



House of Commons

Committee of Public Accounts

Preparations for the London 2012 Olympic and Paralympic Games

Ninth Report of Session 2012–13

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written evidence*

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Committee of Public Accounts

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Committee staff

The current staff of the Committee is Adrian Jenner (Clerk), Sonia Draper (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

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1 Background

1. In March this year the Committee published its report on progress with preparations for the London 2012 Olympic and Paralympic Games.¹ The Department for Culture, Media and Sport's Accounting Officer was subsequently quoted in the media, challenging the Committee's report. This was before the Committee had received the courtesy of the formal Government response which was received at the end of April, and is no way to conduct public business. The Accounting Officer appeared again before the Committee to give further evidence and in May the Chair of the Committee wrote to the Accounting Officer seeking clarification on a number of matters. This letter and the Accounting Officer's reply are at Appendices A and B respectively.

2. It is the job of this Committee to hold the Government to account on behalf of Parliament for the use of public money. But on this occasion it has been an unnecessarily frustrating process. It has been difficult to get clear and consistent information and assurances on some of the areas that concern us most. We feel compelled to reiterate our concerns in the following areas.

2 The costs and benefits of the Games and the legacy

3. We were clear in our report that the Public Sector Funding Package for the Games is and remains £9.3 billion. At the end of May, £476 million of the Public Sector Funding Package was uncommitted. After allowing for the contingency set aside by the Olympic Delivery Authority to meet known risks and the Department's mid-range estimate of the cost in the event that all risks emerge, the remaining headroom in the Funding Package was £136 million.

4. There are two matters, however, that cause us concern. The first is the difficulty we have experienced in pinning down the financial position, particularly the quantification of risk. The Department has now provided helpful clarification, but it has been too difficult to extract the necessary information. The situation has not been helped by inconsistencies in the Department's evidence to the Committee. There are also lessons here about the importance of using clear and unambiguous language. Failure to do so stands in the way of transparency and accountability.

5. The second area of concern to the Committee relates to the costs outside the Public Sector Funding Package. We accept that some programmes contributing to the legacy may be part of normal business for government departments and other public bodies. But the Programmes are overseen by the Department's Olympics Legacy Board and the costs are additional to the £9.3 billion. These costs include the original £766 million purchase of Olympic Park land, which the Department expects will be recouped from land sales, although in the current economic climate nothing is certain. They also include costs

¹ Committee of Public Accounts, 74th Report of Session 2010-12, *Preparations for the London 2012 Olympic and Paralympic Games*, HC 1716

incurred by government departments and their agencies, for example the £57 million cost of staffing the Government Olympic Executive. Furthermore, substantial costs associated with the transport infrastructure programmes may bring lasting benefit but they were incurred to support the Olympics possibly at the expense of other transport infrastructure projects, like the extension of the Docklands Light Railway.

6. Our concern is that such costs are not drawn together in one place, unlike the costs incurred within the Public Sector Funding Package. It is disappointing, therefore, that the Department does not intend to produce a single auditable account after the Games. In the interests of transparency around an event of huge national interest, we remain of the view that such an analysis should be produced. We also consider that any assessment of the legacy benefits from the Games should, within practical limits, set out the associated costs. The Department has told us that it expects the costs of individual legacy programmes to be identified as part of its assessment of the legacy benefits. We are looking to the Department to make sure that this is done, and collated to support the public understanding of the costs and benefits of the Games and their legacy.

3 Venue security costs

7. In our March 2012 report we noted that the cost of providing venue security at the Games had nearly doubled from £282 million at the time of the Government's 2010 Spending Review to £553 million in December 2011. In response to the Committee's concerns about the increased costs, the Department's position has been that it was not possible to produce final costs before the detailed venue plans and competition schedules were drawn up, and that that the costs would not have been different from where they are now had it been possible to produce a more accurate assessment earlier.

8. We are not convinced. We are not security experts, but the sheer scale of the increase in the number of guards required in barely more than a year from 10,000 to over 23,000, coupled with the fact that LOCOG entered a commercial contract on the basis of the earlier estimates and then had to renegotiate the terms of that contract within a year, does not give us confidence in the management of this aspect of the preparations for the Games. Accountability for monitoring security arrangements is unclear and there is insufficient challenge for service providers. Further, the rise in programme management and operational costs over the year more than twelve fold from £10 million to £125 million has yet to be convincingly justified to us.

9. When we reported, in March 2012 that the Ministry of Defence had agreed to provide 7,500 military personnel to work as security guards during the Games; this was in addition to around 3,300 civilian volunteers. The remaining requirement for around 13,000 was to be supplied by G4S. LOCOG and the Home Office told us that they were confident that G4S would be able to provide all the required private sector security guards. We concluded, however, that LOCOG and G4S faced a significant challenge to recruit, train and coordinate all the security guards in time for the Games.

10. On 12 July, just two weeks before the opening ceremony, the Government announced that G4S was unable to provide the contracted number of security guards. As a direct result, the Government authorised the deployment of a further 3,500 military personnel to fill the gap. This will bring the total number of military personnel supporting security at the

Games to 17,000. We acknowledge that it seems an effective contingency plan is being implemented. However, we are concerned that, despite previous assurances, G4S will receive substantial sums of public money without providing the contracted number of guards. Value for taxpayers' money demands that G4S not only pays for all additional costs incurred by the Government, but also incurs financial penalties for the failure to deliver. We will return to this matter as a priority after the Games.

4 The Legacy

11. In our March report we identified two particular areas of concern relating to the legacy from the Games. One concern was that although ministers had not adopted the previous Government's target of achieving one million more participants in sport by 2013, only 109,000 new people were regularly participating in sport despite £450 million spent, and that this represents poor value for money. In June 2012 Sport England announced that number of people playing sport three times a week increased by 350,000 between October 2011 and April 2012, still well short of the original target.²

12. The Government's response to our report was that no Host City had been able to increase participation on the back of an Olympic Games, which calls into question the basis on which the original clear commitment was made.³ We note, however, that there is to be a stricter payment by results regime for any further spending on sports participation.

13. We have the wider concern that it is not clear who will be accountable to Parliament for the delivery and co-ordination of the promised Olympic legacy after the Games. On being pressed for clarification the Department has now told us that where legacy is the responsibility of a government department the respective accounting officer will be accountable to Parliament in the normal way. In addition, where legacy is a matter for the Greater London Authority, as in the case of the work of the London Legacy Development Corporation (which has taken over the functions of the Olympic Park Legacy Company), the Mayor will be accountable to the London Assembly.

14. We also note that, the Department for Communities and Local Government's settlement letter for the Greater London Authority includes a 'statement of expectations' about Authority's capacity and strategic outcomes which covers the transfer of assets to London Legacy Development Corporation. We understand that the Department for Communities and Local Government is also developing a system accountability statement for the Greater London Authority to accompany the settlement letter.

15. In addition, the Accounting Officer for the Department for Culture, Media and Sport, the lead Department for the Games, has told the Committee that he will continue to answer to the Committee for the Olympics programme as a whole. We welcome this assurance.

² Sport England press release, *Surge in sports participation as London 2012 Games draw near*, June 22 2012

³ Treasury Minute on the Seventy-Fourth Report from the Committee of Public Accounts: Session 2010-12, CM 8347, April 2012

5 Conclusion

16. This Committee looks for open and constructive engagement on the subjects it considers, but feels that on this occasion it has not had that. However, we do not wish to divert the delivery bodies' attention from the final stages of the preparations for the Games. We have made clear our views.

17. We have previously acknowledged the exemplary work of the Olympic Delivery Authority on the Olympic Park and venues. There have been serious difficulties with planning and delivering venue security, but the overall picture on how the preparations have gone, and the effectiveness of the accountability arrangements in place for the costs and legacy benefits, will be clearer after the Games. Meanwhile, we wish every success to the Department and the many other organisations involved in delivering the Games.

Appendix A—Letter from the Chair of the Public Accounts Committee to Jonathan Stephens, Permanent Secretary, Department for Culture, Media and Sport

PREPARATIONS FOR THE LONDON 2012 OLYMPIC AND PARALYMPIC GAMES (COMMITTEE'S 74TH REPORT)

I am writing about the Department's response to the Committee's report on the preparations for the London 2012 Games. The Committee expects complete and carefully considered responses to its reports, but we have a number of concerns about the way the Department has responded on this occasion.

First, I want to say again how concerned we are that following publication of our report you sent me a letter which immediately found its way into the national newspapers. Having taken the trouble to reply, we then find you being quoted in the media, challenging the Committee's report, before Parliament has received the courtesy of the formal Government response in the form of the Treasury Minute. This is no way to conduct public business.

On the position against the £9.3 billion public sector funding package

The Committee has found it incredibly difficult to elicit from the Department a clear explanation of the financial outlook, with the evidence you provided on December apparently contradicted by the evidence you later provided on 26 April, and the Treasury Minute scarcely clarifies the position. So that the Committee can be clear about the position, please provide:

- a detailed explanation of the methods you used to arrive at a financial quantification of each assessed risk remaining; and
- the extent to which the quantification of each risk from across the delivery organisations, such as the Olympic Delivery Authority and LOCOG, took account of the likelihood of those risks arising

On the full costs and income from delivering the Games and their legacy

The Treasury Minute states that 'the Olympic Programme is not and never has been £11 billion'. That is not what the Committee's report said and I made that clear in my letter of 14 March: we were careful to differentiate between the public sector funding package and the costs outside it. The costs associated with delivering the Games and the legacy are clearly of public interest, albeit the intention is to recoup some of the cost.

It is therefore disappointing that, in the interests of making things clear to Parliament and taxpayers, you do not intend to produce a single auditable account and I encourage you to rethink. You do say, however, that separate evaluations of the legacy impact will be published. It is important that any assessment of the benefits is set against the costs that contributed to the delivery of those benefits, as our predecessors recommended in their

March 2008 report. In your reply we would like you to explain how you intend to account for and report the full costs of delivering the Games and the legacy against the benefits

On venue security costs

In response to the Committee's concerns about the increase in venue security costs the Treasury Minute states that it was not possible to produce "final or definitive" costings at the time. Again, that was not the Committee's point: what we said was that we did not accept that the costs could not have been "better" estimated earlier. The point is not academic because the G4S contract was let on the basis of the earlier estimates and has since had to be renegotiated.

The Treasury Minute sets out the Government's view that putting the additional requirements out to tender would not have resulted in savings. In addition, the Treasury Minute argues against a 'further' lessons learned exercise, but does not provide any insights to the lessons it has learned to date, and the NAO has seen no lessons learned paper. In your reply we would like you to set out:

- what you think the Department and the Home Office could have been done better; and
- the extent to which you think the cost would have been lower if there had been a better understanding of the total requirement when the original contract with G4S was let

The Treasury Minute asserts that uncertainty about the security requirement was a reason why high levels of contingency were built into the programme. Our understanding is that there was £238 million that could only be called upon if there were a significant change in circumstances such as an increase in the security threat to the Games, but that the rest of the original £2.7 billion of contingency was potentially available to the Olympic Delivery Authority. It is not clear to us, therefore, that uncertainty about the competition schedule and the operating plans for each venue were factors in setting the contingency at the outset. Please clarify the position in your response.

The Treasury Minute explained that the Home Secretary is responsible for delivering of a safe and secure Games. However, our recommendation asked for clarity about who is accountable for value for money for public expenditure on venue security. Please set this out in your response.

