



House of Commons  
Committee of Public Accounts

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# Preparations for the London 2012 Olympic and Paralympic Games

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Seventy-fourth Report of Session  
2010–12

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

*Ordered by the House of Commons  
to be printed 29 February 2012*

**HC 1716**  
Published on 9 March 2012  
by authority of the House of Commons  
London: The Stationery Office Limited  
£12.00

## Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine "the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit" (Standing Order No 148).

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Justine Greening (*Conservative, Putney*)  
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Rt Hon Mrs Anne McGuire (*Labour, Stirling*)

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The powers of the Committee are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the internet via [www.parliament.uk](http://www.parliament.uk).

### Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at [www.parliament.uk/pac](http://www.parliament.uk/pac). A list of Reports of the Committee in the present Parliament is at the back of this volume. Additional written evidence may be published on the internet only.

### Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Lori Verwaerde (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

### Contacts

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## Summary

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The Olympic Games are a huge endeavour against a fixed deadline and under the eyes of the world. The Government's preparations and management of the £9.3 billion Public Sector Funding Package are led by the Department for Culture, Media and Sport. The Department works with a wide range of bodies including the Olympic Delivery Authority, which is responsible for the construction of new venues and infrastructure required for the Games, and the London Organising Committee of the Olympic and Paralympic Games (LOCOG), which is responsible for staging the Games.

The Olympic Delivery Authority's programme is on track and within budget. The Delivery Authority's management of its building programme has been exemplary. However, due mainly to significant increases in the cost of venue security, the likelihood of staying within the overall £9.3 billion Public Sector Funding Package is very finely balanced once the Department's own best estimates of the most likely costs are taken into account. The Funding Package of £9.3 billion allocated to the Olympics does not cover the totality of the costs to the public purse of delivering the Games and their legacy, which are already heading for around £11 billion.

The Government is highly dependent on LOCOG to deliver a successful Games and is obliged to meet any shortfall between LOCOG's costs and revenues. However, operational and financial risks have emerged in areas of LOCOG's responsibility. LOCOG's initial estimates for the cost and scale of venue security were based on a "finger in the air estimate", there have been delays in the LOCOG-led consultations over transport arrangements, and LOCOG itself now has almost no contingency left to meet further costs, even though it has done well in its revenue generation.

The number of security guards required in and around the venues has more than doubled from LOCOG's early estimate of 10,000 guards to 23,700. Consequently, the total cost to the Public Sector Funding Package of venue security has nearly doubled in a year from £282 million in 2010 to £553 million in December 2011. 7,500 of the extra guards will be military personnel. LOCOG and its security contractor, G4S, now face a significant challenge to recruit, train and coordinate all the security guards in time for the Games.

LOCOG has had to renegotiate the contract for venue security it awarded to G4S in December 2010. However, there is no evidence that the Government has secured any price advantage, even though the value of the business it is putting to its contractor has increased from £86 million to £284 million. Despite the assertions of LOCOG and the Home Office, we consider that LOCOG's estimates for venue security could have been better informed much earlier, and that LOCOG's late planning undermined its negotiating position and ability to drive down costs.

With only 109,000 new people regularly participating in sport against an original target (which the new Government chose not to adopt) of 1 million by March 2013, the Department for Culture, Media and Sport has got poor value for money for the £450 million spent through sporting National Governing Bodies. It is unclear what the sporting participation legacy of the Games is intended to be.

On two matters - additional money for ceremonies and the dropping of the sports participation target - the Accounting Officer declined to engage with us on the grounds that these were Ministerial policy decisions. It is important to note that where policy has changed the Accounting Officer remains accountable to Parliament for the value for money of public expenditure incurred.

Whilst we applaud the progress made so far, we heard that responsibility for delivery of the legacy is shared across many different parts of Government, and this rings alarm bells about the effective integration of the various legacy plans and about clear accountability to us and the taxpayer. When we return to the examination of the Olympic legacy we expect clarity over precisely who will be accountable to Parliament for delivering the benefits to taxpayers from their significant spending on this programme. We were concerned that the Department was unable to quantify what funding has been set aside by London boroughs for the socio-economic regeneration of East London as in the current economic climate such funding must be regarded as uncertain.

On the basis of a Report by the Comptroller and Auditor General,<sup>1</sup> we took evidence from the Department for Culture, Media and Sport, the Home Office, LOCOG, Transport for London and the Olympic Park Legacy Company.

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1 *Preparations for the London 2012 Olympic and Paralympic Games: Progress report, December 2011, HC 1596, Session 2010-12*

## Conclusions and recommendations

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1. **It will be important that the full cost to the public purse of the Games and their legacy is transparent.** The £9.3 billion Public Sector Funding Package is close to being used up after taking account of the most likely expenditure, and the Government is also obliged to meet any shortfall in LOCOG's finances. In addition, there have always been costs outside the Funding Package, such as £766 million to purchase the Olympic Park land and at least £826 million for the legacy programme. As a result, the full cost to the public purse of delivering the Games and the legacy projects is already heading for around £11 billion. However the Department has since made clear that it estimates that £100 million of the funding package will remain as headroom. The Department should produce a single auditable account covering Olympics and legacy-related public expenditure and income within six months of the Games ending.
  
2. **Operational and financial risks have emerged in areas of LOCOG's responsibilities. This is important because the Government is highly dependent on LOCOG to deliver a successful Games and is spending over £800 million through LOCOG.** LOCOG now needs more than twice the number of guards it originally estimated for venue security and associated cost estimates have almost doubled in a year. There have also been delays in LOCOG's consultations on changes to London's road network. In addition, LOCOG itself has now almost no contingency remaining in its budget. In view of the critical dependency on LOCOG, and the risks that have emerged, the Department should set out in its reply to us what more it is going to do to satisfy itself that LOCOG's plans are adequate, complete, and are now fully-costed.
  
3. **The cost of venue security has nearly doubled in the past year, from £282 million to £553 million. Despite significantly increasing the business for its security contractor, there is no evidence of LOCOG securing any price advantage when renegotiating the contract.** LOCOG signed a contract for venue security in December 2010, based on what the Home Office described as a "finger in the air estimate", with an estimated cost of £86 million. Since then, both the number of guards required and the expected costs have roughly doubled, and LOCOG has renegotiated the contract, which now has a current estimated cost of £284 million. 7,500 of the 23,700 guards will be military personnel, and 3,300 will be civilian volunteers, but recruiting the remainder, and training them, will present significant challenges in the short time available. We do not accept LOCOG's and the Home Office's assertion that the likely cost and numbers could not have been better estimated much earlier. Against this background:
  - the Home Office should make clear who is accountable to Parliament for the delivery of, and the value for money of public expenditure on, venue security;
  - in response to our report, the Government - as funder of venue security costs - should provide an assessment of the extent to which LOCOG renegotiating the contract, without competition, has contributed to the increased contractual costs; and

- the Department should carry out a lessons learned exercise on why the original estimates were so wrong.
4. **Despite spending £450 million poor progress has been made on the original target to get 1 million more people participating in sport by March 2013; this expenditure represents poor value for money.** Increasing participation in sport was a key part of the rationale for bidding for the Games in the first place. Sport England is funding the National Governing Bodies of sports for this purpose, but after three years of a five-year programme it is a long way short of the original goal, with only 109,000 more people taking part in sporting activities. The Department told us that the Government has chosen not to adopt the target of 1 million new participants, and that it is now aiming to improve sports participation through the School Games and other programmes. The Department was unable to provide us with any sense of the scale of its current ambitions. The Department should set out the level of sports participation it now expects as the Olympic legacy.
  5. **It is not clear who will be accountable for the delivery and coordination of the promised Olympic legacy once the Games are over.** We were told that responsibility is shared across “many different parts of government”, which leaves us concerned about the scope for failure to coordinate activities properly and for a lack of clarity over respective responsibilities. The Department should set out precisely who will be accountable to Parliament for delivering the legacy benefits from the significant public spending on the Games, and how various legacy strands will be coordinated after the Games.

# 1 The public sector costs of the Games and their legacy

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1. The 2012 Olympic and Paralympic Games will open on July 27. The Government's preparations and management of the £9.3 billion Public Sector Funding Package are led by the Department for Culture, Media and Sport. The Department works with a wide range of bodies including the Olympic Delivery Authority, which is responsible for the construction of new venues and infrastructure required for the Games, and LOCOG, which is responsible for staging the Games.<sup>2</sup> The Olympic Delivery Authority's management of its construction programme has been exemplary and it remains on track to deliver its venues and infrastructure programme on time and within budget.<sup>3</sup>

2. The Department remains committed to delivering the Games within the £9.3 billion Public Sector Funding Package (PSFP), but the Funding Package has had to absorb significant additional costs, including a £271 million increase in the cost of securing the Olympic venues during the Games, and £41 million for the opening and closing ceremonies.<sup>4</sup> Consequently, £528 million of contingency remains to cover the potential impact of risks between now and the Games.<sup>5</sup> The Department estimates that the financial impact of remaining cross-programme risks could be anything from £127 million to £1 billion, but it has since made clear that it estimates it will retain over £100 million<sup>6</sup> of headroom in the PSFP above assessed risks.

3. There are other significant public sector costs which do not fall within the £9.3 billion Public Sector Funding Package, but which take the total estimated cost to the public purse of delivering the Games and their legacy to at least £11 billion. These costs include £766 million to purchase the Olympic Park land, around £826 million for legacy projects and expenditure on Games-related activities by Government Departments.<sup>7</sup>

4. LOCOG is intended to be privately funded, through sponsorship, merchandising, ticket sales and contributions from the International Olympic Committee.<sup>8</sup> LOCOG has done well so far with generating revenue, particularly by raising £700 million through sponsorship.<sup>9</sup> LOCOG has to raise a further £200 million to reach its revenue target. LOCOG expects £130 million to come from the sale of remaining tickets and told us that it is absolutely certain that it will achieve this.<sup>10</sup> However, LOCOG's budget is very finely balanced: after taking account of the cost of meeting expected risks, it has only £5 million of headroom remaining. The Government is obliged under guarantee to meet any shortfall

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2 C&AG's report, paragraph 2

3 Q1; C&AG's report, paragraph 5

4 Qq23, 24, 37; C&AG's report, paragraph 9

5 Qq4, 10

6 Ev 28

7 Qq18-23, 177; C&AG's report, paragraph 5.5

8 Q128; C&AG's report, paragraph 5.8

9 Qq139-140; C&AG's report, paragraph 5.9

10 Qq130, 139

in LOCOG's budget. In addition to its own £2.2 billion budget, LOCOG is spending £867 million from the Public Sector Funding Package – the majority of which is for venue security - on behalf of the Department for Culture, Media and Sport and the Home Office.<sup>11</sup>

## 2 Operational delivery of the Games

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5. As planning for the operational delivery of the Games has progressed, significant cost pressures and delivery risks have emerged, particularly with venue security. LOCOG initially estimated that it would need 10,000 security guards to secure the Olympic venues during the Games, based largely on information from the 2002 Commonwealth Games in Manchester with some information from the 2006 Winter Olympic Games in Turin.<sup>12</sup> The Home Office described this as an initial “finger in the air” estimate. The Department and the Home Office told us that detailed planning could not begin until plans for the Games, including the competition schedule and venues, had been completed in early 2011.<sup>13</sup> However, LOCOG did contract with G4S in December 2010 for the provision of 2,000 guards with the remainder expected to come from volunteers and a government funded programme through colleges of further education. By the end of 2011, when the Home Office and LOCOG had completed detailed planning, the estimated number of security guards required had more than doubled to a maximum of 23,700 on peak days.<sup>14</sup>

6. LOCOG has now renegotiated its contract with G4S to recruit and train the increased number of security guards, and to deploy and manage the security staff during the Games. To help meet the recruitment challenge, the Ministry of Defence has agreed to provide 7,500 military personnel to work as security guards during the Games; this is in addition to around 3,300 civilian volunteers. The remaining requirement for around 13,000 will be supplied by G4S.<sup>15</sup> LOCOG and the Home Office told us that they are confident that G4S will be able to provide all the required private sector security guards.<sup>16</sup>

7. LOCOG and the Home Office explained that the diversity of the security workforce, including the trained military personnel, would help manage the risk to the security of the Games.<sup>17</sup> LOCOG and the Home Office told us, for example, that security roles will be allocated to people with appropriate skills, with volunteers welcoming people to the venues and directing them to search and screening positions, and trained security personnel operating the screening equipment and carrying out searches.<sup>18</sup> In addition, the Home Office told us that they have received assurance that security guards being supplied by G4S will be appropriately skilled and will all be qualified to nationally recognised standards.<sup>19</sup>

8. The increase in the number of security guards required has nearly doubled the cost to the Public Sector Funding Package from £282 million at the time of the 2010 Spending Review, to £553 million, including £46 million for the cost of military personnel.<sup>20</sup> Following LOCOG’s renegotiation of the contract with G4S, there appears to

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12 Q62; C&AG’s report, paragraph 3.7.

13 Qq99 – 100.

14 Q63, 67; C&AG’s report, paragraphs 3.7 - 3.8

15 Q98.

16 Qq66, 68

17 Qq30, 80, 82-83

18 Q83

19 Q68

20 Q28; C&AG’s report, paragraphs 3.7 – 3.8.

be around a 6-fold increase in the number of security guards to be provided by G4S and the total number to be managed and deployed has more than doubled. However, the programme management costs have increased nearly 9-fold (from £7 million to £60 million) and operational costs more than 20-fold (from £3 million to £65 million). Overall, the estimated costs of the contract with G4S rose from £86 million in December 2010, when the contract was signed, to £284 million in December 2011. LOCOG did not negotiate a reduction in G4S's profit margin on the increased security guard requirement.<sup>21</sup>

9. LOCOG told us that the contract with G4S compares favourably with other contracts in place between Government and G4S.<sup>22</sup> In addition, the Home Office told us that in its opinion the costs would not have been lower had planning started earlier.<sup>23</sup> However, it is not clear from the information provided to us that the increased costs under the contract with G4S reflect only the changed requirements, or whether, they are also the consequence of renegotiating the contract in a non-competitive environment. In addition, the increase in the overall cost of venue security is the main reason why the Public Sector Funding Package is now so finely balanced.

10. The other major operational challenge is that of transporting athletes, officials and spectators to and from the Olympic venues, while keeping the rest of London running efficiently.<sup>24</sup> Transport for London only took control of major elements of transport operations in 2011 from the Olympic Delivery Authority. This was a late decision but the Department considers that the new arrangements are working well.<sup>25</sup> However, there have been delays in LOCOG's public consultations on the impact of all the road closures required for the Games, so communicating the impact to road users remains a challenge.<sup>26</sup>

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21 Q73

22 Q111

23 Qq63

24 C&AG's report, paragraph 3.10

25 Qq121 - 122

26 Q117, C&AG's report, paragraph 3.16

## 3 Delivering the promised legacy

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11. Providing a lasting legacy was central to London's bid to host the Olympic and Paralympic Games, and encouraging people to participate in sport is one of the key themes of the promised legacy.<sup>27</sup> In 2008, the previous Government set Sport England the target of increasing the number of adults participating in sport by 1 million by March 2013. To date, despite £450 million spent through National Governing Bodies, only 109,000 new people are regularly participating in sport.<sup>28</sup> The Department told us that the Government will announce a new approach to encouraging sports participation in early 2012.<sup>29</sup>

12. The Department told us that the current government is committed to increasing participation in sport, and, in particular, increasing participation in sport through the School Games.<sup>30</sup> However, the Department told us that Ministers have chosen not to adopt the target of 1 million more participants in sport and have not put in its place any quantified target. Consequently, it is now unclear what the scale of the Government's ambitions in terms of sports participation are, and what the sports participation legacy will be.<sup>31</sup>

13. It is not clear who, if anyone, will be responsible for overseeing the delivery of the legacy. The Department told us that responsibility and accountability for delivery of the legacy is shared across many different parts of government. For example, responsibility for the Olympic Park Legacy Company is expected to transfer to the Mayor of London in April 2012, whereas the sports legacy is the responsibility of the Department for Culture, Media and Sport.<sup>32</sup> The Department was unable to quantify what funding has been set aside by London boroughs for the socio-economic regeneration of East London, and in the current economic climate such funding must be regarded as uncertain, but did point to some progress already made, such as the opening of the Westfield shopping centre.<sup>33</sup>

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27 C&AG's report, paragraph 4.1 – 4.2

28 Q144; 149; C&AG's report, paragraph 4.7

29 Q152

30 Q144, 146

31 Qq149-150

32 Qq184 - 185

33 Qq 175-176

# Formal Minutes

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**Wednesday 29 February 2012**

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon

Stephen Barclay

Matthew Hancock

Meg Hiller

Stewart Jackson

Fiona Mactaggart

Austin Mitchell

Nick Smith

Ian Swales

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

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

Paragraphs 1 to 13 read and agreed to.

Conclusions and recommendations 1 to 5 read and agreed to.

Summary read and agreed to.

*Resolved*, That the Report be the Seventy-fourth Report of the Committee to the House.

*Ordered*, That the Chair 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.

Written evidence was ordered to be reported to the House for placing in the Library and Parliamentary Archives.

