

House of Commons, Culture, Media and Sport Committee

London 2012 Olympic Games and Paralympic Games: funding and legacy

Second Report of Session 2006–07, published 24 1 07

Conclusions and recommendations

1. We note the confidence of the ODA and of the Secretary of State that remediation costs will be contained within the existing budget. However, given that the site survey work is little more than 50% complete, uncertainty will remain. The authorities should be more specific about the precise nature of contamination at the site, and the Government should report back as soon as the survey is completed. (Paragraph 15)
2. We note that there remains a lack of clarity about the expenditure of such a significant sum [£1.044 billion for linking the Olympic Park to local infrastructure], and we recommend that the Government issue a detailed breakdown of how the figure was reached and how it is to be spent. (Paragraph 20)
3. We commend the scrupulous approach by the Secretary of State in distinguishing between costs which are integral to the Games and costs which are not; but we nonetheless encourage her to look favourably on co-ordinating the expenditure of ODA funds with local regeneration funds where long-term benefit for the local community can be shown. (Paragraph 26)
4. No details have been supplied as to what measure of inflation has been used to arrive at the figure of £2 billion for the LOCOG budget. We encourage the Secretary of state to provide further details. (Paragraph 29)
5. We recommend that further work be done to determine the potential impact of the ban [on television advertising of all foods high in fat, salt and sugar] and whether it will have an effect on sponsorship for the Games. (Paragraph 38)
6. We admire the confidence of the LOCOG team in its capacity to secure the necessary revenue, including sponsorship. It would be wrong, however, to ignore the fact that amounts raised through sponsorship and licensing, as well as from ticket sales, are hard to predict and may turn out to be lower than foreseen in the Candidature File. (Paragraph 39)
7. We believe that LOCOG and the Government should recognise the possibility that [LOCOG] revenue may fall short of that forecast; and we believe that they should give early consideration to the implications. (Paragraph 39)
8. The optimism of LOCOG that the effort to secure sponsorship for the 2012 Games will not detract from sponsorship for community sport is welcome. However, the Committee will keep this under review. (Paragraph 40)
9. We urge the Secretary of State to publish the revised budget for security costs, as soon as it has been agreed. (Paragraph 46)
10. The lack of any reference in the Olympic Objectives to the Government having responsibility for security at the Games appears to be an oversight which should be rectified. (Paragraph 47)

11. We welcome the assurances by the Government that the ODA's liability to pay VAT on goods and services will have no impact on the taxpayer. (Paragraph 49)

12. The Committee regards it as unsatisfactory that this issue [liability to VAT] has emerged so late in the process and that it was not resolved at the time of the preparation of the bid document. (Paragraph 50)

13. We are surprised that the Treasury did not establish the position [on VAT] from the start. The Chancellor now needs to provide an explanation of how this arose, particularly given that VAT did not have to be paid on the costs of the Athens Games. He also needs to provide details of how this issue will be resolved as soon as possible, in order to ensure that there is no adverse impact on the financing of the Games. There may also be a requirement to agree any solution with the European Commission, which could result in further delay. (Paragraph 50)

14. 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. This new issue of additional 'programme contingency' gives the impression, rightly or wrongly, that the initial advice upon which DCMS relied appears to have been deficient; and we believe that the Treasury could and should have drawn attention to this alleged deficiency before the bid was submitted. Given the possible scale of such a new provision, the rationale for 'programme contingency' should be thoroughly explained, with practical reference to other major building projects around the world, and the professional advice to the Treasury and DCMS (including that of KPMG) to justify this should be published for the benefit of public understanding. (Paragraph 55)

15. We welcome the determination to ensure proper delivery of the 2012 London Olympics. However, we are surprised that, given the original assurances about the rigour of the budgeting process, it is only now seen to be necessary to include this additional element of control and that it is such a significant cost. We can only conclude that cost control procedures were not fully thought through at the time that the bid was submitted. We call upon the Government to provide a detailed explanation of how the figure of £400 million for the Delivery Partner was arrived at, including any total cost of construction which has been used in arriving at this fee. We further call for the main terms of the agreement with the Delivery Partner to be made public. (Paragraph 58)

16. We welcome the Secretary of State's readiness to provide as much information as possible to the Committee. We recommend that, given recent controversy about the cost of the Games, the Secretary of State's report to Parliament on the conclusions of the cost review currently under way is as comprehensive as possible and should be in the form of an Oral Statement. (Paragraph 59)

17. The Committee is disturbed that such statements [on costs] have been disproved in such a relatively short space of time. It is particularly ironic that part of the extra costs already identified will be incurred in paying a delivery partner to exercise cost control. (Paragraph 60)

