

**Financing the 2012 Olympic and Paralympic Games -  
A report of the London Assembly Budget Committee**

## **The Budget Committee**

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Andrew Pelling	- Deputy Chair (Conservative)
John Biggs	- Labour
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Peter Hulme Cross	- One London
Jenny Jones	- Green
Joanne McCartney	- Labour
Bob Neill	- Conservative
Mike Tuffrey	- Liberal Democrat

The Budget Committee's general terms of reference are to examine at each stage of the consultation process the Mayor's budget proposals for the next financial year and to report to the London Assembly thereon as necessary. It can also examine, monitor and report to the London Assembly from time to time on matters relating to the budgets and performance of the Greater London Authority (GLA) and the Functional Bodies (Transport for London (TfL), Metropolitan Police Authority (MPA), London Fire and Emergency Planning Authority (LFEPA) and the London Development Agency (LDA)).

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## Chair's foreword



The foreword to a committee's report can be quite personal to its chair, and some of what I have to say is indeed very much mine – I would not expect every member to go along with every word.

The Budget Committee has a job to do in connection with the Olympic and Paralympic Games. But there is a wider context. The Games are exciting in themselves, and for the “can do” attitude that they embody and which can sweep beyond the event, beyond the venues, across all ages. I say this as someone whose sporting prowess was encapsulated by the teacher who asked “Are you having difficulty seeing the ball, dear?”

The Games are a tremendous thing for London. When they take place, all eyes will be on our city; London will have the chance to show itself at its best. And indeed, handled well, the story beforehand can be a tremendous thing for London. It is hard to quantify some of the benefits that London can glean, but there will be economic benefits – tourism, business – among them.

One of the jobs of those responsible is to spread widely that excitement, and the feeling that these are London's Games: ownership, not disengagement or opposition. It is understandable that people geographically distant ask what is in it for their area. It is important that the organisers ensure something concrete for as many places as possible. But it's more than this – London as a whole stands to benefit.

Included in that benefit is the catalyst and building block afforded by the Games to the regeneration of an area of London which sorely needs it. Yes, indeed, that should be happening in any event, but the reality (and a greater cynicism than this foreword might imply) suggests it would not be doing so. That regeneration is to the good of all London.

I was keen to publish this report, not because of suspicion about the costs but because I believe that it is essential to allay suspicions. That means transparency. It also means that the “lifetime” budget is agreed and published as soon as possible. When we have projected final figures, instead of speculations and unconnected, partial information, we will have something against which to test progress. The more it appears that “they” are fudging figures, the more support will be lost.

Londoners – indeed all taxpayers – are entitled to be given the totality of the costs, and to be able to understand how they are made up. It may not be possible entirely to separate out the regeneration costs, but the more we can see what is costing what, the better.

The Budget Committee will continue to scrutinise the financial aspects of the Games, not to undermine them but as our contribution to ensuring their success. Our greatest success in this exercise will be if what is put, unbidden, into the public domain over the next few years means that we are left struggling to find questions.

A handwritten signature in dark ink, reading 'Sally Hamwee'.

Sally Hamwee  
Chair of the Budget Committee

November 2006

## 1. Introduction

1.1 One year on from London being awarded the 2012 Olympic and Paralympic Games around £500 million of public money had been spent on the Games.<sup>1</sup> Whilst organisations working on the Games, such as the London Development Agency (LDA),<sup>2</sup> have been reporting separately on their Games-related expenditure, there has been, until recently, little public information on the totality of expenditure. And the lifetime budget for the Games is not expected until next year. In this, its first report on the financing of the Games, the Budget Committee is asking for more information to be put in the public domain.

### What are Londoners getting for their financial contribution to the Games?

1.2 In 2006/07 London council taxpayers are contributing a specific £57.7 million through the Greater London Authority (GLA) precept to the public sector funding package for the Games. This is the first part of a total of between £550 million and £625 million which the Mayor agreed as the council taxpayers' contribution to the Games "deal" with Government.<sup>3</sup> It has not yet been explained in detail what Londoners are getting for their contribution to the Games. Whilst it might not be possible to provide a full breakdown, the Mayor could expand on the broad point that London council tax will fund the infrastructure for the Games. If Londoners are to remain supportive of the Games, it would be helpful to have more information before the lifetime budget for the Games is published next year.

1.3 On top of the specific £57.7 million for the public sector funding package, London council taxpayers are also contributing to the Games via the regular GLA council tax precept and their council tax contributions to the London Boroughs. London Boroughs will need to make informed choices about spending on the Games and the GLA has a role to play in letting them know what is being spent on the Games and what this covers. This could help to identify opportunities for joint work.

### Current spending on, and funding of, the Games – a confusing picture

1.4 Trying to understand what has been spent on the Games, by whom, and on what, can be confusing. There will be spending not just on infrastructure necessary for the Games but also on wider longer-term regeneration of an area of east London. Six separate sums can be mentioned in the context of financing the Games, as shown in the chart at paragraph 3.1 of this report.

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<sup>1</sup> Report to the Budget Committee meeting on 19 October 2006, Financial information on the preparations for the London 2012 Olympic and Paralympic Games. provided information on expenditure as set out in the table at paragraph 1.5 of this report

<sup>2</sup> For example, quarter 4 2005/06 and quarter 1 2006/07 budget and performance monitoring reports to the London Assembly Budget Monitoring Sub-Committee

<sup>3</sup> In May 2003 the Mayor and Government signed the "Olympic Funding: Memorandum of Understanding between the Government and the Mayor." This provided for up to £2.375 billion to help meet the cost of staging an Olympics in London in 2012. The first £2.05 billion of the funding package would be met from up to £1.5 billion from the Lottery and up to £550 million from the London Council Tax. Beyond £2.05 billion, provision has been made for a further contribution of £75 million from London Council Tax, if required. This gives a maximum Council Tax contribution of £625 million. The full Memorandum of Understanding is at Appendix 2 of this report.

