



House of Commons

Committee of Public Accounts

Preparations for the London 2012 Olympic and Paralympic Games

Fiftieth Report of Session 2007–08

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

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The Committee of Public Accounts

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Summary

Within Central Government, preparations for the London 2012 Olympic and Paralympic Games are being led by the Government Olympic Executive (the Executive), which is part of the Department for Culture, Media and Sport (the Department). The Executive is responsible for co-ordinating the activities of a wide range of organisations, including the Olympic Delivery Authority, which is responsible for the construction of venues and associated infrastructure. The London Organising Committee for the Olympic Games and Paralympic Games (LOCOG) is responsible for staging the Games.

Whilst individual organisations have their own programme management arrangements, the Government Olympic Executive has not yet developed a plan for the programme as a whole, or finalised arrangements for identifying and managing risks across the programme.

The Olympic Delivery Authority has established a baseline detailing the scope, cost and timings of its projects. The forecast construction completion dates have slipped for the Main Stadium and the Aquatics Centre, but the Delivery Authority still expects to complete its construction activities in time to allow for test events before the start of the Games.

The prospect of the legacy that the Games would bring was an important element of London's bid, but a business plan for the future of the Olympic Park is not due until May 2009. An operational plan for policing and wider security has been under development for well over a year and is now due to be completed by the end of 2008. Continuing uncertainty over legacy and security, and the need to take account of lessons from Beijing, will bring pressure for change on the venues and infrastructure, at a time when construction work should be well underway.

The Olympic Delivery Authority has not yet reached agreement with Lend Lease, its preferred developer, on a deal to build the Olympic Village. The deal has been delayed by uncertainties in the financial and property markets and the ability of the private sector to raise finance. Pending finalisation of the deal, the Delivery Authority has paid for site preparation work to continue. The Delivery Authority has reduced the planned number of apartments to be provided after the Games from 4,200 to 3,300.

By March 2008, the Olympic Delivery Authority was forecasting total spending of £7,111 million, £16 million more than its November 2007 baseline of £7,095 million. The loss of competitive tension in procurement of the Main Stadium and the Aquatics Centre has contributed to the £106 million increase in forecast venue costs, with offsetting decreases in the costs of site preparation and infrastructure. The Department remains confident that repayment of £675 million to the National Lottery from land sales after the Games, will be achieved despite the downturn in the property market. The Department assured the Committee it will stay within the total £9,325 million budget for the Games.

On the basis of a report by the Comptroller and Auditor General,¹ we took evidence from the Department and the Olympic Delivery Authority on the progress made in preparing for the London 2012 Olympic and Paralympic Games.

1 C&AG's Report, *Preparations for the London 2012 Olympic and Paralympic Games: Progress Report June 2008*, HC (2007–08) 490

Conclusions and recommendations

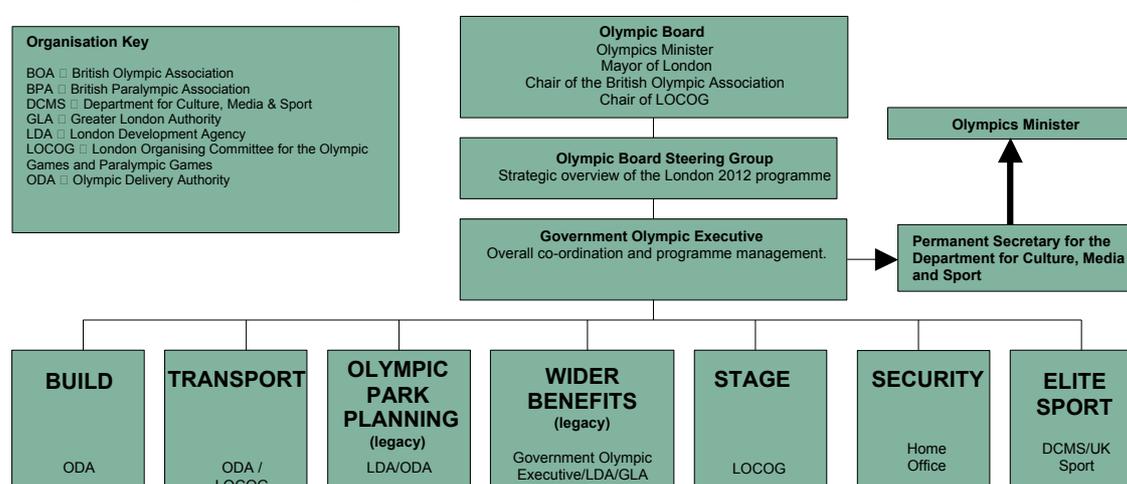
1. **Good progress has been made in preparing the Olympic Park site and construction has started.** There has been slippage in the planned completion of some projects, including the Main Stadium and the Aquatics Centre, but on current estimates the construction programme is broadly on track.
2. **The Department and Olympic Delivery Authority could come under pressure to change plans and designs as legacy and security requirements are firmed up, and in the light of the Beijing Games.** The more the 2012 programme progresses, the harder it will be to incorporate changes without generating additional costs and delays, and, possibly, squeezing out legacy requirements. The Department and the Olympic Delivery Authority should be clear about the cost and funding of proposed changes, their impact on the programme and the assessment criteria to be used.
3. **Despite the previous recommendations of the Committee, effective programme management arrangements are not yet in place.** Three years after London was awarded the Games, the Department's programme planning and risk management arrangements are still not fully developed. The arrangements, which the Department now expects to be fully embedded by the end of 2008, should include:
 - A programme plan that brings together the key activities of the delivery organisations and identifies any overlaps, gaps or critical dependencies between different elements of the programme.
 - Consolidated analyses of the risks identified by individual delivery organisations, with their significance rated on a consistent basis using common criteria, and clarity about the mitigating actions needed.
 - Identification of risks beyond the control of the individual delivery organisations. There should be clear assessments of the likelihood of risks being realised and their potential impact. Mitigating actions should be identified, and responsibilities assigned.
 - Regular and user friendly reporting of the more important risks (for individual organisations and programme-wide) to the Olympic Board, and records of decisions taken.
 - Documented protocols for keeping up to date the overarching programme plan and assessments of risks.
4. **As well as the preparations for the London 2012 Games, there are other publicly funded programmes aimed at economic regeneration of East London, making it harder to isolate the impacts of the Games.** The Department should determine the evaluative methods and criteria it will use to assess the impact of the Games so there is clarity now about how the benefits will be evaluated later. The Department will need to take account of regeneration that would have occurred in East London without the Games, and disentangle the impacts of the Games from those of other regeneration activities.

5. **The Olympic Delivery Authority has reduced the number of homes at the Olympic Village after the Games from 4,200 to 3,300.** The reduction will affect athletes and officials during the Games, and reduce the contribution of the Village to the development of new and affordable housing in East London after the Games. As work to achieve a commercially viable deal for the Village is continuing, the Authority should establish a clear baseline for the accommodation standards the Village should deliver in time for the Games and afterwards as housing stock.
6. **To reimburse the £675 million to the National Lottery from land sales after the Games will require total sale revenues of around £1,800 million.** In the light of the downturn in property prices and the house building market, the Department should reassess potential future revenues from land sales to see whether the assumptions about being able to reimburse the National Lottery hold good.
7. **The Department has assured the Committee it will deliver the Games within the £9,325 million budget.** Half the remaining £2,000 million contingency is earmarked for the Olympic Delivery Authority, and it is already clear that the remaining £1,000 million will have to be sufficient to cover a number of residual risks. A deal with the private sector for the Olympic Village has not been secured, security and legacy plans are incomplete, there are inflationary pressures, there is an increased risk of insolvency amongst suppliers and the Government is guarantor if there were to be a gap between LOCOG's revenues and costs. The Department should maintain up to date quantified assessments of the potential demands on the remaining contingency.