[Adjourned till Monday 5 March at 3.00pm]

## Witnesses

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### Wednesday 14 December 2012

Page

**Jonathan Stephens**, Permanent Secretary, Department for Culture, Media and Sport, **Paul Deighton**, Chief Executive, LOCOG, **Peter Hendy**, Commissioner, Transport for London, and **Dame Helen Ghosh**, Permanent Secretary, Home Office

Ev 1

**Jonathan Stephens**, Permanent Secretary, Department for Culture, Media and Sport, and **Andrew Altman**, Chief Executive, Olympic Park Legacy Company

Ev 15

## List of printed written evidence

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1	London Councils	Ev 20
2	Olympic Park Legacy Company	Ev 22
3	Department for Culture, Media and Sport and the Home Office	Ev 26

# List of Reports from the Committee during the current Parliament

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The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

## Session 2010–12

First Report	Support to incapacity benefits claimants through Pathways to Work	HC 404
Second Report	Delivering Multi-Role Tanker Aircraft Capability	HC 425
Third Report	Tackling inequalities in life expectancy in areas with the worst health and deprivation	HC 470
Fourth Report	Progress with VFM savings and lessons for cost reduction programmes	HC 440
Fifth Report	Increasing Passenger Rail Capacity	HC 471
Sixth Report	Cafcass's response to increased demand for its services	HC 439
Seventh Report	Funding the development of renewable energy technologies	HC 538
Eighth Report	Customer First Programme: Delivery of Student Finance	HC 424
Ninth Report	Financing PFI projects in the credit crisis and the Treasury's response	HC 553
Tenth Report	Managing the defence budget and estate	HC 503
Eleventh Report	Community Care Grant	HC 573
Twelfth Report	Central government's use of consultants and interims	HC 610
Thirteenth Report	Department for International Development's bilateral support to primary education	HC 594
Fourteenth Report	PFI in Housing and Hospitals	HC 631
Fifteenth Report	Educating the next generation of scientists	HC 632
Sixteenth Report	Ministry of Justice Financial Management	HC 574
Seventeenth Report	The Academies Programme	HC 552
Eighteenth Report	HM Revenue and Customs' 2009-10 Accounts	HC 502
Nineteenth Report	M25 Private Finance Contract	HC 651
Twentieth Report	Ofcom: the effectiveness of converged regulation	HC 688
Twenty-First Report	The youth justice system in England and Wales: reducing offending by young people	HC 721
Twenty-second Report	Excess Votes 2009-10	HC 801
Twenty-third Report	The Major Projects Report 2010	HC 687

Twenty-fourth Report	Delivering the Cancer Reform Strategy	HC 667
Twenty-fifth Report	Reducing errors in the benefit system	HC 668
Twenty-sixth Report	Management of NHS hospital productivity	HC 741
Twenty-seventh Report	HM Revenue and Customs: Managing civil tax investigations	HC 765
Twenty-eighth Report	Accountability for Public Money	HC 740
Twenty-ninth Report	The BBC's management of its Digital Media Initiative	HC 808
Thirtieth Report	Management of the Typhoon project	HC 860
Thirty-first Report	HM Treasury: The Asset Protection Scheme	HC 785
Thirty-second Report	Maintaining financial stability of UK banks: update on the support schemes	HC 973
Thirty-third Report	National Health Service Landscape Review	HC 764
Thirty-fourth Report	Immigration: the Points Based System – Work Routes	HC 913
Thirty-fifth Report	The procurement of consumables by National Health Service acute and Foundation Trusts	HC 875
Thirty-seventh Report	Departmental Business Planning	HC 650
Thirty-eighth Report	The impact of the 2007-08 changes to public service pensions	HC 833
Thirty-ninth Report	Department for Transport: The InterCity East Coast Passenger Rail Franchise	HC 1035
Fortieth Report	Information and Communications Technology in government	HC 1050
Forty-first Report	Office of Rail Regulation: Regulating Network Rail's efficiency	HC 1036
Forty-second Report	Getting value for money from the education of 16- to 18-year olds	HC 1116
Forty –third Report	The use of information to manage the defence logistics supply chain	HC 1202
Forty-fourth Report	Lessons from PFI and other projects	HC 1201
Forty-fifth Report	The National Programme for IT in the NHS: an update on the delivery of detailed care records	HC 1070
Forty-sixth report	Transforming NHS ambulance services	HC 1353
Forty-seventh Report	Reducing costs in the Department for Work and pensions	HC 1351
Forty-eighth Report	Spending reduction in the Foreign and Commonwealth Office	HC 1284
Forty-ninth Report	The Efficiency and Reform Group's role in improving public sector value for money	HC 1352
Fiftieth Report	The failure of the FiReControl project	HC 1397

Fifty-first Report	Independent Parliamentary Standards Authority	HC 1426
Fifty-second Report	DfID Financial Management	HC 1398
Fifty-third Report	Managing high value capital equipment	HC 1469
Fifty-fourth Report	Protecting Consumers – The system for enforcing consumer law	HC 1468
Fifty-fifth Report	Formula funding of local public services	HC 1502
Fifty-sixth Report	Providing the UK's Carrier Strike Capability	HC 1427
Fifty-seventh Report	Oversight of user choice and provider competition in care markets	HC 1530
Fifty-eighth Report	HM Revenue and Customs: PAYE, tax credit debt and cost reduction	HC 1565
Fifty-ninth Report	The cost-effective delivery of an armoured vehicle capability	HC 1444
Sixtieth Report	Achievement of foundation trust status by NHS hospital trusts	HC 1566
Sixty-first Report	HM Revenue and Customs 2010-11 Accounts: tax disputes	HC 1531
Sixty-second Report	Means Testing	HC 1627
Sixty-third Report	Preparations for the roll-out of smart meters	HC 1617
Sixty-fourth Report	Flood Risk Management	HC 1659
Sixty-fifth Report	DfID: Transferring cash and assets to the poor	HC 1695
Sixty-sixth Report	Excess Votes 2010-11	HC 1796
Sixty-seventh Report	Whole of Government Accounts 2009-10	HC 1696
Sixty-eighth Report	Ministry of Defence: The Major Projects Report 2011	HC 1678
Sixty-ninth Report	Rural payments Agency – follow up of previous PAC recommendations	HC 1616
Seventieth Report	Oversight of special education for young people aged 16-25	HC 1636
Seventy-third Report	The BBC's efficiency programme	HC 1658
Seventy-fourth Report	Preparations for the London 2012 Olympic and Paralympic Games	HC 1716

# Oral evidence

## Taken before the Committee of Public Accounts on Wednesday 14 December 2011

Members present:

Margaret Hodge (Chair)

Mr Richard Bacon  
Stephen Barclay  
Jackie Doyle-Price  
Matthew Hancock  
Chris Heaton-Harris  
Meg Hillier

Joseph Johnson  
Fiona Mactaggart  
Austin Mitchell  
Nick Smith  
Ian Swales

**Amyas Morse**, Comptroller and Auditor General, **Gabrielle Cohen**, Assistant Auditor General, NAO, **Ashley McDougall**, Audit Manager, NAO, and **Marius Gallaher**, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

### Examination of Witnesses

*Witnesses:* **Jonathan Stephens**, Permanent Secretary, Department for Culture, Media and Sport, **Paul Deighton**, Chief Executive, LOCOG, **Peter Hendy**, Commissioner, Transport for London, and **Dame Helen Ghosh**, Permanent Secretary, Home Office, gave evidence.

**Q1 Chair:** Apologies for keeping you waiting. It is our last session before Christmas and we cancelled Monday because of the European statement, so we had a whole load of reports to go through. Thank you for your tolerance, and welcome. Jonathan, it is the first time you have appeared before us and Dame Helen, it is the third or fourth time you have appeared. Welcome, too, to Peter Hendy and all of you.

I am conscious of the fact that we had to limit the witnesses, because we are already having two sessions—one on where we are now and one on the legacy. We therefore did not ask for the Olympic Delivery Authority to be here, but I think the chief executive is sitting there and I wanted, as a Committee, to record that we think the job that the ODA has done has been an excellent exemplar of how to manage projects in the public domain. Not asking you as a witness in no way decries your contribution to that, so I hope you can take that as read, although I think Members will want to raise one or two issues relating to the ODA with you, Jonathan, if that is all right.

I am going to go directly to the budget to start with—we want to talk about budget, security and transport as the key issues in this session—and I refer you in particular to part 5, paragraph 5.4, of our report. We understand that the figures in paragraph 5.4 were agreed by you as the Olympic executive, or with that sort of hat on. Your view was that there were risks still, ranging from £127 million at best to £1 billion at worst. You concur with that?

**Jonathan Stephens:** Yes.

**Q2 Chair:** And that of those risks that were likely to translate into actual expenditure, most of the half a billion pounds left uncommitted by contract would be committed and, on your best estimate today, there is only £36 million left as uncommitted expenditure? We can make the distinction—I understand that you are

not in a contract, but they are committed in that you expect to spend all bar £36 million. Is that correct?

**Jonathan Stephens:** What I have always said since my first appearance before the PAC in 2007 was that the only safe assumption was that we would need the full budget, including the full contingency. That is what the contingency is provided for.

On the situation today, I completely agree. All those figures are as agreed. Indeed, they are as provided by us. They are our figures and our identification and quantification of risks. The situation as of today is that the money actually spent to date is about £6.3 billion, with £3 billion unspent. Most of that, of course, is committed under contract or equivalent means.

The remainder that is not formally committed at this time—there is £800 million left—we have identified and put into the public domain pressures against that uncommitted spend. We have identified known pressures, those where we are pretty confident that spending will clearly materialise, of £300 million, mainly the extra costs of security guarding. That leaves, between the programme contingency held centrally and the programme contingency held currently with the ODA, uncommitted funds of just over £500 million. Then what we do, both against the ODA spend and against the programme spend as a whole, is assess and try to identify all the known remaining risks. So we carefully identify with all the potential deliverers the risks that might arise. We identify them and seek to quantify a range of costs that might arise against those risks.

Of course, none of that money is committed at this stage, nor is that a prediction that so much will be required or that so much will be required against particular risks. It is an attempt to assess, against a prudent assessment of what might materialise, whether the contingency left is sufficient. Having done all of that for all those risks to be quantified against the £354 million held centrally with the

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programme, something like £250 million or so of quantified risks on a prudent assessment of what might arise and be required can be identified against known risks. Then we add into that an element for unknown unknowns—things that no one can think of but that might just arise—and that is another £60 million. Once you have taken account of all of that, there is still £36 million left as headroom on top of that. That is not a prediction of what we will spend, but it gives us confidence and you assurance that, against a reasonable view of risks, there will be enough money left.

**Q3 Chair:** I hear that, but of course we are still 8 months away from the staging of the Games, so unknown unknowns may still arise in the next 8 months. But I happened to have the radio on for a Radio 5 interview on Sunday, pathetic as I am, in the early morning, and the Minister was on, saying that there is half a billion uncommitted, and I thought that that is not what I had read in the report the day before. So, just to be absolutely clear, you may not be contractually committed, but your best assessment as the senior responsible accountable officer for the Olympics is that you have now committed all the public money bar £36 million?

**Jonathan Stephens:** No. To be absolutely clear, that is not my assessment. My assessment is that there are uncommitted funds remaining in contingency, across the programme, of £354 million held centrally, against which there are risks, but we do not know what those risks may be and what risks may materialise.

**Q4 Chair:** That is not my understanding of what I have got from the NAO. I want to be clear: my understanding is that you have earmarked, out of that half a billion, particular issues, some of which we have here, such as further national security expenditure, which we will come to in a minute; supply chain issues; costs between existing contingencies; and while you said it was £60 million today, the report says that there is £50 million for unknown risks. That leaves you with £36 million. I accept that you are not contractually committed, but you are pretty certain that you will have to spend everything bar £36 million.

**Jonathan Stephens:** No. Just to be clear—this is a really important and valuable issue to explore, because it is all about risk management on a major project like this—the position is that we have uncommitted funds in the programme, of £354 million held in the central programme contingency, plus the Olympic Delivery Authority has £174 million of programme contingency, which it holds. None of those funds are committed to any specific outcome.

**Q5 Chair:** No, I understand that. We all accept that they are not contractually committed. But if you look at figure 4, the ODA programme of November 2011 says £6,856 million. That includes the £174 million. You are not expecting that to be unspent.

**Jonathan Stephens:** Well, nor am I at this stage saying that it will be spent. Part of our rigorous cost control is that we seek to reduce and not spend contingency if we absolutely don't have to. When we started out on this programme, the ODA had £8 billion allocated to it.

**Q6 Chair:** No, I understand all that.

**Jonathan Stephens:** That was reduced and we haven't spent it.

**Q7 Chair:** Is the £174 million real?

**Jonathan Stephens:** It is uncommitted. There are risks that may arise that have been quantified and identified by us, but it is not known whether those risks will actually arise and to what extent they will arise. It is quite possible that risks greater than £174 million will arise and that is part of what we have allowed for in our programme-wide contingency. Equally, the record of the ODA is that the contingency it has been allocated up to this stage has been more than it has required. That is in the nature of risk management. It is not about allocating funds to particular projects; it is about assessing the range of risks that may arise and assessing whether there is adequate contingency to match those. It is not predicting them. Some risks that we have identified will not arise at all, some will arise at significantly higher amounts than we have allowed for and some at lower amounts.

**Q8 Chair:** My understanding is that the story you told the NAO was different.

**Jonathan Stephens:** Just to be clear, these are our figures throughout, that the NAO has used.

**Q9 Chair:** Well, the NAO said that it would leave £36 million remaining, which is the figure that everyone is honing in on.

**Ashley McDougall:** And the Department will agree the £36 million. The description—

**Jonathan Stephens:** I am sorry, I will not agree that that is the only funding remaining. This is a very important issue.

**Amyas Morse:** But we are not saying that, so let her finish her comment.

**Jonathan Stephens:** I absolutely want to be clear: there is more than half a billion pounds of uncommitted funding that is available in the programme contingency and the ODA contingency.

**Q10 Chair:** I have to say, Jonathan, it is deeply irritating to MPs to come to a meeting and what always happens—in fact I am always rather suspicious of it—is that the reports that we have in front of us are reports that are agreed with the Department, so at least on the facts they are agreed, which is why I started with paragraph 5.4. Before this afternoon's session, I spent a long time with the NAO saying, "Are you sure about the figures here?" I was reassured by the NAO that the figures were agreed as late as last night with the Department.

**Ashley McDougall:** The figures are agreed. Jonathan has said the figures and we agreed those figures. On the description, we are taking the Department's words that it is the most likely estimate of what they will spend. We agree that it is not committed. There are no cheques. It hasn't been allocated. But the Department's own words are not that it is possible that they may spend—they may spend a little or a lot, but the most likely estimate is that they will spend £318 million against the £354 million. The difference between those two is £36 million. We absolutely agree that there is £500 million of uncommitted contingency as a starting point, but once you take in the Department's assessment of the most likely expenditure to meet assessed risks and add those

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numbers up, as the report does, that comes down to £36 million. The Department has agreed that the budget is therefore finely balanced.

**Jonathan Stephens:** I don't disagree with any of that. Indeed, that is the position that the budget has been in ever since the beginning.

**Q11 Meg Hillier:** Page 9, paragraph 15 contains the point in question. If we all agree that that is accurate, we can maybe take this a bit further, because that is the summary of what we have just heard from the NAO.

**Chair:** No, that is not. That is other money.

**Q12 Mr Bacon:** Mr Stephens, can you just tell us if you agree with this sentence? I take it that you do, in which case I am slightly puzzled as to why we have been having this long conversation. The sentence in paragraph 5.4 reads as follows—

**Jonathan Stephens:** I am sorry. Which page are you on?

**Mr Bacon:** Page 30. I will put in what I deem to be the appropriate emphasis, but all these words are from the report: "If all these risks were to materialise as quantified, in line with the Olympic Executive's most-likely estimate, the Funding Package would have £36 million remaining. As a result, the Public Sector Funding Package is finely balanced." Is there anything in those two sentences that you disagree with?

**Jonathan Stephens:** No, far from it, because that is the position that we have set out.

**Mr Bacon:** Phew!

**Jonathan Stephens:** I am slightly puzzled as well as to why we have been having—

**Chair:** I will tell you why I am puzzled. I have had two or three sessions with the NAO on this, and there was a radio programme that suggested that these figures were not the case.

**Q13 Matthew Hancock:** It appears to me that this conversation is about a confusion between a central estimate—a most-likely outcome—and an already committed outcome. I see you nodding. If paragraph 5.4 on page 30 is accurate, which you have just agreed, then the most likely outcome is that there will be £36 million remaining. That means that there are possible outcomes in which that £36 million is used up, if the downside risks materialise more strongly than your central scenario. What do you have in place to deal with that outcome?

**Jonathan Stephens:** I absolutely agree with that description. It is not so much a central estimate as a prudent estimate. The way that it has been assembled is to identify every possible risk that might arise and to attach to them a range of possible outcomes and then to bring together the mid-estimates of those. Now, in reality, not all those risks will arise at the same time, and it is extremely unlikely that all of them would arise at a high level of impact at the same time. I think that that is a prudent account.

I also absolutely agree with what the NAO said, which was that this requires, as we have applied over the past four or five years since I have been accounting officer, continuing and rigorous cost control. The understandable anxiety from the Committee might be whether there is enough contingency left for how long is to go.

**Q14 Matthew Hancock:** If your risks materialise in a negative way.

**Jonathan Stephens:** Yes. Well—with 8 months to go, there is 25% of the original £2 billion or so of contingency that was set out in 2007.

**Q15 Mr Bacon:** I thought it was £2.7 billion?

**Jonathan Stephens:** You can track back to various accounts.

**Q16 Mr Bacon:** I am just remembering our earlier hearings, that's all.

**Jonathan Stephens:** It was originally £2.2 billion with £500 million allocated to the ODA, but you actually want to track back to how much programme contingency is available against the original £1 billion of programme contingency in 2007, and it is about 35% of that. We have been conscious and said to ourselves that there is a high degree of risk that in the final months extra costs will materialise. That will be a point where the time scale and the fixed deadline are most likely to drive extra costs, so we have held back more than the proportion of the contingency in order to manage that. I have said two things since I began appearing in front of this Committee in 2007. First, we are absolutely determined—Ministers are absolutely determined—to bring this in within the £9.3 billion. Secondly, the only safe assumption is that we may need up to that full amount.

May I just make one further point on this? If you look back the budget has, if anything, been slightly reduced since we set out—just marginally, but it has been slightly reduced—and the scope of the programme has been very significantly widened since then. In particular, in 2007 we were quite explicit that one very significant risk, which was, indeed, the biggest risk at the time, could not be covered within the contingency. That was the risk of the then private sector developer deal on the village falling through. In practice, exactly that risk is what materialised with the economic crisis of 2008 and onwards. However, through the very good management of the ODA and others, and through hard work within the Government Olympic executive and with our finance director, we managed to absorb that risk, take on more than £500 million of extra cost on to the Olympic programme, turn it around, keep it going on time and sell it back to the private sector with more of a return than we anticipated.

**Q17 Chair:** We are going to come to that.

**Jonathan Stephens:** What I am demonstrating is that we have actually delivered more than expected for less.

**Q18 Chair:** We are going to come to that. It would be really appreciated, because we want to keep this session as tight as possible, if you could just stick to answering the questions. Let me ask you two questions on the budgets in general, and then we want to come to security and transport. First, you accept that as well as the £9.3 billion, about one and three quarter billion pounds has been spent on this outside the public sector funding package, so it is actually more than £9.3 billion. It is getting on for £10 billion or £11 billion—that is in paragraph 5.5—on the purchase of land, on the cost of the legacy programme, on the costs incurred in your executive of £57 million, and on £86 million in other Departments. Do you accept that?

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**Jonathan Stephens:** I agree with those figures, but what I do not accept is that that is a comparison against the public sector funding package. I do not accept that you can compare that against the original budget—

**Q19 Chair:** I am not comparing it; I am just saying that it is additional to it.

**Jonathan Stephens:** As has always been clear since 2007 and in successive reports—

**Q20 Chair:** I just think from the point of view of the public it is quite interesting that it is not £9.3 billion, but more than £11 billion.

**Jonathan Stephens:** No, I am sorry, but I think it would be misleading the public to say that.

**Q21 Chair:** Really? Buying the land, paying a further £826 million—

**Jonathan Stephens:** The land was purchased by the London Development Agency—

**Q22 Chair:** Yes, but that is public money. It has taxpayers' money given to it.

**Jonathan Stephens:** Yes, as part of its public function of developing land, and that will be paid back from development profits secured under the memorandum of understanding between the Government and the Mayor. The legacy costs, as identified by the NAO, include a large number of business-as-usual programmes, including a large amount of lottery spending that would be allocated anyway. I am not in any way wanting to hide any of these costs; I think this has been one of the most transparent programmes that there has been. We publish quarterly reports, and we have consistently identified the costs associated with the Olympics that lie outside the public sector funding package so that everyone can consistently compare—

**Q23 Chair:** Okay. If you are consistent about that, the figures in paragraph 5.5, which is where I got them from, are correct—I assume they are agreed with you. They show as additional costs and we will come back to them, because I think the legacy programme costs are not all clear at the moment; we have got a figure of £826 million. Let us just agree that. Can I just ask you one more, because I want to speed on? Are you telling this Committee that eight months before the Olympics you remain confident that you will not spend beyond the £9.3 billion public sector funding package?

**Jonathan Stephens:** Yes. That is the answer I have given consistently to that question. It is not just based on a vague feeling or aspiration; it is based on the fact that we consistently identify savings elsewhere in the programme. We do not just leave them where they are, but we make sure that those savings are recycled. Over the course of this programme, the ODA has identified more than £900 million of savings, which have been recycled elsewhere into the programme. Each part of the budget has very strict budgetary controls in place. We have strict change controls in place. We do not release programme contingency willy-nilly. We rigorously examine and release it only against clear changes in scope or genuinely unforeseen rises in costs, so there are good reasons for being confident.