On sports participation

We note that the Government seems to be moving away from the idea that sports participation will increase on the back of the Games, and object strongly to the Department's assertion that that the Committee had no evidence on which to base a view about value for money from expenditure on sports participation. Our report sets out the original target of 1 million new people regularly participating in sport, and the fact that only an additional 109,000 was achieved for a cost of £450 million. These simple facts raise serious questions about value for money and we note from the NAO report that the Department itself considered this situation to be unacceptable.

On accountability for delivery of the legacy

We note that the Department accepts our recommendation on clarifying who will be "accountable to Parliament" for delivering the legacy, but then goes on to say that it will set out publicly in July 2012 who is "responsible" for which elements and makes no reference to Parliament. We would be grateful for your assurance that the people who will be responsible for the legacy will also be accountable. If this is not the case, we would like you to set out who will be accountable.

The Treasury Minute is the means by which the Committee, on behalf of Parliament, receives assurance that the Government has considered the Committee's reports carefully and responded fully and accurately. The Committee is looking for constructive and earnest engagement. All in all, on this occasion the Department's response falls short. I would be grateful for your response to our concerns by 14th June. I am copying this letter to Dame Helen Ghosh and the Treasury Officer of Accounts.

Rt Hon Mrs Margaret Hodge MP

14 May 2012

Appendix B—Letter to the Committee of Public Accounts, from Jonathan Stephens, Permanent Secretary, Department for Culture, Media and Sport

Overall Position on £9.3bn Public Sector Funding package

You asked for further clarity on the financial outlook. Tomorrow we will publish our next Quarterly Report on progress to London 2012, by way of a Written Statement to Parliament. I enclose an advance embargoed copy. Table 1 (page 13) shows that the level of uncommitted contingency in the PSFP stands at £476 million. Of this, £388 million is held by the Government and £88 million is held by the ODA against its remaining assessed risks.

The comparison (six months on from the data in the December NAO report) is set out in the table below:

| Uncommitted funding remaining in PSFP | At 30 September 2011 as in the NAO's December 2011 report (£ms) | At 31 st May 2012 as in the June 2012 Quarterly Report (£ms) |
|--|---|---|
| ODA Programme Contingency | 174 | 88 |
| Government-held programme-wide contingency | 354 | 388 |
| Total | 528 | 476 |

As I explain elsewhere in this letter and annexe in more detail we also track and quantify risk to the PSFP. With the Games fast approaching, programmes of work are now reaching completion. As they are completed the level of remaining risk reduces. Our latest assessment, at the end of May 2012, gives a mid-range total cost if all risks arise of £252 million, which compares with £318 million at the time of the NAO report. I am therefore encouraged that risks are diminishing with, so far, only a fraction of assessed risk translating into actual cost pressures.

The outcome of these movements in risk and contingency is increased headroom, which we treat as the excess of the Government-held programme contingency over the mid-range quantification of all risks. At the end of September 2011, as reported in the December NAO report, this headroom was £36 million. In February 2012, I advised you that the headroom

had increased to above £100 million. As at 31st May 2012 this headroom stands at £136 million, as set out below.

| Uncommitted funding remaining in PSFP | At 30 September 2011 as in the NAO's December 2011 report (£ms) | At 31 st May 2012 (£ms) |
|---|---|------------------------------------|
| Government-held programme-wide Contingency | 354 | 388 |
| Mid-range quantification if all risks arise | 318 | 252 |
| Headroom | 36 | 136 |

The picture on the budget as a whole is that we are spending contingency significantly more slowly than risks are reducing across the programme. These developments support my continued confidence that we will deliver the Olympic and Paralympic Programme within the £9.3 billion PSFP.

Our next report, covering the period to 30 September (including a post Games updated forecast of anticipated final cost of the PSFP against the £9.3 billion budget), will be published in Autumn 2012.

Methods of Quantification of Risk

You asked for a detailed explanation of the methods used to arrive at a financial quantification of each risk remaining. The way we approach risk is to try to think about all the risks that could arise, and to think about the range of potential costs of them all arising. We then add to those an allowance for unknown risks. For the potential costs of each risk, we identify a three point range from low to high and we take the midpoint of the range as the most likely outcome. For some of these risks we use probabilities to assess the range of potential outcomes. But the overall total is merely an estimate of how much we would need to set aside in the very unlikely event that all risks arise, at their most likely cost, and some unknown risks arise as well. We do not try to estimate which risk is more likely to materialise than others or to identify a likely total outcome. Consequently, this quantification is not a forecast of the most likely out-turn cost—instead it is a quantification of how much contingency we would need available in the unlikely event of all known risks materialising at their most likely cost, plus some unknown risks as well. So it is a test of prudence rather than an estimate of likely cost.

Hitherto we have reviewed and revised this risk assessment quarterly. From now on, as we move closer to the Games, we are reviewing the risk assessment monthly. In the Annex to this letter I have provided some more detailed notes and a table setting out in more detail

how the risk assessment for each risk is assessed. Risk is dynamic. As risks are dealt with they are removed and as new risks emerge they are added.

Reporting full costs and legacy benefits

You asked me how I intend to account for and report the full costs of delivering the Games and the legacy against the benefits. I will assess the expenditure on the Olympic and Paralympic Programme against the £9.3 billion PSFP set by the Secretary of State in 2007 and on which we have, since, reported to Parliament on a regular basis.

We have always been transparent about the make-up of the Olympic and Paralympic Programme, the costs included in the PSFP, and about our progress in delivering it. Tomorrow's Quarterly Report includes our latest full pre-Games forecasts and we shall publish our latest full forecast post-Games in the report to be published in the Autumn. But, we shall not have the final picture until the post-Games retrofit of the Olympic Village is complete, the capital receipt from the sale of the Village delivered and the legacy transformation of the Olympic Park complete.

All of our reports have and will include expenditure on legacy transformation of the Olympic Park. Other legacy programmes are part of normal business for departments or other public bodies, seeking to maximise the benefits by aligning their programmes with the objectives of the Olympic and Paralympic Programme. The Government has always been committed to making the most of the Games but there has not been separate dedicated funding provided for Games legacy other than the specific transformation funding. The Games provide some excellent opportunities for Departments and other public bodies to further their own objectives through programmes linked to the Games and they have chosen to allocate their funding to these programmes. There is no new funding. The Accounting Officers of the Departments concerned are responsible for the accountability of their legacy expenditure in the normal way.

In relation to legacy benefits, we have recently published "Beyond 2012 The London 2012 Legacy Story" (March 2012) which presents some legacy successes. In Autumn 2012 we will publish an initial pre-Games report on legacy benefits. In summer 2013 DCMS will publish a full report from the meta-evaluation of the legacy benefits. This will include results from the individual evaluations carried out by other Government Departments and so will give the wider picture.

I expect that, whilst the cost of individual legacy programmes will, in assessing their benefits, be identified, it will remain the case that the funding concerned is within existing settlements and cannot be assumed to be additional to what would have been spent if the Olympic and Paralympic Games were not being held in London. That is why such costs should not be added to the PSFP and presented as the total costs of the Olympics—because most, if not all, of these costs would have been incurred even if the Olympics were not happening.

Venue security

On venue security you asked what the Government might have done better. It was not possible to produce final costs for venue security at the point when the budget was drawn up originally because venue security costs follow on from detailed venue plans and

competition schedules, which at that point had not been finalised. As the Treasury minute makes clear this covers over 1000 events and 100 venues.

We remain of the view that the costs would not have been different from where they are now, had it been possible to produce a more accurate assessment at an early stage. As the Government said in its response, we recognised that we were dealing with uncertainty here and it is because of this that we built high levels of contingency into the PSFP which are now being drawn on. However, there may have been more the Government could have done to make people aware that the figures that were published in our Quarterly Report and elsewhere were, necessarily, based on estimates and, that even if they remained static for some time, there was always a strong possibility that they would change.

The reason why the G4S programme and management costs have increased so substantially is that on the basis of the original demand, G4S were confident that they could meet the requirement from an already recruited and trained workforce. The increased demand has given rise to the need to recruit, train, transport and accommodate extra employees with consequential cost implications. These costs would have had to have been factored in, if the increased demand had been known when the contract was first negotiated. We do not therefore believe that, had the increased demand requirement been known at the point when the original contract with G4S was negotiated, the costs would have been lower.

When the PSFP was established in 2007, it contained a provision of £2.7 billion of contingency. This reflected the high degree of risk across the full scope and lifetime of the Olympic and Paralympic Programme. The contingency comprised £238 million as a safety and security contingency and £500 million that was immediately allocated to the ODA. At that stage the £2 billion balance of contingency was unallocated but could only be accessed by the ODA. The position was set out in our January 2008 Annual Report on the Games, and the July 2007 NAO report on the budget for the Games.

In the 2010 Spending Review we reconfigured the PSFP to reflect the changing focus of the programme from construction to operational delivery. We established a new baseline for the ODA and broadened access to the remaining contingency in the PSFP so that it was available for any cross-programme issues that may arise, including those of an operational nature. The re-configured contingency arrangements were announced in a Written Ministerial Statement to Parliament at the conclusion of the Spending Review and were included in our February 2011 Quarterly Report and in the February 2011 NAO Report.

The Home Secretary is responsible for delivery of a safe and secure Games and Dame Helen Ghosh, as Home Office Accounting Officer, is accountable for ensuring value for money for public expenditure on Venue Security.

Sports Participation

The value for money of the £450 million includes the investment in facilities, talent development, programmes for local communities and support for local sports clubs as well as getting more people active and playing sport. The Government's objective is to deliver more with the available investment which is why there will be a stricter payment by results regime for any further investment in sports participation. As the NAO's 2010 Report on Increasing participation in Sport notes, "Sport England now has a new strategy and a well-

developed and improved funding assessment process for individual sports which we regard as positive developments that offer the prospect of improved value for money”.

Legacy

You asked about accountability for the delivery of the legacy. Where legacy is the responsibility of a Government Department the respective Accounting Officer will be accountable to Parliament in the normal way. However, where legacy is a matter for the Mayor of London, as in the case of the work of the London Legacy Development Corporation, the Mayor will be accountable to the London Assembly.

However, as I've always made clear, I continue to look forward to answering to your Committee for the overall delivery of the Olympics programme as a whole, now and after the Olympics. I hope the Committee will continue to think that, although there will always be lessons to be learnt and areas where performance could have been improved, in terms of continuity and application of good risk, financial and project management, and successful delivery on time and within budget, the Olympics offers an example of a successful major project which the Committee will want to recognise.

A copy of this letter goes to the Comptroller and Auditor General, to Dame Helen Ghosh and to the Treasury Officer of Accounts.

12 June 2012

ANNEX 1: RISK GROUPS AND METHOD

The quantified risk assessment (QRA) is an internal management tool. It is used to provide the Department and its partners with a view on all the potential pressures that could have an impact on the Public Sector Funding Package (PSFP). It does not take a view of the overall likelihood of those risks occurring as compared with each other. As such, the overall QRA is not, and never has been, a forecast of the likely out-turn cost.

Since March 2011 a group of representatives from each of the main Olympic delivery organisations has considered on a quarterly basis the potential risks that could materialise and require funding from the PSFP. From April 2012 this assessment has been carried out monthly. The risks are grouped either according to organisation or overall function (e.g. ODA or transport), with any duplications removed.

The group considers a low, high and mid-range value for each grouped risk. This assessment is an individual judgement for each risk, depending upon the particular circumstances. The mid-range value for each grouped risk is generally based upon a judgement of the most likely cost of the most likely risks occurring. Where appropriate—in 3 out of the 14 areas of risk in the QRA—this is based on a probability assessment. However, these probabilities cannot then simply be summed to each other, or to the other assessments that do not include probabilities, to arrive at an overall likely out-turn of cost. Usually the low and high values are some reasonable factor of the mid-range value. The exact methodology for each risk is recorded in the document shared with NAO (summarised in the table below without the figures).

