



House of Commons
Committee of Public Accounts

Preparations for the London 2012 Olympic and Paralympic Games

Twenty–eighth Report of Session
2009–10

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

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The Committee of Public Accounts

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

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The following members were also members of the committee during the parliament:

Angela Eagle MP (*Labour, Wallasey*)
Mr Philip Dunne MP (*Conservative, Ludlow*)

Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Sian Woodward (Clerk), Lori Verwaerde (Senior Committee Assistant), Pam Morris and Jane Lauder (Committee Assistants) and Alex Paterson (Media Officer).

Contacts

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

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Summary

Since our last report on preparations for the London 2012 Olympic and Paralympic Games in July 2008, the Olympic Delivery Authority has continued to make good progress with its delivery programme. The main construction projects are on track to be completed in time for testing in early 2011.

The Department for Culture, Media and Sport (the Department) has committed to delivering the Games within the £9,325 million budget set in March 2007. Most of the budget is for the Olympic Delivery Authority which has done well to control its costs and find savings across its programme, enabling it to absorb additional costs for the Olympic Village and Media Centre projects. These two projects are now being publicly funded, contrary to original plans.

While £1,270 million of the original £2,747 million contingency within the Olympic budget now remains and is available to the Olympic Delivery Authority, the majority is earmarked to meet known risks, leaving only £194 million 'headroom'. It may be that not all of the known risks will materialise, but new cost pressures continue to emerge. For example, previously unplanned work to secure and maintain the Olympic Park, between construction completion and handover to the Olympic Park Legacy Company, could require a further £160 million of the contingency. Staying within the budget also depends on receiving some £600 million receipts from the Olympic Village development. So the position is tight, with no room for complacency and limited flexibility to respond to new problems as the Games approach.

The London Organising Committee of the Olympic Games and Paralympic Games (LOCOG) is intended to be self-financing. There is, however, the risk of a deficit and there is not a contingency fund in LOCOG's budget for dealing with problems that might arise. Some £400 million of the income LOCOG still needs is to come from the sale of tickets. LOCOG assured us that it is committed to the principles of affordability and accessibility in setting its ticketing policy.

The delivery of the Games is highly dependent on coordinating the work of a wide range of organisations. But there remains uncertainty about the responsibilities and cost of some organisations, and who has ultimate authority to make operational decisions in the run up to the Games.

Despite our previous recommendations it is still not clear what will happen to major assets, including the Stadium and Media Centre, after the Games. Until plans are in place and there is greater clarity on what the Government expects to generate from future sales of land and assets, there will be uncertainty about the timing and value of any reimbursements to funders, including the National Lottery.

The Olympic Delivery Authority has targets relating to the employment and training benefits of the construction programme. In some cases, however, these targets were not set early enough, and are not sufficiently challenging for a flagship government programme like the Olympics. In addition, lessons from the Olympic programme now need to be

identified and applied to other public construction projects.

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

1 C&AG's Report, Session 2009–10, *Preparations for the London 2012 Olympic and Paralympic Games: Progress report*, February 2010 HC 298

Conclusions and recommendations

- 1. There has been substantial progress on the construction of the Olympic Park and the Department has repeated its cast-iron commitment to us that the Games will be delivered within the £9,325 million budget.** As with any major programme problems are likely to emerge, and with construction well underway, a little over two years until the Games start and reduced contingency, there is limited room for manoeuvre. Of the original £2,747 million contingency, only £1,270 million is left for the Olympic Delivery Authority and all but £194 million of this is currently earmarked for known risks. If there is any chance of the budget being exceeded then the Department must inform us immediately and should expect to be recalled to give further evidence.
- 2. One of the main reasons for the increased budget for the Games announced in March 2007 was the inclusion of a funded contingency, but three years later there is still no such contingency for LOCOG.** As ultimate guarantor, the Government is financially exposed if LOCOG fails to at least break even. LOCOG must establish a funded contingency, and the Department must satisfy itself that recognised quantified risk assessment techniques are used to assess the amount of contingency required.
- 3. Revenue from ticket sales is an important part of how LOCOG will generate the money it needs, but it is unclear how LOCOG will balance this against the need for affordable tickets, which will go on sale in 2011.** LOCOG has committed to making the Games accessible and affordable for the general public. LOCOG should publish now the principles on which ticket availability and prices will be determined.
- 4. Putting on the Games will be a huge logistical exercise in integrated security, transport and events management involving multiple organisations, but there are still grey areas where the responsibilities of organisations remain unresolved.** The Department should clarify straight away who is responsible for what and who pays, and finalise plans for checking progress. Delivery of the Games depends on consensus between a number of organisations, but with deadlines approaching and financial pressures increasing the Department should make clear who has overall executive authority.
- 5. Despite our previous recommendations, plans have not yet been made for viable long term uses of publicly funded assets in the Olympic Park after the Games, in particular the Main Stadium and the Media Centre.** The Olympic Legacy Company should set out the criteria by which it will assess the value for money of any proposals for long-term use of the assets on the Olympic Park. If there is the risk of assets remaining unused after the Games there should be a clear plan for minimising the cost of maintaining them.

6. **The targets for employing local residents and providing construction training and apprenticeships were not in place from the outset and have not been challenging enough.** The Department should set more stretching targets for the Delivery Authority, taking advantage of the increasing numbers of people now required in trades where traditionally apprenticeships are more prevalent.
7. **This flagship programme could provide lessons for other construction projects.** The Department and the Olympic Delivery Authority should take the lead in identifying the lessons from the preparations for the Games. The Treasury should identify who is best placed to take the lead in making sure the lessons are applied to other public sector projects, including the importance of setting employment and training targets at the outset.
8. **Delivering the Games within budget depends on receiving £600 million receipts from the Olympic Village development, and returning £675 million to the National Lottery depends on future revenues from the Olympic Park.** The Department was not prepared to provide any guarantees about the timing and value of future receipts. It did, however, guarantee that there will be no further calls on the National Lottery to fund the Games.

1 Managing the costs of the Games

1. The £9,325 million budget for the Games was set in March 2007, including contingencies of £2,747 million. The Department for Culture, Media and Sport (the Department) repeated its previous commitment to us that it will stay within the budget.²

2. Up to £8,099 million, including contingency, is available to the Olympic Delivery Authority, which is responsible for the infrastructure in and around the Olympic Park and constructing the main venues. In November 2007, when the Delivery Authority's budget was finalised, the estimated cost of its programme was £7,095 million. By December 2009 its estimated cost had increased to £7,262, million although the potential for further calls on the contingency had also been identified (paragraph 5).³

3. The most significant impact of the economic downturn on the programme has been the need to fund the Olympic Village and Media Centre projects from public funds. The projects were originally intended to be delivered and largely funded by private sector developers. The additional cost to the Olympic Delivery Authority is £785 million of which £621 million has come from contingency.⁴ The cost to the Olympic Delivery Authority's programme would have been significantly higher as a result of having to fund these two projects had the Delivery Authority not also made savings elsewhere.⁵

4. We have previously stressed the need for the Olympic Delivery Authority and the Department to keep a firm grip on the use of contingency.⁶ Some £1,270 million of contingency is now available to the Olympic Delivery Authority, but £1,076 million is currently earmarked for risks already identified. This means that only £194 million of 'headroom' remains to cover the cost of new risks to the programme should they arise, although if the identified risks do not materialise then the headroom could increase (**Figure 1**).⁷

5. Financial pressures continue to emerge which could require the use of contingency. For example, in February 2010 the Olympic Delivery Authority took on responsibility for up to £276 million of unplanned work to maintain and secure the Olympic Park between construction completion and handover to the Olympic Park Legacy Company, which was not included in the March 2007 budget. Although some £116 million of this work is now provided for in the contingency, a further £160 million of the contingency may be needed.⁸

2 Q 1; C&AG's Report, para 1.2

3 C&AG's Report, para 4.1 and 4.2

4 Q 39; C&AG's Report, paras 2.7, Figure 5

5 Qq 1 and 37; C&AG's Report, para 4.2

6 Committee of Public Accounts, Fiftieth Report of Session 2007–08, *Preparations for the London 2012 Olympic and Paralympic Games*, HC 890

7 Qq 2–4; C&AG's Report, para 4.7

8 Q 36; C&AG's Report, para 4.4

Figure 1: Use of the £2,747 contingency fund to December 2009

	(£ million)	
Total contingency funds included in the March 2007 budget		2,747
Less immediate allocation to Olympic Delivery Authority to meet known financial pressures at March 2007	500	
Less contingency set aside for policing and wider security	238	
Less amount allocated to Olympic Delivery Authority on production of its November 2007 baseline	37	
	(775)	
		1,972
Less contingency allocated at December 2009	(702)	
Remaining contingency potentially available to the Olympic Delivery Authority at December 2009		1,270
Quantified residual risks	(1,076)	
'Headroom' remaining		194

Source: C&AG's Report, combining data from Figure 6, Appendix 2

6. Within the £9,325 million budget for the Games, there is £600 million to pay for the Home Office-led security programme plus a specific £238 million security contingency to cope with any changes in the level of threat. As only five of the 26 planned projects within the security programme have received financial approval, the final programme costs remain uncertain, but the Department considers that the security budget and contingency are sufficient.⁹

7. The London Organising Committee of the Olympic Games and Paralympic Games (LOCOG) is responsible for putting on the events themselves.¹⁰ The intention is that LOCOG will be self-financing through sponsorship, ticketing, merchandising and contributions from the International Olympic Committee. Should LOCOG's expenditure exceed its income the Government, as ultimate guarantor, will be required to meet the shortfall.¹¹ Unlike the Olympic budget, however, LOCOG's current budget of £1,949 million does not include a funded contingency. LOCOG is working with the Department to achieve a funded contingency by October 2010. LOCOG's management of the risks to its programme (between £150 million and £270 million) and the opportunities (between £130 million and £350 million) will determine whether it delivers its programme at a surplus or a deficit.¹²

9 Q 56–57; C&AG's Report, paras 3.1 and 3.4

10 C&AG's Report, para 1

11 Q 94; C&AG's Report, para 4.17

12 Qq 13–15; C&AG's Report, paras 4.20–4.24

8. LOCOG has raised £1,361 million (70%) of its £2 billion income target, including over £600 million of the £700 million it needs from local sponsorship. LOCOG is monitoring the financial standing of its sponsors and, despite the state of the economy, is confident that none is suffering from financial problems that would prevent them meeting their obligations to LOCOG.¹³

