



House of Commons  
Culture, Media and Sport  
Committee

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# London 2012 Olympic Games and Paralympic Games: funding and legacy

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## The Culture, Media and Sport Committee

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## Summary

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The success of London's bid to host the 2012 Olympic Games and Paralympic Games was the cause of national celebration. In particular, our victory over our nearest rivals provided a boost to national pride; but sooner or later, hard questions were bound to be asked. The vast majority still look forward to a successful Games but doubts have already emerged, both about the cost of staging the Games and about whether a lasting benefit can be achieved.

In many areas, significant progress has been made. The ODA is well advanced in preparations for construction and is ahead of the game in comparison to previous Host Cities. LOCOG's activities are still fairly small-scale, but good work has already been done by the Branding Group. The LOCOG Nations and Regions Group has also made a good start on identifying benefits across the country, and we applaud its concept of a UK Games hosted in London.

However, just 18 months after winning the bid, it is clear that many of the cost figures it contained are already seriously outdated. Despite the Government's assurances about the rigour with which its cost estimates had been reached, it was always likely that these would escalate over time. Nevertheless, we are concerned that costs have arisen which should have been identified at the time of the preparation of the bid.

In particular, the "programme contingency" - on top of the contingencies built into the various construction projects - could amount to an almost open cheque if set at the level proposed by the Treasury. We are not particularly surprised at the increase in costs, and it should not be forgotten that substantial savings are being made in certain areas. But we are very disappointed that the cost estimates have been found to be faulty so early in the process.

The announcement that £900 million of extra costs - of which up to £400 million is for cost control - had already been identified confirmed that further revenue will need to be found, and the "sharing arrangement" under the Memorandum of Understanding will come into play. We believe that the Government's apparent intention that any shortfall must be met exclusively from increased contributions from the National Lottery and the London Council Tax risks placing an unacceptable burden on both.

National Lottery distributors for the main "good causes" - arts, charities, heritage and sport - recognise the benefits to the UK which will flow from the Olympics and Paralympics, but they are already suffering a decrease in income because a significant part of Lottery funds are going towards financing the Games. A further call on the Lottery would deprive existing good causes of even more resources and threaten severe delay or damage to existing programmes. The London Council Tax precept should also not be seen as a cash fountain: the Government rightly stresses that the benefits should be felt across the UK, and Londoners should not be paying disproportionately.

If the financial pain of paying more for the Olympics is to be widely shared, it will require a contribution from the Treasury. One easy and obvious first step would be for the Government to forgo the duty payable on proceeds of the Olympic Games. Private

enterprise can and should also pay a part. Public money is being used to transform the Olympic Park, a contaminated wasteland, into a cleansed zone ready for redevelopment and served by a new transport infrastructure. The resulting increase in land values should not simply be translated into a profit for the owners or developers. Here is another obvious source of funding for outstanding Olympic costs. In this respect, too, the contribution of the London Development Agency should also be reviewed in the light of the benefits it stands to receive.

The success of the London 2012 bid has been widely attributed to its visionary emphasis on the Games' potential legacy of a lasting increase in participation in sport by all sectors of the community – especially children. This would certainly be a real prize; but there is no evidence that it has been achieved by any previous Host City. We believe that detailed planning needs to start now if London is to do better in this respect. To achieve it, planning must start now. It will also be made harder if another large slice of the general funds available to Sport England is siphoned off to the Olympics.

There is a welcome understanding that a clear legacy use needs to be identified for each permanent new venue. This is a higher priority than trying to match some of the top-of-the-range facilities built for other Games: any pressure to gold-plate beyond the necessary specifications should be resisted.

There will be an economic benefit to be gained from hosting the Games, but it may not be quite as large as people expect. No-one can be sure, at this stage, how much extra income will be generated from tourism, but the Games may well deter as many people as they attract. Any gains will be in the long term but will not be automatic. Whether those gains will depend on better funding or on better strategic management is something which we will address in a future inquiry into tourism.

There seems to be a widespread belief that large numbers of national teams will set up camp in various locations around the UK well before the Games and dynamise local economies. Some areas are putting a lot of energy (and money) into attracting such teams. We believe that such expectations are likely to go beyond reality: there will not be a huge influx, and many think that money would be better spent on developing plans to increase sports participation.

Eighteen months after the announcement of London's victory, reality has set in and the scale of the challenges has become clear. We remain convinced that London can and will host a Games as good as any ever seen before. However, in all of the areas we have identified, more needs to be done and quickly if we are to achieve all of the potential benefits for the UK.

# 1 Introduction

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1. On the day that London was selected as Host City for the 2012 Olympic Games and Paralympic Games – 6 July 2005 – the Games themselves seemed a distant prospect. Now, 18 months later, the project is approaching the end of its planning phase, and decisions to be taken soon will dictate how the project is delivered: a revised estimate of costs is to be agreed; a budget is to be set for the Olympic Delivery Authority (ODA), which will prepare the site for the staging of the Games; and contracts for the design and build of venues will be let. Looking beyond London, work to co-ordinate efforts to maximise the benefits from the Games across the UK is already beginning.

2. Early preparations for the Games, both by the 2012 project team and by the Government (in bringing forward the legislation which became the London Olympic Games and Paralympic Games Act 2006) were sustained by a remarkable degree of public and cross-party political support. Eighteen months on, there is still widespread enthusiasm for the prospect of the Games and considerable hopes for the benefits that they may bring. However, it was also perhaps inevitable that hard questions would begin to be asked and concerns to be expressed about whether all the aspirations for the Games can be achieved. Despite previous assurances that budgets were sound, it is now clear that costs are going to be significantly higher than forecast in the bid document. Recent comments by the former Chair of the ODA – whether justified or not – have also given rise to negative media coverage.

3. This report draws upon evidence taken over the course of a year. Three public sessions were held with major stakeholders in October and November 2005,<sup>1</sup> and two further sessions were held in autumn 2006.<sup>2</sup> Most of the written evidence received in autumn 2005 is printed alongside the oral evidence taken at that point.<sup>3</sup> Many of the submissions received in autumn 2006 are printed with this report; a list of unprinted memoranda is given on page 59.

4. On 28 February 2006, we travelled to Canary Wharf for discussions with London 2012 executives; we also viewed the Olympic Park site from a rooftop gallery in an adjacent tower block. We have also visited Olympic sites in Beijing and Seoul (in May 2006), in Berlin (in December 2005), where we saw the Olympic Stadium used for the Olympic Games in 1936 and for the final of the FIFA Football World Cup in June 2006, and in Athens (in December 2006), where we had a tour of the Olympic Sports Complex used in the Games in 2004.

5. This is the first of what we expect will be a series of reports from this Committee during the lifetime of this Parliament, to complement scrutiny work by other Committees of the House as well as by the London Assembly. At this stage, our aim is to

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<sup>1</sup> The London Organising Committee of the Olympic Games (LOCOG), the Mayor of London, the London Development Agency, the British Olympic Association, the British Paralympic Association, the Department for Culture, Media and Sport, UK Sport, VisitBritain and VisitLondon.

<sup>2</sup> Witnesses included the London Organising Committee of the Olympic Games (LOCOG) and the Olympic Delivery Authority (ODA), the Olympic Lottery Distributor, the Central Council for Physical Recreation, representatives of the London 2012 Nations and Regions Group, and the Secretary of State for Culture, Media and Sport.

<sup>3</sup> *London 2012 Olympics: first steps*, HC 552-i, ii and iii, Session 2005-06.

provide an informed cross-party view on progress and principles, and to give early warning of areas of concern. We hope that our recommendations and conclusions will be seen as a constructive contribution to inform the various key decisions to be taken shortly.

## 2 Progress with land preparation and construction

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6. The scale of the construction work in and around the Olympic Park site, both planned and underway, is awe-inspiring. As the ODA pointed out, the site consists of land criss-crossed by major infrastructure, including railways, sewers, power lines and roads.<sup>4</sup> Work to establish the extent of its contamination is proceeding but is still not complete. The Secretary of State described the Games project as “the largest public building project in Europe.”<sup>5</sup>

7. The ODA has adopted an overall timetable for the Games project based upon the advice of its former Chair, Mr Jack Lemley. This timetable – known as the “plan that Jack built”<sup>6</sup> – broadly assumes two years of planning and developing strategies, four years to prepare the land and build venues and infrastructure, and one year for commissioning and testing events. The ODA told us that “the lesson from recent construction programmes is that time spent in careful project planning is never wasted” and that “by being clear about the specification for our projects before we commence construction, we will enable their successful delivery.”<sup>7</sup> Mr Higgins, Chief Executive of the ODA, expanded on this, saying that “if you start construction and then people start changing the scope and briefs, then costs escalate and things get out of control”.<sup>8</sup>

8. For the purposes of this report, we consider the work under three broad headings: work to provide the necessary infrastructure within the Olympic Park (starting with site clearance); work to link the Olympic Park to the surrounding area under regeneration; and local regeneration which is incidental to the Games.

### Progress with infrastructure in the Olympic Park

9. Within the Olympic Park itself, the construction effort covers acquisition, survey, preparation and remediation<sup>9</sup> of the site itself; construction of sporting venues; and construction of associated facilities (including the combined International Broadcast Centre/Main Press Centre).

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<sup>4</sup> Ev 3

<sup>5</sup> Q 143

<sup>6</sup> Q 139

<sup>7</sup> Ev 3

<sup>8</sup> Q 7

<sup>9</sup> The term used to describe any work necessary to treat the land on the Olympic Park site prior to construction



## Site acquisition

10. In late November 2006, when the Secretary of State gave oral evidence to the Committee, 93% of the Olympic Park site was under public control.<sup>10</sup> The remaining land is the subject of a Compulsory Purchase Order (CPO),<sup>11</sup> a protracted process which is expected to bring the whole of the site under public control by July 2007.<sup>12</sup> Mr Higgins, Chief Executive of the ODA, told us that the CPO process was “on track”.<sup>13</sup> We note that, in this respect, the London 2012 effort is already ahead of that of Athens, where slow progress in obtaining the compulsory purchase orders severely delayed construction.<sup>14</sup>

11. Although much of the site has until now been wasteland, it contained pockets of residential development and industrial space. Around 300 businesses were located on the site of the Olympic Park<sup>15</sup> and not all agreed willingly to be relocated. The London Development Agency (LDA) was charged with much of the work on acquisition, before the ODA had been established. Mary Reilly, Chair of the LDA, told us in November 2005 that some of the businesses on the site “did not want to have a dialogue” but that the LDA had forced them to do so.<sup>16</sup> A decision by the ODA in January 2006 to “reduce the land take” drew nearly 100 businesses out of the CPO process.<sup>17</sup>

12. The task of negotiation with individual businesses which fell to the LDA was challenging, as there were inevitably disputes over the value of the land on which those businesses’ premises lay. The case for compensation was not confined to land values: certain firms claimed to have difficulty in finding an alternative site which offered the advantages of their present site. The LDA pointed out that the Lands Tribunal was an independent body which could consider appeals from any party which was not content with the price for land offered under a Compulsory Purchase Order; and the LDA also agreed to look at “reasonable” requests for relocation costs.<sup>18</sup> The Mayor of London added that if a firm were to be forced into liquidation by a prolonged failure to reach a satisfactory solution, the costs which would then be borne by the LDA would be substantial; he saw this as exercising a “very strong pressure on the LDA”, which would face “real financial penalties”.<sup>19</sup>

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<sup>10</sup> Ev 73

<sup>11</sup> See London 2012 Olympic Park Delivery Programme

<sup>12</sup> Q 35

<sup>13</sup> Q 7

<sup>14</sup> Information gathered by the Committee in Athens in December 2006; See also *HC Deb*, Standing Committee D, 13 October 2005, col. 42

<sup>15</sup> In November 2005, there were 284 businesses in the Olympic Park area that the London Development Agency was “seeking to engage with individually to understand their relocation requirements”; *HC Deb* 7 November 2005, col. 157W

<sup>16</sup> Q 169, HC 552-iii, Session 2005-06

<sup>17</sup> Q 35; see also *HC Deb* 30 January 2006 col. 1WS

<sup>18</sup> QQ 190-2, HC 552-iii, Session 2005-06. Fuller details of the compensation payable are given in *HC Deb*, 7 November 2005, col. 157W

<sup>19</sup> Q 194, HC 552-iii, Session 2005-06

13. The vast majority of businesses have now been relocated, many of them in sites purpose-built by the LDA.<sup>20</sup> Mr Higgins noted that it was not unusual for businesses to reach agreement on relocation as the end of the public process approached.<sup>21</sup>

### *Site survey and remediation*

14. Parts of the Olympic Park site are contaminated, and remediation work is required.<sup>22</sup> Most of that work is due to be completed by the summer of 2008, when construction of the main venues will begin.<sup>23</sup> Mr Higgins contrasted the previous land use of the Lea Valley site with that on the Greenwich Peninsula, where gasworks and chemical works and heavy contaminants had been present.<sup>24</sup> The memorandum from the Department for Culture, Media and Sport identified site remediation as one factor which could cause costs to rise.<sup>25</sup> Following his departure, Mr Jack Lemley, the former Chair of the ODA, claimed that the cost of site clearance could be far more than had originally been estimated.<sup>26</sup> However, this was repudiated by the Secretary of State, who told us that the current estimated cost of remediation was £220 million, very slightly less than had originally been budgeted for.<sup>27</sup> The most recent figure is lower still: £200 million.<sup>28</sup>

15. The Chief Executive of the ODA also expressed confidence in his evidence to us that remediation costs could be met from existing resources.<sup>29</sup> We were also told, however, that nearly 50% of the site had yet to undergo detailed analysis and investigation.<sup>30</sup> When we asked the Secretary of State whether it was possible to be confident that existing resources for remediation would be sufficient, when nearly half of the site had yet to be surveyed, she assured us that what had been discovered so far was “in line with the expectations of the engineers who are carrying out the work”.<sup>31</sup> When asked whether the work on site survey and remediation was proceeding according to timetable, the Secretary of State replied: “I have no reason to believe it is not”.<sup>32</sup> In a further memorandum she observed that, as much of the land had not been under London Development Agency ownership during the bid process, “it had not been possible to gauge accurately the time requirement for site surveys”.<sup>33</sup> **We note the confidence of the ODA and of the Secretary of State that remediation costs will be contained within the existing budget. However, given that the site survey work is little more than 50%**

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<sup>20</sup> Q 36

<sup>21</sup> Q 36

<sup>22</sup> Ev 3

<sup>23</sup> Q 166

<sup>24</sup> Q 40

<sup>25</sup> Ev 56

<sup>26</sup> Interview in *Mail on Sunday*, 3 December 2006

<sup>27</sup> Q 166

<sup>28</sup> *HC Deb*, 8 January 2007, Col. 117W

<sup>29</sup> Q 40

<sup>30</sup> Mr Jacobs, Q 167

<sup>31</sup> Q 168

<sup>32</sup> Q 170

<sup>33</sup> Ev 73

**complete, uncertainty will remain. The authorities should be more specific about the precise nature of contamination at the site, and the Government should report back as soon as the survey is completed.**

### *Construction of venues*

16. The Candidature File outlined five permanent sporting venues to be built within the Olympic Park: the main Olympic Stadium, the Aquatics Centre,<sup>34</sup> the Hockey Centre, the Velodrome and an indoor arena. The Hockey Centre is now expected to be part of a combined tennis and hockey facility.<sup>35</sup> Other arenas to be constructed within the Park will be relocated to other cities in the UK to provide a sporting legacy in the regions after the Games.<sup>36</sup> The other major permanent new facility, the International Broadcast Centre and Main Press Centre, the cost of which has already attracted controversy, will now lie within the perimeter of the Park and will have a legacy use as light industrial space.<sup>37</sup>

17. We return to the venues later in this report when discussing costs (at paragraph 41) and when assessing legacy plans (at paragraph 98).

### **Linking the Park to local infrastructure**

18. In addition to the costs of preparing and staging the Games themselves, £1.044 billion of public funding has been set aside for “linking the Olympic Park to local infrastructure”.<sup>38</sup> No detailed breakdown of the £1.044 billion expenditure was given, although Mr Higgins (Chief Executive of the ODA) told us that it had been set aside to “cover things such as the power lines undergrounding and some of the work”.<sup>39</sup> The sum was not included in the Candidature File although it had been identified at the time that it was submitted. Some of it has been already drawn down.<sup>40</sup>

19. The Secretary of State told the Committee that the £1.044 billion “sits within the budget of the Department for Communities and Local Government” and that it was “routed through the Olympic Delivery Authority”.<sup>41</sup> In response to a request by the Committee for clarification, she explained that the funding was for projects set out in the ODA’s annual budget and that programming and delivery of the projects was a matter for the ODA, subject to the approval of the Olympic Board. Funding is made available from DCLG through DCMS to the ODA “subject to evidence of spend”.<sup>42</sup>

**20. We note that there remains a lack of clarity about the expenditure of such a significant sum, and we recommend that the Government issue a detailed breakdown of how the figure was reached and how it is to be spent.**

<sup>34</sup> A revised design for the Aquatics Centre was announced by the ODA on 27 November 2006.

