

# FinanceWeek

## Complex budget politics behind Olympic spending overshoot

With estimated costs already more than three times the level of the winning bid in 2005, London's Olympic organisers are under pressure to rein in their more ambitious infrastructure ambitions. But critics also accuse them of swinging from tactical underestimation when bidding for the project to inflated claims designed to win a bigger budget.

As Beijing puts the finishing touches to its stadium and other venues for next year's Olympics, London is starting serious work on the construction of new facilities for the 2012 event. London's deprived East End boroughs campaigned for the Games in the firm belief that the expenditure before them, and the new buildings and transport links left behind, would create economic benefits that long outlast the memorable finishes and medal ceremonies. They can already take some comfort from China, where many analysts who would otherwise have forecast a slowdown are suggesting that preparation and staging of the games will keep the economy buoyant at least through 2008.

However, some of the forecasts go on to show Chinese growth slowing from present high rates after 2008, owing to an internal inflationary overshoot – fuelled by the big Olympic spend – as well as external deflationary pressures. And early announcements on London's budget have led to fears of a similar boom and bust for its own Olympic project. The budget for 2012 has already risen to £9.35bn, of which £6.09m is for the new Olympic Park, billed as Europe's biggest urban park development since the great boulevard bonanza of the 19th Century.

### Costs triple to £9.3bn, and could go higher...

Yesterday an official reassessment of the Olympic Delivery Authority (ODA) plans suggested that the cost of the Park could rise to more than £7bn, forcing a further increase in the total budget. This is already more than three times the £2.5-3.0bn that featured in initial discussions of bringing the games to the UK capital. To illustrate the scale of initial underestimates, culture secretary Tessa Jowell yesterday revealed that the budget for security arrangements during the Olympic fortnight has risen to £1.2bn, from an initial £200m.

The Government Olympic Executive, which has made the most detailed independent assessment to date, has calculated that the ODA has already absorbed over half its £2.7bn contingency fund, with less than £1bn remaining. Jowell admits that the government is "open to the possibility of further risks," implying that the remaining billion will also be call on between now and 2012. ODA chairman John Armitt has already said that the contingency fund may need to be expanded.

### ... but analysts suspect unrealised procurement savings

The International Olympic Committee (IOC), which gave the games to London after a last-minute swing against the favourite Paris, has expressed concern about the rapidly rising costs. But it may be about to add to them, after hinting yesterday that it will ask for changes to the Games' design, without giving details of what these might be. Although the IOC is likely to be seeking cost reductions, late changes in specification often prompt designers and contractors to raise their charges.

The sheer number of suppliers can lead to inefficiencies going undetected and administrative expenses rising. This is especially likely when, as in London, a project is designed to promote local urban regeneration as well as deliver a large global event, so that targets don't necessarily call for minimising expenditure. The Public Accounts Committee last month criticised the overspend, but also accused the ODA of winning the Games by putting in an unrealistically low bid, then inflating its estimates so as to win a bigger budget which it can be assured of staying within.

Even if they genuinely underestimated costs initially, experts are confident that it's not too late for the ODA to rein in its spending and keep within its revised budget. "Organisations like the London Olympics who choose the spend management route can quickly lower their costs, improve profits and gain competitive advantage," says Mike Arenth, EMEA general manager for procurement systems supplier Ariba.

### Costs and benefits from political Games

With several masters to serve, there was abnormally large scope for costs to be underestimated in the first instance. Those financing the Games – including the government, the Millennium Commission spending national lottery funds and private sector sponsors – were looking for cost-effectiveness, and the IOC also considered costs when evaluating the bids, needing assurance that the chosen host city will not run short of cash. "Project managers should try to achieve the objective of the sponsoring business, but problems arise when they realise that the sponsor won't like an estimate and that it won't get approval," says George Sifri, a project management instructor with global training consultancy ESI International.

The political motivations behind current overspend warnings raise hope that the underlying economics are not as

dire as either side suggests. But if they cannot persuade the Public Accounts Committee, National Audit Office and Government Olympic Executive that costs have been correctly forecast and are under control, the Olympic organisers risk being put on a short supervisory rein that limits their ability to plan strategically, and forces expedient cost cuts that leave facilities falling short of IOC expectations.

Political critics have already called for monthly expenditure and delivery statements, of the type that exposed the overruns and led to the bankruptcy of London Underground renovator Metronet earlier this year. The organisers' attempt to stay on schedule, finish within budget and avoid penalties for dubious tactics could be as exciting a spectacle as any of the races for which their efforts pave the way in 2012.

**Section:** Breaking News  
**Author:** Alan Shipman

**Date:** 12-Dec-2007  
**Source:** Finance Week

Finance Week Group is a division of [Centaur Holdings plc](#) © 2004  
FinanceWeek.co.uk was built by [Sift](#) Group Ltd.