



House of Commons

Committee of Public Accounts

Preparations for the London 2012 Olympic and Paralympic Games – Risk assessment and management

Thirty-ninth Report of Session
2006–07

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

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The Committee of Public Accounts

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Summary

On 6 July 2005 the International Olympic Committee chose London as the host city for the 2012 Olympic and Paralympic Games. The Olympics will begin on 27 July 2012, with the Paralympics following from 29 August 2012, so the organisations involved in delivering the Games have a fixed deadline. Progress has been made in a number of areas since London was chosen to host the Games, including on the critical project to re-route underground the power lines on the Olympic Park site. The Olympic Delivery Authority has also begun its procurement activity, including appointing a Delivery Partner to support in managing the delivery of the Olympic venues and infrastructure.

Two new bodies have been set up. The Olympic Delivery Authority will provide the facilities, and the London Organising Committee of the Olympic Games and Paralympic Games (LOCOG) will stage the Games. They are overseen by the Olympic Board, and a new team within the Department for Culture, Media and Sport (the Government Olympic Executive) will co-ordinate the contributions of other parts of government to the Games. The Olympic Board will play a leading role in progress monitoring and risk management, supported by a Steering Group of senior officials and the Olympic Programme Support Unit which provides independent advice to the Board. No one individual has overall responsibility for delivering the Games, however, and the large number of bodies involved presents significant risks, for example to timely decision-taking.

At the time of our examination, 20 months after London was awarded the Games, there was still no final budget in place, although the Secretary of State for Culture, Media and Sport announced in November 2006 that the cost estimates had increased. A number of significant areas of uncertainty remained to be resolved before the budget could be finalised—tax, contingency provision, security costs and private sector funding.

In the event, the Secretary of State announced a revised budget totalling over £9 billion on 15 March 2007.¹ The revised budget increased the total National Lottery funding for the Games to £2.2 billion, of which about £1.7 billion is to be diverted from the non-Olympic good causes—the arts; sport; heritage; charities and voluntary groups; and health, education and environment projects.

As required by the International Olympic Committee, the Government has underwritten the costs of the Games, including any shortfall between LOCOG's costs and revenues, although LOCOG is intended to be self-financing in staging the Games.

The prospect of the legacy that the Games would bring was central to London's bid. Plans are being developed for the legacy use of the five new venues that will remain after 2012, and work is in hand on plans for delivering the wider economic, social, health and environmental benefits that the Games are expected to bring.

1 Hansard, cols 450–452, 15 March 2007

On the basis of a report by the Comptroller and Auditor General,² we examined the Department for Culture, Media and Sport and the Olympic Delivery Authority on the progress that has been made in preparing for the Games, and the areas of risk that will need to be managed.

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

Conclusions and recommendations

We have considered seven main areas of risk, and our specific conclusions and recommendations on each are as follows.

Governance and delivery structures to coordinate the multiplicity of organisations and groups involved in the Games

1. **The test of whether the plethora of bodies involved are working effectively will be whether individual projects and the programme as a whole progress on time.** The Department is responsible for providing cross-government coordination, and should develop an agreed plan of what needs to be decided, when and by whom. The Department should periodically seek the views of the Olympic Delivery Authority and LOCOG, the lead organisations delivering the Games, on whether government is taking the decisions required at a pace which will allow them to maintain the necessary progress.
2. **Continuity of key people on major projects is key to success.** The Department, the Olympic Delivery Authority and LOCOG should identify which positions are key to the successful delivery of the Games, specify the skills requirements for those positions, and develop strategies for retaining individuals, knowledge and skills for the duration of the Olympic project.

Delivering the Games against an immovable deadline

3. **Any slippage in the delivery programme would bring the risk of having to pay more, or reduce quality, to be ready on time.** The immovable deadline could weaken the delivery organisations' negotiating positions on contracts. Any delays could mean that additional resources have to be brought in to get projects back on schedule, and result in the specifications having to be changed to allow projects to be completed on time or to contain costs. The Olympic Delivery Authority will need to establish incentive arrangements with their contractors which specifically address the enhanced risk of cost overruns and quality shortfalls.

The requirement for the budget to be clearly determined and effectively managed

4. **The costs of the Games were seriously underestimated at the time of the bid and the private sector funding seriously overestimated.** Subsequent to our hearing, the Secretary of State announced a budget for the Games which totalled over £9 billion, an increase of some £6 billion on the position at the time of the bid. At the time of the bid:
 - whole categories of cost were omitted, including tax, contingency margin and security;

- the Department expected to raise £738 million of private sector funding, which would have covered a quarter of Olympic costs, but now there is little prospect of significant private sector funding being achieved.

We intend to return to the budget for the Games on the basis of a further report by the Comptroller and Auditor General.

5. **As the ultimate guarantor of funding for the Games the Government is financially exposed.** In addition to the budget announced by the Secretary of State, LOCOG has a budget of £2 billion for staging the Games and is intended to be self-financing. In seeking to prevent further calls on public money the Department needs to satisfy itself that LOCOG's costs are under control and its revenues on track, and should develop a plan for doing so.

Applying effective procurement practices

6. **The Olympic Delivery Authority has put in place a procurement policy for the £3 billion worth of goods, services and works it expects to procure for the Games.** This policy sets out best practice, and any departures deemed necessary to deliver the Games should be made clear and explicit at the time. The Department should hold LOCOG accountable for developing clear policies in advance of starting its procurement programme in earnest in 2009.

Planning for a lasting legacy

7. **There is a lack of clarity about how venues will be used after the Games, with the risk that designs fail to reconcile the needs of the Games in 2012 with those of subsequent users.** Legacy plans for using the five new venues that will remain after 2012 should now be finalised, with ownership and responsibility for conversion and running costs resolved for each venue. The plans for delivering the wider benefits from the Games, which were to have been in place by the end of 2006, should also be completed, with the expected outputs and outcomes made clear.

Effective progress monitoring and risk management arrangements

8. **Strong progress monitoring and risk management arrangements are essential, but are not yet in place.** For the programme as a whole, incorporating 42 sub-objectives assigned to 17 lead organisations, the Department should develop a framework of timely progress and risk reporting, which ultimately feeds through to the Olympic Board and provides early warning of potential difficulties. This framework should be supported by arrangements in each individual organisation, and work to complete these should be a priority.

On the impact on the other National Lottery good causes

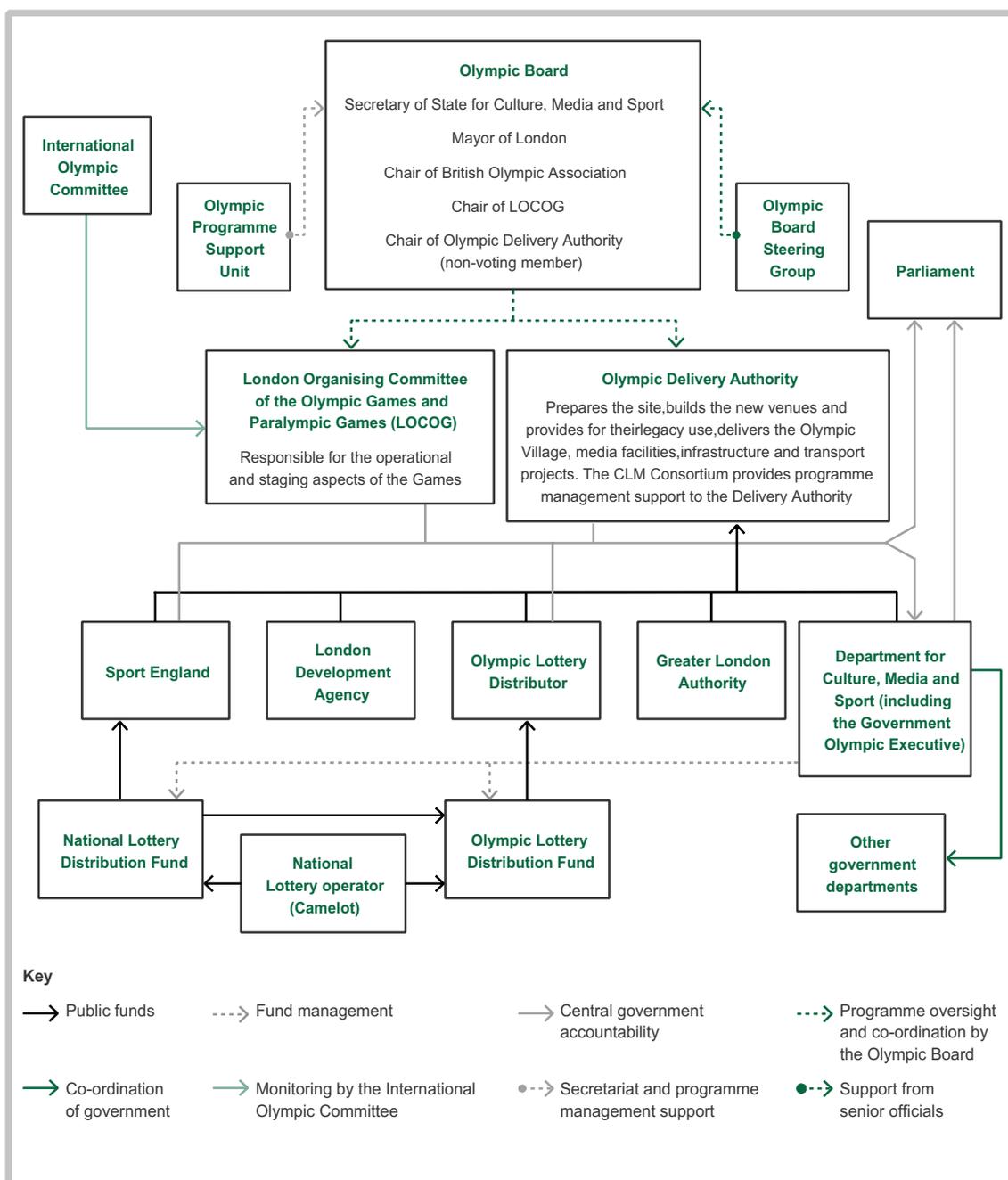
9. **Funding the Games means that there will be about £1.7 billion less money available for the other good causes supported by the National Lottery.** As well as the £1.1 billion that is to be transferred directly from the other good causes, the new designated Olympic lottery games are also having a diversionary effect with an

estimated £575 million coming from players who switch from other lottery games. The Department should give the Lottery distributing bodies frank assessments of when and by how much their income will fall, and they in turn will need to make plans setting out how they will minimise the impact on the good causes.

1 The need for strong governance and delivery structures

1. There are three principal stakeholders in the Games—the Government (represented by the Department for Culture, Media and Sport), the Mayor of London and the British Olympic Association—and a large number of other bodies are also involved (Figure 1).³

Figure 1: Summary of the delivery structures for the 2012 Games



Source: National Audit Office

2. There is a tripartite relationship between the Olympic movement, the Host City (which signs the contract with the International Olympic Committee) and the Host Government (which has to provide an underwriting guarantee), and the Department stressed that a fundamental lesson from previous experience was to get that relationship right. More generally the delivery structures had drawn on lessons from previous Games, in particular from Sydney which had ended up with the model now put in place for London.⁴

3. Two new bodies have been set up to take the lead in delivering the Games. The Olympic Delivery Authority will provide the venues and infrastructure, and the London Organising Committee of the Olympic Games and Paralympic Games (LOCOG) will stage the Games themselves. It is a requirement of the International Olympic Committee to have an Organising Committee, and the creation of the two bodies was a lesson to emerge from the experience of the Millennium Dome in terms of the need for different skills at different stages of major projects.⁵

4. The Department considered that a key achievement of the past year was getting the new delivery bodies up and running, with professional management and staff with strong capabilities, and that the responsibilities and accountabilities of the two organisations were clear. On the question of continuity in key posts in the run up to 2012, the Accounting Officers of the Department and the Olympic Delivery Authority confirmed their intention to remain in place for the duration of the programme.⁶

5. The Olympic Board has been established to bring together the key stakeholders and oversee the delivery of the Games. The Board comprises the Secretary of State for Culture, Media and Sport, the Mayor of London, and the Chairs of the British Olympic Association and LOCOG. The Chair of the Olympic Delivery Authority also attends Board meetings as a non-voting member. No individual has overall responsibility for delivering the Games. The Board aims to work by consensus, although the individual members have a right of veto over key decisions which affect their particular responsibilities.⁷

6. The delivery structures are complex, and the Department acknowledged that, from the experience of previous Games, one of the key risks was delay in decision making. It considered, however, that the structures were appropriate, with the Olympic Board providing strategic oversight and reviewing the Olympic Delivery Authority's budget. The Board had worked effectively, for example in agreeing the draft transport plan. In addition, the Olympic Projects Review Group, responsible for ensuring that projects were processed speedily and smoothly, had already recommended a number of significant projects for approval.⁸

7. As for the Department, it oversees both the Olympic Delivery Authority and LOCOG, whose Chief Executives are additional Accounting Officers. The Department is also responsible for co-ordinating the contributions of other parts of government to the Games,

4 Qq 3, 39, 76, 90

5 C&AG's Report, para 27, Figure 3; Qq 84, 94

6 Qq 76, 92, 166–168

7 C&AG's Report, paras 31–33

8 C&AG's Report, para 37; Qq 82, 86, 89, 91, 172–173

such as the Department for Transport and the Highways Agency who will help to deliver the necessary transport improvements in London and elsewhere, for example in Dorset where the sailing will be held. A new team within the Department for Culture, Media and Sport, the Government Olympic Executive, had been set up to manage the government's interest in the Games and provide cross-government co-ordination. The capability of the Government Olympic Executive to oversee the Olympic programme was to be enhanced by the recruitment of a new Director General and Financial Director with commercial experience of major projects.⁹

9 C&AG's Report, para 34; Qq 86, 105, 152–153

2 Delivering the Games against an immovable deadline

8. The Olympics will begin in London on 27 July 2012, with the Paralympics following from 29 August to 9 September 2012. The Olympic Delivery Authority highlighted the scale of the logistical challenge that staging the Games would represent, the equivalent of 33 world championships being held simultaneously in one city. The Authority's delivery programme from the award of the Games to London in July 2005 included: two years to acquire and prepare the land, secure planning permissions, and do the design work and procurement; four years to build the venues and infrastructure; and one year to fit out the venues and stage test events.¹⁰

9. The Department and the Olympic Delivery Authority had been working together to get key projects underway in the 18 months since London was chosen to host the Games. Work had begun immediately on the time critical project to re-route underground the power lines on the area of the Olympic Park and the work was on track to be completed on schedule and within budget. During Summer 2008 power was planned to be switched from overground to underground, allowing removal of the overhead cables and electricity pylons, and freeing up the Olympic Park site for development.¹¹

10. Progress had also been made in a number of other areas: the London Development Agency now owned 93% of the land required for the Olympic Park; the masterplan for the design of the Olympic Park had been revised and finalised; a draft transport plan for the Games had been issued; and most recently the Olympic Delivery Authority had begun exclusive negotiations with Lend Lease and Westfield for the development of the Olympic Village.¹²

10 C&AG's Report, paras 11, 13; Q 30

11 C&AG's Report, para 16; Qq 14–15, 53

12 Qq 32, 53, 86

3 The requirement for the budget to be clearly determined and effectively managed

11. The Department first started to develop cost estimates for the Games in 2002 before the decision to bid had been made. At the time of our examination, however, 20 months after London was awarded the Games, there was still no final agreed budget in place.¹³

12. The Department initiated a thorough and detailed review of costs as soon as London had been awarded the Games, but a number of cost and funding issues still had to be resolved. The Department confirmed, however, that additional public funding would be required.¹⁴

13. At the time of London's bid, the costs expected to be covered by the public sector funding package for the Games (comprising funding from the National Lottery, the Greater London Authority and the London Development Agency) totalled £2.254 billion. The Department was also co-ordinating Exchequer funding of £1.044 billion to cover the costs of 'non-Olympic' infrastructure on the site of the Olympic Park, which would have been incurred as part of planned regeneration but were being brought forward for the Games. The Department said that the cost estimates at the time of the bid had been based on a thorough process, and reflected the outline plans that had been developed at that stage.¹⁵