The quantified risk assessment also includes an allowance for completely unknown risks as well as an allowance should several different risks materialise simultaneously and as a result their aggregate impact and therefore cost is higher than they would have been individually.

The low, high and mid-range totals for each risk group are summed to arrive at the overall conclusion.

The overall quantified risk assessment does not take a view between risk groups of which may be more likely to occur than others. For construction programmes, there is an accepted methodology for considering both the relative likelihood and impact of risks occurring and the links between risks and therefore the impact on the risk quantification. But, for an operational programme on the scale of the 2012 Games, the Department does not believe it is possible in any meaningful way to assess the relative likelihood and impact of risks occurring between a disparate range of operational risks. For example, we could not make a meaningful judgement between the likelihood of a LOCOG contract failing and a problem with the provision of local area traffic management.

Consequently, the low, high and mid-range totals cannot be equated to a judgement on the low, high and mid-range forecast overall outturn cost for the programme. Rather, they provide a range of potential costs which could impact on the PSFP in the exceptionally unlikely scenario that all risks were to materialise. As such, they provide the Department with a useful tool to monitor such risks and to identify where to consider appropriate mitigations.

| Risk Group | Method of quantification |
|--|--|
| | |
| Existing Olympic Delivery Authority Quantified Risk Assessment | <p>The ODA risk is taken from the ODA's existing QRA. This is in three tiers :</p> <p>ODA Risks (P80-95)</p> <p>Shared Risks</p> <p>Funder Risks</p> <p>The low estimate is taken to be zero ie that ODA programme contingency is sufficient. The mid-range estimate is taken to be the sum of the P80-95 ODA Risks and the Shared Risks, less the provision for industrial action which is included in the Operational Risks – Public Sector section of the QRA (see below). The high estimate is taken to be the sum of all three tiers, less the provision for industrial action and “Completely Unknown” (which is included as a separate section in the QRA). Risk is profiled as per the profile of ODA spend until 2012-13.</p> |

| | |
|--------------------------|---|
| | ODA risk has reduced significantly as building completes. |
| Operational Risks -LOCOG | <p>These are derived from LOCOG's review of operational risk, based on the risks set out in the Civil Contingencies Secretariat's Strategic Risk Assessment (SRA). The principles used by LOCOG in this analysis are as follows :</p> <p>This risk is focused upon events that would occur in Games time or close to Games time</p> <p>All risks not covered in (a) will be considered in the LOCOG AFC process and should be covered within LOCOG's own budget control</p> <p>LOCOG's insurance policies have been taken into account—the key one being cancellation, delay and postponement</p> <p>LOCOG quantifies the risk based on the sum of the level of probability of it occurring multiplied by the expected cost if the event occurred.</p> <p>The major items of risk are : delivery risk, cancellation, scope increases; and delay</p> <p>A set proportion of this risk has been stripped out and included as a separate Paralympic Risk (see below)</p> |
| LOCOG scope and revenue | <p>These are derived from LOCOG's review (January and April 2012) of all scope and revenue risk not allowed for in its internal cost tracking of AFC and revenue forecasts. The risk categories include:</p> <p>Food Inflation</p> <p>Travel</p> <p>Fuel</p> <p>The mid-range risk assessment assumes that a third of the total risk is realised, and not offset by any additional revenue. The low risk estimate assumes zero risk—that LOCOG's costs and revenues balance (or are positive). The high risk estimate assumes that all the risks are realised and are not offset by any additional revenue.</p> <p>A set proportion of this risk has been stripped out and included as a separate Paralympic Risk .</p> |
| Cultural Events | The high estimate assumes a 30% increase in the publically |

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| | <p>funded cost of cultural events, and the mid-range risk estimate a 20% increase. The low estimate assumes that any increase in the cost of cultural events can be absorbed within existing budgets.</p> |
| Government Operations | <p>The agreed Government principle is that “costs lie where they fall.” Departments are meeting their costs for the guarantees, but would be likely to resist further funding from their existing budgets if the scope increased. A mid-range provision of 5% of the total Government Operations expenditure is made to cover a potential increase in Olympic additional costs where, for whatever reason, the “costs lie where they fall” principle does not prevail. Low risk applies this principle strictly so provision is zero. High risk assumes that the extra Olympic additionality is met from the PSFP equivalent to 20% of existing expenditure.</p> |
| UK-wide and London Operations | <p>The principle of “costs lie where they fall” applies to any local authority pressures beyond funding already provided. However, the risk assessment looks at additional pressures that might need to be met from within the PSFP. The high estimate of risks assumes that additional provision is required for five “out of London” local authorities based on the amount of funding provided to Weymouth. The mid-range estimates assume that PSFP costs are incurred by two host local authorities. The low estimate assumes that the status quo ie “costs lie where they fall” prevails.</p> <p>In relation to London Operations the high risk is based on the Boroughs’ own figures when they bid for funds in 2010. The mid-range risk is based on GOE’s assessment of the maximum funding required by the City Operations Programme. The low risk is set at zero.</p> |
| Integrated Transport | <p>This covers risks relating to :</p> <ul style="list-style-type: none"> Travel Demand Management Olympic Route Network LOCOG LOCOG fleet costs Venue Transport (Local and non-local Traffic Area Management Plans) |

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| | <p>Tfl cost pressures</p> <p>Torch Relay spectator management</p> <p>High, mid-range and low risks are established for each and then aggregated</p> <p>Quantification of transport risks is managed by the DfT Olympic</p> <p>Assurance team, drawing on the latest risk reports for the transport governance boards, and other assurance information.</p> <p>Estimated financial impacts of each risk, under low, mid and high scenarios, are allocated between DfT and the PSFP on a “costs lie where they fall ” basis. These assessments take into account contingency held by ODA and LOCOG and the pressures identified in PSFP monthly reports. Each update is assured by ODA Transport, LOCOG Finance, GOE Transport</p> <p>Assurance and DfT experts.</p> |
| Increased threat of security to the Games | This quantified risk assessment is based on an Olympic Security Directorate (OSD Home Office) report to SROs quantifying certain security scenarios, based on the cost of providing additional police officers and infrastructure. |
| Policing and Wider Security : Scope Changes/Gaps within planned threat levels | OSD has advised low and mid-range risks of zero on the basis of the level of confidence that it has in the budget for Policing and Wider Security. The high risk estimate assumes that additional requirements arise in the build up to or during the Games which require extra funding to be made available within the PSFP |
| Venue Security : Scope changes/gaps within planned threat levels | <p>Estimates are based on a list of potential risks to venue security</p> <p>The high estimate assumes that all further risk materialises, the mid—range estimate half of it and the low estimate none. Indications are that the risk is continuing to reduce.</p> |
| Paralympics | A set proportion of LOCOG “Operational” and “scope and revenue” risks has been stripped out and included here. |
| Supply Chain (including | This looks at the risk of supply chain failure due either to |

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| contractor workforce) | poor contract management or supplier failure. LOCOG has undertaken an assessment of risk for each of its major contracts, based on spend, nature of delivery, impact on Games price and specification certainty. It has applied a quantification of risk to each contract based on 2.5%/5%/10% of the value of the contract according to the probability of risk and uplifted this for the remainder of its lower value contracts and the non-LOCOG contracts. |
| Post Games handover of the Park | This encompasses the risks arising from change approvals undertaken by ODA and subsequent compensation events to contractors that are to be novated, and risk of failure to hand over the venues and sites on time and in a reasonable condition. |
| Concurrent risks and Consequent risks | “Concurrent Risk” are where several risks occur independently at the same time. “Consequent risks” are where one risk occurring increases the likelihood of a series of further risks occurring. Both have the potential to increase impact and cost above the levels otherwise allowed for in the QRA. The provision has been quantified on the basis that that the “integrated transport” and ”increased threat to the security of the Games” risks are realised concurrently , resulting in a 10% increase in costs. |
| Completely unknown | These are circumstances arising that result in costs which were otherwise unseen. We have used a round, reasonable number. The low and high estimates are half and double the mid-range estimate respectively. |

Formal Minutes

Monday 16 July 2012

Members present:

Mrs Margaret Hodge, in the Chair

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

Mr Stewart Jackson
Fiona Mactaggart
Meg Hillier
Nick Smith

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 17 read and agreed to.

Annexes agreed to.

Resolved, That the Report be the Ninth 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 printing with the Report.

[Adjourned till Wednesday 5 September at 3.00 pm]

Witnesses

Thursday 26 April 2012

Page

Jonathan Stephens, Permanent Secretary, and **David Goldstone**, Finance Director, Government Olympic Executive, Department for Culture Media and Sport

Ev 1

List of Reports from the Committee during the current Parliament

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

Session 2012–13

| | | |
|---------------|--|---------|
| First Report | The Government Procurement Card | HC 1915 |
| Second Report | Mobile Technology in Policing | HC 1863 |
| Third Report | Efficiency and reform in government corporate functions through shared service centres | HC 463 |
| Fourth Report | The completion and sale of High Speed 1 | HC 464 |

Oral evidence

Taken before the Committee of Public Accounts

on Thursday 26 April 2012

Members present:

Margaret Hodge (Chair)

| | |
|---------------------|-----------------|
| Mr Richard Bacon | Austin Mitchell |
| Stephen Barclay | Nick Smith |
| Chris Heaton-Harris | Ian Swales |
| Mr Stewart Jackson | James Wharton |
| Fiona Mactaggart | |

Amyas Morse, Comptroller and Auditor General, **Ashley McDougall**, Director, National Audit Office, and **Marius Gallaher**, Alternate Treasury Officer of Accounts, gave evidence. **Gabrielle Cohen**, Assistant Auditor General, was in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Preparations for the London 2012 Olympic and Paralympic Games: Progress report December 2011 (HC 1596)

Examination of Witnesses

Witnesses: **Jonathan Stephens**, Permanent Secretary, Department for Culture, Media and Sport, and **David Goldstone**, Finance Director, Government Olympic Executive, Department for Culture, Media and Sport, gave evidence.

Q1 Chair: Jonathan, we have asked you to come back to talk about the Olympics, but I have had an approach from the Chair of the Public Administration Committee this morning, and I don't think you will be surprised to know that he has asked me to raise briefly some of the issues that are clearly dominating the media at the moment to do with the Leveson inquiry. I will do that at the beginning to get it out of the way.

The Secretary of State said yesterday in answer to a question that the role of the special adviser was "agreed by the permanent secretary." Did you know that Adam Smith was acting as a channel of communication between the Department and the Murdoch empire?

Jonathan Stephens: I think I just need to say, Madam Chair, that I have come to answer questions about Olympic costs, as notified. The Secretary of State made a full statement to Parliament yesterday, and he has made it clear that he is providing full written evidence and looking forward to providing oral evidence to the Leveson inquiry. A statement by the special adviser yesterday made it clear that he accepted that the nature and content of those contacts was not authorised by the Secretary of State, nor by me, and that is the right forum in which those matters should be investigated.

Q2 Chair: I do understand that, and I preface this by saying that I completely understand that this is a matter for the Public Administration Committee, which will no doubt want to interrogate you in the near future. However, I was asked by the Chair of that Committee to raise the issue. It is fortuitous that you are appearing before us this morning. It was not

intended to raise this issue, but clearly, given the extent of public interest in the matter, it seemed to me extremely odd to be told that you had agreed as permanent secretary to enable a special adviser, Adam Smith, to act as a channel of communication between the Department and the Murdoch empire. Is that true?