1 Establishing Effective Programme Management

1. The preparations for the 2012 Games involve a range of central government and other organisations. The Host City Contract is between the International Olympic Committee, the Mayor of London, the London Organising Committee for the London Olympic Games and Paralympic Games (LOCOG), and the British Olympic Association (BOA). There is, however, no one person in charge or accountable, and there is instead a partnership between the Mayor, the Chairs of LOCOG and the BOA, and the Olympics Minister—the members of the Olympic Board. The Board has agreed and assigned accountabilities for the separate elements of the programme (**Figure 1**).²

Figure 1: The London 2012 Programme – key activities and responsibilities



2. Within central government the preparations are being led by the Government Olympic Executive, part of the Department for Culture, Media and Sport.³ The Government Olympic Executive is responsible for providing assurance to the Government and the Olympic Board that the programme is being well managed.⁴ The Executive is also responsible for providing effective governance, and risk and financial management, for the Games as a whole. The Executive is working with a range of delivery bodies. The Olympic Delivery Authority is responsible for the construction of venues and associated infrastructure. LOCOG is responsible for staging the Games.⁵

3. In our June 2007 Report⁶ on the preparations for the Games, we recommended that the Department should develop arrangements for progress and risk reporting. Individual organisations have their own arrangements. The Government Olympic Executive,

2 Qq 12–13, 64; C&AG’s Report, paras 1.2, 1.4; Figure 2

3 C&AG’s Report, para 2

4 C&AG’s Report, paras 1.10, 1.14

5 C&AG’s Report, paras 1.10–1.11, 1.15; Figure 2

6 Committee of Public Accounts, Thirty-ninth Report of Session 2006–07, *Preparations for the London 2012 Olympic and Paralympic Games—Risk assessment and management*, HC 377

however, is still developing an overarching programme plan to identify the critical links between elements of the programme. In addition, the Executive's arrangements for identifying and managing risks across the programme have not been finalised.⁷ Consequently, the Executive is not yet in a position to provide the Olympic Board with a complete analysis of the major programme risks. The Executive expects its work in these two areas to be completed by the end of 2008, more than three years after London was awarded the Games.⁸

4. The prospect of the legacy that Games would bring was an important element of London's bid.⁹ In June 2008, the Department published its Legacy Action Plan,¹⁰ which set out how five key legacy promises would be delivered.¹¹ The promises are to: make the UK a world-leading sporting nation; transform the heart of East London; inspire a new generation of young people to take part in volunteering and physical activity; make the Olympic Park a blue print for sustainable living; and demonstrate that the UK is a creative, inclusive and welcoming place to live in, visit, and for business.¹²

5. Although we have previously highlighted a lack of clarity about how venues will be used after the Games, plans have not yet been completed.¹³ For example, it remains unclear whether, in addition to athletics, the Main Stadium will be used for football or rugby.¹⁴ Meanwhile the absence of fully developed business plans and confirmed owners and operators for the permanent venues is creating uncertainty for the Olympic Delivery Authority. A business plan for the future of the Olympic Park is not due to be completed until May 2009, almost four years after London was awarded the Games.¹⁵ The timing and cost of the Delivery Authority's projects could be affected, particularly if there were to be a need to change deals already agreed with contractors.¹⁶

6. The Olympic Delivery Authority sees the ultimate legacy being the regeneration of East London, with the creation of long-term jobs and economic development, including an improved transport infrastructure. Over 10% of the people working on the Authority's projects were previously unemployed, and 70% of contracts have been let to small and medium enterprises.¹⁷ The preparations for the 2012 Games, however, are part of a much wider programme of public spending on the regeneration of East London.¹⁸ For example, the Delivery Authority's transport strategy is based on some £5 billion of transport

7 Qq 1–3

8 Q 2; C&AG's Report, paras 1.13, 1.20–1.21

9 C&AG's Report, para 3.37

10 C&AG's Report, para 3.43

11 Q 69

12 C&AG's Report, Figure 13

13 Q 82; C&AG's Report, para 3.37

14 C&AG's Report, Figure 12

15 Qq 52, 83–84; C&AG's Report, para 3.39

16 Q 52; C&AG's Report, para 3.40

17 Qq 52, 87

18 C&AG's Report, *Preparations for the London 2012 Olympic and Paralympic Games: Risk assessment and management*, HC (2006–07) 252, para 88

improvements (outside the budget for the Games) being funded primarily by the Department for Transport and Transport for London.¹⁹

7. In March 2007, the Department told us that an operational plan for policing and wider security was being drawn up, and that the preliminary estimate was £600 million. There have been problems with co-ordination across multiple departments and agencies, however, and well over a year later there is still no fully costed plan. The Department now expects the plan to be completed by December 2008. Advisers for the Metropolitan Police and other security agencies have been reviewing the Delivery Authority's plans as they have developed. But the delay in security planning has increased the risk of time delays and cost overruns if late changes to the Olympic Delivery Authority's plans are required.²⁰

19 C&AG's Report, para 2.24

20 Qq 51, 71–72; C&AG's Report, paras 3.33–3.34, 3.36

2 Overall progress towards the immovable deadline for the Games

8. The Games will begin on 27 July 2012, and the bulk of the budget (more than £7,000 million on current estimates) is for developing the site for the Olympic Park, some 500 acres of previously used and contaminated land in East London. The Olympic Delivery Authority has reviewed its plans for delivering the venues and infrastructure, and its November 2007 Programme Baseline Report details the scope, cost and timings of its projects.²¹

9. Clearing the site for the Olympic Park has been a priority, and by the end of March 2008, some 80% of buildings had been demolished and two thirds of the site cleared, enabling construction to start.²² By the same point, the Olympic Delivery Authority had completed almost a third of its main procurements, but only 23 of the 33 critical path procurements it had planned to complete. The delays are mainly attributable to the time taken to produce specifications, obtain planning permissions and negotiate contracts.²³

10. The contracts for two key Games venues, the Main Stadium and Aquatics Centre, have been let. The forecast construction completion dates have slipped by two and four months respectively.²⁴ The Delivery Authority has sought to reduce the impact by arranging for LOCOG to do work in parallel with construction, in readiness for test events. Figure 2 shows how the construction timings have changed on a number of projects since the November 2007 Baseline was established. Overall, the Delivery Authority still expects to complete its construction activities during 2011 in time to allow test events before the start of the Games.²⁵

11. Experience from previous Games suggests that after the Beijing Games the world's attention will turn to London and this may bring pressure to change venue and infrastructure specifications. The Department and the Olympic Delivery Authority acknowledged that they were likely to see demand for changes, at a time when construction work should be well underway.²⁶ Meanwhile the Delivery Authority is working to get its designs largely agreed before Beijing. Any subsequent proposals will be scrutinised through the Delivery Authority's arrangements for change control.²⁷

21 Q 18; C&AG's Report, para 3.2

22 Qq 1, 4; C&AG's Report, paras 3.5, 3.7

23 C&AG's Report, para 3.15

24 Q 17; C&AG's Report, paras 4.20, 4.27; Figure 10

25 C&AG's Report, paras 13, 3.7, 3.9, Figure 10

26 Q 88; C&AG's Report, para 4.13

27 Q 88; C&AG's Report, para 4.13

Figure 2: The start and completion dates for the construction of the main venue and infrastructure projects delivered by the Olympic Delivery Authority at the end of March 2008 compared with the milestones in the November 2007 Programme Baseline Report

	November 2007 programme baseline	March 2008 Forecast	Change in start date (months)	November 2007 programme baseline	March 2008 Forecast	Change in end date (months)
Enabling Works (site preparation)	Oct 06	Oct 06	0	Sept 09	Sept 09	0
Power Lines Under Grounding (switchover)	Jul 08	Jul 08	0	Sept 08	Nov 08	2
Structures, Bridges and Highways	Apr 08	Apr 08	0	Dec 11	Dec 11	0
Utilities	Jan 08	Jan 08	0	Dec 11	Aug 11	-4
Main Stadium	Jul 08	May 08	-2*	Construction end date Feb 11 Completion date for construction and initial overlay for test events Jun 11	Construction end date Apr 11 Completion date for construction and initial overlay for test events Jun 11	2 0
Aquatics Centre	Sept 08	Sept 08	0	Construction end date Apr 11 Completion date for construction and initial overlay for test events Jul 11	Construction end date Aug 11 Completion date for construction and initial overlay for test events Aug 11	4 1
Velopark	Mar 09	Mar 09	0	Apr 11	Feb 11	-2
International Broadcast Centre/Main Press Centre	May 09	Mar 09	-2	Jun 11	Jul 11	1
Olympic Village	June 08	May 08	1	Dec 11	Dec 11	0

* The planned construction start date on the Main Stadium was July 2008. The contractors were given access to the Main Stadium site three months earlier, in April 2008, and construction work on the site began in May 2008, two months ahead of the planned construction start date.

3 The uncertainty on the deal for the Olympic Village

12. The Olympic Village, with an estimated construction cost of over £1,000 million, is the largest Games project. The Village will accommodate athletes and officials during the Games, and be converted into homes after the Games, with 30% to be available as affordable housing. The project is linked to the private sector development of the adjacent Stratford City Retail Centre.²⁸

13. The Olympic Delivery Authority's intention is that development of the Village will be led and financed by the private sector. The private sector financing is outside the budget for the Games, although the budget includes provision for the Delivery Authority to contribute to the cost of infrastructure for the Village. In February 2007, the Olympic Delivery Authority selected Lend Lease as the preferred developer, and expected to agree the deal by the end of 2007.²⁹

14. At the time of our hearing at the end of June 2008 the deal had not been completed. The uncertainty in the financial and property markets has increased the difficulties of securing private sector finance and impacted on the commercial viability of the deal. The global credit squeeze had particularly affected the residential property values and, therefore, the ability of the private sector to raise finance.³⁰ The Olympic Delivery Authority told us that Lend Lease, in a recent Statement to the Australian Stock Exchange, had confirmed that it expected to obtain the debt financing by the end of 2008. The Delivery Authority is also exploring other sources of funding for the Village, including a government contribution to the cost of affordable housing.³¹