14. In November 2006 the Secretary of State reported to the Culture, Media and Sport Committee that overall the cost estimates for the Olympic Park had increased by some £900 million. The increase included some £400 million for IT and site mobilisation and the costs of the CLM Consortium, appointed by the Olympic Delivery Authority as its Delivery Partner to assist in project managing the delivery of the venues and infrastructure. The original budget had used the costs of an urban development corporation as a benchmark for the Olympic Delivery Authority's running costs, with the result that these costs had been seriously underestimated.¹⁶

15. The Department was committed to keeping costs under control and delivering value for money. The re-design of the layout of the Olympic Park had produced cost savings of some £600 million, and the design of individual venues, including the Aquatics Centre, was being looked at with a view to reducing costs.¹⁷

13 C&AG's Report, paras 41, 54; Q 7

14 Qq 6–7, 13, 36

15 C&AG's Report, paras 42, 51, 71, Figure 4; Q 54

16 C&AG's Report, para 56, 78; Qq 142–143

17 Q 26

16. At the time of our hearing, a number of significant areas of uncertainty remained before the budget could be finalised.¹⁸

- **Tax** – The Department explained that tax had been excluded from the cost estimates at the time of the bid on the basis that the tax treatment could not be resolved until the delivery structures for the Games were in place.¹⁹
- **Contingency provision** – The cost estimates at the time of the bid had included a contingency provision in respect of individual projects, but the Department now considered that an overall programme contingency margin was required to reflect the interdependencies between projects and the risks associated with the knock-on effect that problems on one project could have on the rest of the programme.²⁰
- **Security** – It had not been possible at the time of the bid to provide a reliable estimate of the costs of policing and wider security, and the Department had notified Parliament of a contingent liability in this respect. The Olympic Security Co-ordinator was now working up plans and budgets in association with the Home Office and the Metropolitan Police.²¹
- **Private sector funding** – At the time of the bid, £738 million of private funding had been expected to help meet costs associated with the Olympic Park. In the light of further work and advice, the Department now considered there was insufficient time to negotiate contracts with the private sector within the overall timescale for the Games, so there was now little prospect of securing significant private sector funding to deliver the Olympic Park. However, most of the funding for the Olympic Village was still expected to come from the private sector.²²

17. The Department expected the budget would be finalised soon and in the event the Secretary of State for Culture, Media and Sport announced a revised budget totalling over £9 billion to Parliament on 15 March 2007, 10 days after our hearing.²³

18. As required by the International Olympic Committee, the government is the ultimate guarantor of funding for the Games, including underwriting the costs of the venues and infrastructure. The government has also underwritten the cost of any shortfall between LOCOG's costs and revenues, although LOCOG is expected to be self-financing.²⁴

19. LOCOG has a budget of some £2 billion for staging the Games, which is expected to be financed by contributions from the International Olympic Committee, global and local sponsors, commercial marketing and ticketing. It will also receive some public funding in 2012 towards the cost of the Paralympics. The Department said that LOCOG was clear that

18 Q 21

19 Q 56

20 Qq 59, 62, 190

21 Qq 122, 147

22 C&AG's Report, Figures 4, 6; Qq 178–181

23 Q 6

24 C&AG's Report, paras 40, 60

it had to control its costs and maximise its income to avoid having to call on public subsidy.²⁵

20. As well as the amount of funding for the Games, the timing of funding is also important so the Olympic Delivery Authority has money available to pay its bills and take the delivery programme forward promptly. Early forecasts indicated, however, that in all but one year the Olympic Delivery Authority's demand for funds was projected to exceed the supply. The Department was keeping cashflow under regular review to ensure that the Olympic Delivery Authority did not run out of money.²⁶

25 C&AG's Report, paras 59–61; Qq 18–19

26 C&AG's Report, para 52; Q 127

4 Applying effective procurement practices

21. The Olympic programme will involve extensive procurement activity in the coming years in relation to both the construction of the venues and infrastructure and the staging of the Games. Strong procurement practices will be needed to achieve value for money and ensure contracts are awarded in an open and fair way in line with best practice.²⁷

22. The Olympic Delivery Authority has developed a procurement policy, with help from the Office of Government Commerce, which sets out best practice and will guide the way in which the Authority carries out its procurement. The Olympic Delivery Authority is also among the signatories to the ‘2012 Construction Commitments’ which set out good practice principles in six areas of the construction process—client leadership; procurement and integration; design; sustainability; commitment to people; and health and safety.²⁸

23. The Games are expected to account for 2% of construction activity across the country over a five year period (12% of activity in London) and there were plans to provide training to develop the skills of local people, with money available from the London Development Agency. The Olympic Delivery Authority was working with the construction industry and the trade unions to maximise direct employment (rather than self-employment) as far as possible as this gave greater control, particularly over health and safety; but the Authority thought that insisting on using only directly employed labour would risk driving away potential contractors.²⁹

24. The Olympic Delivery Authority’s first major procurement exercise, completed in September 2006, was the appointment of the CLM Consortium as its Delivery Partner. CLM had been appointed following a detailed tendering and vetting process and would supplement the Olympic Delivery Authority’s own resources with experience from five previous Games and the Heathrow Terminal Five project. They would support in the delivery of the Olympic venues and infrastructure, including through the provision of project and programme planning and management services.³⁰

27 C&AG’s Report, paras 78–79

28 C&AG’s Report, paras 81–83

29 Qq 219, 222–224

30 C&AG’s Report, para 78; Qq 51, 142

5 Planning for a lasting legacy

25. The prospect of the legacy that hosting the Games would bring was central to London's bid. The broad concept of legacy encompasses the sports venues that will remain after 2012, the regeneration of the local area, and the wider benefits that the Games are expected to bring.³¹

26. Five new venues will remain on the Olympic Park site following the Games, including the main Stadium, and providing for legacy is central to the thinking on design and construction. The design of the venues has an impact not just on the construction costs but also on maintenance and operating costs in the longer term, and the Olympic Board had asked for the Aquatics Centre to be re-designed to improve its legacy use and reduce cost.³²

27. Developing detailed legacy plans is the responsibility of project groups for each venue, involving representatives from the Olympic Delivery Authority, LOCOG and other stakeholders. Key questions to be resolved include who will own the individual venues after the Games, who will cover conversion and running costs, and the extent to which the venues will be available for sporting use by local communities. The Olympic Delivery Authority was working with the public authorities in the local area and the relevant sporting bodies on these matters, and was seeking to bring in revenue streams to ensure the venues would be financially sustainable.³³

28. One of the objectives for the Games is to maximise the economic, social, health and environmental benefits for the UK, particularly through regeneration and sustainable development in East London. This objective had been broken down into sub-objectives and work was continuing to develop delivery plans with detailed milestones and outputs, but these had not been put in place by the end of 2006 as intended. Work on wider benefits was also being done by LOCOG's Nations and Regions Groups which were seeking to ensure the impact of the Games was felt across the country.³⁴

29. The regeneration of the Lower Lea Valley in East London, one of the most disadvantaged parts of the UK, was expected to take a huge step forward because of the Games. Major progress would be made within the next five years, well in advance of what would otherwise have been achieved. The legacy effect would be measured in the long run in terms of the impact on indices of education, health and worklessness. In addition, 16,000 homes were expected to come from the Olympic Park site and the wider Stratford development, half of which would be 'affordable housing' for renting and shared equity purchase.³⁵

31 C&AG's Report, para 84

32 C&AG's Report, paras 85–86; Q 26

33 C&AG's Report, paras 85–86; Q 107

34 C&AG's Report, paras 90–92; Qq 197–199, 204

35 C&AG's Report, para 88; Qq 45, 67, 209–213

6 Effective progress monitoring and risk management arrangements

30. Effective progress monitoring and risk management will be essential to the successful delivery of the Olympic programme, with its multiple stakeholders, many individual projects and inherent interdependencies in delivering the programme as a whole. The Olympic Board is responsible for overseeing progress and managing risk at programme level, supported by a Steering Group of senior officials and the Olympic Programme Support Unit. The Unit is a small group which works with stakeholders to collate information and provide independent advice to the Board.³⁶

31. The vision for the Olympic programme (“to host an inspirational, safe and inclusive Olympic and Paralympic Games and leave a sustainable legacy for London and the UK”) had been translated into four strategic objectives and 42 sub-objectives, assigned to 17 lead stakeholders. These would provide the framework for progress reporting and, when they had been finalised, the delivery plans for each sub-objective would include outcomes and milestones, against which progress could be measured. Stakeholders were at different stages, however, in developing their individual strategies for identifying and managing the risks specific to delivering their responsibilities.³⁷

32. The Olympic Delivery Authority provided regular reports to the Olympic Board and attended meetings to discuss progress. With a major construction programme of this kind it was, however, inevitable that it would miss some deadlines. In that event, it would have to re-programme work and look at how to make up time in other areas. It was seeking to bring forward as much work as possible with the aim of delivering the venues and infrastructure 12 months ahead of the Games so LOCOG had time for test events and other preparations.³⁸

36 C&AG’s Report, paras 93–94; Q 77

37 C&AG’s Report, paras 26, 97–98, 100, Appendix 5; Q 77

38 Qq 102–104, 131

7 The impact on the other National Lottery good causes

33. The public sector funding package for the Games agreed by the Government and the Mayor of London in 2003 included £1.5 billion of funding from the National Lottery. This comprised £750 million from new designated Olympic lottery games, £340 million from the sports lottery distributors, and £410 million from general lottery proceeds, to be derived from a change to the allocations to the non-Olympic good causes after 2009.³⁹

34. Returns to date from the designated Olympic lottery games had been slightly higher than projected, with some £118 million expected to be raised in 2006–07 against a target of £110 million. The Olympic lottery games would, however, reduce the money available to the other good causes (the arts; sport; heritage; charities and voluntary groups; and health, education and environment projects) by diverting sales from the mainstream lottery games. Some 77% of the money to be raised by the designated lottery games (£575 million of the total of £750 million) may come from players switching from existing games.⁴⁰

35. Overall lottery income has grown over recent years, and the Department hoped that continued growth would help to minimise the impact on the other good causes. The impact of the designated Olympic lottery games, however, together with the transfer from general lottery proceeds, would mean that around £1 billion (£575 million plus £410 million) would to be diverted from the non-Olympic good causes over the period to 2012–13, approximately 10% of expected lottery proceeds.⁴¹

36. The revised budget subsequently announced by the Secretary of State for Culture, Media and Sport on 15 March 2007 increased the total lottery funding for the Games to £2.2 billion, by raising the amount to be transferred from general lottery proceeds after 2009 by £675 million, taking to about £1.7 billion the amount to be diverted from the non-Olympic good causes.

39 C&AG's Report, paras 46–50, Figure 5

40 C&AG's Report, para 48; Q 16

41 Qq 33, 48–49

Formal minutes

Wednesday 27 June 2007

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon

Mr David Curry

Mr Ian Davidson

Mr Philip Dunne

Dr John Pugh

Mr Alan Williams

Mr Iain Wright

Draft Report

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

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

Paragraphs 1 to 36 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Thirty-ninth Report of the Committee to the House.

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

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

[Adjourned until Monday 9 July at 4.30 pm.]

Witnesses

Monday 5 March 2007

Jonathan Stephens, Permanent Secretary, and **Jeff Jacobs**, Chief Executive of the Government Olympic Executive, Department for Culture, Media and Sport, and **David Higgins**, Chief Executive, Olympic Delivery Authority

Ev 1

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Oral evidence

Taken before the Committee of Public Accounts

on Monday 5 March 2007

Members present:

Mr Edward Leigh (Chairman)	Mr Philip Dunne
Mr Richard Bacon	Helen Goodman
Annette Brooke	Mr Sadiq Khan
Mr David Curry	Mr Don Touhig
Mr Ian Davidson	Mr Iain Wright

Sir John Bourn KCB, Comptroller and Auditor General, **Mr Tim Burr**, Deputy Comptroller and Auditor General, and **Mr Keith Hawkswell**, Director, National Audit Office were in attendance.

Paula Diggle, Treasury Officer of Accounts, and **Mr Dan Rosenfield**, HM Treasury, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

PREPARATIONS FOR THE LONDON 2012 OLYMPIC AND PARALYMPIC GAMES—RISK ASSESSMENT AND MANAGEMENT (HC 252)

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

Q1 Chairman: Good afternoon. Our hearing today is on the Comptroller and Auditor General's Report, *Preparations for the London 2012 Olympic and Paralympic Games—Risk assessment and management*. This is the first of what will no doubt be a series of reports on the games between now and 2012 and probably several reports after 2012. We welcome Jonathan Stephens, the Permanent Secretary at the Department for Culture, Media and Sport, the lead Government Department on the games. We also welcome Jeff Jacobs, who is the Chief Executive of the Government Olympic Executive within the Department, and David Higgins, who is Chief Executive of the Olympic Delivery Authority. You are all very welcome. I shall address my questions to you, Mr Stephens, but of course you can farm them out. Who is in charge of these games?

Jonathan Stephens: The Olympic Board is responsible for the delivery of the games and there are two very clear bodies responsible for delivering on the ground: the Olympic Delivery Authority is responsible for the construction and infrastructure—building the games; and the organising committee is responsible for the running of the games.

Q2 Chairman: That sounds very logical, but if you look at figure 2 on page 10 there is a massively complicated structure. There is no single person in overall control, is there? For instance, this is a recipe for arguments and delay, particularly between whoever happens to be Secretary of State and the Mayor.

Jonathan Stephens: There is a very clear delivery structure. There is one body that is responsible—

Q3 Chairman: There is no one person in overall control. There is nobody where the buck stops, is there? That is the problem.

Jonathan Stephens: Fundamentally, at the heart of delivering any Olympic games is a tripartite relationship between the Olympic movement, the host city, which is actually in receipt of the contract from the International Olympic Committee, and the host Government, who are required to underpin the games with a guarantee. There is no escaping that fundamental tripartite relationship. This structure has established very clear, purpose-built delivery vehicles, learning the lessons from previous games and major projects in this country: one body focused on the construction and infrastructure; one body focused on running the event as a show. The rest of this is essentially ensuring that all the key partners work effectively together.

Q4 Chairman: I understand all that. I am going to ask you in a moment about the budget, and why there is no overall agreed budget at the moment, but if we are talking about somebody being responsible, can we at least have an assurance from you, as Accounting Officer, that you will not get off this bus—that you are going to remain responsible to this Committee up to 2012 and beyond? That is your current intention, is it?

Jonathan Stephens: Absolutely.

Q5 Chairman: Accounting for the monies coming to these games from the taxpayer?

Jonathan Stephens: Absolutely. I am looking forward to that. I have additional Accounting Officers in the Chief Executive of the delivery authority and the Chief Executive of the organising committee.

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Q6 Chairman: Why is there no final agreed budget for these games?

Jonathan Stephens: As soon as the games were won the Department instituted a full and thorough review of the costs, as the Secretary of State said would need to happen, when setting out the original funding package. That was the first opportunity to undertake a thorough review of costs in the knowledge that the games had been won; with the delivery structures for the games in place; and now with the delivery partner that will work with the Olympic Delivery Authority also in place. That process has—rightly—been thorough and detailed. It is close to, but has not yet reached, a conclusion. I hope that that will happen very soon.

Q7 Chairman: What worries me is that it is now one year and eight months since we were awarded the games. Is it not ridiculous that in a developed country, one should have to wait that length of time to have any clear idea of what the cost to the taxpayer will be?

Jonathan Stephens: The process that was put in hand immediately after the award of the games was, as I said, the first opportunity to thoroughly re-evaluate costs, and to plan on the basis of something other than a specimen games.

Q8 Chairman: The bid was a pig in a poke as far as the taxpayer is concerned?

Jonathan Stephens: Not at all: I have a substantial pile of Reports on which the bid was based. Far from being a pig in a poke, the bid was based on thorough estimates that were relevant at the time, and which reflected the planning that was appropriate for the bid process.