Jonathan Stephens: I will just repeat what I said before. There was a very clear statement from the special adviser concerned—

Q3 Chair: No. I think we are asking about your role, not the Secretary of State's role.

Fiona Mactaggart: They did refer to your role twice in response to questions yesterday.

Jonathan Stephens: If I may, I am just going to explain the nature of the statements yesterday. There was a clear statement by the special adviser, who made it clear that the nature and content of those contacts was not authorised by the Secretary of State. It was not actually said yesterday, but the nature and content of those contacts was not authorised by me.

Q4 Chair: Was not authorised by you?

Jonathan Stephens: The nature and content of those contacts was not authorised by the Secretary of State, and the special adviser made it clear that he accepted that as a result, it fell short of the requirements established by the Secretary of State and the permanent secretary. That was part of his statement. As I say, the Secretary of State has provided a statement to Parliament. He is providing full written evidence on behalf of the Department, and that will be available and in due course published through the Leveson inquiry. He has made it clear that he is very

keen to answer questions as soon as possible at the Leveson inquiry.

Q5 Chair: I understand that. The issues that the Chair of the Public Administration Committee wished me to raise were in relation to your role, not the Secretary of State's role. The Secretary of State said in evidence yesterday that you had agreed the role. All I am trying to get on the public record, given the public interest in this matter, is whether or not that is true.

Jonathan Stephens: And I'm explaining that the position was made clear in the special adviser's statement, where he said that the nature and content of those contacts was not authorised by the Secretary of State and that the result was that it fell short of the requirements established by the Secretary of State and the Permanent Secretary.

Q6 Austin Mitchell: But did you know of it?

Jonathan Stephens: The statement makes it clear that the nature and content of those contacts was not authorised by the Secretary of State and it fell short of the requirements established by both the Secretary of State and the permanent secretary. That is the statement that is on the record.

Q7 Fiona Mactaggart: But the statement doesn't answer the question about whether you knew, as the Secretary of State said to Parliament yesterday, that Mr Smith was acting a channel of communication with News International in relation to the Department about this matter.

Jonathan Stephens: I think the position was set out clearly in the various statements yesterday, and in particular the special adviser's statement, in which he accepted that the nature and content of those contacts was not authorised by the Secretary of State and the effect was that they fell short of the requirements established by both the Secretary of State and the permanent secretary.

Q8 Nick Smith: Mr Stephens, you shouldn't stonewall on this. Did you do a guidance note to Mr Smith on his crucial role on this £8 billion deal?

Jonathan Stephens: I am very sorry, Madam Chair, these are very important matters. They're rightly the subject of interest in Parliament. That's why the Secretary of State made a full statement to Parliament yesterday and answered questions. That's why he wants to give evidence to the Leveson inquiry and is preparing written and oral evidence. I've come, and am obviously ready, to speak about the £9.3 billion of Olympic costs. I've made clear the position set out in the various statements of yesterday and I think I just need to stand on that, without any implications being drawn from that whatsoever, given that I've been given no notice of these questions.

Q9 Chair: No, but it was pretty obvious that there has been public interest in the matter. It just did rather take me aback, from all my experience as a Minister, that you would have approved the appointment of a special adviser to act as a channel of communication between one party and the Department, when the

Department and the Secretary of State were playing this semi-judicial role. It is just slightly—it seems so inappropriate.

Clearly, the Secretary of State has to answer for his actions, and I understand entirely that, under the ministerial code, the Secretary of State is responsible for the conduct of special advisers—that is all absolutely clear. But in this particular instance, the Secretary of State chose to tell Parliament yesterday that you had specifically approved the role, and that astonishes me—that you approved the role of a special adviser to carry out communication between the Department and the Murdoch empire, when the Department of the Secretary of State was acting in this quasi-judicial capacity.

Jonathan Stephens: With the greatest respect, Madam Chair, I've made clear those statements were made—

Chair: You're not answering the question.

Jonathan Stephens: Well, no, but with respect, I've explained and drawn attention to the references in the statement about the nature of which—the nature and content of those contacts was not authorised and the effect was that they fell short of the requirements established by the Secretary of State and the permanent secretary. And, as I've explained, there—

Q10 Chair: So you did think it was appropriate for a special adviser to play this role. In that you authorised that role, you believed, as a civil servant—as the permanent secretary—it was completely appropriate for a special adviser to take on the role of acting as the channel of communication between the Department and the Murdoch empire.

Jonathan Stephens: I'm very sorry, Madam Chair, but I think I've made clear the position. I've referred to the statements, I've made it clear that full written evidence will be available and provided to the full, public, judicial inquiry that's been established and I think I must just—particularly given that no notice has been given of this—rest on that position.

Q11 Mr Jackson: Do you envisage that the specific question you have been asked today will be answered as a result of the judicial inquiry—that is, with regard to your specific relationship with Adam Smith vis-à-vis News International and the Secretary of State?

Jonathan Stephens: That is obviously a matter for Lord Justice Leveson.

Q12 Mr Bacon: Can I ask you then—I want to get on to the Olympics, but this is an important point because, as the Chair said, the Secretary of State referred to your role—do you accept that your role is a matter of legitimate public interest and scrutiny?

Jonathan Stephens: Of course.

Q13 Mr Bacon: Therefore, do you accept that finding out more about your role, and the circumstances that led to your approving the role of the special adviser is a matter of legitimate public interest and scrutiny?

Jonathan Stephens: Yes, indeed, and I have made it clear that statements were made yesterday that full evidence will be available. If it is raised in the

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Leveson inquiry, we will of course cover that and answer any questions that are raised there.

Mr Bacon: Good. Thank you.

Q14 Austin Mitchell: So at some stage you will be prepared to answer questions on your role.

Jonathan Stephens: We will, of course, co-operate absolutely fully, and respond to any questions that Lord Justice Leveson wants to ask. The Secretary of State has made that clear, and the Government as a whole have made that clear, so I think I must just leave it at that.

Q15 Nick Smith: Did you express any reservations to Mr Hunt about Mr Smith's role?

Jonathan Stephens: I am really sorry, Madam Chair, but I think I have made clear the position, and I have made clear the forum in which I would be very happy to pursue these questions—

Q16 Chair: I have to reiterate that I have absolutely no doubt that our fellow Committee members on the Public Administration Committee will look at this aspect of it in the future. Let's turn to the other issue. In an article for *Civil Service World*, a publication we all read with great interest, you appear to have given your official response to the PAC Report rather than to this Committee. Is this a new convention?

Jonathan Stephens: No, certainly not, Madam Chair. As you know, following the Report, I wrote to you to express concerns about a number of aspects of it. I returned to those issues in *Civil Service World*. To be honest, I returned to them after I had approved the response to the Committee, and I hadn't realised at the time that the response had not actually reached you or been published at that stage. If there was any disrespect to the Committee, I unreservedly apologise for that.

Q17 Chair: And there was no disrespect, was there, in writing to me and leaking the letter to *The Daily Telegraph* before I had seen it?

Jonathan Stephens: That was certainly not my intent—

Chair: It is almost wonderful, because it states, "anonymous DCMS official says".

Jonathan Stephens: If I may just say that there was a serious issue at stake in this report—

Q18 Chair: Can you just deal with the process issue? We will come to the content issue.

Jonathan Stephens: That is what I want to do. The serious process issue was that the Report, in my opinion, gave a misleading impression of the state of the Olympics budget. That is of real concern. Obviously, it is of concern to the Committee, to the public and to me as accounting officer. I was and am passionate about how this budget is managed, bringing the Olympics on within budget, and securing value for money through the budget, so I was very concerned about any misunderstanding, misimpression or whatever, however it had arisen, that might impact on that. So I want to take the first opportunity to try to correct it, particularly given that

it had been the subject of widespread press reports which I think had repeated that misunderstanding—

Q19 Chair: I don't think it was a misunderstanding, but we will come to that. What we felt was that your article in *Civil Service World* pre-empted your response. Is your response with us now? Do we have it? Is it in the next Treasury minute?

Marius Gallaher: I assume that the next round is in May, and that we will be producing—

Chair: No, it is now, the end of April.

Marius Gallaher: End of April, sorry.

Chair: Which is now. We are at the end of April.

Jonathan Stephens: My understanding is that it will be.

Q20 Mr Bacon: When was the minute approved by you?

Jonathan Stephens: I am sorry that I do not have that specific information.

Q21 Mr Bacon: You said a minute ago that it was approved by you and that you were surprised that it had not reached us before this appeared in *Civil Service World*. This was *Civil Service World* from 12 April, so you were saying that it was approved before 12 April. I am just asking when.

Jonathan Stephens: I do not have the specific date.

Q22 Mr Bacon: Presumably, you sign off on it and then it is dated.

Jonathan Stephens: It will be, yes.

Q23 Mr Bacon: It will be or was?

Jonathan Stephens: It is.

Mr Bacon: You were using the future. I am using the simple past.

Jonathan Stephens: It is. I just offered that as an explanation as to why in my mind I thought that I had signed it off.

Q24 Chair: What about the *Telegraph* article, which was the letter to me that was leaked to the *Telegraph* before I received a copy?

Jonathan Stephens: I am sorry. The letter to you—my concern was immediately and directly to raise with you what I was concerned about, which was that a wrong impression was being created.

Q25 Chair: Why did you leak it to the *Telegraph* before I received it?

Jonathan Stephens: If I may say so, I copied it because I had no other means of raising this. I copied it widely to the Committee and to other Members of Parliament.

Chair: I do not think that anybody in this Committee leaked it to the *Telegraph*.

Jonathan Stephens: Look, nor am I saying that I regard it as a particularly private piece of correspondence. My concern was immediately to—

Chair: What really irritated me—I do not regard anything on paper to be private, and I never have done—was that before you had done me the courtesy of letting me even receive the letter, you ensured that the *Telegraph* had a copy.

Jonathan Stephens: My concern was to raise the issue of substance. If in any way I have caused offence or anything else through how we have handled it, then I am sorry for that. That was not my intent at all. My intent was to try to get to the bottom of what seemed to me to be a genuine misunderstanding that was leading to a genuine misimpression of the state of the Olympic budget which was feeding through widely into press reports, which were being picked up across the world, that were giving a misleading impression of how we as a nation were managing.

Q26 Mr Bacon: You seem to say that we said that there was only £100 million left. What we actually said was £528 million of contingency remains to cover the impact of risk between now and the games. The Department estimates that the financial impact of remaining cross-programme risks could be anything from £127 million to £1 billion, but it estimates that it will retain more than £100 million of headroom above the assessed risks. Our summary stated that the public sector funding package is very finely balanced, so we did not say that there was only £100 million left. But you, I think, succeeded in creating the impression that that is what we had said. That is the point.

Jonathan Stephens: What I am looking at and what I was concerned about in particular was paragraph 1 of the conclusions from the PAC Report. On page 5, it says that, “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.” Later on in the paragraph, it records the Department’s estimate “that £100 million of the funding package will remain as headroom.”

There are potentially three misunderstandings in that paragraph, and I am grateful for the opportunity to clear them up.

Stephen Barclay: Before we go on to—

Chair: We will come to that in a minute. Chris first.

Q27 Chris Heaton-Harris: I was as cross with the press reports as you were, and I had a conversation with the Chairman of the Committee about how that might have happened, but that is by the bye. The one thing I am amazingly frustrated by is the statement that you have just made, which is that because you essentially disagreed with a conclusion of the Committee, you chose not just to write to the Committee Chairman or perhaps to the head of the National Audit Office, but to circulate the letter around Members—I actually do not remember seeing it. It is almost like there was a wilful intent to try to change a storyline on your behalf—whether it was a wilful leak on your behalf or by someone to whom you sent the letter. I am not convinced that just apologising is good enough. It is the ultimate disrespect to this Committee and its Chairman.