<sup>35</sup> Ev 4

<sup>36</sup> Candidature File, Table 8.4.4

<sup>37</sup> Ev 10

<sup>38</sup> £405 million from the current Spending Review period and £639 million from the next period: Ev 56

<sup>39</sup> Q 14; see also Secretary of State, Q 143

<sup>40</sup> Q 175

<sup>41</sup> Q 177

<sup>42</sup> Ev 74

## Regeneration of the surrounding area

21. The Lower Lea Valley, where the Olympic Park is situated, sits within the Thames Gateway, which is described by the Government as a national regeneration priority.<sup>43</sup> It was the prime target of the London Development Agency's efforts at regeneration in London before the Host City contract had been bid for, let alone secured.<sup>44</sup> The Mayor of London set out the reasons why the Lower Lea Valley was receiving such attention: the area suffered from the worst poverty in London, perhaps the worst in Britain (and the ODA told us that three of the five boroughs surrounding the Olympic Park are among the most deprived local authorities in England);<sup>45</sup> and the land offered vacant sites and ready potential for development. The ODA told us that change was already coming to the Thames Gateway area, irrespective of the London 2012 Games; but it pointed out that the Games project enabled the ODA "to deliver higher quality infrastructure, in a systematic way, and faster than we could otherwise hope to".<sup>46</sup>

22. The Candidature File identified \$11.5 billion/£7.18 billion of investment in road and railway improvements.<sup>47</sup> This investment was committed independently of the Games and includes projects which were to proceed regardless of whether London won the bid. That work is for the most part already funded and work is under way;<sup>48</sup> a small portion (\$600 million/£375 million) relates to road and rail improvements in and around the Olympic Park itself and will be funded from the Public Sector Funding Package.<sup>49</sup>

23. The Games have clearly been a stimulus to the drive to improve local transport links. In 2004, the Department for Transport agreed with Transport for London a £10 billion investment programme for transport infrastructure across London. The Transport Committee concluded that this commitment had "almost certainly helped to convince the International Olympics Committee that London's infrastructure would be able to meet the needs of the Games".<sup>50</sup> Arguably, by linking capital projects to an unalterable Olympic timetable, costs may end up higher than they otherwise would have been; but equally – as the Mayor of London has said – the Olympics may well make sure that many of them, such as the extension of the underground to Hackney, will actually finally be implemented.

24. It is less clear that the Games have added impetus to the Crossrail project. The Crossrail Bill is presently before a Select Committee, which expects to report to the House later this year. Assuming that the Bill receives Royal Assent and that the scheme is taken forward, there will be some impact on the Games project: the Transport Committee noted that "much of the construction will be adjacent to the construction of

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<sup>43</sup> See <http://www.communities.gov.uk/index.asp?id=1502153>

<sup>44</sup> Mr Livingstone, Q 179, HC 552-iii, Session 2005-06

<sup>45</sup> Calculated "on a variety of indicators": Ev 3

<sup>46</sup> Ev 3

<sup>47</sup> Candidature File, Volume 1, page 105

<sup>48</sup> Ev 4, HC 552-i, Session 2005-06

<sup>49</sup> Ev 9, HC 552-i, Session 2005-06

<sup>50</sup> *Going for Gold: Transport for London's 2012 Olympic Games*. Third Report from the Transport Committee, Session 2005-06. HC 588-I, paragraph 30.

the Olympic Park”.<sup>51</sup> Crossrail services are not expected to be in operation by the time that the Games take place.

25. The remit for our current inquiry into the Games project specifically excluded transport issues and we make no comment here on the merits of the proposed transport links to serve the Games or on progress towards those goals. We note, however, the conclusions of the report by the Transport Committee in 2005 and its recent follow-up evidence session with the Olympic Delivery Authority on the Draft Transport Plan.<sup>52</sup>

26. Funding for local regeneration in the Lower Lea Valley has been allocated over a long timespan. The Chief Executive of the ODA, David Higgins, argued strongly that the ODA would not be taking a responsible approach if it were to carry out a superficial regeneration of the Valley, fit only for the purposes of the Games and not for any legacy use; and he called for more co-ordination of expenditure between the ODA and other Government departments which intend to invest in the area over the next five to ten years, on the grounds that it would ultimately prove more cost-effective.<sup>53</sup> When we put this point to the Secretary of State, she did not dismiss it; but she stressed the importance of distinguishing between the costs of the Olympic Park, which had to be met in order to fulfil commitments to the International Olympic Committee, and the costs of associated regeneration, which were a matter for the Department of Communities and Local Government.<sup>54</sup> The DCMS written memorandum acknowledged, however, that it was “critically important to strike the right balance between minimising costs and securing the long-term legacy of the Games in terms of the wider regeneration of the Lea Valley and the Thames Gateway”.<sup>55</sup> **We commend the scrupulous approach by the Secretary of State in distinguishing between costs which are integral to the Games and costs which are not; but we nonetheless encourage her to look favourably on co-ordinating the expenditure of ODA funds with local regeneration funds where long-term benefit for the local community can be shown.**

### 3 Costs

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27. This section of the report addresses in turn a number of different cost areas specific to the Games: costs of staging the Games (and how those costs will be met), the cost of providing venues, security costs, VAT and contingency allowance. We conclude this section with a brief analysis of increases which have recently been identified.

#### Staging the games

28. Staging the games is the responsibility of the London Organising Committee of the Games (LOCOG).

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<sup>51</sup> *Going for Gold: Transport for London's 2012 Olympic Games*. Third Report from the Transport Committee, Session 2005-06. HC 588-I, paragraphs 158-9.

<sup>52</sup> 10 January 2007, HC 199-i, Session 2006-07

<sup>53</sup> QQ 12 and 16

<sup>54</sup> Q 163

<sup>55</sup> Ev 57

### How much staging will cost

29. The budget for staging the Games outlined in the Candidature File was equivalent to approximately £1.5 billion; this figure did not allow for inflation (although this is not clearly stated in the section of the bid document dealing with finances). The budget is now treated as being £2 billion – “the outturn equivalent of the £1.5 billion constant price number ... submitted as part of the bid proposal” – which does take into account inflation.<sup>56</sup> However, **no details have been supplied as to what measure of inflation has been used to arrive at the figure of £2 billion for the LOCOG budget. We encourage the Secretary of State to provide further details.** There is no indication at present that costs will exceed £2 billion, and LOCOG told us that “it is absolutely our expectation to be able to contain [that budget]”.<sup>57</sup>

30. Estimated costs of staging the Games are set out in the Candidature File. They include:

	Figures in Candidature File (expressed in 2004 prices)	Percentage of budget
Sports venues	\$417 million/£261 million	17%
Information systems	\$327 million/£204 million	13%
Games workforce	\$187 million/£117 million	8%
Ceremonies and culture	\$92 million/£57 million	3%
Transport	\$198 million/£124 million	8%
Paralympic Games	\$144 million/£90 million	6%
Administration	\$255 million/£159 million	10%
Contingency	\$105 million/£66 million	4%
Remaining costs	\$737 million/£460 million	31%

Note: Figures in \$US in the second column are those given in the Candidature File; the sterling equivalents are based upon a £1 to \$1.6 exchange rate as used in the Candidature File.

31. LOCOG is exempted from Corporation Tax by virtue of section 65 of the Finance Act 2006. It is, however, registered for VAT and will charge VAT on ticket and merchandise sales.<sup>58</sup>

### Where the money for staging the Games will come from

32. The Candidature File indicated that LOCOG revenue was expected to be derived as follows:

	2004 Sums	Percentage of overall revenue
International Olympic Commission contribution and worldwide sponsorship	\$900 million/£562 million	36%
Local sponsorship	\$435 million/£272 million	18%
Official suppliers	\$290 million/£181 million	12%
Ticket sales	\$496 million/£310 million	20%
Licensing	\$92 million/£57 million	4%
Other <sup>59</sup>	\$249 million/£156 million	10%

Candidature File Table 6.6.1; Exchange rate £1 = \$1.6, as used in the File

<sup>56</sup> Q 6; also DCMS memorandum para 3.5, Ev 56

<sup>57</sup> Q 6

<sup>58</sup> Candidature File, section 6.5.3

<sup>59</sup> Includes national government subsidies, disposal of assets and other sources



33. The contribution routed through the International Olympic Committee – forecast at 36% of the total – is substantial and depends largely on revenues from broadcasting rights and long-term funding from worldwide “TOP” sponsors<sup>60</sup>, some of which have yet to sign up for the quadrennial covering the Vancouver Winter Games in 2010 and the London 2012 Games.<sup>61</sup> As Mr Deighton, the Chief Executive of LOCOG pointed out, only when the IOC contribution is confirmed will LOCOG be able to assess what its share of the worldwide sponsorship will be.<sup>62</sup> We note a report that the formula for calculating revenue from broadcasting to be passed from the IOC to local organising committees has changed: the report suggests that host cities will in future received a fixed sum rising in line with inflation rather than a proportion of the revenues from broadcasting rights.<sup>63</sup> If confirmed, this arrangement may be to the disadvantage of both the London and Vancouver Organising Committees; and we may wish to return to this.

34. 30% of LOCOG revenue is to be raised through local sponsorship and official suppliers. The distinction between these two sources in the bid document reflected the difference between cash benefit and benefit in kind. Tenders are being invited for domestic sponsorship in six industrial sectors: banking, insurance, telecoms, automotive, utilities, and oil and gas.<sup>64</sup>

35. The £2 billion target was described by Business in Sport and Leisure, representing the private sector sport and leisure industry, as “challenging”;<sup>65</sup> but LOCOG is optimistic about its chances of raising the sum required, assuring us that it is “confident at this stage [that] the sources of revenue available to us are sufficient to leave us ... with revenues that will match our expenditure”.<sup>66</sup> When asked how he would proceed if revenue fell short, Mr Deighton rejected two alternatives put to him, one being to trim the expenditure to the revenue raised and possibly provide a lower-quality experience, the other being an appeal for taxpayer funding.<sup>67</sup> He did indicate, however, that if LOCOG’s costs were to rise beyond £2 billion and if LOCOG was unable to raise further private financing to support those extra costs, it would be “a matter of choosing priorities amongst the things that we are trying to do on the staging side”.<sup>68</sup>

36. The Secretary of State told us that LOCOG had reason to be confident and she did not envisage providing emergency funding to LOCOG. She was careful, however, not to rule out such a course of action.<sup>69</sup>

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<sup>60</sup> TOP – The Olympic Partners programme

<sup>61</sup> Q 17

<sup>62</sup> Q 17

<sup>63</sup> *Daily Telegraph*, “2012 funding alliance”, 9 November 2006

<sup>64</sup> The first invitations were announced for firms in the banking and insurance sectors in October 2006: See London 2012 Media Release, 28 September 2006.

<sup>65</sup> Ev 35

<sup>66</sup> Q 20

<sup>67</sup> Q 17

<sup>68</sup> Q 6

<sup>69</sup> Q 182

37. We note in this context the experience of the Sydney Organising Committee (SOCOG), which fell short of its target for revenue. The New South Wales Government had undertaken to underwrite the cost of the Games, and the Legislative Council duly agreed an emergency bill to authorise Aus \$140 million contingency grant to SOCOG in June 2000, only weeks before the start of the Games. The General Purpose Standing Committee No. 1 of the New South Wales Parliament found that SOCOG had not only suffered from a shortfall in sponsorship revenue but had also overestimated revenue from ticket sales.<sup>70</sup>

38. On 17 November 2006, Ofcom announced its intention to introduce a total ban on the television advertising of all foods high in fat, salt and sugar in and around programmes of particular appeal to children under the age of 16.<sup>71</sup> A period of consultation will be held before a final decision in January 2007. The Government has welcomed the announcement.<sup>72</sup> It is unclear yet whether there will be an impact on amounts which sponsors will be willing to contribute to the Games. The Chief Executive of LOCOG pointed out that food, restaurant and drinks sponsors were already committed through the worldwide programme negotiated with the International Olympic Committee;<sup>73</sup> and the Secretary of State (when giving evidence after Ofcom had made the announcement) said that she understood that, at this stage, LOCOG did not believe that it would have to adjust sponsorship estimates in the light of the announcement.<sup>74</sup> However, **we recommend that further work be done to determine the potential impact of the ban and whether it will have an effect on sponsorship for the Games.**

39. **We admire the confidence of the LOCOG team in its capacity to secure the necessary revenue, including sponsorship. It would be wrong, however, to ignore the fact that amounts raised through sponsorship and licensing, as well as from ticket sales, are hard to predict and may turn out to be lower than foreseen in the Candidature File.** While exchange rate sensitivities may have little effect on LOCOG's costs, they may have an impact on revenue contributions from the International Olympic Committee, which will be denominated either in US dollars or in a mix of US dollars and euros. We note that LOCOG has already put in place a mitigation strategy and has entered negotiations with a UK bank to hedge the risk.<sup>75</sup> **We believe that LOCOG and the Government should recognise the possibility that revenue may fall short of that forecast; and we believe that they should give early consideration to the implications.**

40. Business in Sport and Leisure told us that the drive for sponsorship for the 2012 Games would place a strain on the sporting sponsorship market, "especially given the lure of the heavily attractive Olympic marks". There was a potential consequence, it warned, of a loss of revenue to grassroots and community sport; and it was not

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<sup>70</sup> General Purpose Standing Committee No.1 ; Report No. 11, Olympic Budgeting, Paper 430

<sup>71</sup> Ofcom Press Release, 17 November 2006

<sup>72</sup> DCMS Press Release 146/06, 17 November 2006

<sup>73</sup> Q 19

<sup>74</sup> Q 184

<sup>75</sup> Information supplied by LOCOG



convinced that that impact had been fully assessed.<sup>76</sup> The Institute of Professional Sport – a national association for professional players – also believes that the business sector “will be challenged” and that “cuts in sponsorship programmes at community level may be experienced”.<sup>77</sup> Mr Deighton, Chief Executive of LOCOG, doubted that there would be a significant adverse impact, arguing that companies generally treated Olympic sponsorship as “a rather separate event because of its breadth” and that sponsorship funding would be drawn from a marketing budget rather than out of a sport sponsorship budget.<sup>78</sup> The Secretary of State was rather more cautious, telling us that the issue was being looked at “very carefully”.<sup>79</sup> **The optimism of LOCOG that the effort to secure sponsorship for the 2012 Games will not detract from sponsorship for community sport is welcome. However, the Committee will keep this under review.**

## Venues

41. The cost of permanent works for each of the main sporting venues will be borne by the ODA. The table below sets out both the estimate of costs in the Candidature File<sup>80</sup> for each permanent venue, in 2004 prices:

	Estimated cost, 2004 prices
Olympic Stadium	\$450 million/£281 million
Aquatics Centre	\$117 million/£73 million
Hockey Centre	\$23 million/£14.3 million
Velodrome	\$46 million/£28 million
Permanent arena	\$42 million/£26 million
International Broadcast Centre/Main Press Centre	\$215 million/£134 million

42. In August 2005, the ODA appointed the CLM Consortium as Delivery Partner, “to programme and manage the whole procurement and construction cycle, from design to post-2012 transformation”.<sup>81</sup> The role of the Delivery Partner has since evolved, an issue which we discuss later, at paragraph 58 of the report.

43. The Secretary of State told us that there had been no increases in the cost of venues since July 2005;<sup>82</sup> and she drew our attention in July 2006 to her requirement that the

<sup>76</sup> Ev 35

<sup>77</sup> Ev 89

<sup>78</sup> Q 21

<sup>79</sup> Q 185

<sup>80</sup> Candidature File, Table 8.4.3

<sup>81</sup> Ev 2

<sup>82</sup> Q 143

proposed design for the Aquatics Centre be reconsidered “in the light of what appeared to be increased costs”.<sup>83</sup> She said however that, given that the project was currently out to tender, she would prefer not to give us a specific figure for the estimated cost of the Olympic Stadium.<sup>84</sup> When announcing to the Committee on 21 November 2006 that £900 million of extra costs had been identified, she cited rises in commodity prices and revised figures for construction inflation as factors contributing to those extra costs.<sup>85</sup> It seems likely that such factors will affect the costs of constructing venues.

44. In addition, the contribution from private sector funding to the cost of construction of venues, which was anticipated in written evidence from LOCOG to the Committee in September 2005,<sup>86</sup> may turn out to be lower than had been hoped. The Secretary of State told us in November 2006 that “further costs arise specifically from the need to secure greater public funding for the Olympic Village and the International Broadcast Centre”, the amount of those extra costs being “subject to commercial negotiation about what the level of private sector investment will ultimately be”.<sup>87</sup> She provided further detail in a subsequent letter to the Committee Chairman, explaining that the private sector is expected to provide “the majority of the financing” for development of the Olympic Village, which it was hoped would make a commercial return after the Games; and she stated that a mix of public and private financing was envisaged for the International Broadcast Centre and Main Press Centre. No private financing was expected for the construction of sporting venues.<sup>88</sup>

## Security

45. The total security cost identified at the time that the bid was submitted was £213 million: approximately £23 million for in-Games security<sup>89</sup> (to be borne on the LOCOG budget) and approximately £190 million in site security costs, to be borne by the ODA from the public sector funding package. These figures pre-date the bombings of 7 July 2005. Further expenditure will be incurred in relation to wider security in London. These costs will be borne by the Home Office and the Metropolitan Police and are still under review.<sup>90</sup>

46. The Secretary of State stated unequivocally that the existing security budget was “inadequate”, but she gave no further indication of the order of any increase.<sup>91</sup> Some detail of additional costs emerged during the appearance by the Mayor of London before the London Assembly on 15 November, when he indicated that there might be a further £300 million “opportunity cost” and “maybe another £250 million” for measures such as

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<sup>83</sup> *DCMS Annual Report and responsibilities of the Secretary of State*, HC 1551-i (Session 2005-06), oral evidence taken on 25 July 2006, Q 21

<sup>84</sup> Q 198

<sup>85</sup> Q 143

<sup>86</sup> HC 552-i, Session 2005-06; also Ev 3

<sup>87</sup> Q 143

<sup>88</sup> Ev 73

<sup>89</sup> Candidate File Table 6.6.1: rising to just over £30 million if the assumed uplift for inflation is applied.

