OLYMPICS

Government Response to
‘A London Olympic Bid for 2012’ (HC 268)
Report of the
Culture, Media and Sport Select Committee
Session 2002–2003

Presented to Parliament by the
Secretary of State for Culture, Media and Sport
by Command of Her Majesty
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GOVERNMENT RESPONSE TO THE CULTURE, MEDIA AND SPORT COMMITTEE REPORT ‘A LONDON OLYMPIC BID FOR 2012’ (HC268)

The Government welcomes the close interest shown by the Culture, Media and Sport Committee in a possible London Olympic bid, and has taken the Committee’s comments and recommendations into account in deciding whether or not to support such a bid.

As the Committee will know, on 15 May the Government announced to Parliament its intention to support a bid by the British Olympic Association to stage the 2012 Olympic and Paralympic Games in London. In reaching its decision the Government has looked carefully at the impact of a bid using the key criteria of affordability, deliverability, legacy and win-ability. The Government believes that all these criteria can now be satisfied.

As the Committee has emphasised, a robust and sustainable funding package is fundamental to the development of a high quality London bid. Working in close partnership with the other key stakeholders, and in particular the Mayor of London, the London Development Agency and the British Olympic Association, the Government has developed a funding package to underpin its position as the ultimate guarantor for the Games in the event that the bid is successful. Fuller details of this package are set out at (ii) below and at Appendix A.

The Select Committee’s report contained a number of key conclusions and recommendations.

(i) The process followed by Government has produced in public no more than an anaemic 12 page summary of a 250 page document containing only impenetrable, estimated, aggregate costs. We were grateful to receive confidential copies of the full report containing financial estimates for a “specimen” Games. However, this was of limited use for the purposes of accountability and none whatsoever with regard to public debate.

As the Committee acknowledged, the Government has provided copies of the report on a restricted and confidential basis. As the Committee is aware, the Government’s view is that the full report includes commercially confidential information, and other material that might be of assistance to other applicant cities. The Government would also wish to emphasise that Arup’s remit was to produce a specimen proposal for the Games, and that the detailed arrangements for staging them will now need to be developed by the organisation to be set up by the three main stakeholders, Government, the Mayor of London and the BOA, to manage the bid. The Government has encouraged a full debate of the issues in public and Parliament and made available the key facts and analysis to ensure that the debate is well informed. Opposition spokespersons were also offered a detailed briefing on the work being undertaken in relation to a possible bid. The bidding process itself will be governed by the rules and requirements of the IOC, and involves a high degree of transparency in relation to the component elements of the bid.

(ii) There are three key questions that the Government needs to answer before being able to commit itself to a bid (and any such commitment will be all the better, easier and the more convincing to the IOC for this work having been done):

— that the costs and risks are understood as far as possible at this distance from the event, can be afforded and are justified in comparison with other sporting and wider spending demands on Government;
— that the challenges and implications of delivering the necessary facilities and infrastructure are understood and catered for;

— that any infrastructure legacies created will be free from on-going, possibly open-ended, subsidy necessary from the public sector.

The Government has undertaken detailed analysis of all the costs and risks and has worked closely with key stakeholders to ensure that the potential impact of a bid is fully understood. So far as revenues are concerned, the assumption, based on the Arup report, is that in excess of £2 billion will be available from a combination of the sale of rights, tickets sales, sponsorship and other commercial support for the Games. The public funding element of the package contains significant provision for risk and contingencies (more than twice the level of public subsidy suggested in the Arup report) in case overruns, unforeseen costs or revenue shortfalls arise as the project nears completion in 2010-12. The level of public subsidy provided for within the package is as follows:

- National Lottery £1.5 billion
- Council Tax £0.625 billion
- LDA £0.250 billion
- Total £2.375 billion

The Government wishes to emphasise that this is not the budget for the Games. The anticipated allocation of public funds to the budget will be significantly lower than this, but before reaching a decision to support a London bid the Government was determined that there should be sufficient funding in place to cater for all reasonably foreseeable eventualities in staging them. The probability based risk assessment we have undertaken on Games’ costs and revenues provides further reassurance that £2.375 billion represents an acceptable level of provision for potential contingencies. Any residual risk that this level would be exceeded can be reduced through strong management intervention during both the bidding and staging periods. In the unlikely event that further public subsidy is required, the Government expects its responsibility as the ultimate guarantor of Olympic funding to be discharged in a sharing arrangement with the Mayor of London and through seeking additional National Lottery funding. These expectations will be reviewed in 2005 once work on planning and costs has been completed and the outcome of the bid is known. A copy of the Memorandum of Understanding that has been agreed between the Government and the Mayor of London can be found at Appendix A.

