

Tim Sydenham

Mobile: +44 (0) 7811 885 375

Email: tim.sydenham@googlemail.com

A Lasting Legacy: How can London fully exploit the opportunities created by the Olympic Games in the recovery and to 2030?

A report prepared for DCMS by the Work Foundation working with Oxford Economics

A peer review for DCMS

Summer 2010

Overview

Overall, this report is a useful summary of the economic legacy potential offered by the London 2012 Games. There is nothing particularly new in the report¹ beyond a greater-than-usual emphasis on the link between London hosting the 2012 Games, the growing importance of the 'green economy' and the strength of London's 'knowledge economy' (understandable given the authors' well-known 'ideopolis' concept), but some very important messages for policymakers are usefully brought together into a single document.

The report is rightly positive about the potential of the 2012 Games to aid the recovery from the recession and to leave a beneficial economic legacy in London (and, to a lesser extent, the UK). The report very clearly sets out the 'catalytic' potential of the 2012 Games to showcase London and therefore boost (or, at least, safeguard) its profile and brand, helping to protect its competitive position in the global economy.

The report also clearly sets out why this beneficial legacy is potential only, and cannot be taken for granted. Over the past year or so, there has been considerable hand-wringing over whether it is wise for the UK to be hosting 'expensive' Olympic and Paralympic Games, given the state of the public finances. The report very clearly makes the case that the investment into the 2012 Games is money well-spent compared to other ways in which it might have been used, given its unique 'catalytic' potential, but only so long as:

- the venues and infrastructure which are being built for the 2012 Games do not become 'white elephants' but rather, allied with investment into social capital, serve a long-term, sustainable purpose; and
- the 2012 Games are viewed not as an end in themselves but as a means to an end, and are smartly used by policymakers to help deliver a wider economic vision for London and the UK as a single (albeit integral) part of a bigger jigsaw puzzle.

The report's emphasis on London is correct. The 2012 Games will primarily benefit London (although there are likely to be significant knock-on effects for the rest of the UK through the supply-chain). However, the report's recommendation that policymakers study the economic legacy experienced by previous host cities is at odds with the report's recognition that London greatly differs from these cities. Given the very different characteristics of each host city, their differing ambitions, and the very different economic contexts within which Games have taken place, the lessons to be learnt are limited to the running of successful Games rather than to the formulation of economic development and regeneration policy around them (the report cites the Barcelona 1992 example, but factors including Spain's accession into the European Union in 1986 make this a barely relevant, albeit broadly inspirational, case study).²

¹ See, for example, 'After the Gold Rush' (ippr/demos, 2004); 'Economic Impact of the London 2012 Olympics' (Blake, 2005); 'Employment and Skills for the 2012 Games: Research and Evidence' (Experian, 2006); 'Setting the Bar' (Centre for Cities, 2006); 'A 2012 Labour Market Legacy' (Sydenham, Journal for Urban Regeneration and Renewal, 2007).

² A more complete analysis of previous host cities can be found in the Experian report cited above or in 'Business and Economic Benefits of the Sydney 2000 Games – Collation of Evidence' (PWC, 2002).

Nevertheless, the authors' assertion that integrating the 2012 Games into a broader strategy for London (something which Barcelona appeared to do successfully) is a very important one. On this basis, the key for policymakers is understanding the characteristics of the London economy (particularly the host boroughs) and articulating a vision for its future.

The authors take this opportunity to push their 'knowledge economy' agenda (which is reasonable given the 'knowledge-intensity' of London's economy relative to other parts of the UK) and a 'green economy' agenda (which is reasonable given east London's geographic link with the Thames Gateway eco-region and the likely future growth in 'green' industries).

Importantly, the authors place significant emphasis on the investment in social capital, particularly the skills and employability of host borough residents. The investment in physical infrastructure, the running of a successful and on-budget Games, the showcasing of London – these are all important. But without the engagement of the communities in the host boroughs, where deprivation remains severe, workers and businesses will continue to be sucked in from outside (the report cites the Canary Wharf experience) and the attempt to use the Games to boost the overall regeneration of east London will fail.

However, the report's recommendations on skills and employability slightly miss the point. The case for government intervention here rests on equity objectives – namely, ensuring that the local population (which faces greater-than-average barriers to work and considerable economic exclusion) is able to share in the benefits of the 2012 Games.

This principle is at the heart of the *London Employment and Skills Taskforce (LEST) for 2012 Action Plan*, developed in 2006. The focus of the *LEST 2012 Action Plan* has never been on job creation – it was recognised that this would happen regardless of public sector intervention. The focus has always been on using the jobs created by the 2012 Games – and the overall "buzz" – to provide a focal point for interventions which tackle London's existing labour market challenges.