**Q24 Chair:** You are confident you will do it in £9.3 billion. With £36 million remaining, under paragraph

5.4, was it sensible to add £40 million to the opening and closing ceremonies? In my calculation, you are probably spending between £90 million and £100 million now on the opening and closing ceremonies.

**Jonathan Stephens:** No. The Government have committed £41 million to the four ceremonies. In addition, LOCOG has committed its budget, which brings it up to just over £80 million, plus £7 million or so in contingency.

**Q25 Chair:** So it is about £90 million?

**Jonathan Stephens:** LOCOG's contribution is raised from private sources.

**Chair:** Some £90 million is being spent on the opening and closing ceremonies?

**Jonathan Stephens:** Yes, that is absolutely right. Of which, £41 million is—

**Q26 Chair:** Do you think that is a wise thing to do, given the tightness of the budget and given the times we live in? Do you think that is wise?

**Jonathan Stephens:** That was a policy decision taken by Ministers. It was taken from an assessment of the impact and audience of the opening ceremony and a determination by Ministers, having seen these very significant sums of capital invested in the Olympics, to make sure that all steps were taken to secure benefits, particularly economic benefits, for the country. The audience for the opening ceremony is the biggest audience for the Games; it is the biggest audience for any event anywhere, anytime. Against that, Ministers judged that it was value for money to secure the potential impact for the country—for British skills, business and the creative economy in this country.

**Q27 Chair:** But when we look at how poorly we have performed on the commitment to participation in sports—with only 100,000 signed up out of 1 million—would it not have been more sensible to spend £40 million encouraging the British people to participate in sports? Was that considered by Ministers in terms of value for money?

**Jonathan Stephens:** That is a policy decision for Ministers. I am sure they are very happy to consider and answer that, but that is properly a policy question that should be addressed to Ministers.

**Q28 Stephen Barclay:** Could I come on to the security issue? Paragraph 3.9, page 18, says: "The Home Office is in discussions with the Ministry of Defence about the provision of military personnel to act in security roles"—obviously, with only eight months still to go. Have you agreed to fully indemnify the Ministry of Defence for any costs it incurs supporting the Olympics?

**Dame Helen Ghosh:** We are well aware that any costs, whether they are the G4S costs that will be incurred by LOCOG or indeed anybody else who is involved in venue security, would be repaid. The MOD, in so far as it is making a contribution across the Games, will get appropriate repayment from the budget. That is incorporated in the £9.3 billion, incidentally.

**Q29 Stephen Barclay:** So any costs for the military will be covered on this budget?

**Dame Helen Ghosh:** They would be agreed, in the particular case around security, between the Home Office, the Treasury and the MOD.

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**Q30 Stephen Barclay:** What is your current estimate for the MOD costs?

**Dame Helen Ghosh:** There is yet to be, despite some speculation in the press today, a formal announcement about the precise numbers of military personnel who will be involved. I believe the Secretary of State for Defence is proposing to make a written ministerial statement tomorrow. Obviously, when that statement has been made and the agreement is out there, we will be making an estimate.

Of course, what we are looking for is appropriate value for money within the overall cost, and the concept that we will be looking for is a mix. We are assuming that the venue security guards will come predominantly from the private sector—from G4S—but in order to ensure some element of resilience, we thought it was appropriate to have a mix, so there will be an element of military support and there will be an element of volunteers. It will be a mixed picture, but predominately it will be G4S. Obviously, we have looked at the comparative value for money of the military contingent and how that might be made up, for example, between regular soldiers and volunteers.

**Q31 Stephen Barclay:** That has a material impact on cost, doesn't it? If you use reservists, I assume that will push your costs up.

**Dame Helen Ghosh:** But you might wish to use them for other reasons. This is obviously an operational matter for the MOD.

**Q32 Stephen Barclay:** So the statement tomorrow will clarify the split between regulars and reservists, will it?

**Dame Helen Ghosh:** Actually, I haven't seen the statement. I don't know whether it will, but I imagine it will, because the MOD would need to make forward planning, in terms of the movements of personnel, in advance of next summer.

**Q33 Stephen Barclay:** Can you give us an estimate of the number of military personnel?

**Dame Helen Ghosh:** I can't anticipate the written ministerial statement.

**Q34 Stephen Barclay:** Okay. Can you reassure us that logistical issues, such as housing, are fully addressed?

**Dame Helen Ghosh:** I can assure you that we have taken into account, on the very careful advice of MOD colleagues, both the impact on availability of military personnel for other purposes, and, indeed, issues such as location and housing and the logistics of where military personnel would be for the purposes of the Olympics. We have taken all that into account.

**Q35 Stephen Barclay:** We have in the region of 9,500 troops in Afghanistan. Just to put this in scale, media reports have ranged from about 5,000 to 8,000 troops, so this is a sizeable military commitment on top of the commitments in Afghanistan and the recent operations in Libya, and we are going to get clarity, you are saying, tomorrow on the numbers of troops, the split with the reserves, the logistical support—

**Dame Helen Ghosh:** I believe that the split with the reserves is for the logistical reasons that I have described.

**Stephen Barclay:**—and the overall budget cost, but you haven't actually seen the statement that the Minister will make.

**Dame Helen Ghosh:** I haven't seen the statement that the Secretary of State for Defence will make.

**Q36 Stephen Barclay:** But you are actually paying for this budget—it is your Department that will foot the bill.

**Dame Helen Ghosh:** Indeed. Clearly, when we have the final agreement and approval by Ministers and the statement is made, we will work with our MOD colleagues appropriately, but we have had provisional discussions. I want to re-emphasise the point that the Secretary of State for Defence, the Home Secretary and, indeed, the Prime Minister, will have taken into account the holistic picture in terms of other commitments and potential commitments going through 2012, and the outcome is one that they believe is doable while protecting the other kinds of commitments that the armed services may have. It has all been thought through extremely carefully.

**Q37 Chair:** I am a simple soul, but, if you are adding 271 million quid for 23,000 people, that works crudely at £20,000 per person to provide security for a six-week period. That seems completely potty and hardly value for money.

**Dame Helen Ghosh:** Obviously, the Home Secretary made the commitment that she did on behalf of the Government for the safety and security of the Games.

**Q38 Chair:** It is the money—20 grand per person.

**Dame Helen Ghosh:** Actually, the comparison you draw is certainly not the pay of every individual person who will be working. There are a number of elements, which I am sure Paul would be happy to describe, in terms of the overall management and training.

**Q39 Chair:** You paid for that in the first lot when you set up the structure. If you look at the way you structured the first £230 million or whatever it was, you will see that there is a structure there for management capacity. You suddenly decide to go from 10,000 to 23,000 and it adds £270 million, which is literally £20,000 per individual.

**Dame Helen Ghosh:** But you need more of the management structure for—

**Chair:** A little bit—I accept a little bit.

**Dame Helen Ghosh:** No, it is a significant determinant of the overall cost.

**Q40 Ian Swales:** Can I come in on this, because it is the one area that I wanted to probe? Have you any idea of the profitability of this contract—the original one—with G4S? The original one is £28,000 per head for the security, which is a stunning figure, especially when you read in paragraph 7 that there are only 2,000 G4S personnel and “8,000 personnel coming from volunteers and government funded programmes through colleges of further education”. That is a staggering sum of money. How open-book is this process and how competitive was the tendering?

**Dame Helen Ghosh:** I will hand over to Paul, who is the lead on negotiating the negotiations, but I would just like to say that of course that is something that Ministers have looked at extremely carefully, and that is one of the reasons why they have come up with the balance that they have of the mix of personnel. I can assure you that the Home Secretary is absolutely committed to the value for money and, indeed, to

supporting Paul and his team with the best procurement advice we can offer.

**Q41 Ian Swales:** Just give us an idea of some sort of breakdown. Clearly, we expect G4S to make a living, but how is this money being dispersed?

**Paul Deighton:** If you look at the G4S component of the £500-odd million overall security budget, you will see that it is just over £300 million. It is entirely transparent. There is a margin that goes to them, which is entirely consistent with other Government contracts that G4S has with the Government. The Government procurement people have confirmed that this is a competitive arrangement.

All the rest of the costs are passed through. About 60% of them are wages and labour, so it is all driven by the number of security guards you have and what you pay them. Going forward, our biggest risk is the spot market for security guards, so that is the one we have to manage most closely—that is what will really drive the price. About 20% of the G4S contract is the project management to deliver the overall programme—running a 23,700 programme—which, put in perspective, is twice the number of people that the police will have at Games time, so it is a really significant effort.

**Q42 Mr Bacon:** When you say 20%, do you mean 20% of £300 million—in other words, £60 million?

**Paul Deighton:** Yes.

**Q43 Mr Bacon:** When Dame Helen said that there is a significant management cost, this is what she was referring to.

**Paul Deighton:** But those costs are to pay for the people, the systems and the office space, so we have complete transparency on what they are. That money does not go to G4S. We are setting that up as a temporary organisation to—

**Q44 Mr Bacon:** How many people will be involved?

**Paul Deighton:** We have to manage the transportation, co-ordination of the whole thing and the rostering over about 150 venues, so at its peak, we anticipate that there will be something like 800 or 900 people.

**Q45 Mr Bacon:** What is the range? If the peak will be 800 to 900, what will be the lowest number?

**Paul Deighton:** Well, it builds up from zero.

**Q46 Mr Bacon:** Yes. Plainly, it will not be 900 in January or February, but it will be 900 during the Olympics.

**Paul Deighton:** Or just before.

**Mr Bacon:** If we represented it graphically, for most of the period until the opening ceremony, how many people would be involved?

**Paul Deighton:** Let's say the average would be 300.

**Q47 Mr Bacon:** I'd like to understand this a bit more closely, because £60 million sounds like an awful lot of money for project management.

**Paul Deighton:** No, but we have to rent—

**Q48 Mr Bacon:** People, systems and office space. Right, how many square feet of office space?

**Paul Deighton:** I don't have that with me.

**Q49 Mr Bacon:** I'm not expecting you to shrug, Mr Deighton; I'd like an answer.

**Paul Deighton:** The other 20%, so that we are clear on all the costs, are the operational and logistical support costs that come with the individual people.

**Q50 Mr Bacon:** Can you say that again? The operational and—

**Dame Helen Ghosh:** It is training—you have to train them.

**Paul Deighton:** We have to train them, transport some of them and feed them. In some cases, when we are bringing people in from outside London, we have to accommodate them.

**Q51 Chair:** If you had 800 people through the whole of the six-week period and a couple of weeks for training, they would be getting £50,000 per person, just to put it in context.

**Mr Bacon:** So £60 million for their training and dinner—that is what you just said, isn't it?

**Paul Deighton:** I'm talking about 23,000 people.

**Q52 Mr Bacon:** So not for the 800 or 900?

**Paul Deighton:** No. Think of the logistical support costs as a surcharge on the wages. That is what it costs to take a security guard and have him operational—

**Q53 Mr Bacon:** Just a minute, Chair, because we have not finished the earlier point. You rushed on to the final lot of 20% making 100, but we had not finished dealing with people, space and systems. You said there will be 800 to 900 people—space and systems. If it is 800 to 900 people at the max, what is the office space?

**Paul Deighton:** We could write to you with those—

**Q54 Mr Bacon:** How much will the office space cost? What have you got for office space?

**Paul Deighton:** I think the office space will be in the region of £5 million.

**Q55 Mr Bacon:** £5 million. And you have 800 to 900 people—what is their cost?

**Paul Deighton:** Let's call it an average—we have got them for approximately 9 months.

**Q56 Mr Bacon:** What I really want is an answer with pounds in it. If it is £60 million, and £5 million is for space, that leaves £55 million. Of the remaining £55 million, how much is for people?

**Paul Deighton:** I am happy to give you this breakdown in detail.

**Q57 Mr Bacon:** That is why I am asking—I'm happy if you answer, as well. What is the answer?

**Paul Deighton:** I do not have that detail of wage costs.

**Q58 Mr Bacon:** It's not that much detail—we are talking about 60 million quid here. What about systems?

**Jonathan Stephens:** I suggest we write with that detail.

**Q59 Mr Bacon:** Systems means what?

**Paul Deighton:** The IT support, because this is a—

**Q60 Mr Bacon:** That's never gone wrong, has it?

**Paul Deighton:** It is an extremely complicated exercise to roster 23,700 security guards across about 10.5 million hours of work in different shifts, to work out the patterns and to move them around to different places.

**Q61 Ian Swales:** To put this in context, this figure is more than 10 times the cost of our county police force for an entire year. It is an absolutely staggering sum.

**Q62 Meg Hillier:** Can I wind this back? I am a cheerleader for the Olympics, but this really worries me. Just wind right back. In May 2010, Mr Deighton, it was known in Government that LOCOG had not

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fully planned for the ODA finishing early. There was some concern about long-range planning for security. The Home Office at that point began to plan for that. So why is it a surprise now? Why have we only heard in recent weeks that the number of security guards will more than double?

**Dame Helen Ghosh:** Because of the very timeline that you describe. When we made the initial estimate—when LOCOG made its initial estimate of 10,000 in 2008, it was very much a best estimate. They worked on the basis of previous Olympiads: Vancouver—Beijing was not particularly representative because of the approach that the Chinese Government took. You couldn't take the numbers from that.

What has happened since then is that we know what the schedule of events is. We have a much better idea about the non-Olympic park venues. We have done analysis of the movement of visitors through the park for security. Actually, we could only have known after doing all that work what the total figure was.

**Q63 Meg Hillier:** So it has taken from May 2010 to the end of 2011 to do that work?

**Dame Helen Ghosh:** Indeed. When you say “the end of 2011”, this is obviously a debate that we have been having with LOCOG over the last few months—indeed, since earlier this year. We have been testing—I can assure you, because we have to pay the bill—whether 23,700 is an appropriate top limit. We have pressed LOCOG. We have used our own analysis. We have talked to experts in these kinds of fields and we have come to the agreement that it is an appropriate upper limit for, obviously, the peak times of the Games, as Paul describes.

Going back to Mr Swales's question, does that mean that it is more expensive now than it would have been had we known that at the beginning of 2010? We are as confident as we can be, from the kind of benchmarking we have done and from looking at other contracts of a similar kind, that we would not have saved money if we had decided that it was 23,700 earlier.

Only now can we say, with a pretty good degree of assurance, that, given the concept of operations that we have given to LOCOG, it is a pretty good estimate of the top of what we would need to provide. I don't think there is a “If only you had known that three years ago or at the beginning of 2010, the picture would have looked different”. It would have looked as it has done now and now we are confident that LOCOG, with its contracting, can go ahead and get those people in place.

**Q64 Meg Hillier:** Dame Helen, there was only one bidder, was there not? I am sure that Mr Deighton would agree that G4S were the only company that bid for the security. Is that right?

**Paul Deighton:** We originally put a contract in place with them in 2010. There were other bidders, but they won that contract. We then decided that the right thing to do was to extend their contract for the broader programme. That is why in answer to Mr Swales's question I said that what was most important was that we had full transparency on the costs because we are working with them to drive them down. They have incentives to deliver the programme more cheaply.

**Q65 Meg Hillier:** Okay. It just seemed to me, whether or not there was one bidder originally, that you have one player in the game and then suddenly you say to them, “Double”. There are two issues there. There are the risks of costs escalating. We have already heard from the Chair about the shortfall in sport participation. There are lots of other things in the Olympics that we all wanted to see. Any spare money from the Olympic budget could go for value for money for anywhere else. Then you have the logistical problems and risk issues about the recruitment at this speed, the quality of people you will get and the cost of doing all that. I will want to come back later on how all those jobs will go to local people.

**Paul Deighton:** I think you are absolutely right and that is precisely the reason why the budget has been structured in the way that it has—to make sure that we are fully covered for the potential wage risk and that we have exactly the right numbers in place. The numbers we are now looking at are the result of a very detailed process, venue by venue, dot plan.

**Q66 Chair:** You have not answered the question on the quality of the people. I think that is key.

**Paul Deighton:** That is precisely the reason why we have gone for the supply mix. So we have got one component from the private sector—G4S is very comfortable with the contribution that we will get from that marketplace—and another contribution from the military.

I met with the general who will be responsible for this last week, and they are extremely confident, obviously, in their ability to deliver outstanding people, and that the time frame is completely fine to do so. Then we have our own volunteer force. We have already interviewed 50,000 people for these roles, and made offers to the 3,000 who would fill them, so we are already well under way. The diversification is what makes us comfortable about the quality. And the training programme is there also, and costed in that way, to make sure that the operation on the ground is professionally delivered.

**Q67 Chair:** And you will be keeping them for 10 months, these people?

**Paul Deighton:** No. The Games do stretch over a longer period than you probably think. When we were talking about 10 months, that is for the project management office to co-ordinate this entire programme. The 23,700 are the total number of people, or the pool, that you will have to have to be able to roster guards across a 70-day period from when the venues open until they close.

To give you some sense of it, during the Games time, a typical day would have about 16,000 guards, or 8,000 on each shift. It is only for peak days, and to make sure that you have the right people in the right place, that you have to have a pool of 23,700, to meet that entire requirement.

**Q68 Meg Hillier:** Are you confident then, Dame Helen, that the risk of recruiting at such speed still means that you will get people who will deliver top-notch security?

**Dame Helen Ghosh:** Yes, I am confident that with the appropriate machine that Paul described—in terms of a training machine—and with the assurance that we will have, i.e. that they will all be qualified to

nationally recognised standards, we will have people of appropriate quality and skill being supplied by G4S.

**Q69 Meg Hillier:** Locally, a lot of my constituents want these jobs. When I go around the Olympic perimeter, there are a lot of former Gurkhas doing security. I am sure that they are excellent at their job, and I do not have a problem, but who is going to be auditing the recruitment processes in the private sector to make sure that local people are genuinely being successful? Will some of the alleged, which is all I can say at this point, Spanish practices of the previous recruitment under the ODA—not the ODA, but some of the subcontractors—not happen in this case? Will local people have a really fair crack of the whip at these jobs?

**Paul Deighton:** This has been an important commitment that we have made, and I have been very involved in this personally. If you put this in context, by the way, we have over 100,000 people who we need to hire as part of the contracting force, so the security guards are just a small part of that—

**Q70 Meg Hillier:** They are not going to local people, not to real local people.

**Paul Deighton:** The contractors responsible for that 100,000 are working with us very closely on recruiting fairs in the local boroughs. We have committed them to significant recruiting. We have worked with the job agencies in the boroughs that have committed to provide supply, so we have done absolutely everything we can to bring that in.

**Q71 Meg Hillier:** Do you do spot-check audits on some of the people who are then in the jobs afterwards, to make sure that they were some of the people who were being targeted?

**Paul Deighton:** We have reporting systems with the contractors, so they tell us where they got—

**Q72 Meg Hillier:** That is one of the problems, because sometimes they tell you a postcode, but the postcode does not reveal whether someone is really someone born in or who has been for a long time in Hackney, and who is looking for a job, a security job. These are absolutely the jobs that many of my constituents can get and can get trained for, and they will come out with a qualification.

**Paul Deighton:** We would be delighted to host job fairs with the security companies in your constituency to do that. You are really welcome to do that.

**Meg Hillier:** But I am also asking, Mr Deighton, that you go back and sometimes do checks on some of those people, so that you are not just getting the figures as the companies present them, because the companies will go for ease of recruitment. For them, that might not be their prime issue but, surely, for those of us who want to see a good legacy from the Olympics, the human legacy has got to be part of it.

**Q73 Amyas Morse:** Just a couple of quick questions, if I may, to clarify about the G4S contract. Obviously, it is a big increase in the numbers involved. Am I right to think that G4S gets the same profit margin on that increased volume, or did you get a reduction?

