Games will be raised from private sector sources including sponsorship, broadcasting rights and selling merchandise, with the exception of £66 million contribution from the Government towards the staging of the Paralympic Games,

The other two Olympic objectives relate to the legacy of the Games—for London and the UK—and for sport, and these have been taken into account in the Comprehensive Spending Review.

In some cases, legacy commitments or staging requirements are matters of Government policy rather than direct additional cost—for example the measures we have taken to protect the Olympics against ambush marketing. Any significant policy change will be accompanied by the necessary consultation and impact assessment (as was the case for the 2006 London Olympics and Paralympics Act).

Early next year, the Government will publish a Legacy Action Plan that will set out in more detail how legacy commitments will be delivered and how we will measure our progress.

Question 102 (Mr Ian Davidson): *Training and apprenticeships*

Out of a workforce of 1,715 (end of October 2007), 23 were recorded as being trainees or apprentices ie 1.3% of the total workforce (there is no further information on training programmes or specific apprenticeships).

The ODA in conjunction with its partners, the Learning and Skills Council, Construction Skills, and the London Development Agency, is currently developing additional training, apprenticeships and measures to increase participation in the industry for Londoners. As a minimum the ODA will endeavour to achieve 2,000 trainee, apprenticeship and work placements over the period of the development.

Older workers or those Londoners wishing to enter the industry will be supported through a combination of programme level and specific measures targeted at recruitment, pre-employment training and post placement support.

Questions 105-106 (Mr Davidson): *Lottery funds in Scotland, Wales and Northern Ireland*

The below table shows the Lottery contributions by Scotland, Wales and Northern Ireland to the proposed transfer of funds from the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund to fund the 2012 Games. These figures include their contribution to the £410 million included in the original public sector funding package, as well as the additional £675 million announced on 15 March 2007 (detailed in the shaded columns). The table also sets out how much Scotland, Wales and Northern Ireland are still likely to receive in income from the Lottery between 2008–09 and 2012–13, the period of the proposed Olympic transfer.

	<i>Total proposed contribution (£ Million)<sup>1</sup></i>	<i>Proposed contribution to £410 million element of transfer</i>	<i>Proposed contribution to £675 million element of transfer</i>	<i>Total projected Lottery income between 2008–09 and 2012–13 (£ Million) based on current Lottery income projections<sup>2</sup></i>
Scotland	114.4	42.4	72	518.1
Wales	65	24.3	40.7	291.4
Northern Ireland	42.1	15.6	26.5	186

*Notes:*

It is not possible to say how much of the UK Film Council's total contribution of £21.8 million to the Olympic transfer might have been awarded to projects in Scotland, Wales and Northern Ireland. Also, the projected Lottery income figures exclude UK Sport and the UK Film Council as it is not possible to estimate how much might be awarded in Scotland, Wales and Northern Ireland by those bodies.

<sup>1</sup> The figures in this column also include the likely contributions from the relevant UK-wide distributors, based on the percentages traditionally used to split funding between the countries of the UK (but please note that this is entirely for the bodies themselves to decide)

<sup>2</sup> The figures in this column also include the proportion of funds which the relevant UK-wide distributors might be expected to award in Scotland, Wales & Northern Ireland based on the percentages traditionally used by those distributors to split funding between the countries of the UK.