1.5 It was clear from information reported to the Budget Committee, set out below, that some spending on the Games up to the end of August 2006 had not been as planned.<sup>4</sup>

	Expenditure in 2005/06 and before - £m	Expenditure in 2006/07 to 31 August 2006 - £m	Budget for 2006/07 to 31 August 2006 - £m	2006/07 total budget - £m	Total forecast spending – all years
ODA (including VAT)	44	65	83	224	Not reported
LDA	245	104	158	226	1,444.29
TfL -Olympic projects	0.4	3	2	9	69.2
GLA	0.3	0.3	0.3	0.7	2.369
<b>Total</b>	<b>290</b>	<b>172</b>	<b>243</b>	<b>460</b>	<b>-</b>

1.6 The table shows that the LDA, responsible for preparing the land, had spent less than budget up to August 2006. The table also shows that the Olympic Delivery Authority (ODA) had, up to August 2006, spent less than it forecast on infrastructure and regeneration. However, the ODA's 2006/07 budget was determined before it was established earlier this year. There has been a "deliberate pause" on some spending by the ODA, and it has forecast to be on target at year-end.

1.7 It is also apparent from information made available that more money may be raised from London council taxpayers and the National Lottery this year than the ODA actually requires. If this occurs, it should be made clear what happens to any money not used. In the context of much internal monitoring and reporting on the Games by the ODA, LDA and GLA, it should be possible to put more information in the public domain.

#### Future spending on, and funding of, the Games – a need for clarity

1.8 There is on-going speculation, and only some information, about the rising costs of the Games. Recently, the acting Chair of the ODA told the London Assembly that a budget was being sought that was significantly higher than the figures in the original bid. The Secretary of State for Culture, Media and Sport has since spoken of an increased cost for infrastructure of £3.3 billion – up from £2.4 billion.<sup>5</sup> Separately, the ODA and the Mayor have reported possible increased costs in relation to security, regeneration, contingencies and Value Added Tax (VAT). This adds weight to the call for more public information – if Londoners are to remain supportive of the Games, they need to know more. It is disappointing that the lifetime budget, which should shed light on future costs and funding, is unlikely to be available until spring 2007.

<sup>4</sup> The information in the table is drawn from the report to the Budget Committee meeting on 19 October 2006, 'Financial information on the preparations for the London 2012 Olympic and Paralympic Games'. All years budgets were provided for LDA, TfL and GLA. In the case of the GLA "all years" covers 2006/07-2008/09. The years for LDA and TfL were not specified.

<sup>5</sup> Comments made at Culture, Media and Sport Select Committee meeting, 21 November 2006

- 1.9 In the midst of on-going discussion about rising costs, it is important not to lose sight of certain issues. The Mayor has said that London council taxpayers will not pay more than the amount already agreed. The ODA will be paying public money to a private consortium, CLM, for work to deliver the Games. There will be on-going costs after 2012 for the infrastructure built for the Games. Money will be spent not just on the infrastructure needed for the Games but also on wider long-term regeneration of an area of east London. Some of these issues will need to be addressed, and reflected in the lifetime budget for the Games, where appropriate, if Londoners are to get a clear picture of expenditure on the Games.

## 2. What are Londoners getting for their financial contribution to the Games?

- 2.1 In 2006/07 London council taxpayers are contributing a specific £57.7 million through the GLA precept to the public sector funding package for the Games.<sup>6</sup> This, the first annual contribution towards a total of up to £625 million to be raised from the Council Tax, equates to an extra £20 a year for those in Council Tax Band D (38 pence a week) and an extra £40 for those in Council Tax Band H (77 pence a week).<sup>7</sup>
- 2.2 It has not yet been made clear what Londoners are getting for £57.7 million. Neale Coleman, Director of Business Planning & Regeneration, Mayor's Office, GLA told us that the money coming from council taxpayers is part of a wider funding package critical to underpinning the overall delivery of the Games. He said "I think we could come up with some artificial line that our money is paying for this bit or that bit but, frankly, that is not the reality and I think it would be wrong for us to do that."<sup>8</sup> We recognise that it may be difficult to separate out the London council taxpayers' contribution from the wider public sector funding package in detail. The Mayor has said that the contribution was simply what he agreed with Government as part of the overall deal. However, we consider that the Mayor could do more to explain what London council taxpayers are to fund in relation to the Games, even if only in broad terms. In particular, he could explain how he is ensuring value for money from this expenditure.
- 2.3 If current spending by the ODA, part-funded by London council taxpayers, is mainly on start-up costs, this should be explained. Neale Coleman told us that London council taxpayers are probably funding such things as "designers, consultants, staff at the ODA"<sup>9</sup>, describing these as "not as tangible as some of the things that will be delivered later."<sup>10</sup> However, such expenditure could be broken down. For example, the Mayor could report on the number of ODA staff and the salary budget. It has been reported that the ODA has recruited 53 permanent staff and approximately 100 consultants.<sup>11</sup> A specific salary budget will be drawn from the total £24 million that the ODA is forecast to spend on operation this year.<sup>12</sup>
- 2.4 The lifetime budget for the Games may make it easier to set out details of what £57.7 million of council tax is paying for, but this will not be available until next year. In the meantime, London council taxpayers' contribution is being collected and spent. The ODA will be receiving the £57.7 million from the GLA in ten instalments, the first few of which have already been made. The Mayor needs to account for the spending of this money. He should be able to include in his consultation draft budget 2007/08 details of what is funded by the £57.7 million contributions being collected in 2006/07 and in 2007/08 and also in his explanation of the GLA council tax precept for council taxpayers. We recognise that there may be timing issues. Council tax bills are to be issued in March but the date for the release of the lifetime