**Paul Deighton:** We did not get a reduction, no.

**Q74 Amyas Morse:** Okay. Next question, very quickly, if I may. Understanding what a difficult task this is, of ramping up the numbers, if there were a

shortfall in the numbers produced by G4S, would it be on risk for that? How would you respond if they did not manage to produce the right numbers of people?

**Paul Deighton:** They are on risk for that. Obviously, the approach in having a supply mix means that the contributions from each component add up to in excess of the target numbers, so we are very confident of our ability to deliver this programme.

**Q75 Amyas Morse:** Excellent. Finally, will you have concluded your negotiations with the MOD before the Games take place?

**Dame Helen Ghosh:** Oh yes.

**Q76 Amyas Morse:** So we will know what it is going to cost.

**Dame Helen Ghosh:** Yes, absolutely, not least because we have to plan our budget for 2012–13.

**Q77 Mr Bacon:** On that point, when Mr Barclay asked you if the MOD would be indemnified, Dame Helen, your first reaction was to smile. I wonder whether—

**Dame Helen Ghosh:** No, I was interested in the word “indemnify.” I thought that was a very smart, posh word for “repaid”.

**Q78 Mr Bacon:** It is not a particularly posh word. What the MOD presumably wants to know is that it will not cost it any money. I wonder whether you, as the Home Office, and the other powers that be in the Treasury and elsewhere, might sit down with the MOD and say, “No, the cost we really had in mind was not x, but x minus 1.” That might have been why you were smiling, because there was such a negotiation going on.

**Dame Helen Ghosh:** No, not at all. I was struck by the use of the word “indemnified”, when I was thinking of a much more straightforward word like “repaid”. That was all.

**Q79 Mr Bacon:** It is not the same, and this is important. They want to be repaid the full amount. Mr Barclay is a former regulator, so he can be forgiven a word like “indemnified”.

**Dame Helen Ghosh:** Can I just assure you that, as you know, the Secretary of State for Defence is a former shadow Chief Secretary to the Treasury? I think you can assure yourselves that he will drive a hard bargain and that you should be satisfied with the deal he drives. That is all I will say.

**Q80 Joseph Johnson:** My starting point is a general one. At a time when youth unemployment is 1 million, why are we turning to the military to do an essentially unskilled job?

**Dame Helen Ghosh:** For the reasons that Paul highlighted, which are that given the numbers we need and the fact that we need resilience, it is another aspect of risk management—that we felt that putting all our eggs in one basket was unwise in terms of risk management. Spreading our risk across 3 baskets was a safer thing to do, and to go back to the discussion we were having earlier, we would not have asked for, or the Secretary of State for Defence would not have agreed to, a higher number of military personnel being involved than he thought was wise, in terms of the other commitments that the armed services have. We think that it is a reasonable balance across those 3 sources.

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**Q81 Joseph Johnson:** Sorry, I did not really get the answer. Why can we not tap more resources from the community before we turn to the military?

**Dame Helen Ghosh:** I will ask Paul to comment, because one of the things, as this story has been unfolding, has been the extent to which we can engage, for example, people on various elements of the DWP Work programme. Although we have had some successes—G4S has had some successes—it has not been as successful as we might have hoped.

**Q82 Joseph Johnson:** Why is that?

**Paul Deighton:** Dame Helen did give the answer, that when you are recruiting that many people in that space of time and if you want assurances on them being able to do it effectively, if you have the opportunity to diversify risk by bringing in a group of highly trained people, that can—

**Q83 Joseph Johnson:** But what skills are required? I notice that you are already taking 8,000 personnel who are volunteers, which suggests that the level of specific security skills is not very great.

**Ian Swales:** That was of the 10,000, according to the report.

**Paul Deighton:** Well, let me answer the question. There are specific roles that we allocate to volunteers, which do not really put them into what I would describe as the integrity of the security chain, so they are really at the beginning of the security process—welcoming people and telling them to get ready for the search and screening process. They are what we call “pacers” and “divesters”, so it is a welcoming function.

**Dame Helen Ghosh:** What they are not doing is what you might call the harder end of the security activity, which is getting people to put their bags and so on through the screening, to walk in through the screening, and doing the frisking; that is the qualified element of it, and they will be qualified to SIA standards. Therefore, they will come out—

**Q84 Chair:** But in joined-up government, Jo is making an important point.

**Dame Helen Ghosh:** The point I am making—I am very happy to, because this is just a residual of information I have in my head—is that we have been engaging with Jobcentre Plus on this issue, about how we, or LOCOG, can link in with the Work programme. I am happy to give you a report on how that went.

**Q85 Joseph Johnson:** Thank you, that would be great. To continue with a couple of other questions, how many of the first 10,000 are actually being paid?

**Dame Helen Ghosh:** Do you mean will be paid?

**Joseph Johnson:** Yes.

**Paul Deighton:** Think of it in terms of the 23,700: the soldiers will get paid how the soldiers get paid; the volunteers will not get paid; and the security guards will get paid—

**Q86 Joseph Johnson:** Okay. So far we only have any detail on the first 10,000, so let us just look at that. You seem to have 2,000 personnel being recruited by G4S and 8,000 personnel coming from volunteers and a Government-funded programme. So, of the first 10,000, it would seem that only 2,000 are actually drawing—

**Paul Deighton:** No. Because this is such a massive programme relative to the available pool of trained security guards, we decided to set up a programme called “Bridging the Gap”. Essentially, the training is paid for by Government to increase the supply of security guards, so that we can draw people from the community and get them into these jobs. We invented that programme in order to solve this problem.

**Q87 Joseph Johnson:** So you are saying that everyone is going to be paid a standard rate, even if they are volunteers or military?

**Paul Deighton:** No, volunteers do not get paid. Soldiers get paid what soldiers get paid.

**Q88 Joseph Johnson:** Can I just go back to my original question? How many of them are going to be paid?

**Paul Deighton:** Everybody we hire—The reason I am not giving you a direct answer is because we have not yet decided on the number of soldiers. Once you have the number—

**Q89 Joseph Johnson:** Let us start with the 10,000 before we get to the further 13,000—

**Paul Deighton:** All the 10,000 will be paid, less the volunteers. Volunteers do not get paid; private security guards get paid.

**Q90 Joseph Johnson:** So why didn’t you just say 2,000 out of 10,000?

**Paul Deighton:** Because it is not; it will be 23,700. We should not be looking at the 10,000; we should be looking at the 23,700 because that is the number.

**Q91 Ian Swales:** Well, how many of those are volunteers? That’s really the question.

**Paul Deighton:** At the moment 3,000 roles have been allocated to volunteers.

**Q92 Ian Swales:** Of the 23,700?

**Paul Deighton:** Correct, and we will continue to look for more roles, but let us call it 3,000. The rest will be divided between soldiers and security guards.

**Ian Swales:** So 20,700 will get paid, either as soldiers or as employees? Approximately 3,000 volunteers, yes?

**Q93 Chair:** You can see we are all struggling with these massive figures. How much is a security guard going to get a month?

**Paul Deighton:** They get paid per hour. That is the way to think of it.

**Q94 Chair:** Okay. How much are they going to get paid an hour?

**Paul Deighton:** The range will be between, let’s call it, £9 and £12. Those are the kinds of ranges.

**Q95 Joseph Johnson:** I am astonished that this number is not in the public domain. That is what you are saying as far as I know. Is it?

**Paul Deighton:** Yes.

**Q96 Joseph Johnson:** Where is it in the public domain?

**Paul Deighton:** Any of these numbers?

**Q97 Joseph Johnson:** The £9 to £12 that you have just given the Committee. Have you advertised that rate? When you say that you are struggling to gain volunteers and to gain traction—

**Paul Deighton:** We are not struggling to gain volunteers.

**Q98 Joseph Johnson:** If you are not struggling to gain volunteers, why are you turning to the military?

**Dame Helen Ghosh:** By “volunteer” we mean a genuine volunteer—one of your constituents who says, “Great, I’d really love to help the Olympics,” and turns up.

**Paul Deighton:** We have a volunteer programme. Some 250,000 people applied to be a Games Maker—an Olympic Games volunteer—so we have all those people who we can interview to put into volunteer jobs. Together with the police and the Home Office, we have said that within the 23,700 there are approximately 3,000 roles that are suitable for untrained volunteers. So we are extracting those out of our volunteer work force. That leaves the remainder—let’s just call it 20,000 security guard roles—which will be filled from a blend of military and private security guards.

The military get paid whatever the military get—the reservists have different arrangements to full-time soldiers—and the security guards will get a security guard rate, and the current rate is in the range I said. We cannot define that now. We are exposed to the rate in the marketplace at the time. If we were only paying £10 for a security guard and everybody else was paying £11, we would not get any—they would all go off to the other place. It is effectively a spot market at the time for security guards. That is one of the risks I mentioned earlier.

**Q99 Austin Mitchell:** If I was an Argentinean dictator, I would head for the Falklands in that six-week gap. It would be marvellous. I wondered why the costs have jumped. In last year’s spending review it was going to cost £282 million, and now suddenly it has jumped to £585 million. Why that big jump?

**Dame Helen Ghosh:** Because now we have a realistic view. Given the planning that LOCOG has been able to do and the fact that we have—as I was saying earlier—details of the schedule, details of the venues and are clearer about what the security requirements are around the movement of individuals and the protection of individual sites, we actually now have a much more detailed plan against which we can estimate the costs.

**Q100 Austin Mitchell:** You must have underestimated on a huge scale last year.

**Dame Helen Ghosh:** No, we didn’t underestimate. We didn’t have the facts on which to do the planning. We now have the facts on which to do the planning, which is why, having pressed LOCOG very hard on its estimates and having tested it on various security scenarios, we have agreed that the maximum Paul will need in the course of the Games is the 23,000. This is realistic. That was slightly finger-in-the-air—“We think it’s 10,000, that would cost us £282 million.” I think that Paul may have raised it at the DCMS Committee.

As long ago as 2005, Sue Street was saying that it will be very difficult to project, to estimate until much closer to the event what the security costs are because it is sort of the last thing you can establish when you have got all the rest of the operation in place. The end calculation you can do is to then say, “Given those events, given the way people move around, given the venues we have built, this is the number of people we will need for security.”

**Q101 Austin Mitchell:** You said finger-in-the-air, but in February 2010 the National Audit Office highlighted the need to finalise the costs of venue security. That was an urgent matter in February last year.

**Dame Helen Ghosh:** But if we had then said, “Well, let’s just add another 50% on the basis of no information,” I think that they would have criticised us. So what we have been able to do in concert with LOCOG is to do a proper estimate of the costs.

Can I just come back to the point? Paul has emphasised that we have really pressed hard on this contract in terms of, “Are G4S going to get any advantage out of the additional requirements that we are making of them in terms of benchmarking, in terms of testing their profit margin and so on?” So, even if we had made a correct estimate earlier, the only thing we would have is slightly more time to recruit.

**Q102 Austin Mitchell:** I am not bothered at this stage about the contract or how many men in big boots you have tramping round the site, keeping out the spectators. But it still isn’t finalised. Paragraph 3.8 says, “this is yet to be finalised”. So fingers are still in the air, aren’t they?

**Dame Helen Ghosh:** It is finalised. It is finalised.

**Q103 Austin Mitchell:** It has been finalised?

**Ashley McDougall:** It wasn’t at the time of the report.

**Dame Helen Ghosh:** It wasn’t at the time of the report, but it is finalised now. Yes. It is finalised.

**Q104 Austin Mitchell:** Okay, what I want to know is whether a big jump in security—which is a huge jump—was caused by some kind of panic. There were reports earlier this year of using ground-to-air missiles. I immediately cancelled my application for the pole vault on that basis. It must be an enormous attraction to tourists that people are talking about ground-to-air missiles being used at the Olympics. There must have been some kind of panic alarm, that you knew something that none of us knew.

**Dame Helen Ghosh:** No. Can I just be clear? The budget we are talking about is venue security. It is security around the site, so it is things like the hard infrastructure, the fencing, the barriers—all of those sorts of things—but predominantly, as Paul was saying earlier, the cost of the guards you need to move people safely in and out of the site. It is not the broader security issues, as speculated on in today’s press; it is not the police cost; it is not the broader security issues. It is just venue security. It is getting people safely in and out of the venues, and that is what it is. Ground-to-air missiles have nothing to do with this budget.

**Q105 Chair:** But are we having ground-to-air missiles?

**Dame Helen Ghosh:** I couldn’t possibly comment. I am just commenting on what was in the *Evening Standard*.

**Q106 Chair:** Are we having American servicemen? Are Americans bringing their own security—another little rumour in the press?

**Dame Helen Ghosh:** The normal rules will apply about security accompanying teams coming from abroad.

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**Chair:** What does that mean? I haven't a clue what that means.

**Dame Helen Ghosh:** There won't be different rules.

**Q107 Chair:** I don't know what the rules are. What are the rules?

**Dame Helen Ghosh:** I am not going to comment now, because obviously it is a security matter.

**Chair:** You mean security issues: Russian spies—something else in the press?

**Jonathan Stephens:** We are not responsible for Russian spies.

**Dame Helen Ghosh:** Russian spies are all speculation in the press.

**Q108 Stephen Barclay:** On a more mundane topic, just picking up on something you said a moment ago about the profit margin of G4S, can you clarify whether they have the same profit margin on what is now a larger contract or were you saying that you have negotiated down the profit margin?

**Dame Helen Ghosh:** As Paul said earlier—it is his contract—it is the same profit margin. In other words, because we have asked them for more, they have not been able to demand or build in a higher profit margin.

**Q109 Stephen Barclay:** If they have the same profit margin on a larger contract, surely that is advantageous. What I think Mr Stephens was saying earlier was about your post-contract management driving down your costs.

**Paul Deighton:** It is a much, much more complicated job, because to be able to source, as we have discussed, this number of security guards and train them requires you actually to go out into the market and create new security guards. In the original number, there is an existing pool of security guards that you could effectively draw on and deploy—I am simplifying to make a point—and the extra 10 are really people who you need to bring into the market, and that is a much harder job.

**Q110 Stephen Barclay:** So you are saying that the larger contract is actually less advantageous to them. That is a pretty bizarre argument to be putting.

**Dame Helen Ghosh:** It is more challenging.

**Paul Deighton:** It is much more challenging.

**Dame Helen Ghosh:** The larger contract is much more challenging.

**Q111 Stephen Barclay:** Of course it is more challenging; it is a bigger contract, but on the existing profit margin.

**Paul Deighton:** All I can tell you is that the profit margin compares quite favourably with comparable projects and contracts that are in place between the Government and G4S.

**Q112 Ian Swales:** Mr Barclay's question illustrates the struggle that we are all having. You mentioned transparency, and it would be really good for the Committee to have your breakdown of where you think this £550 million is going to go, and I will tell you for why. We have established that about 20,000 people are going to get paid. We have established that £500 a week is roughly what they will get, based on your hourly rates and a bit of overtime and so on. I have just worked out that if those 20,000 people on £500 a week work for three whole months, that is only £130 million, which is a quarter of the total we are talking about.

**Paul Deighton:** Let me answer the question. Across that £550 million—we are delighted to share the detail of this, but let me give you the broad breakdown—about a third is labour, a third is all the operational support and the project management and a third is the infrastructure, which is the gates, the fences and the cameras.

**Q113 Ian Swales:** We have had a lot of general comments. I would like to see—I am sure that the Committee would also like to see—some specific breakdown of where everything is going.

**Dame Helen Ghosh:** We would be delighted to do that.

**Q114 Joseph Johnson:** I just have to clarify something. Earlier in your evidence you said that 60% of the cost was wages and labour.

**Paul Deighton:** Of the G4S contract.

**Q115 Joseph Johnson:** Why is it different across the piece?

**Paul Deighton:** It is £500 million. That does not include the infrastructure. The G4S contract does not include putting the fences around the perimeter or the search and screening equipment. They are just dealing with the man guarding component.

**Chair:** We do want a breakdown. It would be really helpful to have that within week. Can we move on to transport? Jackie.

**Q116 Jackie Doyle-Price:** Mr Hendy has been neglected, but that will soon change. I am concerned about how we keep London moving during the Games, particularly on the roads. I see that 109 miles of London roads will be used for the Olympic route network. By definition, that will be on the main arteries. Have you done a calculation of how much traffic volumes will need to be reduced in order that we keep our roads moving?

**Peter Hendy:** Firstly, the 109 miles of the Olympic road network is still available for ordinary traffic. It is one of the great misconceptions. The ORN will still be available. It will be harder to get on to it, because there will be fewer entrances and fewer right turns off it, and we will manage it so that it delivers the reliable journey times that the IOC expect, but the ORN is still available for use.

On a more detailed basis, our calculation is that 70% of London's traffic is completely unaffected by the Olympics. The remaining 30% will be affected, in some cases quite severely. In those cases, what we have done is to publish, a couple of weeks ago, heat maps by day, showing where we expect congestion. The whole thing is a balance, in the sense that we have both an obligation and a commitment to get the Olympic family wherever it wants to go reliably, and we also have a balance to ensure that London can actually continue to function commercially, which is why some of the original journey times promised to the IOC will not actually be met. The reliability will, but the journey times will not, because, having been through pre-consultation on the ORN, there were things that we originally thought we would do with the ORN that have not been possible in practice, because we have to cope with London working on a semi-normal basis.

**Jackie Doyle-Price:** On that particular note, what are the plans regarding particular pinch points of

congestion? I drive from Thurrock to Westminster every day, so I am covering a lot of the route that we are talking about here. Particular pinch points are around the crossings. What are the plans for Blackwall? Will it be part of the Olympic route network?

**Peter Hendy:** The Blackwall tunnel is part of the ORN. It does not have games lanes in it, for some fairly obvious reasons, notably that the capacity of the tunnel is at or near capacity for quite a time. We have recently improved the management of Blackwall. We are now getting more throughput without the contraflow than we did with the contraflow, as a consequence of speeding up the removal of broken-down vehicles and stopping over-height vehicles going in. We intend to do as much as we can to maintain the throughput. It would not be appropriate to put an Olympic lane in the Blackwall tunnel, because the volume of Olympic traffic would not justify it and we want both lanes to work as effectively as they do now.

In addition, the Mayor wrote to the DFT recently on the consultation on Dartford tolls, to ask, first, that they should not be put up before the Olympics, which I believe that the Government have agreed to, and secondly, that the Government consider waiving the tolls of Dartford during the Olympics, to relieve Blackwall a bit. That latter point was not answered and we are going back to ask it again.

**Q117 Jackie Doyle-Price:** I have to say that my constituents would have a major sense of humour failure if the tolls were scrapped for the Olympics, given the day-to-day trouble they have with them, because of congestion. I will put that on the record and I am grateful for the opportunity to do so.

I notice that you are very late in issuing the traffic regulation orders and ensuring that you are taking the boroughs with you on these proposals. We are now talking about a very narrow period of consultation, given that they were due out last month and we now cannot see them until March 2012. What are the consequences of that?

**Peter Hendy:** The whole thing is immense and intricate. The ORN itself has gone through extensive pre-consultation. The details of the proposals for the ORN have been around in many cases for some months now. In terms of the work around the venues, which is a LOCOG responsibility, nobody has to wait for the traffic regulation orders until March. The details of what is proposed are available in draft form now in many cases and have been for some weeks. When I go round presenting to business and businesses in London and outside London, we are making it clear that you do not need to wait for the traffic regulation orders in March to understand what is going on. You can see the proposals now and you can see the proposals to the ORN. We are actually expecting the TROs to the ORN to go through relatively easily, because of the pre-consultation period. I think that LOCOG, although Paul can speak for himself, is expecting that the TROs for the areas around the venues will go through relatively easily, because we have been engaged with the boroughs since the summer and all this stuff is available in the public domain already.

