



paying for 2012:

the Olympics budget and legacy

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Summary

The Government has just announced the new budget for preparing the 2012 Olympic Games. It's over £9bn, nearly three times the initial estimates. Why has the budget gone up, who should pay, and what we will get for our money? This briefing provides a brief overview of Olympic costs, the likely legacy and future risks.

Key points:

- The new Olympics budget covers infrastructure and wider costs like security and VAT. The two-week Games themselves will cost a further £2bn – the Games organisers aim to raise this through private sector sponsorship, TV revenues and sales of merchandise.
- There are four main reasons why London's costs have risen – the need for greater security, VAT liability, the inclusion of wider regeneration costs, and factoring in the cost of likely overruns.
- Complex 'megaprojects' like the Olympics tend to go over budget. But the Government should have factored overruns into the 2012 budget at bid stage – rather than allow costs to drift up afterwards.
- Further cost increases cannot be ruled out – in particular, for security or via sponsorship shortfalls. Ministers need to show that the new budget is airtight, and demonstrate how future rises can be contained within current spending plans.
- Understanding the Olympic legacy is crucial. The evidence suggests jobs and infrastructure benefits will be fairly modest and concentrated on London. 'Soft' benefits – such as image and well-being – are potentially larger, and UK-wide.
- Olympic costs are split between Whitehall, the Lottery and London itself. There are valid questions about the increased use of Lottery funding to pay for the Olympics. Despite alleged 'Lottery raids', however, central Government is still paying the lion's share of the Olympic budget – up from £1.5bn to £6bn. London will pay around £300m more.
- Overall, London's Olympics planning is still on track. The right approach is to plan early, and cautiously. But the Government now needs to demonstrate that the new budget is solid, and will stay so. And Ken Livingstone needs to explain how he will meet London's new funding obligations.

1) How much will the Games cost?

The 2012 budget is divided into three parts:

- Event: running the Games
- Infrastructure: building the Olympic venues and site preparation
- Other: wider regeneration costs.

The Government's new budget refers to infrastructure and other costs. It does not include costs of running the Games – these are estimated at £2bn, to be met through sponsorship, broadcast coverage rights, merchandise and so on. The new budget breakdown is shown in Table 1, below.

Expenses	Cost (£bn)	Paid for by
Event costs	2.0	Sponsorship
Olympic Park and venues	3.1	ODA
Security	0.6	ODA
Regeneration	1.7	Government
Additional athlete investment	0.2	UK Sport
VAT	0.84	Government
Contingency fund (incl. £500m ODA fund)	2.7	Government
Paralympics and community sports coaches	0.39	Government
<i>Total (excluding event costs)</i>	<i>9.53</i>	
<i>Total (including event costs)</i>	<i>11.53</i>	

Source: DCMS (2007)

“Most Olympics have ended up costing more than originally envisaged”

2) Why have the costs gone up?

At the time London was chosen to host the Games, total costs were estimated at £5.4bn–£2bn for running the Games, nearly £2.4bn for infrastructure and around £1bn for wider regeneration.

This was always a best guess. ‘Megaprojects’ like the Olympics are very complex, and it is very hard to predict costs with 100 per cent accuracy. As such, budget overruns of 50 per cent or more are common (Flyvbjerg 2005).

Most Olympics have ended up costing more than originally envisaged. The 1992 Games in Barcelona were generally considered a great success, but still left the city with a £1bn debt. At the other end of the scale, Montreal took 30 years to pay off the costs of its 1976 Summer Games stadium (Kornblatt 2006).

London's experience is not uncommon, therefore – or uniquely British. But cost overruns should have been anticipated earlier, and factored into the initial bid. The Treasury has developed a set of complex rules to deal with ‘optimism bias’ – the systemic tendency of megaprojects to experience delays and cost rises (HMT 2002). These are generally used to provide accurate costings for major transport projects. Why were they not applied in this case?

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More specifically, why have London's costs gone up? There are four main reasons:

- **Security** – London's security costs have rocketed since the winning bid, driven by the 7/7 and 21/7 attacks, and the threat of further actions. But at £600m, London is still planning to spend less than Athens, which put in £1bn for security in 2004.
- **VAT** – the Government initially assumed the Games would not be taxed. It now turns out VAT is payable on ODA activity – construction and regeneration.
- **Regeneration** – Regeneration plans for East London were already on the table, but the Government is now including £1.7bn of regeneration funding as an Olympic cost – arguing that the Games would kick-start urban renewal.
- **Contingency fund** – the single biggest rise in the budget comes from factoring in cost overruns. There was some dispute about how much should be set aside. The ODA wanted 30 per cent of the infrastructure and regeneration budget – the minimum. The Treasury insisted on a more cautious figure of 60 per cent, and has pushed this through.

3) Could costs rise again in the future?

Yes. This budget is a major advance on previous costings – which did not include full costings for taxes, security or overruns. It is about as airtight as it can be at this stage. However, because of the nature of the Games, costs could rise again before 2012 for a number of reasons:

- **Security** – London is now planning to spend £600m on security measures. But other Games have spent more – notably the 2004 Games in Athens, where the security bill came to around £1bn. Given global uncertainties and the developing threat of home-grown terrorism, it is possible that London's security costs could rise again before the Games take place.
- **Operating costs** – this Budget does not cover the running costs of the Games themselves. Event costs are estimated at £2bn, to be covered by private sector support. Event organisation is less complex than infrastructure, so overruns are less likely – but not impossible. And if the requisite sponsorship money is not raised, the Government has guaranteed to cover the costs. Again, shortfalls in sponsorship are unlikely but cannot be ruled out.

