



BACKGROUNDER

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## **THE 2010 OLYMPIC AND PARALYMPIC WINTER GAMES: A REVIEW OF ESTIMATES RELATED TO THE PROVINCE'S COMMITMENTS**

### **Introduction**

In 2010, British Columbia will host the Olympic and Paralympic Winter Games. Because the Province is investing significant resources in the Games and potentially may have to commit additional resources through guarantees and indemnifications, the Office of the Auditor General decided to conduct regular reviews of the reasonableness of the Province's cost estimates to undertake the Games. Our aim is to help British Columbians understand the nature and scope of the financial commitment the Province has taken on.

This is the second of our reports on the topic. Our first report in January 2003 examined the initial estimated costs of staging the games.

### **The Scope and Summary of Our Review**

This report is based on information to August 31, 2006. It summarizes the Province's latest estimates of the Games costs and the current budget of the Vancouver Organizing Committee (VANOC). We examined the processes used to develop the current estimates and the assumptions underlying those estimates. We also examined the processes used to identify the risks associated with the planning and staging of the Games, and to develop plans for managing those risks.

Our focus was on reviewing the Province's costs related to the Games.

We reviewed VANOC's budget to understand the extent of the potential cost to the Province arising from that budget. The current revenue and expense estimates by VANOC appear reasonable to us at this stage in the development of the Games. While there are risks associated with the operating budget, a contingency has been set aside by VANOC.

The report shows that hosting the Games is an expensive undertaking, not only for the Province but also for the federal government and other parties (for example, the Municipality of Richmond for the speed-skating oval). According to our calculations, the current estimated minimum cost of the games is \$2.5 billion, of which \$1.5 billion is attributed to the Province. We acknowledge that there are legacy and economic benefits, but their economic value needs to be updated and reviewed.

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Our key findings and recommendations are noted below.

### **Interpretation of the Provincial Guarantee**

The Province has provided a guarantee to the International Olympic Committee (IOC) that it will cover any financial shortfall of VANOC. This cost would arise if VANOC is not successful in meeting its revenue or expense targets or does not build in sufficient contingencies to cover items it cannot control – items such as inflation, exchange rate fluctuations, the state of the economy, world threats and weather events.

We acknowledge that, legally, the guarantee is provided only to the IOC. In our opinion, however, the obligation of the Province to ensure the financial success of the Games has the potential to broaden the exposure of the guarantee to include other parties. The Province's view is that the guarantee is to the IOC only and should not be relied upon by any other parties. Next Steps by the Auditor General

VANOC will soon be updating its Olympic and Paralympic Games business plan, including its operating and capital costs. The Auditor General will be carrying out additional reviews as this and other new information becomes available. We expect our next report to be issued in 2007.

### **Key Findings and Recommendations of the 2006 Report**

#### **Negotiations on amendments to certain key venue agreements are not yet finalized.**

We recommend that the Province work with VANOC to help get all venue agreements in place as soon as possible; and closely monitor VANOC's progress in managing construction of the venues to ensure they can be delivered on time and on budget and do not result in the transfer of costs to the ultimate guarantor of venue completion – the Province.

#### **Medical and security costs not yet updated.**

We recommend that the Province update its medical cost estimates and also update the security cost estimates as soon as the required information is available from the RCMP.

#### **Olympic costs have not yet been defined by the Province.**

We recommend that the Province: • establish a comprehensive definition of Olympic-related costs; and • report regularly to the public on the status of those costs.

**Foreign exchange rate risk needs more attention.**

We recommend that the Province work with VANOC to implement a comprehensive hedging strategy for its foreign-source revenues.

**Stronger oversight going forward is required.**

We recommend that the Province: • conduct a thorough due diligence review of VANOC's financial information in the future, and that it require VANOC to prepare its future business plans in accordance with the terms of the Multi-Party Agreement; and • encourage VANOC to make its budget for the Games a public document.

**Coordinated marketing effort is needed.**

We recommend that the Province coordinate its marketing efforts for the Games to make better use of the marketing expertise it already has in place.

**Post-Games legacy plans need to be considered.**

We recommend that, as the Province will ultimately be responsible for the post-Games operations of the Whistler Sliding Centre, Whistler Nordic Centre and Whistler Athletes' Centre, it discuss with VANOC the current design plans for those venues to ensure they incorporate the features envisioned by the post-Games business plans.