9. On current assumptions LOCOG has still to raise £600 million, of which it expects around £400 million to come from ticket sales. LOCOG confirmed that it is committed to providing tickets that are accessible and affordable to the general public when they go on sale in 2011, and that it is reasonable to assume that tickets for a family of four could cost around £100, although prices will vary according to the event.¹⁴

13 Qq 13, 51 and 53; C&AG's Report, para 4.20

14 Qq 94-98

2 Integrating the Programme

10. The Games themselves will take place between 27 July and 9 September 2012 and will require a wide array of integrated services operating smoothly across London and the UK.¹⁵ For example, the successful staging of the Games requires the transport system to be secure and operating effectively, so the events, transport and security plans all need to be integrated.¹⁶ A key feature of public projects we have previously examined has been the failure to leave sufficient time for testing between the completion of the capital work and the project going live.¹⁷ At this stage the Olympic Delivery Authority is on track to complete its construction work for handover to LOCOG to enable the extensive testing and other preparations to take place well in advance of the Games themselves.¹⁸

Figure 2: The London 2012 operational cross-cutting work streams

WORK STREAM	LEAD ORGANISATION	PURPOSE
COMMAND, COORDINATION AND COMMUNICATION	LOCOG	Delivering a command, coordination and communication centre for the Games to provide the delivery bodies with Games-time guidance and direction.
CITY OPERATIONS (LONDON)	Greater London Authority	Running London during the Games, taking account of the impact on the wider London transport network and the staging of other events in the city.
GOVERNMENT OPERATIONS	Government Olympic Executive	Preparing public bodies, including those not responsible for delivery of the Games, for the change in demand for services that the Games will bring about.
NATIONWIDE OPERATIONS	Government Olympic Executive	Preparing the areas of the UK outside London which are, for example, hosting Olympic events and athletes' training camps.
INTEGRATED TESTING	LOCOG	Delivering an effective and coordinated programme of testing.
TRANSPORT	Olympic Delivery Authority	Coordinating the transport network for spectators in London and across the country during the Games.
SECURITY	Home Office	Coordinating security and policing in and around the Olympic Park and across London and the rest of the country during the Games.

Source: C&AG's Report, Figure 3

11. The Government Olympic Executive, part of the Department for Culture, Media and Sport, is responsible for overall programme coordination and providing assurance to the Government and the Olympic Board that the programme is being well managed.¹⁹ The

15 Q 16; www.london2012.com

16 C&AG's Report, para 3.14 and 3.15

17 Q 26

18 C&AG's Report, para 2.4

19 C&AG's Report, para 1, Figure 1

Olympic Executive is working to achieve greater integration across the programme and in 2009 established seven cross-cutting work streams critical to the operational success of the Games (**Figure 2**).²⁰

12. Detailed planning for testing and Games time delivery are not yet complete, and there remain uncertainties over scope, costs and responsibilities in key areas such as security. For example, the Home Office, LOCOG and the Olympic Delivery Authority have not yet agreed the precise responsibilities and scope for venue and Olympic Park security, including, for example, who is responsible for the security of visitors in the ‘grey space’ between the transport hub and the venues. The Department expects to have fully integrated plans, with agreed responsibilities, in place by the end of May 2010 so that testing can begin in early 2011.²¹

13. Unlike the construction, where the Olympic Delivery Authority is clearly in charge, it is unclear who has executive decision making authority for the delivery of the Games themselves.²² We have previously highlighted that the absence of a single individual with overall authority, and the large number of bodies involved, represents a risk to delivery.²³ The planning and delivery of the Games is, therefore, highly dependent on cross-organisation consensus. The Department recognises that as the Games approach and budgetary pressures increase the consensus could collapse, and for this reason has proposed establishing a sub-group of the Olympic Board Steering Group to assume responsibility for operational decisions in the run up to the Games. The Department has secured agreement amongst the delivery organisations on the need for such a group and is working to establish it in the first half of 2010.²⁴

14. The staging of the Games is dependent on the delivery of a range of commitments the Government has made to the International Olympic Committee to enable LOCOG to deliver in accordance with the Host City Contract. These include, for example, the planned and additional transport projects necessary for staging the Games and the arrangements for the entry of Games related personnel to the UK.²⁵ The Exchequer funding for the Games has only been secured up to the end of the current spending round in 2010–11 and in the current financial situation there will be significant pressure on future Departmental budgets. The Treasury agreed the March 2007 budget for the Games and confirmed to us that “the Government has made a solemn, international commitment to back these Games”.²⁶

20 C&AG’s Report, para 3.16

21 Qq 16–17 and 26; C&AG’s Report, paras 3.4 and 3.16

22 Qq 24–25

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

24 Qq 18–22; C&AG’s Report, para 3.17

25 Q 27; C&AG’s Report, para 3.18

26 Qq 28 and 29

3 Delivering a lasting legacy

15. The prospect of the legacy the Games would bring was an important element of London's bid, in particular that the Olympic Park will be a blueprint for sustainable living and help transform the heart of London.²⁷ The Department told us that three-quarters of the Olympic Delivery Authority's construction budget is contributing directly to this regeneration aspiration.²⁸

16. The Olympic Park Legacy Company was established in May 2009 to assume responsibility from the London Development Agency for securing a positive legacy from the Olympic Park. Accounting Officer responsibility for the Legacy Company within Government rests with Communities and Local Government.²⁹ The Legacy Company will be responsible for the long-term development and regeneration of the Olympic Park land and venues over the next 10–20 years, including plans for further housing. It is responsible for finding end users for the Olympic Park venues after the Games and for generating revenues from the sale of Olympic Park land and assets after the Games in 2012.³⁰

17. Despite our previous recommendations it is still unclear how publicly funded venues will be used after the Games, and if unused how their upkeep will be funded. The Legacy Company is currently in the process of putting together a business plan setting out how it plans to develop the Park and manage the revenues and costs of running the Park after 2012, with the intention of maximising the return for the taxpayer. The Department told us that the Legacy Company will have to meet the bill for any costs associated with unused venues.³¹

18. The Media Centre is forecast to cost the taxpayer £334 million, yet there are no firm plans for its use after the Games.³² The Department's ambition for the Media Centre is the creation of new job opportunities, in Hackney in particular, with a focus on the creative, media and 'sunrise' (new) industries. The decision to locate the Media Centre in the North West corner of the Olympic Park, away from the main public transport hub at Stratford and within the security perimeter, was determined by security, cost and operational considerations.³³ It is located close to the A12, but of the 1,300 car parking spaces available during the Games, as a condition of planning approval, only 220 will be available to commercial users of the Media Centre after the Games. The Media Centre's location makes it potentially less attractive to commercial users increasing the risk that it will remain vacant after the Games.³⁴

27 HC (2007-08) 890; C&AG's Report, para 3.9

28 Q 7

29 C&AG's Report, paras 3.9 and 3.10

30 Qq 7, 50 and 59

31 Qq 58–59 and 112; HC (2007-08) 890; C&AG's Report, para 5

32 Qq 11–12 and 31; C&AG's Report, Figure 2

33 Qq 32 and 48–49

34 Qq 34 and 99–103

19. The Main Stadium will seat 80,000 during the Games and is forecast to cost £537 million.³⁵ The Olympic Delivery Authority has designed the stadium with flexibility in mind in line with the original intention for its capacity to be reduced after the Games from 80,000 to 25,000. Despite the commitment in London's bid for the Games that the Stadium will be used as an athletics venue it is unclear what the plans are for the Stadium after the Games and who will be responsible for running it. The Olympic Park Legacy Company will soon provide the opportunity for interested parties, for example West Ham United Football Club, to put forward proposals for the Stadium's future use.³⁶

20. The National Lottery is contributing £2,175 million to the £9,325 million budget for the Games and we have previously highlighted our concerns about the impact of this on other National Lottery funded good causes. The Government aims to repay £675 million to the National Lottery from a share of the future profits from the sale of Olympic Park land and assets owned by the London Development Agency, as set out in a 2007 Memorandum of Understanding between the Government and the Mayor of London. We pressed the Department on whether, in light of the current economic situation, it could guarantee the reimbursement of the National Lottery. While the Department provided us with a guarantee that it would make no further calls on the National Lottery, it did not provide any guarantee about the future revenues from land and assets or the value and timing of the return on the National Lottery's investment.³⁷

21. The Olympic Village is part of the wider Stratford City regeneration in East London and is situated outside, but adjacent to, the Olympic Park land. The Olympic Delivery Authority's budget is dependent on receiving some £600 million from the sale of the Village units after the Games and from a share of future profits from further post-Games development. The Delivery Authority's objective is to achieve at least £500 million in sales from the Village units, in part to meet its commitment to repay £324 million of contingency funds provided by the Ministerial Funders Group. The Department has proposed a strategy for how any excess sale receipts from the Village will be redistributed to funders. The Olympic Lottery Distributor will receive a proportionate share of the receipts arising from its share of funding for the Village, based on a January 2010 Memorandum of Understanding with the Department.³⁸

22. As part of London 2012's long-term legacy the Olympic Delivery Authority has targets for the creation of new training and employment opportunities for local people during the construction of the venues and infrastructure.³⁹ There is a target to recruit 15% of the construction workforce from the five host boroughs, but the Olympic Delivery Authority has encountered difficulty in accurately determining whether a worker is a long-term local resident or is counted against the target only because they moved to the area to work on

35 Department for Culture, Media and Sport, London 2012 Olympic and Paralympic Games Annual Report, February 2010

36 Qq 31 and 112–113; London 2012 Candidate File

37 Qq 5, 7–8, 38 and 54–55; C&AG's Report, paras 1.2 and 4.13

38 Qq 5–7; C&AG's Report, paras 2.7 and 4.10–4.12

39 Q 65; www.london2012.com

the Olympic Park.⁴⁰ The Delivery Authority is also unable accurately to determine whether local residents in the workforce were previously unemployed.⁴¹

23. The Olympic Delivery Authority has secured from its contractors a commitment that 3% of the workforce will be apprentices, which appears an excellent idea in principle. However, given the scale of the London 2012 construction programme and the desire to leave a lasting legacy the target does not seem very ambitious. Nor was the target included in the initial contracts for the site preparation works.⁴² The Delivery Authority has also reported that since 2008 some 2,400 workers have attended training courses at the National Skills Academy for Construction.⁴³ During the next phase of the Delivery Authority's construction programme there will be a need for large numbers of skilled trades people such as electricians and plumbers, and therefore an opportunity to increase the numbers of apprentices working on site.⁴⁴

24. The Olympic Delivery Authority's spending power is being used to promote good practice in the construction industry, but it is less clear how the lessons are being shared more widely with other public organisations. The Department told us that the Office of Government Commerce is one way the Government tries to ensure lessons are learned from projects. The Office of Government Commerce has reviewed the Delivery Authority's major procurements and will be reviewing aspects of the wider London 2012 programme.⁴⁵

40 Qq 65–67

41 Qq 71 and 72

42 Qq 78–79 and 84

43 Qq 88 and 89

44 Q 81

45 Q 109

Formal Minutes

Monday 22 March 2010

Members present:

Mr Edward Leigh, in the Chair

Mr Ian Davidson
Nigel Griffiths

Mr Austin Mitchell
Dr John Pugh

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 24 read and agreed to.