<sup>90</sup> *HC Deb*, 5 December 2006, Col. 287W

<sup>91</sup> Q 143; see also supplementary memorandum from the Secretary of State, Ev 73

electronic monitoring”.<sup>92</sup> **We urge the Secretary of State to publish the revised budget for security costs, as soon as it has been agreed.**

47. Mr Deighton told us that overall responsibility for security at the Games rested with the Home Office and the police.<sup>93</sup> We find it strange, therefore, that no responsibility for security is attributed to the Government in the detailed breakdown of Objectives by Lead Stakeholder approved by the Olympic Board.<sup>94</sup> **The lack of any reference in the Olympic Objectives to the Government having responsibility for security at the Games appears to be an oversight which should be rectified.**

## VAT

48. At the time that the Committee took evidence for this inquiry there appeared to be a strong possibility that the ODA would be liable to pay VAT on goods and services which it procures. That liability has since been confirmed.<sup>95</sup> One estimate of the total payable is £250 million, although higher figures have been suggested.<sup>96</sup> The Secretary of State told the House that VAT had not been included in the original bid because, at that time, “the position of the unspecified delivery body, which had not been legislated for or given effect, could not be anticipated”.<sup>97</sup> She added that the VAT issue “was not raised by PriceWaterhouseCoopers, who advised us on the costs, nor were issues in relation to VAT at that point identified by the Treasury or by departmental accounting officers”. In evidence to the Committee, she said that there were certain bodies – including local authorities and the Environment Agency – which do not pay VAT; and she cited several precedents from previous Olympic Games where either VAT had not been paid or a concession had been secured.<sup>98</sup> It appears that an assumption was therefore made that the future ODA would be similarly exempt. The Secretary of State told us in oral evidence that it was made clear in the Candidature File that the bid was submitted net of the cost of VAT;<sup>99</sup> but, when pressed to indicate where exactly in the bid document such a statement was made, she did not provide any reference.<sup>100</sup>

49. The Chancellor, in an interview on the *Today* programme on BBC Radio 4 on 7 November, said that “when we did the original application, there was one form of company organisation that might not have required VAT; now that we have looked at the thing in detail, there may be another form of company organisation for the Olympic deal”.<sup>101</sup> He added that “even if VAT is payable, it’s not an issue for us – it’s money that is transferred from the Exchequer, or to the Exchequer; it’s not an issue about the overall

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<sup>92</sup> See <http://www.london.gov.uk/assembly/assemmtgs/2006/mqtnov15/minutes/transcript1.pdf>

<sup>93</sup> Q 8

<sup>94</sup> See Annex A to DCMS memorandum, Ev 59-60.

<sup>95</sup> *HC Deb* 7 December 2006, cols. 596-7W

<sup>96</sup> See *The Times*, 22 November 2006

<sup>97</sup> *HC Deb*, 6 November 2006, col. 565

<sup>98</sup> Q 155

<sup>99</sup> Q 161

<sup>100</sup> Ev 73

<sup>101</sup> [http://www.bbc.co.uk/radio4/today/listenagain/ztuesday\\_20061107.shtml](http://www.bbc.co.uk/radio4/today/listenagain/ztuesday_20061107.shtml)

bill in the end as far as how the taxpayer has got to pay it". The Secretary of State confirmed to us that there would not be a cost to the taxpayer, describing it as "much more of an administrative matter rather than it is a substantive funding matter",<sup>102</sup> and the Chief Executive of the ODA described the issue to the London Assembly on 15 November as a "technicality" which "can be solved by a technical adjustment to one of the Finance Bills".<sup>103</sup> **We welcome the assurances by the Government that the ODA's liability to pay VAT on goods and services will have no impact on the taxpayer.** We note that the matter is now under discussion between DCMS and the Treasury, and a decision is to be made "soon".<sup>104</sup>

**50. The Committee regards it as unsatisfactory that this issue has emerged so late in the process and that it was not resolved at the time of the preparation of the bid document.** The Secretary of State maintained that there had not been an oversight and that an "initial judgment" had been made, informed by precedents from previous Games.<sup>105</sup> However, this has clearly proved to be wrong. **We are surprised that the Treasury did not establish the position from the start. The Chancellor now needs to provide an explanation of how this arose, particularly given that VAT did not have to be paid on the costs of the Athens Games. He also needs to provide details of how this issue will be resolved as soon as possible, in order to ensure that there is no adverse impact on the financing of the Games. There may also be a requirement to agree any solution with the European Commission, which could result in further delay.**

## Contingency

51. No final decision has been taken on the size of contingency which should be allowed for the Games. The bid document gave a contingency figure for LOCOG of 4% of its total expenditure, namely \$105 million at 2004 prices;<sup>106</sup> this would translate to £87 million from its overall budget, allowing for inflation and the £1 to \$1.6 exchange rate used in the Candidature File. The contingency allowed for projects funded from the Public Sector Funding Package – principally construction projects – was calculated individually and ranged from 20% to 23% for each.<sup>107</sup>

52. Discussion now centres on whether a "programme contingency" should be applied on top of the various project contingencies already allowed for, and what the size of that contingency might be. The Secretary of State told us that programme contingency had not been part of the original advice in drawing up the original bid, but she believed that there was "broad consensus" now that it was necessary (and she confirmed that she was part of

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<sup>102</sup> QQ 155 and 161

<sup>103</sup> See transcript: <http://www.london.gov.uk/assembly/assemmtgs/2006/plenaryexnov15/mins-app2.pdf>

<sup>104</sup> Q 156

<sup>105</sup> QQ 155 and 160

<sup>106</sup> Candidate File, Table 6.6.1

<sup>107</sup> Q 171

that consensus);<sup>108</sup> and she added that that view was supported by KMPG, who had advised DCMS on reviewing the costs of the Games project.<sup>109</sup>

53. The question of what level of contingency would be appropriate is disputed. The Mayor of London has stated on the *Today* programme on BBC Radio 4<sup>110</sup> that 20% should be the maximum figure for programme contingency, although he indicated to the London Assembly that the Olympic Delivery Authority favoured 30%.<sup>111</sup> The Treasury has produced guidance, in the form of supplements to the Green Book,<sup>112</sup> on adjustments which should be made to estimates of a project's costs, benefits and duration to allow for "optimism bias" (defined as "a demonstrated, systematic tendency for project appraisers to be overly optimistic"). That Treasury guidance, which draws on advice provided by consultants,<sup>113</sup> proposes adjustment percentages for different types of project, ranging from single-figure percentages for low-level capital expenditure projects to 51% for "non-standard building" projects and 66% for "non-standard civil engineering" projects. Footnotes in the guidance point out that these are *indicative starting values*.

54. The Management Statement and Financial Memorandum which governs the ODA instructs it to comply with Green Book requirements.<sup>114</sup> Depending on how the Olympic project is categorised, what the final cost is, and whether Treasury guidance is adhered to rigidly, the programme contingency could approach £2 billion. The Mayor of London has publicly expressed reservations about the principle of announcing a contingency, believing that to do so encourages overspend; and the Secretary of State told us that "the Mayor is absolutely right that we will take every available step to avoid and prevent a contingency being translated into a cost".<sup>115</sup> The Mayor has also acknowledged that he is in direct disagreement with the percentage figure proposed by the Treasury, saying that "there are no circumstances under which I'd agree to a contingency of that size".<sup>116</sup> The Secretary of State has made it clear, however, that the final decision on the level of contingency is a matter for the Government.<sup>117</sup>

**55. The Committee questions the rationale for allowing for programme contingency on top of project contingency, especially at a percentage as high as that proposed in Treasury guidance. We find it difficult to see how a programme contingency of any substance, rather than simply being prudent, does not run the risk in itself of escalating the costs. We note that programme contingency was not included in advice to those responsible for co-ordinating the bid but that there is now an informed consensus that it should be included. This new issue of additional 'programme contingency' gives the**

<sup>108</sup> Supplementary memorandum from the Secretary of State: Ev 73

<sup>109</sup> Q 171

<sup>110</sup> 22 November 2006

<sup>111</sup> Mayor's Question Time, 15 November 2006

<sup>112</sup> The Treasury Green Book provides guidance for Government bodies on economic appraisal of projects; see [www.hm-treasury.gov.uk/greenbook](http://www.hm-treasury.gov.uk/greenbook).

<sup>113</sup> *Review of Large Public Procurement in the UK*, Mott MacDonald (2002): see [www.hm-treasury.gov.uk/greenbook](http://www.hm-treasury.gov.uk/greenbook)

<sup>114</sup> *HC Deb*, 22 November 2006, col. 115W

<sup>115</sup> Q 171

<sup>116</sup> Interview on BBC Radio 4 *Today* programme, 22 November 2006

<sup>117</sup> *HC Deb*, 14 December 2006, col. 1237W

impression, rightly or wrongly, that the initial advice upon which DCMS relied appears to have been deficient; and we believe that the Treasury could and should have drawn attention to this alleged deficiency before the bid was submitted. Given the possible scale of such a new provision, the rationale for ‘programme contingency’ should be thoroughly explained, with practical reference to other major building projects around the world, and the professional advice to the Treasury and DCMS (including that of KPMG) to justify this should be published for the benefit of public understanding.

### Cost increases: the £900 million identified so far

56. The Secretary of State instituted a fundamental review of the costs of the Games immediately after London had been selected as Host City; and KPMG consultants were engaged in October 2005 to support that review.<sup>118</sup> KPMG’s role was “to re-assess costs to ensure that there is a sound cost baseline and to help identify the scope for savings in potential costs with a view to keeping costs down”.<sup>119</sup> That work is largely complete, although the overall cost review is continuing.<sup>120</sup> The Secretary of State said that the re-assessment had confirmed that whereas core cost estimates of the venues were unchanged, increases in core expenditure were to be anticipated in other areas.<sup>121</sup>

57. There is now a concentrated effort within Government to quantify the real costs of the Games and to set a budget for the ODA. That work is expected to conclude “soon” and the Secretary of State has undertaken to report to Parliament on the findings.<sup>122</sup> The review has already identified £900 million of extra costs which relate exclusively to the Olympic Park and which bring the Public Sector Funding Package from the £2.375 billion agreed at the time of the bid up to £3.3 billion. This £900 million increase takes into account increases in commodity prices as well as adjustments to transport figures “so that they reflect 2012 prices” and a revised estimate for construction inflation.<sup>123</sup> We have since noted an indication by the Secretary of State that “the additional cost of the site security of the Olympic Park ... was included in the £900 million increase ... announced to the Select Committee on 21 November 2006”.<sup>124</sup>

58. The £900 million increase also reflects the cost of cost control itself. In August 2006, the ODA appointed the CLM Consortium as Delivery Partner to “programme and project manage the whole procurement construction cycle, from design to post-2012 transformation”.<sup>125</sup> The Secretary of State told us that the ODA, when established, had concluded that further expenditure was needed “to provide the level and quantity of expertise and skill necessary to deliver ... the project ... and to undertake effective project and programme management and cost control”.<sup>126</sup> A further £400 million is therefore

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<sup>118</sup> Q 144: *HC Deb*, 4 December 2006, col. 99W

<sup>119</sup> Supplementary memorandum from the Secretary of State, Ev 72

<sup>120</sup> Mr Higgins, Chief Executive of the ODA, told us in October 2006 that KPMG had “essentially finished their work”; Q 12

<sup>121</sup> Further memorandum from the Secretary of State, Ev 72

<sup>122</sup> Q 138

<sup>123</sup> Q 143

<sup>124</sup> *HC Deb*, 5 December 2006, col. 287W

<sup>125</sup> Ev 2

<sup>126</sup> Supplementary memorandum from the Secretary of State, Ev 74



being invested “in order to secure the services of the delivery partner” and also to cover “costs of site mobilisation and the costs of additional staff required by the ODA itself”.<sup>127</sup> A substantial extra sum, not provided for in the initial bid, is to be paid to the Delivery Partner to provide effective management and cost control. **We welcome the determination to ensure proper delivery of the 2012 London Olympics. However, we are surprised that, given the original assurances about the rigour of the budgeting process, it is only now seen to be necessary to include this additional element of control and that it is such a significant cost. We can only conclude that cost control procedures were not fully thought through at the time that the bid was submitted. We call upon the Government to provide a detailed explanation of how the figure of £400 million for the Delivery Partner was arrived at, including any total cost of construction which has been used in arriving at this fee. We further call for the main terms of the agreement with the Delivery Partner to be made public.**

59. The £900 million increase already announced is not the final say: the Secretary of State added that “there are also further funding requirements not yet translated into firm costs which are a matter for discussion in Government”.<sup>128</sup> These further funding requirements include costs of security, contingency and tax liability, each of which we have discussed above. Clarification of these further funding requirements is essential when the Secretary of State reports to Parliament, as promised, on the findings of the cost review in train. The Secretary of State also undertook to disclose as much information as possible to the Committee and to return at any time to brief us further on costings.<sup>129</sup> **We welcome the Secretary of State’s readiness to provide as much information as possible to the Committee. We recommend that, given recent controversy about the cost of the Games, the Secretary of State’s report to Parliament on the conclusions of the cost review currently under way is as comprehensive as possible and should be in the form of an Oral Statement.**

60. We note the statement made by the Secretary of State to the Committee in October 2005 that “I can confirm again the rigour which we are applying to the costs in order that they are contained within that expenditure limit” [£2.375 billion].<sup>130</sup> Similar statements were made later in 2005.<sup>131</sup> **The Committee is disturbed that such statements have been disproved in such a relatively short space of time. It is particularly ironic that part of the extra costs already identified will be incurred in paying a delivery partner to exercise cost control.**

61. **The Committee is concerned about the distance between the figures submitted in the bid and the true costs, which will not become evident until after the Games. We believe that everyone involved should draw lessons from this in terms of project appraisal, management and communication at this relatively early stage so that there is no repetition which would prejudice public support for the Games, their success or their legacy.**

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<sup>127</sup> QQ 143 and 180; See also footnote to Q 143

<sup>128</sup> Q 143

<sup>129</sup> Q 143

<sup>130</sup> Q 117, HC 552-ii, Session 2005-06

<sup>131</sup> See for example *HC Deb*, 19 December 2005, Col. 2522W

62. The Accounting Officer for the Government Olympic Executive (essentially the unit within DCMS which is responsible for developing policy on the 2012 Games) outlined a number of budgetary control procedures used in relation to the Games. The Olympic Board itself, comprising the Secretary of State at DCMS, the Mayor of London, the Chair of the British Olympic Association and the Chair of LOCOG, is responsible for approving and analysing the ODA and LOCOG budgets before they are set. The Olympic Programme Support Unit, an independent body of secondees from stakeholders which provides secretariat and monitoring functions for the Olympic Board,<sup>132</sup> provides a monthly analysis of progress in expenditure and delivery; and Treasury consent is required for ODA projects costing more than £20 million.<sup>133</sup>

63. Importantly, in our view, there is external scrutiny. The Office of Government Commerce (OGC) provides continuing oversight on risk within the project;<sup>134</sup> and the Secretary of State confirmed to us that the National Audit Office will have a particular role in relation to value for money, possibly including examination of the process used to generate financial estimates.<sup>135</sup> **We stress the value of external assessment in building public confidence that money is being spent properly, and we particularly welcome the involvement of the National Audit Office.**

## 4 Public funding for the Games

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64. Whereas LOCOG will receive almost all of its funding either from the International Olympics Committee or by its own efforts in securing revenue through sponsorship, ticket sales and merchandising, the work of the ODA will rely upon public funding. The Public Sector Funding Package – drawn up in 2003<sup>136</sup> – envisaged a contribution of £1.5 billion from the National Lottery, £0.25 billion from the London Development Agency, and £0.625 billion from the Council Tax precept on London residents.<sup>137</sup> The Council Tax element will cost a Band D council taxpayer approximately 38 pence per week<sup>138</sup> – less than the price of a Walnut Whip, to borrow the illustration used by the Mayor of London.<sup>139</sup> Nevertheless, even this annual cost, averaging £20, is not negligible, and the imposition of a cost burden on Londoners does not command universal support.