Ian Swales: There is a very big difference between criticising the Committee and “DCMS chief rejects PAC’s Olympics report”, and rejecting the press reporting of our Committee’s deliberations, which seems to be the thrust of your argument. Clearly, those two things are very different.

Jonathan Stephens: I hesitate to make the point, but I am not responsible for the headline.

Q28 Mr Bacon: That is true. I have worked as a sub-editor on two national newspapers, and you are limited by time and all kinds of other things. But surely the right thing to do is not to make any public comments until the Treasury minute has gone through the presses and is in people’s hands. That would be the right way to do it, wouldn’t it?

Jonathan Stephens: With respect, there was a widespread impression, which was being widely reported at the time—I have a set of press cuts, but I don’t want to go through them—not just in this country, but around the world, which reported a misunderstanding and a misimpression that the budget was close to being used up and that the most likely outcome was that we would have only £100 million left.

Q29 Mr Bacon: We said it was finely balanced. It is finely balanced, isn’t it? Can you just confirm that it is finely balanced?

Jonathan Stephens: I am very anxious to clear up any misunderstanding, because these are important matters. I know that the Committee attaches a great deal of importance to the good management of public money, so I am concerned that the position is really clearly understood. Perhaps I could just go through the position. I think at the heart of this, there is a genuine misunderstanding and a slightly different interpretation between the NAO Report and how the PAC Report wrote it up. If I could just explain that, I think we might cast some light on that.

Chris Heaton-Harris: You said you used the answer from a letter—an almost deliberate attempt to disparage the Committee.

Q30 Ian Swales: In your response, which you are about to make on the accuracy, can you reflect on the actual words of Mr Ashley McDougall? He said: “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 numbers up, as the report does, that comes down to £36 million. The Department has agreed that the budget is therefore finely balanced.” Those are Mr McDougall’s words. Your words immediately afterwards were: “I don’t disagree with any of that.” That is from the transcript of our hearing, so it is not really surprising that we reflected on that. The words “finely balanced” were not the Committee’s, but Mr Ashley McDougall’s.

Jonathan Stephens: This comes to the heart of what is in one sense a detailed point where I think there has been a genuine misunderstanding, but one on which a great deal of judgment hangs. Perhaps I could go into that specific point.

First of all, I think there is agreement that at the time of the hearing, there was £527 million of uncommitted expenditure across the programme as a whole—sorry, £528 million. Over time, that has gone down. At the time of the PAC Report, it was actually down to £527 million—

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Q31 Chair: I don't think we accept even that figure. Perhaps I can go to the NAO. We take evidence on the basis of an NAO Report. Perhaps the NAO would help us in how it got from the £526 million or £528 million—I don't have the figures in front of me—to what, at that time, was £36 million. I accept that it has gone up a bit more because of you have had some ODA money back, but at that time, the “finely balanced” came out of figures agreed by you and presented to this Committee as agreed figures between the NAO and yourself. I don't know whether it is Ashley or Amyas, but one of you, just go through and tell this Committee yet again why we weren't accepting £528 million as a genuine uncommitted contingency.

Ashley McDougall: The £528 million was the uncommitted contingency that the Department had available at that time. It had not spent it. It had other amounts that it had expected to spend, so we agreed that the Department's figures were real. The Department had also made an assessment of what it expected to spend to meet a number of assessed risks. The risks had not yet crystallised, but it was risk that the Department had prudently worked out. If that risk crystallises, it could have a high cost, a medium cost or a low cost. The Department went for the medium cost, the most likely cost, and added up the figures. We followed the Department's figures, and the Department agreed with us at the time. After taking the most likely estimate of meeting those assessed risks, that would leave £36 million.

Q32 Chair: That was a medium, but if you had taken the high risk, which we did not take, what would then have happened?

Ashley McDougall: I believe that the most likely estimate was £318 million.

Q33 Chair: Deficit?

Ashley McDougall: Sorry. The most likely estimate of meeting those costs was £318 million. The high cost was £1 billion.

Q34 Chair: £1 billion?

Ashley McDougall: £1 billion, from the Department's figures.

Amyas Morse: Just to be clear, Chair, if I may—I am looking at the article and what appears to be a quote where it says, “in fact, the fund contains £500 million: the £100 million figure refers to the minimum amount that, according to DCMS's latest estimate, may remain unspent at the end of the project”. Well, actually, it is not the minimum amount; it is the best estimate of the amount. That is correct, is it not?

Jonathan Stephens: No.

Amyas Morse: Your high-risk estimate would not leave you with £100 million in your hand. That was your middle projection estimate, so it is not the minimum amount that could possibly happen, it is the most likely amount.

Jonathan Stephens: This, if I may, is the absolute heart of the misunderstanding. With the greatest respect, what is now clear is that there may be a more widespread misunderstanding. This all turns on the basis on which risk was assessed. We have just

established that the NAO is absolutely agreed that there was £528 million and now it is slightly less of uncommitted contingency available across the programme as a whole.

The question then becomes the assessment of risk. If we try to estimate the most likely outcome of the budget, thinking about what risk might materialise and what it might cost, the Committee thinks that we are saying that the most likely outcome of the budget is that it would currently leave us £100 million short. That is what you think we are saying, but that is not what we are saying and that is the source of the misunderstanding.

Q35 Mr Bacon: Did you say £100 million short?

Jonathan Stephens: No, with the headroom of £100 million.

You think that the assessment of risks is our best estimate of the most likely outcome of the budget as a whole. But actually the assessment of risk—and how we have compiled it—is this: we have not sought to estimate how likely it is that every risk arises. We just said, “Let us think about every risk that could arise, and let us assume that they all arise and work out the likely cost of them all arising.” On top of that, we said, “And there will be some risks that we just cannot think about that are unknown unknowns. There will be some multiple consequential if everything came together.”

So we end up with an estimate not of the most likely cost of the project, which is what the burden of paragraph 1 of the PAC Report understands it is, but an estimate of how much we would need to set aside in the very unlikely event that all risks arise and some more unknown risks arise as well. The purpose of that is not to get to an estimate of the likely outcome of the budget. Its purpose and why we do it is to see, against any reasonable view of the likely risk that might arise, even on an assumption that they all arise and some more unknown risks arise, whether we have enough money. The conclusion has always been, yes, we had. Against what is therefore, in my view, a conservative and prudent estimate, we had £36 million headroom at the time of the NAO Report. We had more, and indeed the picture over the six-month period since the original figures on which the NAO was recording this, is that the contingency has gone down by £27 million or so—we reckon, because these are provisional figures, but I want to give our best figures—and the assessed risks on that very conservative and prudent basis have gone down by £136 million. So the picture on the budget as a whole is that we are spending contingency significantly slower than risks are disappearing from the programme. That is why, without in any sense being complacent, I am confident that we will bring this in within budget, and I do not think that the budget is close to being used up.

Mr Bacon: I think the Report is very clear about the risk management concepts—but I think the CAG wants to say something.

Amyas Morse: May I just be clear about this? I think you are just saying the same things as us in a rather more full way—if I may put it that way, Mr Stephens. This is not the highest number that you ever produced

for your overall risk, is it? You have a higher number as well, don't you? Is that right?

Jonathan Stephens: No, I am sorry but I think that we are continuing to prolong a misunderstanding. This is not an estimate of the likely cost, or of how likely any of these risks are to materialise.

Amyas Morse: No, I understand all that, actually—funnily enough, I do not misunderstand.

Jonathan Stephens: I am sorry.

Amyas Morse: But it is not the highest number you have got in your range of risk numbers, is it?

Jonathan Stephens: No, it is not. If all the risks arise—

Amyas Morse: But even if we do not do all that long description, there is a higher estimate, a lower estimate and this one. However you describe all that—if all the risks arise—you have got a range of numbers for it, haven't you?

Jonathan Stephens: Yes, I have, but what I have a range of numbers for is all on the assumption that every single one of those risks arises, which is itself an inherently unlikely contingency. Therefore, saying—

Amyas Morse: So on that assumption, this is not the most prudent number that you could have quoted, is it, because you already have one that would be higher? I am not saying that you should be using it—I don't think you should—but it is just not true to say that it is the worst number you can possibly come up with.

Jonathan Stephens: No and, with respect, I am not, if I may say so. I said that it was a conservative and prudent estimate. It also follows that nor is it—as it says here—“the most likely expenditure”. It is not. It is not the most likely expenditure, it was not prepared on that basis and it was not prepared for that purpose. It was prepared to give us reassurance not against absolutely every conceivable scenario in which the worst disasters happen to the worst possible magnitude, because of course that is unrealistic and not a realistic planning basis, but to give us a very conservative and prudent basis on which to see and be confident that, even if all the risks that we could think about occurred, and not all of them will occur, and even if we allowed for some unknowns—

Q36 Chair: You are saying two different things.

Jonathan Stephens: I think we are actually. I think there is a genuine misunderstanding here.

Chair: No, no, no. In your answers, even in that little exchange, what I got from it was that there is a figure, which we had—this is my understanding, but I have not got the hearing in front of us, so maybe Ian can help on that—and this was going to lead to the most likely expenditure at that time, leaving you with £36 million headroom. What you have now said to Amyas Morse is, “Actually, that assessment of risk was our median figure. We had a higher figure, which would have ended us up in deficit.” Of course, nothing or not all of those things may have happened but, equally, some other disaster may occur—you might suddenly find that you have to employ double as many security officers as you knew—so you are just not being consistent.

Q37 Ian Swales: It is important to read Mr Bacon's question, No. 12: “Can you tell us if you agree with this sentence?” He then quotes from the NAO 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?” To which your answer was, “No, far from it, because that is the position that we have set out.” So it is really not surprising that we use that kind of information.

Jonathan Stephens: Now, re-reading that, I now appreciate that that is accurate but led to a misunderstanding—as indeed, with respect, seems to have happened. The crucial qualification in that sentence is, “If all these risks were to materialise”. What I am saying is that that is not a likely. That is not our estimate of the likely outcome of the risks to materialise; it is, if all these risks materialise, which is itself is an unlikely scenario.

Q38 Ian Swales: I understood your previous answers to say: actually there is a higher figure if all the risks materialise. You are now saying: this is the most conservative number that you have got.

Jonathan Stephens: No, what I am saying is that we have tried to identify all possible risks that we can think of. We have then said, what impact do they have? What is the range? The high, medium and low, the medium being the most likely. If that risk materialises, what is the most likely outcome? You might then also say, having identified all your risks, how likely is it that each one materialises? That would then lead you to something that could be, as the Committee's Report refers to it, characterised as “the most likely expenditure”. But I am just trying to be clear. I suspect we haven't explained it clearly enough, but there is a real important point at the bottom of it: that is not what we did. We said we will just assume all the risk materialised. We will not try to estimate which one is more likely to materialise and which one isn't, and what sort of percentage figure to put against it. We will just assume they will all materialise, and put in the most likely cost if it does materialise to get to a conservative and prudent—

Q39 Ian Swales: To be clear—this should be a very short answer—to the Committee then, you are now saying that this £36 million figure was derived from adding up all the risks and the most likely cost of all of the risks.

Jonathan Stephens: And adding to it an allowance for unknown risks as well.

Ian Swales: Well, that isn't the impression that we were given.

Chair: No, it was not the impression.

Jonathan Stephens: I am sorry for that, because I am very anxious that people do understand that we have taken a consistently conservative and prudent approach to this.