Q9 Chairman: So the bid was not a pig in poke? The original cost, we were told, was going to be £2,992 million. We were also told that private sector funding was going to be £738 million, a claim that has faded into the mist, I understand. The Secretary of State for Culture, Media and Sport has already announced a further £900 million of costs. Therefore, the figure is £2,992 million, plus £738 million, plus £900 million and rising, and we still do not have a final, agreed budget. Do you not think that you owe it to the taxpayers of this country to have your act together by now?

Jonathan Stephens: A thorough process of cost review is under way—

Chairman: You keep saying that, but it is not an answer to my question.

Jonathan Stephens: The process has not yet reached a conclusion, although it is very near to doing so. It is right that the cost review is thorough, based on professional advice, and that it reflects the advice of the delivery authorities and delivery partners. The Secretary of State provided an update on the process when she appeared before the Culture, Media and Sport Committee last autumn. The process is not yet resolved.

The state of affairs is essentially as set out in the National Audit Office Report. As you said, at the time of the bid, the costs were estimated at £3 billion,

as identified in table 4 of the Report, plus the extra £1 billion for regeneration and infrastructure identified in paragraph 51. When the Secretary of State Reported to the Culture, Media and Sport Committee, she identified an increase in costs that were known at that stage of £900 million. She also set out a number of unresolved issues.

Q10 Chairman: Can I stop you there? You have hit on another problem. I mentioned figures. We still do not have any figures for security, tax treatment or contingencies. Those massive, unresolved figures have not yet been given to Parliament. When can you provide to Parliament something approaching a view of a final budget? Do you not owe us that? When will you be doing it?

Jonathan Stephens: The Government want to provide a final budget—

Q11 Chairman: When?

Jonathan Stephens: Soon, but I do not have a date.

Q12 Chairman: Will it be in weeks, days, months or years?

Jonathan Stephens: All I can say is that it will be soon.

Q13 Chairman: What does that mean?

Jonathan Stephens: It means soon. The position, as reflected in the NAO Report, is that there are a number of unresolved issues concerning the approach to costs, funding and other treatments of the matter, which are being actively considered.

Q14 Chairman: How can people who are developing stadiums and so on press on with their programmes when they do not have a final, agreed budget? Having no ceilings is a recipe for an open-ended cheque book.

The problem is that I have encouraged the whole process, by saying to the Comptroller and Auditor General, whose Report we are discussing, that we must not have a repeat of previous Olympic disasters, something with which he agrees. Therefore, for once, we are not going to look at the situation after the games; we are going to look at it again and again in the run-up. However, in the run-up, we want a reassurance from you that you have a firm grip on the situation.

Jonathan Stephens: We want to get to a comprehensive budget as soon as possible. That is now recognised across Government as urgent, and I hope that it will soon result in progress. In the meantime, the record over the past year is that the Department, working with the ODA, has successfully got the key projects under way. We identified the key risk in terms of cost and time as the failure to get under way the underground installation of critical power lines. That work was put in place immediately after the bid, and it is currently on track to complete on schedule.

Q15 Chairman: I have no doubt that you are doing good work, that the power lines are being laid and all of the rest of it, and that it will be an excellent

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Olympic games, but the Committee is here to look after taxpayers' interests. Do you understand that? We want to have from you very soon a reassurance on that.

Jonathan Stephens: Absolutely. The point that I was just making about power lines was a demonstration of that. That was the key early underpinning risk on which everything else depended. If we had failed to get that in place, if it had failed to proceed to schedule, it would have stacked up massive time delays and cost increases down the line.

Q16 Chairman: I want to let others come in now, but I have one last question that I must ask you. Paragraph 48 on page 15 states that: "the latest estimates supplied by Camelot to the National Lottery Commission are that 77% (some £575 million) may be diverted from the non-Olympic good causes." Do you not think that the games will dry up funding for other good causes?

Jonathan Stephens: There is no evidence of that. In fact, in 2004–05 and 2005–06, income to the lottery as a whole increased substantially. The Olympic lottery is currently running slightly ahead of its target and expectations. We expect it to generate something like £118 million this year as opposed to a target of £110 million. As we have always acknowledged, there will be some diversion for our Olympic lottery games from existing good causes.

Chairman: I put it to you that there must be.

Q17 Helen Goodman: Mr Stephens, I think that the Chairman has been slightly kind to you about the Olympic costs. Looking through the Report, I can see that £2.99 billion was the original bid cost. As the Chairman has said, we are not expecting to get £738 million from the private sector. The Secretary of State announced a cost escalation of £900 million. Then there is an additional amount for the reserve, the VAT and security, which I am told will be in the range of 30 to 60%, so that will be something between an extra £1.3 billion and £2.6 billion. Then there is £1.44 billion on infrastructure, £665 million to buy the land and £2.465 billion for staging, according to the bid. All that adds up to something in the range of £9.4 billion to £10.6 billion. Do you accept those numbers?

Jonathan Stephens: I recognise some of the numbers. In particular, the budget of £2 billion for the staging of the games, run by the organising committee, was in the bid document. It has always been published and on the basis that it would be self-financing. Therefore, where there has been general discussion of the budget, that figure has generally been excluded. I also recognise the figure of roughly £650 million or so for the cost of the land. That again has been in the public domain for a long time and has also generally been excluded from the costs that are relevant to the public sector funding package because the London Development Agency, having purchased the land, will own it and will gain the proceeds from disposal in the end. I recognise those figures but I think that it is a mistake to add them to previous figures and to compare them with some earlier budget.

Q18 Helen Goodman: Why?

Jonathan Stephens: Simply because the LOCOG budget is self-financing. The costs of staging will be £2 billion, but that is covered by a combination of International Olympic Committee contribution, global and local sponsors, commercial marketing and ticketing.

Q19 Helen Goodman: Do you not think that controlling the cost of staging matters as well? Do you not think that it matters if the tickets to attend the events will be way beyond the pockets of most of our constituents? Do you not think that if the costs for staging are too high and you look for private sector sponsorship there, you are even less likely to get the £738 million in on the setting-up costs? Do you not need to take a tough approach to the overall costs?

Jonathan Stephens: It is absolutely critical that there is no impact from the staging of the games. Other than the small subsidy always made clear for the staging of the Paralympics, there is no subsidy for the staging of the games—for the LOCOG budget—from the public sector. That is the basis on which LOCOG is operating. It is very clear about that. It is applying rigorous controls to its costs and, equally, is seeking to maximise its revenue to achieve that.

Q20 Helen Goodman: Well, even without that, there is a grand total of £8 billion. Do you think that is a reasonable cost?

Jonathan Stephens: As I said, the cost review process is still under way; Ministers have not taken final decisions on that.

Q21 Helen Goodman: Do you think the costs will fall from that figure, or do you think they will go up?

Jonathan Stephens: I am sorry: I am not in a position to confirm any particular costs attributed to the unresolved items set out in table 6, which remain, as we speak, subject to discussion, further advice and consideration.

Q22 Helen Goodman: What do you think the tax concessions will cost the Exchequer?

Jonathan Stephens: Other than the well established treatment of LOCOG for tax purposes, which is a requirement of any IOC bid and has already been factored into the budget, I am not aware of any further costs that have not already been announced.

Q23 Helen Goodman: We passed changes in last year's Finance Bill to make various exemptions. Were you not aware of that?

Jonathan Stephens: Yes. That covers the treatment of the organising committee, which is a requirement under the operations of the IOC, and any costs will have been factored into the public finance estimates at the time.

Q24 Helen Goodman: But you do not know what they are? They are of no concern to you?

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Jonathan Stephens: I am happy to write with any further details.¹

Q25 Helen Goodman: When the Chairman asked you to look at the diagram, you responded that the Olympic Board was in charge and then you pointed to the two bodies below the Olympic Board, but you did not mention another organisation, which seems to me to be driving this very firmly—the International Olympic Committee (IOC). Is it not an organisation that has complete power and no responsibility? It demands certain things when it doles out the games, but it has no responsibility for raising the money.

Jonathan Stephens: Obviously, the IOC holds the rights to the games, and we mounted a bid to run the games. The IOC makes a significant contribution to the costs of staging the games, which is reflected in the LOCOG budget.

Q26 Helen Goodman: But we signed a contract with the IOC. Are you saying that that contract is completely open-ended with respect to finances, so that we may have thought that the total costs would come to £5 billion but if they come to £8 billion, well, the IOC can require us to spend another £3 billion?

Jonathan Stephens: Far from it. We are absolutely determined to keep costs under strict control to ensure we deliver value for money while meeting the responsibilities under the contract. Of course, the Government have undertaken, as a condition of making a bid, to underwrite the costs of the games. That certainly does not in any way imply that the costs are open-ended. We already have a record of reviewing costs as they come through to us. The Olympic Board has asked for the aquatics centre to be redesigned to improve its legacy use and to take cost out. The redesign of the master plan last summer for the Olympic park avoided some £600 million of costs by redesigning the lay-out of the park. The same process is under way now with the main stadium. This is a record over the past 18 months of looking very hard at costs as they come through, and continually seeking to control and revise them.

Q27 Helen Goodman: Are you aware of what is proposed to be spent on temporary—temporary, not permanent—sites?

Jonathan Stephens: Mr Higgins is responsible for delivering that.

David Higgins: There is a wide variety of both permanent and—

Q28 Helen Goodman: Can you tell the Committee what the number is please?

David Higgins: I do not know the exact number.

Q29 Helen Goodman: Well, I will tell you, then. It is more than \$240 million. Have you heard of something that happened in 1520, when King Henry VIII met the French king?

David Higgins: The field of the cloth of gold.

Q30 Helen Goodman: Yes. There was special landscaping and the whole thing was completely fantastic. Would you say that the Olympic games are a latter-day field of the cloth of gold?

David Higgins: I would say that the Olympics is the world's largest peacetime event ever held. It is 33 world championships held simultaneously in one city, so it is by far the largest logistical event ever occurring in the world outside a reasonable sized war. For a country to win the obligation and privilege to hold it is a great—

Q31 Helen Goodman: So we should be grateful for the bill?

David Higgins: The amount of competition around the world to hold future Olympics is now increasing and more competitive.

Q32 Helen Goodman: I wonder whether you are aware of what was said about accommodation—I think members of the Committee will find this quite ironic. Under the heading “Accommodation: it’s the little things that matter”—I do not know whether you think the bill is little—the document said: “We want the Olympic Village to meet the individual needs of every guest.” That is absolutely fine of course, but the document continues: “Going beyond core services of the highest standard, we hope to surprise and delight Village residents by incorporating all the little things that will make the Village special.” Do you think that the price that attaches to this event could be described as little?

Jonathan Stephens: The price of the village will be met almost exclusively from private sector funding. Only last week the Olympic Delivery Authority announced exclusive negotiations with Lend Lease, alongside Westfield, for the development of the village. It is part of a major redevelopment funded almost exclusively by the private sector for the whole of Stratford. I am confident that that element of cost will be met almost exclusively by the private sector and that there will be a permanent legacy of that, in the form of close to 4,000 homes, directly from the village. It is also important that the facilities in the village will include facilities for our Paralympic athletes, who will have full disabled access throughout.

Q33 Helen Goodman: Well, that is true, but it is also the case that the £10 billion that it looks like we are going to spend could also pay for 100,000 homes. I also think that the Chairman was too kind to you on the siphoning off from the voluntary sector. I wonder whether you could look at chart 5. The text says that the amount of: “Proceeds from designated Olympic lottery games”, which will be diverted from other good causes, comes to £575 million, while the “General lottery proceeds”, which will come from the national lottery distribution fund, come to £410 million. Does that not mean that, in total, £985 million that would otherwise have gone to the rest of the voluntary sector is going to go to the Olympic games?

¹ Ev 23

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Jonathan Stephens: It is absolutely true that roughly £1 billion will be diverted from one set of good causes funded under the national lottery to another, namely the Olympics. Over the period up to 2012–13, that amount will be roughly 10% of the total anticipated proceeds from the lottery.

Helen Goodman: I want to ask one final question. Do you want me to hold on and ask later, Chairman?

Chairman: Go on.

Q34 Helen Goodman: My final question is about the end of the Report, where it is said that some of the spend is going to benefit the regions. How much of the spend is going to benefit the north-east?

Jonathan Stephens: I do not have a figure for that. The opportunities for the UK as a whole to benefit will include, of course, participation in and attendance at the event, participation in the volunteering programme and the business opportunities that other games have successfully demonstrated, which host country companies can benefit from. We are engaged with each region—including the north-east—and each will produce a plan for the benefits that it hopes to deliver on top of the games. As we speak, planning is going on in the north-east about the particular benefits.

Q35 Chairman: In answer to Mrs Goodman, you mentioned the Government's underwriting guarantee and then quickly hurried on—I do not blame you. With costs going up and up, it is just a matter of time before that is called on, is it not?

Jonathan Stephens: I am sorry, I missed the end.

Chairman: You mentioned, very briefly, the Government's underwriting guarantee, which is absolutely crucial. You did not develop your answer. With costs going up and up, it is only a matter of time before that is invoked.

Jonathan Stephens: No. In terms of the guarantee underpinning the costs of staging the games, we are clear that our aim and that of the organising committee is to ensure that they are self-financing. The costs are being rigorously considered to ensure that and there are also a variety of sources of income—

Q36 Chairman: I was not asking about the staging, necessarily. It is the rest of it that we are worried about.

Jonathan Stephens: As the Report makes clear, there will be additional public sector funding. Ministers set out the need for that, reflecting in particular the regeneration and infrastructure development.

Chairman: Okay. Thank you.

Q37 Mr Khan: Mr Higgins may have answered one of my questions, but let us be clear. Is this project the biggest project of its kind, in terms of both size and numbers, that we have undertaken in this country?

David Higgins: Most definitely. It is the biggest project to stage—it is 33 world championships and 16,000 athletes. Unlike other world championship events, it all takes place in one city and one Olympic

village. In terms of the delivery of the project, it is by far the biggest project that has ever been achieved in this country.

Q38 Mr Khan: You said in the world, not just in the UK. Is that right?

David Higgins: Maybe it is not bigger than The Palms in Dubai or something like that, and there is a massive amount of work happening in China, but certainly in the UK it is by far the largest project being carried out.

Q39 Mr Khan: The IOC said some complimentary things about the progress that had been made in November last year. Can you give us the context of where the Athens games, the Sydney games and the Beijing games, which are coming up shortly, were at the same stage and compare that with where you are?

David Higgins: They are all quite different games. I was involved in Sydney; I was in charge of the company that delivered the Olympic village, the aquatics centre and the athletics centre. I know Sydney reasonably well. It was a different site, because it was much larger. It was already owned by the Government, which made it easy from that point of view. However, Sydney had a lot of changes—that would be the way to describe it—in structure until it got the model that is now used for London. We have used an enormous amount of experience from Sydney and a lot of advice about the lessons learned. Sydney was heralded as the best games ever. The reason for that was the experience of the public and of the athletes. It was the little things that mattered: the way that the athletes arrived at the village and school kids had prepared all their rooms—

Q40 Mr Khan: What about Beijing?

David Higgins: I have been to Beijing, but not in this role. The village in Beijing was started, what, a year ago—

Q41 Mr Khan: A year ago?

David Higgins: When we speak to the IOC—they were here last week, and I presented to them, as did a number of staff in the ODA—they were very satisfied. The IOC is concerned about the planning—it is an intelligent client, with significant project management capability, and it is not only the senior management team that arrives. Next month, for example, the whole transport team—experts on transport—will come. The worldwide head of construction was here last year. The committee comes as a smart client and vet every single thing we do. We had two full days of presentations—

Q42 Mr Khan: What is the downside of not having your budget finalised five years in advance of the games?

David Higgins: Compared with others such as Sydney, which I think had its budget two years before the opening—

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Q43 Mr Khan: Two weeks or two years?

David Higgins: Two years. In 1998—the games were held in 2000—the budget was publicised in 1998. Beijing is talking about a revised budget. I am not sure if it has finally been published, but they certainly spoke about a revised budget four years after having won the games, and Athens disclosed a budget after the games.

