

**There are currently
over 9,000 workers
on the Olympic Park
and Olympic Village.**



Financial overview

The public sector funding package for the Games, announced in March 2007 by the Minister for the Olympics and Paralympics, totalled £9.325bn. Of this total, £6.1bn, including tax and £500m of contingency was identified as the ODA's baseline budget in November 2007. The ODA's baseline budget, including an assessment of required Programme Contingency to deliver the ODA scope, was set at £7.095bn. The financial breakdown, sources of funding and progress against this funding is set out in the following pages.

To ensure transparency on the investment being made in the Olympic Park, and for the Games, the Government Olympic Executive (GOE) and ODA have published Quarterly Economic Reports throughout 2009 updating on forecast costs for the programme. As these reports have shown, the overall £9.325bn public sector funding package for the Games remains unchanged and the project remains on time and on budget.

In May 2009, to deal with the impact of the economic downturn, the Ministerial Funders' Group agreed that additional public sector investment would be made in the Olympic Village and International Broadcast Centre/Main Press Centre (IBC/MPC) projects from within the overall funding available to the ODA.

A private sector deal from Lend Lease and its banking consortium was on offer for the Olympic Village. However, due to the worsening economic climate this deal would have required the public sector to carry an increased level of risk. Ministers decided that the Lend Lease deal was not in the best interests of the taxpayer and that it would not constitute value for money in the long term.

Since this decision, the Anticipated Final Cost (AFC), the current forecast of the final cost of the ODA's programme including forecast costs, risks, scope changes and inflation, has not significantly increased.

The current AFC is £7.262bn, compared to £7.241bn at the end of the last quarter. This represents an increase since the last quarter of 0.3 per cent.

Looking forward, plans are now being put in place for the operation of the Olympic Park and venues from construction completion to Games and during the post-Games transformation up to the transfer of assets to successor bodies. This report includes an initial assessment of the likely costs associated with these operations that will be met from within the existing funding package.

Most of the contingency used to date has been for projects affected by the economic downturn – the Olympic Village and the IBC/MPC. Contingency required for other projects has been more than offset by savings elsewhere. The majority of contingency remains unreleased and the ODA continues to make strong progress in preparing the venues and infrastructure in the Olympic Park.

2010 will be the biggest year for the project in terms of activity on the Olympic Park. There are already over 9,000 workers on the Olympic Park and Olympic Village projects combined and the year ahead will see this number rise to around 11,000, with many of the venue and infrastructure projects nearing completion by the end of the year.

Public sector funding package for the Games

The financial breakdown of the £9.325bn Games funding package and sources of funding for the package, as announced in March 2007, is shown below.

The total ODA baseline budget was in effect the combination of £6.127bn baseline budget and £968m Programme Contingency – £7.095bn.

Table 1: Breakdown of the £9.325bn funding package

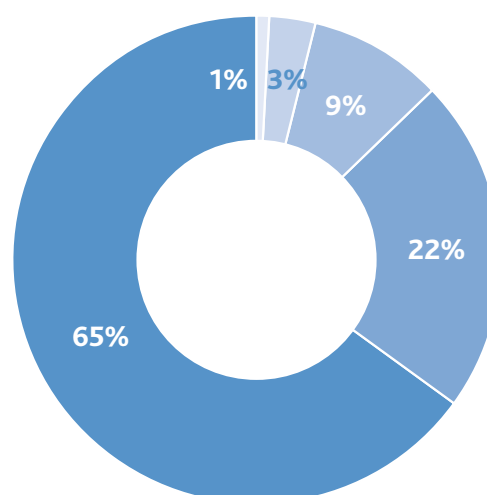
		£m	£m	£m	
Total public sector funding package				9,325	
ODA	ODA Base costs inc VAT		6,127		
	Programme Contingency		968		
	Funders' Contingency		1,004		
Total available to ODA				8,099	
Non ODA	Elite and community sports	290*			
	Paralympic Games	66**			
	Look of London	32***			
				388	
	Security	600			
	Security Contingency	238			
			838		
Total non ODA				1,226	

* The £290m contribution from the Sport Lottery Distributors has been invested in maximising the benefit to British sport of hosting the Games, through support of elite and community sport. The key areas that this contribution has been invested in are:
 – programmes of support for elite athletes and coaches;
 – development of facilities for elite and community use; and
 – community programmes/projects for clubs, coaches and volunteers, to increase participation and improve performance.