**Q118 Jackie Doyle-Price:** You have mentioned that there are particular areas of the network that will have a massive reduction in capacity. As a road user in London, I know that it does not take very much to create a serious congestion incident, so what plans have you got in place to ensure that what you are identifying will be resilient, because ultimately, it only takes one accident and it splays out? We could not only jeopardise the ability of people to get between venues, but bring London to a halt.

**Peter Hendy:** One of the reasons for publishing the heat maps and demonstrating where is likely to be congested on which day—because nearly every Olympic day is different—is so that people can plan their journeys in advance. When, as we do, we put up big signs saying, “State opening of Parliament. Avoid central London,” our experience is that people do. The London-Surrey road race on Sunday 14 August, which was quite well publicised, resulted in a 28% reduction in traffic on that day, caused by people thinking, “I won’t go there.” Now, we aim to get quite a lot of that by putting this information out in advance, but there will be people who will still need to use the road network. Your journey might be faster, because you will use the ORN on an end-to-end basis, from the A13 right through to Westminster. A proportion of it is likely to be quicker than it is normally.

**Q119 Jackie Doyle-Price:** I’m not holding my breath.

**Peter Hendy:** There will be journeys crossing it that will be slower. You are right to say that instances and perturbations will have to be dealt with carefully. We are working hard to get additional capacity to remove accidents and tow away vehicles that break down.

All of those are the sorts of technique that we use at Blackpool, but there are also techniques that we use during public order events in London. We retain a tow truck already. If you go down to the south end of Park Lane, you will see a big red tow truck with “London Buses” written on it. It does not just remove buses; it removes heavy vehicles from the whole of central London in order to keep the road network working, and we intend to have more of that as well. So you are right.

In addition, we have used some of the investment from Government to enable us to instrument more of the network to understand what is going on and make it easier to measure it, so that we are more aware of incidents quicker and can deal with them.

**Q120 Jackie Doyle-Price:** You are confident, then?

**Peter Hendy:** Yes, I am confident, actually. It is not the same as Beijing and other modern cities with five-lane highways, where you can paint one lane and get the army to keep everybody else out. There is a huge balance to be struck. That is one of the reasons why we pre-consulted on the ORN, so that local communities would have the opportunity to say, “You can’t take this pedestrian crossing out; it’s necessary for a school.” We have put some of that stuff back in. It will be a complex management job. We have got traffic engineers and managers who are probably dealing with something as sophisticated as anywhere in the rest of the world, because most world cities have grid systems with wider streets. It is quite a struggle—the Games are in the inner city, not the outside—but I am reasonably confident, as we sit

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here, that we have got at least the methodology of doing it. Certainly, our experience of recent events—all the state events, and the other things that we do in central London—is that we can effectively deter people, thus leaving capacity for the rest of the people who actually need to use the network.

Certainly we want to avoid a message that says, “Don’t come to London, it’s closed,” because it won’t be closed. What we have got to do is persuade people who do not need to be there at that time to do something different or to rephrase their journeys so that some of them are done at times when the road network isn’t so crowded, to get deliveries done at night and to get substantial deliveries of non-perishable stuff done before the Games. A lot of the work that we are doing with business and the freight and haulage industries is designed to achieve just that.

**Q121 Chair:** Why were you brought in so late? It’s really a question to Jonathan Stephens. My understanding is that Peter Hendy was put in charge of this late, and that it was originally going to be ODA-run and was switched. Am I wrong about that?

**Jonathan Stephens:** No, you’re quite right. The ODA started out with the responsibility. Peter now chairs the transport operators and operational responsibility for the board. That just reflects a review that we undertook of the development of the programme. It was done with the agreement and consent of the ODA, LOCOG and TFL, and I think the new arrangement is working well.

**Q122 Chair:** Well, I think everybody accepts that it is working well, but risks are arising with getting all this in place in time. It seems to me that one reason for that is the late change in who manages this bit of the whole programme.

**Peter Hendy:** If I may, from my point of view, it seems perfectly natural that somebody you might hold responsible for the transport network in London every day would be responsible for it in addition during the Olympics.

**Q123 Chair:** Well, of course. I just don’t know why that wasn’t decided in 2006 or 2007.

**Peter Hendy:** On the other hand, 18 months ago, I had a different set of problems to confront.

**Q124 Chair:** Can I just ask something? If you are a visitor coming into St Pancras through the Eurotunnel, and you want to get to a site, I have been told it’s going to take you half an hour to get on to a tube in King’s Cross. You’re coming at peak time at the start of the 200 m or whatever it is, and it is likely to take you half an hour to get on to a train at King’s Cross. You will then spend 10 minutes or a quarter of an hour, come out at Stratford and have another half hour or so to get on site. What should be a 20-minute journey could be an hour and a half.

**Peter Hendy:** That needs disassembling a bit. King’s Cross and St Pancras is one of the places to benefit from huge investment, so if King’s Cross underground station had still been like it was—we used to close it three or four times in the morning peak, because it was impossible to get into. It has had a lot of investment.

The choices from St Pancras will be quite great. I am not sure I can recognise half an hour to get into the tube, because we think King’s Cross will not be

subject to any significant delays. You will have a choice of going by Javelin to Stratford in seven minutes or just going down to the tube station. The best way to the park is actually to get on the Hammersmith and City line, go to West Ham and walk from there. You do have to allow the time to walk from the station to the venue. Nobody going to a cup final at Wembley now would leave 15 minutes to get from Wembley Park into their seat, because they will miss the first 10 minutes of the game. I think it would be prudent, if you have a ticket for an event, to leave enough time—for the unexpected to happen—to get there.

It is true that there are tube stations which will be more crowded than they are normally, and we have put a lot of material into the public domain about which those are. The remedies to them differ according to where you are. Actually, King’s Cross is not one of those places, because it has a real choice of routes. Probably the most difficult places are Bank and London Bridge, which are already very crowded. Bank is so crowded now that if there is any perturbation of the service we have to close some of the entrances already, but we have some remedies for that. For example, from both stations it is a brief walk to Monument—about three minutes over the bridge from London Bridge and about two minutes from Bank. Monument will never be crowded during the Olympics; it will always be open, according to our predictions.

We are also suggesting to people, in appropriate places, where going home time from major work locations in the City and Canary Wharf will produce a conflict with large-scale Games traffic that, frankly, they go shopping, they go and have a beer, they go and have a meal or they just move their going home time a bit, if they can, so that the load is evened out. We think that is a perfectly possible thing to do.

The figures in the NAO Report suggest that somehow we are working with only 400 businesses. The 400 businesses and the over 500,000 employees are the people we have covered so far in order that major employers in London understand this position well before we get there, so that they do things like re-time some of their workers’ hours or get them to work in different places in order that that crush, where it does occur—King’s Cross will not be one of those places—is actually mitigated, in real life, by common sense.

**Q125 Chair:** But how many are you hoping to get to? It is only—whatever it is—a tiny percentage that you have talked to so far.

**Peter Hendy:** I am expecting by the time we finish that there will not be a significant employer in London that we have not contacted—who is affected by the Games, that is. That is an important rider, because much of London is not affected. If you are in outer London, on a wide arc between north London and south-east London—apart from Wembley—you are largely not affected. I am expecting us to have got to all the major employers and, through them, to their employees.

In addition, we have not yet started addressing individuals. There is no point in addressing individuals on the transport system now about what they are proposing to do next July and August; the

time to do that is in spring and summer. By the time we get there, we are expecting to have addressed everybody, including spectators. Even for those we have not addressed when we get there, we will have more people in and around the stations in order to give advice when they arrive.

**Jonathan Stephens:** I think it is worth adding that central Government, with all the numbers we employ in central London, are a full participant in this programme, which is led by the Department for Transport within Government. The test which the Department for Transport ran on their own staff last summer showed that they could affect 69% of journeys of their own staff.

**Q126 Chair:** Can I just ask some final questions, and then we have to move on to legacy? Just so I understand it, LOCOG's budget—again, I am referring to page 33—is not audited by the NAO.

**Jonathan Stephens:** LOCOG is a private company. It is primarily funded by commercially raised money, sponsorship, etc.

**Q127 Chair:** What percentage? Can we know that? What percentage of the budget comes from public revenue?

**Jonathan Stephens:** The total amount that the Government are spending through LOCOG is £867 million. That represents two elements. First, there are those elements where the Government always guarantee to meet the costs. The most important of those is security, but we also guarantee, for example, to meet 50% of the Paralympics costs, which was a requirement of the original bid. The other elements—the about £194 million left—are where LOCOG, with our agreement, has taken on scope and responsibility from other delivery partners because, in the interests of the Games as a whole, it made good sense. But the core activity of LOCOG—running the Games—is funded by IOC contributions, broadcasting revenues, commercial money, sponsorship and tickets.

**Q128 Chair:** Okay, a £2.164 billion budget so far, of which £867 million comes from Government.

**Jonathan Stephens:** The £867 million comes from Government. *[Interruption.]* No, that is in addition to the £2.1 billion.

**Paul Deighton:** Our budget is privately funded, and the items that Jonathan described—

**Chair:** Are on top of it?

**Paul Deighton:** One or two are within it—for example, the contribution to the Paralympics, because that is in our court for delivery—but the others, in the main, are not.

**Q129 Chair:** But we have to underwrite your budget, or the taxpayer does, and paragraph 5.9 suggests that LOCOG's contingency is not sufficient.

**Paul Deighton:** It is important for me to explain how our budget works.

**Q130 Chair:** Just answer that one. The sentence states that the “contingency is unlikely to cover all potential financial risks”.

**Paul Deighton:** We have a contingency of £93 million, in addition to the £500 million we talked about earlier, which sits within the £2 billion. Against that we have our expectation of the risk, which is about £88 million, so it is very finely balanced. That has been the case from the beginning with our budget;

it started with no revenue and we raised £2 billion. We have only £200 million left to raise, and I am absolutely certain that we will get it. The way to think of our financial contribution is that we have de-risked the Government guarantee to the extent of £2 billion.

**Q131 Chair:** With the greatest respect, that is what you are expected to find. What I am concerned about is that the contingency is unlikely to cover all potential financial risks, and we have underwritten it. Is this an area where you expect to have another call on your budget?

**Jonathan Stephens:** Working with LOCOG, we have had an entirely open-book approach to the budget. LOCOG has agreed to set aside a contingency within its budget, so that is available. In addition, some of the Government funding can be accessed in the event that it needs to be; some £27 million or so is available to that. In addition, of course we have to take account of the ultimate risk, having given a guarantee to underwrite the budget, so that is one of the risks that is covered within the programme-wide contingency that we have modelled and allowed for. On top of that, having taken into account all those risks and some unknown risks that we cannot identify, we are still confident that we can come within that £9.3 billion.

**Q132 Chair:** I hear that, but my understanding is that some of the £9.3 billion will go into LOCOG.

**Jonathan Stephens:** Yes, I just explained that £867 million is committed now, and we have underwritten—

**Q133 Chair:** I am sorry to rush you, but I am conscious that people have got other things to go to. When Government transfers money to LOCOG, is that subject to FOI? Can we FOI where it goes?

**Jonathan Stephens:** You can certainly FOI us, and the NAO can track that money all the way through. Not only that, but we have published it.

**Paul Deighton:** It is in the quarterly GOE report, so it is the same transparency.

**Q134 Chair:** So we can see it. Can I ask about the privileges that you give to private sponsors? Maybe you can kill a rumour—another rumour, as well all these planes flying around London. Is it true that Vodafone is blocking all other mobile phone operators' signals in the Olympic park?

**Paul Deighton:** Vodafone is not a sponsor.

**Q135 Chair:** Vodafone is not a sponsor. So that is a complete fallacy?

**Paul Deighton:** I don't know where that has come from at all. *[Interruption.]*

**Q136 Chair:** Good, so we will all be able to use all our mobiles there?

**Jonathan Stephens:** I would put that in the same category as the story I read in *The Sun* yesterday, which said the Olympic park was threatened by a water monster.

**Q137 Chair:** Right. And is *The Sun's* story also untrue that the Government have spent three quarters of a million pounds on buying tickets for the Olympics?

**Jonathan Stephens:** No. We have spent about £750,000. We are actually entitled to more tickets than that, but we chose not to access those tickets. Those tickets will be used for a range of purposes, including hosting visiting dignitaries and business leaders in

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order to secure maximum benefit for the UK from the Games.

**Q138 Meg Hillier:** What is the total revenue to date for ticket sales?

**Paul Deighton:** It is £527 million.

**Q139 Meg Hillier:** And you have some football ones still to sell.

**Paul Deighton:** And some other Olympic tickets once we have finalised the venues. The remaining ticket revenue that we have yet to collect is approximately £130 million. That is £130 million of a total £200 million I have yet to collect on our revenue side. I know we are supposed to raise £2 billion, but nobody expected us to have to do it in the worst global recession any of us have seen.

**Q140 Chair:** Well done. But I have to go back on the tickets. I do think it is pretty difficult for people to swallow in the current environment that you have spent, if that is a true story, over £70,000 on 142 tickets for the closing ceremony. It is pretty tough to take. It is just the environment. It is all right for dignitaries, but the costs of the tickets are such that a lot of my constituents, Jonathan, cannot afford to go. It sticks in the gullet for them to then read that the Government think it is worth spending three quarters of a million quid. I know I am a late-host borough, but we have a little bit on there, and I go around my patch week after week with everyone saying, "I never applied for tickets. I can't afford it. You, for dignitaries, have spent three quarters of a million—nearly £72,000 on 142 tickets for the closing ceremony." It sticks in the gullet.

**Jonathan Stephens:** I completely understand the interest in and the concern about access to tickets. It is worth saying that that is a sign of interest and success of the Games.

**Chair:** No, it's not. They can't afford it, so when they hear that the Government spent three quarters of a million quid on dignitaries—

**Paul Deighton:** If I may make a comment on affordability, a third of our tickets were £20 or less, which is one of the reasons why the demand was so high.

**Meg Hillier:** Everyone wanted those discount tickets.

**Chair:** Meg and I have had the same experience.

**Q141 Ian Swales:** On LOCOG, just a couple of quick points from me. In the report, in paragraph 5.10, there is an interesting bit in parentheses, which says about LOCOG, "that is excluding venue security and other work it is undertaking on behalf of the Government." So, as I understand it, this big debate we have just had about venue security very much goes through LOCOG. Can you say what, if any, of this £550 million results in a profit for this private company, LOCOG?

**Paul Deighton:** Nothing. The way to think of this project is that the Government fund it, LOCOG maximises the private revenue that comes into it, and then we intelligently divide the work to be done among us so that it gets done in the most efficient way.

**Q142 Ian Swales:** Are your accounts as a private company in the public domain, and with Companies House?

**Paul Deighton:** Yes. We have a standard auditor. They are published. Mr Goldstone, who works for Jonathan, knows as much about our financials—

**Q143 Ian Swales:** Showing pay levels of top executives?

**Paul Deighton:** Everything is disclosed.

**Chair:** Good. I think that is it on the first set of witnesses. Thank you very much.

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### Examination of Witnesses

**Witnesses:** Jonathan Stephens, Permanent Secretary, Department for Culture, Media and Sport, and Andrew Altman, Chief Executive, Olympic Park Legacy Company, gave evidence.

**Chair:** We are a Tory-free zone, because I think that the Prime Minister is appearing at a party meeting. I was trying to push you on because I wanted to try to cover as much as I could before they all disappeared, so apologies for that but that's where we are.

Let's start on the legacy. Meg, do you want to start?

**Q144 Meg Hillier:** May I kick in first of all on the sporting legacy? You had the target, which we all thought was very exciting, of getting 1 million people more engaged with sport by March 2013. The report records that you have had 109,000 involved so far, at the end of 2011, so what has gone wrong?

**Jonathan Stephens:** The statistics you cite are absolutely right. This Government are absolutely committed to the vision of inspiring a generation to take up sport, but they have been clear that that target, which was set under the previous Government, was the wrong one, and was set and measured in the wrong way. They have set out a different legacy strategy, agreed with LOCOG, the British Olympic Association and the British Paralympic Association, which has two fundamental limbs to the community and youth

element, one being School Games and the other investment in facilities and local people to build the foundation for participation locally.

**Q145 Meg Hillier:** But school sports co-ordinators have been cut quite substantially.

**Jonathan Stephens:** Again, this is a policy decision of this Government.

**Q146 Meg Hillier:** Governments can make decisions, inherit a policy and decide that they do not like that policy approach. What you said was that they wanted to do it in a different way through School Games, but school sports co-ordinators have been cut dramatically.

**Jonathan Stephens:** That model of delivery has been changed so that a number of the school sports co-ordinators now organise School Games. Not all of them, but again, as a policy decision, the Government have taken a different approach to funding and support of sport in schools. They believe that that should be a decision to be taken locally, so that the money is available to schools but not ring-fenced to schools. What this Government have committed themselves to,

in terms of school sport, is driving up competitive sport in schools through the organisation of School Games, which currently has more than 10,000 schools signed up to competition within the schools and between schools, including, for the first time, a paralympic element, and concluding with finals, some of which will take place in the stadium in May.

**Q147 Meg Hillier:** So can you give us an idea of how many young people are benefitting from this new approach to sports and games?

**Jonathan Stephens:** I cannot tell you numbers, but I can tell you that we currently have 10,000 schools signed up to participate.

**Q148 Chair:** Can I just get it clear? They have completely dropped any aspiration to increase participation in sports by a figure.

**Jonathan Stephens:** They are strongly committed to seeing more people take part in sport.

**Q149 Chair:** Without a number.

**Jonathan Stephens:** That 1 million figure was a target set under the previous Government. It was then embedded into the whole sport plans through which Sport England funded a number of national governing bodies. The Government decided that it was not right to tear up those whole sport plans in the middle of their delivery. They are disappointed that governing bodies had not delivered on their commitment, under those whole sport plans, to increase participation as much as governing bodies had signed up to. They have taken action. In some cases, they have withdrawn funding from some of the governing bodies. They have challenged governing bodies to go further. They are also currently reviewing the strategy for the next round of whole sport plans.

**Q150 Chair:** Have they dropped the aspiration?

**Jonathan Stephens:** Yes.

**Chair:** They have dropped the aspiration.

**Jonathan Stephens:** They have dropped that 1 million target. "Dropped" is the wrong word. They have never adopted it.

**Q151 Chair:** Have they got an aspiration for increasing participation in sport as one of the legacies? I hear all this, but it just doesn't feel very real.

**Jonathan Stephens:** They have a strong commitment to building sport as a habit for life. They want to see more people participating.

**Q152 Chair:** What does that mean?

**Jonathan Stephens:** They are currently reviewing the strategy for the next round of whole sport plans. They are planning to make an announcement, early in the new year, about their approach to that, which I think will incorporate an element of a stricter approach to payment by results for governing bodies, more of a focus on youth and, in particular, addressing the well known "drop-off" between school and after school in sport participation.

**Q153 Chair:** When we look back in 2 years' time on the Olympics, will we be able to say that it encouraged participation in sport? Will there be any measurement at all by which we can say that the Olympics led to an increase in participation in sport?

**Jonathan Stephens:** Yes, absolutely. That is part of the evaluation programme that we have put in place to assess the impact on participation.

**Chair:** What will it be?

**Q154 Meg Hillier:** How will it be evaluated? Let us say that I am a head teacher of a school and I am getting money for sport directly to the school, but it is not ring-fenced.

**Jonathan Stephens:** That's right. It is part of the school's budget. In addition, there is funding for School Games.

**Q155 Meg Hillier:** At the same time as my budget is going down and I am thinking, "Well, I'll get rid of that part-time sports teacher and that other person, and I'll get the other teacher who is doing a bit of sport to spend more time teaching maths, because that's their other specialism. Oh, but there is this great bit of money coming from Government, I'll just backfill it with that." How are you going to monitor that there is actually extra sport going on, and that this is not just being used for what should have been happening in schools anyway?