Conclusions and recommendations 1 to 8 read and agreed to.

Resolved, That the Report be the Twenty-eighth 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 24 March at 3.30 pm]

Witnesses

Monday 8 March 2012

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Mr Jonathan Stephens, Permanent Secretary and **Mr David Goldstone**, Director of Finance, Department for Culture, Media and Sport, **Mr John Armitt**, Chair, Olympic Delivery Authority and **Mr Paul Deighton**, Chief Executive, LOCOG

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Oral evidence

Taken before the Committee of Public Accounts on Monday 8 March 2010

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Mr Ian Davidson
Nigel Griffiths

Mr Austin Mitchell
Mr Don Touhig

Mr Amyas Morse, Comptroller and Auditor General, **Gabrielle Cohen**, Assistant Auditor General and **Mr Keith Hawkswell**, Director, National Audit Office, gave evidence.

Ms Paula Diggle, Treasury Officer of Accounts, HM Treasury, gave evidence.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL PREPARATIONS FOR THE LONDON 2012 OLYMPIC AND PARALYMPIC GAMES— PROGRESS REPORT (HC 298)

Witnesses: **Mr Jonathan Stephens**, Permanent Secretary, and Mr David Goldstone, Director of Finance, Government Olympic Executive, Department for Culture, Media and Sport; **Mr John Armitt**, CBE, Chair, Olympic Delivery Authority; and **Mr Paul Deighton**, Chief Executive, London Organising Committee Olympic Games, gave evidence.

Q1 Chairman: Good afternoon. Welcome to the Committee of Public Accounts where today we are considering the Comptroller and Auditor General's Report on *Preparations for the London Olympic and Paralympic Games*. We welcome back to our hearing Mr Jonathan Stephens, who is the Permanent Secretary of the Department for Culture, Media and Sport, John Armitt, who is Chairman of the Olympic Delivery Authority, and Paul Deighton who is Chief Executive of LOCOG, the London Organising Committee. Mr Stephens, the Committee had a very good visit a couple of weeks ago and we are obviously very impressed with the way that preparations are proceeding, but we would like to hold you to account as best we can for the money involved. Originally, as we know, these Games when they were first bid for were going to cost us two billion. We now know that they are going to cost us nine billion, Mr Stephens. In our June 2008 inquiry, you gave us a cast iron commitment that you would stay within the nine billion budget. For the record, will you please repeat that assurance now?

Mr Stephens: I am happy to do so and, indeed, the NAO Report says that we are on track and within budget despite, since I was last here, needing to weather one of the worst economic downturns in recent decades. A large part of the reason why we have been able to weather that with the anticipated final cost only increasing by about 160 million or so is because of the very hard work that has been done, particularly by the Olympic Delivery Authority, to identify more than 400 million of savings and efficiencies in the programme.

Q2 Chairman: We are very grateful that you are repeating that cast iron commitment but if we look at figure six of the Report, paragraph 4.7, we will see,

will we not, that only £194 million of the Delivery Authority's contingency has not been earmarked. With two years still to go and many imponderables, will this be enough? When we last met, we were pretty confident about the £2 billion left in the contingency. It has now run down to £194 million. You have given us a cast iron guarantee. Is this enough?

Mr Stephens: The contingency that has been allocated as shown in figure six amounts to £237 million from the programme contingency and £465 million from the Funders' Group contingency. There remains about £1.3 billion of contingency as yet unallocated. When we assess the risks against that and quantify what may be realised, then you identify that the ODA has more than £600 million of assessed risks but headroom above all the risks that can be assessed and there is the Funders' Group contingency in addition to that. With two years to go, £1.3 billion of contingency as yet unallocated against the risks that may materialise I think is a reasonable position but there are, of course, significant risks yet to come.¹

Q3 Chairman: Could the NAO please explain this figure of £194 million? I think we have to get this right. The Committee has to understand exactly what we are looking at here.

Mr Hawkswell: If you look at figure six, the £194 million is the sum of the £102 million at the top of the left-hand column and the £92 million at the top of the right-hand column. That is what is described as "the headroom" and sits above the green area which Mr Stephens is referring to, which is the area where there are assessed risks.

¹ Ev 14

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Mr Stephens: Those are risks that have not yet materialised but we assess as likely to materialise.

Q4 Chairman: As risks disappear, other risks might materialise. It is a bit of an unknown, is it not?

Mr Stephens: Indeed, but with half the programme gone we remain on track and within budget, despite some very significant extra costs coming on to budget as a result of the economic downturn.

Q5 Chairman: Mr Armitt, welcome back to our Committee. It is quite obvious to me that you are an exceptionally gifted public servant and you are really getting a grip on this, but there are two matters of real concern to us: the Village and the Media Centre. I am sure they are to you. If we read the Report—this is dealt with, for the sake of colleagues' information, in 4.10 and 4.13—let us look at the Village first of all, shall we? You are expecting £600 million receipts from the Village and you are also hoping to give back £675 million to the Lottery. Is this not just wishful thinking, Mr Armitt, particularly the £675 million you are telling us you hope to give back to the Lottery?

Mr Armitt: In terms of the success which we have achieved so far, I would not put it down to either myself or the ODA alone. We are where we are because of the support, assistance and cooperation which we have received from LOCOG and equally from the GOE. It has been very much a joint effort to get us to where we are today. In terms of the Village, we have made it clear that we have revenues which we have received and are agreed with the housing association, Triathlon, which has given us £268 million of money which is now flowing to us as we go forward with construction. We have made a commitment to return to the Funders' Committee £324 million in addition to £177 million which we previously allocated from public funds. Our objective is to achieve at least £500 million on top of the £268 as income for the Village. That £500 million we have had assessed at the time when we originally came to that conclusion and we have more recently had it independently assessed in the market as being a reasonable and sensible figure. In fact, the independent assessment came up with £530 million as opposed to the £501 million which—

Q6 Chairman: A lot of this depends on being able to sell these flats.

Mr Armitt: Yes, indeed.

Q7 Chairman: I am very worried about the Lottery. The Lottery has given up £2 billion of good causes to you. It is absolutely essential it gets some of this money back. You cannot possibly guarantee to me that you are going to give back this £675 million which is mentioned in paragraph 4.13. Indeed, the NAO says, "... the future timing and value of these sales remain uncertain." You just cannot give that guarantee, can you? It is possible the Lottery may not get any of this money back. That is £2 billion-worth taken from good causes and the Lottery not getting their money back.

Mr Armitt: I would not guarantee anything. Could I ask Jonathan if he would be willing to speak on the Lottery?

Mr Stephens: I will pick that up because these are development gains after the Games are complete in 2012. The £500 million or so of receipts from housing are receipts from the Village that is currently being built that will be sold off after the Games. The further development gains are from development that will only start after the Games in 2012 that will be the responsibility of the Legacy Company then to develop further plans for further housing, further economic opportunities on the site reflecting the fact that something like three-quarters of the construction budget is devoted to regenerating and providing a regeneration platform for future development on the site. That will be a long-term development over the next decade or two.

Q8 Chairman: I am sorry. That is a very smooth, top civil servant reply but it is not the answer I am looking for. Mr Armitt, do you recognise this figure? In order to get £675 million for the Lottery, you have to get £1.8 billion from the sale of land and assets. Is that a figure you recognise?

Mr Armitt: It is not a figure I instantly recognise but I can well believe that it makes sense.

Q9 Chairman: What is your thinking? Are we going to achieve that?

Mr Armitt: Mr Stephens has just explained. For that money to come back would require development way beyond 2012 in conjunction with other private sector developers and upside agreements with those developers which could then generate more income, but I would not sit here and say with any certainty that could be guaranteed.

Q10 Chairman: Let us look at the Media Centre. We, the taxpayer, have now picked up a bill for £800 million for the Media Centre but no one seems to want to use it after the Games. We went there. You put this massive Media Centre—I will not say in the wrong place—nowhere near the transport hub. How is this value for money: £800 million on a Media Centre that apparently nobody wants, which is going to be used for two weeks?

Mr Morse: That includes the Stadium as well.

Q11 Chairman: It is a lot of money for the Stadium and the Media Centre.

Mr Armitt: The Media Centre is about £300 million. That, again, we have now financed from public funds because originally it was going to be a 50/50 arrangement between public and private funding. It has enormous potential. Hackney sees it as, in a sense, the main ingredient for its legacy development. It is in Hackney. It is a million square feet of potential developable buildings which could be used by a multiplicity of different types of business. I know that the Legacy Company are particularly engaged at the moment with talking to

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people about who could be potential users of that building. What we have tried to do is build it in as flexible a way as we can.

Q12 Chairman: Have you got any firm takers yet?

Mr Armitt: The firm takers will now be not for us but for the Legacy Company, but I know they have not got any firm takers yet. I would not be surprised by that. It is still over two years before that building becomes available to anybody. In the current marketplace, any commercial space in London is not exactly flying off the shelf and, therefore, I think it would be quite realistic to expect there to be a little time before people are willing to sign up to that.

Q13 Chairman: Mr Deighton, there is no contingency for LOCOG, is there?

Mr Deighton: What we have been focused on to date is raising the money so that we will be in a position to fund a contingency, which is our objective in the next iteration of our budget which will be ready in October this year. What the Committee should understand is that of course our budget is very different from the ODA's in that we have to raise all the money as well as control our expenditure. Our focus in our initial years of operation has been to raise that money because, of course, every pound we raise is a pound which is diminished on the burden of the ultimate government guarantee. To date we have put in place approximately 70% of that total two billion budget, so we have reduced the risk effectively to the public purse by 70% of the budget. That has been our focus. Now we have that funding in place, I think we are in a much more credible position to be able to define and fund a contingency in the next round of our budgeting.

Q14 Chairman: The single biggest jump for the Delivery Authority was the contingency, was it not? Why did you not plan from the beginning for a contingency? If risks materialise but opportunities do not, what do you do then?