15. Meanwhile, work to prepare the site for the Village has continued and construction started in May 2008. The Delivery Authority has paid for site preparation work as part of its planned financial contribution, conscious of the need to avoid slippage and that it would have to pay heavily to accelerate the project later on.³² The Delivery Authority acknowledged, however, that it was likely to need some of the Funders' Group Contingency (see paragraph 20) to fund the Village.³³

16. The number of homes to be provided after the Games has been reduced. By planning only for the accommodation required at the time of the Games, the Olympic Delivery Authority has reduced the number of apartments from the 4,200 originally planned to around 3,300. The Delivery Authority considers that the reduction reduces the risk to the

28 Q 30; C&AG's Report, paras 3.20–3.22

29 Qq 10, 31–32; C&AG's Report, paras 3.21–3.22

30 Qq 10, 42–43, 47; C&AG's Report, para 3.23

31 Qq 10, 47

32 Qq 10, 48; C&AG's Report, para 3.23

33 Qq 31, 42

project, and confirmed that there would be sufficient apartments to accommodate the athletes and officials during the Games.³⁴

4 Managing within the budget for the Games

17. In March 2007, the Minister for the Olympics announced that the budget for the Games would be £9,325 million,³⁵ some £5,289 million more than the estimate at the time of the bid to host the Games.³⁶ In our April 2008 Report on the budget for the Games we concluded that foreseeable requirements for public sector funding were excluded from the estimates at the time of the bid to host the Games, giving an unrealistic picture of the expected costs.³⁷

18. The Government's response to the Committee's Report did not accept the Committee's conclusion, arguing that the estimates at the bid stage were based on the best available expert advice at the time.³⁸ The responses contained in the Treasury Minute and our further comments are set out in **Figure 3**.

Figure 3: Committee comments on the Government's response to the Committee of Public Accounts 14th Report 2007–08

TREASURY MINUTE RESPONSE	COMMITTEE'S COMMENTS
At bid stage the full form of the delivery body (now the Olympic Delivery Authority) was unknown, as was its tax status.	Although the tax status of the delivery body was a 'known unknown' at the time of the bid, no provision for potential tax liability was included in the cost estimates at that time.
The projections about private sector income from Partnerships UK were considered robust.	As we have previously reported, Partnerships UK made clear in 2004 that the information to support a robust analysis of the potential for private financing was not available.
The bid included provision for around £473 million of project contingency, an amount that the Government considered at the time to be appropriate.	The project level contingency was principally to allow for uncertainties on individual projects. As we have previously reported, the largest single increase in the March 2007 budget was £2,747 million for programme contingency. The programme level contingency is designed to cover programme wide risks such as the interdependency of Olympic projects, the impact of unforeseen ground conditions, changes to legislation, and the availability of materials— generic risks which were entirely foreseeable at the time of the bid. ³⁹
The bid estimate included £190 million for security but this was before the events of 7 July 2005.	The £190 million was for on-site security during construction, now revised to £354 million, rather than for the separate costs of policing and wider security for which the March 2007 budget included provision based on a preliminary estimate of £600 million. The separate cost of policing and wider security was a 'known unknown' at the time of the bid, but no cost provision was included at that time.

Sources: The sources supporting the Committee's further comments are: Committee of Public Accounts, Fourteenth Report of Session 2007–08, *The budget for the London 2012 Olympic and Paralympic Games*, HC 85; and the C&AG's previous report, *The budget for the London 2012 Olympic and Paralympic Games*, HC 612, Session 2006–07

35 HC deb, 15 March 2007, cols 450–452

36 C&AG's Report, *The budget for the London 2012 Olympic and Paralympic Games*, HC (Session 2006–07) 612, para 36

37 Committee of Public Accounts, Fourteenth Report of Session 2007–08, *The budget for the London 2012 Olympic and Paralympic Games*, HC 85

38 Treasury Minutes on the Eighth Report and the Fourteenth to the Fifteenth Reports from the Committee of Public Accounts 2007–08, Cm 7365

39 C&AG's Report, para 2.5

19. The largest part of the March 2007 budget was the £6,090 million for the Olympic Delivery Authority's work to deliver the venues and associated infrastructure for the Games. The budget included a £2,747 million provision for programme contingency, of which £2,009 million remains potentially available to the Olympic Delivery Authority (**Figure 4**). As LOCOG is intended to be self-financing, its costs are outside the budget for the Games. The Government is, however, the guarantor of funding for the Games, which includes meeting any ultimate shortfall between LOCOG's costs and revenues.⁴⁰

Figure 4: The funds potentially available to the Olympic Delivery Authority

		£m
ODA budget March 2007		6,090
	Total programme contingency provision announced in March 2007	2,747
	Less	
	Programme contingency made available to the Olympic Delivery Authority (within the March 2007 ODA budget of £6,090 million) (Note)	500
	Programme contingency funds set aside for policing and wider security (non-Olympic Delivery Authority costs)	238
		(738)
Remaining programme contingency potentially available for the ODA		2,009
Maximum funding available to the ODA		8,099

Note: The Ministerial Funders' Group agreed allocation to the Olympic Delivery Authority in two tranches, £340 million in June 2007 and £160 million in November 2007.

Source: *Comptroller and Auditor General's Report HC 490 Session 2007–2008*

20. In its November 2007 Programme Baseline Report, the Olympic Delivery Authority forecast that it would spend £7,095 million, including anticipated use of £1,005 million of the unallocated contingency. The remaining £1,004 million of contingency (the Funders' Group Contingency) is to cover residual risks. An assumption underlying the Baseline estimate was that £853 million would be saved from scope reductions and efficiency savings. To that end, the Delivery Authority plans to reduce the number of temporary venues and, where possible, make use of existing venues. The Department sees focusing the spending on permanent facilities as a way of making sure legacy benefits are delivered.⁴¹

21. By March 2008, the Olympic Delivery Authority's forecast costs had increased by £16 million to £7,111 million. Decreases in some areas, including £47 million for site preparation and infrastructure, were offset by increases in others. The largest increase was

40 Q 36; C&AG's Report, paras 2.2–2.4, 2.23, 3.26; Figure 3

41 Qq 24–25, 31,35; C&AG's Report, paras 2.5, 2.12, 2.14; Figure 5

£106 million for venues, including £29 million for the Main Stadium (now £525 million) and £33 million for the Aquatics Centre (now £247 million).⁴²

22. The loss of competitive tension in the procurement processes for both the Main Stadium and the Aquatics Centre has contributed to the cost increases.⁴³ The Government's June 2008 response⁴⁴ to the Committee's report on the budget for the Games⁴⁵ stated that, with the exception of the contract for the Main Stadium, all main contracts to date have had multiple bidders and effective competition. The Comptroller and Auditor General's report shows that in fact the Olympic Delivery Authority had received fewer than three tenders for nine of the 37 main procurements it had completed.⁴⁶

23. The Department gave the Committee its unequivocal assurance that it would stay within the £9,325 million budget for the Games, despite the uncertainties in the programme.⁴⁷ A difficulty the Olympic Delivery Authority faces is the increased risk of insolvency amongst the businesses with which it is dealing, together with inflationary pressures on the costs of energy and some materials such as reinforced steel. There are also uncertainties about legacy plans, the costs of policing and wider security, and the Olympic Village (see paragraphs 5, 7 and 15). The Delivery Authority acknowledged that it could need to use the Funders' Group contingency to meet such costs.⁴⁸ The Department is satisfied that the remaining contingency provisions are sufficient to cover the risks.⁴⁹

24. The budget for the Games is to be funded by Central Government (£5,975 million), the Greater London Authority (£925 million), the London Development Agency (£250 million) and the National Lottery (£2,175 million).⁵⁰ The Department's aim is to repay £675 million to the National Lottery, based on a June 2007 agreement between the Government and the Mayor of London. The intention is to raise the money from a share of profits generated by the increase in land and property values in the Olympic Park. To repay £675 million to the Lottery, sale receipts will need to reach £1,800 million.⁵¹

25. In its June 2008 response⁵² to the Committee's report on the budget for the Games,⁵³ the Government stated that it had a high level of confidence that, in view of the time horizon involved, recovery of £675 million for the National Lottery could be achieved. The

42 Q 4; C&AG's Report, paras 2.15–2.16; Figures 5, 6

43 Qq 54, 55; C&AG's Report, Figure 6, paras 4.20, 4.26

44 Treasury Minutes on the Eighth Report and the Fourteenth to the Fifteenth Reports from the Committee of Public Accounts 2007–08, Cm 7365

45 Committee of Public Accounts, Fourteenth Report of Session 2007–08, *The budget for the London 2012 Olympic and Paralympic Games*, HC 85

46 C&AG's Report, para 4.14

47 C&AG's Report, paras 4–6

48 Qq 27, 31, 42, 61

49 Qq 7–9

50 C&AG's Report, para 2.19

51 Q 28; C&AG's Report, para 2.22

52 Treasury Minutes on the Eighth Report and the Fourteenth to the Fifteenth Reports from the Committee of Public Accounts 2007–08, Cm 7365

53 Committee of Public Accounts, Fourteenth Report of Session 2007–08, *The budget for the London 2012 Olympic and Paralympic Games*, HC 85

recovery of the £675 million for the National Lottery would require an average annual increase in land values of around 20%. In its evidence to the Committee at the end of June, however, the Department acknowledged that it had not reviewed the assumptions underlying future sales values in the light of the current property market.⁵⁴

Formal Minutes

Tuesday 15 July 2008

Members present:

Mr Edward Leigh, in the Chair.