** The £66m is the Government's planned contribution towards the hosting of the Paralympic Games by LOCOG.

*** The programme of works, currently being designed, will be for use on non-capital, presentational works – such as street decoration and signage, etc.

Figure 1: Overview of £9.325bn funding package



- **1%** Additional support for the Paralympic Games and Look of London
- **3%** Elite and community sport
- **9%** Wider policing and security (inc. Security Contingency)
- **22%** ODA Programme and Funders' Contingency
- **65%** ODA base budget (excl. ODA Programme and Funders' Contingency)

Sources of funding

Of the £9.325bn Public Sector Funding Package, almost £6bn will come from Central Government. Funding for the ODA comprises contributions from the Department for Culture, Media and Sport (DCMS), Communities and Local Government (CLG) and the Department for Transport (DfT). The funding of the £838m for wider policing and security is primarily the responsibility of the Home Office, working with other Government Departments. Central Government funding for the Games for the period 2008-09 to 2010-11 has been secured through the Comprehensive Spending Review and the remaining balance will be confirmed in subsequent Spending Reviews.

The overall National Lottery contribution to the London 2012 Games will be up to £2.175bn including contributions of £750m from dedicated Olympic Lottery games, £340m spending by sports lottery distributors out of their existing funds (including £290m of support for elite and community sport), and £1.085bn to be transferred from general Lottery proceeds held in the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund.

The London contribution will be made up of £925m funding from the GLA (including estimated £625m contribution from the London council tax); and £250m funding from the LDA.

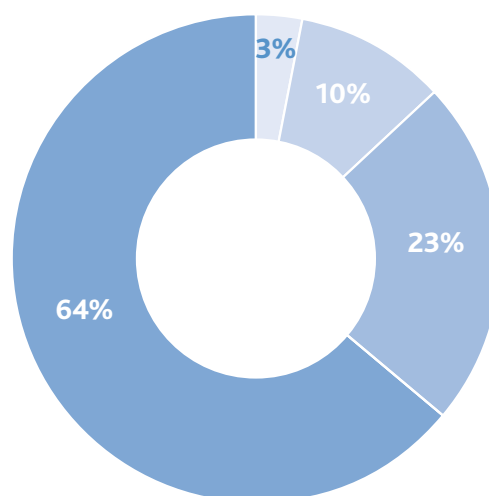
Programme spend as at 31 December 2009

As of 31 December 2009 total expenditure on the programme was £3,233.6m.

The original forecast spend for this period was £3,955.8m. The variance between forecast and actual spend reflects procurement savings across the programme, unspent contingency, savings achieved on infrastructure works (such as structures, bridges and highways and enabling works), and savings achieved on logistics and security. These savings are offset by additional spend on the Olympic Village, now publicly funded, together with phasing changes to the delivery programme.

Table 2: Sources of funding

Funding from:	Total contribution £bn
Lottery	2.175
London (GLA and LDA)	1.175
Central Government	5.975
Total	9.325



- 3% LDA
- 10% GLA
- 23% Lottery
- 64% Central Government

Programme progress

Construction is well underway on all of the permanent venues and the infrastructure required for the London 2012 Games and after. The ODA is on track to complete all venues by the agreed handover dates to LOCOG.

The external structure of the Velodrome has recently been completed and the structures of the Olympic Stadium and the roof of the Aquatics Centre are also complete. The frame of the IBC was completed 10 weeks after work started and work is well underway on the MPC. Three of the 11 Olympic Village blocks are now structurally complete.

The Primary Substation, the first building to be completed on the Olympic Park is now operational, as is a new pumping station. In November 2009 Her Majesty The Queen planted the first of over 4,000 trees in the Olympic Park.

