
Subject: Olympic land commitments and revised budget
2009/10

Report No: Public Item 02.1

Meeting date: 16 September 2009

Report to: Board

Report of: Andrew Travers, Group Director, Resources and
Performance

Key Theme: Corporate

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Confidentiality Status: This document will not be treated as confidential.

1. Purpose

- 1.1. To set out issues in respect of Olympic land commitments contained within the LDA's Olympic funding strategy, and present revised land budgets for approval.
- 1.2. To consider the implications for the 2009/10 budget and present a revised 2009/10 budget for approval.

2. Recommendations

- 2.1. That the revised budget for Olympic land commitments is **agreed**.
- 2.2. That the virements and revised budget for 2009/10 are **agreed**.
- 2.3. That, in the event that the deferral of part of the 2009/10 payment to the Olympic Delivery Authority cannot be agreed, it is **agreed** that Mayoral approval will be sought for revised borrowing limits in 2009/10 as set out in paragraph 6.4.
- 2.4. That the requirement to consider and resolve the 2010/11 and future years position through the set-up arrangements for the Olympic Park Legacy Company and in the Investment Strategy 2010/11 to 2013/14 is **noted**.
- 2.5. That the delegation set out in the confidential appendix (Appendix 3) on land cases approval arrangements is **agreed**.
- 2.6. That the payment set out in the confidential appendix (Appendix 4) on a compensation matter is **agreed**.

3. Summary

- 3.1. The LDA's land acquisition activities in support of the London Olympics commenced prior to the announcement of the successful bid and accelerated thereafter. The majority of the site has been acquired

through Compulsory Purchase Orders, and the key budgetary estimates for the overall cost were prepared originally in 2006.

- 3.2. Increased Olympic land commitments totalling £159m have now been identified over the period 2008/9 to 2011/12. This has major implications for the medium and long-term financial position of the Agency and these issues will need to be resolved through the set-up arrangements for the Olympic Park Legacy Company and in considering the Investment Strategy for 2010/11 to 2013/14.
- 3.3. The impact on the 2009/10 budget is a shortfall of £94m which needs to be resolved immediately, and this report sets out a package of measures to balance the 2009/10 budget.

4. Background

- 4.1. The LDA's Olympic current funding strategy provides for the payment of land acquisition costs of £995m, payments to the Olympic Delivery Authority of £550m, and legacy development costs of £91m. The total cost of £1,636m is funded over a twenty-year period from grant and capital receipts, supported by borrowing which peaks at the level of £687m in 2012/13.
- 4.2. Plans are well advanced to transfer responsibilities for managing Olympic legacy from the LDA to the Olympic Park Legacy Company (OPLC). Concurrently with the due diligence process to enable the transfer, future land commitments in excess of planned levels were identified. KPMG, working alongside Eversheds in preparing the due diligence report, were asked to review all Olympic land commitments and legal liabilities. Improved legal and financial governance processes introduced over recent months have enabled swift and effective action to fully scope and resolve issues which have been identified through this process.

5. Olympic land commitments

- 5.1. KPMG have now completed their review of Olympic land commitments. The review has covered all aspects of land acquisition, relocation, compensation, remediation, and fees, together with other land agreements entered into to enable the staging of the Games and a successful legacy. This complex activity involved 3 Compulsory Purchase Orders (CPO) and numerous land acquisitions by agreement, with the principal Olympics CPO covering 800 individual plots and over 3000 separate land interests. All commitments have been reviewed, taking account of payments to date and potential further payments required. The overall position is as follows:

£m	to 07/8	08/9	09/10	10/11	11/12	12/13	Total
Original budget:							
Land acquisition	578	28	14	-	-	-	620
Remediation	98	105	12	5	-	-	220
Other costs	93	3	2	1	1	-	100
Contingency	-	11	18	13	11	2	55
Total	769	147	46	19	12	2	995
Revised budget:							
Land acquisition	578	27	75	52	11	-	743
Remediation	98	110	34	-	-	-	243
Other costs	93	30	17	5	1	-	146
Contingency	-	-	14	9	-	-	23
Total	769	167	140	66	12	-	1,154
Budget increase	-	20	94	47	-	-2	159