Q44 Mr Khan: One of the concerns—Mrs Goodman referred to this—was about the benefit that those outside of the five boroughs might get from the games. I have a big question about the benefits that Tooting may or may not get, but I shall save that for a private sitting.

Would you say that any benefits gained by Beijing from the Olympic site are far outweighed by the benefits that China will receive from staging the games in 2008? Can you quantify the benefits that a host country can gain from hosting the Olympics?

David Higgins: Countries use the games for different things. China is using them to publicise its level of economic development and Beijing's and China's sophistication. There are massive investments, of course. The airport in Beijing is huge. A new metro system will be installed in time for the games, and there will be huge upgrades in the city. China is using the games for that. Barcelona used the games to link large parts of the city and its infrastructure. How Barcelona prospered from the games is history.

Q45 Mr Khan: Does it cause you frustration that some of the non-Olympic benefits—the regeneration of the five boroughs, the public infrastructure and the non-Olympic costs—are included when it comes to quantifying the costs of the games?

David Higgins: Does it cause me frustration? The reason I do the job, in the end, is for the regeneration and the legacy for east London. I am quite convinced that without the games it would never have happened. The final end-value of Stratford alone, excluding anything spent on the Olympic parks, is over £7 billion. If we compare that to projects like King's Cross—the first development plans were made in 1988 and awarded in 2000—Greenwich, Ebbsfleet, Elephant and Castle, and Paddington, we will see that the former will be substantially finished within five years; 50% of Stratford will be complete, which is unheard of with developments of that scale. The regeneration of the Lea Valley will take a huge step forward because of the Olympics.

Jonathan Stephens: It is absolutely right to identify the fact that regeneration is at the heart of the games. As the Government said in the bid document, they recognise the need for extra public and private sector funding on top of the public sector package that was originally identified. It is also critical that it is delivered as an integrated project. That is why the Olympic Delivery Authority is delivering both the core games, with their venues, and the wider infrastructure development and regeneration.

Q46 Mr Khan: One of the other concerns was that other good causes might not receive the benefits that they would have received but for lottery money

being used for the Olympics. Camelot has now won the most recent—I am sorry, but we are still in the bidding phase are we not?

Jonathan Stephens: It is still in the bidding, yes.

Q47 Mr Khan: When will that be concluded?

Jonathan Stephens: The evaluation of the bids is due this summer, and two companies have bid.

Q48 Mr Khan: Has someone asked them whether they think that the pie will get bigger, or whether a bigger slice will be given to the Olympics in the next few years?

Jonathan Stephens: Whichever company wins will be under a duty to maximise the take to the national lottery, regardless of where it is going. It is true that the impact on non-Olympic good causes will be minimised if we can grow the take from the lottery as a whole, and that is very much the outcome that we are looking for.

Q49 Mr Khan: At what stage in the next five years will we know whether money has been taken away from other good causes because of a drain caused by the cost of the Olympics? Is there a system whereby alarm bells will start ringing to tell us if there is a problem?

Jonathan Stephens: I should make it clear that the Government have always anticipated that, to some extent, the running of the Olympic lottery games will inevitably divert funds from other lottery games. The original funding package envisaged a reallocation of some £410 million from the lottery distributor. The Government have always accepted that there will be an impact compared to what would otherwise have been received for non-Olympic good causes. Of course, the uncertain bit is how much we can grow the lottery in the meantime. If we can grow it, as happened in 2004–05 and 2005–06, rather against the trend for global lotteries, that will reduce the impact.

Q50 Mr Khan: One of the things that we often see is big procurement projects being undertaken with massive overspends and not being built within time. I understand from the Report that one of the things that you have done is to use some of the overspend so far to buy in outside management consultancy and expertise, to ensure that that does not happen with the Olympics. What systems do you have in place to ensure that sufficient alarm bells will start ringing should that be a concern?

Jonathan Stephens: I will ask Mr Higgins to comment on that, but may I make it clear, as you mentioned overspends, that at the moment there are none?

Q51 Mr Khan: Sorry. I will rephrase that—cost increases due to higher commodity prices.

Jonathan Stephens: My point is that the Olympic Delivery Authority has a budget at the moment for this year. The Olympic Board is considering a budget for next year. The budget for this year is

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currently slightly under spending, but I will ask Mr Higgins to comment on cost controls in the ODA.

David Higgins: You referred to the appointment of CLM and the Secretary of State's statements about an additional £400 million, which relate to our hiring a delivery partner. That sort of work has to happen anyway, no matter what. Whether we hire a delivery partner, a programme manager or whatever, project management, procurement, site supervision, tendering and risk management are all required for a project of this scale, particularly because of its multi-site nature. There are numerous sites, and co-ordination and logistics make it absolutely important to manage risk. We went through a detailed process of tendering and vetting to get a world-class consortium that has worked on five previous Olympics and Terminal 5, so it has a lot of British and international expertise to support our organisation.

Mr Khan: I think that my time is up. The Chairman has sent me a note.

Q52 Chairman: Thank you. In answer to Mr Khan, Mr Higgins, you said that the wider costs and infrastructure improvements, totalling £6 billion, would not have happened but for the Olympic games. Why then did the candidate file state that funding for those investments was already committed as part of a long-term investment in London's transportation system?

David Higgins: That is very different. That is about funding for TfL. Does it refer to that—£6 billion in funding for TfL?

Jonathan Stephens: If I may, I think that that refers to the established programme of improvements to the transport infrastructure summarised in the candidate file. I think that Mr Higgins was referring to that.

David Higgins: I was referring to that, yes—to Stratford and the major development in Stratford town centre. That is planned over a 20-year period or longer. That was the agreement in place with London Continental prior to the Olympics, and 50% of that development will be finished within five years.

Q53 Mr Curry: Given that we could not even deliver the Diana memorial fountain, I suppose that it is not terribly surprising that people are a bit sceptical about delivering the Olympics. Looking at the string of sporting venues that never happened, such as Pickett's Lock for the World Athletics Championships, and Wembley, I suppose that it is only natural that you should be surrounded by a maze of scepticism. Is that fair?

Jonathan Stephens: I think that we just have to look at the record during the past 18 months since the games were won—the critical underground power lines on which everything else depended, the contract let and the work going on as we speak, on schedule, on time and on cost. The land has been assembled—93% of the land is now in LDA ownership.

Q54 Mr Curry: But Mr Stephens, almost everything seems to be happening underground as far as the bid is concerned. When we won the Olympics, there was a figure attached. Was that figure a punt, a speculation? Did it bear any relation to reality at all? When we defended that figure—the figure on the basis of which we won, presumably—were you saying to yourself, “Well, we've certainly pulled a fast one with this one, haven't we?” It is not going to bear any relation to that at the end, is it? It will be a figure from Alice in Wonderland, will it not, and not the original figure?

Jonathan Stephens: On the costs at the time, there was a very careful and thorough process—

Mr Curry: Which was wrong.

Jonathan Stephens: Which first of all assembled a specimen games, which was then subject to further review and to Ministers' informed decision on the public sector funding package. That was subject to an external assessment at the time that there was an 80% probability that the costs could be contained within it. Having taken the decision to bid, the Government then took the decision to put regeneration and the development of infrastructure at the heart of their bid, thus significantly developing and enhancing the original concept of the specimen games. That in turn was underpinned by a further and thorough review of costs, which sought to assemble the costs—inevitably, at that stage, only on the basis of outline plans—to benchmark them against comparable costs from outside the Olympics and to assess the risks of their coming in under or over. The costs of about £4 billion that were set out at the time of the bid and summarised in the National Audit Office Report were reached on that basis.

We are coming to the conclusion of an even more detailed review of the costs. This is our first opportunity to review them on the basis that the games have been won. We need to move from the outline plans to the detailed plans on the park, venues and infrastructure that will have to be delivered, working with the delivery structures that are in place and the delivery partner that is in place.

Q55 Mr Curry: Let us go to the other end. Could you give me a figure beyond which the budget will not go in any circumstances? Let us assume that I wanted to have a comfort zone and to be sure that the figure could never be higher in any circumstances. Where would you put such a figure?

Jonathan Stephens: I should be clear that our aim is to keep costs down and under strict control, so the budget that will be set will be realistic. However, it should also rightly be taut. No one will give a guarantee that a particular budget will be met in 100% of circumstances. If we were to do so, that would suggest very bad value for money.

Q56 Mr Curry: The use of the adjective “taut” in relation to budgets introduces a new financial concept. The budget is surrounded by what Rumsfeld might refer to as the “known unknowns” and the “unknown unknowns”, is it not? Let us consider some of what ought to have been the

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known unknowns, such as VAT. At what stage did it dawn on somebody that VAT might have to be charged?

Jonathan Stephens: It was known at the time of the bid that the bid did not include VAT. The basis for that was the understood and agreed assumption that it was not possible to sort out the tax treatment until the delivery structures were in place. That matter could not be known before the bid was won. In any case, this is a fundamentally technical issue, in which money is moving from one arm of Government to another.

Q57 Mr Curry: So that is a known unknown. Was the contingency fund an unknown unknown?

Jonathan Stephens: There was project contingency—

Q58 Mr Curry: Can you just update us? According to the *Financial Times*, my old alma mater, the programme contingency will equate to about 40% to 45% of the final budget but the Treasury is likely to relent on the £2 billion contingency fund for the Olympics, thus bringing it down to about 20%. Is that well informed?

Jonathan Stephens: I have no idea, I am afraid.

Q59 Mr Curry: And if you did, you would not tell us, because you would thus be telling the industry that it could bid up?

Jonathan Stephens: The Government want to set an overall comprehensive budget as soon as possible and they will set out the basis on which they will do so. We have invited the NAO to examine that budget once it is set and to Report the basis on which it is set. I should point out that contingency in respect of the individual projects was built into the original estimates at the time of the bid.

Q60 Mr Curry: Will that amount—the contingency fund—be made public when it is agreed?

Jonathan Stephens: The overall budget will be made public. We want to ensure that all the structures are in place to manage costs downwards.

Q61 Mr Curry: No. My question was whether the amount that corresponds to the contingency will be separated out in the budget.

Jonathan Stephens: I cannot give a commitment on that at this stage. Setting the budget in a way that maximises the control of costs must take priority. I would not want to do anything that suggested that there was some notional pot of money against which contractors should increase their costs.

Q62 Mr Curry: But there is a pot, is there not, because there will be a contingency fund? You might not tell us how much it is, but there is going to be a contingency fund. The contractors may be dim, but they are not as dim as all that.

Jonathan Stephens: That is still under consideration and discussion; Ministers are still taking advice on it. I think that it would be prudent to make contingency provision across the programme as a whole, recognising that, as Mr Higgins said, this is one of the biggest projects delivered in the UK. It is one in

which the projects are interconnected, so there is an element of risk that sits at the programme level, rather than the individual project level.

Q63 Mr Curry: So we have had the known unknowns and the unknown unknowns and we now have the perhaps suspected unknowns in the form of the planning gain supplement. Today in their lordships' House, the Second Reading of the Planning-gain Supplement (Preparations) Bill is being considered. We went through that extraordinarily brief document a few weeks ago in this House. If it were introduced, what might it add? We know precious little about any details, but has it been budgeted for? Have representations been made to the Chancellor that it might not be an altogether good idea in the context of the Olympics?

David Higgins: If I could answer that question, there will clearly be transitional arrangements put in place for the project. Much of the project will have already been approved by the date that that Bill will come into force. The reason—

Q64 Mr Curry: It would not apply from planning approval, but from implementation.

David Higgins: Yes, but by 2009 much of the site will already be under way, with reserved matters already approved. The Bill envisages transitional arrangements.

Q65 Mr Curry: Is 2009 the date on which you think it will be implemented? Is that what you have been told?

David Higgins: The last brief I saw said 2009–10. I am not sure of the final dates, of course; that depends on Parliament. One of the big reasons for planning gain supplement is to capture value that comes from planning, given the—

Q66 Mr Curry: I know the reasons for it; the argument is about whether it would work and the implications for this.

David Higgins: Well, on this site, most of the land is controlled by the Government and therefore the value uplift is the benefit of the Government in any case. Planning gain supplement seeks to capture planning gain from land, which it sometimes does not control.

Jonathan Stephens: In its document for the Pre-Budget Report 2006, the Treasury said that the application of planning gain supplement to major infrastructure projects and to public sector works remained under review.

Q67 Mr Curry: How will you measure the regeneration effects? We are interested in outcomes; the Government talk incessantly of targets and outcomes. How would you measure those regeneration outcomes? That is the heart of the project is it not? That's wot won it, as they say.

David Higgins: You are absolutely right. That is what the IOC saw; the legacy is a huge feature of this. The real difference now with the Olympics is that as of 2003, the IOC has required that bidding cities put legacy at the heart of their bids. How will

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you measure it? You will measure it in 20 years' time. You will measure it against current deprivation; the four Olympic boroughs, in respect of any indices, sit in the bottom 10. Three sit in the bottom five of areas of the UK. Their statistics on education, health and worklessness are some of the worst in the country. The only way you will measure the legacy is in the long term, when there is proper infrastructure and schools and when jobs bring activity back into the community. That is the first measure: the deprivation indices.

Q68 Mr Curry: This is an example of a classic, top-down regeneration project, is it not?

David Higgins: You wonder why this area has been like this for decades and why it has not changed. The reason why it has not changed is land use. There is a long, long history of the area being used for post-industrial industries that have closed and major utilities that have blighted it. Significant investment and infrastructure is required to join up the area. Much of the deprivation comes from the fact that you cannot get from one side of the valley to the other.

Q69 Mr Curry: On getting from one side to the other, is Crossrail an important factor in the success of the Olympics?

David Higgins: Yes, absolutely. The Olympics is deconflicted from Crossrail; in fact—

Q70 Mr Curry: What happens if Crossrail does not happen?

David Higgins: One of the big features of this project is that near-on £1 billion worth of direct work is going into transportation. So Stratford and West Ham will make this area the most connected outside central London for jobs.

Q71 Mr Curry: We have no certainty that Crossrail will be built, have we?

Jonathan Stephens: If I may say so, it has always been clear that Crossrail is not critical to the success or the transport plans of the Olympics. Mr Higgins was referring to the work that has been done to ensure that any proceeding with Crossrail does not conflict in terms of construction pressures with the Olympics.

Q72 Mr Curry: In response to Helen Goodman's questions about areas outside the south-east of England, you said how jolly it would be for everybody to be able to come and watch the Olympic games. How important are effective high-speed rail links to Yorkshire and Humberside—where I come from—the north-east and north-west in facilitating the ability of the whole nation to participate in this project?

Jonathan Stephens: If I may say so, the case for those links does not stand or fall on transporting people for three or six weeks in 2012. If there is a case to be made, I am sure that it will be made on the basis of wider and longer benefits.

Q73 Mr Curry: Finally, presumably what will happen during the Olympic games is what happens during Wimbledon: large numbers of people will rent out their houses for the period of the games to make a handsome bob or two. Is that regarded as a taxable activity? Do the Government have plans to check who is renting out houses and ensure that they pay their share?

Jonathan Stephens: I am sure Her Majesty's Revenue and Customs will consider that and, if appropriate, will take action.

Chairman: Good. That is very useful information, thank you.

Q74 Mr Touhig: I shall concentrate my comments and questions on the structure. Can the Olympic Board direct the Olympic Delivery Authority and the London organising committee and tell them what to do?

Jonathan Stephens: It sets the overall strategy and delivery objectives for the games and has to approve the ODA budget and its master plan.

Q75 Mr Touhig: But can it tell them what to do?

David Higgins: I think it is more accurate to say that it operates an approval mechanism. The board can tell us what we cannot do—for example, it could reject our budget. However, it cannot direct us to spend money because we are a non-departmental public body reporting to the Government. The Government can reject our plans, but cannot direct what we do.

Q76 Mr Touhig: Following on from what the Chairman said at the beginning, there is no one person with overall responsibility. Is that in anticipation of failure or is it an insurance policy so that no one will have to carry the can?