Outside London, work at Weymouth for the sailing venue is completed. Work is also well underway and on track at both Broxbourne, for the White Water Canoe Centre, and at Eton Dorney, the venue for rowing and flat water canoeing.

The latest edition of the *Transport Plan* was published in December 2009 and transport improvements are moving ahead quickly with more carriages for the DLR, the ongoing redevelopment of Stratford Regional Station and the successful completion in summer 2009 of the test of the seven minute Javelin® service from Kings Cross Station to Stratford Regional Station during Games-time.

The ODA announced in July 2009 that it had hit all of its annual milestones as set out in *Big Build: Foundations* and published the next ten *Big Build: Structures* milestones to July 2010. Progress against these is set out on pages 44 and 45.

During the year ahead, the ODA, the GOE and LOCOG will additionally focus on operational planning for the periods between venue completion and the Games and during the transformation phase to the handover of assets to successors.

Programme completion as at 31 December 2009

As of 31 December 2009, the Olympic capital programme, which includes the work on all venues, infrastructure, capital elements of transport projects and the Olympic Village, was **49.4 per cent** complete.

Financial position

The GOE and ODA have been publishing Quarterly Economic Reports throughout 2009, the last being published in November last year. These reports have provided the latest forecast costs for the programme.

In May 2009, the Funders' Group decided that, although Lend Lease and the banks involved had offered a combination of private sector equity and debt to fund part of the costs of the construction of the Olympic Village, this did not constitute value for money for the taxpayer in the long term. The Government therefore announced that an additional £324m would be invested in the Olympic Village on the expectation that sales of completed homes would at least repay this amount. This brought the total public sector investment from the Olympics funding package to £650m. This was partly funded by savings achieved across the programme as a consequence of good progress, reduced risks, reduced inflation and the reduced rate of VAT.

The Funders' Group recently considered the proposals for securing receipts from sales of homes in the Olympic Village. The Government has agreed a Memorandum of Understanding with the Olympic Lottery Distributor (OLD) that provides assurance that OLD will receive a proportionate share of receipts arising from its expected funding of the Olympic Village or other assets.

Savings

Good programme management by the ODA working with its delivery partners, CLM, the GOE and other stakeholders, helped deliver £390m of savings in the last financial year against the baseline budget. These savings have derived from value engineering, reductions in scope and procurement savings and have been used to fund cost pressures where these have arisen; to part fund the Olympic Village and to ensure the overall project remains within budget, thereby minimising the need for contingency.

There have been some movements in the ODA's budget and in the overall AFC in the last quarter to 31 December 2009, as set out on pages 59–62.

ODA budget

The ODA baseline budget set in November 2007 amounted to £7.095bn including a provision for £968m of Programme Contingency. The total budget had increased to £7.190bn by September 2008, as reported in the January 2009 Annual Report and now, after absorbing the impact of the global economic downturn and property market deterioration, together with other less significant changes, which have been reported in the Quarterly Economic Reports, the budget as at 31 December 2009 stood at £7.237bn.

A further £13m of Funders' Group contingency has recently been released to the ODA by the Ministerial Funders' Group to reflect additional new scope to progress the detailed planning, procurement, licensing and early works for the operation of the Olympic Park from construction completion through to Games and up to the transfer of assets to successor bodies. A full project business case will be prepared by the autumn.

The current ODA budget following this decision therefore stands at **£7.250bn**, as summarised in Table 3 on page 60.

Overall contingency position

Most of the contingency used to date was allocated to meet costs of the Olympic Village and the IBC/MPC. Contingency required for other projects has been more than offset by savings elsewhere.

Contingency releases have been reported in the Quarterly Economic Reports. In the quarter ending 31 December 2009, £0.4m of Funders' Contingency was allocated to meet costs of aggregate tax and, more recently, a further £13m of Funders' Contingency was released as described above.