Amyas Morse: I am not trying to accuse you of not being conservative. In the exchange, I do not want to get drawn into saying something disproportionate. Let

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me not get drawn into the description again; let us just say that the difference between that assessed number, whatever label you want to put on it, and the amount of the budget became progressively narrower. Even if you say you do not like them being compared, none the less, when you do compare them, the difference gets narrower, and you agreed to a report stating that the budget was finely balanced. We can spend the time definitionally, but that actually is what happened. What we are doing is somewhat dancing on the head of a pin about this. Am I right in saying that these numbers did not include your having to subsidise a provision for an overrun cost from the ODA? Is that right?

Jonathan Stephens: No. No, that is not right.

Amyas Morse: I am merely asking you that because what has actually happened is that there has been a lot of net movement. You mentioned the net movement in these numbers. Quite a lot of that net movement has been driven in the release of provision from the ODA.

Jonathan Stephens: Yes, as risks that we were setting aside contingency for have not materialised. That is part of what happens on a normal programme.

Amyas Morse: Before you leave it—if I may; if you don't mind—the ODA had its own budget, right? It has been released. Because of the success of the ODA's work, which we welcome—we recognise it—what is happening is that that budget is releasing excess amounts back into the overall contingency.

Jonathan Stephens: As risks don't materialise.

Amyas Morse: How much more have you got up your sleeve, so to speak, that is going to come out?

Jonathan Stephens: That is an important question. Is the difference between a conservative estimate of risk and the money available decreasing or is it increasing? I would be grateful for some guidance on procedure, Madam Chair, because I have some latest provisional figures to show how it is moving. Mr Goldstone, the finance director, assembled them yesterday in a table. Would it help if I passed them round?

Q40 Mr Bacon: Have you shared them with the NAO?

Jonathan Stephens: No, because—

Q41 Mr Bacon: That is ludicrous, frankly, Mr Stephens. We have just had a long conversation—you heard it, because you were sitting behind her—with someone from the Ministry of Defence. Your confrère—I don't know what you say in French, but your co-permanent secretary at the MOD—said that she was not prepared to share interim figures. You are now bunging them across the table without even having had the courtesy of giving them to the Comptroller and Auditor General first. It is unbelievable.

Jonathan Stephens: Let me explain. There are three tables—

Mr Bacon: Why don't you just get a fag packet and start scribbling? Honestly; it is just not acceptable. We need the NAO's professional expertise to assess anything that you give to us. Without that, it is hopeless and you know that. You are an ex-Treasury official; in fact, you and I first met in the Treasury.

Jonathan Stephens: With respect—

Mr Bacon: Yes, I think that you should be using that phrase and you should be showing some. That is not respectful to this Committee. With the greatest possible respect, it is not respectful to the Committee to get some figures that you have just prepared a moment earlier.

Jonathan Stephens: That is not the case. These are the figures that were provided for the NAO Report, and also the figures that I provided in further information to the Committee that were used for the PAC Report. Both those sets of figures have been made available and looked at by the NAO. I asked for guidance from the Chair, but if this is inappropriate, I will not provide it. I am offering that consistently through this project we publish on a quarterly basis the most recent and updated figures.

Mr Bacon: I'm sure that would be helpful, but if you are going to share figures with the Committee, it would be helpful if you share them with the NAO beforehand.

Jonathan Stephens: I am very sorry. As I said, I asked for guidance.

Amyas Morse: But we did speak yesterday on the phone, and you didn't mention this.

Jonathan Stephens: As I was preparing for this Committee yesterday, it seemed to me that it would be helpful to see how the figures had moved and to set out the latest figures that I am offering, but I will not provide them if it is inappropriate. They are provisional; they are not final.

Chair: Can you just repeat what you said, Amyas?

Amyas Morse: As it happened, at your request, we had a phone call yesterday to talk about this hearing. I find it a little surprising—if I may put it in such a prudent and conservative way—that you had that phone call with me and did not mention the fact that you were going to come along and volunteer these figures. I am sorry, but I find that a very surprising development.

Jonathan Stephens: As I said, I am trying to offer the latest figures, and in a sense they are only provisional. Let's forget that I offered them.

Stephen Barclay: In answer to Richard, when he said that these are figures that you had just written a moment ago, you said, "No, that is not the case," implying that the figures have been around and been verified. You seem to be suggesting to the CAG that these figures were not available when you spoke to him yesterday.

Jonathan Stephens: No, I did not say that. I did not talk about the figures to the CAG. If you think that it is unhelpful and inappropriate to refer to the latest figures that have been reported to me on a management basis, I will not refer to them. They will be published in a couple of weeks.

Stephen Barclay: It is not inappropriate to refer to them, but it is inappropriate not to have shared them with the NAO ahead of giving evidence to the Committee.

Mr Bacon: Indeed.

Jonathan Stephens: With respect, I had a slight difficulty because I did not know exactly what the Committee was on about.

Chair: You did. That is just not true. The only thing you didn't know was that we might raise Adam Smith,

and I think you would have been rather sensible to have known that, too.

Jonathan Stephens: There is one point that I want to pick up that I make no apologies for feeling passionate about. You as a Committee have placed a great deal of importance on the management of public money. You have made a number of very helpful and sensible suggestions about the attention, training and capabilities that should be dedicated to that management of public money. I take that very seriously as accounting officer responsible for this £9.3 billion budget. That is one of the reasons I have been that accounting officer from 2006. We have had a consistency of leadership, project management, and finance expertise around the project from that period of time, and I think that is something the Committee welcomes, and thinks is good practice for others.

I hope Mr Bacon did not really mean it in the heat of the moment, but these figures are frankly not back of the fag packet, of any sort. To suggest that they are, when public servants have been working very hard to bring this within budget, have done so successfully, and have identified hundreds of millions of savings in order to do so—I just want to place on record my feeling that it is a very well-managed budget.

Mr Bacon: For clarity, may I withdraw the fag packet comment? What I was trying to say was that if you are going to throw figures across the table that you have not shared with the National Audit Office, you might as well scribble figures on the back of a fag packet. Just for the sake of clarity, however, I withdraw the comment.

I know that we have been looking at this for five years. It has been going, broadly speaking, extremely well. It is an exemplar in lots of respects. The IOC just said it was an exemplar in terms of legacy, and I know there are issues about who is going to be responsible for the legacy, but broadly speaking, when we look back at it in years to come, we will think that this was well-handled. My own strong view is that one reason it has gone so well is because we, and the NAO, were publically prodding five years ago. That has contributed significantly to its success, and it has lessons right across Government, including, by the way, in defence procurement.

May I turn to the issue raised by Mr Swales on question 12?

Q42 Ian Swales: Before you do that, can I just build on what Mr Stephens just said? I think that eulogy was very welcome. The word “respect” has been used about 20 times in the last 10 minutes, and I want to explore your thoughts, since you have made some general comments there, about the role of this Committee, how it is perceived in the civil service, and how its role fits into the very culture that you just described. I am sure you would agree that that sort of headline in *The Daily Telegraph*—and indeed, some of the comments in the *Civil Service World* article—is not helpful to the Committee’s reputation and the respect in which it might be held by civil servants. With hindsight, would you like to make a comment on that aspect of things? I think you quite rightly praised the Committee’s role a few minutes ago, but some of the reporting that has gone on in that regard

is, to my mind, not helpful, in terms of how the Committee will be viewed in the future by other civil servants and the public.

Jonathan Stephens: I am sorry if that is the case, and I am very grateful for Mr Bacon’s clarification. Indeed, I absolutely endorse what you said about the role of the Committee in this project and the importance of the sense of scrutiny. We have sought to build on that by publishing—albeit not audited on a quarterly basis by the NAO—every quarter, since the budget was announced in 2007, the latest outturn on that budget. I think that that has also been critical in securing understanding and confidence in the project.

I also very strongly agree that as well as identifying times when things go wrong, as they do—and I am by no means claiming that the whole of the Olympic project is in every respect completely perfect. It clearly never would be, etc. However, I think, as you have said, that overall it is a genuine success and a huge credit to those who have been involved in the management of it, and the management of its finances. Forgive me, but I did feel passionate and concerned when, as a result of the Committee’s report—I absolutely accept it may have been inadvertent and unintentional—there were widespread newspaper reports that the budget had been exceeded by £2 billion or so and was close to being used up. I just do not think that it is in any of our interests to have what is a successful example of big project management within the public sector being characterised in those terms. It is not just about the reputation of the civil service and the public sector. These reports were being relayed across the world and impacting on the reputation of British industry.

Q43 Chair: Jonathan, you keep saying this, but I would have thought that as the Department with responsibility for the media, you, more than any other perm sec, ought sometimes to recognise that how these things are reported in the media is not always in the control of either the Committee or its Chair. The issue of whether you were—whatever the words in the Report were. The first sentence; I do not have it now.

Jonathan Stephens: I think it is paragraph 1 of the conclusions on page 5—“close to being used up”. The second sentence of paragraph 1 of the conclusions on page 5.

Chair: Yes, “close to being used up”. That came out of our hearing, as we have said.

Q44 Mr Bacon: This speaks directly to the point about question 12 that Mr Swales earlier thought that I was asking about, because it says, “close to being used up after taking account of the most likely expenditure”. The most important sentence of question 12, which I asked at the time, was, “If all these risks were to materialise as quantified”, and you dwelt on that at great length. The next bit says, “in line with the Olympic Executive’s most-likely estimate”, and, indeed, we say in paragraph 1, “close to being used up after taking account of the most likely expenditure”.

Jonathan Stephens: It is now clear to me—whether the wording was imprecise or the issue was not

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explained in sufficient detail—that that has led to the core of this misunderstanding. By that, I understood that we were saying that it is the likely estimate if—note the critical word “if”—each one of these risks materialise. It seems to me that it has been misunderstood and presented, in this first paragraph of the conclusions of the Report, in particular, as an estimate of the likely outcome of the budget—so including some estimate of how likely it is that each risk will materialise—and that was not what we did. On reflection, I can see that the original NAO Report was capable of being understood in different ways. We understood it one way. I think that what has happened is that understandably, and no doubt we did not explain this carefully enough—

Q45 Stephen Barclay: That is deeply concerning to hear, Mr Stephens. The transcript makes it absolutely clear. It seems a little weak to come and still say that it is a misunderstanding. The transcript was clear. The NAO stated it, and for then to say, “Well, perhaps it’s just a genuine misunderstanding of an ambiguous statement,” is really out of step with the way the Committee views this.

Jonathan Stephens: Just to be absolutely clear: I stand by those words and I stand by that answer. What I am saying in terms is that that does not lead correctly to the assertion in paragraph 1 of the conclusions that “the most likely expenditure” on the public sector finance package is £9.3 billion less £100 million.

Q46 Stephen Barclay: May I come back to an earlier point, Mr Stephens, which is the leak to *The Daily Telegraph*? In your earlier reply, you suggested that that could have come even from members of the Committee—

Jonathan Stephens: No, I did not. With respect, I—

Q47 Stephen Barclay: So you accept that that was not the case.

Jonathan Stephens: I would not want to imply—

Stephen Barclay: You referenced the letter being sent to the Committee.

Jonathan Stephens: It was my intention to make it quite widely available, to be honest.

Q48 Stephen Barclay: Okay. What seems odd about it is that your letter is dated 13 March, but the story appears in *The Daily Telegraph* at 6.15 am on 14 March, which suggests that it was written on 13 March. Does that not seem odd?

Jonathan Stephens: I am sorry, but I cannot account for when *The Daily Telegraph*—

Stephen Barclay: All I am suggesting is that *The Daily Telegraph* must have been in receipt of your letter on the day it was signed by you.

Jonathan Stephens: I wrote it on 13 March, which is all I can say.