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<sup>6</sup> GLA Consolidated Budget 2006/07, page 10

<sup>7</sup> Letter from Executive Director of Finance & Performance GLA to Budget Committee, 19 December 2005. The amounts per Council Tax Band are: Band A £13.33, Band B £15.56, Band C £17.78, Band D £20.00, Band E £24.44, Band F £28.89, Band G £33.3 and Band H £40.00

<sup>8</sup> Transcript of Budget Committee meeting on 19 October 2006, page 12

<sup>9</sup> Ibid, page 13

<sup>10</sup> Ibid, page 12

<sup>11</sup> Report to the Budget Committee meeting on 19 October 2006, Financial information on the preparations for the London 2012 Olympic and Paralympic Games

<sup>12</sup> Ibid



budget is, as yet, unclear. Nevertheless, this should not prevent some information, at least, being provided.

**Recommendation:**

That the Mayor explains in his consultation draft budget 2007/08 what the specific annual council tax contributions of £57.7 million for the Games being collected in 2006/07 and 2007/08, are paying for, including any ODA start up costs such as staffing.

That the Mayor sets out in his explanation of the GLA council tax precept for council taxpayers what the council tax contributions for the Games in 2006/07 and 2007/08 will fund.

2.5 In addition to the specific £57.7 million contribution, London council taxpayers are also contributing to the Games via the regular GLA council tax precept. Last year we expressed concern at the growth of £500,000 in the core GLA budget for “additional staff to support Olympics and Paralympics activity in delivering the Mayor’s strategies”<sup>13</sup>, asking the Mayor to explain why, in light of all the other organisations working on the Games, such staff were needed at London council taxpayers’ expense.<sup>14</sup> The Mayor did tell us that “we are not going to have here [in the GLA], 50 bureaucrats monitoring what 500 bureaucrats are going to be doing at the ODA.”<sup>15</sup> Now the GLA has advised of total expenditure in 2006/07 of £660,000 covering staffing and programme budgets. This is part of a total of £2.369 million Games-related expenditure over the next three years.<sup>16</sup> Again, we ask the Mayor to explain fully why such expenditure by the GLA is required. We also reiterate our previous request for the Mayor to provide in his budget full details of what each member of the GLA group will be spending on the Games next year.

2.6 On top of what the Mayor is collecting via the GLA precept, London council taxpayers are also contributing to spending on the Games through their payments to the London Boroughs. Fifteen London Boroughs have reported spending a total of around £800,000 on Games’ related work in 2005/06. In 2006/07, they will be spending over £2.5 million.<sup>17</sup> (We have not received details of what has been spent, and will be spent, by the other eighteen London Boroughs). Typically the spending that has been reported is on marketing and promotional Games-related events and staff (often to co-ordinate the events and undertake policy work). For example, the London Borough of Brent is spending around £43,000 in 2006/07, including some spending on a Games related reception.<sup>18</sup> The London Borough of Hackney is spending £1.07 million, which includes expenditure on up to 19 staff.<sup>19</sup>

<sup>13</sup> GLA Group Budget Proposals and Precepts 2006/07 – Consultation Document, page 14 (Schedule 3 of GLA core budget submission 2006/07 shows the additional Olympics staff as: 0.6 Full Time Equivalent (FTE) in Mayor’s Office Public Affairs, 0.8 FTE Senior Policy Adviser in Mayor’s Office Business Planning and Regeneration, 1 FTE in Mayor’s General Office – PA, 1 FTE press officer in Media and Marketing, 2 FTE senior policy officers and 1 FTE policy support officer in Policy & Partnerships and 1 FTE legal adviser in corporate services)

<sup>14</sup> Budget Committee’s response to the Mayor’s consultation draft budget 2006/07, page 4

<sup>15</sup> Transcript of Budget Committee meeting on 15 December 2005, page 38

<sup>16</sup> Report to the Budget Committee meeting on 19 October 2006, Financial information on the preparations for the London 2012 Olympic and Paralympic Games

<sup>17</sup> See Appendix 2 to this report for full details

<sup>18</sup> Written submission from London Borough of Brent to Budget Committee

<sup>19</sup> Written submission from London Borough of Hackney to Budget Committee

2.7 London Boroughs will need to be able to realise any benefits emerging from the Games and may need to spend money in order to do so. It is important that, when deciding to spend money on the Games, London Boroughs have full details of what is being spent by all organisations and what this expenditure is providing for, so they can make informed decisions. We consider that the GLA could help keep London Boroughs informed on spending on the Games. Neale Coleman told us that the GLA is working with the London Boroughs through the London Co-ordination Working Group.<sup>20</sup> We suggest that this Working Group be used to let London Boroughs know about all expenditure on the Games and any opportunities to work together.

**Recommendations:**

That the Mayor sets out in detail in his consultation draft budget 2007/08 why additional expenditure on the Games by the GLA totalling £2.369 million over 2006/07-2008/09 is necessary, and provides full details of all expenditure by the GLA group on the Games.