5.2. The bulk of projected expenditure is in respect of compensation in individual cases which require negotiation and resolution, possibly including the costs of litigation before the Lands Tribunal. There is therefore inherent uncertainty as to the quantum and phasing of payments to be made. The above revised budget includes a contingency of £22.8m and reflects an estimate of likely phasing. In my view, these estimates are appropriate but will require careful monitoring through the remainder of the programme.

5.3. The position in respect of 2008/9 was reflected in the accounts which are currently being audited. A consequence of this is that the planned reserve to fund 2009/10 expenditure is £12m less than anticipated when the budget was set. This sum needs to be identified in resolving the 2009/10 budget position.

6. Impact on LDA budgets

6.1. The Olympic funding strategy is fundamental to the overall medium and long-term financial strategy of the Agency. The transfer to OPLC, and the consequent land and funding implications, will, in any event, have major implications and the latest position on this is updated elsewhere on the agenda. The additional commitments identified in this report are integral to this, and the overall medium-term outcome will be a key factor in defining resources available for the Investment Strategy period 2010/11 to 2013/14 (also considered elsewhere on the agenda). It is, however, necessary to take clear action now to balance the

2009/10 budget, irrespective of on-going discussions regarding the establishment of the OPLC.

6.2. With regard to the 2009/10 budget, the following package of measures is proposed:

- the position in respect of reserves accumulated by the previous business link service has now been resolved resulting in a payment of £5.8m to the Agency; of this sum, £0.8m will be set aside in respect of any potential claims in respect of that entity, leaving a sum of £5m available which is currently unbudgeted;
- the budget contains a programme contingency of £4m. Following detailed budget scrutiny, this contingency can now be released in respect of non-Olympic programmes. In view of the overall residual risks in respect of the transfer to the OPLC, it is recommended that the contingency is earmarked for this purpose, and increased by £1m to a total of £5m. The revised 2009/10 budget will require careful management to ensure that no further net overspends occur;
- planned Olympic capital receipts have been reviewed enabling an increase in the estimate for 2009/10 of £17.8m.

6.3. In addition, planned programmes in 2009/10 have been reviewed. The review has taken place in the context of the on-going new approach to LDA expenditure focusing on value for money and return on investment, with projects which offer relatively poor value for money ceasing where this is appropriate. The review has also identified where projects can be deferred for consideration in future years business planning. On this basis, proposed budget adjustments of £45m have been identified and are set out in appendix 1. The package can be summarised as follows:

Package of measures	£m
From the £30m original project fund	13
Projects delayed from the original plan	8
Projects delivering poor value for money	4
Better value for money/no impact	4
Projects ceasing with limited/no impact	16
Total	45

6.4. Finally, the existing budget contains provision for the second tranche of £50m payable to the Olympic Delivery Authority in respect of the

overall Olympic budget. In view of the matters outlined in this report, the Government Olympic Executive (GOE) has been asked to consider a deferral of part of this £50m to a later year. This matter will be considered on 8 September. A deferral of £30m is assumed to be available. The impact of this in later years will need to be determined in the overall resolution of land and debt issues considered elsewhere on the agenda.

6.5. On this basis, the overall position for 2009/10 can be summarised as follows:

£m	Budget change 2009/10
Olympic land budget increase	94
Replace planned contribution from reserves no longer available	12
Sub-total	106
Package of measures:	
Business link reserves – received and not in budget	-5
Contingency: net increase and earmarking	+1
Increased capital receipts	-27
Deferral of ODA payment	-30
Budget adjustments	-45
Sub-total	-106
Net shortfall	-

6.6. Should deferral of the ODA payment not be achievable, consideration will need to be given to a residual net shortfall of £30m. The Olympic funding strategy is underpinned by borrowing, and it is therefore necessary to consider the balance between seeking further savings to meet any residual shortfall or increasing the planned level of borrowing. Should it not be possible to part-defer payment to the LDA, it is recommended that the LDA seeks an increase in borrowing limits for 2009/10 to meet the residual shortfall.