18. The Committee is concerned about the distance between the figures submitted in the bid and the true costs, which will not become evident until after the Games. We believe that everyone involved should draw lessons from this in terms of project appraisal, management and communication at this relatively early stage so that there is no repetition which would prejudice public support for the Games, their success or their legacy. (Paragraph 61)

19. We stress the value of external assessment in building public confidence that money is being spent properly, and we particularly welcome the involvement of the National Audit Office. (Paragraph 63)

20. The timing of the competition currently under way to operate the National Lottery, when the potential for disrupting an essential funding stream is so great, is very unfortunate. Although we accept that a decision has been taken, we believe that it would have been better to have extended Camelot's licence beyond the Games. We recommend that the Commission carefully considers risks of a change of operator on preparations for the Olympics when reaching its decision. (Paragraph 70)

21. We conclude that the substantial financial contribution by Sport England to the 2012 Games need not necessarily have a major effect on programmes to enhance participation in sport at community level. However, there is a clear risk, if we are not careful, that programmes outside the capital may suffer because of the focus on London and in particular in sports which are either not part of the Olympics or which are not recognised as mainstream Olympic sports. (Paragraph 77)

22. We have no doubt that the diversion of money from the NLDF to the OLDF arising from transfers already announced will reduce Sport England's ability to undertake non-Olympic-related activity to promote grassroots sport across the country. This will clearly be exacerbated by any further diversion to meet Olympic cost increases. (Paragraph 78)

23. DCMS should justify the inclusion of sums already spent in preparation of elite athletes for the Games in Athens and Beijing as part of the funding package for the London Games. (Paragraph 79)

24. DCMS should explain without delay how it plans to carry out the further transfer of funds from the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund, so that the effect upon distributors is made clear. (Paragraph 81)

25. A further transfer of Lottery revenues from the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund, above the £410 million already identified, would penalise good causes yet further. We believe that any further diversion of money from the Lottery would reduce the money available for each of the good causes, and it is not our preferred option for funding any overspend. (Paragraph 83)

26. We recommend that a cap should be placed on the liability of London residents to fund any further increase in Games costs via increases in the Council Tax. Beyond that, other means of raising revenue should be used, and the need for further funding from the Exchequer should not be ruled out. (Paragraph 85)

27. As already noted, although the Memorandum of Understanding is generally interpreted as specifying that contributions to meet any shortfall between Olympic costs and revenues would come exclusively from the National Lottery and from the Mayor of London, through London Council Tax, the meaning is not totally clear. We do not, in any case, accept the principle of such a restriction. (Paragraph 86)

28. We have not examined in detail the case for abolishing or adjusting the tax regime applicable to the Lottery; but we believe that such a move could well be viewed by the general public as the fairest means of securing further funding for the 2012 Games. We recommend that the Treasury should explore options for amending the tax regime applicable to the Lottery, whether on a temporary or a permanent basis, as a means of ensuring the necessary flow of funds into the Olympic Lottery Distribution Fund. (Paragraph 90)

29. We do not believe that the London Development Agency (LDA) should be the ultimate beneficiary from the sale of land acquired for the Olympic Games. We recommend that the LDA should state how it plans to dispose of land once the Games have finished and should make proposals for distributing any net

financial gains which it makes from the land, whether notional or through sales. We believe that the best use for such funds would be to meet any Games costs which are outstanding. Given the regeneration and legacy benefits from the Games, we also recommend that the Government assesses whether the £250 million contribution, within the Public Sector Funding Package, from the LDA is sufficient in the first place. (Paragraph 91)

30. We commend the bid team for the enormous weight placed upon sporting and community legacy: this was one of the great strengths of the bid and may have been decisive in the award by the IOC in Singapore. It is all the more important, therefore, that it should be delivered. (Paragraph 92)

31. We are satisfied that responsibility for delivering the regeneration legacy for London rests clearly with the Mayor of London. However, the Mayor must acknowledge that local authorities, as the bodies most aware of local needs, are best placed to convey local opinion. (Paragraph 97)

32. The commitment to retain an athletics facility at the Stadium once the Games had finished may have been a deciding factor when the decision on Host City was made in Singapore. (Paragraph 103)

33. We recommend that, if no club comes forward in the near future with a viable proposal to become “anchor tenant” in the Olympic Stadium once the Games have concluded, an effort should nonetheless be made to allow scope in the final design for use as a home ground for a club with a significant and regular following. (Paragraph 104)

34. We note that discussions are still under way between the Olympic Delivery Authority and the Host Boroughs, and we strongly recommend that the design for the Aquatics Centre should provide for a mix of leisure use and traditional “lane” swimming. (Paragraph 107)

35. Understandably the £134 million price attached to the Broadcast and Press Centre has attracted some controversy. The authorities should justify the cost. Again, too, its future value should be taken into account, along with the other venues, when funding the rising cost of the Olympics is being considered. (Paragraph 108)