65. The Chancellor of the Exchequer, on behalf of the Government, has underwritten the cost of the Games, as is required by the International Olympics Committee.<sup>140</sup> The Memorandum of Understanding between the Government and the Mayor of London

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<sup>132</sup> Memorandum from the Olympic Lottery Distributor, Ev 26

<sup>133</sup> Q 172

<sup>134</sup> The OGC conducted a Gateway Review of the project in April 2006. The Review's conclusions were "positive": see summary of the meeting of the Olympic Board on 24 May 2006, London 2012 website

<sup>135</sup> Q 173 and Ev 72; see also supplementary memorandum from the Secretary of State, Ev 72

<sup>136</sup> See *Olympics*: Cm 5867, Government Response to the Culture, Media and Sport Committee's Third Report of Session 2002-03, *A London Olympics Bid for 2012*, HC 268

<sup>137</sup> Ev 56

<sup>138</sup> Q 170, HC 532-iii, Session 2005-06

<sup>139</sup> London 2012 Press Release 14 October 2004

<sup>140</sup> Q 117, HC 552-ii, Session 2005-06



states that the Government would expect to discharge its responsibility in respect of a shortfall “in a sharing agreement to be agreed as appropriate with the Mayor of London and through seeking additional National Lottery funding in amounts to be agreed at the time”.<sup>141</sup> This is generally understood to mean that the contributions under any sharing agreement would come from the Mayor of London (through London Council Tax) and the National Lottery and from no other sources.<sup>142</sup> This was also the evidence given by the Secretary of State although the actual wording of the Memorandum is somewhat more ambiguous.

## Lottery funding

66. The £1.5 billion to be derived from Lottery income itself breaks down into two equal parts: £750 million to be raised through sale of Olympic-themed Lottery tickets, and a further £750 million to be diverted from the National Lottery Distribution Fund, which is the source of funding for non-Olympic distributors. We address each part in turn.

### *Olympic-themed Lottery ticket sales*

67. The chain from the purchase of an Olympic-themed Lottery ticket by a member of the public to expenditure by the Olympic Delivery Authority of revenue derived from the Lottery is quite extended. Camelot has responsibility for operating games and for ensuring that enough Lottery tickets are sold to generate the necessary revenue; 28 pence from each ticket is paid into the Olympic Lottery Distribution Fund (OLDF); the Olympic Lottery Distributor (OLD), established under Horserace Betting and Olympic Lottery Act 2004, pays grants from OLDF towards purposes specified in 2004 Act; and the ODA, which is the principal instrument working towards those purposes and which is, to date, the only beneficiary of grants from the OLD, uses those grants to meet expenditure.

68. In order to achieve a return of £750 million to the Olympic Lottery Distribution Fund, Camelot needs to generate ticket sales of £2.647 billion.<sup>143</sup> Camelot has set out annual targets for revenue to be paid into the Olympic Lottery Distribution Fund, as follows:

2005-6	£14 million
2006-7	£96 million
2007-8	£113 million
2008-9	£125 million
2009-10	£115 million
2010-11	£125 million
2011-12	£124 million
2012-13	£37 million
Total	£750 million

*Figures are net of interest and rounded to the nearest £1m.*<sup>144</sup>

69. Ensuring the flow of funds to support the Games is, as DCMS has pointed out, “critical”.<sup>145</sup> Camelot performed well in raising revenue in 2005-06, exceeding its target by

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<sup>141</sup> See paragraph 17 of Cm 5867, Government response to Third Report of the Culture, Media and Sport Committee, A London Olympic Bid for 2012

<sup>142</sup> See for instance DCMS memorandum para 3.10;

<sup>143</sup> Camelot memorandum, Ev 78

<sup>144</sup> Figures supplied by the Olympic Lottery Distributor – see Ev 30

£2.3 million; and Camelot told the London Assembly Budget Committee on 19 October 2006 that it was in “good shape” to meet its target for 2006-07 and possibly exceed it.<sup>146</sup> We note that the National Lottery Commission is confident that targets will be achieved, as is the Secretary of State.<sup>147</sup> However, there is no guarantee, and sales may one day fall short.<sup>148</sup>

70. There is a particular uncertainty in the near future, as the present licence to operate the Lottery expires in 2009 and a competition for the successor licence is well advanced, with the deadline for submission of bids in February 2007 and the licence to be awarded in August 2007.<sup>149</sup> There is a risk that revenue from ticket sales may suffer if there has to be a transfer from one operator to another; Camelot indicated that it would do all it could, during any handover period, to “mitigate” the impact on the National Lottery Distribution Fund.<sup>150</sup> The Olympic Lottery Distributor said that it was “fairly confident” that the National Lottery Commission, which will select the licensee to operate the Lottery from 2009, would look at the ability of any applicant to maintain revenues without a dip in income “that would seriously impede the kind of cash projections that we will be working to”.<sup>151</sup> **The timing of the competition currently under way to operate the National Lottery, when the potential for disrupting an essential funding stream is so great, is very unfortunate. Although we accept that a decision has been taken, we believe that it would have been better to have extended Camelot’s licence beyond the Games. We recommend that the Commission carefully considers risks of a change of operator on preparations for the Olympics when reaching its decision.**

71. The Olympic Lottery Distributor drew attention to the importance of liaison between the Olympic Delivery Authority, the Olympic Lottery Distributor, the National Lottery Commission and the operator “so that there is a clear understanding of the projected income and expenditure of the Olympic Lottery Distributor”.<sup>152</sup> Camelot told the Committee that it would “work with the National Lottery Commission and DCMS in order to accommodate the Olympic Delivery Authority’s revenue phasing requirements”, and it expressed contentment with the working relations established between Camelot and other main stakeholders.<sup>153</sup> We were surprised, however, to hear that Camelot had not consulted the ODA about funding requirements before setting targets for income from ticket sales. The ODA said that it did not find this unusual; it maintained that its relationship was with the Olympic Lottery Distributor rather than with Camelot.<sup>154</sup>

72. The OLD warned that Camelot could have difficulty in responding quickly to any short-term cashflow difficulties faced by the ODA.<sup>155</sup> Camelot has the option to introduce

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<sup>145</sup> Ev 56

<sup>146</sup> *Financing the 2012 Olympic and Paralympic Games*, Report of the London Authority Budget Committee, paragraph 3.3, 1 December 2006

<sup>147</sup> Q 193

<sup>148</sup> Q 83

<sup>149</sup> National Lottery Commission website

<sup>150</sup> Camelot memorandum Ev 79

<sup>151</sup> Q 63

<sup>152</sup> Ev 25

<sup>153</sup> Ev 79

<sup>154</sup> QQ 33 and 34

<sup>155</sup> Ev 28

new games hypothecated to the Olympic Lottery Distribution Fund, but such games take many months to devise, test and market. Camelot warned that it would need early warning of any requirements outside the phasing of its own funding plan.<sup>156</sup> The OLD is well aware of the constraints under which Camelot would be operating in attempting to meet any extraordinary request for funding, and it sees the main area of flexibility in this regard as being the ability to draw sooner upon other funding sources in the Public Sector Funding Package.<sup>157</sup> It said that this area was being “very carefully watched”.<sup>158</sup>

### *Lottery revenue via non-Olympic distributors*

73. Half of the £1.5 billion of contribution from Lottery revenue to the Public Sector Funding Package will come not from the sale of Olympic-themed Lottery tickets but from a diversion of funds from non-Olympic distributors. £340 million will come from sports Lottery distributors, including £295 million from Sport England.<sup>159</sup> The remaining £410 million would be derived from existing distributors according to a formula not yet clarified. This Committee’s predecessor noted, in its report *Reform of the National Lottery*, published in March 2004, that the figure of £340 million to be contributed by sports Lottery distributors appeared to have been determined without prior consultation.<sup>160</sup>

### *Impact of the Public Sector Funding Package on sports Lottery distributors*

74. The £295 million from Sport England will fall under three headings:

- £63 million towards providing a world class environment to host the Games: £40 million towards the Aquatics Centre, £10.5 million allocated to the Velodrome, and £12.5 million for training facilities at Picketts Lock and Portsmouth;
- £49 million already committed to preparation of athletes at elite level before the transfer of full responsibility for elite sport to UK Sport: £10 million for the Athens Games, £8 million for the Beijing Games and £31 million for the English Institute of Sport; and
- £183 million to be invested by local delivery networks for community legacy and “to build capacity within the sport sector and support talent development”.<sup>161</sup>

75. Exactly how the £183 million for community legacy will be spent has not yet been determined. As an example of “building capacity” (under the third heading above), Sport England suggested the placing of more community sport workers in community organisations; and it referred to “high quality coaching experiences and club environments” as a way of pursuing the talent development objective.<sup>162</sup> Significantly, perhaps, Sport England states that it “has not established specific Olympic 2012 funded

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<sup>156</sup> Ev 79

<sup>157</sup> Ev 28. The Secretary of State confirmed that this would be her preferred method of meeting any such shortfall; see supplementary memorandum by the Secretary of State, Ev 74.

<sup>158</sup> Ev 28

<sup>159</sup> Ev 110

<sup>160</sup> Paragraph 134, *Reform of the National Lottery*, Fifth Report of Session 2003-04, HC 196-i

<sup>161</sup> Ev 110

<sup>162</sup> Ev 111

programmes but has identified opportunities where existing programmes and funding streams could be linked to London 2012”.<sup>163</sup>

76. The Central Council for Physical Recreation (CCPR) argued that the requirement upon Sport England to contribute £295 million towards the Public Sector Funding Package “would effectively reduce the amount of Lottery funding available to all other aspects of community sport”, which would “undoubtedly be detrimental to achieving the lasting legacy of sporting participation”.<sup>164</sup> It added that Sport England was being “asked to undertake a whole load of initiatives and projects in relation to London 2012 without any additional resourcing”.<sup>165</sup> We question whether the effect would in fact be quite as negative as described by the CCPR. £63 million of the £295 million will fund new training and sporting venues which will have a legacy for elite and community sport (albeit primarily in London); and £183 million of the £295 million will be invested by Sport England’s regional bodies to build capacity and support talent development. It is arguable that the inclusion of the £183 million for community sport legacy within the Public Sector Funding Package may in fact be a rebranding exercise for programmes which were going to be sponsored by Sport England in any case.

**77. We conclude that the substantial financial contribution by Sport England to the 2012 Games need not necessarily have a major effect on programmes to enhance participation in sport at community level. However, there is a clear risk, if we are not careful, that programmes outside the capital may suffer because of the focus on London and in particular in sports which are either not part of the Olympics or which are not recognised as mainstream Olympic sports.**

78. Sport England will, however, suffer in the same way as all NLDF distributors from the diversionary effects of the Olympic-themed Lottery games<sup>166</sup> and from the further transfer of NLDF funds which we discuss in more detail below. Sport England calculated that the funding impacts could in its case be £20 million and £60 million respectively.<sup>167</sup> **We have no doubt that the diversion of money from the NLDF to the OLDF arising from transfers already announced will reduce Sport England’s ability to undertake non-Olympic-related activity to promote grassroots sport across the country. This will clearly be exacerbated by any further diversion to meet Olympic cost increases.**

79. We note that some of the remaining £49 million to be contributed to the Public Sector Funding Package by Sport England has already been spent on preparation of athletes for the Games in Athens (£10 million) and Beijing Games (£8 million). **DCMS should justify the inclusion of sums already spent in preparation of elite athletes for the Games in Athens and Beijing as part of the funding package for the London Games.**

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<sup>163</sup> Ev 111

<sup>164</sup> Ev 37

<sup>165</sup> Q 92

<sup>166</sup> Latest estimates suggest that the decrease in income for non-Olympic Lottery distributors is below 5%: Q 187

<sup>167</sup> Ev 111

### *Impact upon remaining non-Olympic distributors*

80. The Memorandum of Understanding agreed at the time that the Government took the decision to support a bid by London to stage the Olympic and Paralympic Games in 2012 envisaged that up to £410 million could, if needed, be derived by changing the shares of Lottery income passing to existing distributors beyond 2009.<sup>168</sup> The Secretary of State confirmed in June 2006 her intention to draw upon that £410 million.<sup>169</sup> In doing so, she confirmed the fears of many in the arts, heritage and voluntary sectors that a further call was being made on the National Lottery Distribution Fund and its beneficiaries, in addition to the diversion of sales towards the Olympic Lottery Distribution Fund which was already having a negative impact on revenues for non-Olympic distributors.<sup>170</sup>

81. The Lottery Forum, which represents Lottery distributors which operate either within England only or across the whole of the UK, has urged DCMS to clarify exactly how that transfer of £410 million from the NLDF to the OLDF will be effected, so that the distributors which will suffer a reduction in income can “plan their future funding programmes” and promote them.<sup>171</sup> We invited the Secretary of State to give more detail of how the £410 million would be raised. She answered that the sum would be top-sliced from the NLDF between 2009 and 2012, adding that “that will have an impact of reducing the amount because it will be shared equally across all the distributors that they have for good causes by about £12 million”.<sup>172</sup> She subsequently stated, however, that she “had no recollection of using a figure of £12 million”,<sup>173</sup> and our view is that the comment should be disregarded. We are more concerned by her statement that no final decision had yet been taken on how and when to transfer the £410 million.<sup>174</sup> **DCMS should explain without delay how it plans to carry out the further transfer of funds from the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund, so that the effect upon distributors is made clear.**

### **Meeting the funding gap**

82. The Secretary of State’s announcement to the Committee that a further £900 million of extra costs had already been identified<sup>175</sup> confirmed that further revenue will need to be found, and the “sharing arrangement” under the Memorandum of Understanding which we described above (at paragraph 65) will come into play. The Secretary of State told us that discussions on the options available to meet the funding gap were taking place within Government, saying that “what we have to have ... is a solution which is seen as fair, proportionate and sustainable”.<sup>176</sup>

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<sup>168</sup> *Olympics*, Cm 5867, page 3 of the Government response to Third Report of the Culture, Media and Sport Committee, in Session 2002-03, HC 268

<sup>169</sup> DCMS Press Release 087/06, 21 June 2006

<sup>170</sup> See for instance press release from the National Council for Voluntary Organisations, 17 November 2006

<sup>171</sup> Ev 98. Arts Council England reinforced this point at paragraph 11 of its own submission: see Ev 76.

<sup>172</sup> Q 187

<sup>173</sup> Ev 74

<sup>174</sup> Supplementary memorandum from the Secretary of State, Ev 74

<sup>175</sup> Q 143

<sup>176</sup> Q 148

83. The potential for a further call on the National Lottery Distribution Fund, above the £410 million foreseen in 2003 when the funding package was drawn up, has never been ruled out by Secretary of State. Indeed, she reiterated to the Committee both in July 2006<sup>177</sup> and in November<sup>178</sup> that she would be prepared to draw further on Lottery revenues. Any such transfer would be under an order subject to affirmative resolution in Parliament. The Explanatory Notes provided by the Government to the Horserace Betting and Olympic Lottery Act 2004 state that such an order (under section 25 of the Act) “would be made only in exceptional circumstances”. We note the warning from the Lottery Forum that any such requirement for additional Lottery funding “would reduce NLDF distributors’ ability to deliver a full and balanced portfolio of activity”.<sup>179</sup> We received evidence in our recent inquiry into heritage about the damaging impact on the Heritage Lottery Fund of the reduction in Lottery income;<sup>180</sup> this impact is likely to be equally matched in the arts and voluntary sectors. **A further transfer of Lottery revenues from the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund, above the £410 million already identified, would penalise good causes yet further. We believe that any further diversion of money from the Lottery would reduce the money available for each of the good causes, and it is not our preferred option for funding any overspend.**

84. It would be possible to raise further revenue for meeting the costs of the Games by extending beyond 2012 the period for which Olympic-themed Lottery tickets are sold. To do so would, however, prolong the diversion of revenue from non-Olympic distributors, and the impact would probably be similar to that arising from any transfer from the NLDF to the OLDF, as outlined above.

85. The Mayor of London has made clear his strong opposition to any increase in Council Tax in London to support an increased budget for the Olympic Park.<sup>181</sup> We note that London will have a distinct share of long-term benefits of the Games: regeneration, improved transport links and a cluster of world-class sporting venues which will host major events over the long term, possibly at the expense of stadia in the regions. London Council Tax payers are, however, already subject to a compulsory levy. An increase in that local levy will increase disparities between the financial impact upon residents of London boroughs at the fringes of the city and that upon neighbouring residents of adjoining counties, not subject to any such levy. Such a disparity will appear increasingly unfair, particularly as the Government stresses the national benefit of the Games. **We recommend that a cap should be placed on the liability of London residents to fund any further increase in Games costs via increases in the Council Tax. Beyond that, other means of raising revenue should be used, and the need for further funding from the Exchequer should not be ruled out.**

86. As we have already noted, paragraph 17 of the Memorandum of Understanding between the Government and the Mayor of London states that in the event of a shortfall

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<sup>177</sup> Q 21, HC 1551, Session 2005-06, *DCMS Annual Report 2006 and the responsibilities of the Secretary of State*

<sup>178</sup> Q 147

<sup>179</sup> Ev 99

<sup>180</sup> *Protecting and Preserving our Heritage*: Third Report of the Culture, Media and Sport Committee, HC 912-I, Session 2005-06, paragraph 79

<sup>181</sup> Mayor’s Question Time, London Assembly, 15 November 2006



between Olympic costs and revenues not covered by the Public Sector Funding Package, the Government would expect to discharge its responsibility as absolute guarantor of Olympic funding needs “in a sharing arrangement to be agreed as appropriate with the Mayor of London and through seeking additional National Lottery funding in amounts to be agreed at the time”.<sup>182</sup> **As already noted, although the Memorandum of Understanding is generally interpreted as specifying that contributions to meet any shortfall between Olympic costs and revenues would come exclusively from the National Lottery and from the Mayor of London, through London Council Tax, the meaning is not totally clear. We do not, in any case, accept the principle of such a restriction.** We consider below some options for drawing on other sources.