Mr Deighton: I think for us the best way to diminish risk is to raise the money and to put in place the contracts which, on the expenditure side, crystallise the costs at a level which is within the envelope of the revenues we raise. That is by far the best way for us to do it and that is where we have been extremely successful. Given the economy we were facing as we moved out of the bid award with £2 billion to raise, our priority had to be to get the money in and that is precisely where we focused. I think we have been successful at that and now we can focus on the fine tuning of getting the detail right in the budget so we can manage for that contingency, so by the time we get to 2012 we are in a position to be able to have a fund which enables us to deal with the unexpected things that can crop up at Games time.

Q15 Chairman: Mr Stephens, you have underwritten LOCOG's budget. What do you think?

Mr Stephens: I agree with what Mr Deighton has said. A key ingredient of success on this is the delivery of a balanced budget. I know that is

regarded by LOCOG as one of their success criteria. It is certainly regarded as that by the IOC as well as by Government and we are working very closely with them to make sure that these risks and opportunities that we are talking about can be balanced and managed towards 2012.

Q16 Mr Bacon: Mr Stephens, it was very obvious from the visit that the building programme itself is going extremely well. Mr Higgins, who is in charge of the Olympic Delivery Authority on a day-to-day basis, I know is on a well-earned break but gives one an enormous amount of confidence. I would like to focus on the aspects that come slightly later. These are referred to in part three of the National Audit Office Report. That is to say, integrating the various different aspects that will need to run smoothly together. In paragraph 3.4 it says, "The Home Office and LOCOG have not yet agreed the precise responsibilities, scope and costs for venues security operations across the whole programme . . .". It goes on to say that the Delivery Authority is involved in negotiations with the Home Office and LOCOG and that "Work is in hand, facilitated by the Olympic Executive", whom I take it Mr Goldstone is representing, "to provide the necessary definition and to fully agree responsibilities". Why has not this agreement of what the responsibilities are been finalised yet?

Mr Stephens: I would put the emphasis there on "precise" and "fully" agree. This is the natural development of the next degree of planning and detail as we look at the integration across the programme. This is the key challenge for 2010, to ensure that across the programme there are fully agreed and integrated plans with scope and responsibilities agreed. We are at this stage zooming in to an extra level of detail so, for example, the broad roles and responsibilities are well understood—the responsibility for example to deliver spectators safely to a transport hub, the responsibility for LOCOG to look after them in the venue—but we are now looking at the detail, for example, of the grey space in between the transport hub and the venue, the 150 metres that people may have to walk, who precisely is responsible for what in that space, and that will vary from venue to venue. There is this very high level of detail which we would only normally expect to get into at this stage. This is the stage at which we would expect that level of detail to be resolved. It needs to be resolved this year. That is one of the important tasks for this year.

Q17 Mr Bacon: By when this year will it be resolved?

Mr Stephens: Our aim on all the seven cross cutting plans that are set out in the NAO Report is to have delivery and assurance plans in place by the end of May. One of the things I am saying to everyone at the moment is that now is the time to identify and bring out the unresolved issues of detail. We want those brought out at this stage so that they are not unexpected surprises later. As we identify them, we resolve them. Sometimes we find that responsibilities are duplicated. Sometimes even budgets are

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duplicated. Sometimes we find that there are gaps but the task of this year is progressively to work through that so that, by the end of the year, we have complete, agreed and integrated detailed plans which we can then test in the course of 2011.

Q18 Mr Bacon: I would like to come on to the testing in a moment. If I can pursue this theme for a second first, in 3.17 it says that until recently planning has depended upon cross-organisation cooperation and consensus. “The Olympic Executive recognised, however, that as the Games approach and budgetary and delivery pressures increase, consensus could collapse. The Olympic Executive has proposals for a decision-making body which would have overall executive authority for Games-time operations. This body would be a sub group of the . . .” and so it goes on. That all sounds remarkably tentative. What are these proposals? What is the status of these proposals? Have they now been approved by ministers? When will they come into force?

Mr Stephens: No, we have not put them in force yet. The arrangements that we have had so far have worked very successfully. We have resolved a large number of quite complex and detailed issues between the ODA, ourselves and LOCOG. This is very much talking about the sort of decision-making arrangements we would need for Games time operation itself and the immediate run up to that. Again, I would not expect those sorts of things to be agreed and resolved yet, but I certainly recognise that it is an important area.

Q19 Mr Bacon: The implication of this paragraph is that Mr Goldstone’s body, which is essentially the Olympic desk in DCMS, is it not, has proposals for a decision-making body. Does this body have a name? Is it different from the government’s Olympic Executive? When is it going to get set up? When will it have authority to take decisions?

Mr Goldstone: It is different from the Olympic Executive. It would be a group of the operational leads responsible for the key Games time operational functions such as LOCOG’s director of operations.

Q20 Mr Bacon: The operations directors for integrated delivery of transport, security, government operations?

Mr Goldstone: All the operational leads, needing to make real time, operational decisions in the immediate run up to the Games and at Games time itself. The status of it is that broadly all the organisations with those responsibilities agree it is a group we now need to start planning to get in place. It has not formally been established yet. The formalities and the mechanics by which it gets established and gets put in place are now being worked through.

Q21 Mr Bacon: You do not have a date by which it will be up and running yet?

Mr Goldstone: No, but I think in the next two or three months it will be operating.

Q22 Mr Bacon: The first half of this year?

Mr Goldstone: The first half of this year and obviously, as we have said, that is two years before the Games, when it is really focused on the Games time period in the immediate run up to that.

Q23 Mr Bacon: You have to do all the planning and then the testing first, so it is no good this group together a few weeks beforehand.

Mr Goldstone: That is why we are doing it now.

Q24 Mr Bacon: It is very clear from the building programme, when you have this group of 1,000 different building contractors on site with subcontractors and so on, if you ask the question who is the over-arching, controlling mind of all of this, who is in charge of making sure the thing gets built, the answer is very clear. It is Mr David Higgins and he seems to be doing an exceptionally good job. He gives us great confidence. I do not have any sense of who is in charge of all this other stuff. You have the seven operations directors who are going to come together. It says that, for example, for the City operations there has been a programme director recruited but a recruitment process for other senior roles has been completed. It does not say that they have been appointed, who they are or when they start. Who is in charge? Who is the controlling mind of all of this in the way that Mr Higgins is of the building programme?

Mr Stephens: The lead for all the Government operations in support of the Games is with the Government Olympic Executive within the Department for Culture, Media and Sport. It does involve the integration of a wide range of different delivery bodies. It involves local authorities delivering—

Q25 Mr Bacon: My question was who is in charge? I am looking for the name of a person. Mr Higgins is in charge of the building programme. Who is in charge of all this other stuff?

Mr Stephens: The coordination of the Government operations behind the Games will be led by the Government Olympic Executive, headed up by its director general, who is Jeremy Beeton. David Goldstone is the finance director. Within that these seven cross cutting streams will each have their own responsibilities with their own lead organisations, which is all set out in figure three on page 21.

Q26 Mr Bacon: Sure. It is just that the Report itself states that the Olympic Executive itself recognises that there is potential, in the Report’s words, “for consensus to collapse”. Can you tell me about the testing programme? It says in the second bullet point that plans for testing are not yet finalised but the testing is broadly scheduled to begin in 2011. What will be tested? How thoroughly will it be tested? The thing we have seen probably in project management more than anything else in this Committee in the years I have been on it is a failure to test things

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properly, what is euphemistically called a compression of the testing timetable. Will there be any compression of testing here?

Mr Goldstone: I think the reason we are now looking at all the issues we have just been discussing around planning for the operational period is so that we are in place for testing to start in the early part of 2011, at least a year before the Games. The testing will need to cover a whole range of areas. There is a focus obviously for LOCOG on the requirements for staging the sports events and functioning of the venues. What we are making sure of and what the integration role is about is ensuring that testing also covers, for example, the integration of the transport requirements, the security requirements, the functioning of the City, with that sport and venue testing. It is about each of the strands individually having their testing programme and the integration of those. That is why it is complicated. That is why there is an extensive testing programme that will start in the early part of 2011.

Q27 Mr Bacon: Mr Deighton, could you say which aspects of the Government's commitments to the International Olympic Committee you are most concerned about?

Mr Deighton: I think the way to think about this is to recognise the very significant delivery responsibilities that the Government itself has. As you have already pointed out, the ODA is clearly going to deliver the new venues. I think we are very confident that we are going to deliver the 26 sports events for the Olympic Games and the 20 sports events for the Paralympic Games, but alongside that, if you look at the security arrangements, the arrangements we have to have to get people into the country, the transport arrangements, what we need from Ofcom in terms of spectrum, there are a significant number of requirements. I do not have a specific concern about any particular one of them, but in an environment which you understand probably better than I do, where public finances are under such pressure, where resources are under such pressure, to deliver something of this scale and this complexity in this environment is a big requirement. The focus and coordination that are going to be necessary to bring this to successful delivery in 2012 will be quite significant.

Q28 Mr Bacon: The current financing is secure in the present spending round until 2010/11. What happens if the Treasury cannot deliver the rest of its commitments in the next spending round that starts in 2011?

Mr Stephens: The Treasury has agreed the budget. Like any long-term programme, the budget is only allocated over spending review periods but the Treasury has been fully participating in all the decisions and I am confident that it is as secure as any—indeed, more secure than many—such long-term programmes.

Q29 Mr Bacon: I did see Ms Diggle nodding out of the corner of my eye. You can confirm that, can you?

Ms Diggle: That is because the Government has made a solemn, international commitment to back these Games. We cannot wriggle out of that.

Q30 Chairman: I should have made clear at the beginning that we allowed Mr David Higgins, the Chief Executive, not to be here because he is on well deserved leave but you, Mr Armitt, as Chairman, presumably have no objection to answering any questions for him. As a matter of interest, how does the responsibility work between you as Chairman and him as Chief Executive? Where does the buck stop?

Mr Armitt: Very simply, the same as any other large organisation. The chief executive is responsible for putting in place the strategy of the board and delivering the strategy of the board. I chair the board. I am a non-executive director. We have a board and David, as has already been said, delivers on a day-to-day basis and manages the whole process on a day-to-day basis as any normal chief executive would.

Q31 Mr Touhig: Mr Stephens, together with colleagues who visited the Olympic site recently, I was hugely impressed by the number of complex and different construction projects going on in such a limited space. Indeed, I do not think the Creator who made heaven and earth in seven days could have done a better job. I was particularly impressed by the construction and the flexibility of the Stadium for its possible after use. We see from the Comptroller and Auditor General's Report that there is still no legacy plan for the Media Centre or the main Stadium. Why do you think it is proving so difficult to resolve this issue?