36. We believe that the decision to limit to five the number of permanent venues remaining within the Park after the Games was sound. Any pressure from international sporting federations – or indeed from the International Olympic Committee – to build unnecessarily high-specification venues should be strongly resisted. We are reasonably confident that a mixed legacy use should provide a sustainable future for the Aquatics Centre and the Olympic Stadium, although we believe that the latter would be rather more secure if it were also to become the home stadium for a football club, possibly in conjunction with a major rugby club. The smaller permanent venues – for hockey/tennis and for cycling - face a tougher struggle if they are to be commercially successful, although we note the popularity of hockey at community level and the tradition of excellence at cycling in the UK. We are less certain about the future of the indoor sports arena, which may face direct competition with established venues nearby. (Paragraph 111)

37. No host country has yet been able to demonstrate a direct benefit from the Olympic Games in the form of a lasting increase in participation. While we offer every encouragement to the Government and to other stakeholders in achieving such an increase, we believe that lasting success is most likely to be attained through an expansion of school sport and through a greater priority being attached by local authorities to developing community sport. (Paragraph 113)

38. We recommend that DCMS and Sport England should publish a joint plan as soon as possible on implementation of Olympic Sub-Objective 4.4, namely, achieving the maximum increase in UK participation at community and grass-roots level in all sport and across all groups. (Paragraph 113)

39. We further believe that the 'legacy' of the Olympics should not start after 2012, but rather right now. The UK's bid stressed local community participation, yet the Olympics are to take place in some of London's poorest boroughs where many of the inner city schools enjoy not so much as a blade of grass. We recommend, therefore, that DCMS works with the Department for Education and Skills, LOCOG and sponsors to address the lack of sports facilities open to schoolchildren, in particular, on whose doorstep the Olympics will be held. (Paragraph 113)

40. We agree that fears of overcrowding, high prices and poor availability of accommodation may well deter visitors from coming to London during the period of the Games. (Paragraph 117)

41. To be successful, London must have sufficient capacity, acceptable prices and good quality accommodation to attract visitors during the period of the Games. (Paragraph 117)

42. We very much welcome the effort by DCMS to develop a tourism strategy for the 2012 Games. Although the consultation paper claims not to be designed to inform a comprehensive tourism development strategy and to concentrate merely on what will be needed to deliver improvements by 2012, we note that the consultation invites views on possible new targets to replace the existing ambition of a £1 billion tourist industry by 2010. In doing so, it ranges well beyond the Games and may presage a different approach to tourism by DCMS. (Paragraph 121)

43. The Games will advertise the UK and London in particular; they represent an opportunity to raise profile and invest in future tourism rather than to generate short-term gains. There may well be a need for more investment in tourism by the Government if full advantage is to be taken of that opportunity. (Paragraph 122)

44. We conclude that training camps are unlikely to be of great economic benefit to the nations and regions; and local authorities should be disabused of any notion that vast sums of money are to be made from the presence of national teams training in advance of the Games. We believe, however, that where they are established the presence of a training team will foster a sense of involvement in the Games in the regions and will provide opportunities for cultural links and for local schools to glimpse elite sport at first hand. The principal benefits of hosting training teams will be through involving the local community rather than generating economic gains. (Paragraph 130)

45. We conclude that an ability to associate with the 2012 Games on a non-commercial basis is essential if community involvement and legacy is to be realised to its full potential. We recommend to the International Olympic Committee that it should work with LOCOG to identify ways of permitting this. (Paragraph 135)

46. The Cultural Olympiad has received comparatively little attention so far. We recommend that the Government should do more to publicise and co-ordinate it, drawing together ideas, sharing good practice, and increasing awareness of some of the more practical and imaginative suggestions which are being made. (Paragraph 140)

47. We welcome the Nations and Regions Group's recognition that local and community interests must underlie national and regional strategies, and we are encouraged by the Group's account of work under way. We also endorse the concept articulated by the group that the Games should be a UK Games hosted in London. We will in time, however, seek further evidence that the working groups formed in each nation and region truly reflect all elements of their communities in their work. (Paragraph 145)

48. The Committee notes the recent expressions of confidence by the International Olympic Committee in the quality of work and planning and the progress achieved in relation to timetable when compared with previous host cities. We acknowledge the careful and thoughtful approach taken so far and we endorse the decision by the ODA to plan thoroughly before taking binding decisions. We strongly commend LOCOG and the ODA for their achievements. (Paragraph 148)

49. It is inevitable, as has been the case with previous Games, that the Games will, quite simply, cost the UK significantly more than the outline cost in the original bid. It is vital that public confidence in the project is maintained. An authoritative figure for final overall cost, and details of how it is to be funded, are essential if this is to be achieved. (Paragraph 149)

PDF of full report downloadable from: <http://www.publications.parliament.uk/pa/cm/cmcmds.htm>