Lessons learnt from previous major projects such as the Jubilee Line Extension, the Millennium Dome, the National Stadium project and, most recently, the Manchester Commonwealth Games have been incorporated into the analysis to ensure that the challenges and risks that would be associated with staging a London Olympics are properly identified. The Government and its partners will put in place robust planning and delivery mechanisms, operating at arms length but fully accountable for the use of public funds, to ensure the efficient and effective delivery of a London bid. During the bidding period we will be carrying out further detailed work to ensure that the organisational structures for the actual staging of the Games would be similarly robust. The Government will wish to see the legacy benefits of any Olympic investments maximised.

(iii) We are confident that the Government has undertaken more and better appraisal than previous bidders in order to tackle the vagaries of estimating the costs for a huge and complicated project nine and a half years away from the final delivery date. We trust that the IOC will take note of the implications of all this effort in any future judgments it may make on a London bid. Crucially, we expect the Government to finalise, and reconcile, the various strands of its appraisal work and to be able to set out clearly and in detail what its conclusions are, their bases, and how they influenced its decision on whether to bid or not.
The Government welcomes the Committee’s endorsement of the rigorous approach it has taken to the analysis and appraisal of the implications of bidding for the Olympics. That approach has also drawn favourable comment from Jacques Rogge, the President of the IOC. In its memorandum of evidence to the Committee, the Government drew attention to a number of ongoing strands of work relevant to a decision on whether or not to support an Olympic bid, and the Committee may find it helpful to have the following update on those:

**Affordability**

We have considered the possible diversion of funds from other schemes and projects to support the Olympics.

- **National Lottery:** the Lottery will contribute up to £1.5 billion, primarily from new Olympic Lottery Games (the introduction of which will require primary legislation) and the existing sports Lottery stream (to meet the costs of elite sport and associated sports investments). It is estimated that around £750m will be generated by the new Lottery games, around 50% of which might represent money diverted from existing good causes. This diversion would represent some £55m per year - about 4% of annual income to good causes from the Lottery. These calculations are based on prudent assumptions about the likely impact of Olympic Lottery games, provided by Camelot, and have been reviewed by the National Lottery Commission. Up to £340 million would be sought from the established Lottery sports distributors. The remaining contribution, were it needed, could be derived by changing the shares of Lottery income passing to existing distributors beyond 2009 when the current agreement on percentages to good causes is due to come to an end. This would represent a further reduction of up to 7% for the other good causes. This far ahead it is difficult to assess what the effect might be on individual programmes, but the objective will be to ensure that any adverse impact is minimised and that the anticipated benefits arising from the staging of the Olympics are shared as widely as possible. The Olympics will be a national, and not just a London event, and the potential opportunities arising from it will flow to all levels and well beyond the sports sector. For example, provision has been included for a nationwide cultural programme, funded via the Olympics project, and spanning the four year period up to and including 2012.

- **Council tax:** the Olympics Precept would not require expenditure to be diverted from existing or planned programmes.

- **LDA contribution:** any necessary LDA contribution towards the Olympics would form part of its wider investment programme for the regeneration of the Thames Gateway. Until the outcome of the bid is known the LDA will only acquire land which could be used for regeneration purposes should the bid not be successful.

**Deliverability**

The Government has made it clear that it would not support a bid for the Games if it were not confident that we could stage them to good effect. As emphasised in its response to (ii) above, the Government is determined that the lessons from earlier major projects should be both learned and applied in putting together the arrangements for managing an Olympics bid. In partnership with the Mayor of London and the BOA, we will establish a company to manage the bidding process which will operate at arm’s length from Government. The Chair of this company will have significant authority and responsibility for delivering a high quality and competitive bid. The key bidding documents, including the Applicant Questionnaire and the Candidature File will, however, require sign-off by the three key stakeholders. The bidding company’s costs are being underwritten jointly by the Government and the LDA, although we anticipate that there will be a significant contribution from the London business community.