Mr Stephens: As Mr Armitt said earlier, I would not be surprised that at this stage, with the venues not completed, the Park still a very complex construction site as you say, and the country just coming out of the worst economic downturns for some decades, people are not signed on the bottom line. However, the venues have been designed with legacy in mind so both the Stadium and the Media Centre are designed with flexibility in mind. We now have one of the developments since I was last here, the establishment of the Legacy Company, established with just about three years or so to go before the Games, significantly in advance of previous cities in establishing the legacy user for the Games, which is now, for example, with the Stadium about to embark on some market testing of various options around legacy users.

Q32 Mr Touhig: You were planning and designing this well before we had the world economic recession. Would that not have been the right time to determine the legacy uses then? We were told as we went round that the Media Centre could be used for warehousing. You have put millions of pounds of IT kit in. It is going to be one hell of an expensive warehouse if it ends up stacking stuff for Tesco.

Mr Stephens: Of course with the Media Centre the first requirement is the operational requirements of the Games. You have to accommodate some 20,000 journalists and broadcasters. When the Media Centre came on to the public books as a result of the economic downturn, we looked very hard at alternative options, locations. We looked at the mix between temporary and permanent construction. It was clear that the cost was primarily driven by the operational requirements during the Games. We put some extra flexibility into the design to try and future-proof against future legacy uses. It was clear that alternative locations, alternative mixes, would deliver less value for money. In particular, building a centre that was entirely temporary would not cost substantially less but would obviously not have any long-term benefits. Although there is not a signed up end user, there is a very clear ambition for the Media Centre as for the Stadium. The ambition for the Media Centre is to use it to create economic opportunities, jobs for Hackney in particular, with an ambition focused for obvious reasons on its use around the creative, media, sunrise industries, but it is a very flexible space that could be used for a variety of things.

Q33 Mr Touhig: You have put in so much investment because it is so particular. It is there for the media. It seems to me that a lot of work perhaps should have been done in the beginning to determine its after use. The idea that it should end up as a warehouse is just, I think, preposterous. We have just recently been dealing with matters relating to the BBC who are spending millions of pounds on buildings all over London. Perhaps the BBC should have been the legacy user of it as you are putting so much IT into it. It seems to me that you are so far down the track now your flexibility for using this is going to be very limited. You say in your own assessment that it would not have made sense to put up a temporary building.

Mr Stephens: Indeed. We looked at this very carefully. A temporary building would only have cost marginally less but had no long-term benefits. When you are accommodating 20,000 journalists and broadcasters, with all the technical equipment that they bring in, the IT equipment, a lot of the investment is from the broadcasters, not from the Olympic budget, you have to build a reasonably substantive and permanent type building. The fact that we built it with a permanent legacy use in mind means that we have the opportunity to get long-term benefit.

Q34 Mr Touhig: I think the Chairman pointed out that its location site is not really conducive to transport links so you are going to have some difficulties there.

Mr Stephens: The site is now going to be one of the most well connected transport site hubs in London. If you want to walk from Stratford Station, it will be about a 20-minute walk. As the Park develops there

may be other ways of getting across the Park. It is right on the doorstep of the A12, which is a very well connected part of the road network.

Q35 Mr Touhig: You mentioned though that if you had had a temporary construction it would have been a marginal saving. That might have left you a bit more in the contingency fund if you had gone that way. Can I touch on the contingency fund? The Report tells us that there is a risk that the entire contingency fund will be required. Do you agree that the entire contingency fund will be required?

Mr Stephens: There clearly is a risk. The Report shows that the quantified, assessed risks within the ODA budget amount to about another £630 million. Of course, the more one contemplates and thinks about very unlikely scenarios, one can stack up more risk. Having served in the Treasury myself, the Treasury is not used to allocating budget that it thinks is unnecessary, so I think it was a sensible provision. We have some significant risks yet to come. There are significant hurdles yet to come, but it is our ambition, if we can, to bring that well within the budget and return any surplus to the taxpayer and the Lottery distributors.

Q36 Mr Touhig: How accurate do you think your forecasts are? We see that you had to spend £160 million on previously unplanned work to maintain and secure the Olympic Park. One would have thought you might have seen that one coming but you did not. There is £160 million you had to spend there. How realistic do you think it is that you will have any savings from the contingency fund?

Mr Stephens: It is in the nature of a contingency that it is for things that you cannot be certain will arise. Over time some risks materialise resulting in contingency being drawn down and transferred into the budget. Some risks do not materialise and then they go off the register. If you look at the record of our estimates of the anticipated final cost, I think a couple of years ago we were predicting just over £7 billion, 12 months or so ago it went up to about £7.4 billion, and now it is back down to £7.2 billion. I would expect these sorts of things to move around like that over the rest of the course of the budget. There will be unforeseen things that will materialise. That is one of the purposes of the contingency.

Q37 Mr Touhig: Is there a contingency plan if the contingency funds run out?

Mr Stephens: I should say that the main reason why the contingency has only been used as little as it has is because of the very considerable efforts put in by the ODA and others to generate savings and efficiencies in the programme. Leaving aside the Village and the Media Centre, which were completely coming on to the public books in an unforeseen way, the savings the ODA has generated on its budget outweigh the extra cost pressures by some £300 million or so. If those had not been generated, that would have been an extra £300 million that had to be drawn down from the

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contingency fund. The first line of defence is to continually bear down on costs and the ODA has a very good record.

Q38 Mr Touhig: I am pleased you are. You might suspect where I am coming from in view of appearances you have had before the Committee in the past. That is, that we do not take any more money from the National Lottery Fund. Projects like the Newbridge Memorial restoration in my constituency have been put at risk because the Lottery Fund has been raided in order to fund the Olympics. Your Minister has given me an assurance in the House of Commons that there is no prospect of the Lottery Fund being called upon again. He indicated he might be able to pass something back to the Lottery Fund, although the Chairman has some doubts about that, but of course ministers come and ministers go. Can you assure us that, as the Permanent Secretary, you have no proposals in the pipeline to advise ministers that they may have to call upon the National Lottery Fund in the future?

Mr Stephens: I have no such proposals at all.

Mr Touhig: They will be pleased to hear that in Newbridge.

Chairman: By the way, the Creator did not take seven days to create the world, it was six days, and if He had taken seven days He would have been summoned here for not delivering on time and on budget.

Q39 Mr Mitchell: The December 2009 forecast by the Delivery Authority forecast total costs of £7,262 million which was up £167 million on November 2007. The biggest change seems to be about £652 million for the costs of the Village itself and the Media Centre. What were those changes?

Mr Goldstone: Those were the changes when the decisions were taken in the course of 2009 for initially the Media Centre and then, in the middle of 2009, for the Village to be publicly funded because the potential deals that could be done with private developers were not going to be value for money in the economic climate we had at that time when bank lending and the wider economic situation was so difficult. Because we had to keep the project on track, we had to deliver the projects for the deadline to meet the Games, decisions were taken then to publicly fund the projects, so they are funded out of the public funding for the Games.

Q40 Mr Mitchell: In terms of the Media Centre, is it fair to expect the media organisations will be putting up funding towards it?

Mr Goldstone: In the original proposal, the ODA was going to make a contribution and then private developers would have put in the balance of the funding.

Q41 Mr Mitchell: What was the contribution? Did it guarantee them a place, or what?

Mr Goldstone: Originally, the ODA was going to put in £220 million and the private sector was expected to bring in the balance of about £160 million to a

total cost of £380 million. The decision was taken just over a year ago for it to be publicly funded. The total cost to the ODA then budgeted was about £355 million. That has come down as savings have been generated over the last 12 months or so.

Q42 Mr Mitchell: The media organisations were not prepared to put their money where their mouths are?

Mr Stephens: The contribution from media organisations comes in the form of broadcasting rights, an element of which goes into Mr Deighton's budget.

Q43 Mr Mitchell: You are providing accommodation for 20,000 journalists, you say, and these are hugely wealthy. Many of them—the Americans anyway—are hugely wealthy media organisations. Why should they not make some contribution to the costs of setting up the premises for them?

Mr Goldstone: They do. A big part of the revenue that is received into the LOCOG budget is through the IOC in relation to broadcasting rights.

Q44 Mr Mitchell: That is broadcasting fees and things. I am talking about a contribution to the building.

Mr Goldstone: It is a requirement that we entered into at the time of the bid and the award of the Games that we provided all the facilities, of which the Media Centre is one. The broadcasters' contributions effectively come through the agreements with the IOC into funding that is made available to LOCOG.

Q45 Mr Mitchell: It says at 2.12 that the Media Centre cost was reduced by introducing some temporary elements to the design and reducing the scope to focus predominantly on Games time requirements. It also says that there was an International Broadcast Centre to provide more flexibility for legacy use. On the one hand you are cutting it down; on the other hand you are building it up. I do not get that.

Mr Goldstone: There were always two distinct buildings. There is an International Broadcast Centre which is for the broadcasting companies and the Media Centre for the print and other media. The Broadcast Centre is a very flexible space where broadcast companies will come in and fit out for broadcasting. The Media Centre is more like office space where the print media—

Q46 Mr Mitchell: Are the two in the same building?

Mr Goldstone: They are connected but they are two distinct buildings. That was always the case. That is not a change. There were always going to be both the Broadcast Centre and the Media Centre.

Q47 Mr Mitchell: Is the Broadcasting Centre part of the legacy as well?

Mr Goldstone: Yes.

Q48 Mr Mitchell: Is it not going to be more difficult to find a use for both of them, particularly for the Media Centre, if you move them to the north west of the area, which is a way from Stratford Station? You mentioned a 20-minute walk, horrendous for journalists, particularly if they cannot do it on expenses. It is going surely to reduce its attraction for legacy use. It is going to be a white elephant.

Mr Goldstone: No, I do not think it will be a white elephant. The prime requirement for its location was to make sure it was operationally effective for Games time for the broadcast and media uses necessary for the Games. It was essential it was located close to the Games activity on the Park. As Mr Stephens said earlier, we looked at a number of other options when the decision was taken to make it a public sector project, including other locations and more temporary parts of it, and this was the best value for money solution, part of the reason being because it does provide the opportunity for legacy uses and for employment creation.

Q49 Mr Mitchell: Security was also a reason for moving it, was it not?

Mr Goldstone: Exactly: the security requirements and the need to be inside the security fence of the Olympic Park.