Jonathan Stephens: One of the lessons learned from previous games is that it is fundamentally critical to get the inevitable tripartite relationship between the Olympic movement, the host city and the host nation at the heart of any games right. That is essentially what the structure that has been put in place has been designed to do, while also providing clear and accountable delivery mechanisms. Mr Higgins and the ODA are clearly accountable and responsible for the delivery of the construction, infrastructure and the venues, and the London Organising Committee of the Olympic Games is responsible for running the games.

Q77 Mr Touhig: I am hugely impressed that you can say that without smiling and that you kept a straight face.

The three stakeholders are the Government, the Mayor and the British Olympic Association. Below that we have the Olympic Board, which is responsible for oversight. We then have the Olympic Delivery Authority, which is responsible for venues and infrastructure and has a budget of £3 billion, and LOCOG—the London Olympic committee—which is responsible for running the games. Looking at those two bodies and their relationship to the Olympic Board, you say that the board cannot direct

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those bodies to spend money, but can approve or not approve budgets. That seems very complex because the Olympic Board is also supported by the Olympic programme support unit and the Olympic Board steering group. What do those two groups do?

Jonathan Stephens: The Olympic programme support unit is a small group that independently monitors progress against the Olympic programme as a whole adopted by the Olympic Board and set out in one of the appendices to the NAO Report. The Olympic Board steering group simply brings together officials at a level below the Olympic Board to ensure that decisions are well prepared and processed.

Q78 Mr Touhig: In Wales the official definition of a deprived person is someone who does not have a meeting to attend—you certainly have some Welsh blood in you. The Government Olympic Executive of the DCMS manages cross-Government interests. Who does it answer to? Is it to the board?

Jonathan Stephens: It answers to me and is headed up by Mr Jacobs.

Q79 Mr Touhig: Do you answer to the board for what that body does?

Jonathan Stephens: No. Essentially that body plays the role of client within the Government and supports the Secretary of State in her role and with her responsibilities on the Olympic Board and across Government.

Q80 Mr Touhig: Then we have the delivery partners and the Olympic project review group of the DCMS. What does the Olympic project review group do?

Jonathan Stephens: It approves projects over and above £20 million, brings together the key Whitehall Departments, including the Treasury, and processes critical project approvals within three weeks or so.

Q81 Mr Touhig: You do not think that that is an over-complex structure?

Jonathan Stephens: As Mr Higgins has said, the project is one of the single biggest projects being delivered in the UK. It involves a fundamental, tripartite relationship at its heart.

Q82 Mr Touhig: But you already have a tripartite relationship. You have the three stakeholders—the Government, the Mayor and the British Olympic Authority—so why do you need such complex structure below it? Surely the Olympic Board ought to be in total control—directing, authorising and giving instructions on the operation of the project.

Jonathan Stephens: If I may, I shall answer and then I shall bring in the others. The Olympic Board exists to set strategic oversight—it reviews the ODA budget and the large projects. The Olympic project review group exists to ensure that other projects are processed speedily and smoothly, because—on the experience of previous games—one of the key risks is delay in decision making.

Q83 Mr Touhig: Are you seriously suggesting that that structure will facilitate speedy and rapid decision making?

Jonathan Stephens: It think it is—

Mr Touhig: Without smiling.

Jonathan Stephens: It is appropriate for the purpose in mind. Fundamentally, there are only two new bodies: the purpose-built ODA and the organising committee. The rest exist to ensure that the structure works smoothly.

David Higgins: Another reason is that there are two lots of shareholders. The ODA has the Government as a shareholder, and LOCOG has a combination of shareholders whereby profits go back into sport, which is why it has to be kept separate. It is an IOC requirement that the bodies are kept separate. There will always be two separate bodies: one that stages the games and one that builds the facilities—the Government delivery arm.

Q84 Mr Touhig: You know the story of the Tower of Babel. The ancients thought that they could build a tower to heaven, but they could not understand each other. The structure is a framework for such a fiasco, is it not?

Jeff Jacobs: No, I do not think it is. It is an IOC requirement that there should be an organising committee, as there was for Athens and for Sydney, and the London organising committee is a result of that requirement. Furthermore, the organising committee is not enabled to spend capital, so as a simple matter of fact we could not have used it as a delivery organisation for venues and infrastructure.

Q85 Mr Touhig: I appreciate what it was that the IOC required, but you have created a very complex structure. You are the accounting officer at the DCMS, Mr Stephens. Are you happy with the structure? Do you have a role as Accounting Officer in the project?

Jonathan Stephens: Absolutely, no—

Q86 Mr Touhig: What does that mean—that you are absolutely not the Accounting Officer?

Jonathan Stephens: As I confirmed earlier, Mr Higgins and the Chief Executive of LOCOG both report to me as additional accounting officers. It is the top priority of the DCMS to deliver the project on time and in budget, and it is my personal top priority. One has to consider the record of decision making over the past 12 to 18 months, which is that the master plan has been revised and now finalised, in the course of which £600 million in costs was avoided; the design of the aquatic centre was considered by the Olympic Board and was sent back for redesign to improve its legacy use and take out extra cost, and we are going through a similar process with the main stadium; and the Olympic Board has approved one of the single largest planning applications ever made and a draft transport plan that was issued six years in advance of the games.

Q87 Mr Touhig: I have very little time. Could you keep your answers quite short?

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Jonathan Stephens: Other than the ODA and the LOCOG, these groups are essentially meetings rather than new bodies.

Q88 Mr Touhig: But you seem to be emphasising that there will be revisions and reviews, and the structure means that, as you get deeper into the project, things will become more difficult. In your response to my colleague, Mrs Goodman, you talked about private sector involvement and you used the term lend-lease. You will be aware that we had that between 1939 and 1945, and 60 years later we have just started to pay it off.

Jonathan Stephens: Lend Lease is, of course, a public company. There has just been an announcement that it will be the exclusive contractor to deliver the Village, which, I repeat, will largely be funded by the private sector.

Q89 Mr Touhig: You spoke earlier about the role of the Olympic Board, but the Report makes it clear that the four members of the Board want to work by consensus, and that each of them will have a right to veto decisions affecting their responsibilities. That cannot make sense, can it?

Jonathan Stephens: The memorandum sets out the various consent rights. What is fundamental and has been learned from the lessons of every previous event is that getting the relationship right between the key stakeholders—the city, the Government and the Olympics movement—is critical. The Olympic Board brings all of those together, and, as I said, the members are working together effectively to deliver real decisions on the ground.

Q90 Mr Touhig: You defend the structure, but can you say with hand on heart that you think that this is the best structure to deliver the games successfully, given what happened in Sydney and other places? The games will impact on our international reputation. We are not talking about a failure of the dome but Britain's international reputation falling apart.

Jonathan Stephens: Indeed. In drawing up the structure, we specifically sought to apply the lessons from previous games. Critically, the split between LOCOG and the ODA is based on a lesson from the dome, which was brought out by this Committee in previous Reports and which we have sought to follow.

Q91 Mr Touhig: But you confidently defend this structure as the best way to deliver the games.

Jonathan Stephens: I believe that it is appropriate for delivering the games. One of the other lessons from previous games is that, as the games go through their different phases, one needs to be flexible and ready to adjust structures and relationships.

Q92 Mr Touhig: But you have so many people involved, and they have great responsibility if things go wrong.

Jonathan Stephens: One of the successes of the past year was getting those critical bodies up and running, getting professional management and

staff with strong capabilities, and getting the relationships within the Olympic Board working effectively to deliver real decisions.

Q93 Mr Touhig: In 1812, after he retreated from Moscow, Napoleon reflected that from the sublime to the ridiculous is one small step. You might care to read some of the writings on the Russian campaign, which ended in tears. Let us hope that, with your structure, the Olympic games do not.

Chairman: And remember 1512, too—I mean 1520.

Jonathan Stephens: It seems to be 12s.

Q94 Chairman: Yes. You are not seriously saying that the structure for the games is less complex than the one for the Millennium Dome, are you?

Jonathan Stephens: One of the lessons from the dome was the fundamental confusion between building the dome as an object—the infrastructure—which was actually quite successful, and staging the event, around which there were lots of different ideas. Splitting the responsibilities, which are fundamentally different and which require different sorts of skills and emphases, was one of the key lessons.

Chairman: Thank you.

Q95 Annette Brooke: When members of the International Olympic Committee came recently—last week, I suppose—with whom did they meet?

Jonathan Stephens: Their relationship is directly with the organising committee, of which Lord Coe is the chairman, but they also met with other people, including Mr Higgins, who is responsible for delivering key parts of the games, and, of course, the Secretary of State.

Q96 Annette Brooke: The press reports suggest that they were fairly happy with their meeting with the organising committee. Was that the case? The press reports also indicate that they definitively want a proper budget by June at the latest. Is that the case?

Jonathan Stephens: That was not in the communiqué that I saw, which spoke of recognising that there had been thorough work and progress since their last visit. The IOC also said that it was given a briefing on the processes by which the wider budget would be determined.

Q97 Annette Brooke: It will come again in June, though. Is that correct?

Jonathan Stephens: Every six months.

Q98 Annette Brooke: Every six months. So one would anticipate that it will expect some answers by then.

Jonathan Stephens: We would very much hope that the budget is resolved quickly.

Q99 Annette Brooke: Let us suppose that in the next few weeks you sort the budget out and it comes to £10 billion. Let us further suppose that it rises over the next few years to £15 billion or £20 billion. Whose responsibility would that be if it occurred after you had determined this budget?

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Jonathan Stephens: I do not remotely recognise any of those figures. They must inevitably be speculation.

Q100 Annette Brooke: I am just making a logical progression. We started with £2.2 billion. There are now press reports around the £8 billion to £10 billion mark. Whatever is the agreed figure and whenever we are told the definitive figure, should over the next few years we depart by perhaps £1.5 billion or double that figure, whose responsibility would it be? Like Mr Touhig, I am pretty confused by the chart. Where would the buck stop?

Jonathan Stephens: I just want to make it clear that I do not recognise any of those figures. They must just be speculation. The Olympic Delivery Authority is responsible for construction and infrastructure, which make up the bulk of the costs that we are talking about. It is responsible for sticking to that budget and will be held responsible for it.

Q101 Annette Brooke: So the buck stops with you, Mr Higgins.

David Higgins: On everything that relates to the Olympic Delivery Authority, not LOCOG.

Jonathan Stephens: That is the staging of the games.

David Higgins: There are two organisations: one putting on the show.

Q102 Annette Brooke: I understand that, but LOCOG has set out its budget, has it not? So we are talking about the other part of the budget. That stops with you. We know whom we need to question in future.

I am also concerned about the complexity of the organisations and the monitoring. A complex chart has been set out on page 22, I think. Let us suppose that someone in all the complexity misses a deadline, such as a certain site not being ready on time. How would that be remedied? Who would take responsibility for it?

David Higgins: Ultimately, we have clear accountability for delivering venues and infrastructure in time for the games. We want to deliver them well in advance of the games so that LOCOG, the organising committee, has time to test events and to induct and train volunteers and staff involved in the games. We hope to finish 12 months out.

Q103 Annette Brooke: Supposing that you miss a deadline and that stops LOCOG doing what it should do. How is the structure worked out so that it is all right on the night?

David Higgins: We do regular reports. I am going to the Olympics Board tomorrow. It go to its steering committee each month and Report progress, so the Department and the Olympic Board are well aware of all progress. I can tell you now that we will miss certain deadlines; it is just a reality of major construction progress. If we miss a deadline, we shall re-programme.

Q104 Annette Brooke: I want to know how it will be addressed.

David Higgins: We will re-programme it and look at how to make up time in other areas so that we still hit the deadline for LOCOG to have plenty of time for test events.

Jonathan Stephens: I should make it clear that the ODA and LOCOG, while separate organisations, are co-located. The staff talk to each other hourly and daily.

Q105 Annette Brooke: I want to ask a question slightly outside the present structure. You said about all the games being located in London, but I come from Dorset and understand that the sailing will take place from Portland. Given what is supposed to happen down there, like a road being completed but not yet having received planning permission, and the fact that Natural England does not like it very much, how are those problems picked up at central Government level and addressed?

David Higgins: We are accountable for everything that happens at Portland. We are working with the Regional Development Agency down there to make it happen. We are not accountable for the road; that is the Highways Agency and the Department for Transport. We are working with a private developer on everything about the marina development to ensure not only that we deliver for the Olympic games, but that legacy-wise a substantial marina will be developed for Portland in the long term.

Q106 Annette Brooke: I wanted to end on legacy. It is important to everybody and to us locally. The legacy will be particularly difficult to achieve without the road because people will not be staying and hotels will not be built unless people have confidence. That is for the Highways Agency, but can you assure me that the problems there are being fed into the centre pattern somewhere?

David Higgins: We are obviously supportive, and the Department for Transport has approved the scheme in principle. It is a matter of getting the necessary approvals to deliver it. The plan is to deliver the sailing facilities well in advance—in fact up to two years in advance of the games, to allow as many as possible of the sailing squads that finish in Beijing to relocate to Portland, to give plenty of time for training and, hopefully, bring plenty of economic development into the region.

Q107 Annette Brooke: There are not any local worries about that side of it, I think.

If I could just come to the legacy from the London side, in paragraph 85 on page 21, for example, the document says: “Key questions to be resolved are who will own the individual venues after the Games”. There are a lot of other questions. While you may be more concerned about the budget at the moment, are not such things important to establish early on; and can you tell me what progress you are making with those questions?

David Higgins: Yes, it is very important to get those established now. Lee Valley park trust owns a large part of the land that the Olympic sites will be built

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on, so the canoeing facilities in Broxbourne, the Eton Manor facilities and what will eventually become tennis and hockey facilities, and the velopark and cycling facilities will all be owned—the physical land will be owned—by Lee Valley park trust. We work closely with the trust and with the British cycling and canoeing organisations to make sure that what is built will satisfy them as well as the local boroughs and the authorities that we are working with there. As for the main venues in the park, which are the stadium and the aquatic centre, significant work is under way now to ensure that, while we have not finalised the end-ownership structure—the trust that will inevitably be put in place to own those assets and remain in public ownership—the long-term operating costs of those venues will be minimised. We are also working to bring revenue streams in to ensure that we do not create a white elephant in either of those assets.

Annette Brooke: Thank you.

Q108 Mr Dunne: A number of Members of the Committee have sought to look at lessons that have been learned from past projects and have taken us back in time and history. Which individual, from which country, do you regard as the person who was the inspiration of the modern Olympic movement? It is a history question.

Jonathan Stephens: Baron Pierre de Coubertin.

Q109 Mr Dunne: Am I right in thinking that you are the Permanent Secretary of one of the major UK Government Departments?

Jonathan Stephens: Yes.

Q110 Mr Dunne: Have you ever heard of Dr William Penny Brookes?

Jonathan Stephens: No.

Q111 Mr Dunne: May I suggest as an important first step after this meeting that you look him up on a website? Dr Penny Brookes was the inspiration for Baron de Coubertin. Dr Penny Brookes was the leading citizen of Much Wenlock in the mid-19th Century. Much Wenlock has held the Wenlock Olympian games every year apart from during the second world war since 1850, and it is my determination that not just you but every other British citizen and frankly every citizen of the world who has an interest in the Olympics will be aware that it was Britain that was the inspiration. It was this country, not France, to refer back to the field of the cloth of gold. I am disappointed, to say the least, that that has not yet sunk in at the Department responsible for delivering London 2012.

Chairman: We want an answer to that.

Jonathan Stephens: Well, I have already got examples from Napoleon and Henry VIII to follow, and there is clearly something to learn there. I am told that Much Wenlock was part of our Olympics roadshow.

Q112 Mr Dunne: It certainly was part of the roadshow. I very much hope that in future it will be part of all your literature to promote London 2012,

because that is where it started. I would like a commitment from you to look into that and push it forward.

Jonathan Stephens: I am very happy to give that.

Q113 Mr Dunne: I am very grateful to you. Thank you, Chairman, for letting me get that off my chest. Much Wenlock, for those Members of the Committee who are not aware of it, is in the Ludlow constituency.