The most pressing challenge identified during the development of the *LEST 2012 Action Plan* was the high degree of worklessness in London (particularly in the host boroughs). LEST recognised that the 2012 Games offered a huge opportunity to engage London's workless population, and provided a point of convergence for the combined efforts of London's public, private and third sectors to do so.

Leaving a positive labour market legacy in London has always been the overriding concern. It was not considered sufficient to stop at helping workless people into 2012-related jobs, nor even helping ensure that the 2012 Games were fully resourced and delivered. The *LEST 2012 Action Plan* went further to help provide workless people with the skills and work experience they needed in order to compete for jobs generally, both in the lead-up to and beyond 2012. It aimed to help provide London's employers with the future workforce they needed, to underpin the future of the economy.

So the *LEST 2012 Action Plan* and its interventions were specifically designed to reduce worklessness in London generally, taking advantage of the high profile of the 2012 Games and their capacity to inspire and engage. The 2012 Games were therefore viewed not in isolation, but as one (albeit unique and high profile) piece of a wider London labour market puzzle. Using the 2012 Games to help London's workless people into work was the primary goal – whether or not this work was actually 2012-related was of secondary importance.

So whilst the report is correct to point out that the employment generated by Games is often lower than expected, this is less important than the way in which the employment opportunities are used to benefit the local population in the build-up to, throughout and beyond Games-Time.

The report somewhat oddly cites Athens in order to make the point that Games-related employment is temporary, and liable to be abruptly terminated. But the construction work for the Athens 2004 Games famously went down to the wire, with some venues being completed only days or weeks prior to the commencement of Games-Time. The London 2012 Games are better planned, with an Olympic Forecasting Unit working onsite with contractors to prepare for peaks and troughs in labour demand, and working with agencies in the host boroughs and across London to broker people (workless and/or nearing the end of their contracts) into forthcoming vacancies. The *Construction Skills Network 2010 report* on the London construction sector points out that London is currently experiencing a boom in infrastructure investment, which is enabling workers leaving 2012 Games contracts to move into Crossrail and other major projects.

The biggest impact of the recession – somewhat brushed over by the report – is a lack of vacancies. When the *LEST 2012 Action Plan* was developed in Spring 2006, it was expected that the *LEST 2012 Action Plan* would be delivered during a period of continuing economic growth in London. At that time, London was experiencing an unprecedented period of economic growth. Overall, general opinion was that 2012 Games employers (LOCOG, ODA, etc) and contractors would be recruiting in relatively favourable economic circumstances. It was therefore assumed that – in the lead-up to 2012 – employers would be operating at or near full capacity. This would mean that a significant proportion of the jobs created by the 2012 Games were likely to be advertised as vacancies by employers needing to resource additional contracts.

In addition, a number of the 2012-related sectors were already reporting labour shortages, which provided the opportunity to reduce these shortages by linking job vacancies with the engagement and training of workless people. However, the arrival in London and the UK of migrants from EU Accession States after 2004 brought increased competition for job vacancies, particularly so in construction and hospitality – major 2012 job creation sectors. This reinforced the need to ensure that local people (particularly workless people) were appropriately skilled to compete for jobs.

Today, the economic context is very different. Whilst the recession has not meant the 2012 Games has created fewer jobs, it has set these jobs in a very different context. The 2012 Games has enabled construction employers to safeguard jobs, redeploying staff onto 2012 contracts, but the lack of vacancies has made it more difficult to support the local population, particularly those facing significant barriers, into work. Nonetheless, the expected upturn in the economy in 2011/12 has positive implications ...

The expected future growth in the major Games-Time employment sectors (catering, cleaning, security and transport) means that people completing temporary Games-Time employment contracts are much more likely to be able to get jobs in the wider London economy. (It would be different if tens of thousands of temporary staff were leaving their jobs all at once in the midst of a downturn.) In turn, the Games-Time temporary employment contracts provide the opportunity to engage and train a workforce which will support the future growth of the London economy, since many of the Games-Time sectors are in line with those expected to help drive growth in London after 2012.

Econometric modelling

The report estimates the overall number of jobs likely to be attributable to the 2012 Games, broadly in line with previous studies.³ The assumptions made by the authors are reasonable and robust. In particular, the decision to only apportion impacts to London (rather than to the UK as a whole) from 2016 onwards, on the basis of increased tourism and participation rates; and the decision to exclude non-2012 related projects taking place in the Lower Lea Valley, east London and the Thames Gateway, on the basis that whilst they have links with the Games, there is no clear justification for including them as a direct impact of the Games.