### **Tax regime for the National Lottery**

87. Our predecessor Committee considered in detail the operation of the National Lottery and dwelt at some length on the tax regime applicable. The Treasury applies a 12% rate of Lottery Duty calculated to recover tax revenues lost through diversion of consumer spending from gambling and other consumer products towards the purchase of Lottery tickets.<sup>183</sup> We note the view of the National Council for Voluntary Organisations (NCVO) that a review of Lottery Duty is overdue and that the original rationale for the tax “no longer stands”. The NCVO calculated that a 3% reduction in the rate at which Lottery Duty is applied could raise £140.3 million per year.<sup>184</sup>

88. Our predecessor Committee concluded that Lottery Duty, which had raised nearly £5 billion in the period from 1994-95 to 2002-03, represented a “double hit” on money paid by the public for tickets, and it recommended that the Treasury should forego Lottery Duty entirely and divide the released funds between prizes and good causes.<sup>185</sup> Lottery Duty raised almost £599 million in the 2005-06 Financial Year.<sup>186</sup> When we asked the Secretary of State whether she was sympathetic to the idea that the Treasury should forego the revenue generated by the 12% rate of Lottery Duty, as proposed by the Mayor of London, she did not discount it out of hand, but she indicated that discussions at that stage had to remain private.<sup>187</sup>

89. Another avenue would be to move to a Gross Profits Tax regime for Lottery funds, under which tax would be calculated on revenues remaining once prize money had been deducted. Camelot has long advocated such a move, and it reiterated the proposal in its submission to this inquiry, despite the apparent rejection of the idea by the Treasury in the 2005 Pre-Budget Report.<sup>188</sup> Camelot described Gross Profits Tax regime as being “the most significant opportunity to assist in growing overall lottery sales and returns to the NLDF

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<sup>182</sup> The Memorandum of Understanding is attached as Appendix A to *Olympics*, Cm 5867, the Government response to Third Report of the Culture, Media and Sport Committee, in Session 2002-03, HC 268

<sup>183</sup> Evidence from HM Treasury: *Reform of the National Lottery*, Fifth Report of Session 2003-04, HC 196-II, Ev 145

<sup>184</sup> NCVO Press Release 17 November 2006

<sup>185</sup> Paragraphs 153 and 156, *Reform of the National Lottery*, Fifth Report of the Culture, Media and Sport Committee, Session 2003-04, HC 196-I

<sup>186</sup> See <http://www.uktradeinfo.co.uk/index.cfm?task=bullbett>

<sup>187</sup> Q 148

<sup>188</sup> Paragraph 5.111, Pre-Budget Report, December 2005, Cm 6701.

and the OLDF”, and it estimated that such a move would generate up to £50 million per year for good causes.<sup>189</sup>

**90. We have not examined in detail the case for abolishing or adjusting the tax regime applicable to the Lottery; but we believe that such a move could well be viewed by the general public as the fairest means of securing further funding for the 2012 Games. We recommend that the Treasury should explore options for amending the tax regime applicable to the Lottery, whether on a temporary or a permanent basis, as a means of ensuring the necessary flow of funds into the Olympic Lottery Distribution Fund.**

### **Gains on land values**

91. The Memorandum of Understanding between the Government and the Mayor of London states that “the London Development Agency will meet the costs of required land assembly during the bid period and beyond” and that “income from the sale of this land is at the disposal of the London Development Agency”.<sup>190</sup> Once the Games have concluded, the London Development Agency (LDA) “will deliver the commercial and residential elements of the legacy Olympic Park, as part of the wider Lower Lea Valley regeneration plans”.<sup>191</sup> If the remediation of the Olympic Park site is as thorough and long-term as Mr Higgins proposes,<sup>192</sup> the land value of the site will have increased significantly after the Games as a result of a considerable expenditure of public money. It would be inappropriate for this to be translated into a straight profit for the site’s owners and developers. We note press reports that the Government is considering a “windfall tax” on land values in the event of any overspend on preparations for the Games.<sup>193</sup> The position on land ownership once the Compulsory Purchase Order process has been completed is not entirely clear; but it seems that most, if not all of the land will be owned by the London Development Agency,<sup>194</sup> which stands to make substantial gains on resale. **We do not believe that the London Development Agency (LDA) should be the ultimate beneficiary from the sale of land acquired for the Olympic Games. We recommend that the LDA should state how it plans to dispose of land once the Games have finished and should make proposals for distributing any net financial gains which it makes from the land, whether notional or through sales. We believe that the best use for such funds would be to meet any Games costs which are outstanding. Given the regeneration and legacy benefits from the Games, we also recommend that the Government assesses whether the £250 million contribution, within the Public Sector Funding Package, from the LDA is sufficient in the first place.**

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<sup>189</sup> Ev 80

<sup>190</sup> Paragraph 7, Memorandum of Understanding between the Government and the Mayor of London (attached as Appendix A to *Olympics*, Cm 5867, the Government response to Third Report of the Culture, Media and Sport Committee, in Session 2002-03, HC 268)

<sup>191</sup> Ev 85

<sup>192</sup> See paragraph 26 above

<sup>193</sup> See for instance *The Times*, 28 October 2006

<sup>194</sup> See *HC Deb*, 9 January 2006, col. 41W



## 5 Legacy

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92. It has been claimed that the legacy planning for the London Olympic and Paralympic Games was more central to London's bid than it had been to any previous host city bid. The ODA argued that this was "the first time that Games and legacy planning has worked hand in hand".<sup>195</sup> **We commend the bid team for the enormous weight placed upon sporting and community legacy: this was one of the great strengths of the bid and may have been decisive in the award by the IOC in Singapore. It is all the more important, therefore, that it should be delivered.**

### Regeneration of East London

93. The Mayor of London has described a "lasting legacy of benefits for London and Londoners" as being central to his vision for London 2012.<sup>196</sup> The contribution which the development of the Olympic Park site will make towards the economic regeneration of East London is a major factor in this vision and was articulated in the bid document: "By staging the Games in this part of the city, the most enduring legacy of the Olympics will be the regeneration of an entire community for the direct benefit of everyone who lives there".<sup>197</sup> When the Games have concluded, the London Development Agency will have responsibility for delivering the commercial and residential future envisaged for the Park, which will form part of a wider regeneration of the Lower Lea Valley. The detail of the redevelopment of the Park itself is still being drawn up, but it will include commercial space, new affordable homes and open parkland in addition to the sports venues which will be retained in legacy mode.<sup>198</sup> Mr Higgins told us that the Mayor of London would launch an area framework for the Lea Valley, possibly in January 2007, and that 40,000 new homes and over 50,000 new jobs were planned for the area.<sup>199</sup>

94. For these purposes, we interpret regeneration in its broadest sense, extending beyond the redevelopment of infrastructure and the provision of new residential and commercial space. The Host Boroughs, for instance, see the Games as providing opportunities for jobs and business creation both before and during the Games, generating a legacy of skills, jobs and businesses after 2012.<sup>200</sup> The London Borough of Tower Hamlets expanded on this theme in its submission, noting the potential for "improvements in the education, skills and knowledge of the local labour force in an area of very high unemployment".<sup>201</sup> It also identified a softer legacy: "to change the area and the life chances and experiences of many".<sup>202</sup>

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<sup>195</sup> Ev 1

<sup>196</sup> Ev 84

<sup>197</sup> Candidature File, Volume 1, page 19

<sup>198</sup> Ev 85; see also ODA memorandum, Ev 5

<sup>199</sup> Q 12

<sup>200</sup> Ev 81

<sup>201</sup> Ev 126

<sup>202</sup> Ev 128

95. The Mayor of London and local boroughs have all recognised the scope for using the Games as a lever for local benefit.<sup>203</sup> The Greater London Authority has co-ordinated the preparation of a detailed delivery plan for each sub-objective of the Programme Objectives for the Games for which the Mayor of London is responsible. Drafts of each plan have been sent to key stakeholders in London, and the GLA intends “to revise and consolidate the plans into a single regional plan that will guide all work in this area over the coming months and years”.<sup>204</sup>

96. We have not considered in detail these draft Delivery Plans or the prospects for the benefits outlined in them actually to be realised. We do, however, note the belief expressed by Host Boroughs – particularly Tower Hamlets – that the role of relevant local authorities should be more clearly recognised and that host boroughs and local government would be better reflected as “Lead Stakeholders” in the set of Olympic Objectives and Sub-objectives agreed by the Olympic Board. The London Borough of Tower Hamlets also argued that “nowhere in the institutional framework [for delivering the Games] is an agency charged with sole responsibility for delivering the regeneration legacy for East and South East London”.<sup>205</sup>

97. While we accept that local authorities should be closely involved in identifying benefits and helping to deliver them, and that those roles should be recognised, we do not believe that the omission of any explicit mention of local authorities in the Olympic Objectives need necessarily mean that their role and value is ignored. Nor do we accept entirely the second point, as the Programme Objectives agreed by the Olympic Board set out clearly sub-objectives for maximising employment and skills benefits for Londoners as well as wider economic, cultural and social benefits; and responsibility for these outcomes is clearly attributed to the Mayor of London.<sup>206</sup> **We are satisfied that responsibility for delivering the regeneration legacy for London rests clearly with the Mayor of London. However, the Mayor must acknowledge that local authorities, as the bodies most aware of local needs, are best placed to convey local opinion.**

## Venues

98. The Olympic Park will contain five permanent new sporting venues, described in the Candidature File<sup>207</sup> as follows:

- The Olympic Stadium: to be converted to a 25,000 seat multi-purpose venue with athletics at its core, containing training facilities, offices and sports science and sports medicine facilities;
- The Aquatics Centre, comprising two 50-metre pools, a 25 metre diving pool and a fitness centre, to accommodate elite, development, local club and community use in legacy mode;

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<sup>203</sup> See for instance Ev 127 and Q 165, HC 552-iii, Session 2005-06

<sup>204</sup> Ev 85

<sup>205</sup> Ev 129

<sup>206</sup> Ev 60

<sup>207</sup> Volume 1, page 23

- A velodrome, offering seating for 3,000 and including competition and recreational BMX tracks and a mountain biking course for use by all levels of cyclists;
- A hockey centre, providing training and competition facilities for hockey at all levels; and
- An Indoor Sport Centre, converted from Arena 3 (to be used for handball competition at the Games) and to become a training and competition venue and regional home for a range of indoor sports, with flexible seating for up to 10,000 people.

We note that the hockey centre pitches will be relocated and merged with the Paralympic tennis facilities to become dual purpose hockey/tennis centre after the Games.<sup>208</sup>

### *Olympic Stadium*

99. As we note above, the Candidature File stated clearly that athletics would be at the core of its legacy use. The ODA is working to a concept of a “Living Stadium”, with permanent seating for 25,000, to form a centrepiece for the local community, with a programme of events and a mix of uses that make sure that it is used throughout the year.<sup>209</sup> The ODA has commissioned a feasibility study on stadium legacy, and consultations have been held with community groups and sporting associations to explore likely legacy use and demand.<sup>210</sup> The ultimate decision on legacy use of the stadium will, however, be made by the Olympic Board.<sup>211</sup>

100. The ODA announced on 13 October 2006 that it was to enter negotiations with the Team McAlpine Consortium, with a view to appointing it early in 2007 to design and construct the Stadium. The ODA stated that the submission by Team McAlpine was the only one which met all of its pre-qualification criteria.<sup>212</sup>

101. There is some controversy over the proposed legacy use for the stadium. The local authority, the London Borough of Newham, would prefer to see a major football club (such as West Ham United) as an anchor tenant for the Stadium once the Games have concluded. It implies that the “Living Stadium” concept advanced by the ODA might not be realistic or sustainable, and it argues that a financial strategy to base capacity at 25,000 seats and expand to 45,000 temporarily when required “appears more risk-laden and open to policy change”.<sup>213</sup>

102. No progress has been made so far with any plans for any football club to become “resident” at the Stadium. The cost of increasing the permanent seating capacity to the levels required for a major football club is substantial – possibly £100 million<sup>214</sup> – and no club has come forward with an offer to meet that cost. Intriguingly, it may yet prove a

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<sup>208</sup> Ev 4: see also Olympic Masterplan, London 2012 website.

<sup>209</sup> Ev 5

<sup>210</sup> Q 43

<sup>211</sup> *HC Deb*, 26 October 2006, col. 2006W

<sup>212</sup> London 2012 Media Release, 13 October 2006

<sup>213</sup> Ev 92-3

<sup>214</sup> Mr Higgins: See transcript of plenary meeting of the London Assembly, 15 November 2006

workable solution for a smaller club, for which a permanent seating capacity of 25,000 would be enough.

103. **The commitment to retain an athletics facility at the Stadium once the Games had finished may have been a deciding factor when the decision on Host City was made in Singapore.** In any case, London needs a world-class athletics stadium: Crystal Palace would need huge investment to bring it up to the standard required; the decision was taken not to build athletics facilities into the Wembley design;<sup>215</sup> and the proposed national athletics centre at Picketts Lock was of course never built, which drew heavy criticism from our predecessor Committee.<sup>216</sup> We see considerable attractions, however, in a football or rugby club adopting the stadium as its home, provided that it will guarantee to accommodate major athletics events if notified in good time. Having a permanent athletics track around the pitch would not be every football fan's first choice; but that does not present an insuperable obstacle. We understand that the Olympic stadium in Sydney includes a lower tier of 25,000 seats which can be retracted to provide more space for athletics.<sup>217</sup> The Committee visited the Olympic Stadium in Berlin, designed for the 1936 Olympic Games but now serving as an impressive home stadium to FC Hertha Berlin. The stadium was of course used to host the FIFA World Cup final in July 2006. The Committee also most recently saw the Olympic Stadium in Athens which serves as the temporary home of two teams as well as being used for athletics events and concerts.

104. The Government has not closed the door to a football or rugby club becoming "anchor tenant"; and Mr Higgins told us that "if we can get football clubs in there to help mitigate the operating costs, we will certainly be very open to that".<sup>218</sup> Time is now running out, though, as the Secretary of State made clear.<sup>219</sup> The concerns of the London Borough of Newham about the long-term sustainability of the Stadium seem to us to be justified, and **we recommend that, if no club comes forward in the near future with a viable proposal to become "anchor tenant" in the Olympic Stadium once the Games have concluded, an effort should nonetheless be made to allow scope in the final design for use as a home ground for a club with a significant and regular following.** We note that, in some countries, the Olympic Stadium has become the national centre for team sports, such as football or rugby. However, the significant development of Twickenham and the construction of the new Wembley stadium remove this option and will undoubtedly make its legacy use a much greater challenge, since Wembley will be competing to host many of the events which the Olympic Stadium might hope to attract.

### **Aquatics Centre**

105. The plans for the Aquatics Centre have evolved from those included in the Candidature File.<sup>220</sup> The London Borough of Newham told us that "the majority of changes

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<sup>215</sup> See *HC Deb*, 15 March 2000, col. 250W

<sup>216</sup> *Unpicking the Lock: First Report of the Culture, Media and Sport Committee, Session 2001-02, HC 264*; see also Secretary of State, Q 151

<sup>217</sup> *Sunday Times* 15 October 2006

<sup>218</sup> Q 43

<sup>219</sup> Q 199

<sup>220</sup> See ODA Press Release, 27 November 2006

are sensible and make economic sense, while not fundamentally altering the functionality of the facility”.<sup>221</sup> The ODA pointed out that changes had allowed for a significant reduction in running costs.<sup>222</sup>

106. The submission from the London Borough of Newham voiced concern that the design being proposed at the time that the submission was being prepared did not provide for “leisure water” when in community legacy use. It cited a number of arguments in favour of leisure water as an element of legacy provision: the local population was very young, with 42% being under the age of 25; there was clear evidence of leisure pools being most used by the local community, and comparable water spaces (such as Beijing and Sheffield) had made significant provision for leisure water; and a mixed leisure and traditional use was more in line with a Government focus on sporting activity rather than “organised” sport.<sup>223</sup> It observed that the ODA appeared open to the inclusion of leisure water and had agreed to re-assess options, the obstacles being capital cost and site constraints.

107. We have considerable sympathy with the views expressed by Newham Borough Council on legacy use of the Aquatics Centre. When visiting Seoul in May 2006, the Committee saw the pool used to host aquatic events at the Seoul Games in 1988. The main pool was used largely for teaching swimming and had little or no provision for “leisure water”. The pool did not appear busy when the Committee visited, and the impression gained was that the site was under-used. In Athens too, there appeared to be only limited community use of the Aquatics Centre. **We note that discussions are still under way between the Olympic Delivery Authority and the Host Boroughs, and we strongly recommend that the design for the Aquatics Centre should provide for a mix of leisure use and traditional “lane” swimming.**

### *Broadcast and press centre*

108. It was announced in January 2006 that the International Broadcast Centre/Main Press Centre, with an initial budget of £134 million (at 2004 prices), would be relocated to a site within the Olympic Park.<sup>224</sup> The ODA is currently exploring options for legacy use, aiming “to maximise its integration into local regeneration strategies in Hackney Wick”.<sup>225</sup> The Olympic Master Plan envisages that the Centre “will provide high quality workspace, supporting the London Borough of Hackney’s development plans”.<sup>226</sup> In Athens, the Committee learnt that the International Broadcasting Centre was being converted into an Olympic Museum and a shopping mall. **Understandably the £134 million price attached to the Broadcast and Press Centre has attracted some controversy. The authorities should justify the cost. Again, too, its future value should be taken into account, along with the other venues, when funding the rising cost of the Olympics is being considered.**

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<sup>221</sup> Ev 93

<sup>222</sup> Ev 5

<sup>223</sup> Ev 93

<sup>224</sup> HC Deb, 30 January 2006, cols. 1-2WS

<sup>225</sup> Ev 5

<sup>226</sup> See London 2012 website

### Overall view on venues

109. Planning a sustainable legacy use for venues is challenging. The Minister for Sport acknowledged this during the passage of the London Olympic Games and Paralympic Games Bill, noting that “there has not always been a good legacy of using buildings and facilities ... indeed the record is not good for sport *per se*”.<sup>227</sup> Our experience in Seoul bore out this statement: some large venues were used for concerts and other events; but smaller venues (such as the weightlifting stadium) seemed to have no future, and the velodrome appeared virtually derelict. In Athens, the Committee was told that mistakes had been made in not planning for the legacy use of venues from the beginning and in making too many of the venues permanent rather than temporary, considerably increasing the cost. We were also told that the international sporting federations had applied pressure for very high-specification facilities to be built for the Athens Games, which had increased costs considerably. We are not aware that LOCOG has come under such pressure.