The gross allocation of contingency on the programme as at 31 December 2009 was £702m leaving a balance of £1,270m. After the recent release of £13m for Park Operations the allocation to date is £715m, leaving a balance of £1,257m available, as shown in Table 4 on page 60. This position is before taking into account the £324m which is expected to be repaid from the future sales of Olympic Village homes.

The ODA now estimates the value of programme risks to be £629m, a reduction in the last quarter of £54m. Going forward risks are expected to continue to gradually reduce due to continued efficient delivery.

The contingency left available to the ODA includes provision for two types of contingency:

Programme Contingency is for programme-wide risks managed by the ODA. These risks principally relate to the risks inherent in delivering a programme of projects on this scale, on a tightly constrained site against an immovable deadline – as opposed to the risks that affect individual projects delivered in isolation (which are covered through project contingency).

In accordance with good industry practice, Programme Contingency was assessed at the 80 per cent confidence level and in November 2007 the contingency identified was £968m. Any application by the ODA for access to the Programme Contingency is subject to scrutiny by the GOE and the Olympic Projects Review Group, on which each of the funders is represented, and approval by the Minister for the Olympics. Release of the lottery-funded element of Programme Contingency is subject to approval by Olympic Lottery Distributor (OLD).

Funders' Contingency is for other risks beyond the project and programme level – principally relating to risks outside the control of the ODA, such as changes in scope or the impact of wider economic conditions, and to take the confidence level up to the 95 per cent level. The Funders' Group Contingency is, in effect, the balance of the funding available after taking into account the ODA baseline budget including project contingency and the Programme Contingency.

Access to Funders' Group Contingency is subject to approval by the Ministerial Funders' Group following scrutiny by the GOE and the Olympic Projects Review Group. Grant for any Lottery-funded element of Funders' Group Contingency is subject to approval by OLD.

Table 3: Summary of ODA budget

	Nov 07 baseline £m	Movement £m	Feb 09 Annual Report £m	Movement £m	Feb 10 Annual Report £m
Total budget before Programme Contingency	6,127	53	6,180	293	6,473
Retained savings		63	63	(31)	32
Park operations				13	13
Total budget before Programme Contingency	6,127	116	6,243	275	6,518
ODA Programme Contingency	968	(21)	947	(215)	732
Total Budget including Programme Contingency	7,095	95	7,190	60	7,250

Table 4: Changes to ODA budget

	Original baseline £m	Allocated contingency £m	Revised baseline £m	Contingency available £m	Maximum available ODA budget £m
November 2007	6,127		6,127	1,972	8,099
Olympic Village interim funding		95	95	(95)	
Contingency releases published Jan 09		35	35	(35)	
September 2008	6,127	130	6,257	1,842	8,099
Olympic Village additional funding		231	231	(231)	
IBC/MPC		135	135	(135)	
September 2008	6,127	496	6,623	1,476	8,099
Inflation savings		(77)	(77)	77	
VAT rate reduction		(24)	(24)	24	
Other movements		28	28	(28)	
March 2009 – pre Olympic Village funding	6,127	423	6,550	1,549	8,099
Olympic Village investment		261	261	(261)	
March 2009 – post Olympic Village funding	6,127	684	6,811	1,288	8,099
Basketball		(3)	(3)	3	
Security resilience		19	19	(19)	
June 2009	6,127	700	6,827	1,272	8,099
Barking feasibility reports/Eton Manor/Aquatics		2	2	(2)	
September 2009	6,127	702	6,829	1,270	8,099
Aggregate Tax (£0.4m)		0	0	0	
December 2009	6,127	702	6,829	1,270	8,099
Parkwide operations		13	13	(13)	
February 2010	6,127	715	6,842	1,257	8,099
Olympic Village future receipts		(324)	(324)		
Budget after parkwide operations	6,127	391	6,518		
Net future cost pressures			115		
Total			6,633		
Assessed programme risks			629		
Total Anticipated Final Cost			7,262		

Anticipated Final Cost (AFC)

Since the decision by the Funders' Group in May 2009 to invest in the Olympic Village, the Anticipated Final Cost (AFC), the current forecast of the final cost of the ODA's programme including forecast costs, risks, scope changes and inflation, has not increased significantly.