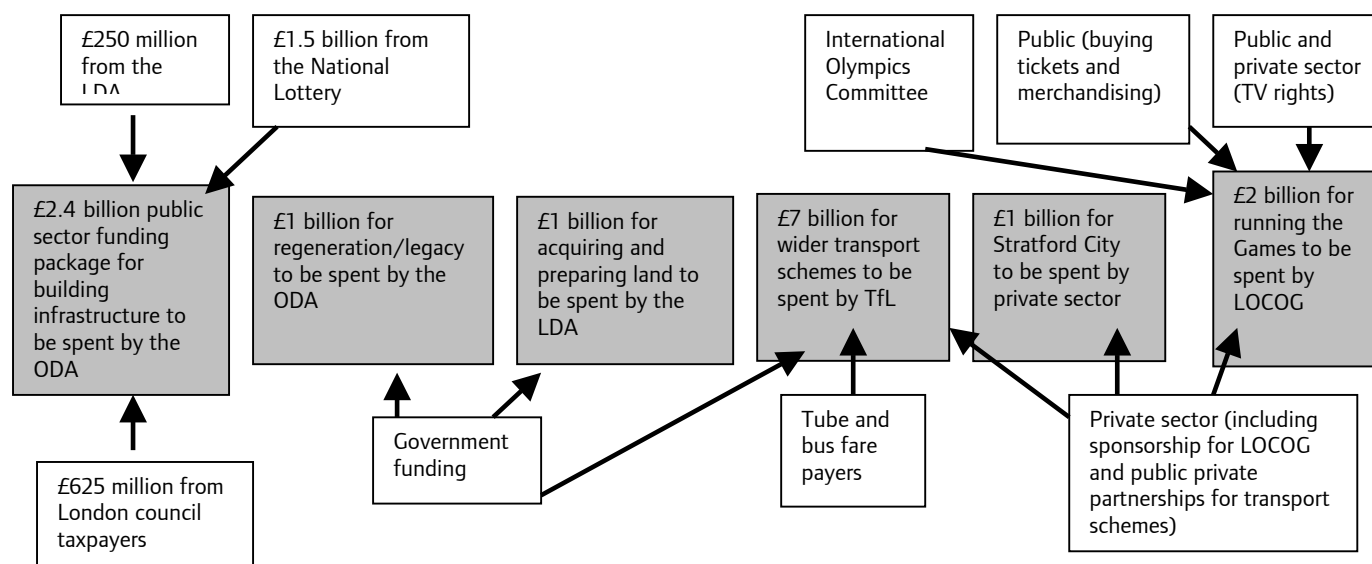
That, from now onwards, through the London Co-ordination Working Group, the GLA ensures that London boroughs are kept informed of all spending on the Games and any opportunities to work together to avoid duplicate expenditure on the Games.

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<sup>20</sup> Transcript of Budget Committee meeting on 19 October 2006, page 5

### 3. Current spending on, and funding of, the Games – a confusing picture

3.1 Trying to understand what has been spent and is being spent on the Games, and by whom, can be confusing. Six separate sums of money can be mentioned in the context of financing the Games (as shown in the shaded boxes below) with funding coming from many different sources.



3.2 To date, expenditure on preparing the land (the LDA's responsibility) and building the infrastructure (the ODA's work) has not been as forecast for the year.

- The Mayor's 2006/07 published budget provided for the LDA to spend £102 million on the Games; this amount has since more than doubled to £226.16 million.<sup>21</sup> The growth is to cover higher costs associated with land requirements and is to be funded from prudential borrowing budgeted at £154 million this year. Although the LDA has said that its commitment not to spend more than 25% of its total annual expenditure on the Games is intact because prudential borrowing will cover the additional spending, we remain concerned about the impact of the LDA's Games-related expenditure on the rest of its work. In 2005/06 the LDA spent more than its original total budget by £15.3 million (4% of the original budget) due to the Games. This was despite a reallocation of resources and underspends in 11 of its 16 programme budgets.<sup>22</sup>
- At the end of August 2006 the ODA had spent less than originally planned. The variance of £18 million (22% of its total year to date budget) included spending £5.1 million less on park wide design and planning and £1.6 million less on running costs. The contingency budget of £5.9 million had also not been used.<sup>23</sup> However, Dennis Hone, Director of Finance & Corporate Services, ODA, told us that the ODA budget was put together at the start of 2006/07 as a reflection of aspirations for the year.<sup>24</sup> The ODA had "deliberately paused" on

<sup>21</sup> The original LDA 2006/07 budget for the Games is set out in the GLA Consolidated Budget 2006/07. The new LDA 2006/07 budget for the Games is set out in report to Budget Committee on 19 October 2006, Financial information on the preparations for the London 2012 Olympic and Paralympic Games

<sup>22</sup> Report to Budget Monitoring Sub-Committee meeting on 26 July 2006, Quarter 4 2005/6 budget and performance monitoring information for GLA Group

<sup>23</sup> Report to the Budget Committee meeting on 19 October 2006, Financial information on the preparations for the London 2012 Olympic and Paralympic Games

<sup>24</sup> Transcript of Budget Committee meeting on 19 October 2006, page 7

some activities. The “Masterplan” for the Olympic Park had been revised. However, the ODA was now on target and forecasting to spend all its budget by March 2007. We welcome the opportunities taken to minimise costs.

- By June 2006 TfL had spent on just two of the nine transport projects funded by the public sector funding package: the Docklands Light Railway Olympics additional rail cars and the Stratford Regional station re-development. It is forecast to spend on just one other project by March 2007: West Ham Tube stations.<sup>25</sup> Again Dennis Hone reported that things were on track, telling us that, although there was “float in the budget”, the ODA, TfL, the Department for Transport and Network Rail were already working on all schemes, and that they were “proceeding as rapidly as possible.”<sup>26</sup> The intention is to use any float in the programme to move things as quickly as possible. Where this occurs, we would like to receive full details.

3.3 It is apparent that some sources of funding are likely to generate more money in 2006/07 than is required. If this occurs, it should be made clear what happens to any funding not used this year.