110. A useful summary of post-Games use of stadia built for Sydney, Barcelona and Atlanta was prepared for the Joint Planning Applications Team for the four Host Boroughs north of the Thames. In Sydney, a strong focus was placed on the use of facilities after the Games; the Olympic Park was the setting for some 1,750 events in 2002 and hosted the Rugby World Cup in 2003. However, there has since been a shift towards a greater use for cultural and business events. Smaller venues such as the Tennis Centre and the SuperDome “have been fighting publicly for too few events”. The Olympic site is now undergoing further reconstruction, this time to provide residential and commercial developments. In Atlanta, the main Olympic Stadium has become a permanent home for a local baseball team; and the Tennis and Rowing Centres have had some success as elite sports centres. In Barcelona, the number of legacy venues had been kept low; they had been flexible in their re-use and had responded well to market demands. The Olympic Stadium itself had become the home of a local football club.<sup>228</sup>

111. The ODA told us that “a tough review of individual venues” had ensured that permanent venues would only be built if the ODA was confident that there would be a legacy use.<sup>229</sup> **We believe that the decision to limit to five the number of permanent venues remaining within the Park after the Games was sound. Any pressure from international sporting federations – or indeed from the International Olympic Committee – to build unnecessarily high-specification venues should be strongly resisted. We are reasonably confident that a mixed legacy use should provide a sustainable future for the Aquatics Centre and the Olympic Stadium, although we believe that the latter would be rather more secure if it were also to become the home stadium for a football club, possibly in conjunction with a major rugby club. The smaller permanent venues – for hockey/tennis and for cycling - face a tougher struggle if they are to be commercially successful, although we note the popularity of hockey at community level and the tradition of excellence at cycling in the UK. We are less certain about the future of the indoor sports arena, which may face direct competition with established venues nearby.**

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<sup>227</sup> *HC Deb*, Standing Committee D, 13 October 2005, col. 53

<sup>228</sup> Available until late November 2006 at <http://www2.hackney.gov.uk/jpat-docs>

<sup>229</sup> Ev 4



## Legacy for participation in sport

112. Possibly the greatest prize to emerge from the Games would be a demonstrable increase in participation in sport throughout the community, stimulated by the display and, we hope, by a set of inspiring performances by UK competitors. We heard of anecdotal evidence that the success of the bid itself had triggered “a huge increase in the number of young people who joined sports clubs”.<sup>230</sup> The Government is the lead stakeholder identified in the list of Olympic and Paralympic Games Objectives as having responsibility for maximising any increase in UK participation at community and grassroots level in all sport and across all groups.<sup>231</sup> Sport England has been designated by the Government as the Lead Delivery partner to work towards this objective.<sup>232</sup> The Government has been careful not to make extravagant claims about what can be achieved, although the Minister for Sport has stated that anticipated benefits of the Games include “increased interest and participation in sport”.<sup>233</sup>

113. The Central Council for Physical Recreation (CCPR) described a legacy of participation as “a main plank in the success of the bid” to host the Games,<sup>234</sup> and we recall Lord Coe’s pledge in Singapore in July 2005, reinforced by the presence of groups of children from the UK, to work to ensure that the Games had a positive impact on participation at community level,<sup>235</sup> a commitment which may have been decisive in gathering support. The precedents are not good, however. The CCPR told us that it did not believe that there was any evidence so far that any Olympic Games had “instilled that long-term legacy of participation”.<sup>236</sup> Skills Active, the sector skills council for active leisure and learning, warned that it should not be presumed that hosting the Games would naturally inspire inactive people to “change their ways”.<sup>237</sup> Research by ippr and Demos in 2004 found that, although hosting the Games in London could deliver a sustained increase in participation, past Olympics had not automatically done so: although seven Olympic sports had experienced a small increase in participation following the Sydney 2000 Games, nine experienced a decline.<sup>238</sup> **No host country has yet been able to demonstrate a direct benefit from the Olympic Games in the form of a lasting increase in participation. While we offer every encouragement to the Government and to other stakeholders in achieving such an increase, we believe that lasting success is most likely to be attained through an expansion of school sport and through a greater priority being attached by local authorities to developing community sport.** Nonetheless, we note the view of the CCPR that a lasting increase in participation can be achieved as a result of the Games, if the necessary resources are committed and co-ordinated planning at a national level takes place from an early stage.<sup>239</sup> **We recommend that DCMS and Sport England should**

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<sup>230</sup> Mr Moorcroft, Q 72, HC 552-i, Session 2005-06

<sup>231</sup> Sub-Objective 4.4; Ev 60

<sup>232</sup> Ev 112

<sup>233</sup> *HC Deb*, 18 July 2006, col. 329W

<sup>234</sup> Mr Lamb Q 94

<sup>235</sup> See London 2012 Media Release, 27 June 2005

<sup>236</sup> Q 90

<sup>237</sup> Ev 109

<sup>238</sup> ippr Press Release: London Olympics can deliver a sporting legacy, 30 August 2004

<sup>239</sup> QQ 90, 93 and 113

**publish a joint plan as soon as possible on implementation of Olympic Sub-Objective 4.4, namely, achieving the maximum increase in UK participation at community and grass-roots level in all sport and across all groups. We further believe that the ‘legacy’ of the Olympics should not start after 2012, but rather right now. The UK’s bid stressed local community participation, yet the Olympics are to take place in some of London’s poorest boroughs where many of the inner city schools enjoy not so much as a blade of grass. We recommend, therefore, that DCMS works with the Department for Education and Skills, LOCOG and sponsors to address the lack of sports facilities open to schoolchildren, in particular, on whose doorstep the Olympics will be held.**

## **Economic legacy**

114. The potential economic benefits from the Games are very varied and include: commercial opportunities from the Games themselves (some regions have set targets for securing a percentage of procurement opportunities);<sup>240</sup> opportunities for businesses to take advantage of new commercial space in the Olympic Park following the Games; and an expectation that skill levels among the local workforce will improve, assisted by the London 2012 Employment and Skills Taskforce established by the Greater London Authority and the London Development Agency.<sup>241</sup> The Candidature File estimated that 7,000 full-time equivalent jobs might be created in the construction industry and that 12,000 might be created as a result of legacy development of the Olympic Park.<sup>242</sup> In addition, a pre-volunteer programme will seek to prepare those who are in “hard to reach groups with low levels of skills and qualifications” with the skills needed for volunteering roles (and subsequently for employment).<sup>243</sup>

115. Some of these benefits will accrue largely or exclusively to London. However, a substantial slice of the funding for the Games will come from the National Lottery, which draws revenue from across the country. As Mr O’Connor, the Interim Chief Executive of the Olympic Lottery Distributor, said to us, the goal of a long-term legacy in inspiring young people all over the country needed to be delivered if Lottery players were to continue to play Olympic Lottery games.<sup>244</sup> We have therefore concentrated, at this stage, on two areas of economic impact which offer potential benefits for the whole of the UK: tourism and hosting training camps for visiting teams.

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<sup>240</sup> Mr Castle, East of England representative on the Nations and Regions Group told us that the East of England was aiming to secure 10% of Olympic procurement; but Juliet Williams, the South West representative, said that the South West did not expect a large percentage: Q 132

<sup>241</sup> Ev 58

<sup>242</sup> Candidature File Volume 1 p 25. The 12,000 figure was confirmed in the DCMS memorandum, Ev 57

<sup>243</sup> Ev 58; see also Mr Deighton, Q 52

<sup>244</sup> Q 77



## Tourism

116. There is considerable uncertainty surrounding the impact of the 2012 Games on tourism. Various attempts have been made to quantify the effects. At the top end is VisitBritain, which suggests that between 50% and 70% of the net economic benefit of staging the Games, measured over a 7 to 10 year period, could accrue through tourism; in purely monetary terms, VisitBritain calculates that there is a potential benefit “of at least £2 billion for the visitor economy from overseas visitors, plus an even greater benefit to the domestic visitor economy”.<sup>245</sup> DCMS is a little more conservative, citing (but not identifying) estimates indicating a benefit to the UK tourism sector of between £1.4 billion and £2 billion.<sup>246</sup> An Olympic Games Impact Study commissioned by DCMS from PriceWaterhouseCoopers reported in December 2005 and concluded that the expected impact on tourism, expressed as an overall change in Gross Value Added over the period 2005-2016, was a rather lower figure: £762 million across UK, £146 million of which would occur during the events themselves.<sup>247</sup>

117. There does seem to be agreement within the industry that the period of the Games themselves will not be a bonanza for tourist traffic. The Tourism Alliance, comprising almost 50 industry associations which in turn represent almost 200,000 businesses, believed that “most inbound Olympics-related tourism will be in substitution for leisure and business tourism that would otherwise occur”; and it cited the experience of previous Games that potential leisure and business visitors would perceive – rightly or wrongly – that London and the UK would be overrun with Olympic-related visitors in 2012.<sup>248</sup> Tourism South East made the same point;<sup>249</sup> and the Tourism Management Institute (the professional body for destination managers) spoke of the need to reassure non-Olympic visitors that Britain “still provides value for money, to counteract fears that accommodation will be scarce and overpriced”.<sup>250</sup> Witnesses from the Nations and Regions Group confirmed that there could be a substitution effect during the Games themselves, with not necessarily any net gain in numbers.<sup>251</sup> **We agree that fears of overcrowding, high prices and poor availability of accommodation may well deter visitors from coming to London during the period of the Games. To be successful, London must have sufficient capacity, acceptable prices and good quality accommodation to attract visitors during the period of the Games.**

118. The Tourism Alliance calculated that any 5% decrease in “normal” visitor traffic in 2012 would lead to a reduction in tourism expenditure of £1.1 billion; and it predicted that any further 5% decrease in UK domestic visitors would reduce tourism expenditure by a further £1.35 billion.<sup>252</sup> The Alliance concluded that an effort was needed to protect existing tourism levels during 2012 and that the UK “should be the first Olympic host to

<sup>245</sup> Ev 133

<sup>246</sup> Ev 59

<sup>247</sup> *Olympic Games Impact Study: Final Report*, PriceWaterhouseCoopers, December 2005

<sup>248</sup> Ev 117

<sup>249</sup> Ev 126

<sup>250</sup> Ev 124

<sup>251</sup> QQ 126 and 127

<sup>252</sup> Ev 117; figures in 2005 prices

comprehensively plan to mitigate the potential negative effects on regular tourism”. The Tourism Management Institute echoed this point, saying that non-Olympic visitors “must be made aware that the rest of Britain is open for business as usual” during 2012.<sup>253</sup>

119. There was much more optimism about scope for increasing tourist traffic after the Games. Mr Castle, the East of England representative on the Nations and Regions Group, described the Games as a “shop window” for the UK. Both he and the Tourism Management Institute saw scope for the Games to generate business tourism.<sup>254</sup> The DCMS memorandum stated that “experience from recent host cities indicates that tourism will increase significantly across the UK, most notably after the Games”;<sup>255</sup> and the Tourism Alliance told us that DCMS expected that up to 80% of the legacy benefit to be derived from hosting the Games would be gained through “increased tourism as a result of [the] high degree of international media exposure”.<sup>256</sup> The Tourism Alliance itself agreed that the main way that lasting benefits would be reaped would be through media exposure; but it saw Government investment in a tourism strategy as being a necessary part of drawing on that exposure; and it spoke of a “lack of realisation within DCMS that additional funds need to be committed ... to marketing and media support”. The Government has pledged that the interests of tourism “will be taken into account in all Olympic policy decisions”; underlying this pledge, however, was a statement by the Secretary of State that, in order to increase the number of visitors as a result of the Games, the tourism industry needed “to improve the consistency of its quality, raise the level of skill and, through imaginative marketing, showcase Britain’s heritage and its dynamic, 21<sup>st</sup> century cities”.<sup>257</sup>

120. In July 2006, DCMS issued a consultation on a tourism strategy for the 2012 Games: *Welcome > Legacy: Tourism Strategy for the 2012 Games – A Consultation*. It seeks views on many issues, including:

- How to ensure that tourism’s interests are fully represented in preparations;
- How to ensure that the sector’s marketing structures are ready;
- How to exploit opportunities for business tourism;
- How to improve the quality of the welcome; and
- The setting of “appropriate strategic targets” to replace the existing aim of a £100 billion tourist industry by 2010.

The consultation closed on 17 November, and copies of responses have been placed in the House Library.<sup>258</sup>

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<sup>253</sup> Ev 124

<sup>254</sup> Ev 51; also Ev 123

<sup>255</sup> Ev 59

<sup>256</sup> Ev 118

<sup>257</sup> DCMS Press Release 158/05, 15 November 2005

<sup>258</sup> *HC Deb*, 22 November 2006, Col. 115W.

121. We very much welcome the effort by DCMS to develop a tourism strategy for the 2012 Games. Although the consultation paper claims not to be designed to inform a comprehensive tourism development strategy and to concentrate merely on what will be needed to deliver improvements by 2012, we note that the consultation invites views on possible new targets to replace the existing ambition of a £1 billion tourist industry by 2010. In doing so, it ranges well beyond the Games and may presage a different approach to tourism by DCMS.

122. The Games will advertise the UK and London in particular; they represent an opportunity to raise profile and invest in future tourism rather than to generate short-term gains. There may well be a need for more investment in tourism by the Government if full advantage is to be taken of that opportunity. We plan to make tourism a subject for inquiry in the near future.

### *Training camps*

123. Lord Coe told us in October 2005 that 139 teams had based themselves in Australia before the Sydney Games in 2000.<sup>259</sup> He described pre-Games preparation as being no longer “an add-on luxury” but “an absolutely essential part of delivering Olympians”. He described the contributions made by Team GB to the Queensland economy as “quite sizeable”<sup>260</sup> and cited an estimate by the host country that teams basing themselves in Australia before the Games had added about 80 million Australian dollars to the economy.

124. Local authorities throughout the UK have been quick to build on the potential benefits to be gained from hosting either full national teams or teams for particular sports. Some local authorities and Regional Development Agencies have already devoted time and significant budgets towards attracting teams: we were told that Yorkshire Forward had visited China twice to make Olympic-related links,<sup>261</sup> and Birmingham City Council has made no secret of its attempt to attract the interest of the Chinese Olympic Association, which could bring 1,200 competitors, officials and media, with an estimated benefit of £10 million.<sup>262</sup>

125. The approach taken by some local authorities was criticised by the Central Council for Physical Recreation (CCPR), which told us that “most local authorities seem to have an Olympic director who is travelling around the place trying to attract teams to come and train in their locality”. The CCPR argued that local authorities would do better to spend their time and money on developing plans to increase participation.<sup>263</sup>

126. It may be necessary, however, to manage expectations. The Scottish Affairs Committee held an inquiry into the benefits of the 2012 Games for Scotland and took evidence from Mr David Williams, now Chief Executive of EventScotland but previously director-general of the Department for Tourism, Sport and Racing in Queensland in

<sup>259</sup> Q 54, HC 552-i, Session 2005-06

<sup>260</sup> A DTI Minister cited a figure of £6 million in benefits to the Brisbane economy due to the presence of the British team: *HC Deb*, 19 October 2006, col. 1002

<sup>261</sup> Information from West Sussex County Council, provided to the Committee by Tourism South East [not printed]

<sup>262</sup> See for instance *Birmingham Mail* 22 November 2006

<sup>263</sup> Mr Lamb Q 97

Australia. He told the Scottish Affairs Committee that “in respect of the Games in London there will not be as many teams running pre-Olympic training camps, bearing in mind that the bulk of the wealthy national Olympic committees that would travel are in the northern hemisphere and the time zones are pretty good for them”. He added that adjusting to climate would be less of an issue for London, and he concluded by saying “I do not think we will see many training camps in the UK”.<sup>264</sup>

127. Julia Bracewell, the Scotland representative on the London 2012 Nations and Regions Group, confirmed this argument in evidence to us, saying that it was mistaken to imagine that National Olympic Committees “will come in their droves and in their entirety to training events”: she said that this “is not going to happen”, although individual teams or groups of sports would come. She described the experience in Australia as “very unique” and pointed out that the British team was unusual in travelling together as a team.<sup>265</sup> Other representatives from the Nations and Regions Group took a similar line in playing down expectations.<sup>266</sup>

128. London 2012 is playing an active part in linking overseas Olympic and Paralympic teams to pre-Games training facilities in the UK. In July 2006, it announced plans to publish a guide to sporting facilities in the UK, to be issued to all National Olympic Committees and National Paralympic Committees in July 2008. The guide will enable competitor nations to take an informed decision on where to base their teams in training camps, if indeed they planned any training in the UK. The first step will be for interested parties to assess whether they can provide the necessary services and facilities, such as an exclusive training environment, comfortable but affordable accommodation, and security. The deadline for expressions of interest is January 2007, although the final selection by LOCOG would not be made until January 2008.<sup>267</sup> We heard that 13 applications had already been received from interested parties in the South West region alone, with “about 40” applications expected to go forward.<sup>268</sup>

129. London 2012 announced in October that grants totalling approximately £9 million would be made available to encourage overseas Olympic and Paralympic teams to use training camps in the UK in the period leading up to the Games themselves. All National Olympic Committees and Paralympic Committees will be eligible to apply for a credit of up to £26,000 towards the cost of preparation at training camps featured in the guide to facilities being produced in 2008; grants are to be allocated “fairly and equitably”.<sup>269</sup> Julia Bracewell described the facility as “fantastic” for “some of the smaller countries”.<sup>270</sup>

**130. We conclude that training camps are unlikely to be of great economic benefit to the nations and regions; and local authorities should be disabused of any notion that vast sums of money are to be made from the presence of national teams training in**

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<sup>264</sup> Q 147, Evidence to the Scottish Affairs Committee on 22 November 2005, HC 658-iii, Session 2005-06

<sup>265</sup> Q 119

<sup>266</sup> Ms Williams and Mr Castle, Q 128

<sup>267</sup> London 2012 Media Release 20 July 2006

<sup>268</sup> Ms Williams, Q 119

<sup>269</sup> London 2012 Media Release, 23 October 2006; also Mr Deighton, Q 54

<sup>270</sup> Q 119

advance of the Games. We believe, however, that where they are established the presence of a training team will foster a sense of involvement in the Games in the regions and will provide opportunities for cultural links and for local schools to glimpse elite sport at first hand. The principal benefits of hosting training teams will be through involving the local community rather than generating economic gains.