Mr Richard Bacon

Paul Burstow

Mr Philip Dunne

Mr Nigel Griffiths

Mr Keith Hill

Mr Alan Williams

Phil Wilson

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

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

Paragraphs 1 to 25 read and agreed to.

Resolved, That the Report be the Fiftieth Report of the Committee to the House.

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

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

[Adjourned until Wednesday 8 October at 3.30 pm]

Witnesses

Monday 30 June 2008

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

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List of written evidence

Department for Culture, Media and Sport

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Seventh Report	Excess Votes 2006–07	HC 299
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Sixteenth Report	Government on the Internet: Progress in delivering information and services online	HC 143 (Cm 7366)
Seventeenth Report	Foreign and Commonwealth Office: Managing Risk in the Overseas Territories	HC 176 (Cm 7366)
Eighteenth Report	Improving corporate functions using shared services	HC 190 (Cm 7366)
Nineteenth Report	BBC Procurement	HC 221 (Cm 7366)
Twentieth Report	HM Revenue & Customs: Helping individuals understand and complete their tax forms	HC 47 (Cm 7366)
Twenty-first Report	The Carbon Trust: Accelerating the move to a low carbon economy	HC 157 (Cm 7366)
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Fiftieth Report	Preparations for the London 2012 Olympic and Paralympic Games	HC 890
First Special Report	The BBC's management of risk	HC 518 (Cm 7366)
Second Special Report	Evasion of Vehicle Excise Duty	HC 557 (Cm 7366)

Oral evidence

Taken before the Committee of Public Accounts on Monday 30 June 2008

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Mr Paul Burstow

Keith Hill
Phil Wilson

Mr Tim Burr, Comptroller & Auditor General, and **Mr Keith Hawkswell**, Director, National Audit Office, were in attendance, and gave evidence.

Ms Paula Diggle, Treasury Officer of Accounts, HM Treasury, was in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

PREPARATIONS FOR THE LONDON 2012 OLYMPIC AND PARALYMPIC GAMES: PROGRESS REPORT JUNE 2008 (HC 490)

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

Q1 Chairman: Good afternoon and welcome to the Public Accounts Committee. I would like to welcome a delegation from the Public Accounts and Estimates Committee from Victoria, Australia; a representative of the Council of the Federation of the Russian Duma; and a group from George Washington University in Washington, DC. Today we are considering the Comptroller & Auditor General's Report on preparations for the London 2012 Olympic and Paralympic Games and we welcome back to our Committee Mr Jonathan Stephens, the accounting officer and Permanent Secretary at the Department for Culture, Media and Sport, and Mr David Higgins, the Chief Executive of the Olympic Delivery Authority. Welcome to our Committee. Mr Stephens, I will start by asking you questions. We made various recommendations and what I would like to know, Mr Stephens, is why, despite the recommendations that this Committee has made, we still do not have a Programme Plan—we have lots of ideas for individual projects but not a plan for the whole programme—and why we do not have effective risk management arrangements?

Mr Stephens: We do have detailed plans. They were available to the NAO and they are reflected in its repeated assessments of progress, very good progress, on time and largely on budget, against those plans as set out in the Report, and indeed, the critical test I think identified by the Committee itself, was actually what is being delivered on the ground. On the ground very good progress is being made. The ground is being cleared, construction has started, in some cases ahead of schedule.

Programme Plan by September 2008"? This is three years after this bid was accepted and we still do not have a Programme Plan.

Mr Stephens: It would be false to conclude from that that there is no planning. There is very detailed planning, reflected, for example, in tables 8 and 10, where the NAO reports progress against plan. The next stage of that is to take the detailed individual plans that exist for the build programme with the ODA, for the stage programme with LOCOG, with the published legacy action plan with work underway to develop a costed operational security plan, to bring those together to make sure that all the interdependencies have been properly understood. We have a draft of that now, both at overall programme level and detailed down to the level of some 300 individual milestones, which will be available to the Olympic Board in September, but also, interdependencies have been well understood. So, for example, with previous Olympic Games, a critical area of interdependency risk has been the relationship between the building programme and the stage programme. We have learnt the lesson of that. We have ensured that the ODA and LOCOG are co-located and work very closely together in all respects. We have put a lot of work and thinking into the various legacy plans so that from the start the stadium was planned not just for its 80,000 seat capacity during the Games itself but for its 25,000 legacy intent. So the interdependencies are being well understood. We are now going through the process of ensuring we can write those down and present them in an overall integrated plan for the Olympic Board.

Q2 Chairman: I know that. Why does it say then in paragraph 1.13, in a Report that you have agreed, on page 14: "The Executive expects to provide the Olympic Board with a first version of the

Q3 Chairman: Why does it say at paragraph 1.21 in this Report, which you have agreed with: "Overall, with the delivery of a number of important and potentially inter-dependent projects already underway, further progress on the Government Olympic

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Executive's overarching risk management arrangements is essential"? That is stating the obvious but I am surprised it has not been done yet.

Mr Stephens: Again, at each level, each individual programme has risk strategies and risk registers that identify, for example, the critical risks around the build programme, around sponsorship. A lot of attention has been given to risk and that is reflected most of all in the work that underpinned the contingency which was announced 15 months or so ago, which has been subject to a quantified risk analysis. Again, this is about ensuring that across all the various risk registers that now exist, that all of those are operating on a consistent and systematic basis and are thoroughly understood. The Olympic Board already receives regular reports, part of the monthly progress report on the identified risks, and the action proposed on those risks.

Q4 Chairman: In the absence of the publication of an overarching Programme Plan or risk assessment, can you give us an assurance that you will stay within the £9 billion budget?

Mr Stephens: Yes, I am confident of that, and among the reasons for confidence are that since the Committee last reported on this subject we have published a detailed breakdown of the budget. We have published a full account of the scope of the programme, which ties down and specifies what is being delivered in return for that £9.3 billion. The ODA has undertaken a quantified risk analysis. A lot of progress has been made in awarding individual contracts so that now, of the £6 billion or so baseline budget, the ODA has awarded contracts worth just under £3 billion of that, which means that a significant risk element in the programme has been dematerialised. Significant progress on the site, in particular in terms of ground clearance and decontamination, again removes another area of risk and, as the Report says, the latest forecast of likely ODA potential costs is just £16 million up on what was forecast last November at £7 billion, against what is potentially available to the ODA within the £9.3 billion budget of over £8 billion.

Q5 Chairman: So it is a "yes"?

Mr Stephens: Yes.

Q6 Chairman: You are giving a firm, cast-iron commitment to the Public Accounts Committee that you will stay within the £9 billion?

Mr Stephens: Absolutely.

Q7 Chairman: Thank you. You could not be clearer than that—despite the uncertainties concerning the Olympic Village that we read about and the level of private sector interest, which presumably is a moving picture?

Mr Stephens: We have always recognised that there are a number of risks going forward and that is the purpose of the contingency, to cover those risks.

Q8 Chairman: You have enough in the contingency to cover that, have you, and the security in the legacy plans?

Mr Stephens: Yes.

Q9 Chairman: Any uncertainties on the Olympic Village, security and legacy plans—there is enough in the £2 billion to cover all that?

Mr Stephens: We are confident that that is adequate to cover all of the risks that exist at programme level and indeed the external risks, a list of which we published when the ODA published its Programme Baseline Report, including external economic effects and other external risks.

Q10 Chairman: Previously we have been critical of you for being over-optimistic about private sector involvement. Why have you made the same mistake with the Olympic Village?

Mr Stephens: Perhaps I could turn to Mr Higgins.

Mr Higgins: If it suits Members, perhaps I can give background on this complex issue. The Olympic Village is obviously central to the overall Games bid, an important part of the compact games. The development deal with Lend Lease and the bank debt has always been seen to fund the vertical build of the village, with the ODA contributing towards infrastructure. Clearly, the impact of the global credit squeeze has particularly affected the residential market, therefore it has affected future values and ability to raise finance and the cost of that finance. However, Lend Lease, in a statement to the Australian Stock Exchange last week, confirmed that while providing project debt is longer than they expected, they expect to have it by the end of the year. They remain strongly committed to the project and we are working very closely with them. We have started on site and the ODA is funding that early work on the site for the vertical building because, clearly, time is of the essence in this project. Any arrangement we have with the village allows transparency of profitability so the ODA can recover cost on that area. However, I can say that over the last 18 months we have looked very closely at the village and determined that what we need to build is what is required for the Olympics and not any further, and therefore we have been able to reduce the number of apartments originally planned two years ago from 4,200 to around 3,300. That means less houses to fund, less overhanging the market and it de-risks the project while still satisfying all the requirements of the IOC. So clearly, what we are looking at doing is getting at this range of source of funds to fund the village, and there is a variety of sources, including bank debt, while preserving best value for the public.