Q49 Stephen Barclay: How could *The Daily Telegraph* have written the story in time to put it live on its website at 6.15 am on 14 March if it hadn’t come from your Department?

Jonathan Stephens: That is not something I can explain on the spot. What I am concerned to explain

and answer for is that we have £500 million of uncommitted contingency. Over the past six months, that amount has gone down a little bit, but the risks on the programme have gone down significantly more than that.

Q50 Stephen Barclay: With respect, Mr Stephens, I am asking about the leak.

Jonathan Stephens: I will just conclude this point, and then you can follow up.

The contingency is being used up at a significantly slower rate than the programme is being de-risked, which is why we are increasingly confident that it will be brought within the budget.

Q51 Mr Bacon: You expect the graph to show an increasing gap and the two lines to diverge, so to speak?

Jonathan Stephens: Exactly.

Amyas Morse: If you tell me that the programme is being de-risked and that you have more headroom, I am pleased to hear it, of course. However, having all these estimates of the assessed risks is a complete waste of time, because they did not allow you to assess the amount of headroom that you had. You just did it for, what, academic interest? For what reason did you do it? We have been going through and looking at this for all this time saying, “Here are these assessed risks.” Comparing the amount of contingency, the assessed risks are now going down, which is excellent news, and the contingency is going up. So even in what you have just said, you are making a comparison between the contingency and the assessed risks, but in your answers you were explaining to us that you do not think it is a valid comparison.

Jonathan Stephens: No, the distinction I am making is that it is a very important comparison for the purpose of assessing, on a conservative and prudent basis, whether the contingency is enough, but it was not prepared as an estimate of the most likely outcome of the budget. The comparison was prepared on a conservative and unlikely view of risks to reassure us.

Amyas Morse: So all the numbers are unlikely, but some are more unlikely than others?

Jonathan Stephens: No. The point is that we have not tried to assess how likely it is that those individual risks will occur. We just made a 100% assumption that all the risks we can think of will occur.

Amyas Morse: Forgive me—I am sorry to keep on about this—but that is not true, is it? In fact, you had three ranges of probability for all those risks. You cannot have it both ways.

Jonathan Stephens: With respect, there are two things—

Amyas Morse: Don’t bother about respect; I don’t need it.

Jonathan Stephens: There are two aspects to risk: likelihood and impact. What we are saying is that we made no estimate of likelihood, we just wrote in a 100% likelihood of all the risks we could think of and some unknown risks that we could not think of. We then looked at impact, and on impact we said, “If this risk were to materialise—we are assuming a 100% likelihood that it materialises—what is the likely

cost?” That is where you get the low, the most likely outcome and the high outcome. When you add those together, you do not get to an outcome of, “What is the most likely expenditure on the programme?”; you get to an outcome of, “If all conceivable risks arise, plus some unknown risks that we cannot identify, what is the likely expenditure?” That is a conservative and prudent view of, “Do we have enough contingency left, if all those risks arise?” In practice, they won’t all arise. It is conceivable that some will arise, but it is pretty unlikely that all of them will arise. It is perfectly conceivable that some individual risk will arise at a higher estimate than the most likely estimate, but the prospect of all those risks arising is unlikely. The prospect of them all arising at the very highest possible cost is so unlikely as to not provide a good basis for planning. I am sorry. I am going on at some length, but there is a real point—

Amyas Morse: I think what you are describing is applying a view of all the risks, and then applying a probability to the impact of them on a balanced basis, and that is the nearest you got in this project to an overall risk impact assessment. That is what you did and you used it consistently to compare with the budget. So, for us to make a comparison and describe the two as finely balanced is not an unreasonable thing to do, is it?

Jonathan Stephens: Absolutely not. I have no issue with comparing the two. I have just done that; we have done that. The issue of “Does that mean it’s finely balanced?” is a matter of opinion. I am not quibbling with that. All I am demonstrating is that actually we—you, I think, and the public more generally—can have increasing confidence that this will be brought within budget, because the contingency is being spent significantly slower than the project is being de-risked. The difference between a conservative view of risk and the contingency available was £36 million at the time of the NAO Report and it is now more than £100 million. It was £123 million at the time of the PAC Report and it has now increased further from that, but those aren’t NAO-verified figures, I’m afraid.

Amyas Morse: Can I just ask what is the main factor that has caused that movement? Since we are all financially literate, what is the main thing that has caused the change? Rather than de-risking as a general description, what has actually been the movement?

Jonathan Stephens: Some risks that were the responsibility of the ODA have now been removed, so money has been taken out of the ODA contingency, but also some risks—I mean, there is a whole host of individual movements across, but those are risks across the programme.

Amyas Morse: I know, but the ODA amount written back was about £80 million.

Jonathan Stephens: Yes, so the ODA amount has reduced from £174 million at the time of the NAO Report to £102 million at the time of the PAC Report.

Q52 Chair: I just want one assurance from you, Jonathan. Will you give this Committee an absolutely cast-iron assurance that you are not transferring expenditure that ought to come into the £9.3 billion to other parts of Government?

Jonathan Stephens: Yes.

Q53 Chair: Including local government.

Jonathan Stephens: Yes.

Q54 Chair: Including the Home Office.

Jonathan Stephens: Yes. We have consistently set out the scope of the budget. We set it out when it was first published. We do so in the annual report. We have a clear process of change control against that scope.

Q55 Chair: I will tell you why I ask the question: because a number of local authorities that are impacted—surprise, surprise; I know them, because we are a late-coming Olympic borough—have said that they were promised moneys to fund particular issues that they had arising directly out of the Olympics, such as road cleaning and other very basic issues, but they are now being expected to fund them out of their own budgets. So this is absolutely Olympic-specific expenditure on making sure that London looks good when the Olympics take place. An assurance was given that that work would be funded from the £9.3 billion, but they are now being told that they’ve got to fund it out of their own budgets.

Jonathan Stephens: I obviously don’t know the particular circumstances that you are referring to.

Q56 Chair: Hackney and Newham.

Jonathan Stephens: Mr Goldstone is telling me that we are funding some costs for Hackney and Newham.

David Goldstone: Since the spending review announcement in 2010, there has been an allocation for costs falling on London boroughs—principally London boroughs—that relates to the sort of public services costs that you are describing, such as street cleaning and waste collection, for the extra burden above and beyond what could normally be managed in their existing budgets. I think about £21 million was agreed. That is being funded from the public sector funding package through to a number of authorities, mainly the host boroughs and in central London, where there will be the greatest impact.

Q57 Chair: So they are getting additional money?

David Goldstone: They are getting additional funding. It’s actually being channelled through the GLA, as one of the funders of the Olympic funding package, but it is out of the Olympic funding package funds.

Q58 Chair: Is it being funded through to them?

David Goldstone: Yes, and the—

Q59 Chair: The GLA is not hanging on to it.

David Goldstone: There are grant agreements in place. It is one of the things that we monitor regularly through my finance management of the whole programme, and we have updates and we understand that’s all feeding through.

Q60 Austin Mitchell: I didn’t like the comment—you were shooting your mouth off to *Civil Service World*—that if you don’t understand about risk management, you’ll always end up misunderstanding

how big projects are run. I take it that doesn't apply to us.

Jonathan Stephens: No.

Q61 Austin Mitchell: Okay, well just let me ask another related question. We are on the total public spending, which is for staging the Olympics and for the legacy, of £9.3 billion, which was mentioned in *Civil Service World*. We thought that there were other costs that would push that to £11 billion. Have you just accepted, in this concession to that particular council, that there are Olympic-related costs that lie outside the £9.3 billion? We asked you to prepare an account for a presentation six months after the Olympics, but do you accept that there are costs outside that £9.3 billion?

Jonathan Stephens: We have always set out—indeed, we were the first people to provide, I think in our 2008 annual report—a description of what is in the funding package and what are the costs outside the funding package. That has been looked at by the NAO and it's been commented on in previous PAC hearings.

Just to be clear, if I may, Mr Mitchell, Mr Goldstone was saying that these costs for London boroughs were provided from within the public sector funding package, so those are not costs outside the public sector funding package. In particular, there has never been any dispute or disagreement from when the budget was set up in 2007, that, for example, the costs of the purchase of the land—£700 million-odd—were not funded from within the public sector funding package. That was because, obviously, the purchase of the land secured assets against it, which in due course will be sold to return money to the taxpayer. So there is going to be no net cost to the taxpayer—

Chair: You hope.

Jonathan Stephens:—nor did it require any. And nor did the London Development Agency, which was responsible for that, have any extra budget for the purchase of that land. That was its normal budget, which was available for development in London in that period, and it used it for the purchase of this land.

Q62 Chair: I don't want to get involved in this, because it is a long debate, but, to be honest, the £11 billion doesn't actually reflect the real cost. I'm a London MP, so I'm close—I know quite a lot about it. For example, the whole transport infrastructure, which we've never even talked about but was specifically put into place to ensure that the Olympics happened, was a cost associated with the Olympics. What it meant to my borough was that we didn't get the DLR extension, which would have enabled us to develop a really derelict and highly needy bit of London. To pretend there weren't other costs associated with the Olympics outside the £9.3 billion—your funding package—is just wrong. You know, to attack us for saying that—

I don't know how much was spent on transport—billions was spent on the transport infrastructure—and that pre-empted other choices, coming directly out of the decisions to launch and gain the Olympics. It's just wrong to suggest that we were misleading you. It is honestly wrong. It makes me as angry and passionate as it does you.

Jonathan Stephens: If I may just pick up on that specific point. The transport-related projects that were specific to the Olympics were funded from within this public sector funding package and were done by the Olympic Delivery Authority.

Chair: No, there were choices made, Jonathan.

Jonathan Stephens: Of course.

Chair: Choices were made on extending the tube out towards the Olympic boroughs, which meant that—I know it!—we lost our DLR extension in Barking and Dagenham, because of the decisions that had to be taken to ensure the transport infrastructure. We lost it, right? That was a direct cost of the Olympics, which meant a disbenefit to another bit of London. I don't mind it, but I don't like the dishonesty in not acknowledging it.

Jonathan Stephens: I am very sorry, Madam Chair, but “dishonesty” is a strong word to use.

Q63 Chair: Well, you were attempting to say, if I can quote the bits from the *Telegraph*, that I was being high-handed, blah, blah, blah—I can't even remember it—in suggesting that we were over £9.3 billion.

Jonathan Stephens: I recall no such language.

Chair: Well, it was an anonymous briefing, of course.

Stephen Barclay: Grandstanding.

Jonathan Stephens: If I may: it is very important that budgets are managed, and I think it is important that they are brought within the budget.

Chair: It is important that the public understand the true costs.

Jonathan Stephens: And it is important that the public understand whether the budget is being brought in within the budget.

Chair: Part of that—

Jonathan Stephens: We published a budget. We said, “This is the budget available for this scope.” What has happened since then is that the budget, if anything, has actually gone down slightly, and the scope of work that has been provided for that money has very substantially gone up, so actually we have provided more for less.

Now, I quite take the point, of course, that choices in one area have consequences in other areas, and, if you like, if you added in some other costs that were not directly Olympic-specific—

Chair: They are Olympic-specific.

Jonathan Stephens: They might start off with a higher budget, but it would still be brought in within the budget. So, what I am particularly anxious about, which I think is actually a source of agreement, is that we are not over-running the budget. We have managed within it.

Chair: Well, it depends which budget.

Amyas Morse: Can I just refer to something, since you have already given your response, and we look forward to seeing it, to the recommendations of the Committee? One of the recommendations—No. 1, in fact—is that “The Department should produce a single auditable account covering Olympics and legacy-related public expenditure and income within six months of the Games ending.” Can you reveal to us whether you are going to accept that recommendation, please, because I think it would help clear all this up?