## Branding

131. A substantial part of funding for staging the Games – 12% - is expected to be raised through agreements between the International Olympic Committee (IOC) and long-term partners – “TOP sponsors”. The IOC therefore requires that steps be taken by host countries and by Organising Committees to protect the commercial gain through association with the Olympics and Paralympics which TOP sponsors expect in exchange. The Olympic rings – the most powerful symbol for the Games – are already statutorily protected in the UK;<sup>271</sup> further measures to protect the Olympic brand were agreed to by Parliament last year and are enshrined in the London Olympic Games and Paralympic Games Act 2006.

132. The 2006 Act applies the principle of an Olympic association right to the London 2012 Games. The association right confers exclusive rights in relation to the use of any representation in a manner likely to suggest to the public that there is an association between the London Olympics and goods or services (or a person who provides goods or services). That right is infringed if such an association has not been authorised by LOCOG. Paragraph 3 of Schedule 4 to the Act specifies words and expressions which may, when combined, be deemed by a court to infringe the association right if used by a person not authorised by LOCOG.

133. The extension of the Olympic association right was one of the more contentious parts of the 2006 Act and was seen as a potential threat to the scope for businesses, voluntary bodies, schools and organisers of events to use certain expressions in their normal course of work. The Central Council for Physical Recreation, while recognising the need to protect Olympic marks and symbols, was anxious that non-commercial use of terms and symbols in the course of generating grassroots enthusiasm for sport as a result of the Games should not be prevented.<sup>272</sup> Others who submitted evidence to us took a similar view,<sup>273</sup> including Mr Castle, representing the East of England on the Nations and Regions Group. While acknowledging that sponsorship revenue was “absolutely critical” for delivery of the Games and that it had to be duly protected, he pointed out that there was a real opportunity, “perhaps in a fairly unique way” for civic society to drive the benefits into the nation generally. In order to do that, he believed that there had to be some association with the Games themselves.<sup>274</sup> We note that, in theory, the promotion of a school or village event termed “Summer Games” or “2012 Competition” might be caught under the Act. A paper from West Sussex County Council provided to us by Tourism South East argued that “it does make it difficult to generate widespread involvement and ownership if we cannot use

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<sup>271</sup> Olympic Symbol etc. (Protection) Act 1995

<sup>272</sup> Ev 37

<sup>273</sup> For instance Sport England Ev 112

<sup>274</sup> Q 133

the Olympic emblems to badge our activity and to give people something to rally around".<sup>275</sup> The CCPR made it clear in oral evidence, however, that it did not wish to "overplay the point"; and it commended LOCOG for having clarified to sports governing bodies some of the regulation on the protection of symbols.<sup>276</sup> Mr Castle was similarly impressed with the work done so far in this area by the LOCOG Brand Protection Team.<sup>277</sup>

134. When we raised this issue with the Secretary of State in October 2005, before the relevant legislation had received Royal Assent, she stated that the principles would be applied in a way which was "consistent with all our expectations of proportionality" and on a "case-by-case basis".<sup>278</sup> Interpretation will be for the courts, and the Secretary of State signalled clearly that a commonsense approach should be taken, something which she expected would be borne out as case law was established.<sup>279</sup> LOCOG has not, as yet, had to issue proceedings for breach of the association right.<sup>280</sup> We note that the Sydney Organising Committee sought to resolve through dialogue any cases of possible infringement, with only one case being decided in the Australian courts.<sup>281</sup>

135. When appearing before the Committee in November 2006, the Secretary of State told us that she was "very exercised" by concerns that towns, villages and cities across the country should feel involvement and an association with the Games, and she said that "we are looking at how we can create a brand which does not fall foul of the commercial relationship as part of sponsorship that people can use, that schools can use, that local sports clubs ... drama groups ...[and] village schools can use".<sup>282</sup> We note that local authorities are already attempting to devise such brands.<sup>283</sup> **We conclude that an ability to associate with the 2012 Games on a non-commercial basis is essential if community involvement and legacy is to be realised to its full potential. We recommend to the International Olympic Committee that it should work with LOCOG to identify ways of permitting this.**

## Cultural Olympiad

136. The Cultural Olympiad is a comparatively new concept and has not traditionally been a significant part of Olympic or Paralympic Games.<sup>284</sup> Described as "a four-year period celebration of culture, reflecting the diverse communities which make up London and the UK",<sup>285</sup> the London 2012 Cultural Olympiad will open as soon as the Beijing Games close in 2008. The intention is that it should "encourage more people, particularly children and

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<sup>275</sup> Paper from West Sussex County Council to Tourism South East [not printed]

<sup>276</sup> Q 107

<sup>277</sup> Q 133

<sup>278</sup> Q 134, HC 552-ii, Session 2005-06

<sup>279</sup> Q 138 HC 552-ii, Session 2005-06

<sup>280</sup> Supplementary memorandum from the Secretary of State, Ev 74

<sup>281</sup> *HC Deb*, Standing Committee D, London Olympic Games and Paralympic Games Bill, 18 October 2005, col. 118.

<sup>282</sup> Q 185

<sup>283</sup> Paper from West Sussex County Council to Tourism South East [not printed]

<sup>284</sup> Julia Bracewell, Q 134

<sup>285</sup> DCMS memorandum, Ev 58



young people, to experience and participate in cultural activity”.<sup>286</sup> Some ingredients of the Cultural Olympiad were described in the Candidature File, including the *Friend-ship*, “a full-size, ocean-going clipper, crewed by young people, artists, philosophers and students under the command of professional officers”. The ship would be launched at the end of the Beijing Games and would “travel the world in the lead-up to the 2012 Games”.<sup>287</sup> Other elements include a festival of world youth culture, to be “staged along the waterways, bridges and streets of a revitalised Lower Lea Valley”; a “major exhibition of world art and artefacts” in London museums; a five-day Olympic carnival; and a series of Olympic Proms in the Royal Albert Hall.<sup>288</sup>

137. The Voluntary Arts Network listed a number of suggestions made by its members for possible cultural events and activities, including an international theatre festival for amateurs, digital story telling, more prominence for crafts, a world choir, and work with the BBC to provide young sports commentators with TV and radio presenting skills.<sup>289</sup> The Museums, Libraries and Archives partnership contributed further ideas, such as developing engagement of athletes from previous Olympics as well as from the 2012 Games with local museums, and developing fashion-based projects such as competitions for sportswear and involving higher education and further education courses.<sup>290</sup>

138. The London Borough of Newham suggested to us that “opportunities for a wider cultural legacy for the Park are currently being overlooked in the legacy planning processes”, and it claimed that cultural planning for the Olympics “currently only identifies a narrow spread of stakeholders, largely excluding representation from local authorities and key local and regional cultural partners”.<sup>291</sup> Heritage Link also relayed to us anxiety felt among smaller voluntary sector organisations that they were somewhat marginalised in discussions on maximising the benefits of the Olympics.<sup>292</sup> We put this latter point to witnesses representing the Nations and Regions Group, who sought to reassure us that within the various regional groups culture was “very much embedded” and that (at least in the case of the East of England and the South West) the Regional Cultural Consortium was “one of the key partners” or was the source of cultural initiatives for the regional group.<sup>293</sup>

139. The Museums, Libraries and Archives partnership pointed out that engagement with the Cultural Olympiad would rely largely on local authority cultural services, observing that it was “critical that local government is able to support the role of the sector in the Games and its potential legacy”.<sup>294</sup> When we raised this point with witnesses from the Nations and Regions Group, they suggested that there was a general principle to be followed: “it is not necessarily about doing lots of new things; it is about achieving existing

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<sup>286</sup> DCMS memorandum, Ev 58

<sup>287</sup> Candidature File section 17.1

<sup>288</sup> Candidature File section 17.1

<sup>289</sup> Voluntary Arts Network memorandum [not printed]

<sup>290</sup> Ev 104

<sup>291</sup> Ev 95

<sup>292</sup> Ev 88

<sup>293</sup> Mr Castle and Ms Williams Q 134

<sup>294</sup> Ev 102

targets and priorities and using the Games ... as the magic dust to try and actually accelerate the delivery of some of those existing priorities".<sup>295</sup>

**140. The Cultural Olympiad has received comparatively little attention so far. We recommend that the Government should do more to publicise and co-ordinate it, drawing together ideas, sharing good practice, and increasing awareness of some of the more practical and imaginative suggestions which are being made .**

## Olympic Trust

141. A trust fund, endowed with a total of £40 million in residual income from the Millennium Commission and grant funding from Arts Council England, the Big Lottery and DCMS, has been established to support activities across the country associated with the Olympics. The trust will have the power to fund projects which will:

- promote the Olympic and Paralympic ideals celebrating mind, body and spirit;
- foster innovation and creativity;
- strengthen the creative and technical skills base across the UK;
- encourage a joined-up approach across sport, physical activity, culture and education;
- offer young people and diverse communities the opportunity to fully participate in the build up and delivery of the wider vision for the Games in 2012, and
- leave a lasting positive legacy of the 2012 Games for future generations.<sup>296</sup>

142. The contribution from DCMS, amounting to £6 million, will be ring-fenced to support a series of UK School Games, the first of which were held in Glasgow in September 2006.<sup>297</sup> The philosophy for the School Games is that it should be "a multi-sport event for the most talented young people in the country of school age in an environment designed to replicate the feel of major events such as the Olympic and Paralympic Games".<sup>298</sup> Further Games are to be held in Coventry in 2007 and in other cities yet to be determined from 2008 to 2011.<sup>299</sup>

## Legacy for the nations and regions

143. The right to host the 2012 Olympic Games and Paralympic Games was won by London. Under the Olympic Charter, all sports on the Games programme should be held in the Host City, with the regular exception of sailing and the agreed exception of football.<sup>300</sup> Much public support, however, was secured on the understanding that the benefits would be spread beyond London to all the nations and regions of the UK. The

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<sup>295</sup> Mr Castle Q 136

<sup>296</sup> Millennium Commission Press Release 16 October 2006

<sup>297</sup> Memorandum from the Millennium Commission, Ev 100

<sup>298</sup> Millennium Commission memorandum Ev 100

<sup>299</sup> Mr O'Connor, Q78

<sup>300</sup> Memorandum by Mr Craig Reddie CBE, Ev 28, HC 552, Session 2005-06

Lottery tickets which will make a substantial contribution to meeting the costs of the Games are being bought across the country. An effort has been made, within the constraints imposed by the International Olympic Committee, to disperse events.<sup>301</sup>

144. The decision to establish a Nations and Regions Group, to “provide leadership and strategic direction in ensuring that the whole of the UK is engaged” with the anticipated benefits of the Games<sup>302</sup> was a far-sighted one. Witnesses from the Group described the 2012 Games as “a UK Games hosted in London”.<sup>303</sup> Indeed, the nations and regions stand to benefit in many of the ways outlined above, if achieved – increased participation in sport, increased awareness of the UK as a tourist destination, engagement with elite sport through contact with national teams in training, and cultural spin-offs. Working groups have been formed in each of the nations and regions and have developed individual strategies to maximise the benefits locally: these initial strategies have been submitted to Government and to LOCOG<sup>304</sup> for comment and are likely to be confirmed in the near future. The strategies are expected to evolve as circumstances change.

145. Membership of the working groups includes representatives of sport, business, local government, culture, tourism, education, the voluntary sector and other key interest groups.<sup>305</sup> We were assured by representatives of the Nations and Regions Group that the working groups’ strategies were based upon a “bottom-up” approach driven by grassroots interests.<sup>306</sup> We note that a decision was taken at an early stage of the bid that engagement outside London would be led by Regional Development Agencies and by Regional Sports Boards, and we heard that local authorities were only now being “brought into it”.<sup>307</sup> **We welcome the Nations and Regions Group’s recognition that local and community interests must underlie national and regional strategies, and we are encouraged by the Group’s account of work under way. We also endorse the concept articulated by the group that the Games should be a UK Games hosted in London. We will in time, however, seek further evidence that the working groups formed in each nation and region truly reflect all elements of their communities in their work.**

## 6 Prospects

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146. The 2012 Games project has attracted controversy in the last three months, with persistent media criticism and fears of exposure to increases in costs as yet undefined. This was inevitable at some point, although the current difficulties have come about earlier than might have been expected.

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<sup>301</sup> Sailing events will take place at Weymouth; rowing events at Eton Dorney; football matches at Glasgow, Newcastle, Manchester, Cardiff and Birmingham; and further events at Weald Country Park in Essex and Broxbourne in Hertfordshire.

<sup>302</sup> *HC Deb*, 18 July 2006, col. 329W

<sup>303</sup> Mr Castle, Q 114

<sup>304</sup> Q 115

<sup>305</sup> Letter from London 2012 to the Chief Executive of the Central Council for Physical Recreation, 31 October 2006 [not printed]

<sup>306</sup> Q 116

<sup>307</sup> Q 117

147. Setting aside concerns over costs, there is, however, no indication at this stage that the quality of the Games experience will be anything less than outstanding. There is as yet no outward sign of disharmony between major players; on the contrary, we heard persuasive evidence of good working relations.<sup>308</sup> The International Olympic Committee has repeatedly and publicly expressed its confidence in the progress made so far.<sup>309</sup>

**148. The Committee notes the recent expressions of confidence by the International Olympic Committee in the quality of work and planning and the progress achieved in relation to timetable when compared with previous host cities. We acknowledge the careful and thoughtful approach taken so far and we endorse the decision by the ODA to plan thoroughly before taking binding decisions. We strongly commend LOCOG and the ODA for their achievements.**

**149. It is inevitable, as has been the case with previous Games, that the Games will, quite simply, cost the UK significantly more than the outline cost in the original bid. It is vital that public confidence in the project is maintained. An authoritative figure for final overall cost, and details of how it is to be funded, are essential if this is to be achieved.**

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<sup>308</sup> Mr Higgins and Mr Deighton Q 2; also Q 4 (relationships with the IOC); QQ 29-30 (relationships between the ODA and the Olympic Lottery Distributor; Q 59, (relationships between the Olympic Lottery Distributor on one hand and ODA and DCMS on the other); also memorandum from Camelot, para 4.4., Ev 79

<sup>309</sup> Q 138; *Host City News* December 2005; DCMS memorandum Ev 55

## Conclusions and recommendations

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1. We note the confidence of the ODA and of the Secretary of State that remediation costs will be contained within the existing budget. However, given that the site survey work is little more than 50% complete, uncertainty will remain. The authorities should be more specific about the precise nature of contamination at the site, and the Government should report back as soon as the survey is completed. (Paragraph 15)
2. We note that there remains a lack of clarity about the expenditure of such a significant sum [£1.044 billion for linking the Olympic Park to local infrastructure], and we recommend that the Government issue a detailed breakdown of how the figure was reached and how it is to be spent. (Paragraph 20)
3. We commend the scrupulous approach by the Secretary of State in distinguishing between costs which are integral to the Games and costs which are not; but we nonetheless encourage her to look favourably on co-ordinating the expenditure of ODA funds with local regeneration funds where long-term benefit for the local community can be shown. (Paragraph 26)
4. No details have been supplied as to what measure of inflation has been used to arrive at the figure of £2 billion for the LOCOG budget. We encourage the Secretary of State to provide further details. (Paragraph 29)
5. We recommend that further work be done to determine the potential impact of the ban [on television advertising of all foods high in fat, salt and sugar] and whether it will have an effect on sponsorship for the Games. (Paragraph 38)
6. We admire the confidence of the LOCOG team in its capacity to secure the necessary revenue, including sponsorship. It would be wrong, however, to ignore the fact that amounts raised through sponsorship and licensing, as well as from ticket sales, are hard to predict and may turn out to be lower than foreseen in the Candidature File. (Paragraph 39)
7. We believe that LOCOG and the Government should recognise the possibility that [LOCOG] revenue may fall short of that forecast; and we believe that they should give early consideration to the implications. (Paragraph 39)
8. The optimism of LOCOG that the effort to secure sponsorship for the 2012 Games will not detract from sponsorship for community sport is welcome. However, the Committee will keep this under review. (Paragraph 40)
9. We urge the Secretary of State to publish the revised budget for security costs, as soon as it has been agreed. (Paragraph 46)
10. The lack of any reference in the Olympic Objectives to the Government having responsibility for security at the Games appears to be an oversight which should be rectified. (Paragraph 47)