Q11 Chairman: Thank you for that, Mr Higgins. Mr Stephens, can you please look at the chart on page 12, "The London 2012 Programme: key activities and responsibilities". Who is in charge? Do you see that chart? It is pretty complex, is it not?

Mr Stephens: The Olympic Board is in charge. Within Government, the Olympics Minister is in charge.

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Q12 Chairman: Which one person is in charge? Here you have you on the right. I am not quite sure what you are in charge of. You report to the Olympics Minister. You have the Olympics Board with the Olympics Minister, the Mayor of London, the Chair of the British Olympic Committee, and the Chair of LOCOG. Which one person is in charge? Where does the buck stop? On whose desk? Is it your desk, is it the Mayor's desk, is it the Minister's desk? Who takes the rap if something goes wrong?

Mr Stephens: It is fundamental to the delivery of any Olympic Games that it is a partnership between three core partners. The contract is between the Olympic authorities and the host city, and the Government is a critical partner in that. So there are three key partners. They are each represented on the Olympic Board.

Q13 Chairman: Is this not a recipe for disaster: a £9 billion-plus project with three people in charge?

Mr Stephens: It is fundamental to the delivery of any Olympic Games, and the governance structure that we have set out brings all those key partners together in the Olympic Board. It is assigned clear responsibilities and accountabilities, as set out in the underlying programmes, and the Government Olympic Executive, which reports to me and the Olympics Minister, is monitoring the overall progress on all those programmes and the budget as a whole, and that is why I am here.

Q14 Chairman: How many times has the Minister met with the new Mayor of London since he was elected?

Mr Stephens: I do not know offhand but I am happy to . . . From memory, they have had at least one meeting with the Olympic Board, if not two, since he was elected, and other private meetings as well.

Q15 Chairman: What is going to happen now? He must have different priorities to the difficult previous Mayor.

Mr Stephens: I have had absolutely no reason whatsoever to question his commitment. And have had strong confirmation of his commitment to the Olympic programme, the contributions set out here, including the financial contributions, which were all set out in a memorandum of understanding.

Q16 Chairman: Let us put it this way. I can wrap up my question in another question here. The design of the Aquatic Centre has dragged on since early 2005. Its costs have increased, have they not, Mr Higgins, by £100 million in the last year alone?

Mr Higgins: Not since March 2007.¹

Q17 Chairman: This is wrong information I have been given, is it? Anyway, it is considerably over budget. The completion date has slipped four months since last November. What happens if the Mayor starts pulling the plug on some of these

things? What is going to happen to the legacy particularly, the Olympic Village, if the new Mayor, for instance, insists that he does not want the cost to increase in any way? Do you have any plans?

Mr Stephens: None of us want the cost to increase. We are all committed to keeping it within the £9.3 billion public sector budget, and I am confident it will be. The recent report which the Mayor commissioned outlined the very good progress that has been made on the construction programme and ground clearance, and said very good progress had been made. It also made the point that the project was now largely defined, the scope had been agreed, and the scope for significant changes, without actually generating further cost pressures and increasing risks, was now very limited. There has been absolutely no indication that anyone is challenging the fundamental elements of the programme. We all, of course, want to maintain the maximum possible pressure on costs, to make the most of some savings that have been realised, and to bear down on the cost pressures that are emerging.

Q18 Keith Hill: I actually want to address most of my questions to the Comptroller. Can I just say first of all that the British disease is one of hyper-self criticism so can I, Mr Stephens, simply congratulate the Olympics delivery effort on what the NAO itself identifies as the construction programme being broadly on track, good practice being evident in the way procurement is being handled, the cost estimates having been developed, and now a clear baseline for assessing costs and progress in the delivery of venues and associated infrastructure. I am absolutely certain that after our Olympics have been a fantastic success in 2012, in about 2016 the *Evening Standard* might just concede that it was OK. Look, the top critique, it seems to me, in the current Report seems to be this issue about effective risk management. I read through the various sections on this, Comptroller, and I just wanted to ask you and your team for some definitions so that in the future we have all got a benchmark about what we expect the ODA and its colleagues to be delivering on. In discussing risk management, for example, in recommendation 25(b) and paragraph 1.12 there is the use of the phrase, and it is repeated elsewhere, "the dependencies between key activities". What does that phrase mean?

Mr Burr: It means for something like this you have a range of different projects, and it is not sufficient just to manage the individual projects, but you need to manage the programme as a whole because one project can obviously impinge and impact on another; only when one gets to a certain stage can another one proceed, those kinds of links that need to be mapped out so that there is an element of managing for the programme as a whole rather than managing project by project. Having said that, I know that the work is well in hand to achieve that kind of arrangement, and we still have four years to go. I do not think we were advancing that as a criticism exactly but rather as something that needed to be attended to as the whole thing comes together.

¹ *Note by Witness:* Table 16 of the NAO Report, which includes reference to the F10 Bridge, shows that there has been no change between the March 2007 budget and November 2007 Baseline Report.

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Q19 Keith Hill: When we last reported—and this is referred to in paragraph 1.15—the Committee concluded that strong risk management arrangements were not yet in place. What do you understand “strong risk management arrangements” to be? Alternatively, what would be weak risk management arrangements?

Mr Burr: There are clearly major risks with a project of this kind, as we have already seen with the way that the budget has developed since London was selected to host the Games. What we need to see is that those risks, both to cost and to timely delivery, are all registered, recognised, and that there are responsibilities for attending to them. Anything of this scale will have uncertainties and unexpected developments will occur that would otherwise knock one off course, and the risk management is about staying on track.

Q20 Keith Hill: I would expect to see all of these set out on a piece of paper. How would they be expressed on a piece of paper?

Mr Burr: There would be what is known as a risk register, which would list what those risks are, and it would give some indication of how likely they were to happen, how serious they would be if they did happen, and who was responsible for attending to them.

Q21 Keith Hill: In paragraph 1.19 you use the phrase “cross-cutting risks to the programme, which may not be visible to individual delivery organisations”. How does that work?

Mr Burr: An individual manager of a particular project or an individual player in the larger programme may be very conscious of the things that they have to watch out for but they may not have a bird’s eye view of the links between the different components of the programme and the issues that those may raise, hence the need for top-down oversight of the programme as a whole, which is all we were really seeking to emphasise.

Q22 Keith Hill: In paragraph 1.20 you use the phrase “programme-level risks”. What is a programme-level risk?

Mr Burr: A risk for the whole programme as distinct from a risk for a particular project within that programme.

Q23 Keith Hill: How does that work, a risk for the whole programme?

Mr Burr: Again, one would expect to see at that top level an identification of the risks largely relating to the whole being more than the sum of its parts, as it were, so that there are risks relating to the whole which are distinct from those which relate to the individual components, and those too need to be managed.

Q24 Phil Wilson: When we won the Olympics, we knew straight away that the two issues that we would be faced with would be first, cost overrun, and secondly, will we be on target. Every Olympics, ever since there has been an Olympics, it has always been

the same, and the press would obviously focus on that, whether it is the truth or not. I just want to reiterate what Keith Hill has said, which is in paragraph 22 of the Report on page 7, which is just to say the construction programme is broadly on track, procurement systems you have put in place are being handled well, et cetera. I think basically you have got off to a good start really. I just wanted to ask a few questions about managing the budget. In paragraph 2.14 of the Report on page 18 it talks about £853 million of savings you have assumed in your cost forecast. How much of that has been secured already?

Mr Higgins: Quite a lot of that has been secured through redesign and targeting of the individual tenders so, as Jonathan said earlier on, we have just under £3 billion worth of contracts now let; a lot of the design work on those, including the main venues, is well-developed, with even subcontractors and suppliers in place. The importance of securing those savings is to ensure that the process of design development, planning, and then tendering and procurement keeps track with the overall project timetable, and that has been achieved over the last year.

Mr Stephens: It is worth, if I may, citing the example of the work that has been done on the reconfiguration of Olympic venues as a good example of how we aim to bear down on costs. Our aim now is to ensure that we build the absolute minimum of temporary venues and use, wherever possible, existing venues within London. The plan for the venues has been reconfigured, releasing significant savings as a result of that.

Q25 Phil Wilson: You do not say these savings will be at the expense of the legacy benefits of the park and the venues?

Mr Stephens: No, indeed. This is partly in order to protect the legacy benefits and to focus the spending on the venues and infrastructure that will be there permanently.

Q26 Phil Wilson: The other point is on paragraph 2.20, Mr Stephens. How were you able to forecast the cash flow requirements for the life of the programme when you have not completed a Programme Plan yet?

Mr Stephens: We do have a complete cash flow forecast for the various different funders and over the life of the programme through to 2012. Of course, that will change as the rate of spend changes, and we have also considered with all the funders the various contingency plans we need to ensure that the cash can always keep flowing.

Q27 Phil Wilson: Another question. In figure 4 it shows there are several pots of contingency, totalling nearly £3 billion. When contractors know you have all that contingency, how does it incentivise strong project and budget management?