Q50 Mr Mitchell: Who will finally determine its legacy use? Will that be up for grabs by any organisation that cares to—

Mr Goldstone: No. The Olympic Park Legacy Company, which was formed last summer, has the responsibility for finding the legacy users for all of the Olympic Park venues on their land. They have been working through how they will take that forward and I think they will be instigating a process for exploring the market and what the opportunities are in the very near future.

Q51 Mr Mitchell: Let me move on to sponsorship. You have sponsorship money but nobody knows what the state of the economy or the sponsors for that matter is going to be all those years ahead. What happens if sponsors go bust?

Mr Deighton: The sponsorship revenue forms part of my £2 billion budget. The target was to raise £700 million from domestic sponsors and we collect just under £200 million from international sponsors who support from Games to Games. You are absolutely right, the most difficult thing we had to contend with when we won the Games in 2005 was where we were going to find £700 million in an economy which was moving fast into incredibly difficult circumstances. To date, we have raised £603 million in terms of both cash and the goods and services that the sponsors provide. To meet our target over the next two and a half years, we need to raise another £100 million.

Q52 Mr Mitchell: You are well on the way.

Mr Deighton: We are in negotiations with—

Q53 Mr Mitchell: You cannot guarantee presumably?

Mr Deighton: They are fully contracted. All our sponsorship arrangements are subject to a detailed and enforceable contract. The only problem we would encounter is if any of the sponsors themselves get into financial difficulty and are unable to pay. We obviously monitor our sponsors very closely, both before we enter into the engagement and during our relationship. I can tell you at the moment there are not any of them that are suffering from the kinds of problems that would cause me to have concern about their ability to meet their obligations to us.

Q54 Mr Mitchell: Let me move on again to what I regard as our money, the money that is going to be returned to the Lottery. Here is a festival for London, but the rest of us gain from the Lottery and you are undertaking to pay £675 million back to the Lottery. Is that guaranteed? Are we going to get it?

Mr Stephens: It is a share in the profits to be made from the development of the Park after 2012, which is underpinned by all the investment that is going into the Park to provide that regeneration platform. This is a long-term development programme and long-term investment programme. Over that sort of timescale, these sorts of returns are realisable, but it is a long-term development programme.

Q55 Mr Mitchell: I know it is long-term. I want a long-term guarantee, because that is the money for the rest of the country after London gets the benefits of the Games, the Park and everything else. You cannot really guarantee that because you do not know the kind of conditions you will be selling the assets on in. You do not know property prices, whether they will be up or down. You do not know whether it is going to be saleable as one lump. All this is hypothetical.

Mr Stephens: Of course it is. Over a long-term period, you are absolutely right, there cannot be guarantees, but the Olympic investment will create very close to the City of London one of the best connected transport hubs within London, with very significant economic and employment opportunities, with opportunities for further housing to be built which is needed within London. There cannot be any guarantees. It is a long-term development programme, but it is realistic to expect returns to the Lottery over that sort of long-term period.

Mr Goldstone: What we have done that previous Games have not is get the structures in place to deliver that legacy benefit and that value well ahead of the Games, so the Legacy Company was formed last summer, three years ahead of the Games. It is absolutely key to their business plan and their future delivery that they generate the development value and the returns that will produce the repayment of the contributions to the Lottery that we are talking

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about. We have the structures in place and they are now working through that planning to generate that value.

Q56 Mr Mitchell: Just let me conclude on the security costs. I am not sure how much you are going to fall back on the Home Office. I see it has only completed five of its 26 projects. Potentially security costs could escalate because the Home Office is always prone to panics. It can be rushed into all kinds of panics by the media. It is not exactly a fully functional department, as we know from previous home secretaries. Are you expecting that any future increased stringency on the requirements will be covered by the Home Office?

Mr Stephens: Within the £9.3 billion budget, in addition to the £600 million security budget, there is a specific contingency for security purposes of some £230 million or so. An obvious purpose behind that is to cope with changes in the level of threat and the security precautions that might have to be taken.

Q57 Mr Mitchell: Do you think that will be adequate to cope with any threats that you can envisage at the moment?

Mr Stephens: Yes, that is the intention.

Q58 Chairman: If the Stadium and the Media Centre are not used, or used adequately, who will pay for upkeep? This will be very expensive, will it not, Mr Stephens?

Mr Stephens: They will be the responsibility of the Legacy Company after the Games, which is currently in the process of putting together a comprehensive business plan as to how it develops the Park and manages the revenue and cost of running the Park with the intention that it turns over time a profit for the taxpayer.

Q59 Chairman: I know what they are supposed to do. That is not what I asked you. If the Stadium and the Media Centre are not used, who will pay for their upkeep? At the end of the day you are going to have to underwrite them, or we are.

Mr Stephens: They are the responsibility of the Legacy Company. The Legacy Company has a range of sources of income and is also seeking to generate development gains from the development of the Park after 2012, so it is the responsibility of the Legacy Company.

Q60 Chairman: With us underwriting it.

Mr Stephens: Yes.

Q61 Chairman: For the third time of asking, if the Media Centre and the Stadium are not used, there is no point in keep saying the Legacy Company will undertake this risk. They will not be able to do so, will they?

Mr Stephens: They have the whole of the rest of the Park to develop to generate value from. The Media Centre and the Stadium are just two out of several venues.

Q62 Chairman: Quite big.

Mr Stephens: With some significant other development opportunities on the Park. Yes, there are costs associated, of course, with their running after 2012, but there are also significant opportunities for generating extra income and development gain to offset those costs.

Q63 Chairman: We were told, Mr Armitt—I think Seb Coe told me this—that the Aquatics Centre had to be an iconic building because we were short of iconic buildings on this site. It is a lot of money to pay for an icon, is it not?

Mr Armitt: Iconic buildings are expensive. You could have a tin shed and it would have cost significantly less. What has been created by Zaha Hadid as the architect is something which is one of those buildings which has the potential to stand the test of time in the same way as something like Sydney Harbour Opera House has.

Q64 Chairman: Or the Scottish Parliament.

Mr Armitt: The Scottish Parliament will always be regarded as iconic.

Chairman: Exactly. Talking of that, Mr Davidson?

Q65 Ian Davidson: Like the other Members who visited, I think we were very impressed with what is being done there and obviously we wish that everything goes well but, as you understand, we are not here to be happy. We want to raise points which are all for your own good, as you will appreciate. I want to pick up two points if I can. One is about the legacy and the other is about the lessons that have been learned in terms of good practice and how they can be disseminated across the system. I am really interested in the legacy in terms of employment and training. I see that one of the objectives was to deliver a construction workforce of at least 15% of residents of the five host boroughs. If necessary you can write to us about this later on. What I want to clarify is who is included in this 15%. Mr Higgins, for example, if he has moved here, got a job and now lives in one of those areas, could very well be included as part of that 15%, as would Eastern Europeans who have come here or, indeed, Scots who have come here. How do we know that the 15% target is actually of local people who have always been local, so to speak, rather than imports?

Mr Armitt: We do not. The test which is used is the post code which the individual uses to say where they are living, what is their permanent address in London. You are quite right, if somebody has arrived in London in the last five years, is living in Greenwich and then they apply for a job on the Olympic Park, then they are treated—

Q66 Ian Davidson: But over the last five weeks?

Mr Armitt: I think there is always that possibility. What we cannot do and do not do is demand of people how long they have proof of residence for a particular period.

Q67 Ian Davidson: I understand that. You can understand my reservation. If you have a 15% target to recruit from the local area, to make sure that the local area gets benefits, you can well understand why somebody from another part of the country who gets a job there would then live locally and would then help meet your target.

Mr Armitt: I think where we should start is looking at the number of people that we have taken out of unemployment from the five boroughs.

Q68 Ian Davidson: I am coming to that in a moment. I want to stick to this at the moment.

Mr Armitt: The other point I would make about people who are living in the five boroughs and are working on the Olympic Park is where is it likely that the majority of their income is being spent? It will be spent in the five boroughs.

Q69 Ian Davidson: That is slightly different. That is the case for the defence.

Mr Armitt: I am the defence.

Q70 Ian Davidson: I understand that. This is for your own good remember. I do understand that people will come and live locally, but it does not mean necessarily that local people who have been living there for a long time are accessing these opportunities. In terms of new entrants, 15% of residents will be from the borough. How many of those are actually new entrants to construction and how many of those were previously unemployed? That would tend to identify how well you are doing.

Mr Armitt: 750 were previously unemployed of the total that we have today on the Park.

Q71 Ian Davidson: That is not 750 who were previously unemployed from the five boroughs.

Mr Armitt: The vast majority of those are from the five boroughs. We have used Jobcentre Plus to identify those people and bring them in, in the same way as we have taken another 700 people and put them through the construction plant school, the digger school, to give them skills.

Q72 Ian Davidson: I will come on to that in a moment. I think it would be helpful if you just clarified for me how many of the people from the local boroughs were previously unemployed and how many were fresh starts. The target of ensuring that at least 7% of the workforce is made of people previously unemployed, it seems to me, is a singularly unstretching target. The Scottish Executive, notwithstanding the point made about the Parliament, now has a standard ambition to achieve a 10% figure; yet you have only gone for 7. You only have 11. In a time of rising unemployment, that does not seem all that great.

Mr Armitt: The trouble with a time of rising unemployment is that the people who have skills and are already employed by those construction companies are less likely to be getting opportunities elsewhere because of the recession in the construction industry. For a construction company,

you have a lot of labour available which is your long-term labour. Frankly, it becomes more difficult for people who are unemployed to get into a project like this during a recession.

Q73 Mr Davidson: That only applies if the employer is passive, does it not, in the sense that he just takes whoever comes to him, and in those circumstances he would tend to take people who were already in employment whose employment might be threatened and that would drive out those who are presently unemployed. Surely the point of having targets for recruiting the unemployed is that there is positive discrimination, which is why I would have thought at a time of rising unemployment you would be finding it easier to recruit suitable unemployed people.

Mr Armitt: There is not positive discrimination, there is encouragement, which is a slightly different thing. What the contractor's primary objective to do is to build on time, to cost and to incentivise to keep down his programme period and keep down his costs. The way he is most likely to do that is with as skilled a labour force as he can employ. If I am an employer, the first thing primarily in my mind is to make sure I have got a skilled workforce and then to try at the same time to give opportunities for a lesser number of people to come in and take up jobs which provide them with training.

Q74 Mr Davidson: With respect, you cannot say "at the same time". In a sense, these are targets and objectives that are part of the contract, are they not? One of the things I am very happy about what you have been doing is the way in which you have been placing strictures upon your contractors to meet certain social objectives. Those should not be abandoned solely in order to meet the other targets.