The further work undertaken on transport arrangements is discussed under (viii) below.
Legacy
As discussed in (v) below, the bidding organisation will be expected to take account of legacy considerations in developing its proposals for the bid. The potential for an anchor tenant for the main stadium, for example a football club, will form part of this work.

The Government believes that bidding for and hosting the Games will deliver many benefits for sport. An Olympics bid would support the vision for sport for the next decade as expressed in Game Plan, the joint Strategy Unit and DCMS report for sport development. Hosting the Games would provide the UK’s elite athletes with an unparalleled opportunity to showcase their talents on home territory to a global audience. Government investment in talent development and elite sport will continue to provide our athletes with the best possible chance to excel at a London Olympics and win medals. Elite athletes are a continued source of encouragement to young and old alike. We want to harness the inspiration of their example, and the prospect of hosting the Games to drive up participation in sport. We know that sporting success motivates people to try playing sport, but all too often lack of access, opportunities to play and coaches means that enthusiasm is short lived. We are building a national framework for sport which will provide those opportunities, and that determination is demonstrated by our investment of £1.2 billion in school and grassroots sport. The Government is currently funding initiatives to continue to 2006 to improve sport in schools, assist amateur sports clubs, and improve coaching and talent development. Hosting the Games will also leave a legacy of new and improved sports facilities around the country, some world class, which, with careful management, will be of lasting value to sport and the wider community.

The LDA is in the process of commissioning Masterplanners to ensure that the plans for staging the Olympics are properly integrated with the wider regeneration proposals for the relevant part of the Thames Gateway area.

The Arup report identified a number of potential impacts flowing from a London 2012 Olympics. These included direct economic impacts through increased tourism, job creation, the regeneration of the Lower Lea Valley and inward investment and wider social benefits relating to health, sporting participation and culture. Our work supports Arup’s broad conclusions although the anticipated range of benefits is difficult to quantify, particularly at this early stage. Going forward the challenge will be to design the bid and staging of a London 2012 Olympics in a way that maximises these wider benefits for the country; this will be a key consideration informing the bid.

Winnability
The Government’s broad assessment remains as set out in its memorandum of evidence to the Committee. In addition to London, the following cities have to date confirmed their intention to bid for the 2012 Games: Havana, Istanbul, Leipzig, Madrid, Moscow, New York and Paris. All are expected to prepare strong bids, and our view remains that there is no clear favourite at this stage. The arrangements we are putting in place to manage and present the bid to the IOC are geared towards enhancing its chances of success.

(iv) London might well end up with a stadium at Wembley, specifically built with the capability to host the Olympics without legacy issues, and another in East London, actually built to host the Games, with an uncertain future. If this duplication were in fact to occur much of the responsibility would lie with the sporting bodies and agencies whose discussions with each other, and with Government, have led to this confusion.
(v) The most serious and creative thought needs to be given to the long-term future of an East London stadium before a single word of the design brief is written. All options should be considered from temporary construction and subsequent demolition, to a full range of alternative uses after the Games. Such uses could include sporting, retail, leisure or residential adaptation (or any combination thereof). We recognise, therefore, that there could be a creative legacy option developed in due course. However, we recommend that, for the purposes of the bottom line of the bid, the Olympic stadium be costed on the basis of construction and demolition.

The construction of the new national stadium at Wembley is progressing well. As the Committee has suggested, the new stadium will be capable, inter alia, of adaptation to stage major athletics events. Those responsible for assembling the bid will be expected to determine the extent to which Wembley National Stadium is used for staging Olympic events. So far as the main stadium for the Games is concerned, they will need to consider a wide range of options, including the potential for the use of temporary or convertible facilities. As indicated in response to (iii) above, securing a long-term anchor tenant (sports or otherwise) will also be amongst the options to be considered, but as the Committee suggests, the Government is not ruling out subsequent demolition of the stadium as a means of avoiding the need for ongoing public subsidy.