**Jonathan Stephens:** That is part of the whole evaluation strategy. We were undertaking evidence also as part of a NAO recommendation. Part of that evaluation will be to assess the impact of the Olympics on participation and on sport. We have already set out and published one paper on the methodology for the evaluation as a whole. Before the Games next year we will be publishing another paper, which sets out the baseline against which we are comparing performance after the Games. Then we publish a series of assessments, starting in 2013, of the impact, not just on sport but across a whole wide range—

**Q156 Meg Hillier:** Whenever I visit a Hackney school the children usually want three things. They want a ticket—I cannot solve that one; they are interested in being green; and they are interested in the sport side of it. All those big words about evaluations mean very little to the average 9, 11 or 12-year-old in a Hackney school. It seems a bit—forgive me, Mr Stephens—back-of-the-envelope. It is not very definite. What do I go and say to one of my head teachers about what they are going to get from the Olympics, to help get more children doing more sport, if it is going to be schools that are leading that process?

**Jonathan Stephens:** First of all, you can say they have a great opportunity to participate in more competitive sport in schools and between schools. There are School Games organisers and funding to support that.

**Meg Hillier:** That happens quite a lot in Hackney already.

**Q157 Chair:** There is nothing new. There is nothing additional now. Basically we have dumped all those desires.

**Q158 Meg Hillier:** The other side of it is moving from grass roots to elite. I have done work in the past with the Lawn Tennis Association and others, and they have somewhere in north Hackney where they do some of that work. Why has there not been a large-scale investment by Sport England and UK Sport in the various governing bodies? You mention national governing bodies not performing. Can you just explain what has happened there? Has money been wasted down that route? Has money gone from

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Government to those bodies, and has it then not been spent properly? Can you tell us what has happened?

**Jonathan Stephens:** Yes. The overall sport legacy consists of establishing the UK as a world-class sporting nation, particularly focused on the élite: sport for élite athletes, élite facilities, a large number of which will be the legacy left from the Games, and of course hosting élite events. The Olympics is opening a decade or so of world events happening in the UK. UK Sport invests through its established programmes in sport for élite athletes. It has a very good record in doing so. That is a record where the impact of, first of all, lottery money, plus additional Government grant, of more than £100m a year, has taken the UK from 10th place in the medal table in Athens to fourth place in Beijing, which was actually the target for London 2012.

**Q159 Meg Hillier:** You said earlier that some national governing bodies have not done what they were going to do.

**Jonathan Stephens:** That is the other element of the legacy—the community and youth element. Back in 2008, through what are called whole sport plans, Sport England invested a total of about £450 million in the spending review period through 46 national governing bodies. The governing bodies, in return for this funding, undertook to work to increase participation in their sports. That was the first time, I think, that governing bodies had been engaged in that way and had undertaken specific commitments.

Frankly, the feedback from governing bodies is that it has turned out to be much harder than they expected, and they have learned a great deal from it. The Government have learned also. Ministers, when they came in and saw the figures were not moving as expected, were concerned and wanted to take action. They have withdrawn funding from some bodies, saying “Actually, your performance is so poor that we withdraw funding,” and they challenged other bodies. It is worth also saying that some of the underlying explanation here will, I suspect, be due to economic factors as well, so the research suggests that about a third of people who say they are giving up sport cite economic reasons for doing so. We also know that the average spend on sport and leisure has very significantly decreased over this period. So the trend was on a strongly upward trend from 2005 to 2008. In fact, overall, since 2005 about 600,000 more people are participating in sport, but it has absolutely flatlined since then.

**Chair:** We have got 20 minutes before a vote.

**Q160 Meg Hillier:** Can I ask one other question? Let us just take one example. In Hackney, there is an organisation called London Youth Rowing, which works across 80 secondary schools in east London and with 5,000 children each year. That is one sporting organisation working with 5,000. So far, we only have 109,000 getting more involved with sport. In value-for-money terms, were you giving money to organisations without a proven track record, rather than giving money to the right delivery organisation for sport? Is that what the problem has been about in terms of participation? They were given it, but you have had to take some of the money back.

**Jonathan Stephens:** Well, I think there are a range of factors. It was a very strong policy decision of the last Government to work through national governing bodies as the leaders in their sport. There are also issues about measurement. For example, the measure used for that target as defined in 2008 was participation in three lots of 30 minutes of sport per week. That does not take account of, for example, someone playing a football match on a Saturday and doing evening training. There are issues around whether the measure is the right one. Delivery started in 2009, but it was not apparent until 2010–11 that progress was not as expected. Then, as I say, Ministers were concerned and took action. They will be trying to learn the lessons.

**Chair:** Can we have tight answers?

**Q161 Ian Swales:** It is disappointing that only about 10% of adults have taken up sport compared with the target. I have two questions. One, how carefully was the 1 million target broken down, or was it just some sheer pie-in-the-sky aspiration? What can we learn about the failure compared with whatever the detailed plans were, if there were any? Secondly, as an MP based nearly 300 miles from London, I am very interested in the national picture. In my area, the Olympics have had virtually no impact and made no difference at all, apart from one school that is involved in the School Games process. Apart from that, I know of absolutely nothing that has filtered into my part of the north of England as a result of this whole process.

**Chair:** A brief answer would be really appreciated.

**Jonathan Stephens:** On the latter point, do encourage more of your schools to participate in the School Games. What I have not mentioned yet is Sport England’s lottery programme “Places People Play”, which provides funding for about 1,000 improvements in about 1,000 local community facilities, together with some investment in larger regional multi-sport centres, plus funding to enable local people to volunteer in leadership of their sports clubs. There are also some opportunities for about 40,000 young people to try out new sports. That funding is all available on the Sport England website for people to access and has been very over-subscribed.

**Q162 Austin Mitchell:** On the Olympic village, all the flats and everything looked rather nice to me. Why did you not accept the reported bid from the Wellcome Trust for the whole lot?

**Jonathan Stephens:** The process was that we put the village out for tender as a village. Wellcome was one of a number of strong competitive bids. On objective assessment criteria, it did not offer the best value.

**Q163 Austin Mitchell:** Overall?

**Jonathan Stephens:** The official competition, which was conducted by the ODA, was for the village. Wellcome put in a bid for that alongside others. On objective criteria, it did not win. Alongside that, it came up with the suggestion in outline that it might be interested in taking over the park as a whole. The Government carefully considered that because Wellcome has been a good partner in other areas, but it would have meant suspending activity on the legacy for the rest of the park. We would have had to undertake a formal and quite complex competition for the operation of the park as a whole. On the evidence

of the sort of suggestions that Wellcome was offering to us, it did not seem to represent value for money compared with continuing to operate under the legacy company.

**Q164 Austin Mitchell:** We were told that you would have to put kitchens in to sell them. But you got less in the sale than you did for the cost, didn't you?

**Jonathan Stephens:** To be perfectly accurate, the village does not contain kitchens because Olympic trainers do not want their athletes cooking their own food. There is a separate 24-hour-a-day restaurant for their food. That means that we can fit more athletes in because the kitchens are used as bedrooms. They have to be retrofitted, and that is part of the funding that the ODA is keeping back. It is for that purpose.

**Q165 Austin Mitchell:** And that endangered the sale—you did get less.

**Jonathan Stephens:** It was always going to be the case. Government was always going to have to contribute to the cost of the village, because if you were developing it normally, you would develop it stage by stage and release flats on to the market stage by stage, but with the village, we required all the flats to be available in 2012—all built, but none occupied, as it were. There was always going to be an allowance for the cost of that. We achieved more than the return that we had written into the budget that was expected against the village.

**Q166 Chair:** Part of that return, to be fair, Jonathan—the stuff that went on social housing—also got a subsidy from the Homes and Communities Agency, so there is a double count there. The figure of £500 million, or whatever—I cannot remember—should be less, because taxpayers' money went in as a double subsidy.

**Jonathan Stephens:** It was in addition to the ODA's funding, which went into the original investment of the village, but if you like, I can write to set out the details.

**Q167 Ian Swales:** While we are on the village, where will you house the athletes for the world championships in 2017?

**Jonathan Stephens:** Well, that will be an interesting issue to think about at the time. To be perfectly frank, I am preoccupied with 2012 at the moment.

**Q168 Ian Swales:** It is an important legacy issue; we have just won the bid, haven't we?

**Jonathan Stephens:** The difference between the Olympics and any individual championship is that the Olympics is 30 world championships, so the numbers are incomparably larger.

**Q169 Ian Swales:** It is not all there though.

**Jonathan Stephens:** No.

**Q170 Austin Mitchell:** We did not see the media centre, but I thought that on the plans it looked as though it would be a white elephant stuck out there. You will not be able to sell it. The Report says: "The Legacy Company still expects to meet its timetable of having a tenant for the Media Centre by the start of the Games." Are you still optimistic about that?

**Andrew Altman:** Yes, I am. We have received a significant amount of private sector interest in the broadcast and media centre. We went to the market in October and on 2 December we received 10 bids. We are now in the process of short-listing, and in January

we will go to our board to make a recommendation to move forward. We think that those bids have significant potential for anchor tenants for the broadcast and media centre, so yes, we are very, very encouraged by what we have seen thus far, and we are on track to deliver.

**Q171 Chair:** Mr Altman, we will come back to you in a future hearing, if you have not had enough of a go at it today. I think that we will come back to the legacy.

Page 23, which sets out the legacy programme—the programmes overseen by the legacy board—says in a little footnote that you were "unable to provide figures for funding". Why?

**Jonathan Stephens:** I have to enter a note of caution about adding all these figures up, because many of the figures here are existing funding or business-as-usual activity. The fundamental point of the legacy programme is that it is not funded for the Olympic programme, but is fundamentally about existing programmes and existing funding being, if you like, super-charged by the Games. A good example is the tourism programme. Quite correctly, it identifies that we are putting £55 million into marketing the UK overseas, but actually, that would have been Visit Britain's marketing budget in any case. It is actually less than the marketing budget in the last spending review because of cuts overall. To suggest that that is extra funding is misleading, because it suggests that, were there not the Olympics, Government would be spending absolutely nothing on marketing the UK overseas, and that is simply not the case.

**Q172 Chair:** So how are we going to get a decent view of the budget?

**Ashley McDougall:** It is quite complex. There are bits that are business as usual, which we have not put the cost in—Sport England is a classic example with the £155 million that it is spending. On UK Sport, we have excluded those costs from the table on business-as-usual grounds. The costs we have put in have come from departmental papers on what will be spent on the projects that the Government have identified as legacy projects.

**Q173 Chair:** And the footnote that says that you could not get figures? What could you not get figures for?

**Ashley McDougall:** Specifically on the figures, that is around the east London legacy. The legacy is explicitly business as usual—that is on page 22, under "East London socio-economic legacy".

**Q174 Chair:** Yes, that is because the boroughs haven't any money for any of that. Is that the borough money?

**Ashley McDougall:** That is the borough money.

**Chair:** Well, it is a joke, isn't it? Because they are all facing massive cuts. There won't be any borough money.

**Meg Hillier:** No. In Hackney, they are already planning to reconfigure service on the basis that they are going to get very little extra money.

**Q175 Chair:** What impact does that have on you? If that is predicated on the assumption—I had not quite picked that up—that you are going to get borough money, you ain't, over the foreseeable future.

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**Jonathan Stephens:** It is not predicated on that. If the suggestion is that, somehow, the legacy and regeneration of the park is predicated on borough money, it is not.

**Q176 Chair:** No, this is east London socio-economic legacy, and I have just heard that its host boroughs are not going to put any money into this.

**Jonathan Stephens:** The genuine economic legacy of the Games will be, fundamentally, the park and the regeneration that goes with it, some of which is already there. People have already benefited from the jobs, most obviously with the impact of Westfield and the 8,500 jobs there. Frankly, that, I would think, almost certainly would not be open today were it not for the Games. It was the only shopping centre that Westfield continued to invest in during the economic crisis, and it would not have done so without the Games.

**Q177 Chair:** Okay. May I ask another question? The LDA spent £766 million on acquiring the land. If they do not get that back, given what has happened to the property market over the period, who picks up the tab? If the Mayor gets less than he paid, who picks up the tab for that?

**Jonathan Stephens:** The risk lies with the Mayor.

**Q178 Chair:** So it would be the London taxpayer.

**Jonathan Stephens:** Yes. But, as it were, it is already in their books.

**Q179 Chair:** What do you mean? So they have already accounted for it. One hears rumours that, given what has happened to the market, they will not get back the £766 million. That is already accounted for, is it?

**Jonathan Stephens:** I think one can be confident that they will recover their debt invested in purchasing the land. Indeed, the arrangements—

**Q180 Chair:** It is the remediation, presumably.

**Jonathan Stephens:** There are arrangements in place to recover and to share in potential development profits from more than that.

**Andrew Altman:** I would just say that, obviously, we are in the process right now of getting our planning approval for the overall master plan for the Olympic park, including 7,000 units of housing, up to 8,000 units of housing. There is a long-term regeneration programme and we believe that that will produce revenue over time, which will then return to the taxpayer through the receipts over land, because of the substantial value in the park that will be generated.

**Jonathan Stephens:** I am conscious that there have been significant moves around. So perhaps I should write about the position with respect to the debt.

**Chair:** All these notes will be much appreciated.

**Jonathan Stephens:** I am very happy to do so.

**Q181 Ian Swales:** I do not think we should get through this hearing without talking about the stadium, because there has been so much publicity about future use and the football clubs, and now we have accepted a bid for the world athletics championships. Can you tell us what you see the future of the stadium as? To what extent will it be a drain on the public purse beyond the Olympics?

**Andrew Altman:** In short, I would say that we feel very optimistic about the future of the stadium. I think that the world athletics championships in 2017 will be

a tremendous legacy for the stadium and a tremendous opportunity for us. So, on the question of legacy, I do not think that there is a question about the stadium and what it will become. It will be a multi-use stadium with athletics at its core. What we are doing now, very shortly, is that we will be going out to market to add even more to the stadium. We will be looking at a variety of sport activities—tennis, rugby, cricket, it could be football, as well as concerts, culture and education. It will be a multi-use stadium. Our goal as the legacy company will be to try to get as many more uses as we can above that base case of athletics use to minimise the cost to the taxpayer and the ongoing subsidy.

**Q182 Ian Swales:** Bluntly, are you going to be moving this into the private sector, or are you going to expect this all to remain in the public sector? Really, my question is financial, not about the various non-financial benefits, which I accept from what you are saying.

**Andrew Altman:** Two things. One, what I was saying is that those uses are financial, and the more that we can bring into the stadium will reduce the call on the future public subsidy. That is what we intend right now, and we have taken it into public ownership. It is owned by the Mayor and the Government, by the legacy company. In the future, of course, that could be revisited at a later time, but right now this is a public-sector model of ownership, diversifying to many uses to reduce taxpayer subsidy.

**Q183 Chair:** This is the final question really, because we will come back to the legacy. Who is accountable for ensuring delivery of the legacy?

**Jonathan Stephens:** Well, it is managed by the delivery board. It will be evaluated in a process that we have set out.

**Q184 Chair:** Are you accountable?

**Jonathan Stephens:** I am very happy to come back, and I am looking forward to coming back after the Games. One of the first questions I was asked in 2007 was, “Will you still be here in the Games?” I said that I would be, and that I was very much looking forward to them. I still am. I am very much looking forward to coming back and reporting after the Games.

The legacy is actually the responsibility of many different parts of government. Before the Games, the plan is for Mr Altman’s company to transfer over to the responsibility of the Mayor. In terms of the legacy in east London, the primary responsibility will rest with the Mayor from April or so. Of course, the primary responsibility for the sports legacy will always rest with DCMS and Ministers and officials there. Responsibility for other aspects of the legacy will rest where they fall. We have an overarching programme to evaluate and report on how we are doing.

**Q185 Ian Swales:** Hearing that it is the responsibility of many parts of government does not fill this Committee with great confidence.

**Q186 Chair:** Did you want to say something very quickly?

**Andrew Altman:** I will just leave you with one thought. I want to give the Committee some confidence that there are 8 major venues and facilities in the park. Six of those—75%—have already secured

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a legacy 6 months before the Games. That is more advanced than any host city has been, whether that is Velo or the athletes' village. We are about to announce aquatics, multi-use arena, the orbit and Eton Manor. Those are six major venues, all with secure legacies. We are getting responses back on the IBC. We have confidence there. We are working closely with the borough of Hackney. We are confident about the stadium and believe that it will have more uses, but it will already have a great future with the world athletics championships. I just wanted to leave you with a positive thought.

**Q187 Chair:** Thank you.

**Jonathan Stephens:** I just want to thank you, Chairman, for your opening words about the ODA, which are thoroughly well deserved, and to say that—as the report shows—with us on track, on budget with most of the operational planning, on progress—

**Q188 Chair:** Fingers crossed—

**Jonathan Stephens:** And with the legacy planning more advanced than any previous Games, we think that the programme as a whole is well positioned.

**Chair:** Well done. Thank you very much.

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### Written evidence by London Councils

This submission sets out the views of London Councils on Managing Preparations for the Olympics. London Councils represents all 32 London Boroughs, the City of London, the Metropolitan Police Authority and the London Fire and Emergency Planning Authority.

#### THE CONTEXT OF THE GAMES

The time when the eyes of the world are upon London is drawing ever closer. We all know that London will be different in Games time and it is up to all public, private and voluntary sector organisations to meet the challenging demands head on.

London local government supports the London 2012 Games and is already making, and will continue to make, a major contribution to both the delivery of the Games and, as importantly, the delivery of a lasting legacy for all Londoners.

London boroughs believe that the Games offer unique opportunities for London's communities, creating jobs, improving transport infrastructure and giving a huge boost to tourism and related sectors. They are also bringing world class sporting venues, providing thousands of volunteering opportunities and a four-year cultural festival. London boroughs also believe that the Games have the potential to enhance London's global reputation and leave a legacy of regeneration and economic growth, particularly in east London. As such boroughs are engaging all communities across London—enthusing them about the Games, the benefits they can help deliver and the potential to use this opportunity to change London.

#### NATIONAL AUDIT OFFICE REPORT

The National Audit Office (NAO) is due to publish a follow up to the NAO report published in February 2011. We understand that this is due to be published on the 7 December prior to the meeting of the Public Accounts Select Committee on the 14 December 2011. London Councils expects this report to say that the programme-wide contingency within the Public Sector Funding Package has shrunk from the £349 million from the last NAO report published in February. We expect it to say that the contingency has reduced by at least £271 million, if not more, due to additional demand being placed on it due to the reported increased cost of venue security, and transport planning.

The issues raised in this submission are based on the media reports on the content of the latest NAO report.<sup>1</sup> London Councils would be happy to provide greater clarification once the final report is published on the 7 December.

#### VENUE SECURITY

In terms of the additional cost of venue security, G4S won the contract to deliver security at Games venues.<sup>2</sup> Since the last report NAO report in February 2011 the cost of delivering security at Games venues has reportedly increased from £282 million by £271 million to £553 million.<sup>3</sup> There also exists a significant recruitment challenge to recruit the guards now needed. While London Councils appreciates that security at the Games venues is a high priority we are dismayed that the lack of planning and the misjudgement of the security costs of the Games may impact on the overall programme-wide contingency to such an extent. As well as the venue security costs London Councils is concerned about the potential for the wider security costs of the Games to rise even further.