Mr Armitt: They have not been abandoned at all. In fact, David and I and others hold regular meetings with the chief executives of all the contractors to encourage them in the areas of apprenticeships and the areas of training people with disability.

Q75 Mr Davidson: I will come on to that.

Mr Armitt: On all of those groups we have met or exceeded the targets, except for disability which we have found particularly difficult. All of the others have been exceeded.

Q76 Mr Davidson: I will come on to that in a moment. Every one of the local MPs to whom I have spoken about this question of recruiting locals is not happy with what you have done. When they are unhappy and feel that you are not making enough effort, surely that tells me something about the way in which you are operating this system.

Mr Armitt: No, I would think it tells me something about the pressure which local MPs particularly feel in trying to represent their constituents.

Q77 Mr Davidson: Very good. I look forward to seeing you standing for the election! Wonderfully sidestepped. What discussions do you have with

local MPs to make sure that they are perhaps less unhappy than they might be? I did not get the impression from them that they felt they had a meaningful dialogue with you on these points.

Mr Armitt: I can assure you they have a very meaningful dialogue with us, and a regular one. They come in and see us and we listen to their points. We put all of the statistics to them, we tell them what we are doing, and at the end of those meetings they will go away saying they are very pleased, they are glad to hear what we are doing, “But, of course, John, David, we would always ask you to do more”.

Q78 Mr Davidson: That is not quite the way in which they presented it to me, I must confess. Can I turn now to the question of apprentices where there is a standard contractual commitment you are putting on your suppliers of 3%, which seems to me to be an excellent idea in principle. However, given that the English average of apprentices is 2½%, even though the London average is 1%, 3% is not particularly very good, is it?

Mr Armitt: 3% on a construction project, and particularly one in London, is good. In fact, we have largely achieved it without it being in the contracts because it was not in the contracts for the initial period of the project when we let the main contracts. We instigated the 3% latterly when, in fact, we had already done the majority of our procurement to give a final—

Q79 Mr Davidson: Why did you not include it in the initial contracts?

Mr Armitt: We made the decision that we did not want to make it a contractual issue, we wanted to do it through, in a sense, encouragement and the voluntary process, and that has actually worked.

Q80 Mr Davidson: You are saying that you have got 3%. My understanding is that you have got 150 apprentices working on the programme, which is not 3%, unless I am mistaken.

Mr Armitt: What we have said is we will put 350 into training. The difficulty with a construction project is that probably none of the 350 will complete their apprenticeship on this project because there is not sufficient time to do it. The bigger challenge is actually to get them started, to get them into an employer, and then encourage that employer and others to give them the opportunity after the Olympics to continue their apprenticeship.

Q81 Mr Davidson: If the objective is to get 350 into the system, accepting your point about running out of time, surely you would be trying to get them in as early as possible so that they spend as much of their time as possible on the Olympic site and, therefore, there is less difficulty at the end?

Mr Armitt: The early stage of the project is very much in the groundworks, the piling and the foundations with less opportunity for the electricians and the more highly skilled apprenticeships to come. What we have is a commitment from all of our contractors, “I’ll take

20”, “I’ll take 30” and, in fact, they are meeting that commitment. They are spot-on the programme at the moment for delivering us the 350 over the period of the project and it will ramp up considerably over the next six months.

Q82 Mr Davidson: Do you not think that 350 is singularly unambitious? I was speaking the other day to UCATT who were telling me that their objective, which seems to be accepted by some firms, is one for every ten workers or one for every million pounds of the contract. You are well below both of those. Were you unambitious in setting your targets?

Mr Armitt: As I say, I do not think we were. We should not get focused totally on apprenticeships.

Q83 Mr Davidson: I am coming on to the next bit. I do not want to slide from one to the other just because you are in a bit of difficulty.

Mr Armitt: I am not in a bit of difficulty. I feel that what we are doing is providing the right spread of training across the board for the construction industry, and within the construction industry the majority of activities do not actually require an apprenticeship but they do require skilled training.

Q84 Mr Davidson: I do understand that and accept that but, nonetheless, given that Scotland with 11% of the population provides 30% of the country’s apprentices in construction who regularly get poached down south to meet the shortfall, one of the legacies I would have thought of this project, Mr Stephens, would be setting high standards in terms of apprenticeships. You seem to have singularly failed to do this. Why is that? When across the country as a whole there is clearly a need for building trade apprenticeships, why was this not part of the initial contract arrangements and only slipped in as an afterthought later on?

Mr Stephens: I think Mr Armitt has explained the approach.

Q85 Mr Davidson: No, he gave us his defence. You are in a different position. You are the person who tells him, as it were, what some of these things ought to be surely?

Mr Stephens: Yes, and particularly over the last 12-18 months we have had extensive discussions on how we can—

Q86 Mr Davidson: Yes, over the last 12-18 months, but why was it not there at the beginning? Why was this not at the forefront of your mind at the very beginning when these arrangements were being made? I can understand why Mr Armitt would want to slide out of it, but I cannot understand why you would want to slide out of it.

Mr Stephens: The first and foremost consideration at the top of our minds and, if I may say so, at the top of the PAC’s minds at the time was bringing this project in on track, within time and under budget.

Q87 Mr Davidson: So you can only do one thing at a time. You are a clever man. I have read your biography about the TARDIS, being able to look small on the outside and enormous on the inside and being able to do hundreds of things. You have several brains at once. Surely you must have been able to cope with two different targets.

Mr Stephens: We were coping with delivering it on time and within budget and making it safe and secure, and delivering a lasting legacy and benefit. I think you are right to challenge us to ask can we do more, and Mr Armitt has explained some of the constraints and some of the efforts that are already in place.

Q88 Mr Davidson: I understand, you can defend yourself for ages. Can I clarify about trainees? We are told that 2,442 trainees have passed through the National Skills Academy. That could be somebody there for an afternoon, could it not, so that figure is pretty meaningless, is it not? An afternoon's training in the National Skills Academy helps you tick a box but it does not necessarily guarantee anybody a job. Can you clarify for me whether or not this is just smoke and mirrors or a genuine achievement and part of our long-term legacy?

Mr Armitt: What it does in the first place, of course, is if somebody is unemployed and has not been in the construction industry at all, it does get them through the gate, if you like, of understanding the basics of construction and being able to operate on the site in a further training exercise on the basis that they now understand the safety issues and the actual basics of being in construction. We set ourselves a target originally of 2,000 over the period, we are now at 2,400 and still have got 18 months to go, so we are going to considerably exceed that target.

Q89 Mr Davidson: So how many of these 2,442 are presently working on the site and how many are actually in construction?

Mr Armitt: The majority of those will be on the site still and the majority will be in construction.

Q90 Mr Davidson: The majority are on the site. This will include people who are working there anyway.

Mr Armitt: There will be some people there who have actually been on site for 18 months and have now left but received training in the 18 months that they were on site.

Q91 Mr Davidson: In terms of seeking to bring people into the industry, the fact that they were already in the industry and have gone through some additional training is helpful, I can see that, but in terms of trying to benefit particularly the local area it does not add a jot, does it?

Mr Armitt: As I said earlier on, 700 of them have actually been into the digger school and in the space of three months received sufficient training which gives them a job for life in the construction industry.

Mr Davidson: The Chairman has stepped in to rescue you!

Chairman: Mr Bacon has a supplementary.

Q92 Mr Bacon: Mr Deighton, you said that the committee had raised nearly £1.4 billion—it is referred to in the Report at 4.2—70% of the revenue that you need. Some of it is spelt out here. Is it possible for you to send the Committee a note setting out in detail where all the money that you have got in so far has come from—I notice quite a lot is going to come from ticket sales—and where you are expecting the remainder to come from?

Mr Deighton: I am happy to send it or I could simply describe it to you.

Q93 Mr Bacon: Well, go ahead then.

Mr Deighton: 30% of it comes from the IOC as a share of their broadcast rights.

Q94 Mr Bacon: That is of the remainder or of the whole thing?

Mr Deighton: Of the whole thing. Let me tell you the whole thing and I will see what is left to raise. 30% of our £2 billion budget comes from the IOC in terms of a share of its broadcast rights and its own worldwide sponsors. 40% comes from our domestic sponsors and merchandising programme. 20% comes from tickets and 10% from other bits and pieces. Of the remaining £600 million we have to raise, £400 million comes from tickets. You can see what we have been doing with our revenue programme. We have been getting contracted as early as possible what we can to reduce risk. Clearly we cannot sell tickets this far out but we will go into the market in early 2011, so that will begin to reduce that risk. Our level of confidence around our ticket sales is extremely high, it just happens to be the thing you do last. Quite frankly, I think it is a nice position to be in to have two-thirds of your remaining revenue in the portion of your revenue that you feel most secure about. Of the other £200 million, half of that is the remaining £100 million domestic sponsorship, which was the answer I gave to Mr Mitchell, and the biggest proportion of the remainder is £40 million of merchandising revenue. We sell t-shirts, sunglasses, umbrellas at Games time. We have a £72 million budget, £30 million of which we have already received upfront because we get the people with whom we agree licences to pay us a minimum guarantee. So half our risk in merchandising has been reduced because our licensees have such confidence in the amounts they are going to be able to sell at Games time.

Mr Bacon: That was very clear. Thank you.

Q95 Chairman: What will it cost a family of four to come, do you think, mother, father and two children? I know you do not want to give a firm answer, but give us a rough answer. If I said £20 a ticket, is that way out?

Mr Deighton: We will certainly have a wide range of ticket prices. There are three things in ticketing that we are trying to do. Number one is to make sure that the tickets are affordable and accessible. Number two is to make sure we hit our revenue target so there is no burden back to the taxpayer. Number three is

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to make sure the Stadium is full of fans who create a brilliant atmosphere both in the venue and for the TV coverage. That is what we will be aiming to do.

Q96 Chairman: If I was a family of four coming from Leeds, and I am not talking about the Opening Ceremony where obviously there will be a big mark-up, on an ordinary day what is it going to cost me?

Mr Deighton: You are right, there will be tickets available in the kind of range you are talking about. As you say, they will not get to see the Opening Ceremony.

Q97 Chairman: £20 a head?

Mr Deighton: Let us say if the family is getting there for £100 and then they have got their travel down from Leeds.

Q98 Chairman: So that is the answer, about £100 plus the travel?

Mr Deighton: Depending on what they want to see.