Mr Higgins: As was noted in the previous Report to PAC, incentives should be put in place with contractors to save money, and that is exactly what we have done on the Stadium and the Aquatic

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Centre, for example. So we incentivise behaviour that is aligned with our behaviour to get the right outcome but also time and cost. If you look at the three big pots of money, the first amount, which is project-level contingency, we expect to spend. That has been created in many ways from the value engineering and the cost savings we have carried out over the last year. It has been approved by the Department to commit to spend, but we then target that within our organisation with strict change control. The second £1 billion is set aside for unexpected ground conditions or inflation and, as an example, the price of reinforced steel a year ago was £400 per tonne; now it is £800 a tonne, so that second £1 billion is to allow for unexpected inflation. The third £1 billion is there for unpredicted events, and the credit crunch, now nine months in duration, is certainly an unpredicted event. That is those three amounts of money, and there is a gateway to each of those three amounts of money which is harder and harder to get through.

Mr Stephens: If I may just add the point that, of course, as well as bearing down and ensuring that there is minimal use of contingency wherever possible, as the NAO Report makes clear, there are circumstances, particularly on a time-limited project of this sort, where early use of the contingency is actually the value-for-money option to ensure that costs and risks do not pile up at the end of the project, where contractors would have us over a barrel. It is important to understand that early use of the contingency may well be good management and good value for money.²

Q28 Phil Wilson: One final question. We have just talked about unforeseen circumstances in the future, for example. You have mentioned property values, et cetera. If there is a downturn in property values, how do you expect to get the £1.8 billion from the sale of land and property after the Games?

Mr Stephens: That was an estimate by the GLA to inform the work that they did on the memorandum of understanding. I should be clear that that estimate is not built into the Olympic budget. It is not part of the budget. It is not part of the Lottery projections either, going forward. The work done last year was to ensure that there was in effect a profit-sharing agreement between the Mayor and the Government to ensure that future profits from the sale of the land after 2012 were shared with the Lottery, with the aim of enabling repayment of the extra £675 million.

Q29 Phil Wilson: So that figure could change. You continue to review that figure, do you?

Mr Stephens: It has not been reviewed. It was done originally by the GLA. It is based, of course, on long-term property values over a period of 20 years or so, so it has not been reviewed recently.

Q30 Mr Bacon: I would like to ask about the village, and just to start with, Mr Stephens, I would like to clarify a couple of things. The Report says the village

will cost over £1 billion. How much more than £1 billion? What is a rough estimate? Is it £1.1 billion or is it £1.9 billion?

Mr Higgins: I think at this stage £1 billion is probably a reasonable estimate of the total cost.

Mr Stephens: I am sorry. It is really important that we should be absolutely clear. This is not cost to the public purse.

Q31 Mr Bacon: I am aware of that and that was my next question. I just want to be clear that the £1 billion, or £1.2 billion or whatever it is, sits entirely outside the £9.325 billion headline budget. Is that correct at the moment? You have a budget. The Report says the overall cost is likely to be, the headline budget which you will deliver this thing within, is £9.325 billion, and the £1 billion for the Olympic Village sits entirely outside of that because it is private sector funding. Is that correct?

Mr Higgins: No, that is not correct, because the budget that we have, the ODA, which is the £6 billion, includes some money for contribution in Stratford, which can be recovered against future land sales. So some of it is a component of that. You will see that in that figure there which includes the IBC and the village. Then you have the second £1 billion, which is the programme contingency, which covers abnormal inflation or ground condition, and the overall funders' contingency, and that covers unpredicted events such as the credit crunch. So if, as our Chairman noted the other week in a statement to the media, there may well be the need to draw on some portion of that second £1 billion to fund the village, that was always set aside for unpredicted events.

Q32 Mr Bacon: So the bit that sits outside the £9.325 billion is the private sector funding?

Mr Higgins: That is correct. That is right.

Q33 Mr Bacon: Good. The contingency is £2.7 billion?

Mr Higgins: It is potentially just over £2 billion for the ODA.

Q34 Mr Bacon: It is £2 billion? I thought it was £2.7 billion.

Mr Higgins: No. The announcement in March 2007 said there was an unallocated contingency of £2 billion for the ODA, and the budget announcement in March 2007 additionally allocated £0.5 billion to the ODA programme. That made £6 billion baseline budget for the ODA, plus up to £2 billion contingency, just under £1 billion for other costs and provisions, and £238 million for security contingency.³

² *Note by Witness:* This is set out in the NAO Report in Section 9 of Appendix 4.

³ *Note by Witness:* A contingency of 2.7bn was set aside in the March 07 statement. £500m was provisionally allocated in that statement to the ODA to meet known cost pressures and is now incorporated in the ODA's £6.1bn baseline budget. In addition, £238m was set aside as contingency for wider security and policing and is therefore not available to the ODA. This leaves £2bn contingency potentially available to the ODA above its baseline budget of £6.1bn.

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Q35 Mr Bacon: How much of the contingency has been spent in total so far? I have read £500 million but what is the most up-to-date figure?

Mr Higgins: None of the £2 billion, either the programme or the funders' contingency, has been spent or committed or asked for.

Q36 Mr Bacon: So there is still £2 billion sitting there?

Mr Higgins: Correct.

Q37 Mr Bacon: If you were to add that to get your £9.325 billion, the £2 billion would comprise part of that sum?

Mr Higgins: Correct.

Q38 Mr Bacon: In other words, what I am really getting at is, were you to have to—and I am not expecting you to have to—to pay for the Olympic Village entirely out of the contingency, you could?

Mr Higgins: You would never do that because—

Q39 Mr Bacon: I did not say that you would. In fact, I actually said I did not expect you would. What I am really asking is, if you had to, the contingency is so humongously large that you could. There is enough money there because it is so big. I am really asking you to confirm that £2 billion is larger than £1 billion, Mr Higgins.

Mr Higgins: Correct, but the second £1 billion is used—

Q40 Mr Bacon: This is one of the reasons why Mr Stephens is so confident, because there is such a huge contingency.

Mr Higgins: No, because that last £1 billion is for other risks and, as I say, no-one a year ago predicted steel would double in 12 months. There are many other risks still to go on this project.

Q41 Mr Bacon: But the £1 billion that is not already set aside is still available and, you think, uncalled on?

Mr Higgins: Is this the second £1 billion?

Q42 Mr Bacon: Yes.

Mr Higgins: As I have already said, some of that may well be called on. Our Chairman said it is most likely that some portion of that will be called on to fund the village because the unpredicted event is the credit squeeze.

Q43 Mr Bacon: Sure, the credit squeeze and the property market and everything else. You have rightly said that it is cheaper to build 3,300 apartments than to build 4,200 but, as far as I understand this, 17,000 Olympic athletes and officials are coming to this event and that has not changed.

Mr Higgins: Correct.

Q44 Mr Bacon: The number of athletes and officials coming has not changed so are you going to have more bunk beds than you previously planned for, or how are you going to fit them all into 1,000 fewer apartments?

Mr Higgins: No, we still have 17,000 and that is still within those designs, but originally, 18 months, two years ago, the plan was to build quite a spread-out village and perhaps spare capacity, and that is great in a rising market where you—

Q45 Mr Bacon: 900 flats of spare capacity because you thought you would be able to sell them in a rising market?

Mr Higgins: No, really, because the planning had not been done, there had been no detailed planning or design, and we have spent the last 18 months making the planning more efficient, getting more efficiency on the existing site, and then spending a lot of time with LOCOG to work out how we match that with the design—

Q46 Mr Bacon: 3,300 apartments is enough to house everybody that you wish to house?

Mr Higgins: 3,300 should house the 17,000. That is correct, Chairman.

Q47 Mr Bacon: The Report, which was published less than a couple of weeks ago, says, I think, September 2008 is your guideline date for getting a deal. You now expect to conclude a deal for the Olympic Village by then. Is there any likelihood at all that that is going to slip or is that a pretty confident assumption?

Mr Higgins: I think we have said publicly that we expect bank funding to be ready by the end of the year, and that is certainly consistent with the public statements by Lend Lease to the Stock Exchange, which they are bound, in terms of their best knowledge, to disclose. That is on the funding. We would expect to have the heads of terms of a deal in advance of that, but that would be when you have unconditional banking approval. In this market there is no point in trying to push funders or banks to speed up, because all you will do is pay a lot more money, so what we are very mindful of is that there are a number of sources of funding, including affordable housing, so around 20% of the entire funding for the project can come from affordable housing, both bank and government grant.

Q48 Mr Bacon: One of the things I wondered was, since construction has not been affected and is continuing, in the absence of a signed and secured deal, who is actually paying for it?

Mr Higgins: The first part of the vertical build, the tower blocks, has been paid for by the ODA. What we cannot afford to do is lose time. The greatest problem on this is if we delayed construction—and we do have plenty of spare capacity in this programme to date but if we lost that, we would pay an inordinate amount of money to accelerate it at the end.

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Q49 Mr Bacon: So the ODA is continuing to pay in the absence of a signed deal?