11. We welcome the assurances by the Government that the ODA's liability to pay VAT on goods and services will have no impact on the taxpayer. (Paragraph 49)
12. The Committee regards it as unsatisfactory that this issue [liability to VAT] has emerged so late in the process and that it was not resolved at the time of the preparation of the bid document. (Paragraph 50)
13. We are surprised that the Treasury did not establish the position [on VAT] from the start. The Chancellor now needs to provide an explanation of how this arose, particularly given that VAT did not have to be paid on the costs of the Athens Games. He also needs to provide details of how this issue will be resolved as soon as possible, in order to ensure that there is no adverse impact on the financing of the Games. There may also be a requirement to agree any solution with the European Commission, which could result in further delay. (Paragraph 50)
14. The Committee questions the rationale for allowing for programme contingency on top of project contingency, especially at a percentage as high as that proposed in Treasury guidance. We find it difficult to see how a programme contingency of any substance, rather than simply being prudent, does not run the risk in itself of escalating the costs. We note that programme contingency was not included in advice to those responsible for co-ordinating the bid but that there is now an informed consensus that it should be included. This new issue of additional 'programme contingency' gives the impression, rightly or wrongly, that the initial advice upon which DCMS relied appears to have been deficient; and we believe that the Treasury could and should have drawn attention to this alleged deficiency before the bid was submitted. Given the possible scale of such a new provision, the rationale for 'programme contingency' should be thoroughly explained, with practical reference to other major building projects around the world, and the professional advice to the Treasury and DCMS (including that of KPMG) to justify this should be published for the benefit of public understanding. (Paragraph 55)
15. We welcome the determination to ensure proper delivery of the 2012 London Olympics. However, we are surprised that, given the original assurances about the rigour of the budgeting process, it is only now seen to be necessary to include this additional element of control and that it is such a significant cost. We can only conclude that cost control procedures were not fully thought through at the time that the bid was submitted. We call upon the Government to provide a detailed explanation of how the figure of £400 million for the Delivery Partner was arrived at, including any total cost of construction which has been used in arriving at this fee. We further call for the main terms of the agreement with the Delivery Partner to be made public. (Paragraph 58)
16. We welcome the Secretary of State's readiness to provide as much information as possible to the Committee. We recommend that, given recent controversy about the cost of the Games, the Secretary of State's report to Parliament on the conclusions of the cost review currently under way is as comprehensive as possible and should be in the form of an Oral Statement. (Paragraph 59)



17. The Committee is disturbed that such statements [on costs] have been disproved in such a relatively short space of time. It is particularly ironic that part of the extra costs already identified will be incurred in paying a delivery partner to exercise cost control. (Paragraph 60)
18. The Committee is concerned about the distance between the figures submitted in the bid and the true costs, which will not become evident until after the Games. We believe that everyone involved should draw lessons from this in terms of project appraisal, management and communication at this relatively early stage so that there is no repetition which would prejudice public support for the Games, their success or their legacy. (Paragraph 61)
19. We stress the value of external assessment in building public confidence that money is being spent properly, and we particularly welcome the involvement of the National Audit Office. (Paragraph 63)
20. The timing of the competition currently under way to operate the National Lottery, when the potential for disrupting an essential funding stream is so great, is very unfortunate. Although we accept that a decision has been taken, we believe that it would have been better to have extended Camelot's licence beyond the Games. We recommend that the Commission carefully considers risks of a change of operator on preparations for the Olympics when reaching its decision. (Paragraph 70)
21. We conclude that the substantial financial contribution by Sport England to the 2012 Games need not necessarily have a major effect on programmes to enhance participation in sport at community level. However, there is a clear risk, if we are not careful, that programmes outside the capital may suffer because of the focus on London and in particular in sports which are either not part of the Olympics or which are not recognised as mainstream Olympic sports. (Paragraph 77)
22. We have no doubt that the diversion of money from the NLDF to the OLDF arising from transfers already announced will reduce Sport England's ability to undertake non-Olympic-related activity to promote grassroots sport across the country. This will clearly be exacerbated by any further diversion to meet Olympic cost increases. (Paragraph 78)
23. DCMS should justify the inclusion of sums already spent in preparation of elite athletes for the Games in Athens and Beijing as part of the funding package for the London Games. (Paragraph 79)
24. DCMS should explain without delay how it plans to carry out the further transfer of funds from the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund, so that the effect upon distributors is made clear. (Paragraph 81)
25. A further transfer of Lottery revenues from the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund, above the £410 million already identified, would penalise good causes yet further. We believe that any further diversion of money from the Lottery would reduce the money available for each of the good causes, and it is not our preferred option for funding any overspend. (Paragraph 83)

26. We recommend that a cap should be placed on the liability of London residents to fund any further increase in Games costs via increases in the Council Tax. Beyond that, other means of raising revenue should be used, and the need for further funding from the Exchequer should not be ruled out. (Paragraph 85)
27. As already noted, although the Memorandum of Understanding is generally interpreted as specifying that contributions to meet any shortfall between Olympic costs and revenues would come exclusively from the National Lottery and from the Mayor of London, through London Council Tax, the meaning is not totally clear. We do not, in any case, accept the principle of such a restriction. (Paragraph 86)
28. We have not examined in detail the case for abolishing or adjusting the tax regime applicable to the Lottery; but we believe that such a move could well be viewed by the general public as the fairest means of securing further funding for the 2012 Games. We recommend that the Treasury should explore options for amending the tax regime applicable to the Lottery, whether on a temporary or a permanent basis, as a means of ensuring the necessary flow of funds into the Olympic Lottery Distribution Fund. (Paragraph 90)
29. We do not believe that the London Development Agency (LDA) should be the ultimate beneficiary from the sale of land acquired for the Olympic Games. We recommend that the LDA should state how it plans to dispose of land once the Games have finished and should make proposals for distributing any net financial gains which it makes from the land, whether notional or through sales. We believe that the best use for such funds would be to meet any Games costs which are outstanding. Given the regeneration and legacy benefits from the Games, we also recommend that the Government assesses whether the £250 million contribution, within the Public Sector Funding Package, from the LDA is sufficient in the first place. (Paragraph 91)
30. We commend the bid team for the enormous weight placed upon sporting and community legacy: this was one of the great strengths of the bid and may have been decisive in the award by the IOC in Singapore. It is all the more important, therefore, that it should be delivered. (Paragraph 92)
31. We are satisfied that responsibility for delivering the regeneration legacy for London rests clearly with the Mayor of London. However, the Mayor must acknowledge that local authorities, as the bodies most aware of local needs, are best placed to convey local opinion. (Paragraph 97)
32. The commitment to retain an athletics facility at the Stadium once the Games had finished may have been a deciding factor when the decision on Host City was made in Singapore. (Paragraph 103)
33. We recommend that, if no club comes forward in the near future with a viable proposal to become “anchor tenant” in the Olympic Stadium once the Games have concluded, an effort should nonetheless be made to allow scope in the final design for use as a home ground for a club with a significant and regular following. (Paragraph 104)

34. We note that discussions are still under way between the Olympic Delivery Authority and the Host Boroughs, and we strongly recommend that the design for the Aquatics Centre should provide for a mix of leisure use and traditional “lane” swimming. (Paragraph 107)
35. Understandably the £134 million price attached to the Broadcast and Press Centre has attracted some controversy. The authorities should justify the cost. Again, too, its future value should be taken into account, along with the other venues, when funding the rising cost of the Olympics is being considered. (Paragraph 108)
36. We believe that the decision to limit to five the number of permanent venues remaining within the Park after the Games was sound. Any pressure from international sporting federations – or indeed from the International Olympic Committee – to build unnecessarily high-specification venues should be strongly resisted. We are reasonably confident that a mixed legacy use should provide a sustainable future for the Aquatics Centre and the Olympic Stadium, although we believe that the latter would be rather more secure if it were also to become the home stadium for a football club, possibly in conjunction with a major rugby club. The smaller permanent venues – for hockey/tennis and for cycling - face a tougher struggle if they are to be commercially successful, although we note the popularity of hockey at community level and the tradition of excellence at cycling in the UK. We are less certain about the future of the indoor sports arena, which may face direct competition with established venues nearby. (Paragraph 111)
37. No host country has yet been able to demonstrate a direct benefit from the Olympic Games in the form of a lasting increase in participation. While we offer every encouragement to the Government and to other stakeholders in achieving such an increase, we believe that lasting success is most likely to be attained through an expansion of school sport and through a greater priority being attached by local authorities to developing community sport. (Paragraph 113)
38. We recommend that DCMS and Sport England should publish a joint plan as soon as possible on implementation of Olympic Sub-Objective 4.4, namely, achieving the maximum increase in UK participation at community and grass-roots level in all sport and across all groups. (Paragraph 113)
39. We further believe that the ‘legacy’ of the Olympics should not start after 2012, but rather right now. The UK’s bid stressed local community participation, yet the Olympics are to take place in some of London’s poorest boroughs where many of the inner city schools enjoy not so much as a blade of grass. We recommend, therefore, that DCMS works with the Department for Education and Skills, LOCOG and sponsors to address the lack of sports facilities open to schoolchildren, in particular, on whose doorstep the Olympics will be held. (Paragraph 113)
40. We agree that fears of overcrowding, high prices and poor availability of accommodation may well deter visitors from coming to London during the period of the Games. (Paragraph 117)

41. To be successful, London must have sufficient capacity, acceptable prices and good quality accommodation to attract visitors during the period of the Games. (Paragraph 117)
42. We very much welcome the effort by DCMS to develop a tourism strategy for the 2012 Games. Although the consultation paper claims not to be designed to inform a comprehensive tourism development strategy and to concentrate merely on what will be needed to deliver improvements by 2012, we note that the consultation invites views on possible new targets to replace the existing ambition of a £1 billion tourist industry by 2010. In doing so, it ranges well beyond the Games and may presage a different approach to tourism by DCMS. (Paragraph 121)
43. The Games will advertise the UK and London in particular; they represent an opportunity to raise profile and invest in future tourism rather than to generate short-term gains. There may well be a need for more investment in tourism by the Government if full advantage is to be taken of that opportunity. (Paragraph 122)
44. We conclude that training camps are unlikely to be of great economic benefit to the nations and regions; and local authorities should be disabused of any notion that vast sums of money are to be made from the presence of national teams training in advance of the Games. We believe, however, that where they are established the presence of a training team will foster a sense of involvement in the Games in the regions and will provide opportunities for cultural links and for local schools to glimpse elite sport at first hand. The principal benefits of hosting training teams will be through involving the local community rather than generating economic gains. (Paragraph 130)
45. We conclude that an ability to associate with the 2012 Games on a non-commercial basis is essential if community involvement and legacy is to be realised to its full potential. We recommend to the International Olympic Committee that it should work with LOCOG to identify ways of permitting this. (Paragraph 135)
46. The Cultural Olympiad has received comparatively little attention so far. We recommend that the Government should do more to publicise and co-ordinate it, drawing together ideas, sharing good practice, and increasing awareness of some of the more practical and imaginative suggestions which are being made. (Paragraph 140)
47. We welcome the Nations and Regions Group's recognition that local and community interests must underlie national and regional strategies, and we are encouraged by the Group's account of work under way. We also endorse the concept articulated by the group that the Games should be a UK Games hosted in London. We will in time, however, seek further evidence that the working groups formed in each nation and region truly reflect all elements of their communities in their work. (Paragraph 145)
48. The Committee notes the recent expressions of confidence by the International Olympic Committee in the quality of work and planning and the progress achieved in relation to timetable when compared with previous host cities. We acknowledge the careful and thoughtful approach taken so far and we endorse the decision by the

ODA to plan thoroughly before taking binding decisions. We strongly commend LOCOG and the ODA for their achievements. (Paragraph 148)

49. It is inevitable, as has been the case with previous Games, that the Games will, quite simply, cost the UK significantly more than the outline cost in the original bid. It is vital that public confidence in the project is maintained. An authoritative figure for final overall cost, and details of how it is to be funded, are essential if this is to be achieved. (Paragraph 149)

## Formal minutes

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**Wednesday 17 January 2007**

Members present:

Mr John Whittingdale, in the Chair

Philip Davies

Mr Mike Hall

Mr Nigel Evans

Rosemary McKenna

Paul Farrelly

Draft Report (*London 2012 Olympic Games and Paralympic Games: funding and legacy*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 149 read and agreed to.

Summary read and agreed to.

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

*Ordered*, That the Chairman do make the report to the House.

Several memoranda were ordered to be reported to the House.

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

[Adjourned till Tuesday 23 January at 10.15 am



# Witnesses

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## Tuesday 24 October 2006

*Page*

**Paul Deighton**, Chief Executive, LOCOG, **David Higgins**, Chief Executive, ODA **Ev 13**

**Janet Paraskeva**, Chairman, and **Mike O'Connor CBE**, Interim Chief Executive, Olympic Lottery Distributor **Ev 30**

**Brigid Simmonds OBE**, Chief Executive, Business In Sport and Leisure and Chair, Central Council for Physical Recreation and **Tim Lamb**, Chief Executive and Director, Central Council for Physical Recreation **Ev 42**

## Tuesday 21 November 2006

**Julia Bracewell**, Scotland representative, **Stephen Castle**, East of England representative and **Juliet Williams**, South West representative, Nations and Regions Group **Ev 48**

**Rt Hon Tessa Jowell MP**, Secretary of State, and **Jeff Jacobs**, Chief Executive, Government Olympic Executive, DCMS **Ev 61**

## List of written evidence

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1	Olympic Delivery Authority	Ev 1
2	London 2012 Organising Committee of the Olympic Games (LOCOG)	Ev 6
3	Olympic Lottery Distributor	Ev 23
4	Business In Sport and Leisure	Ev 34
5	Central Council for Physical Recreation (CCPR)	Ev 37
6	DCMS	Ev 55, 72
7	Arts Council England	Ev 75
8	Camelot Group Plc	Ev 77
9	The Five Host Boroughs	Ev 81
10	Greater London Authority and London Development Agency	Ev 83
11	Greenwich Council	Ev 86
12	Heritage Link	Ev 87
13	Institute of Professional Sport	Ev 89
14	London Borough of Newham	Ev 92
15	Lottery Forum	Ev 96
16	Millennium Commission	Ev 99
17	Museums, Libraries and Archives Council	Ev 101
18	SkillsActive	Ev 107
19	Sport England	Ev 110
20	Sports Coach UK	Ev 115
21	Tourism Alliance	Ev 117
22	Tourism Management Institute	Ev 122
23	Tourism South East	Ev 125
24	Tower Hamlets Borough Council	Ev 126
25	UK Sport	Ev 130
26	VisitBritain	Ev 133

## List of unprinted written evidence

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Additional papers have been received from the following and have been reported to the House but to save printing costs they have not been printed and copies have been placed in the House of Commons Library where they may be inspected by Members. Other copies are in the Record Office, House of Lords and are available to the public for inspection. Requests for inspection should be addressed to the Parliamentary Archives, House of Lords, London SW1. (Tel 020 7219 3074). Hours of inspection are from 9:30am to 5:00pm on Mondays to Fridays.

Michael White  
Swim2000  
Heritage Consultancy Services  
London Development Centre  
Keith Atkins  
Greenwich Foundation  
ASA East Region  
Voluntary Arts Network  
British Athletics  
Liverpool Culture Company  
Tourism South East  
Institution of Civil Engineers  
Which?  
Millennium Commission  
World Heritage Site Steering Group Greenwich  
Big Lottery Fund  
Royal Parks Agency  
National Playing Fields Association  
Equal Opportunities Commission  
LOCOG  
Derek Wyatt MP  
Martin Blaiklock  
Nigel Gansell  
City of London  
Sea and Water

## Reports from the Committee since 2005

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### Session 2005–06

First Special Report	Maritime Heritage and Historic Ships: Replies to the Committee's Fourth Report of Session 2004-05	HC 358
First Report	Broadcasting Rights for Cricket	HC 720
Second Report	Analogue Switch-off	HC 650 I, II
Third Report	Preserving and Protecting our Heritage	HC 912 I, II, III
Fourth Report	Women's Football	HC 1357
Second Special Report	Women's Football: Replies to the Committee's Fourth Report of Session 2005-06	HC 1646

### Session 2006–07

First Report	Work of the Committee in 2005-06	HC 234
Second Report	London 2012 Olympic Games and Paralympic Games: funding and legacy	HC 69 I and II