Q99 Mr Bacon: They will then need to park the car, which brings me on to my other question, Mr Stephens. You were waxing lyrical about the proximity of the A12 as if presumably you could use the A12 to get to this venue you have been talking about, the Media Centre. Is it correct that it is a condition of the planning permission that after the Games is over most of the car parking spaces in the Media Centre will be removed?

Mr Armitt: Planning consent is for half of the car park, so we have permanent consent for 50% of that car park and temporary for the other 50%.

Q100 Mr Bacon: How many are there in the car park altogether under current plans?

Mr Armitt: The current plan, if I remember rightly, is 1,700 spaces.

Q101 Mr Bacon: So half of those will go?

Mr Armitt: Yes.

Q102 Mr Bacon: 850 of them will go and you will be left with 850, is that right?

Mr Armitt: Yes.²

Q103 Mr Bacon: I have been thinking that this is a great facility of 15 megawatts going in and all these communications facilities for perhaps a large media company or a series of small media companies, sunrise industries as you call them, but if their employees cannot get there by car and it is a long walk from Stratford Station, which it is, who is going to want to work there? What is the point of talking about the A12 if you cannot actually park your car when you get there? This is for Mr Stephens.

Mr Stephens: We have established that there will be a minimum of 850 places in any case and a range of means by which people can get to the Park, which will be very connected, and a range of means by which people can get around the Park once they get there.³

Q104 Mr Bacon: This is a building that is designed to take 20,000 journalists now and it will presumably take many thousands of other people afterwards, the vast majority of whom will not be able to get there either by car or public transport. That is my point.

Mr Stephens: The 20,000 is for Games time when everyone is crammed in.

Q105 Mr Bacon: I am talking about afterwards.

Mr Stephens: You would expect significantly less after the Games. It is close to the A12, there will be some car parking opportunities, but there will be other ways of getting there.

Q106 Mr Bacon: Like?

Mr Goldstone: There is Hackney Wick Station. There is the upgrading of the North London Line which goes into Stratford through Hackney Wick. That is not the only way in there. As part of the plans for the industries we will be looking at—

Q107 Mr Bacon: How long will it take to walk from Hackney Wick Station to the building that is currently the Media Centre?

Mr Goldstone: I believe it is a few minutes.

Q108 Mr Bacon: How many?

Mr Goldstone: I would not like to give you a precise answer. It is less than the 20 minutes from Stratford. I could come back to the Committee with a more precise answer.

Q109 Mr Davidson: My understanding is that the health and safety record on this site has been excellent. I would be grateful if you could let us have a note indicating why you believe that is the case. I am very impressed by the structure of the 2012 construction commitment that you have done, and I am not certain whether or not the excellence of the health and safety record flows directly from that or there are additional items, as it were. Mr Stephens, this leads me on to the wider point about learning lessons and so on. While I am critical of some of the targets because I think some of them have been a bit soft, the generality of the way in which the procurement muscle of Government and of the

² *Note by witness:* Clarification: The permitted Games time car parking is 1300 at the Multi Storey Car Park. Post Games a maximum of 437 car parking spaces are to be provided at the Multi Storey Car Park—of which a maximum 220 are for IBC / MBC.

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ODA has been used to encourage good practice seems to me to be something that should be picked up across the board, but I am not sure that is going to be the case. Can you clarify for us how this is being fed into the system to make sure that other government departments when procuring use the mechanisms, structures and procedures that have been applied here in order to get the sorts of effects that you have achieved, although you could have achieved more, in many areas of this.

Mr Stephens: You are absolutely right, I think it is an example of good practice. I hope that this NAO Report, amongst other things, will spread news of that. The ODA has made use of the existing guidance on good procurement practice that is promulgated, amongst others, by the Office of Government Commerce. The CompeteFor website for people to express interest in contracts will continue after the Games and be a portal, if you like, into other government contracts. We are trying to ensure that the lessons are learned and are spread.

Mr Goldstone: The Office of Government Commerce is part of the way the Government tries to ensure lessons are learned from projects. I believe they have reviewed major procurement the ODA has undertaken. They also review the programme as a totality working predominantly through ourselves and the Olympic Executive, and have looked specifically at other parts, such as recently how we are planning for all the government services to be delivered. The OGC is a way in which lessons of effective procurement, and in some cases where things have not been so effective, can be shared across other major programmes because they carry out that same function across all major procurements that Government undertakes. That is a key way that lessons are learned. We have welcomed their involvement right across both the ODA programme itself on the construction side and across the wider programme so that those messages are disseminated.

Q110 Mr Davidson: Can I just ask the NAO whether or not you are satisfied that the glowing picture of dissemination that has been spelt out to us is actually happening in practice? Therefore, any time we have future contracts coming in front of us can we expect we will be able to see the lessons of the ODA, and so on, and no errors have been made, except possibly inadequate targets, but the general procedures that have been adopted here have been learned?

Mr Morse: We work closely with the OGC and I echo the point that those elements of good practice should be picked up. We will ask the question are they being picked up and spread across government, so we will look into that and specifically satisfy ourselves that OGC are picking up that responsibility.

Q111 Mr Davidson: You will make sure they recognise that not all of the targets have been as stretching as they ought to have been?

Mr Morse: I have noted what you said about that.

Q112 Chairman: I am sorry I did not finish earlier reading my notes saying that the Media Centre and the Stadium cost £800 million. We are told the Stadium is going to be cut down in size and be another white elephant, but when we were going round Seb Coe told me there may be other sporting events and we might decide to leave it as it is. I am just wondering how your thinking is progressing on this. Perhaps we might keep the 80,000 Stadium for another ten years or something after. What is going on?

Mr Armitt: We have designed it with flexibility in mind and we have within our cost plan a sum of money to actually take it down from 80,000 to 25,000. At the same time we have done various exercises for the Olympic Park Legacy Company looking at in-between numbers of 50,000 or whatever. We know that West Ham, for example, have shown interest, but what the Olympic Park Legacy Company will be doing shortly is seeing what other interests there might be out there to take the Stadium at any particular configuration.

Q113 Chairman: How is the West Ham option progressing? They would be mad not to take it, would they not? It would be a wonderful stadium for them.

Mr Armitt: I cannot say because it is a decision for them. As I say, there will be the opportunity for them to put forward proposals to the Legacy Company in the near future as the Legacy Company not only seeks suggestions from them but from others as well.

Q114 Chairman: Mr Deighton, the last question: you cannot say much about this, but we assume that the Opening Ceremony will be a celebration of Britishness, will it?

Mr Deighton: I think we can assume that the Opening Ceremony will be a wonderful opportunity for the UK to demonstrate what it can do creatively, absolutely.

Q115 Chairman: Thank you very much, gentlemen. That concludes our hearing. I am very pleased that when we first won this bid I did have discussions with the previous Comptroller and Auditor General, Sir John Bourn, and encouraged him to do what we have never done before, which was in advance of a project have these hearings. I hope, Mr Stephens, you feel that they have been useful and we have made progress in holding you to account.

Mr Stephens: Very much so.

Chairman: Obviously this will be a marvellous celebration. I am afraid we, as a Public Accounts Committee, have to look on the rather grim side of how much all this costs, but I am sure you will echo our worries about the legacy because this will not stop at the Closing Ceremony and we have to have a plan now in place as to what we are going to do particularly with the Media Centre and the Olympic Village. This has been a very useful hearing. Thank you for the appearances that you have made in front of us, gentlemen.

Supplementary memorandum from the Permanent Secretary, Department for Culture, Media and Sport

At the Public Account Committee hearing on Monday 8 March a question was raised concerning the amount of contingency still available from the £2.009 billion available to the Olympic Delivery Authority (ODA). I thought it might be helpful if I wrote to explain the position.

The overall funding package included £2.009 billion of contingency for the ODA programme. The Ministerial Funders' Group determined in 2007 that £1.041 billion of that would remain under the control of the Funders' Group, whilst control of the remaining £968 million was passed to the ODA as Programme Contingency against risks that were considered to be within the ODA's control.

It was agreed at an early stage that £37 million of Funders' Group Contingency would be allocated to the Landscape and Public Realm project, leaving a balance of £1.004 billion in Funders' Contingency and a total contingency balance of £1.972 billion.

CURRENT POSITION

As of 31 December, a total balance of contingency available was £1.270 billion, and this is reported in the NAO's report on page 25. The table below sets out how £702 million of contingency had been allocated:

	<i>ODA Programme</i> <i>£968 million</i>	<i>Funders Group</i> <i>£1,004 million</i>	<i>Total</i> <i>£1,972 million</i>
Olympic Village*	£111 million	£375 million	£486 million
IBC/MPC	£ 67 million	£68 million	£135 million
Various releases announced Jan 2009	£32 million	£3 million	£35 million
Stratford City/Village Infrastructure	£28 million		£28 million
Blast Resilience Measures		£19 million	£19 million
Eton Manor/Aquatics	£2 million		£2 million
Basketball saving	–£3 million		–£3 million
Total Allocated	£237 million	£465 million	£702 million
Balance of contingency available	£731 million	£539 million	£1,270 million

*£164 million of ODA savings were also allocated to the Village, taking the total investment to £650 million, as shown on page 24 of the NAO report

ASSESSED RISKS

The potential risks to the programme are being constantly re-assessed to identify all possible risks to the programme. The latest risk assessment shows that programme risks are valued at £629 million, as shown on page 25 of the NAO report, meaning if all identified risks occur then £629 million would be needed—this is £100 million less than the amount of Programme Contingency available.

Funders' Group risks are currently valued at £447 million, which is £92 million less than the amount of Funders' Contingency available—although it should be noted that the likelihood of Funders' risks occurring is low.

HEADROOM

Headroom is a term used to describe the amount of contingency available above the level of assessed risks ie the amount that would not be spent even if all identified risks occurred.

As I described above, the level of assessed risks is less than the amount of contingency available, and this is summarised in the table below:

	<i>ODA Programme</i>	<i>Funders Group</i>	<i>Totals</i>
Contingency Available	£731 million	£539 million	£1,270 million
Value of assessed risks	£629 million	£447 million	£1,076 million
Headroom	£102 million	£92 million	£194 million

It's important to ensure that headroom and contingency available are not confused. It would be incorrect to say there is "only £194 million" of contingency left unallocated—in fact, there is £1.27 billion of unallocated contingency.

Equally, it is incorrect to take the headroom and then add a specific risk—such as park operations—to it to conclude that the headroom may not be sufficient. This is a form of double-counting—the assessed risks already include an assessment of all identified risks and an allowance for “unknown unknowns.”

I hope this is helpful in clarifying the position that there remains £1.27 billion of contingency unallocated as at 31 December 2009.

15 March 2010

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