*London Councils is concerned that the loss of such a significant amount from the contingency could have a knock on effect on other areas of the 2012 programme.*

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<sup>1</sup> <http://www.bbc.co.uk/news/uk-16030785>

<sup>2</sup> The Government (Home Office) is responsible for setting security requirements and funding LOCOG's delivery of venue security.

<sup>3</sup> <http://www.bbc.co.uk/news/uk-16030785>

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## PRESSURE ON THE PROGRAMME-WIDE CONTINGENCY

### *Impact on Local Government*

The reduction in the amount of programme-wide contingency will, in our view, put pressure on the wider 2012 Games programme budget. In particular we are concerned about what it means for the support that local authorities are receiving to cope with the pressure on their services because of the Games.

The additional pressure for local government was recognised as part of the Spending Review in October 2010 where, as part of the overall public sector package, £21 million was allocated to London boroughs that have venues to ensure that essential public services like cleansing, parking management, tackling ambush marketing, waste collection, licensing and environmental health can be delivered to the required levels during the Games.

This followed work done by London Councils and eleven London boroughs to lobby the GLA and Government to support boroughs meet the cost of additional or enhanced services (due to demand) caused by the Games.

Initial borough estimates produced in September 2010 were that the cost to them would be approximately £45 million, as we moved closer the Games and boroughs get deeper into their operational planning for the Games we do not think that this initial estimate has significantly changed.

Any additional costs resulting from the Games above and beyond the allocated £21 million are already and will inevitably have to come from local authority core budgets, squeezing already stretched front line services following what is widely considered the most challenging financial settlement to local government in years. This is in addition to the £625 million that London taxpayers have directly contributed to the running of the Games through the council tax precept.

To further exacerbate this issue, as part of that negotiation we made the case that boroughs should have access to the programme-wide contingency (through an agreed procedure). The necessity of this seemed broadly accepted by Government and the GLA however in recent months this position has changed and boroughs have now been asked, as part of the operational plans (required to access the funding) to put aside some of the funds already allocated to them to act as a contingency. We suspect that this change of position from the Government is due to the increased pressure on the programme-wide contingency. We are now extremely worried that boroughs will not have sufficient funds available to them to ensure that they can deliver high quality public services during the Games (if more of the allocated funding has to be reserved as contingency there is less of the £21 million available to deliver actual essential services). Without access to the programme-wide contingency we believe London boroughs will, during Games-time, face stark choices between the cost of delivering day to day services and meeting any unexpected costs that arise from the Games.

### *Overall costs*

We have already seen that costs can and will rise. There must be some question as to whether the overall public sector package of £9.2 billion is likely to be enough and what that will then mean for the taxpayer. In addition we are also concerned about the liability on London taxpayers if the operating budget rises again and goes beyond the amount it is able to raise in revenue. In those circumstances the Public Sector Funding Package becomes available to LOCOG to use.

*Given this exposure, we would want to urge LOCOG, the Government and others to keep the costs down so that the Games remain within its current budget.*

We are also concerned about the outstanding debt from the purchase of the Olympic Park the liability for which ultimately lies as part of the GLA's budget.<sup>4</sup> (The Olympic land debt will be £349 million in April 2012. Government funding will enable this to be cut to £231 million by 31 March 2014.) We are worried that if that debt can not be covered by the sale of the assets on the Olympic Park the cost may ultimately be passed on to the London taxpayer.

## OUTSTANDING CONCERNS

- What will be the effect of the increased cost of the venue security mean for the overall programme-wide contingency and therefore the overall 2012 programme?
- Will the current level of contingency be enough to deliver the 2012 Games?
- Are local authorities being adequately supported to deliver essential services and meet the demands being placed on them because of the Games?
- Will local authorities be able to access the programme-wide contingency should they incur unexpected costs due to the Games?
- Given the outstanding debt from the purchase of the land for the Olympic Park, will the commitment previously made by government and the GLA that the precept for Londoners will not be raised be honoured?

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<sup>4</sup> The land was purchased by the London Development Agency.

- How is the Government protecting the taxpayer from future liability from rising costs and liabilities from the delivery of the Games and the existing commitments from the Olympic Park assets (land and venues)?
- What impact will the projected reductions in police officers and fire staff in London mean for the Games and the need to fund overtime during the Games? Could any reductions proposed be phased to take place after the Games in London?
- Can the Government give an assurance that if the costs go above the £9.2 billion the additional funds will be found from general taxation as opposed to an increase in the council tax precept?

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### Written evidence from the Olympic Park Legacy Company

#### 1.0 THE OLYMPIC PARK LEGACY COMPANY

The Olympic Park Legacy Company (OPLC) was established in May 2009 by the Mayor of London and Government as the company responsible for the long-term planning, development, management and maintenance of the Queen Elizabeth Olympic Park. The OPLC owns the Park and its venues and will be responsible for its transformation and re-opening following the Games.

The OPLC is a public sector, not-for-profit company limited by guarantee with three founder members: the Mayor of London, Secretary of State for Communities and Local Government, and the Secretary of State for the Department for Culture media and Sport. The Mayor owns 50% of the Company and the Government members jointly own the remaining 50%. Under the powers of the Localism Act the OPLC will be reformed as a Mayoral Development Corporation from April 2012 and will extend its activity to the surrounding fringe areas as well as acting as the planning authority for the Park.

Baroness Ford is the Company's Chair, and Andrew Altman is the Chief Executive. The Company is led by an expert board with a broad base of international and local experience in regeneration, business, sport, social enterprise and venue operations. The Company works with a wide range of partners from both the public and private sectors to ensure a successful legacy from the Games, is collaborative in its approach and works in close partnership with the Olympic Delivery Authority (ODA), the London Organising Committee of the Olympic Games (LOCOG), Lee Valley Regional Park Authority (LVRPA), and the six Olympic Host Boroughs.

The Company's strategic aims are to deliver social, economic and environmental benefits for East London; to deliver a return on the public investment in the Park and to optimise the sustainability and the success of the Park and its venues.

The Park provides an unprecedented opportunity for regeneration for the local area and London; five 2012 sporting venues, 250 acres of open spaces and parkland shaped by a network of revitalised waterways, modern business and office spaces, and the ArcelorMittal Orbit sculpture and visitor attraction; and the neighbouring Stratford City—the largest urban shopping centre in Europe.

The Company's vision for the Park is to create a unique and inspiring place for events and leisure activities, a major centre for sport and culture, new communities built around family housing with a range of affordability, and a commercial hub offering jobs, training and business opportunities. It will create a new metropolitan part of London and by 2020 the Company aims to make the Queen Elizabeth Olympic Park one of London's top five visitor destinations.

#### 2.0 PROGRESS TO DATE

The Company is on track to deliver its objectives, and its plans for the Olympic Park are more advanced than those for any other host city at an equivalent stage.

The Company's Board has approved, subject to consideration of our Founder members, an operator for three venues (the Multi-Use Arena, Aquatics Centre and ArcelorMittal Orbit), and for the Park's estates and facilities management. The Company will appoint operators in January 2012 delivering certainty for these venues six months ahead of the Games.

The Company has submitted a planning application for 7,000 homes and anticipate approval before the Games. Other Olympic cities have not achieved this until well after the Olympic Games. The Company has launched procurement for the Company's first phase of housing and a dozen high profile developers came forward to compete. The appointment of a preferred development partner is expected ahead of the Games.

The marketing of the Press and Broadcast Centre is on track and following an invitation for formal bids for the facilities launched in October. The Company has now received bids from ten companies with approaches ranging from the minimum occupation of one floor in either building to the complete take up of each building on long leases. The Legacy Company will shortlist bidders in the New Year.

The Stadium will now be retained as a public asset and since this decision was made London has won the right to host the World Athletics Championships in 2017. The Company aims to start a new process to secure tenants for the Stadium in December 2011 and remains on track to re-open the Stadium in 2014.

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### 3.0 CURRENT STATUS OF LEGACY PLANS

Following a review of existing plans, which involved close joint working with the host boroughs, local people, businesses and sporting bodies, the OPLC announced its ambitions for the Park on 7 October 2010. The Company also announced the name of the Park as it will be known in legacy. The future Queen Elizabeth Olympic Park combines two powerful associations and will come into effect when the Park reopens in 2013.

#### *Transformation*

Following agreement by the Government and the Mayor and working closely with the ODA, the OPLC has now assumed responsibility for the transformation works of the Park and its venues following the Games and for £300 million of the transformation budget. Transformation works will include the removal of temporary venues and structures on the Olympic Park, the removal of Games-time elements of permanent venues and the reconfiguration of roads, bridges and other infrastructure for legacy-use.

The Legacy Company has now appointed Mace as the programme management partner to manage the transformation works process. The approach to the procurement for the transformation works has been to seek the best value and to strike the right balance between cost and efficiency for the re-opening of the Park.

The Company aims to have the venues open and to provide access to the Park as soon as possible after the Games. There will be a phased re-opening of the Olympic Park and a rolling programme of sporting and cultural events from 2013 onwards.

#### *Venues*

##### Stadium

In October 2011, the Government and Mayor of London decided to end the previous process to dispose of the Olympic Stadium, which had become bogged down in a number of legal and other challenges. The Stadium will now be retained as a public asset, and the OPLC aims to start a new process to secure tenants for the Stadium in December 2011.

The Olympic Stadium will be a multi-use venue with athletics at its heart and will now host the 2017 World Athletics Championships. The Company will look to secure as many complementary sporting, cultural, commercial and community uses as possible in order to provide a viable, long-term Stadium that provides value for money.

The Company remains on track for re-opening the Stadium in 2014.

##### Aquatics and Multi-Use Arena

In January 2011 the Legacy Company launched formal expressions of interest process for operating the Aquatics Centre and the Multi-Use Arena (known as the Handball Arena during the Games). Strong interest in the venues was demonstrated, and on 29 July the Company announced the shortlisted operators for both the Aquatics Centre and Multi-Use Arena.

The Company has been in competitive negotiation with three leading leisure management organisations: Greenwich Leisure Limited, Parkwood Leisure and Serco Group and will announce the chosen operator in January 2012.

The chosen operator will be in place before the Games and will operate both venues. This will enable the operator to see firsthand how the venues work during the Games and to use this vital learning experience in their planning, so that they can re-open the venues efficiently after the Games.

The Aquatics Centre will offer two 50m pools and a diving pool, together with permanent seating for 2,500 people, which can be extended to 3,500. It is expected to attract up to 800,000 visitors a year.

The Multi-Use Arena will be the third largest arena in London, providing a range of sporting, entertainment, cultural, community and business events. Some of its 7,500 seats are retractable to extend the field of play. There is also the potential for a health and fitness centre. It is expected to attract up to 600,000 visitors a year.

The venues are at the heart of the plans for the future Queen Elizabeth Olympic Park. The focus is for the venues to become valued and thriving community assets that are heavily used and which provide long-term benefits as public facilities. The need to maximise community use is being balanced with the venues' important role in attracting people back into the Park following the Games and driving the Park's position as a London visitor destination. This will help to secure the venues' own future commercial viability and long-term sustainability.

The venues will also facilitate the sport and healthy living legacy of the Games for Londoners, and will work towards supporting the legacy vision of convergence for local communities.

#### The Broadcast and Press Centres

The Legacy Company conducted market testing into the future uses of the Press and Broadcast Centre site from September to November in 2010. The testing generated extensive interest across a wide range of sectors, including creative, media, retail, cultural, construction, education, public, real estate, entertainment and leisure and 45 formal submissions were received.

In October 2011 the Company invited formal bids for the facilities and has now received bids from 10 companies with approaches ranging from the minimum occupation of one floor in either building to the complete take up of each building on long leases. The Legacy Company will shortlist bidders in the New Year. The buildings will be available for fit out and opening from spring 2013.

The Press and Broadcast Centres will form the Park's most important commercial and employment hub, and will complement the commercial uses that form part of the Stratford City development immediately to the south east of the Park. With over one million square feet of flexible space this will create a new commercial district for businesses ranging from start-ups to global companies and will provide thousands of new jobs.

The Company is working with education and skills agencies and potential employers on the Park to anticipate the types of jobs that will be available in the future and to ensure the correct training is in place to help people secure employment opportunities.

#### ArcelorMittal Orbit

The ArcelorMittal Orbit is a sculpture and a visitor attraction for the Park designed by Anish Kapoor and Cecil Balmond. Standing at 114.5 metres high, the 360 degree observation platforms have views of up to 20 miles. It consists of a continuous looping lattice constructed using 2,000 tonnes of steel and is situated between the Stadium and the Aquatics Centre.

The Company will announce the operator for the Orbit in January 2012

The chosen operator will run the venue on behalf of the London Organising Committee of the Olympic and Paralympic Games (LOCOG) during Games-time, and afterwards, will be responsible for ticketing, marketing and events, hospitality and catering, the gift shop, reception and internal security for the attraction on behalf of the Legacy Company. The venue has the potential to attract up to one million visitors in its first year and to generate up to £10 million per year in revenue through ticket sales, catering, private functions, retail and merchandise.

#### *Estates Facilities Management*

The Company will appoint an organisation to maintain the Queen Elizabeth Olympic Park within the coming weeks. The Estates and Facilities Management Services contract includes park maintenance, horticultural, waste management and security.

#### *Neighbourhoods and homes*

In October 2011, the Company submitted the Legacy Communities Scheme (LCS) planning application. This detailed application will guide the creation of five new neighbourhoods in distinct phases over the next 20 years. At the heart of the scheme is the creation of family housing, community facilities and quality open spaces.

The Park will offer up to 8,000 new homes with a further 2,800 created in the Olympic Village. Around 40% of the homes are family homes with the majority of the neighbourhoods drawing inspiration from London's heritage of terraced and mews housing. Up to 35% will be affordable housing in line with the London Plan.

Community amenities include two primary schools, a secondary school, community spaces and health centres.

Around 12,000 people have helped shape the 5,000 page LCS application through consultation and working with stakeholders including the host boroughs and community groups. Their feedback is reflected in the plans through the focus on family housing, accessible amenities and attractive open spaces.

Planning approval for the outline masterplan is anticipated before the 2012 Games start.

The five neighbourhoods have already been named by the public following a competition the Company ran earlier this year. These neighbourhoods will be called: Chobham Manor, East Wick, Sweetwater, Marshgate Wharf and Pudding Mill.

#### *Socio-economic opportunities*

The Legacy Company is committed to maximising socio-economic benefits for local residents and businesses. The Company is working with future developers and operators to secure contractual commitments for local jobs, apprenticeships and training. The Company is working closely with the local boroughs and key

partners to design and deliver a suite of support packages to equip local people with the skills to access opportunities and to support local businesses to become “fit to supply”.

#### *First neighborhood—Chobham Manor*

On 1 November 2011, the Company went to the market to select a development partner for Chobham Manor, the first neighbourhood of 800 family homes to be built immediately after the Games. There is significant interest from developers and house builders for the site with a dozen companies coming forward to compete. The appointment of a preferred development partner is anticipated ahead of the Games.

Chobham Manor will see a return to London’s traditional family neighbourhoods of terraced and mews houses, set within tree-lined avenues. Sitting between the Athletes Village and the VeloPark, the neighbourhood will help to address the local need for larger homes with 70% of the 800 homes offering much needed family housing. In addition, 40% of the new homes will be houses with gardens

The Legacy Company and the Mayor of London are exploring the possibility of introducing a Community Land Trust pilot scheme of between 50 to 100 homes as part of the development.

### 3.0 FUNDING

The Olympic Park Legacy Company received a Comprehensive Spending Review allocation of £290 million for the four year period from April 2011 to March 2015. The funding enables the Company to complete post-Games conversion works and put its plans into action to create five new family neighbourhoods, to turn the Park into a top visitor and sporting destination and to secure the future use of its venues.

Funding allocated to the capital and programme budget is £250 million and £40 million is allocated to the Company’s operational budget.

The Mayor has made a longstanding commitment of up to £10 million per year to the OPLC from 2013–14 to support running costs, and this will be in addition to government funding from the CSR.

In addition, £300 million funding for transformation of the Olympic Park and its venues is intended to be transferred from the ODA to the OPLC.

The Company is currently formalising its business plans with its founder members.

The Company will use its public sector funding to draw significant private sector investment into the long-term legacy of the Queen Elizabeth Olympic Park. The Company is pursuing all avenues in this respect and is talking to developers, investors, venue operators, event organisers, visitor attraction companies and the 2012 sponsors and has also set up a charity called the Legacy List. It is also working with UKTI to explore opportunities for drawing foreign direct investment into the Park.

## APPENDIX

### LEGACY ASSETS

*Olympic Park Legacy Company assets include:*

- The *Stadium* will be a mixed-use venue with athletics at its core. The warm up track adjacent to the Stadium will primarily serve as the centre for community athletics at all levels.
- The *Aquatics Centre* is designed to be used for all aquatics disciplines and to host major events as well as community swimming. The flexible venue will accommodate two 50m swimming pools, an international diving pool (including dry diving), all with movable floors and booms, and spectator capacity of between 2,500 to 3,500 people.
- The *Multi-Use Arena* is a flexible indoor sporting and events venue which can accommodate a range of spectator events, community sport and high performance sport activities, with capacity between 3,500 to 7,500 spectators subject to event format.
- The *ArcelorMittal Orbit*, the 114 metre tall sculpture and visitor attraction will be the tallest sculpture in the UK and has viewing platforms at 80 and 76 metres high offering spectacular views across the Park and London skyline.
- Some of London’s largest *open spaces* and landscaped *parkland* will be hosting a diverse programme of sporting, cultural and community events as well as providing a stunning new environment and areas for informal physical activity, leisure and relaxation.
- Over 6.5 kilometres of new and cleaned waterways provide a “new venue” for a range of water based activities and recreation such as boating, rowing, sculling, canoeing, kayaking, fishing, pond dipping. There will be a business and activation strategy for the waterways within the Park.
- Over 250 acres of development space and parklands and public realm will include new rest and play areas; additional facilities and attractions to compliment the legacy offer in the permanent sporting venues in line with the Healthy Places initiatives, and opportunities to link with other local open spaces such as Hackney Marshes and Lee Valley.

- Community open spaces including roads, bridges and pathways providing additional recreation and physical activity opportunities including active travel pathways, jogging, walking, roller skating, running and cycle routes.
- Seasonal attraction opportunities such as winter ice rinks, summer beaches, temporary venues and mazes linked to the Park animation strategy.
- New places to work, including the Broadcast Centre and Press Centre combining over one million square feet of business development and office space.

*The following facilities operated by Lee Valley Regional Park Authority:*

- *VeloPark* consisting of a 250m indoor Velodrome designed to international standard with a seating capacity of 6,000. BMX track designed to international standard and landscaped to provide potential seating areas with the ability to host major BMX events. A 1.6km floodlit road circuit and 0.9km of extensive Mountain Bike trails through the Lee Valley VeloPark.
- *Tennis Centre* consisting of 10 tennis courts (four indoor and six outdoor) with complementary support facilities including reception, changing areas, café/bar, storage and office facilities.
- *Hockey Centre* consisting of two water-based hockey pitches comprising of one main pitch with 3,000 permanent seats (with the ability to add a further 12,000 temporary seats) and one second pitch. Shared multi use support facilities.
- The *Eton Manor* site will also include 10 commercial operated 5-aside football pitches and changing facilities. The private housing within the Olympic Village will be owned and managed by a joint venture of Delancey and Qatari Diar. The joint venture will work alongside Triathlon Homes who will own and manage the affordable housing in the Village.

An interactive map of the Park can be found at the following <http://www.legacycompany.co.uk/>

7 December 2011

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### **Written evidence from Permanent Secretaries of the Home Office and Department of Culture Media and Sport**

When we appeared before the Committee on 14 December, we undertook to write to you providing further information on a number of issues that arose.