To go back to the subject of the Committee, in paragraph 3 the NAO Report refers to the Government underwriting the costs. What figure did the Government have in mind when they gave an underwriting commitment for the games?

Jonathan Stephens: At the time of the bid document, they had set out the public sector funding package of £2.4 billion. They had also set out in the bid document, in recognition of the wider infrastructure development and regeneration, that further public and private sector funding would be necessary.

Q114 Mr Dunne: Does that mean that the Government acknowledge and have made a commitment to the International Olympic Committee that all those costs ultimately will be borne by the Government if nobody else fulfils their element of the package?

Jonathan Stephens: That is the element of the guarantee that they have to underwrite the costs of the organising committee in staging the games and the construction costs in providing for the games. That of course does not mean that the Government are not committed to keeping those costs very tightly under control and ensuring that the organising committee does not actually require any public subsidy.

Q115 Mr Dunne: Indeed, but that would also cover the so-called non-Olympic costs, because without the infrastructure that is dependent on Olympic costs, you would not have a stadium, so ultimately the undertaking extends to the non-Olympic costs as well.

Jonathan Stephens: Of course, those costs are the costs that the Government would be meeting in any case under their wider regeneration policies.

Q116 Mr Dunne: May I take you to paragraph 51? In relation to those specific costs, an Exchequer commitment of £1.044 billion has been made. Only £405 million has been secured, and the NAO Report says: “the remainder will be sought as part of the Government’s 2007 Comprehensive Spending Review.” Do you have any doubt at all as to whether the Government will undertake to turn that indication in principle into a commitment?

Jonathan Stephens: No. That clearly will be turned into a commitment. Of course, it will be done so in the course of the normal public spending planning framework, and the comprehensive spending review is the first opportunity to do that.

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Q117 Mr Dunne: Am I wrong to interpret the Report as indicating that the Government have an open-ended commitment in respect of the games? Although obviously they have an obligation to keep the costs under control—to keep a taut budget, to use your phrase—in practice the Government will end up picking up the tab, because if they do not they will be in breach of the obligations in relation to the International Olympic Committee.

Jonathan Stephens: Well, no. The object, particularly in respect of the organising committee's budget, is to avoid the Government's picking up any of the tab. The costs of staging the games—the £2 billion or so—will be generated from IOC contribution, global sponsors, local sponsors, commercial rights and other such opportunities. The Government have underwritten that, but are aiming to ensure that there is no public subsidy.

Q118 Mr Dunne: Is any element of the underwritten cost on the Government balance sheet at this point? Is there a figure within which you are working?

Jonathan Stephens: We have given notification, as we had to do, of a contingent liability in respect of the guarantees, in respect of the organising committee, and in respect of the other funding that is referred to in paragraph 51 and in the public sector funding package, and the extent of those contingent liabilities is in the resource accounts.

Q119 Mr Dunne: Who was responsible for VAT not being factored into the original budget for the games?

Jonathan Stephens: That was a recognised assumption at the time that was shared and agreed across the Government. It recognised the fact that it was not—

Q120 Mr Dunne: Sorry, what was recognised—that VAT would not be applicable?

Jonathan Stephens: No, that there was an issue about the tax treatment and that that depended critically on what delivery structure was put in place. For example if parts of the infrastructure had been delivered by a local authority or a local authority-type body, local authorities are exempt from VAT. There was simply a recognition that at the time of the bid it was impossible to predict what the tax treatment would be at the time, but I come back to the point—

Q121 Mr Dunne: What amount was allowed for to cover VAT in the contingency budget?

Jonathan Stephens: The bid that was submitted to the IOC is very clear: it excludes VAT because it was not possible at the time to determine the tax treatment, because the delivery structure was uncertain. But I come back to the point that this is essentially a technical issue in which money is being transferred from one arm of Government to another arm of Government.

Q122 Mr Dunne: In the contingency budget, there was a figure for security. What lessons were learned and what use was made of the experience of security

at, for example, Sydney—Mr Higgins must have been familiar with that element of the budget—and Athens?

Jonathan Stephens: The element that was put in the bid for security was primarily focused on the cost of security at the site and in the venues. It was recognised at the time that it was not possible to estimate in detail the wider security and policing costs across London and the country as a whole. Indeed, at the time my predecessor notified the PAC of a potential contingent liability arising from the wider policing and security costs.

Q123 Mr Dunne: Mr Higgins, do you know what the cost of Athens' security was?

David Higgins: No, I do not. I was not involved in Athens at all, but what we did do—

Q124 Mr Dunne: If I may interrupt, as I am afraid that I am short of time, my understanding was that it was in the order of €1 billion. Did nobody think to ask the people who ran Athens or ran Sydney what the cost of security measures would be?

David Higgins: We have engaged an expert organisation that came out of Sydney, which has vetted all the ODA's security costs. The adjustment that the Secretary of State announced in November—the £900 million—included additional money to cover ODA security costs.

Q125 Mr Dunne: I think that sounds like a no in answer to my question. We referred earlier to lessons learned from the Millennium Dome. Mr Stephens, have you or any of your senior officials discussed with Lord James the lessons to be learned from the millennium dome?

Jonathan Stephens: I have not discussed that with Lord James, but we have learned lessons from the various reports, including this Committee's.

Q126 Mr Dunne: Are you aware of Lord James's concerns and recommendations, which were aired widely on the radio earlier this week?

Jonathan Stephens: Indeed. In respect of the concerns that he expressed about sponsorship, I have to say that this is a fundamentally different sort of event. The Olympic games have a long and well established experience and history of successful sponsorship—

Q127 Mr Dunne: If I may interrupt you, I was not concerned about sponsorship. He made some specific recommendations about the structures used for delivering on time and on budget without allowing the individual commissioning entity to run out of money each period when it was seeking to draw down funds to complete part of a project. Is that something that applies in this case and are you familiar with the issue?

Jonathan Stephens: Indeed, the cash flow management of the ODA is an important issue and one that is kept regularly under review to ensure that it does not run out of money.

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Q128 Mr Dunne: Is it operating within the same legal framework as the operator of the Millennium Dome?

Jonathan Stephens: I would have to write to you about that.²

Q129 Mr Dunne: Could you do so, please, because Lord James indicated that one of the fundamental weaknesses of the construction of the Millennium Dome project was that it had to operate as though it was insolvent for most of its working life? I hope, Mr Higgins, that that does not apply to you.

Q130 Mr Wright: Is planning the Olympics rather like planning a wedding? What I mean by that is that you phone up a chauffeur firm and say, "I would like a car, please"; they say, "Certainly sir, that will be £1,000"; you say, "It is for my daughter's wedding"; and they say, "Oh, I'm sorry sir, that will be £3,000." Will there be cost creep because it is the Olympics and so contractors and suppliers, because they know that it has to be delivered, will up the prices accordingly?

David Higgins: A project with a fixed, clearly immovable deadline is always a challenge.

Q131 Mr Wright: So the answer is yes, then?

David Higgins: It is not a wedding, but the benefit of this is that you plan a wedding only a year in advance and you really want it to happen and so our best protection for the public purse is to ensure that we are not held in a position where we do not have anywhere to go in terms of the negotiations. The challenge is to plan as much as possible and to bring forward as many things as we possibly can to avoid that situation.

Q132 Mr Wright: The NAO is very good in its Report in saying that there is a relationship and a tension between time, cost and quality. Clearly, we have to start this in July 2012, and there is no getting away from that. The games will be a showcase for everything that is good about this country and everything that we want to be. They are the biggest spectacle on earth and highlight what Britain is good at, so we cannot compromise on quality. Is the payback that we do not give a toss, frankly, about cost?

David Higgins: No. The time is obviously immovable, but the biggest thing that we can do is to focus on scope and that is exactly what we did at the start. The first thing we did was to take venues on the Olympic site—there were two fencing venues, which we made into one; we took volleyball, which was supposed to be played in a large temporary venue built on the park with 10,000 seats, and we moved it

to Earls Court where there is a perfectly good facility; and we moved the media centre. We changed the scope a lot, and we are still changing the scope. We changed the scope at the aquatic centre. If you build less—or rather, if you build for legacy rather than temporarily for the Olympics—you have a chance of de-risking the project.

Q133 Mr Wright: What sort of budgetary and cost control takes place?

David Higgins: There is very stringent budgetary and cost control.

Q134 Mr Wright: But you do not know what the final budget is?

David Higgins: We give ongoing advice to the Department. Importantly, we have a cash flow and a budget approved for this year finishing, while next year's budget is going to the Olympic board tomorrow, with the recommendation that the Department approve and fully fund it, so that gives us about 18 months.

Q135 Mr Wright: I am confused, because my understanding is that there is no final budget approved yet. What actual spend are you monitoring against? What sort of budgetary variance analysis or outturn forecasting takes place? What goes on?

David Higgins: All of that happens and we have all been audited by the NAO, so it is our auditor, as well as having done this study. We also comply with all OGC requirements, so at every major milestone on every project OGC will come in and do a study and report to our independent audit committee on the satisfactory nature of the controls in place.

Q136 Mr Wright: A memorandum was provided to the Select Committee on Culture, Media and Sport in October 2006 by the Olympic Delivery Authority. Under the headings "Issues on Which Evidence Has Been Sought" and "Funding", it said: "We have prepared a long-term budget which we are now discussing with DCMS and Treasury to agree its appropriateness and how it will be funded. We believe that the agreement of a realistic and robust budget will be an important step forward for the project. We expect to have an outline budget for 2007–08 ready later this year". Has that been done?

David Higgins: Yes.

Q137 Mr Wright: The memorandum continued: "and to be able to deliver a first draft of the Corporate Plan incorporating the lifetime budget during February 2007." Has that been done?

David Higgins: Yes.

Q138 Mr Wright: That is good.

May I ask about the £1.044 billion for non-Olympic infrastructure? The Culture, Media and Sport Committee's report is fascinating on that as well and says in paragraph 18 that "£1.044 billion of public funding has been set aside for 'linking the Olympic Park to local infrastructure'." However, you were

² *Note by witness:* No, the builder, developer and operator of the Millennium Dome, the New Millennium Experience Company Ltd, was a limited company governed by the Companies Acts and wholly owned by the Government. The Olympic Delivery Authority (ODA) is a body corporate established under the London Olympic and Paralympic Games Act 2006. The functions of the ODA are set out at Section 4 of the Act. They do not entail the staging of the Games. This is a separate responsibility of the London Organising Committee, LOCOG.

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hinting in an earlier answer, Mr Higgins, that that would have been spent anyway, because of the local regeneration schemes. Is that the case?

David Higgins: It would eventually have been required. Would that have been done in the same way or as efficiently? Who knows? Of the £1.044 billion, the first component, the £400 million, was for the power lines contract, which is well under way now. Other elements include the 32 bridges that are required on the site just to link it together. It is infrastructure that would be required to regenerate the valley. Would that have happened in the next five? Unlikely. In the next 10 years? I gave you those other examples of major regeneration projects. History shows that they take a lot longer than people expect.

Q139 Mr Wright: The DCMS Committee observed, quite disturbingly I thought, that there was no detailed breakdown of that sum of just over £1 billion. It noted that: “there remains a lack of clarity about the expenditure of such a significant sum, and we recommend that the Government issue a detailed breakdown of how the figure was reached and how it is to be spent.” Has that been done yet?

David Higgins: I am not sure. I know that there is a breakdown—I am certainly aware of it.

Jonathan Stephens: And this is what will feature in the comprehensive budget, when we will set out the breakdown of that and other key figures.

Q140 Mr Wright: Could you remind me of when that will be?

Jonathan Stephens: Soon.

Q141 Mr Wright: Right, we are back to “soon”.

Mr Dunne mentioned paragraph 51 of the NAO Report and made a good point about the £1.044 billion, of which £405 million has been secured. The remainder will be sought as part of the Government’s 2007 comprehensive spending review. With the greatest of respect, Mr Stephens, you seemed very flippant to me when you said that that would clearly be received. Given tightened financial pressures on public spending, what is to stop the Treasury saying, “Well actually, come on, you’ve had £900 million of extra costs already. You’re not going to get this”? What sort of contingency plan is in place? I got the impression that you were quite complacent in saying, “Well, we’re bound to get this, aren’t we, because the Treasury wouldn’t want to jeopardise the Olympics.” Is that sort of flippancy and complacency an example of cost control in the whole project?

Jonathan Stephens: Far from it. I am sorry if I appeared flippant; I was not meaning to be. The commitment to the Olympics and the extra public and private sector funding, including the £1 billion, is a collective commitment by the Government as a whole, and I am confident that the Government as a whole will deliver on it.

Q142 Mr Wright: Could you talk a little about the £400 million that has been provided to secure the services of the delivery partner? Why was that not anticipated during the bid or in the early stages of the programme?

David Higgins: I cannot talk about the bid, but I can talk about the £400 million, which is for a combination of things. The delivery partner will provide services such as programme management, project management, planning and procurement. The ODA had to provide those services anyway, whether in house or via the hire of an expert organisation. The £400 million also includes IT and site establishment costs, so it is not only the cost of the delivery partner. Given the size, scale and complexity, and that there is a fixed deadline, a figure of something around 10% of the overall cost for its management and running is probably realistic.

Q143 Mr Wright: I do not understand why the £400 million that was necessary in order to secure the services of a delivery authority was not identified earlier.

Jonathan Stephens: Perhaps I can answer that question. The figure was not required for the purposes of submitting the candidate file to the International Olympic Committee, but the area of costs to which you referred was identified as necessary for inclusion. The first estimate was based on the benchmark of an urban development corporation. Subsequent planning and review recognised that such a benchmark inevitably led to a serious underestimate. Therefore, given the size, scale and complexity of the project, it was more appropriate to recognise that very significant management and delivery costs would be necessary. That was reflected in what the Secretary of State said about increasing—

Q144 Mr Wright: The £400 million is part of what is already a £900 million overspend. Is it the plan that the £400 million will generate savings through rigorous cost control and budgetary planning?

Jonathan Stephens: We believe that rigorous cost control is absolutely essential to the future of the project.

Q145 Mr Wright: But do you have a figure for how much the £400 million will secure in savings—say, £1.5 billion?

David Higgins: I reinforce the fact that the £400 million is the essential cost of running the Olympic games, of running a project of such a size and scale.

Q146 Mr Wright: You are telling us that the £400 million is an essential part of running the Olympic games, and yet it was not considered as part of the bid or as one of the first aspects of the delivery programme. I find it unbelievable that the cost was so important and yet you have only just thought about it.

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David Higgins: What we are saying is that £400 million for a project of such a size is reasonable. Whether the money was identified previously as part of the project costs or separated out was not part of the original estimates?. I wasn't around when the original estimates were done. The original bid was based on the costs that a thinly resourced urban development corporation might incur in managing such a project, or series of projects.

Q147 Mr Wright: My time is almost up. Finally, I have a question about security, which you also discussed with Mr Dunne. Paragraph 46 of the Culture, Media and Sport Committee report on the Olympics basically says that security costs have been underestimated. It also states that the Mayor of London: "indicated . . . that there might be . . . £300 million" in "'opportunity cost' and 'maybe another £250 million' for measures such as electronic monitoring." Mr Dunne, I believe, said that the costs might be something like £1 billion. I am a member of the Committee currently considering the UK Borders Bill, which will tighten controls. What sort of pan is being put in place to make the games safe for everyone who goes there, while maintaining cost control? I do not see any of that at the moment.

Jonathan Stephens: The matter is under the Olympic security co-ordinator, who works closely with the Home Office and the Metropolitan Police. The operational plan for wider policing and security at the games is being drawn up, and the budgetary implications are being considered. At the time of the bid, it was recognised that an element of the wider policing and security costs could not have realistically been estimated. It was recognised that to engage in estimates for something that was fundamentally uncertain, and which related to an event eight years hence, would not be a good use of scarce operational police resources. The planning work is now happening and will result soon, perhaps later this year, in a clear plan and a budget to go with it.

Chairman: There are 2 more questions, from Richard Bacon, and then Ian Davidson.