If you have already decided it and signed it off, presumably you can share that with us.

Jonathan Stephens: I am sorry; I have been told off once for anticipating figures that haven't been yet provided, so I think we'll have to wait—

Amyas Morse: In this case you are not—

Jonathan Stephens: We will have to wait for the Treasury officially to provide the response.

Q64 Fiona Mactaggart: At the start of this, you, in some ways reasonably, declined to respond to questions from the Chair about remarks that the Secretary of State had made in relation to your role. One of the things that I am quite interested in, with the evidence you gave to us and the interview that you gave to *Civil Service World*, is the insight that that gives into the relative role of Ministers and permanent secretaries, because you said to *Civil Service World* that you had “explained to the committee why the decisions”—in relation to the opening and closing ceremonies—“represented a good use of public funds”. I looked at your answers in relation to that, and they were all that Ministers had made such decisions. There was no evidence about why you advised that extra investment in the opening and closing ceremonies was a better use of public funds than the legacy point that the Chair was asking about at that time. Perhaps you could account for why you said that to *Civil Service World*, when, when one looks at the answers—questions 26 and 27—there is nothing that explains, from your point of view, why these were good value for money.

Jonathan Stephens: That was what I sought to do, and I am prepared to elaborate on it now, if anyone would like further information. In my response to question 26—

Q65 Fiona Mactaggart: Yes, you said Ministers judged that it was value for money.

Jonathan Stephens: And then I explained why this was value for money, which is that all steps were taken to secure benefits, especially economic benefits, for the country, because this is one of the largest peacetime audiences that exist for this. You raise an important point. The distinction that I am making here is that my duty as accounting officer is to ensure that the money voted from Parliament is properly spent—it is spent for the purposes voted from Parliament—and that it is spent in accordance with value for money. It must be that the public gets a reasonable something back for the money that is spent. I explained why it is my judgment that the public is getting back—

Q66 Fiona Mactaggart: Actually you explained why it was Ministers' judgment.

Jonathan Stephens: And why I agreed that it represented value for money. To secure positive impact on a worldwide audience estimated in the billions, which other advertising experts estimate that you might pay billions for, offered value for money for the public purse.

Chair: Jonathan, if you look at the evidence—

Jonathan Stephens: Can I just complete my point? What it is not the job of officials and civil servants

to do is to pre-empt the decisions properly taken by democratically elected Ministers as to what their priorities and policies are. You asked me why it was spent here and not there. Given that that is a choice between two areas that could offer value for money, it is not a matter for me—it is a matter properly for the Minister in charge of the Department to account to Parliament for.

Q67 Fiona Mactaggart: My concern is that you and the Minister are passing the buck to each other on different matters here.

Jonathan Stephens: I really do not think that that is it. If I did not think that this offered value for money, I would quite properly have asked for an accounting officer direction. I did not do so because it is my judgment that this offers value for money.

Q68 Ian Swales: I would just like to pick up on one item. We have got this far without talking about venue security, which of course is one of the big items highlighted in the report. Clearly, the NAO's work had found a huge increase from £282 million to £553 million. You and Dame Helen Ghosh wrote to the Committee on 25 January, showing that in a lot more detail—and eye watering some of that detail was. I would like to come back to the numbers in a moment, but first I want to ask you about a piece from this article. It says: “Asked about the committee's allegation”—that is a strong word—“that late planning for security requirements left DCMS paying over the odds for its additional requirements, he argues”—that is you—“that they ‘couldn't produce good estimates until we knew the detailed sports schedule, the security requirements and the threat at the time. We're confident that even if the estimates had been different two, three years back, it wouldn't have made a material difference to the cost.’” That last sentence does not exactly square with an increase of £271 million. I do not know what you regard as “material”, but I think that by any standards that is material. Once again, that is giving an impression of the Committee, its work and its report that suggest that we are not saying the right things. Do you regret those comments or do you stand behind them?

Jonathan Stephens: Let me just explain the point that was addressed in the original hearing. With all these things, there is a budget and an estimate of cost for providing a particular requirement. What we are saying is that at the time of the original estimate, the requirement was identified as less than we now know the requirement is. The point I am trying to make is that our view is that if we had known at the time what the requirement is now known to be, the cost would be, we think, the same as it has turned out to be. In other words, although the requirement has been identified only in the last 12 months or so on a full and detailed basis, it has not resulted in substantial inflation of the cost compared with if we had known the requirement significantly earlier. That is the point that I was trying to get across.

Amyas Morse: Can I help you, Ian, for a second? I kind of understand that but, if you don't mind me

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saying—I am contributing a fair amount just because we happen to know some of the detail—there is a difference. One is that you have already signed a contract on the basis of a much lower estimate, and then you had to renegotiate the contract. Now, no one who knows anything about big projects would imagine that that is just the same as contracting for a known amount in the first place. You are actually negotiating in a rather weaker position, aren't you? Is that not a fair comment?

Jonathan Stephens: It is sometimes necessary when you are, as on this occasion, on a project with a fixed time line. The most important underlying component is the wages of security guards, and that is fundamentally determined by the market at the time, and how they can be recruited.

Chair: Again, that does not entirely answer the question.

Q69 Ian Swales: Just to build on what the CAG is saying, although we do not need to go over all this detail again, the thing that I think comes out of your letter of 25 January—which of course we did not have when we had the hearing—was in particular the G4S contract going from £86 million to £284 million. You observe about labour costs that, of that increase of £198 million, £83 million is labour. The Committee had all sorts of questions about whether that was a sensible figure, given the number of volunteers and military and so on involved, but let us not go over that again. Anyone who has negotiated a contract like this would comment on an increase in programme management costs from £7 million to £60 million, and in operational expenditure—uniforms, etc.—from £3 million to £65 million. It beggars belief that G4S thought that from a total of £10 million for those items, excluding labour, it could now convince you that costs have moved to £125 million. Your comments in *Civil Service World* beggar everyone's belief, that if we had known how many security guards were needed, instead of £10 million we would have agreed £125 million for the two figures. It does not feel that that can be credible.

Jonathan Stephens: I should just be clear, I think you are referring to comments made by my colleague, the accounting officer for the Home Office. I am not seeking to avoid it, but I want to be absolutely clear.

Ian Swales: These are not comments, this is a letter that you have co-signed.

Jonathan Stephens: You just mentioned comments in the hearing, and I think those were made by Dame Helen Ghosh. The fundamental point is that the requirement has changed very substantially. In that sense, the requirement has very substantially increased—there is no dispute about that—and the original estimate was for a global figure of, we think, a requirement of 10,000 security guards. Once it was possible to do the detailed work, the estimate of the requirement became 23,000 or more security guards. So the requirement changed very substantially, and the requirement on G4S very substantially increased. In that sense, it is not surprising that the contract value increased, because we were asking them to deliver far more than the original requirement.

Ian Swales: Okay, but you can almost imagine the conversation, when you have only one supplier in the room, on an issue like this where they say, "Do you want a secure Olympic Games, or don't you? If you want a secure Olympic Games the price is £x." If you have not got another supplier queuing outside the door, you basically have to say yes. As I say, I can understand the idea that the costs of the people go up a lot—you can do the mathematics; if you have twice as many people, you will spend twice as much money. By the way, there was even some suggestion when this was criticised that these numbers were not final and they would all be reduced again, but I do not know if that is true. But the idea that G4S looked at this and said, "Programme management—our own staff systems and office—£7 million, but the answer is now £60 million", with operational expenditure, which includes things like uniforms and so on, going from £3 million to £65 million, well, it just—

Mr Bacon: It does not compute.

Ian Swales: It does not feel as though your comments can possibly be right. Either the original contract was completely off and G4S would lose a fortune, or it will now make a fortune on the new contract. That is how it feels.

Jonathan Stephens: Just to be clear: the original contract was a requirement and a cost. The requirement has very substantially changed. The cost has changed. The contract is negotiated and undertaken by LOCOG. It is funded from the Home Office budget, but it is counted within the public sector funding package—just to be clear about the line of control and accountability there. The contract has visibility and a sort of direct feed-through of the various G4S costs. It includes how many security guards we require; at what wage rate; how many office buildings we require to recruit them, to train them and to accredit them; how many uniforms do we require? All of that is visible and has been examined. We have compared it on the basis of other independent people not involved at all in the Olympics and experts on programme-management costs as a whole, and their view is that this is a reasonable cost.

Q70 Mr Bacon: If you are going from 10,000 security guards to 23,000 guards because you have assessed it and realise that that is a more accurate figure, so the number is 2.3 times larger than it was before, how can programme management then go from £7 million to £60 million? The sum of £60 million divided by £7 million is £8.57 million. The number of security guards has increased by 2.3 times and the programme management costs—all the extra office space and other things to which you have referred—have increased by 8.5 times. You would expect that there would be economies of scale and the figure to go down. What is the £53 million extra programme management going on?

Jonathan Stephens: These are matter that you discussed in depth with my colleague, the accounting officer at the Home Office. Perhaps those questions are best addressed to her.

Mr Bacon: You signed the letter.

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Jonathan Stephens: Yes, I did, because we were covering a wide range of issues, including the budget. We thought that it was helpful to the Committee for us to respond together on all the questions. The task has changed substantially.

Mr Bacon: You have 23,000 security officers rather than 10,000.

Jonathan Stephens: The point I am making is that it has changed more than just a doubling. The numbers to be recruited first off have increased far more, because all that surplus from 10,000 to 23,000 had to be recruited, trained and accredited for the first time. That is the task that is going on now. That substantial programme was not anticipated at all.

Q71 Ian Swales: To add to Mr Bacon's comments—as for the letter of 25 January, he has picked on the item when we had a further table of breakdown. That leads to even more incredulity, with recruitment costs going from £0.3 million to £3.1 million—going up by a factor of 10. IT infrastructure has gone from £0.3 million to £6.7 million, which is more than a factor of 20. Office accommodation is only going up by a factor of three. I suppose we should be grateful for that.

Mr Bacon: It just doesn't compute, Mr Stephens.

Ian Swales: It is stretching our credulity to say, as you said in the article and as you are saying now, that this is all part of the increased security. I think I am right in saying that G4S is one of the largest private companies in the world, and I am wondering whether we will ever get to know just what a gold mine—I feel like issuing a press release to say “The first winner of Olympic gold in 2012 is G4S.” It feels as if there is a

massive profit margin; it is public money and I do not know how we get to the bottom of it other than rely on our civil servants to get the best deal, and it does not feel as though we have.

Mr Bacon: We can always invite Dame Helen—she loves coming here. You are saying that it is for her to answer these points, rather than you.

Chair: No, you are the accounting officer on the budget.

Jonathan Stephens: No—

Mr Bacon: Mr McDougall is shaking his head.

Jonathan Stephens: I will explain. This is funding from the Home Office budget; it is money voted to the Home Office by Parliament for which Dame Helen is the accounting officer. But it is within the £9.3 billion public sector funding package, and I am happy to explain how that is being applied.

Q72 Mr Bacon: Yes, but it is a Dame Helen point—

Jonathan Stephens: Yes, in that level of detail.

Q73 Austin Mitchell: Just a quickie. Why are you spending so much on security but asking lifeguards in the swimming pool to work for free and be paid only travel expenses?

Jonathan Stephens: That is a matter for LOCOG. It is the first time that the point has been put to me, but I imagine that it is an issue for LOCOG.

Mr Bacon: You should be selling the position of lifeguard to people who want to bid for it. It would help close your budget gap.

Chair: Thank you.