- The ODA is due to receive £55 million of council tax funding in 2006/07 - £2.7 million less than the £57.7 million that the GLA will collect. Part of the £2.7 million will be spent on the team supporting the Olympic Board and Olympic Steering Group. The rest, £2.3 million, will go into an earmarked reserve controlled by the GLA.<sup>27</sup> We welcome the information that, if not required this year, the £2.3 million will earn £160,000 of interest to go into the reserve at year-end.
- The ODA is due to receive £75 million from the National Lottery in 2006/07. However, Camelot has told us that it is in “good shape” to raise more than this amount from Games-related Lottery games and even exceed the higher annual target of £96 million.<sup>28</sup> Any money raised from the National Lottery not used by the ODA will sit in the Olympic Lottery Distribution Fund administered by the Treasury. For the purposes of transparency, it should be clear how much will remain in the Fund, whether or not it will gain interest, and what happens to this interest.

3.4 Our call for more public information on Games’ expenditure follows commitments previously given to us. Last year Neale Coleman told us that commercially sensitive information around individual contracts for the Games could be agglomerated and released. He also reported that, in relation to a potential overspend on the costs of the Games, “we are certainly committed to being as open as we can about it.”<sup>29</sup> The ODA has reported that it would “from the beginning...be clearly accountable for the public money that will be spent on getting venues and infrastructure ready on time and budget.”<sup>30</sup> We feel more could be done to realise these commitments and ensure that Londoners, and the public at large, receive better information on Games-related expenditure

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<sup>25</sup> Report to the Budget Committee meeting on 19 October 2006, Financial information on the preparations for the London 2012 Olympic and Paralympic Games

<sup>26</sup> Transcript of Budget Committee meeting on 19 October 2006, page 11

<sup>27</sup> Report to the Budget Committee meeting on 19 October 2006, Financial information on the preparations for the London 2012 Olympic and Paralympic Games

<sup>28</sup> Transcript of Budget Committee meeting on 19 October 2006, page 27

<sup>29</sup> Transcript of Budget Committee meeting on 15 September 2005, page 40

<sup>30</sup> <http://www.alastinglegacy.co.uk/content/legacy/introduction.aspx>

3.5 Providing more information should not create additional work. There is already much internal monitoring of expenditure and delivery on the Games by the relevant organisations. The ODA is reporting to seven different bodies (its own Board, the Government (Department of Culture, Media and Sport), the GLA, other funders, the Olympic Board, Olympic Board Steering Group and the IOC). The LDA is reporting to four different bodies (its own Olympics Committee and Board, the GLA and the ODA).<sup>31</sup> TfL is producing monitoring reports for the ODA and has started to publish these as part of its Board papers. We welcome this development. There should be regular public reporting of delivery against targets on the Games. There should also be public reporting of the related expenditure and how this is being funded. An easy option using existing arrangements would be for the GLA to report to us on a quarterly basis all the spending by the ODA, LDA, TfL and itself on the Games against budget and key deliverables. We are pleased that the GLA has expressed willing to provide such information.<sup>32</sup>

**Recommendation:**

That the GLA, on behalf of the ODA, LDA, TfL and itself, provides, from quarter 2 of 2006/07 onwards, quarterly reports to the Budget Committee setting out all expenditure on the Games against budget and key deliverables, so that the public can understand what is being spent and what is being delivered.

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<sup>31</sup> Report to the Budget Committee meeting on 19 October 2006, Financial information on the preparations for the London 2012 Olympic and Paralympic Games

<sup>32</sup> Transcript of Budget Committee meeting on 19 October 2006, page 3

#### **4. Future spending on, and funding of, the Games – a need for clarity**

- 4.1 Since London was awarded the Games last year, there has been endless speculation about rising costs. Recently there has been some indication from Government that costs have grown. The Secretary of State for Culture, Media and Sport has spoken of an increased cost for infrastructure of £3.3 billion – up from £2.4 billion.<sup>33</sup> Separately, the ODA and the Mayor have told the London Assembly about possible increased costs in relation to security, regeneration, contingencies and VAT.<sup>34</sup> This adds urgency to our call for more public information. It undermines reassurances that we have received about expenditure and delivery so far. If Londoners are to remain supportive of the Games there needs to be greater clarity.
- 4.2 The Government should do more to provide clarity on expenditure and funding for the Games. We are disappointed that, to date, it has not made available any details of the review it commissioned KPMG to undertake into original estimated costs and funding arrangements for the Games. It is frustrating that the release of the lifetime budget has been delayed. Originally, we were told that the lifetime budget would be available in October 2006. In June this year we were advised that the lifetime budget would be available by the end of December 2006. Now the budget is expected at some point in “spring” 2007, once Government Ministers have approved it.<sup>35</sup> It is understandable that Government requires to see the lifetime budget, and that those involved are concerned to make it as full and accurate as possible, but, in advance of its publication, there are certain issues that we want to highlight.
- 4.3 The Mayor has said that London council taxpayers should not pay any more towards the cost than the £625 million for the public sector funding package already agreed. Recently he told the London Assembly “I do not believe Londoners should pay a penny more than the 38 pence a week” and that anybody who wanted to increase the council tax contribution had first to get his agreement, or his successor’s agreement, and also the London Assembly’s agreement.<sup>36</sup>
- 4.4 We do not want London council taxpayers to pay any more for the Games than the £625 million contribution already agreed. The funding arrangement between the Mayor and Government, which is no more than a Memorandum of Understanding, does not guarantee that London council taxpayers will not be asked for a further financial contribution. The Memorandum of Understanding specifies that:  
“Government plans to be the ultimate guarantor of Olympic funding needs should the shortfall between Olympic costs and revenues exceed £2.075 billion (excluding the costs of elite sport and associated sports investment in paragraph 11 of the Memorandum). The Government expects to discharge that responsibility (in respect of the shortfall above £2.075 billion) in a sharing arrangement to be agreed as appropriate with the Mayor of London and through seeking additional National Lottery funding in amounts to be agreed at the time.”<sup>37</sup>