The authors are open regarding the difficulties inherent in establishing a counterfactual – namely, what would have happened without the 2012 Games. The recession has made this task yet more complicated by interrupting any discernable trend in London's economic trajectory. The assumptions made by the authors, as set out in the accompanying *Analytical Report*, appear reasonable but (as with all econometric modelling) remain assumptions.

It is disappointing, albeit understandable given the complexities involved, that the authors have chosen not to quantify the potential 'catalytic' benefits of the 2012 Games which form such a major part of the overall argument in the report. Such benefits as they relate to the international showcasing of London and the safeguarding of its competitive position in the global economy, should they prove real, will have a major impact on the London and therefore the UK economy. In addition, such benefits would materially alter the displacement adjustments made by the authors in their estimates – this is because the report's argument states that, as a result of hosting the 2012 Games, London and the UK might be able to attract additional (or safeguard existing) international investment, which implies no displacement of investment within the UK. But the quantification of such benefits, however important, is fraught with difficulty, so it is understandable that the authors have chosen not to do so.

It is not entirely clear how the estimates of direct impacts have been generated, from which all other impacts (indirect, induced, etc) are derived. The direct impacts appear to be predominantly top-down, informed by 'existing studies and government publications.' This is a tricky starting point. Whilst the value of anticipated tourism spend, of 2012-related contracts won through Compete For and so on, can be estimated and apportioned to sectors and geographies through the input-output models available to the authors, there needs to be a strong element of bottom-up analysis if the jobs that are being directly generated by 2012 employers (ODA, LOCOG, etc) and their contractors are to be properly accounted for.

The only viable methodology is consultation with 2012 employers and their contractors.⁴ For example, the ODA maintains comprehensive records on its onsite labour (over 20,000 jobs to date including the Athletes' Village); and LOCOG invests considerable resource in forecasting its likely recruitment needs (around 6,000 directly employed staff and up to around 100,000 contractors,

³ See, for example, 'Economic Impact of the London 2012 Olympics' (Blake, 2005); 'Employment and Skills for the 2012 Games: Research and Evidence' (Experian, 2006); 'What Skills By When' (Cambridge Econometrics, 2007).

⁴ This is the method used, for example, in the Experian report cited above, and in the various programme and project level evaluations currently underway relating to the *LEST Action Plan*.

supported by up to around 70,000 volunteers). Furthermore, LOCOG are aware that contractors (particularly those in the hospitality sector) are likely to redeploy existing staff into a proportion of the 2012 vacancies for the duration of the Games, in order to provide existing staff with career development opportunities, and backfill temporary vacancies in other parts of London and the UK. It is unclear how such on-the-ground information relates to the estimates set out in the report.

One problem with the methodology set out above is that these jobs last for very differing lengths of time, with the Games-Time jobs (a significant proportion of the 100,000 contractors) likely to last for only a matter of weeks during the Summer of 2012. However, it is not clear that the estimates in the report overcome this problem by producing genuinely full-time-equivalent (FTE) job forecasts.

The econometric modelling used by the authors to calculate indirect and induced impacts, and gross/net jobs, employs standard methodology and reasonable assumptions – the authors have a solid reputation in this type of analysis. The overall estimates broadly fall within the range of previous forecasts by Dr Adam Blake, Experian, Cambridge Econometrics and others. But, as set out above, focusing on the overall employment generation somewhat misses the point of the legacy question. If all the jobs are taken by skilled workers, who would have found work anyway or who are sucked into London, then the underlying market failure in the London labour market (and particularly in the host boroughs) is not tackled. There is a clear equity objective for policymakers to ensure that local communities are able to benefit from the job opportunities being generated by the 2012 Games, regardless of the number.

Summary

Overall, this report usefully brings together for policymakers some very important messages relating to the socio-economic legacy of the London 2012 Games. In particular, the report very clearly sets out the case for ensuring the 2012 Games are integrated into a long-term, sustainable strategy for the host boroughs and London (e.g. through the existing Strategic Regeneration Framework).

Tim Sydenham has been involved in the London 2012 Games since 2005. As a consultant, and previously as Director of Strategy & Research for Experian, Tim has advised organisations including the LDA, LOCOG, DCMS, BIS, the Olympic Host Boroughs Unit, the LSC and various RDAs. His reports and publications include 'A 2012 labour market legacy: the bigger picture', '2012 inspiration can rub-off for renewal', 'Building an Olympic legacy', 'the impact of the recession on the 2012 Games' and '2012 Games: research and evidence.'