

The average cost overrun for producing the Olympic Games has been more than 200% since 1976

Will Jennings explores the history of vast cost overruns for Olympic Games. He isolates three common factors behind grossly underestimated costs since 1976: the bid process, uncontrolled growth in project specifications, and the failure to identify and manage risk.



As recently as March, the Public Accounts Committee criticised the organizers of London 2012 for its rising security bill: “It is staggering that the original estimates were so wrong.” The more things change, the more they stay the same. “Olympic balance-sheets, like other budgets” wrote the organizers of the London 1908 Olympic Games “are in the habit of proving their healthy existence by a vigorous growth.” This maxim has long been known in planning for the world’s largest sporting event.

The final report of the first modern Olympics in 1896 reflected that the initial estimates had “vastly underrated” the cost of restoring the ancient Panathenaic Stadium in Athens, rising some 57 per cent from 585,000 to 920,000 Drachmas. Famously, the bid estimates of the Montreal 1976 Olympics were put at a modest C\$120 million, but suffered an eventual cost overrun of 1,250 per cent - leaving huge debts which took the city thirty years to pay off. All this after the Mayor of Montréal Jean Drapeau had famously declared “The Olympics can no more have a deficit than a man can have a baby.” Despite an increasing concern on the part of host cities with managing risk, the problem of cost over-runs does not seem to have been resolved in recent times.

In [Olympic Risks](#) I document the systematic occurrence of cost overruns at Olympic Games since 1976, and explore some of the reasons why initial forecasts turn out to be so wrong. This research is the first to combine systematic analysis of Olympic cost overruns over time and an examination of their causes. Between 1976 and 2012, the average cost overrun from the estimates presented in the bid book to the final cost was more than 200 per cent. This far exceeds the average cost overrun on other major projects identified in [existing studies](#). It is also despite considerable efforts on the part of the International Olympic Committee over the past decade to make the evaluation of bids more rigorous via the technical requirements of its candidature process.

There are many explanations of cost inflation in major projects, ranging from ‘optimism bias’ or ‘group think’ in decision-making, deception on the part of planners, poor project management, and failures of the political system itself to provide oversight. Through an investigation of the factors behind each Olympic cost overrun, from Montreal in 1976 to London in 2012, a number of common themes emerge.

1. The bid process

The IOC’s Olympic Games Study Commission has itself expressed concern that the competition for the right to the host the Olympic Games, awarded through a secret vote of the membership of the IOC, encourages ‘showcasing’ by applicant cities in their submissions. Indeed, bid books have been described by Richard Pound, former Vice President of the IOC, as being the ‘most beautiful fiction’. A feasibility study conducted for the British Olympic Association ahead of London’s bid itself expressed the need for ‘escaping from the world of realism’ when considering what a bid might look like. The short-term interest in securing the event can lead to under-estimation of the commitment required. As a consequence, the version of events that are presented in bid dossiers often have little resemblance to the real thing.

2. Scope creep

One of the most prominent causes of cost overruns in project management is ‘scope creep’ (i.e. uncontrolled growth in project specifications). This can result from inadequate definition of the project

scope or poor controls in management (it can also result from drift in the preference of planners). For example, changes to the design of the stadium roof led to cost pressures for the main stadium for London 2012. Another crucial source of scope creep is unanticipated exogenous shocks, such as fluctuations in steel prices. Subsoil exploration – that is, drilling – has been a recurring theme in Olympic construction. Designs of the velodrome for Montreal had to be modified due to the discovery of weak and unstable subsoil which had been missed by earlier geological studies – further pushing costs upwards. Unexpected findings about the soil profile of the site for the Athens 2004 Olympics led to a last minute change in design of the foundations for the stadium roof. A £25 million increase in the cost of the velodrome for London 2012 was similarly attributed to changes in design that resulted from ‘complex foundations and ground conditions’.

The phenomenon of scope creep is also observed in budgeting (re)classification. Much of the growth in the official budget for London 2012 can be linked to this, in the redefinition of certain items as core Olympic costs after the bid had been won. Specifically, £1 billion of expenditure on infrastructure for the Olympic Park was re-integrated into the budget while the costs of tax liabilities on capital spending and security, which had been omitted from previous estimates, were consolidated into the budget. These omissions, combined with the addition of a sizeable programme contingency, amounted to more than £4 billion; far more than the increases in costs due to changes in technical scope.

3. Risk, moral hazard and fantasy documents

One of the most important factors in Olympic cost overruns is a failure to identify and manage risk. This is despite the [increasing attention of Olympic organizers to risk](#) in planning. The Public Accounts Committee found that London’s bid budget had not followed the government’s own guidance on budgeting procedures for major projects ‘despite HM Treasury having been consulted and the bid agreed across Government’. Specifically, £738 million of private sector finance for the Olympic Village was included ‘despite not being supported by robust analysis’. When the global financial crisis hit the private sector withdrew from the project, only returning later once the level of risk attached to the project had subsided. This points to the problem of *moral hazard* in major events where the government is required to act as backer of last resort (for the Olympics this is enshrined through the host city contract), which enables the private sector to transfer risk to the state but seek to accrue profits. Private developers returned to the Olympic Village project once the volatility in the financial markets had calmed down.

The final aspect of Olympic planning that gives rise to the under-estimation of risk is the illusion of control created through the use of detailed planning documents and complex budgeting methods. The numbers presented in bid books often take on a fictional character, having little resemblance to the final cost as plans for the event take shape and as uncertainties of scope diminish. In the case of London 2012, the application of a series of technical methodologies (which included a probabilistic budget assessment and financial audits) were unable to prevent revisions of technical scope and drift in political and bureaucratic decisions (such as growth in the security budget). This points to the possibility of viewing Olympic planning in the same way as Lee Clarke’s [characterization of disaster plans](#) as ‘fantasy documents’, where organisations fantasise about their ability to cope with disaster.

In this, planning manuals and protocols are often used to ‘express uncertainty in terms of risk’ and to provide reassurance about manageability to an external audience. This has many parallels with the role of bid books in securing the support of host governments and citizens as well as the IOC. Most of all, this highlights the gap between the organisational rhetoric of planning, and how it characterises routines and controls, and reality on the ground.

*For more detailed analysis of bid budgets see Chapter 4 of [Olympic Risks](#), and for an analysis of the budget for London 2012 see [‘Why costs overrun: risk, optimism and uncertainty in budgeting for the London 2012 Olympic Games’](#), *Journal of Construction Management and Economics* 30(6): 455-462.*

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