Mr Higgins: That is right.

Q50 Mr Bacon: That will then transfer across?

Mr Higgins: That is correct, yes.

Q51 Mr Bacon: Can I just ask you about the security? The Report says that the requirements for policing and wider security need to be identified early enough to be provided cost-effectively, and there is still no costed plan for these elements of the programme but one is due by the end of the year. Planning for policing and security has therefore not been fully integrated with planning for the Games. Do you have any reason to think that that timetable is going to slip or are you confident that that will go ahead?

Mr Stephens: Can I pick up on that? No, I am confident that that will be delivered, and indeed, security planning has been going on. In terms of security during the construction phase, that is well under way with the ODA, which has five defined projects which have already been approved and are now being implemented, and a further two that will come forward later this year. For all the venues and designs, Mr Higgins, within his security team has dedicated advisers from the Metropolitan Police and other security agencies who are there to comment on the design and plans as they go, so every area where security input has been required so far we have had that. Nothing has been late as a result of that.

Q52 Mr Bacon: Just one more question, which is about the legacy. Again, the Report comments that the longer the legacy requirements remain unclear, the harder it will be to accommodate them in the design and construction of facilities and the more likely is that, through expediency, legacy objectives will be compromised by the need to deliver the Games on time. Would you just like to comment on that?

Mr Higgins: I think the most important thing about legacy is to take a highly deprived area in East London and turn it into something which is economically successful. Our legacy that the ODA is accountable for, which I would term the first phase of it, covers transportation, improvements to the station, to the major DLR access ways and other lines going there, the cleaning of all the ground works, the putting in of power stations and utilities, so that economic growth can happen. So the investment in the town centre, which has a substantial amount of private sector investment, in the shopping centre and the town centre, then brings with it many jobs. Certainly, in terms of the venues, some of the venues already have end owners, such as the Velopark, which is already in place; the canoeing in the Lea Valley Parks Authority. Clearly, on the Aquatic Centre and the Stadium, the sooner we can have the final end owner and the operating structures, the better, but we are designing those to a legacy format, which is, in the case of the Stadium,

compliant with athletics and other users, and in the swimming pool we know what the use is there in terms of swimming.

Q53 Mr Bacon: Just one more quick question. You mentioned the Aquatic Centre. What has been the reason for the cost explosion at the Aquatic Centre?

Mr Higgins: The costs of the Aquatic Centre have remained consistent since March 2007 and the challenge for the Aquatic Centre is O2—I am sure many of you have been to O2—if you think of the size of a structure with no columns, site lines fully enclosed so it can be climate-conditioned, and then three pools in the middle of it, serving thousands of people on tiers, and it is then shrunk back to effectively a major municipal pool complex with three swimming pools, but back at a space and size that is much more intimate. These are always very difficult venues to deliver. I was involved directly in delivering the one in Sydney. They are very difficult to design; they are a real design challenge. So it is not a normal, conventional swimming pool. For the first week in the Games it is the major focus of all the swimming and major medals for the whole Olympics. It is one of the most important venues to achieve, but in this case it also includes a huge land bridge which gives access to Stratford and to the Olympic Park as well.⁴

Q54 Chairman: Would it be fair to say that one of the reasons why the costs have increased for the Aquatics and the Main Stadium is because there has been a lack of effective competition? Mr Stephens, why were you not able to deliver more competition?

Mr Higgins: As the Report says, of the 32 major venues to be gone to competition, 26, I think, have three or more tenderers.

Q55 Chairman: I was talking about the Main Stadium project and the Aquatic Centre.

Mr Higgins: When the Stadium came out, of course, it was just after Wembley and so a high-profile publicly funded venue, the Stadium, was not an easy one at that particular time to get interest in. Importantly, on both the Stadium and the Aquatic Centre, over 60% of all the work that is delivered on the project is publicly tendered for subcontractors and suppliers. One of the reasons, however, on the Stadium in particular, we went to in the end, after competition, one particular tenderer is that the design is everything on this project. We had no design; we did not have the luxury of doing two or three years' worth of design prior to going out to tender. You need to design at the same time as construction. You need to pick a winning team, and in this particular case McAlpine's had just finished Emirates, which is a fantastic success, on time and budget, and they were well through O2, and that has proved to be the case. Our experience now is that we are ahead of schedule, not only ahead of schedule in

⁴ *Note by Witness:* It is one of the most important venues to achieve, but in this case it also includes the F10 Bridge within the budget. The F10 Bridge is a huge land access bridge running through part of the Aquatics Centre, linking Stratford City Centre to the Olympic Park as well.

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accessing the site, but now the procurement of the steel is in place, the pre-casting. In this market you choose a partner who can stand the test of time in difficult times. That is why we chose Team Stadium.

Q56 Mr Burstow: I am just wondering, as one reads through the NAO Report, there is a series of issues, such as the credit crunch, business insolvency, labour costs, commodity costs, a whole range of factors of that sort, which presumably underpin the assumptions that you make in your detailed plans. I just wondered how frequently you reassess those assumptions to make sure they still hold good in a changing domestic economic situation and a rapidly changing global one.

Mr Stephens: It is a constant process and, as the Report reveals, we regularly re-forecast likely costs, and one must expect over the life of a project with this sort of life that those forecasts will go up, they will go down, some individual components will reveal cost pressures, others will reveal savings. That is typical on a project of this sort. In terms of the risks, particularly the quantified risk analysis that informed the programme contingency, the ODA reruns that every three months.

Q57 Mr Burstow: So you reassess these figures every three months?

Mr Higgins: Correct.

Q58 Mr Burstow: When was the last time therefore you did that reassessment?

Mr Higgins: On 30 March we completed the assessment, sent it to the Department, for approval and review of the funders in April.

Q59 Mr Burstow: So compared to the figures that we have reported in this document, how—

Mr Higgins: These are them.

Q60 Mr Burstow: So we await the next report.

Mr Higgins: The next one will be going in July.

Q61 Mr Burstow: One of things I specifically wanted to follow up on was insolvency. In terms of your planning and preparation to ensure you do deliver on cost and on time, what sort of estimates have you made of potential insolvency amongst the businesses that you are dealing with?

Mr Higgins: We have certainly put considerable effort into that, and clearly, it has gone significantly higher up on the risk register than it would have been six months ago. We looked particularly at the cumulative effect, how many projects we have with individual contractors and suppliers. We monitor it very closely. It is fair to say that, while I am pleased with progress in the last 18 months of completing £1 billion worth of work, risks on the project are high. This is a difficult environment to be in. Inflationary pressures on fuel and energy mean that everything that comes to this project has been impacted, so it is a tough environment, and the credit crunch does not help at all. So it would be fair to say that it is a difficult environment in which to be developing a project like this.

Q62 Mr Burstow: Can I just go back to page 12-13, the organisation chart the Chairman was taking you through earlier on. I presume that this chart is not original, that there are similar schematics within the ODA and elsewhere. Is there a similar chart within the Department that is on your board so you can refer to that?

Mr Stephens: Yes.

Q63 Mr Burstow: One thing I was not quite clear on from the answers you gave earlier on, where you described this being very much a partnership between the various key stakeholders in all this, was just how you go about resolving a situation where there is a failure to agree. What is the mechanism for doing that?

Mr Stephens: That is what the Olympic Board is fundamentally there for.

Q64 Mr Burstow: The Board itself cannot actually, in the end . . . If the members of the Board were at loggerheads for one reason or another, who would ultimately decide? Is there an ultimate referee? Is there a casting vote? Is there some way in which a disagreement can ultimately be resolved?

Mr Stephens: There are arrangements set out for the Olympic Board to reach decisions in its Founding Joint Memoranda, which set out how it reaches decisions in the context of disagreements and which members have vetoes over which particular areas of decision. A key way of managing the risk here is that the Olympic Board early on agreed and assigned clear accountabilities for the various elements of the programme. So, for example, on the most expensive element, the build programme, the construction programme, that is clearly the responsibility of the ODA. The ODA, with the other stakeholders, has published a clear account of scope and budget, what it is delivering for what money. Now, if any of the stakeholders want to suggest that there should be a change in scope, if they want to add to the scope, they need to come along with extra money.

Q65 Mr Burstow: If it is within the existing budget and it goes wrong, it is Mr Higgins and the ODA's responsibility?

Mr Stephens: They are responsible for delivering the construction programme.

Q66 Mr Burstow: Which is a longer way of saying "yes"?

Mr Stephens: Yes.

Q67 Mr Burstow: It would be helpful to us perhaps if we could have a note on those key aspects within the governance arrangements about how impasses are broken.

Mr Stephens: Yes.⁵

Q68 Mr Burstow: On another matter, which is again about accountability and responsibility, the Report notes that you are responsible for co-ordinating legacy activities. It is less clear in the Report—

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perhaps you could make it clear today—who is actually accountable for delivery on legacy once all of the bodies that are currently delivering the Olympics have gone.

Mr Stephens: Overall, for the delivery of legacy as an overall programme, the Government is accountable and that is one of the things that the Government Olympic Executive is monitoring.