Q148 Mr Bacon: Mr Jacobs, you are the Chief Executive of the Government Olympic Executive. It says in the Report, under paragraph d on page 6, that the role of the Government Olympic Executive will be to: "exercise effective oversight" of Mr Higgins' authority. However, it says elsewhere in the Report that you are no longer the Accounting Officer. Is that right?

Jonathan Stephens: Perhaps I can answer that.

Q149 Mr Bacon: No. Mr Jacobs has not said a single word yet, so if you do not mind Mr Stephens, I should like him to answer some questions.

Jonathan Stephens: He has made a very significant contribution.

Q150 Mr Bacon: Mr Stephens, if you wouldn't mind, my question was directed to Mr Jacobs. I would like Mr Jacobs to answer my question. If I direct a question to you, I would like you to answer, if that is possible, please.

Jonathan Stephens: If I may, I am answering this question because this was my decision, so I should answer it.

Q151 Mr Bacon: Hang on, Mr Stephens. Whether it is your decision or not does not alter the fact that I asked Mr Jacobs the question. I did not ask you the question. Mr Jacobs has not said anything yet. We have been here since 4.30 pm—one hour and 35 minutes—and Mr Jacobs has yet to speak. You have spoken a lot; I think it is Mr Jacobs' turn, if you don't mind.

Q152 Chairman: Why don't you both speak? Mr Jacobs, have a go, go on.

Jeff Jacobs: I did say something before, actually.

Mr Bacon: I am sorry I missed it.

Chairman: It was very interesting.

Jonathan Stephens: Let me speak first and then Mr Jacobs will comment.

Chairman: Just get on with it.

Jonathan Stephens: The Government Olympic Executive has played an absolutely critical role in the start-up of these games. It successfully established the two key delivery bodies—the ODA and LOCOG. It identified the critical projects to be got under way early before the delivery structures were in place, including the power lines; it initiated the cost review; it has contributed significantly to controlling costs on the aquatic centre and the main stadium; it has got the Olympic project review group, which controls and secures key projects, up and running. Now it is moving from that critical start-up, establishing-key-relationships phase to a phase that is concentrating on delivery. As was announced earlier, part of moving into that phase is securing new capabilities for the Government Olympic Executive that are focused on commercial experience of big projects.

Q153 Mr Bacon: This is the new Director General and Financial Director. Is that one person or two?

Jonathan Stephens: That is two posts that we have advertised.

Q154 Mr Bacon: They have not been filled yet.

Jonathan Stephens: No, they are currently open to advert.

Q155 Mr Bacon: When will they be filled?

Jonathan Stephens: We are due to interview later this month and I hope appointments—

Q156 Mr Bacon: Have you advertised already?

Jonathan Stephens: Yes.

Q157 Mr Bacon: How long has that process taken?

Chairman: Do you want Mr Jacobs to say something after all that?

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Q158 Mr Bacon: I would like Mr Jacobs to say something. My question to him is, why are you no longer the Accounting Officer?

Jeff Jacobs: Because the decisions to which Mr Stephens has just referred mean that there will be a slightly different structure from the current arrangements. The Accounting Officer arrangements will be unified in a single Permanent Secretary, and under these new arrangements more attention will be focused on bringing in private sector expertise to the centre of the Government Olympic Executive to look over the construction project. That is not the sort of job that I have been doing; I have been doing everything that Jonathan Stephens has referred to. It is time to move on to a different set of skills.

Mr Bacon: In the civil service—

Jonathan Stephens: He has made a significant contribution to establishing the start-up.

Q159 Mr Bacon: I did not say that he had not but I am quite time-limited, so if you wouldn't mind, Mr Stephens. It is common in the civil service to plan people's careers and how long they spend in particular posts. Is it planned that you will be here, in the present post you have with the Government Olympic Executive, until the Olympics in 2012?

Jeff Jacobs: No.

Q160 Mr Bacon: Was it planned?

Jeff Jacobs: No.

Q161 Mr Bacon: So how much longer will you be with the Government Olympic Executive?

Jonathan Stephens: The normal assumption in civil service careers at this level is a posting of four years.

Q162 Mr Bacon: So how long have you been with the Government Olympic Executive so far?

Jeff Jacobs: A couple of years.

Q163 Mr Bacon: So you have two years to go?

Jeff Jacobs: No, I will be moving on when these new appointments are made.

Q164 Mr Bacon: Oh, I see. So as soon as there is a Director General and a Finance Director in place you will be moving on at some point, probably later this year once the appointments have bedded down?

Jeff Jacobs: Yes.

Q165 Mr Bacon: I will ask Mr Higgins a question. Your CV makes no mention of the Olympic games, although you mentioned that you had a role in the Olympic games. What was your role?

David Higgins: I was Chief Executive of the company that delivered the village and the aquatics centre in Sydney and the athletics tracks.

Q166 Mr Bacon: Is it your plan to be chief executive of the Olympic Delivery Authority until the Olympics are finished in 2012?

David Higgins: Hopefully.

Q167 Mr Bacon: Right. Mr Stephens, will you be, or has the civil service planned that you will be, Permanent Secretary of the Department for Culture, Media and Sport until the Olympics in 2012?

Jonathan Stephens: I very much want to be.

Q168 Mr Bacon: So you will be there for slightly longer than the normal four years?

Jonathan Stephens: I would be delighted.

Q169 Mr Bacon: The resource accounts contingent liability that you referred to—how much is it?

Jonathan Stephens: We notified a contingent liability around the public sector funding package and the additional £1 billion referred to in paragraph 51. At the time of the bid, we also—

Q170 Mr Bacon: £1 million?

Jonathan Stephens: £1 billion—the amount referred to in paragraph 51. At the time, we also notified the PAC of potential wider contingent liabilities, particularly respecting wider policing and security issues.

Q171 Mr Bacon: How much?

Jonathan Stephens: We did not put a sum on it at the time, explaining that it was not possible at that stage to do so.

Q172 Mr Bacon: Paragraph 38 on page 12 refers to the fact that there is now an Olympic projects review group, which exists “to assess whether significant projects can be recommended to the Secretary of State . . . and the Mayor of London for financial approval. The review group aims to make recommendations within two weeks.” Has that happened?

Jonathan Stephens: The review group is up and running.

Q173 Mr Bacon: That was not my question. I know that the review group is up and running. It says that the review group aims to make recommendations within two weeks. Has it now done so?

Jonathan Stephens: Yes. It has approved a number of significant projects.

Q174 Mr Bacon: Could you send us a memo with the recommendations that it has made so far?

Jonathan Stephens: Certainly.³

Q175 Mr Bacon: Great. Has all the land been acquired now?

Jonathan Stephens: Yes, 93% of it.

Q176 Mr Bacon: That was the figure that I came across. What is the difficulty with the remaining land?

David Higgins: It is subject to the statutory process of the compulsory purchase order. The period was completed on 2 February, and there is a chance for

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people to challenge it. A number of parties have challenged it. It will go through a proper statutory review process such that by July 2007, we hope to have full title to the remaining land.

Q177 Mr Bacon: On the £738 million in putative private sector funding, figure 6 on page 16 says that “in the light of advice following the bid, the Department concluded there was little prospect of securing significant private sector funding”. Where did the Department originally think that that £738 million would come from? Obviously from the private sector, but from where and for what?

Jonathan Stephens: That is of course one part of the significant private sector contribution, which will still be realised—

Q178 Mr Bacon: I am talking about the £738 million, not about the other parts.

Jonathan Stephens: At the time, the Government were aggressively pursuing private sector funding for the Olympic games, as was right. The areas being looked at were contributions to transport, regeneration and the international broadcast centre, in addition to the village, on which very substantial progress has already been made. Also, of course, there was the prospect of income from ultimate disposals.

Q179 Mr Bacon: That £738 million figure was based on advice, was it?

Jonathan Stephens: Yes indeed.

Q180 Mr Bacon: But in light of advice following the bid, you concluded that there was little prospect of securing it.

Jonathan Stephens: Yes.

Q181 Mr Bacon: What changed?

Jonathan Stephens: At the time of the bid, as I said, we were aggressively pursuing the options for private sector funding. In light of further work after the bid and further advice, it seemed incompatible to achieve funding with the sort of time scale that was going to be necessary. There were still possibilities to pursue not funding but private sector finance, but on further examination, they also proved incompatible with the time scales necessary. It was impossible to ensure that the time necessary for agreement of contracts could be factored into the tight time scale for delivery of the Olympics. I should, however, make it clear that commercial negotiations are still going on around that area and the prospect of some commercial funding, excluding the village, of course, where the overwhelming bulk of funding will come from the private sector.

Q182 Mr Bacon: Regarding the £2.375 billion—that was the public sector funding package—in evidence to the DCMS Committee, it was stated that that figure was signed off by PricewaterhouseCoopers.

Jonathan Stephens: Yes, indeed. That was based on the specimen gains originally developed in the Arup report, which were then examined, including having the risks assessed, in further work by PwC.

Q183 Mr Bacon: Why did the PwC report—I have a copy of it here—say £2.749 billion?

Jonathan Stephens: I am not entirely sure which PwC Report you are referring to?

Q184 Mr Bacon: *Olympics and Lower Lea Valley costing validation review: final report.*

Jonathan Stephens: That was produced in 2004, after the public sector funding package was announced in 2003. There was an earlier PwC report.

Q185 Mr Bacon: Was this figure of £2.375 billion based on the earlier report, or on this one?

Jonathan Stephens: On the earlier one, because, of course, that one had not been produced at that time.

Q186 Mr Bacon: So this report is more recent?

Jonathan Stephens: That report informed the bid document.

Q187 Mr Bacon: But £2.375 billion is the public figure that you have been going with, and this report says £2.7 billion.

Jonathan Stephens: That was announced in 2003, before the bid was submitted, based on the earlier Arup report.

Q188 Mr Bacon: But you have stuck with that number?

Jonathan Stephens: Supplemented with the additional funding set out in paragraph 51; the bid document made it clear that additional public and private sector contributions were necessary.

David Higgins: The other difference between those two numbers is the LOCOG contribution to the venues, which is additional to the £2.375 billion, making up the vast majority of that difference.

Q189 Mr Bacon: I have three more questions: one about the contingency; one about the VAT; and one about the consulting firm that you have hired.

In the DCMS Committee report, it says of the VAT that “One estimate of the total payable is £250 million, although higher figures have been suggested.” I have no idea whether that is accurate or not, but perhaps you do. Is that in the ball park, and if so, what proportion of the total is the VAT payable on?

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Jonathan Stephens: I will need to write to you with that information.⁴

Q190 Mr Bacon: Okay. In relation to the contingency, there is this question of, on the one hand, project contingency for individual projects and then an overall, overarching programme contingency on top. The DCMS Committee said of that: “The Committee questions the rationale for allowing for programme contingency on top of project contingency, especially at a percentage as high as that proposed in Treasury guidance. We find it difficult to see how a programme contingency of any substance, rather than simply being prudent, does not run the risk in itself of escalating the costs. We note that programme contingency was not included in advice to those responsible for co-ordinating the bid but that there is now an informed consensus that it should be included.” Why is that? Why should it be there on top of project contingency? Why was it not included before the bid, and why was it included afterwards?

Jonathan Stephens: It recognises that there are certain risks that exist at the level of the programme as a whole. To give an example, if the power lines project, which is under way now and is being successfully managed to time and budget, were not being successfully managed and were significantly delayed, that would impact on all the subsequent work on the park, on the venues, and all of that. That would not necessarily be a project risk, in that nothing would have gone wrong with the delivery of the main stadium, but it is a risk that exists at the level of the programme as a whole.

Q191 Mr Bacon: Perhaps you can write to us with more detail about that, because I am running out of time and do not want to try the Chairman’s patience.⁵

I have just one more question, which is about the consultants, CLM consortium. The DCMS Committee report states that: “The ODA”—that is your organisation— “concluded that further expenditure was needed ‘to provide the level and quantity of expertise and skill necessary to deliver . . . the project . . . and to undertake effective project and programme management and cost control’”. A further £400 million is therefore being invested “in

order to secure the services of the delivery partner.” First, was it not understood at the outset that effective project and programme management and cost control were necessary? Furthermore, was this £400 million part of the original cost estimate, or is it an addition to the original cost estimate?

David Higgins: This is clearly an addition to the original cost estimate.

Q192 Mr Bacon: So it was not understood at the outset that there would be a need for effective project and programme management and cost control?

David Higgins: I am sure that it was. However, this is an estimate that looks at the overall project and added not only the cost of the delivery partner—as I said earlier, that could be an in-house cost that we would have to allow for—but the IT systems necessary and other issues, including on-site logistics.

Q193 Mr Bacon: But these things were not included in the original cost estimate?

David Higgins: We went through our review and gave ongoing advice to the Secretary of State, prior to her November statements to the Select Committee, in which she stated that an additional £400 million was necessary to manage the site effectively.

Q194 Mr Bacon: Do you not think that for something so key to be missed is extraordinary?

David Higgins: I know the background to the £400 million and what makes it up. I think that it is a realistic additional figure.

Q195 Mr Bacon: I am sure that it is all good, common sense stuff, but I just find it extraordinary that it was not there to start with. Could you send us a detailed note on the £400 million and what makes it up?

David Higgins: Yes.⁶

Q196 Mr Davidson: I presume that Mr Stephens and Mr Higgins realise that if the Olympics are a great success, you will be trampled in the rush, and if not, Mr Stephens will be lucky to be the second secretary in Ulan Bator—that being the foreign equivalent of Ludlow as I understand it.

I want to ask about the wider benefits. Paragraph 91 reads: “the aim was to have the delivery plans in place by the end of 2006.” Was that done?

Jeff Jacobs: The delivery plans are in the process—

Q197 Mr Davidson: That is a no then?

Jeff Jacobs: They have been drafted and must be seen by a Cabinet Committee.

Q198 Mr Davidson: That is a no then. What stage have we reached on risk area 5, on page 22, particularly regarding paragraph (e) and the decision about what benefits will be counted as positive legacies? If we are going to assess the

⁴ *Note by witness:* VAT is estimated at 17.5% on relevant expenditure. There is no exemption from VAT. The only question was whether the ODA would be given VAT recovery status under S33 of the VAT Act 1994, or whether the VAT cost would be funded directly. The Government has decided on the latter approach. On 15 March 2007 the Secretary of State announced a provision to the ODA of around £840 million to enable it to cover its VAT. The Secretary of State also announced an unallocated programme contingency including provision for the further VAT that might arise in the event that any of this unallocated programme contingency had to be spent.

⁵ *Note by witness:* As I explained to the Committee there are certain risks that exist at the level of the programme as a whole. The risks surrounding the project were thoroughly re-assessed as part of the major cost review that we have undertaken and the risks have been further tested by the Delivery Partner. The upshot is a clear view there is a need for a programme contingency to manage the programme risks. Access to this contingency will be strictly managed.

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positive legacies, but are not certain what will be counted as a positive legacy, it does not inspire confidence that this will be done properly.

Jeff Jacobs: Appendix 5—I think—carries a fully-explained set of programme objectives that the Olympic Board has agreed. They divide up into a range of individual elements including national and London benefits.

Q199 Mr Davidson: None of those are quantified are they?

Jeff Jacobs: No, they are not. That is absolutely right. We are in the process of elaborating on the delivery plans that you referred to earlier and want to develop the milestones and outputs identified.

Q200 Mr Davidson: When can we anticipate having those milestones?

Jeff Jacobs: We will get them after the delivery plans.

Q201 Mr Davidson: When do you expect the delivery plans?

Jeff Jacobs: I have said that, all being well, they will go to the Cabinet Committee very soon. Then we can move on.

Q202 Mr Davidson: Is very soon better than soon?

Jeff Jacobs: It is as soon as Ministers can meet and hold discussions.

Q203 Mr Davidson: So will we have itemised targets for each of the areas covered in appendix 5 within three months?

Jeff Jacobs: What we will seek to do—

Q204 Mr Davidson: Just give me a yes or a no.