4) What about regeneration?

London's bid was successful largely because it promised to link the Games to long-term urban regeneration across the capital. So what will we get for our money? And how will the Olympics help regeneration?

The main aim of the 2012 Games is to secure the economic, physical and social regeneration of a large part of East London. As such, the plans integrate the Games into the broader framework of the existing Lower Lea Valley (LLV) Regeneration Strategy. Between 2005 and 2015, this strategy aims to produce 30–40,000 new homes and 50,000 new jobs across Hackney, Tower Hamlets, Newham and Waltham Forest (LDA 2006).

How much of this will be down to the Games? The best estimates suggest that the Olympics should deliver positive, but relatively modest direct benefits for London (see Table 2, below).

“Despite media suggestions that the Lottery has been ‘mugged’, the Government is still taking the biggest hit”

Table 2. Summary of net full-time equivalent (FTE) employment impacts from 2012 Games

Spatial level	Pre-event (2005-2011)	During event (2012)	Legacy/post-event (2013-2016)	Overall (2005-2016)
UK	2,955	3,261	1,948	8,164
Greater London	25,824	3,724	9,327	38,875
North East*	7,344	311	311	7,966
London				

Source: DCMS and PwC (2005); data summarised from Blake (2005).

Notes: Data is for FTE jobs, direct impacts. Figures are net.

The rows in this table should not be summed. The UK-wide impact is provided in the UK row. Impacts were considered for different areas. Due to displacement and shifting, the impact in London is greater than for the UK as a whole. We find this data to be reasonably consistent with other estimates, including UBS 2006 and Experian 2006.

*The North East category specified by DCMS and PwC includes the East London area of the London Plan, including the following boroughs: Barking and Dagenham, Bexley, City of London, Greenwich, Hackney, Havering, Lewisham, Newham, Redbridge, and Tower Hamlets.

However, 2012 should also have a catalytic effect on the delivery of the LLV strategy (Kornblatt 2006). With firm deadlines, and the world’s attention on the city, key actors and partnerships have clear incentives to deliver infrastructure and improvements on time, and on budget.

In addition, winning the Games has secured additional funding commitments from Whitehall that might otherwise have been hard to pin down – not least additional core funding for LLV regeneration.

For this reason, the Government is right to count the costs of wider regeneration as part of the Olympics budget. LLV redevelopment would have happened in any case, but will look and feel different because of 2012.

“The legacy evidence suggests the central/local funding split is about right”

5) Who is paying, and why?

The costs of 2012 are split three ways – between Whitehall, the National Lottery and London government. Central Government is putting up over £6bn, which will cover VAT, security, regeneration and the contingency fund. In fact, the Government may end up paying more – if security costs rise or sponsors do not appear.

The Lottery contribution also rises to a total of £2.2bn, payable in a series of instalments. DCMS has suggested that existing projects will be safeguarded, and some receipts from post-Games land sales will be ploughed back into Lottery coffers. But there are no details on how this would work, or how much would be refunded.

Londoners will also pay more. London’s total contribution now comes in at over £1bn. Ken will have to find an extra £300m over the next five years. He has promised to do this without raising council tax or travel fares – but this leaves relatively few feasible options. Asset sales are one possibility; an ‘Olympic Bond’ issue might be another.

Is this a fair split? The total Whitehall contribution has risen substantially since last year – when it was just £1.5bn. Despite media suggestions that the Lottery has been ‘mugged’, the Government is still taking the biggest hit.

More broadly, the legacy evidence suggests the central/local funding split is about right. The hard benefits – jobs and infrastructure – are likely to be modest and focused on London, while softer benefits – image and well-being – are nationwide, and potentially larger and longer lasting (Kornblatt 2006).

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“The big picture story is that London is actually doing well. It is planning cautiously, and planning early”

There is a valid question about why Lottery funding is being used to pay for the Olympics in the first place – as opposed to mainstream departmental budgets. But there was little opposition to using some Lottery cash in the initial budget. Critics of the Olympics worry about increased use of Lottery money to cover costs.

Total Lottery funding – £2.2bn between 2005/6 and 2012/13 – represents around 20 per cent of lottery income for good causes over this period (DCMS 2007). Arguably, the best justification is that the Olympics is one of many national ‘good causes’: over 16 per cent of Lottery funding is already spent on sport, via bodies like UK Sport.

But Ministers have also suggested that after the Games, windfall gains from Olympic land sales will be ploughed back into the Lottery (DCMS 2007). This clearly reflects Government nervousness about using large amounts of Lottery cash for the Games.

6) Conclusion

After a rocky few months, the new budget for 2012 is a big step forward. The Government and the Olympic delivery bodies have been heavily criticised for the rising costs of the 2012 Games. But in reality, huge and complex projects – such as the regeneration of King’s Cross, or the Wembley Stadium rebuild – involve cost rises and delays.

So the big picture story is that London is actually doing well. It is planning cautiously, and planning early. This is why the new budget includes nearly £3bn to cover further delays and hazards. Given the UK’s poor track record in delivering major infrastructure on time and on budget, this is a significant step forward.

Given the legacy benefits – and the intrinsic value of the sporting spectacle – the Olympics are still well worth doing. But some major issues still need to be resolved.

The Government needs to demonstrate that the Games budget is airtight, and will remain so until 2012. It is not yet clear how the Mayor of London will meet his additional funding obligations – he needs to explain how this will work. And there is, as yet, no clear future use for the main Olympic stadium. We will be looking for answers over the next few months.

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Note: web references correct March 2007

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