The movement of £21m in the AFC in the last quarter is a consequence of a range of movements including:

- Forecast savings of £55m on site preparation and infrastructure projects, venues and Parkwide projects such as logistics
 - The assessed value of risks reducing, due to efficient delivery, by £54m from £683m to £629m
 - Forecast savings on the IBC/MPC of £13m
 - A forecast increase of £17m in Olympic Village-related costs. This includes increased investment in the security arrangements for the Olympic Village site and legal and other fees incurred by the ODA and Triathlon Homes in the completion of the pre-sale agreement for the £268m affordable housing deal on the Olympic Village
 - An increase in programme delivery costs, reflecting performance payments of £9m earned by the ODA's Delivery Partner, CLM. These performance payments are made against robust time and money milestones and reflect good progress on site and overall financial control
 - The forecast increase in Other Parkwide Projects includes the £13m contingency required for Park Operations, explained separately in this report. The ODA is also in the process of developing in more detail the requirements for Games-time screening areas and transport malls, including the provision of utility services, lighting and security fences. This work has identified potential cost pressures which will be firmed up later in 2010.
 - As in previous quarters, the development of more detailed transport plans has seen changes in forecast costs between capital and operational requirements. Overall these movements do not involve an increase in the total forecast for transport projects, which continues to forecast an overall saving against the baseline budget.
- A reduction in the forecast receipts from the ODA's right to share in the development returns of land adjoining the Olympic Village. The ODA has invested in the infrastructure (roads, bridges, utilities) that is necessary for the Olympic Village and adjoining lands under London and Continental Railways (LCR) ownership to be developed for residential, office and hotel use. In return for this necessary infrastructure investment there is an agreement in place that the ODA will share in future revenue as the areas adjoining the Olympic Village site are developed after the Games. The likely receipts were independently assessed in 2007 and the forecast reduction of receipts is a reflection of both the deterioration in the property market since the original estimate was made and the fact that the Olympic Village is now wholly owned by the public sector. The reduction is £150m, partly offset by £45m savings on Corporation Tax the ODA may have been due to pay on the original estimate.

The ODA expects at least some of the potential increases to be covered by project savings and the balance by the use of contingency following the mitigation of risks going forward.

After taking into account the budget movements, potential cost pressures, savings and risks going forward the AFC has increased by £21m to £7.262bn to 31 December 2009, as shown in Table 5 on page 62.

Table 5: Anticipated Final Cost

Total available budget £8,099m		Nov 07 ODA Baseline Budget £m	Nov 09 Quarterly Economic Report £m	Feb 10 Annual Report £m	Variance Nov 09- Feb 10 £m
Site preparation and infrastructure	Powerlines	282	285	285	0
	Utilities	256	194	195	1
	Enabling works	364	340	337	(3)
	F10 Bridge	89	66	63	(3)
	Other structures, bridges and highways	740	620	610	(10)
	Prescott Lock	5	5	5	0
	Other infrastructure (Greenway, landscaping)	243	243	233	(10)
	Total site preparation and infrastructure	1,979	1,753	1,728	(25)
Venues	Stadium	496	537	537	0
	Aquatics	214	245	248	3
	VeloPark	72	96	95	(1)
	Other Olympic Park venues	288	336	331	(5)
	Non-Olympic Park venues	101	131	131	0
	Total venues	1,171	1,345	1,342	(3)
Transport	Stratford Regional Station	119	126	126	0
	DLR	86	85	80	(5)
	Thorntons Field	47	23	23	0
	North London Line	110	107	107	0
	Other transport capital projects	178	160	173	13
	Other transport operating expenditure	357	335	326	(9)
	Total transport projects	897	836	835	(1)
Parkwide projects	Logistics for site construction	337	300	275	(25)
	Security for park construction	354	341	322	(19)
	Section 106 and masterplanning	127	126	126	0
	Insurance	50	50	50	0
	Other parkwide projects and operations	0	63	93	30
	Total parkwide projects	868	880	866	(14)
Media Centre and Olympic Village	Stratford City land and infrastructure	522	560	560	0
	Stratford City Stage II Overage	(250)	(250)	(100)	150
	Village construction (public sector funding)	0	664	681	17
	Village receipt	0	(324)	(324)	0
	IBC/MPC	220	347	334	(13)
	Total Media Centre and Olympic Village	492	997	1,151	154
Programme delivery	647	678	687	9	
Taxation and interest	73	69	24	(45)	
Total budget before contingency	6,127	6,558	6,633	75	
Programme contingency	968	719	772	53	
Retained savings	0	0	0	0	
Total after ODA programme contingency	7,095	7,277	7,405	128	
Available programme contingency*	0	(36)	(102)	(66)	
Retained savings**	0	0	(41)	(41)	
Total potential Anticipated Final Cost (AFC)	7,095	7,241	7,262	21	