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<sup>33</sup> Comments made at Culture, Media and Sport Select Committee meeting on 21 November 2006

<sup>34</sup> Extraordinary plenary meeting of the London Assembly and MQT on 15 November 2006

<sup>35</sup> Transcript of Budget Committee meeting on 19 October 2006, page 6

<sup>36</sup> Mayor’s Question Time on 15 November 2006

<sup>37</sup> Paragraph 17 of the Olympic Funding: Memorandum of Understanding between the Government and the Mayor from 2003. The full Memorandum of Understanding is at Appendix 2 of this report

- 4.5 The London Assembly has called for a cap on the amount that Londoners pay and for the Secretary of State for Culture, Media and Sport to give an unequivocal guarantee that London council taxpayers will not be called upon to make any further contribution beyond the £625 million. It has also called on the Government to forego the 12 pence tax currently levied on Games-related lottery games to help meet the costs of the Games.<sup>38</sup>
- 4.6 The ODA will be working with a private sector consortium, CLM, to deliver the Games. Dennis Hone told us that CLM is providing project and programme management expertise but will not be substituting for the ODA. The ODA will retain all contracting arrangements, payments and accountabilities for money.<sup>39</sup> We welcome this clarification but, to be fully transparent, further information should be published on the contract between the ODA and CLM. If public money is being spent on paying a private company to work on the Games, we want to know what performance targets have been set and what performance related payments and penalties have been agreed. There is a precedent for the release of such contractual information. Previously TfL put into the public domain its contract with Capita for the running of the congestion-charging scheme in London.
- 4.7 The infrastructure being built for the Games will continue to cost more after 2012. For example, in the original bid, the Mayor pledged to meet losses of up £10 million a year at the Olympic Park after 2012. We have been advised that the Mayor's pledge is a last resort. Neale Coleman told us that the first step is to try to minimise such costs, the second step is to try and attract a range of funding through arrangements with private sector operators, and the third step is to obtain funding through the LDA and ODA's work, with people that develop and own properties around the Olympic Park paying a contribution by way of service charge or ground rent. However, Neale Coleman also told us that he could not give a 100 per cent assurance that London council taxpayers would never be asked to fund the on-going running of the Olympic Park after 2012.<sup>40</sup> The lifetime budget will need to make clear all the on-going costs after 2012 and how these will be funded.
- 4.8 The ODA is going to spend on both infrastructure necessary for the Games and wider long-term regeneration of an area of east London. The public sector funding package is intended to fund infrastructure, with the Government funding the wider long-term regeneration. However, the ODA has told us it will not be possible to easily distinguish between what is actually spent on infrastructure needed for the Games and the long-term regeneration. Dennis Hone told us that "everything that the ODA is doing recognises that this is not just a six week event but a hundred years' regeneration project for 300 hectares of London that badly needs regeneration."<sup>41</sup> We believe more should be done to distinguish between expenditure essential for the Games and expenditure for longer-term benefits. This will help to keep Londoners supportive of the Games.
- 4.9 In combining a sporting event with a regeneration project, there is scope for any increased costs to be justified on the basis of anticipated but, as yet, not fully detailed, long-term benefits. On this basis it is important to be able to see what is

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<sup>38</sup> The full wording of the motions on the Games passed by the London Assembly (by majority) on 15 November 2006 can be found at: [http://www.london.gov.uk/view\\_press\\_release\\_a.jsp?releaseid=9890](http://www.london.gov.uk/view_press_release_a.jsp?releaseid=9890)

<sup>39</sup> Transcript of Budget Committee meeting on 19 October 2006, page 22

<sup>40</sup> Ibid, page 16

<sup>41</sup> Ibid, page 4

actually needed for the Games and what are additions. This could also help to provide clarity on total cost. Previously when the Australian Auditor General attempted to identify the total cost of the Games in Sydney, he identified that there was no one, simple answer to this question partly because it was difficult to split the costs between the Games-related components and the legacy components of permanent venues.<sup>42</sup> Londoners will be aware that they are funding the infrastructure necessary for a specific sporting event in 2012. They are not necessarily aware that they are funding a wider hundred year regeneration project. The lifetime budget for the Games should distinguish the expenditure essential for the Games from the spending on wider regeneration.

**Recommendations:**

That the ODA, having consulted, as appropriate, its funders, provides to the Budget Committee, at the earliest opportunity, details of how it will hold to account its delivery partner, CLM, including incentives and penalty arrangements.

That the ODA, in consultation, as appropriate, with its funders and other organisations working on the Games, seeks to ensure that its lifetime budget for the Games provides full details of: a) anticipated on-going costs of infrastructure after 2012 and how these will be funded; and b) expenditure essential for the actual Games and spending necessary for wider regeneration.

## **5. Follow-up**

- 5.1 The Budget Committee will revisit its recommendations to check on progress in December, when the Mayor issues his consultation draft budget for 2007/08. It will also revisit recommendations in spring 2007, when it intends to hold another meeting to consider the lifetime budget for the ODA (once this is available), and regularly thereafter.

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<sup>42</sup> Australian Auditor General's report to New South Wales Parliament 2002 Volume Two, Cost of the Olympic and Paralympic Games



## **Appendix 1: List of all recommendations**

That the Mayor explains in his consultation draft budget 2007/08 what the specific annual council tax contributions of £57.7 million for the Games being collected in 2006/07 and 2007/08, are paying for, including any ODA start up costs such as staffing.

That the Mayor sets out in his explanation of the GLA council tax precept for council taxpayers what the council tax contributions for the Games in 2006/07 and 2007/08 will fund.