#### CONTINGENCY AND COSTS

Can we first re-iterate two points we made at the beginning of the hearing. First, there remains £528 million of unallocated contingency within the PFSP of which £174 million is currently available to the ODA and £354 million is held as programme-wide contingency. The NAO confirmed in the hearing that they agreed with these figures. Our prudent estimate of potential risks, together with allowance for unknown risks, shows that this is adequate, with £36 million headroom.

This means that, either some 25% of the full original contingency of £2.2 billion, or 35% of the original £1 billion programme-wide contingency, remains available with just eight months to go. With more than £0.5 billion of uncommitted contingency, there is good reason for confidence that the PFSP will be adequate, although we agree there are always residual risks and so we are determined to maintain rigorous control of costs. It is not consistent with these agreed facts to claim that only £36 million of the PFSP remains uncommitted, or unallocated, or available—that seriously misrepresents the position, and risks undermining the PAC's consistent support for good risk management practises, as demonstrated in the establishment and management of the contingency, over the last four years.

Second, we should like to re-iterate that the costs identified in paragraph 5.5 of the NAO Report have always been identified as outside the PFSP—they were for example, described as such in the 2007 NAO report and in the January 2008 GOE Annual Report—and that we have always been transparent about the costs covered by the PFSP. It has never included costs, such as the land costs, which are likely to be recovered, or costs which are part of the normal activity of government, such as the administration costs of departments. Adding these on to the PFSP and then presenting them as meaning the costs of the Olympics are higher would misrepresent the position, takes no account of the transparency that has been applied and again risks undermining the efforts made to control and contain costs within the PFSP and assure the public and Parliament that costs will not be allowed to increase above the budget set in March 2007.

#### VENUE SECURITY

The Committee was interested in the increased requirement for private security guards and the consequential increase in the cost of venue security.

The original level of guarding resource of up to 10,000 venue guards was based on the best information available at the time, namely from the Manchester 2002 Commonwealth Games with some Olympic information from the Turin Winter Olympic Games. However, the absence of comparable Games (one taking

place in the heart of an urban area in a major Western capital city in a high threat environment) meant we had no suitable precedent on which to base planning.

The detailed planning work for venue security took place this year—this timing was dictated by a significant number of other operational arrangements which needed to be finalised first, including the detailed competition schedule of over 1,000 events; confirmation of over 100 venues which needed some level of security; and venue operating plans for each venue including, importantly, the times of operation in the lead up to the games, during the Games, over the transition period between the two Games and in the winding up of each venue at the end of the Games period.

Most of these details could not have been known before now but all of them have contributed to the requirement for security personnel. Importantly, it is also unlikely that costs would have been any less, even if detailed planning had been possible earlier. The inevitable uncertainty behind operational planning was one of the factors leading to the establishment of high levels of contingency in the programme as a whole.

The Committee asked for further clarification of the costs. The new venue security budget is £582 million, of which £553 million comes from the overall Olympic Public Sector Funding Package, as reported in the NAO's report, and £29 million from LOCOG's own resources.

The costs for the military contribution to venue security are fully included in this figure, have been agreed with the Ministry of Defence and are designed to ensure that all of the additional costs falling to that Department are met. Defence Ministers are satisfied that the level of military involvement—details of which were contained in the Written Ministerial Statement made on 15 December—is compatible with existing and anticipated military commitments. Of course, the costs of wider military deployments (outside of the contribution to venue security) fall to the MoD as part of their on-going defence commitments.

#### WORKFORCE MIX

As we explained at the hearing the 23,700 workforce will be made up of a mix of volunteers, military and security guards, who will in the main be recruited through G4S.

We expected that there will be around 3,300, who will not be paid (ie volunteers). The roles they will perform will be managing queues and getting spectators ready for search and screening. They will not, however, perform roles such as managing screening equipment for which a higher level of training will be required.

The MOD Written Ministerial Statement set out that there would be 3,500 troops employed on venue security which will rise to 7,500 for the 17 days of the Olympic Games. These troops will be paid in accordance with their normal arrangements.

#### G4S

The Committee were also interested in the G4S contract, which was signed through a Deed of Variation on 15 December and includes costings in relation to; labour, programme management, operational expenditure and insurance premiums.

With regards labour costs, budgeted hourly pay rates have been jointly developed between LOCOG and G4S following extensive market research and discussion. Pay starts at approximately £10 per hour, to which have to be added associated costs such as NI and holiday pay, with supervisory or specialist staff being paid at a higher rate. Ultimately, the market will determine the pay rate and whilst current budgeted rates are above the London Living Wage, pay rates are identified as a risk against the contingency. G4S are however incentivised to identify savings opportunities in labour costs.

Programme management covers all activities required to establish, plan and operate the services to be provided. This includes the programme management structure, the Project Management Office, recruitment, screening and vetting, IT infrastructure, games time operational support (accreditation, scheduling, payroll etc), office accommodation and a multi-use training facility. Within the Project Management Office the average headcount of FTEs from November 2011 to September 2012 is 627. The organisation peaks at 904 FTEs in July 2012.

Operational expenditure encompasses allowances for training of security personnel, uniforms, travel, accommodation and catering. These are all budgetary allowances for pass through costs and will only be incurred with the agreement of LOCOG.

This contract has been structured to create incentives for G4S to maximise delivery and minimise costs. The level of profit that G4S can expect to make from the contract is comparable to that in other major Government security contracts.

The Government is satisfied that the G4S contract represents good value for money, and this was confirmed by the Home Office's Major Projects Commercial Director and through the engagement of the Crown Commercial Representative for G4S.

We should also firmly dispel any suggestion that LOCOG as a private company is making any profit from these arrangements.

#### G4S LOCAL EMPLOYMENT

The Committee was interested in the steps that are being taken to ensure that the venue security roles are secured by people in the Olympic Boroughs. Paul Deighton, CEO of LOCOG chairs a six Host Borough Employment and Skills Board to which representatives of the six Host Boroughs of Barking & Dagenham, Greenwich, Hackney, Newham, Tower Hamlets and Waltham Forest are invited to attend. G4S sits on this board. The purpose of this Board is to maximise the employment opportunities available for six Host Borough residents from LOCOG and its contractors. Since contracting G4S LOCOG has worked with them to establish specific recruitment events with each Host Borough, its local job brokerage scheme including Job Centre Plus. LOCOG has worked with G4S to build relationships across each Host Borough to support this work. G4S now runs daily recruitment sessions each week at West Ham Football Club to which all Boroughs job brokerage schemes channel their suitable candidates. At the end of November 2011 982 Host Borough candidates sourced via job brokerages and JCP had been offered Games time positions with G4S subject to accepting these roles, vetting and passing training.

JCP and the host Boroughs are also proactively targeting those people registered as seeking security work and providing a range of pre-employment training designed to equip people for and support them through the Security Industry Authority (SIA) accreditation process. In addition to the LOCOG Bridging the Gap project, JCP are working with Association of London Colleges to fill security training opportunities with unemployed young people.

#### OTHER ISSUES

We have attached more detailed briefing notes on the LDA Olympic land costs, and their recovery and on the sale of the Village.

We hope this covers the key outstanding points raised at the hearing—do let us know if you would like more information.

#### LDA OLYMPIC LAND ASSEMBLY COSTS AND THEIR RECOVERY

##### LDA DEBT

The London Development Agency (LDA) was responsible for land assembly to create the Olympic Park. Land purchases began before 2005 in order to support the Olympic bid and it made sense for the LDA to do this as the appropriate body to use the land for other development purposes should the bid fail. Once London had won the bid the LDA as the interim Park legacy client (until the Olympic Park Legacy Company was created) continued to acquire the land needed for the Games. In undertaking the land assembly, the LDA borrowed significant sums from the Public Works Loan Board.

LDA's Olympic land debt stood at £389 million in March 2010. On 30 September 2010 LDA land in the Olympic Park and at Three Mills was transferred to the Olympic Park Legacy Company (OPLC) debt-free under the Land and Debt Deal (see below) and from April 2012 the Greater London Authority (GLA) takes over the remaining Olympic land debt when Regional Development Agencies (of which the LDA is one) are finally abolished. The Olympic land debt still stood at £389 million in October 2010, will stand at £349 million in April 2012, and at £231 million by 31 March 2014.<sup>5</sup>

##### DEBT REPAYMENT: MEMORANDA OF UNDERSTANDING 2003 AND 2007

In 2003 a MOU was agreed between Government and the Mayor of London which established the principle that the LDA would meet the costs of Olympic land assembly but that income from the sale of this land would be at their disposal in order to pay down any debt incurred. A revised MOU was agreed between Government and the Mayor in 2007, following Tessa Jowell's statement to Parliament that the public sector funding provision for the 2012 Olympic and Paralympic Games would be increased from £2,375 million to £9,325 million. This MOU sets out the arrangements for meeting the public sector funding requirement for the Games and for the distribution of receipts from the disposal of land acquired by the LDA.

The 2007 MOU stated that the LDA would have first call on receipts to repay its acquisition costs and disturbance compensation payments (which were not expected to exceed £650 million). It also said that any subsequent profits from land sales would be shared between the LDA and National Lottery distributors.

Under the 2007 Memorandum profit sharing would have operated on the following basis:

- The first £650 million of receipts would go to the LDA to cover land assembly costs.
- Of the next £631 million–£506 million would go to the Lottery and £125 million to the LDA.
- Of the next £544 million–£169 million would go to the Lottery and £375 million to the LDA.

The total going to the Lottery would be £675 million, reflecting distributors' increased contribution to the Games funding package.

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<sup>5</sup> 2010 figure from *The Finances of the Olympic Legacy*, October 2010; 2012 and 2014 figures from London Assembly's Budget and Performance Committee papers for 23 November 2011.

The 2007 MOU also stated that should any surplus arise, its use would be determined separately at the time by agreement between the Government and the Mayor.

#### DEBT REPAYMENT: THE LAND AND DEBT DEAL 2010

The Olympic Park Legacy Company (OPLC) was established in 2009 as a company limited by guarantee as the manager and custodian of the Olympic Park after the 2012 Games. OPLC is jointly owned by Government and the Mayor of London. Government and the Mayor agreed in March 2010 that 104 ha (257 acres) of LDA land in the Olympic Park and at Three Mills should be transferred—debt-free—into the ownership of the OPLC to empower the company to establish commercial relationships and secure legacy uses for the Park and venues before the Games.

This agreement, known as the Land and Debt deal, recast the profit sharing arrangements in the 2007 MOU as follows:

- Of the first £650 million, the Government will receive 85% and the GLA 15%.
- From the next £1.3 billion, the Lottery will receive £675 million, the GLA will get 15% and the rest will go to the Government. The repayments profile reflects that in the 2007 MOU to ensure no disadvantage accrues to the Lottery.
- Any further proceeds will be divided equally between the GLA and the Government.

In addition, the deal recognised that, while the LDA would have no further risk attached to ownership of the land, it would put the LDA in an unsustainable financial position if the land was transferred without them receiving some recompense for what they could have reasonably expected to receive from future land sales had they retained the land. Consequently, the Government agreed to relieve LDA of £300 million of its contributions to the ODA's budget, making funding available from the Exchequer instead, as well as paying £138 million cash up front to enable OPLC to purchase the land. In return, Government replaced the LDA in the receipt sharing arrangements.

Finally, the deal explicitly stated that the LDA should repay £369 million of debt between 2011–12 to 2013–14 and should take out no further loans over the same period.

The Land and Debt deal fell under the review of spending decisions between January and May 2010 and was confirmed by the Chancellor of the Exchequer in July 2010.

#### MAYORAL DEVELOPMENT CORPORATION

The Mayor of London has published proposals to establish a Mayoral Development Corporation, using powers granted by the Localism Act 2011, into which the assets, funding and liabilities of OPLC will be transferred. This transfer is expected to happen on 1 April 2012, and would move the Olympic Park assets from a body jointly controlled by Government and the Mayor into one controlled solely by the Mayor. Arrangements for receipts sharing will again require amendment and work to do this is initially being undertaken within the scope of the London Settlement.

#### VILLAGE DEVELOPMENT COSTS AND RECEIPTS

1. The Olympic Village comprises 11 residential blocks providing 2,818 apartments ranging from some five-bedroom town houses to one-bedroom homes. It includes retail units at street level with an Academy School, for pre-school to age 18 students, and a health and community centre. The Olympic Village has been designed to meet sustainable objectives including Code 4 sustainable building criteria.

2. The immovable deadline of the Olympic and Paralympic Games mean that the building works have been condensed into a 42 month period at time of Global financial recession and reduced bank lending.

3. Originally, Lend Lease was anticipated to be the developer and therefore let the initial construction related contracts for the first development plots. However, the Global financial recession, and a consequential downward assessment of future housing sale prices, meant that the availability of private finance reduced and became more expensive making the private sector scheme no longer value for money. In May 2009, the Government agreed that the scheme should be publically funded and that the assets should be owned by the public sector during the development period.

4. Table 1 sets out the forecast outturn development costs for the Olympic Village together with anticipated receipts under the agreements entered into with Triathlon Homes and Delancey/Qatari Diar. Table 1 also sets out the financial projections as at 31 December 2009 (as included within the NAO Report in respect of the "Preparations for the London 2012 Games" dated February 2010), 30 June 2011 Quarterly Report and 30 September 2011 (as included within the recent NAO Report).

5. Throughout this period, the anticipated final development costs have remained relatively stable at around £1.1 billion which includes sales and marketing costs, abnormal Olympic costs and the post Games retrofit programme. At the present time the ODA is finalising the retrofit programme and budget.

6. When the decision was taken in May 2009 to publically finance the construction of the Olympic Village the ODA entered into a contractual arrangement with Triathlon Homes for the affordable housing within the Village development to mitigate the amount of public funding required for the project. Triathlon Homes purchased 1,379 homes out of the 2,818 total apartments under construction.

7. The purchase price was £268 million of which £110 million was funded through grant from the HCA, in accordance with the Homes and Community Agency's normal grant rules, and the balance was funded by bank borrowing by Triathlon Homes against future income and rents together with receipts from shared ownership and equity share sales. This is in line with all other affordable housing developments in London.

8. During 2011, the ODA, with Ministerial approval, contracted to sell its remaining interest in the Athletes Village to Delancey/Qatari Diar. These interests comprise the remaining 1,439 homes under construction and six development plots. The gross purchase price was £557.5 million of which £71 million related to the development plots. In addition, the ODA transferred the obligation for the sales and marketing of both the Village, as a new residential neighbourhood, and individual homes to Delancey/Qatari Diar. This transfer of sales and marketing activity to the private sector produced a saving of £27 million to the ODA.

9. As the NAO Report (paragraph 2.4) makes clear the overall net receipts, taking into account the sales and marketing and taxation savings, are £14 million more than was anticipated in the Comprehensive Spending Review 2010. Table 2 attached is a subset of Table 1 and sets out how the 14 million saving has been calculated.

10. Table 1 shows that the overall net public sector contribution to the Village is currently anticipated to amount to £311 million once the income from the development plot sales has been taken into account.

11. In respect of development costs it is estimated that c. £155 million are Olympic specific items that are abnormal increases to normal development costs. These include temporary fixtures and fittings, equipment and features required for the Games and their subsequent removal. Eg temporary bathrooms, flooring, dividing walls and price inflation on the delayed fitting of kitchens post Games. Other items of Olympic expenditure includes rail sidings to bring in construction materials to meet sustainability targets, enhanced security, costs associated with fitting out car parks for office spaces for National Olympic Committees, and additional programme management to address both integration issues and delivery against an immovable deadline.

12. In addition, there are other key considerations that influence costs and receipts. These include the fact that Construction Management contracts were awarded by Lend Lease at the peak of the market (before the global financial crisis and the transfer of the Village to public ownership) to enable the construction to proceed to timetable. With the deterioration of the economic climate in 2008 sales values and construction costs reduced, but it was not possible to significantly renegotiate the construction management arrangements. To diversify the construction risk and take advantage of lower construction costs the ODA procured individual developers for six of the eleven construction plots under design and build contracts. It is estimated that the differential between the total cost of construction management blocks and those constructed under design and build contracts is circa £80 million.

13. There is a high proportion (49%) of affordable homes within the development that is 19% more than required under the existing planning consent of affordable homes. This proportion was agreed to meet local housing needs. However had 30% affordable housing been provided it is estimated that private sector receipts would be increased by circa £90 million. It should be noted that the proportion of affordable housing in the overall Village development will decrease as shared ownership and equity sales take place and as the development plots are built and occupied.

14. Under the Contract for Sale with Delancey/Qatari Diar, the ODA retains a right to future overage depending on future returns to the purchaser. Whilst the actual overage paid to the public sector is dependent on future market conditions current estimates indicate an additional return in excess of £45 million in the longer term that will mitigate the overall public sector subsidy.

15. It therefore follows that the overall public sector subsidy relates to abnormal Olympic costs, the need to progress construction to meet a fixed deadline and the high percentage of affordable housing within the overall development. The ODA has commissioned Ernst and Young to review the vertical build development costs and receipts associated with the construction and sale of the Athletes Village. This review is currently in progress and will report in early 2012.

16. Finally, it should be noted that the scale of residential development within a constrained and security-controlled site is unprecedented with 2,818 apartments being constructed within a 42-month period. The Village remains on track to be handed over to LOCOG on 27 January 2012.

### Written evidence from the Permanent Secretary, Department of Culture, Media and Sport

We are publishing the latest Quarterly Report on preparations for the Olympic and Paralympic Games, covering the period to 31 December 2011. Given recent interest from the Committee around the Public Sector Funding Package (PSFP), I thought it might be helpful to update you on our most recent findings. The level of uncommitted contingency in the PSFP remains at over £500 million, and we now have over £100 million of headroom above assessed risks.

As I set out in our recent hearing, and in subsequent correspondence, our previous Quarterly Report confirmed that there remained £528 million of uncommitted contingency within the £9.3 billion PSFP, including £174 million available to the ODA, and £354 million held by Government as programme-wide contingency. This position was consistent with that put forward in the NAO's most recent report.

The report published tomorrow shows that £527 million remains uncommitted in the PSFP, a reduction of just £1 million in the quarter. The breakdown of uncommitted funding has also changed, as indicated in the table below:

<i>Uncommitted funding remaining in PSFP</i>	<i>30 September 2011— as per NAO Report (£m)</i>	<i>31 December 2011— latest figures (£m)</i>
ODA programme contingency	174	102
Government-held programme-wide contingency	354	425
<b>Total</b>	<b>528</b>	<b>527</b>

With the programme three months further on, the ODA's requirement for contingency to cover assessed risk has reduced to £102 million. The ODA's Anticipated Final Cost has reduced accordingly. As a result of this, and other movements in PSFP forecasts, the level of Government-held programme-wide contingency has increased to £425 million.

As you know, my Department is focused on managing risks to the PSFP. As I confirmed in the December 2011 hearing, the quantification of risk at that time stood at £318 million. Set against the level of programme-wide contingency at that time of £354 million, this indicated £36 million of headroom in the PSFP above assessed risks.

As we approach the Games and programmes of work reach completion, risks will either be realised, or diminish. We are now nearly three months further on from the hearing and our assessment of risk remaining to the PSFP has reduced. Taken in combination with the increase in programme-wide contingency, we now have over £100 million of headroom in the PSFP above assessed risks.

These developments support my continued confidence that we will deliver the Olympic and Paralympic programme within the £9.3 billion PSFP.

I have enclosed a copy of our Quarterly Report, embargoed until 10.00am on 28 February, which provides further background on the PSFP movements in the quarter.

27 February 2012





ISBN 978-0-215-04284-2



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