6.7. The proposed virements to give effect to this approach and the proposed revised budget for 2009/10 is set out for approval at appendix 2.

7. Management arrangements

7.1. The management of Olympic land budgets was previously the responsibility of the land team within the Olympic Legacy Directorate (OLD). In preparation for the transition to the OPLC, and in view of the crucial importance of these matters, responsibility for the management

of this activity and the relevant budgets has been assumed by the Director of Land and Development, reporting to the Group Director, Resources and Performance. The Director of Land and Development has assumed line management responsibility for the relevant team members within the OLD, and these individuals will not transfer to OPLC. Additional resources have been identified to ensure the LDA has sufficient capacity to manage the transition and on-going responsibilities.

- 7.2. The approval arrangements for individual cases within the revised budgets proposed in this report are considered in appendices 3 and 4 be taken in the private section of the meeting.

8. Mayoral advice and direction

- 8.1. The Mayor has been advised of the overall financial situation and proposed budget adjustments have been discussed with the Mayor's office.

9. Comments of the Director of Finance & Performance

- 9.1. This report has identified increased Olympic land commitments of £159m. This figure is an estimate based on the agents' forecast of outstanding liabilities. The final amount paid may differ from this as outstanding payments are settled.
- 9.2. The budget savings identified for 2009/10 have been taken into account in the latest performance monitor to be presented to the Audit Risk and Performance committee at its meeting in September. The Agency is strengthening its budget monitoring and management procedures including regular in-depth project scrutiny. Project managers are now required to sign off project budget forecasts.
- 9.3. The position for future years will be taken into account in setting the budgets through the Investment Strategy.

10. Comments of the Director of Law & Governance

- 10.1. In November and December 2008, the legal team raised some initial queries relating to the sufficiency of the budget for managing compensation claims associated with acquiring the Olympic Park land. To assist in quantifying the LDA's liabilities in more precise terms, the legal team instructed its external lawyers (DLA Piper and Eversheds) in March 2009 to conduct legal due diligence on the Olympic Park.
- 10.2. In doing this work, the legal team, supported by external lawyers, have worked closely with the finance team and KPMG on identifying current and future Olympic land liabilities so that these can be costed. A thorough and evidenced baseline position on these land liabilities has been prepared demonstrating where there is an auditable paper trail of liabilities which have been extinguished and indicating where there are

gaps. In analysing the gaps, further work has been completed setting out the type and potential value of future claims and suggesting a risk management approach to these. However, litigation costs are difficult to predict and we are continuing to work closely with project managers and finance colleagues in considering how best to contain these costs within a reasonable timeframe for settlement.

11. Appendices

- Appendix 1 – Proposed adjustments (**confidential appendix see Private Item 07.2**)
- Appendix 2 – Virements and budget adjustment proposals 2009/10 (**confidential appendix see Private Item 07.2**)
- Appendix 3 – Land cases approval arrangements (**confidential appendix see Private Item 07.2**)
- Appendix 4 – Compensation matter (**confidential appendix see Private Item 07.2**)

12. Background documents

- None

Report approval checklist

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This checklist must be completed for all reports to the Board, GMT Committees and Advisory Groups.
Please click on the relevant box to select it.

	Yes	No
Approved by Director of Finance and Performance or nominee (please state): Caroline Mikardo, Director of Finance and Performance	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Approved by Director of Law and Governance or nominee (please state): Cathy Ley, Head of Projects, Planning and Property, Law and Governance	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Approved by Group Director (please state): Andrew Travers	<input checked="" type="checkbox"/>	<input type="checkbox"/>