That the Mayor sets out in detail in his consultation draft budget 2007/08 why additional expenditure on the Games by the GLA totalling £2.369 million over 2006/07-2008/09 is necessary, and provides full details of all expenditure by the GLA Group on the Games.

That, from now onwards, through the London Co-ordination Working Group, the GLA ensures that London Boroughs are kept informed of all spending on the Games and any opportunities to work together to avoid duplicate expenditure on the Games.

That the GLA, on behalf of the ODA, LDA, TfL and itself, provides, from quarter 2 of 2006/07 onwards, quarterly reports to the Budget Committee setting out all expenditure on the Games against budget and key deliverables, so that the public can understand what is being spent and what is being delivered.

That the ODA, having consulted, as appropriate, its funders, provides to the Budget Committee, at the earliest opportunity, details of how it will hold to account its delivery partner, CLM, including incentives and penalty arrangements.

That the ODA, in consultation, as appropriate, with its funders and other organisations working on the Games, seeks to ensure that its lifetime budget for the Games provides full details of: a) anticipated on-going costs of infrastructure after 2012 and how these will be funded; and b) expenditure essential for the actual Games and spending necessary for wider regeneration.

## **Appendix 2: Olympic Funding: Memorandum of Understanding between the Government and the Mayor, 2003**

1. In anticipation of an announcement by the Government that it will support a bid by the British Olympic Association to host the 2012 Olympics in London, the Government and the Mayor of London have reached an outline understanding of how the costs of the Olympics should be met. Putting this understanding into operation is subject to the normal decision making processes of the bodies involved.
  
2. The objects of the funding which are covered by this understanding are those which were included in the Arup report on the Olympics completed in 2001 and those additional areas which DCMS has allowed for in its work on a likely public subsidy, as published by the Culture, Media and Sport Select Committee (HC268 dated 23 January 2003). The Government and the Mayor of London recognise that spending towards these objects may necessarily be in different amounts than now assessed. These objects and this understanding do not cover other capital or current expenditure which may be of benefit to the Olympics, for example major transport infrastructure improvements, which the Government has not considered essential to the Olympics.
  
3. The Government and the Mayor of London intend that calls on public subsidy to meet Olympic costs should be kept to the minimum, and together they intend to ensure that best quality organisational and management arrangements for the Olympics are put in place to protect the public purse and give London the greatest chance of winning the nomination for the 2012 Games and to host them successfully if selected.

### **Proceeding by Agreement**

4. The Government and Mayor of London would expect to proceed by agreement over spending, revenue and cash management proposals.

### **Bid Period**

5. DCMS and the London Development Agency propose to contribute to the costs of the bid organisation and associated planning in equal shares to July 2005 to a combined limit of £30m. DCMS's contribution will not begin until 2004-05.

6. There is an offer of private sector subsidy of approximately half the bid campaign costs by the London Business Board. The Government and the Mayor intend this to reduce equally the costs falling on DCMS and the London Development Agency.

### **Land Assembly**

7. The London Development Agency will meet the costs of required land assembly during the bid period and beyond. Income from the sale of this land is at the disposal of the London Development Agency. During the bid period the London Development Agency will only acquire land which could be used for regeneration purposes should the bid not be successful.

## **Staging Period**

8. The Olympics are likely to require a public subsidy if London is awarded the nomination. A package of funding has been identified to cover the envisaged requirement. This is a combination of funding by the Greater London Authority through an increased Council Tax precept to meet Olympic Games costs ("the Olympic precept"), by the London Development Agency, from the National Lottery, (subject to appropriate legislative changes) and ultimately from the Exchequer.

## **Timescale for Special Funding Streams**

9. An increase in Council Tax precept to meet Games costs would not commence until 2006-07. An hypothecated Olympic Lottery stream would not commence before 2005. The Government and Mayor's expectation is that special funding streams to meet Olympic costs should be closed, having provided the necessary amounts, by 2013-14, except that where the Greater London Authority has borrowed to meet capital costs of the Olympics it may be necessary to extend the period during which the Olympic precept is levied to reflect the requirements of the prudential framework for capital finance.

## **Funding Streams**

10. The flow of funds will depend on the organisations that are nominated to deliver various aspects of the Games. These details have not yet been fully worked up. Because rises or falls in one sector of Olympic cost may be offset in another sector, it is not possible completely to earmark particular strands of funding to discrete objects.

Within that, the broad intention is that Lottery funding should be primarily directed to sports investment, Olympic facilities and event staging and that money raised from the Olympic precept should address the capital requirements of the Games including transport infrastructure.

### **Elite Sport and Associated Sports Investment**

11. Up to £300m of grants from the National Lottery would be sought to meet the costs of elite sport and associated sports investment in addition to the National Lottery share set out in para 12 below.

### **Meeting other Olympic Costs**

12. The broad intentions for funding in para 10 will be underpinned by an understanding that the shortfall between Olympic costs and revenues (excluding the costs of elite sport and associated sports investment (para 11)) will be met in the ratio 11:24, where 11 is the Olympic precept, and where 24 is by grants from the National Lottery.

### **Amount of Public Subsidy**

13. The proposals in para 11 and 12 are to apply to a funding package worth up to £2.050bn to meet both the shortfall between Olympic costs (including elite sport and associated sports investment) and revenues in the bid and staging periods. Para 15 to 17 deal with exceptional circumstances beyond that.

## **Limitation on Lottery Funding**

14. Total grants from the National Lottery during the bid and staging periods (including grants for elite sport and associated sports investment referred to in para 11 above) are not planned to exceed £1.5bn subject to para 17 below. In the event of a shortfall in the target amount of £1.2bn of Lottery money intended to meet Olympic costs (excluding the elite sport and associated sports investment in para 11 above), London funding would be made available on the basis and up to the limits (£75m) set out in para 15.