Q69 Mr Burstow: So is that the Secretary of State for Culture, Media and Sport or is it the Minister for the Olympics, or is it the Prime Minister?

Mr Stephens: No. It sits within the Government Olympic Executive, which is part of the Department for Culture, Media and Sport. Within that, our recent Legacy Action Plan, which was published last month, set out five key promises and allocated responsibility for delivery on those key promises. One of those, for example, was the physical regeneration of East London, where a key responsibility sits with the Mayor and the LDA. Other elements of the legacy promises, for example, are about increasing sports and physical activity participation.

Q70 Mr Burstow: Specifically on that, where in the legacy planning do things like the development of coaching come? I have looked at the five promises which are set out in the Report. Where would that be incorporated?

Mr Stephens: That is one of the delivery plans under promise one, and in particular, under the headline ambition for increasing school sport and the maintenance of participation in sport as people leave school.

Q71 Mr Burstow: Thank you for that. I just want to go back to security and the security plan. This Committee when you were before us previously in March last year was told then that a security plan was being drawn up. Can you just clear this up, because, certainly in this Report, the implication is that it was not at that time being drawn up but it is now being drawn up. Is it the case that it was not being drawn up when you told us last year it was?

Mr Stephens: No. That was what we were aiming to do then. We were at that point trying to accelerate progress ahead of what—

Q72 Mr Burstow: An aim is not the same as actually. Was it actually being drawn up or was it an aim that it should be drawn up?

Mr Stephens: Work was under way with the objective of having it in place. We were trying to accelerate progress ahead of what might be the normal Olympic schedule for the security plan. We did not make the progress we wanted to last year, but what we did do was identify the problems and issues that needed to be addressed, issues around governance and co-ordination across multiple departments and agencies, and we believe we have taken action to put that right so that we are now aiming to deliver the costed plan by the end of this year.

Q73 Mr Burstow: That point brings me on to my next question: the intention is to deliver the overall plan by September of this year, and yet the security plan will follow after. Presumably, it is not the whole plan that will be delivered in September.

Mr Stephens: The intention is to have a draft which is considered by the key agencies and stakeholders involved early in the autumn so that the final costed operational plan can be considered and approved by the end of the year.

Q74 Mr Burstow: But presumably, in terms of your scheduling, you must assume there will have to be a further iteration of the overall plan once you actually have the final sign-off on your security plan.

Mr Stephens: Indeed, there will need to be constant reiteration once the planning work has been undertaken.

Q75 Mr Burstow: Presumably, the plan that comes out in September is more of a draft, given how significant security is.

Mr Stephens: Yes.

Q76 Mr Burstow: So it is not a final plan.

Mr Stephens: No. I am sorry. I should just be clear about when the plan is coming out. This is at this stage an internal management document. It is not the intention at this stage to publish. I thought I should clarify that.

Q77 Mr Burstow: A final thing just on the ODA project contingency. Can you tell us what the monitoring and high-level reporting are in respect of this when people exercise the delegated authorities that are in place within that?

Mr Higgins: It reports through to our Board every month: detailed reporting. It reports through to the Government Olympic Executive office as well, and any application for that contingency comes through a Change Control Board, which meets monthly, which has representatives of the Department sitting on it.

Q78 Mr Burstow: How many have been submitted so far?

Mr Higgins: A variety. I would not know the exact number.

Q79 Mr Burstow: Could you let us have a note?

Mr Higgins: Yes.⁶

Q80 Mr Burstow: What is the total value of those that have been agreed to so far?

Mr Higgins: Again, I do not know that exact figure.

Q81 Mr Burstow: Perhaps you could add that to your note.

Mr Higgins: Sure, yes.⁷

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Q82 Chairman: Mr Stephens, how will you know that these venues will deliver value for money when you do not have a clear idea what you are going to do with them after the Olympic Games?

Mr Stephens: We do have a clear idea of the envisaged end use. It is set out in one of the tables in the Report; on page 31, table 12 sets out the intended end use. To take the first one, the Main Stadium, it is absolutely fundamental to the design that has been adopted that we are moving down from the 80,000-seater stadium required for the Games period to the 25,000-seater stadium for legacy use. So that has been absolutely fundamental to the design.

Q83 Chairman: What I do not understand is in paragraph 3.39 on page 31 it says: “The London Development Agency, working with the Olympic Delivery Authority, is now leading work to develop a business plan for the future of the Olympic Park.” Why is it framed in those terms? The way you seemed to have answered my question was: “Yes, we know exactly what is going to happen already.” Why is it written in this way in the Report which you have agreed?

Mr Higgins: As we know, there is a change-over from the ODA to the LDA, because the LDA own the freehold to a reasonable part of the park and the rest of the freehold is owned by the Lea Valley Park Authority. They are the long-term legacy owner of the facilities such as the Velodrome and the Eton Manor facilities. The LDA were designated by the Olympic Board as the legacy owner for the southern end of the park. They have appointed Grant Thornton as consultants to create a business plan for the future revenues for the park but, as this chart shows, much work has been done on knowing what the physical side—

Q84 Chairman: So we now do have a clear idea for the future of the Olympic Park, do we?

Mr Higgins: Indeed. We are putting in a planning application for all the landscaping for the park in October this year. So an enormous amount of work is going on at the moment between the LDA, the ODA and local authorities as to the final design of the park.

Q85 Chairman: Are you absolutely sure that the legacy, which we are all very sensitive about, will not be compromised by the need to deliver the Olympics to time and to budget?

Mr Higgins: I am absolutely confident because—

Q86 Chairman: You are confident of that, are you?

Mr Higgins: Yes, I am.

Q87 Chairman: Because legacy can be very expensive, and you only have so much, although Mr Bacon describes it as a “humongously huge”

contingency. You are really giving a cast-iron assurance to the Committee that the legacy will not be frozen out because of the need to deliver to time and to budget?

Mr Higgins: No, it will not be frozen out, because the biggest investments for legacy are long-term jobs, economic development, and that is a platform we are building. It is also the work we are doing to win jobs. Over 10% of all of the people that work on the project are unemployed people, and 70% of all our contracts let in the project are to small and medium enterprises. These are long-term investments in the economic regeneration of this valley, which needs that level of investment. That is ultimately the legacy—much more important in the end than a playing field is the economic regeneration of that area.

Q88 Chairman: My very last question is that there is a history; as the previous Olympics goes ahead, important lessons are learned, and lots of people with a finger in this particular Olympic pie start making all sorts of suggestions to you about what went wrong in Beijing, what went right, and a huge spotlight then descends on you. This, if previous Olympic history is to be believed, can lead to a lot of changes. What are your plans to deal with this?

Mr Stephens: You are absolutely right, and that is a key risk that is identified in our strategic risk registers which we have drawn up. One of the ways in which we have managed that risk is to ensure on the construction programme that the scope of the programme was defined and agreed when it needed to be in order to draw up the budget, so that any changes to that will be clearly identified and have to go through a process of control and management of those changes. We are also making sure that we are at a suitable level in Beijing to ourselves be able to learn the lessons, and we are all clear that post Beijing there must be continued and vigorous pressure downwards on costs and any changes in scope.

Mr Higgins: That is absolutely right. It is one of the biggest risks that people come back from Beijing and decide to change everything. So we are getting as much of the design tied down as possible before we let anyone go there.

Q89 Chairman: When will we have detailed financial forecasts on policing and wider security? When will that be available to us?

Mr Stephens: We have the £600 million budget and all the planning that is being done is being done within that £600 million budget. I do not see any reason to expect that the costed plan will depart from that.

Chairman: Thank you very much for briefing us on the progress you are making. We are very grateful. Thank you, gentlemen. That concludes our public hearing.

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

Questions 77-78 (Mr Burstow): Note on how many applications have been submitted to the Olympic Delivery Authority's (ODA) Change Control Board, and what is the total value of those that have been agreed.

As the NAO Report details, ODA project contingency is the sum of individual project level contingencies, at November 2007, for each of the 50 projects within the ODA programme, and covers project specific risks such as design and contracting uncertainties. The project contingency figure of £973 million is within the ODA baseline budget of £6,090 million. As David Higgins stated in his PAC evidence, project contingency is a sum ODA expects to spend in full which is why it is included within the ODA's baseline budget. As he also said it has "been created in many ways from value engineering and costs savings we have carried out over the last year". To date, the ODA has placed 64 applications for project contingency totalling £175 million.

Question 67 (Mr Burstow): Note on governance arrangements about how impasses are broken.

The Master Framework Memorandum (MFM) clearly sets out that Olympic Board should take decisions by unanimous consensus. That is the founding principle of the MFM, and characterises the successful approach to London's bid, and our work in preparing for the Games since. However, the MFM does also make clear that where a vote is necessary matters will be decided by a simple majority of Olympic Board members.

Alongside these broad operating principles are a number of specific consent rights. So, for example, any funding decision requires the approval of the funder or funders' consent, and any material change to the sporting elements of the Games (as set out in Candidate File/ HCC) would have to be approved by the London 2012 Organising Committee and the British Olympic Association.