(vi) First, however, the Government must satisfy itself that the fundamental proposals for a privately developed village and construction of any kind of stadium are in principle realisable and deliverable between 2005 and 2012.

The bidding organisation will be expected to produce coherent, fully costed and practical plans for these and the other facilities needed to support the bid.

(vii) We cannot insist strongly enough that, whatever new agencies are established, leading unequivocally from the centre should be a Minister, located in the Cabinet Office or even No 10, and with an explicit cross-governmental remit and the power and personality to make things happen. This should be established from day one, 31 January 2003, and should include arrangements for liaison between that Minister and the Prime Minister as a matter of course. The leadership issue cannot be allowed to languish for one minute if a positive decision has been taken.

The Prime Minister has confirmed that the Secretary of State for Culture, Media and Sport will report directly to him on the Olympics bid. The Ad Hoc Cabinet Committee, chaired by the Foreign Secretary, that was established to consider the 2012 bid will remain in place in order to ensure that issues of cross-cutting relevance are identified and addressed as the bid is developed. The Culture Secretary will be supported by a cross-departmental group of officials drawn from those departments with a substantive interest in the bid.

(viii) The Government must provide clarity on transport issues if announcing a decision to go forward with a bid.

— what capital projects are required for, or before, 2012;
— what investment will be required in measures to improve levels of service;
— the costs involved and the risks of their escalation (always greater when the pace of construction is being dictated by an external deadline);
— the risks of non-delivery and related contingency plans and/or resources;
— a strategy, in outline at least, for the “unprecedented” management of the London transport network (including demand management) recommended to cope with Olympic transport needs; and
— any apportionment of these costs, or elements of them, to the Olympic balance sheet.
As the Committee has rightly pointed out, a robust transport solution is critical to the success of the bid and the staging of the Games themselves. The Government is satisfied, on the basis of the work undertaken by Arup and subsequent discussions with key transport providers, that such a solution will be available. As the Government made clear in its evidence to the Committee, this will require the managed use of the extensive transport infrastructure, both existing and planned, in and around the proposed Olympics zone, together with some targeted improvements. These would be likely to include improvements to both London Underground and National Rail stations in the vicinity, and enhancements to services providing local access in order to cope with the additional demand.

It will be for the bidding organisation, in consultation with Transport for London and other key transport providers to develop a detailed and costed master plan for the Olympics. They will need to look at the integration of the transport services for the Games, commission detailed feasibility studies in respect of the service and infrastructure enhancements, and carry out detailed modelling work. They will also need to consider together with Transport for London how to maximise any wider transport legacy from the Games.

The funding package for the Games includes an element for anticipated transport costs. These estimates were developed in discussion with Transport for London, the Strategic Rail Authority, London Underground, the Highways Agency and the Metropolitan Police. As indicated above it will be the responsibility of the bidding organisation to develop the transport plan, but the Committee may wish to be aware that in developing the funding package the Government has assumed the following requirements:

- A dedicated road route from central London to the Olympic zone for the Olympic family, protected persons and other designated Olympic traffic;
- Transport for the Olympic family and volunteers;
- Significant service enhancements across the public transport system for the duration of the Games and the provision of designated Olympic transport services and park & ride schemes;
- An Olympic transport publicity programme; and
- Some localised station improvements close to the Olympic zone to cope with peaks of demand, with improved services providing local access.

London has a large and mature transport network which copes with several million passenger movements a day. It is therefore well placed to cope with the pressures by comparison with cities that have hosted Olympics in the past. A number of major improvements to transport in London are already planned to be in place prior to 2012. These include:

- Modernisation of the tube, including increased capacity on the Jubilee Line;
- The completion of the Channel Tunnel Rail Link, including the international station at Stratford;
- The extension of the Dockland Light Railway to City Airport.

The Government has already made it clear that it is satisfied that a robust transport solution for a London Olympics can be delivered without Crossrail.
OLYMPIC FUNDING: MEMORANDUM OF UNDERSTANDING
BETWEEN THE GOVERNMENT AND THE MAYOR OF LONDON

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 further 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.