### **An Additional £75m**

15. Should the shortfall between Olympic costs and revenues exceed £1.75bn (excluding the costs of elite sport and associated sports investment (para 11 above)), or in the event of a shortfall in the target amount of Lottery money (of £1.2bn) (para 14), up to £75m additional funds would be made available. This would come from the Olympic precept.

### **An Additional £250m**

16. Should the shortfall between Olympic costs and revenues exceed £1.825bn (excluding the costs of elite sport and associated sports investment in para 11 above), in addition to the sums mentioned in paragraph 15, up to £250m from the London Development Agency would be made available in keeping with their corporate plan. London Development Agency funding would be made available no earlier than 2008-09.

## **Further Public Subsidy**

17. The Government plans to be the ultimate guarantor of Olympic funding needs should the shortfall between Olympic costs and revenues exceed £2.075bn (excluding the costs of elite sport and associated sports investment in para 11 above). The Government expects to discharge that responsibility (in respect of the shortfall above £2.075bn) in a sharing arrangement to be agreed as appropriate with the Mayor of London and through seeking additional National Lottery funding in amounts to be agreed at the time. These expectations will be reviewed in summer 2005.

## **Surplus Hypothecated Lottery Funding**

18. Subject to legislation, the Government will have regard to the overall position of the National Lottery in considering what action to take should the proceeds from any hypothecated Olympic Lottery games:

- a) exceed, or appear likely to exceed, £1.2bn, or
- b) i. in the event that the difference between Olympic costs and revenues (excluding elite sport and associated sports investment in para 11 above), be less than £1.75bn; and
- b)ii. the proceeds be greater, or appear likely to be greater, than twenty four thirty fifths of the required subsidy.

In the circumstances described in sub-paragraphs (a) and (b), the Government is expected to have a range of options in relation to the additional proceeds which might include, for example, allowing those proceeds to benefit one or more National Lottery good causes. In this context and subject to any decision the Government may make in relation to the additional proceeds in connection with the National Lottery, it is the Government's intention that the additional proceeds will be used as follows:

- half to reduce calls on or reimburse National Lottery grants towards elite sport and associated sports investment (para 11), and any remaining proceeds from that half to the Greater London Authority; and
- the other half to the Greater London Authority.

### **Expectations of Government and the Mayor**

19. Ministers expect to make any appropriate legislative changes to assist in enabling Lottery funding up to the target amount of £1.2bn (para 14) to be achieved.

20. Without prejudging the decision, Ministers will expect to consider in a constructive spirit any case made by the Greater London Authority for legislative or procedural changes to enable the more efficient financing and procurement of the Olympic Games.

21. Ministers and the Mayor recognise the importance of seeking cross party agreement to this memorandum of understanding which is intended to persist beyond the life of the present Parliament and London mayoral term.



22. Ministers and the Mayor plan to ensure that those involved in delivering the understandings in this memorandum are given the necessary powers and authorities to do so.

23. In the event that additional public funds become available for the Olympic Games Ministers and the Mayor agree to review the arrangements within this memorandum of understanding. However, it remains the expectation of Ministers and the Mayor that the amounts set out in the memorandum to be met by the National Lottery, Council Tax precept and the LDA would continue to be available should they be required.

**28 May 2003**

### **Appendix 3: Evidence submitted to the Budget Committee**

The following attended the Budget Committee meeting on 19 October 2006 to be questioned by Members on the financing of the 2012 Olympic and Paralympic Games:

- Neale Coleman, Director – Business Planning & Regeneration, Mayor’s Office, GLA;
- Dennis Hone, Director of Finance & Corporate Services, ODA;
- Martin Clarke, Head of Strategic Finance and Performance, GLA;
- Sarah Ebanja, Group Director – Strategy, Equalities and Performance, LDA;
- Jonathan Kalemera, Director of Finance, LDA;
- John Hamilton, Project Executive, Finance Team - Development Division & Olympics Delivery Unit, LDA;
- Mark Gallagher, Director of Corporate Affairs, Camelot; and
- Phil Smith, Commercial and Operation Director, Camelot.

Written evidence was received from the following London Boroughs: Barking and Dagenham, Brent, Bromley, Croydon, Greenwich, Hackney, Harrow, Hillingdon, Lambeth, Richmond, Southwark, Sutton, Tower Hamlets, Waltham Forest and City of Westminster. Copies of the written evidence can be accessed at:

<http://www.london.gov.uk/assembly/budgmtgs/2006/budoct19/item05a-boroughs.pdf>

Written evidence was also received from Camelot. A copy can be accessed at:

<http://www.london.gov.uk/assembly/budgmtgs/2006/budoct19/item05b-camelot.pdf>

## **Appendix 4: Principles of Assembly scrutiny**

The powers of the London Assembly include power to investigate and report on decisions and actions of the Mayor, or on matters relating to the principal purposes of the Greater London Authority, and on any other matters that the Assembly considers to be of importance to Londoners. In the conduct of scrutiny and investigation the Assembly abides by a number of principles.

Scrutinies:

- Aim to recommend action to achieve improvements;
- Are conducted with objectivity and independence;
- Examine all aspects of the Mayor's strategies;
- Consult widely, having regard to issues of timeliness and cost;
- Are conducted in a constructive and positive manner; and
- Are conducted with an awareness of the need to spend taxpayers money wisely and well.

More information about scrutiny work of the London Assembly, including published reports, details of committee meetings and contact information, can be found on the London Assembly web page at [www.london.gov.uk/assembly](http://www.london.gov.uk/assembly)

## Appendix 5: Orders and Translations

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