Table 5 footnotes:

* Available programme contingency represents the amount of contingency available in excess of assessed risks.

** Retained savings represent savings generated but not spent which will be used to meet future cost pressures.

Park operations 2011–2013

At the time of creating the ODA Programme Baseline Report (November 2007), it was too early to be certain about which organisation should take on the Olympic Park operations between 2011 and 2013. As plans have become more developed, it has become clearer that the ODA should take on the Olympic Park ownership responsibilities.

Within Programme Contingency in the ODA budget there is provision of around £116m to cover the asset protection of the Olympic Park, venues and infrastructure and the continuation of logistics activities and security during the period LOCOG is installing temporary overlay and carrying out testing up to the Games.

The Olympic Board has now decided that the ODA will take on additional responsibilities for this period for areas such as venue security and operating the Olympic Park and venues to a level to support elite athlete training, test events and the Games.

This new scope for the ODA is likely to require additional funding to be allocated to the ODA, from within the existing overall £9.325bn budget.

Initial estimates are that this additional scope may cost between £110m and £160m depending on the finalisation of scope, delivery approach, procurement, licensing and public safety requirements. The ODA is now preparing a full business case for this additional scope and £13m in contingency funding has been released to the ODA to reflect the early works required during 2010.

During the course of the coming year the ODA, the GOE and LOCOG will be working together with the licensing authorities to determine the accurate costs of these additional responsibilities and to what extent this can be funded from further savings and/or contingency.

Planning for legacy

In addition the ODA is working with the GOE and OPLC to determine the most appropriate strategy to allow the Olympic Park to open to the public as soon as possible after the Games.

Long-term benefits of ODA spend

The promise of a long-term legacy benefit was a large part of London's successful bid to be awarded the 2012 Games, and a part of this is the long-term regeneration benefit to East London resulting from the Olympic investment. The ODA baseline budget of £6.1bn has been analysed to assess the extent to which the Olympic investment leaves a long-term regeneration benefit. The conclusion reached is that around 75 per cent – i.e. 75 pence in every pound spent by the ODA – will leave a long-term regeneration benefit, made up of:

- All, other than the Games-time landscaping costs, of the site platform and infrastructure costs. These works involve, for example, decontaminating, cleaning and landscaping the land, installing essential utilities, providing roads, bridges, canal walls etc, all of which would be necessary for regeneration of the area even if there were no Olympic Games
- The parts of the spend on Olympic Park venues that will leave a long-term legacy asset
- The capital investment in improved transport links (though not the costs of operating the transport systems)
- The ODA's investment in the IBC/MPC and the Olympic Village, leading to the creation of 2,800 homes and the creation of employment opportunities
- A proportion of the costs of planning, managing, coordinating and protecting the works – through projects such as Master Planning, logistics, security and insurance – appropriate to the proportion of spend with regeneration benefit to the total spend.



The London 2012 Olympic Pictograms, the visual representations of Olympic sports and disciplines which will be used in the run up to and during the Olympic Games in 2012 were unveiled in October.

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department for
culture, media
and sport

2-4 Cockspur Street
London SW1Y 5DH
www.culture.gov.uk