Jeff Jacobs: It is not a straightforward answer, I am afraid. Two broad sets of activity are going on: Government-led delivery planning work, to which I have referred, and an extensive amount of work going on in nations and regions groups. We are seeking to bring those two sets of plans to finality and to identify the outputs. Then we will have a basis on which to make measurements.

Q205 Mr Davidson: I understand all of that. I asked about the timing.

Jeff Jacobs: Very soon I hope—within a matter of months.

Q206 Mr Davidson: To return to my earlier question, is that within three months?

Jeff Jacobs: I do not know the answer to that.

Q207 Mr Davidson: Can I clarify whether anything will be done to sort out what the costs of the regeneration would have been had we not taken the Olympic route? I understand the point about the Olympics being a catalyst and that some of this might not have happened otherwise. Presumably, however, additional costs will be involved in regeneration as a result of adaptations and re-adaptations for the Olympics specifically. Will that be itemised in a way that makes it comprehensible?

Jonathan Stephens: There are procedures in place to ensure that a distinction is made between Olympic infrastructure and non-Olympic infrastructure. That underpins the distinction made in the NAO Report.

Q208 Mr Davidson: I understand that, but some of the Olympic infrastructure will subsequently become non-Olympic, and having gone down the Olympic route will have increased costs. Will there be a means by which to identify what the costs were of having the infrastructure utilised for the Olympics?

David Higgins: In 2004, a funders' forum established that split and looked at the issues that you are talking about. For work that was carried out on roads or bridges, a percentage was allocated to the Olympic budget and a percentage was allocated to the regeneration budget. That applied to every element. For power lines, for example, 100% was allocated to the regeneration budget; for things that related purely to security for the Olympics, 100% was allocated to the Olympic budget. That allocation was made in 2004.

Q209 Mr Davidson: That is helpful. In terms of the statistics for the five boroughs—I think you mentioned this point, Mr Higgins—how do we know that like will be compared with like? One of my anxieties is that when regeneration takes place, the poor people are often moved somewhere else. Am I right in thinking that house price inflation in the Olympic area and the surrounding area has been far higher than that in the rest of London and the UK as a whole? As a result, local people are unlikely to be available to afford to live there in future.

David Higgins: One of the big things for the games is that 16,000 homes should come from the Stratford development and the Olympic park site, well in advance of the time that they would have been built if the Olympics had not been there. There has been relocation of businesses, and the vast majority of those businesses and jobs have been saved. The key thing is to increase supply—and not only of homes. The area has a big issue of lack of employment and hopefully the new infrastructure, particularly the railway, will mean that jobs will come to the area.

Q210 Mr Davidson: Am I right in thinking that house price inflation in the area has been higher than in London as a whole and in the rest of the country?

David Higgins: I do not know all the final statistics.

Q211 Mr Davidson: Do you accept the general point that if we are talking about regeneration of that area, it is important to identify whether the benefits go to people who are local now and who were local when the process began, rather than to people who move in from the outside?

David Higgins: You are absolutely right. Of all housing built on publicly owned land, 50% will be affordable housing.

 Department for Culture, Media and Sport and Olympic Delivery Authority

Q212 Mr Davidson: Every house is affordable to somebody. What do you mean by affordable housing? Will there be monitoring to identify whether it is occupied by people who were previously living in the area?

David Higgins: Yes, there will be. The affordable housing will be classified under Housing Corporation rules as either shared ownership or social rented housing. Those people that have been relocated from the site are being relocated to other affordable housing in the area. The housing associations that assisted them will get priority for the new homes that we have built.

Q213 Mr Davidson: Is the affordable housing affordable for renting or for purchase?

David Higgins: It is for renting and for shared equity. Of the 50% of housing I mentioned, 70% will be for renting

Q214 Mr Davidson: Only 30% is for purchase then. You can see my point about the impact on people who already live in the area. Am I right in thinking that that is not being monitored at the moment?

David Higgins: All the housing starts in the area are being closely monitored. The issue about the valley is that very substantial amounts of new housing are being built. Tower Hamlets, for instance, will have nearly 100,000 additional people in the next 15 years. The challenge for Tower Hamlets and Newham is to find public space, parks and sporting facilities. This scheme delivers those.

Q215 Mr Davidson: You are aware of the issue of displacement. I shall pick up the question of buying land. To what extent have land prices been higher than expected when you have been purchasing?

David Higgins: The largest part of land on the site acquired is in the ownership of the ODA. That was transferred from the Department for Transport for a nominal amount of money, which has allowed the public sector to ensure that it will benefit from any profit share in the deals with the developers of the village and the shopping centre that were recently announced.

Q216 Mr Davidson: I would much prefer you to answer the questions that I was asking you. Some of the information that you have given is helpful, but it does not deal with the point.

David Higgins: The compulsory purchase order process sets a date for the designation of the CPO, which was in November 2005. That was when the price of the land was set.

Q217 Mr Davidson: Are you satisfied that there has been no profiteering by people who have sold land to you?

David Higgins: If land changes from an area that was deeply depressed with little opportunity for growth and it becomes the centre of one of the largest redevelopments in London for a long time, economic activity will flow and land values will increase. The way that the Government can capture

that is by owning the land—and they will own a large part of it. Otherwise, they can capture it through some other planning gain mechanism.

Q218 Mr Davidson: Does your assessment of the wider impact take account of the impact upon the construction industry? Clearly, there are substantial labour shortages in construction and this project is going to have an enormous impact upon construction inflation. Is that being calculated as part of the whole exercise of assessing the impact?

David Higgins: Absolutely. The £900 million that the Secretary of State announced in September included a 1% additional estimate for inflation on the site.

Q219 Mr Davidson: Not just on the site, but the impact that that is likely to have upon the rest of the country.

David Higgins: The Olympics account for 2% of all construction activity during a five-year period. That is not substantial across the country. The benefit of this site is that the railway linkages mean that much of the services and material can be sourced from a wide part of the country. In London itself, around 12% of activity will be Olympic-related during the games; however, Terminal 5 will be finished at that time.

Q220 Mr Davidson: There are already substantial labour shortages in construction, and labour is being sucked in from quite a wide area, not only from across the whole of the UK, but the whole of Europe, and that has an impact upon public services. Will that be itemised in the assessment of the impact of the Olympics?

David Higgins: Our whole procurement strategy, which we are launching in two days, takes into account how we diversify our supply chain.

Q221 Mr Davidson: I understand that. However, what I was asking was whether or not that will be assessed as part of the adverse side of the wider benefits.

David Higgins: Absolutely.

Q222 Mr Davidson: Can I ask whether there are plans for local people in terms of training and construction?

David Higgins: Yes, there is an academy in Waltham Forest, which is already planning what it will do with the significant money put aside by the LDA, and which comes from planning gain.

Q223 Mr Davidson: Will you give some further clarification on that? I particularly want to ask whether labour on the site will be directly employed or will operate on the lump, in bogus self-employment.

David Higgins: I met with the TUC last week, and the ODA's objective is certainly to support direct employment strongly, because it gives greater control, particularly over health and safety.

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Q224 Mr Davidson: I am not quite sure what that answer means. Was that a yes? Will all the labour on the site be directly employed?

David Higgins: Over the past 20 years, the amount of directly employed labour in the construction industry has declined significantly. If we dictated the situation, such that only directly employed labour could be used on the site, the impact of the Treasury and of the Government coffers could be to scare contractors off and to reduce the market. We can achieve the same objective by working with the industry and with the union movement to maximise direct labour on the site, and that is exactly what we shall do.

Q225 Mr Davidson: My final question is on cost capping. Is the GLA council tax contribution of £625 million a capped amount?

Jonathan Stephens: The memorandum of understanding that sets out the original public sector funding package does not put a cap on any contribution, whether from the GLA, or council tax,

or the lottery. The only people who can levy additional council tax are the Mayor and the GLA, and the Mayor has made his position clear.

Q226 Mr Davidson: So that is a no—the amount is not capped. The lottery contribution of £410 million is not capped either.

Jonathan Stephens: That is correct.

Q227 Chairman: That concludes our hearing. I wanted to ask you another question about the legacy, but you can answer it in a note. I want to know who will own the main Olympic stadium after 2012, who will pay for the conversion, and what the ongoing running costs will be.

I thank you for your patience with us this afternoon, gentlemen—particularly Mr Stephens. Thank you too, Mr Stephens, for your reassurance that you will deliver the games on time and on budget—will you not?

Jonathan Stephens: I am looking forward to it.⁷

⁷ Ev 24

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

Questions 23–24 (Helen Goodman): *Tax exemptions in the Finance Act 2006*

The Finance Act 2006:

- Exempts the London Organising Committee of the Olympic Games Ltd (LOCOG) from Corporation Tax.
- Exempts the International Olympic Committee (IOC) from Corporation Tax.
- Exempts foreign resident athletes from paying income tax on any income arising from their performance at the Olympic Games.
- Provides for certain persons who temporarily enter the UK to carry out Olympic-related business to be exempt from tax on the revenues they earn from the work which they perform in relation to the Games.
- Provides for withholding tax not to be levied in relation to the sums of money paid to LOCOG or to the IOC by third parties who have acquired television rights or marketing rights relating to the Games and for withholding tax not to be levied on payments from LOCOG to the IOC.

These exemptions are in accordance with the undertakings given to the IOC.

There is no exemption from VAT. As a trading body the LOCOG is able to recover its VAT in the same way as any other business.

Question 174 (Mr Richard Bacon): *Recommendations made by the Olympic Projects Review Group (OPRG)*

The OPRG was formed by DCMS in April 2006 under the terms of the Olympic Delivery Authority's Financial Memorandum. Its role is to facilitate efficient scrutiny of business cases for projects above the ODA's £20 million delegation, to assess their value for money and affordability and to make recommendations to the Secretary of State, the Mayor and HM Treasury for their approval.

Under the Financial Memorandum the OPRG is required to submit its recommendations for approval within two to three weeks of receipt of a business case.

Speed of decision making is facilitated by its representation which includes the Mayor's office and HM Treasury as well as the Olympic Lottery Distributor and other key stakeholders (CLG, LOCOG and OGC).

Since its formation OPRG has recommended for approval the following significant projects:

- Appointment of the CLM consortium as the ODA's Delivery Partner.
- Olympic Park Enabling Works—including site investigations, demolition of buildings, remediation and remodelling of the land of the Olympic Park.

- Upgrade works to Stratford Regional Station to increase its capacity in advance of the Games.
- Contribution to Works to the Docklands Light Railway (DLR) to link it to the new Stratford International Station and to extend the network south of the Thames.
- Contribution to water control works at Prescott Lock which will enable the transportation by water of construction freight to and from the Olympic Park.

Question 195 (Mr Richard Bacon): *The £400 million*

The ODA has engaged the Delivery Partner CLM to provide world class programme and project management and expertise. They will manage the programme risks, provide high level reporting and initiate mitigation measures to ensure that the programme is delivered to time and to budget. The ODA remains the client and retains the responsibility for the delivery of the Olympic infrastructure and venues together with the accountability, through Ministers, to Parliament.

The total of the Programme Delivery budget, including the revised cost amendment of circa £400 million referred to by the Secretary of State on 21 November 2006 is £570 million. This represents around 10% of the total costs of the ODA Programme, which is consistent with the industry norms for a project of this scale, complexity and concentration. Of this, the combined staffing, accommodation and IT cost of ODA and Delivery Partner CLM is £476 million. The balance of £94 million is to cover the establishment on the Olympic Park site of the necessary provision for up to 9,000 construction workers, including health and canteen facilities and transportation. At the time of the bid, no decisions had been taken on the delivery structures necessary, and the IOC requirements did not include estimates of programme delivery costs.

Question 227 (Mr Edward Leigh): *Ownership of the Main Olympic Stadium after 2012, who will pay for the conversion and what the ongoing running costs will be*

Funding for post-Games conversion was included in the original Public Sector Funding Package. No decision has yet been taken on who will own the stadium after 2012. However, the Olympic Board is committed to delivering on its commitment to the communities of London and the IOC to have a sustainable athletics and community sports-for-all concept in legacy. The Olympic Board has discussed a report on legacy that shows that the “Living Stadium” concept—with a mixed sport offering, combined with commercial, school and community use—is the most compelling option to deliver the legacy ambition. The Olympic Board has commissioned further work on this concept. The running cost consequences will follow from the nature of the legacy facilities adopted. Running cost figures are not available at this stage.

Memorandum submitted by the British Property Federation

PLANNING GAIN SUPPLEMENT AND THE OLYMPICS TAX BILL

INTRODUCTION

The Treasury’s proposed new development land tax would add tens of millions of pounds to the 2012 London Olympics tax bill.

Planning applications received after 2009 for the Olympic legacy developments will be subjected to a massive extra land tax which has not been included in current cost estimates.

Although the main Olympic stadium application has already been submitted, planning applications for developments after 2009 that will make up the legacy will be hit with a new development tax that will be set higher than the VAT bill at 17.5% which the Treasury has previously refused to waive.

The Planning Gain Supplement (PGS) will exceed VAT payments

The new development land tax, called the Planning Gain Supplement (PGS), is a tax on the uplift in land value that occurs as a result of planning permission being granted, with the rate expected to be set between 20% and 30%—almost certainly exceeding VAT payments.

Much of the land designated for Olympic development is brownfield and will realise a massive increase in value through both the Olympic and subsequent legacy developments. Chancellor Gordon Brown declared that just 70% of the monies raised through PGS would be returned to the “local authority area”, leading many to believe that this is yet another attempt to fill Treasury coffers by taxing regeneration.

How PGS will be calculated

The PGS works as follows: if a plot of land was worth £100k and then rose in value to £2 million once planning permission for a new development was agreed, the PGS at a rate of 20% to 30% of £1.9 million would yield around £380k to £570k.

The development community is willing to pay for infrastructure, but PGS is flawed

The development community's opposition to PGS is not based on a reluctance to pay its share of community infrastructure, but rather we find that the PGS mechanism will not work in practice and is likely to jeopardise vital regeneration schemes and housing delivery in the UK.

Since the tax will be centrally collected and redistribute back to local and regional areas it will remove the vital link between developers and local communities who have no certainty that development-critical infrastructure, currently provided directly by developers, will be delivered on time and will be enough to pay for the required infrastructure.

Through the present "Section 106 system" developers pay for and deliver community infrastructure to mitigate the impact of new development. In many cases developers will provide schools, leisure centres, roads and affordable housing—all of which would not be provided under the PGS. The BPF calculates that "Section 106 agreements", negotiated between local authorities and developers, raise over £3 billion per year in benefits for communities.¹

PGS is opposed by industry

PGS has been opposed by business and industry alongside staunch criticism from the Conservatives and Liberal Democrats. Independent research² published last September showed PGS would raise less revenue than current land tax arrangements, and could potentially hamper the supply of affordable housing and other local benefits currently provided through the Section 106 system.

Government consultation on PGS

The Government consultation on PGS ended on 28 February and the new tax is scheduled to be introduced in 2009.

The BPF's response to the Treasury's consultation is available at:

<http://www.bpf.org.uk/topics/document/23080/bpf-response-to-governments-planning-gain-supplement-consultation>

About the British Property Federation

The British Property Federation is the voice of property in the UK, representing companies owning, managing and investing in property. This includes a broad range of businesses comprising commercial property owners, financial institutions including pension funds, corporate landlords, local private landlords, as well as all those professions that support the industry, such as law firms, surveyors and consultants.

Every day BPF members are making key contributions to the economic and social well-being of the UK. Our commercial members provide the workspace for business and fund the regeneration of our towns and cities. Our residential members focus on the private rented sector, providing housing choice to meet the needs of a mobile workforce, a prerequisite for achieving higher growth in our economy. And our investor members rely on the performance of £250 billion worth of investment in property to fund pensions.

¹ The BPF report, *Property Development in the Community*, May 2006 drew on an independent survey of 126 major developments carried out by BPF members during 2003–04. It found that over £3 billion had been invested into community projects agreed with local authorities in Section 106 agreements associated with the developments.

² Knight Frank independent research published on 19 September 2006 can be viewed at: <http://www.bpf.org.uk/newsroom/pressreleases/document/21101/independent-pgs-study-commissioned>