

2. BACKGROUND

Every business needs a plan. An entity as complex as an organizing committee for the Olympic and Paralympic Games requires an especially robust plan based on sound strategy and forward thinking. One of the key lessons learned from previous Games organizers is that change is certain and constant. A good plan allows for change. This one does.

The VANOC Executive and the Board of Directors require a sound business plan to make decisions, monitor performance and fulfill their core responsibilities. This plan will serve that purpose. It will provide the Board and its committees the context against which to measure activities and understand the progression of planning. With a project-oriented business like the 2010 Winter Games, planning progress is best monitored against the expected Games-time deliverables and milestones along the path. Fiscal year performance provides the Board, management and stakeholders with an appreciation of how resources are being managed year-to-year as milestones are achieved. This plan and business model will provide the Board with its foundation for good decision making.

2.1 Building of the Business Plan

This Business Plan represents the second such plan prepared by the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games (VANOC). The first, known as Version 1, was approved by the VANOC Board of Directors in July 2005. The Board, and especially its Finance Committee and staff, spent many hours reviewing and discussing key elements of the plan. It was, however, a largely top-down exercise that reflected the state of planning at that time. The Version 1 plan included a discussion of future business plans including an indication that Version 2 would be developed in late 2006 when function managers had been hired and function planning was sufficiently advanced. This would be the first “ground up” Business Plan and Budget.

This section summarizes the main steps taken to develop and validate the 50 function business plans that were ultimately merged to create the VANOC Version 2 Business Plan. Business planning began in fall 2005 and continued to be a significant priority throughout 2006.

Robust business planning processes were designed to provide assurance to the VANOC Board that key assumptions, risks and opportunities were fully investigated, validated and planned for. Accordingly, there was a high level of oversight from the VANOC Finance and Risk Management teams and a fully engaged Executive Team at every step, led by the CEO.

The goals of the business planning processes were to have every function build a comprehensive and credible business plan, to test the plans through a series of due diligence review processes and to then integrate the validated plans into the consolidated VANOC Business Plan with a balanced budget that enables VANOC to deliver on its strategic priorities and objectives.

These goals were achieved. Furthermore, elements of the plan have evolved into effective ongoing management tools such as the Games planning Master Schedule that are vital to delivering extraordinary Olympic and Paralympic Winter Games in 2010.

2.1.1 Setting the Strategic Direction

Through a series of workshops and discussions with key stakeholders, the Executive Team developed VANOC's mission, vision, values, seven strategic objectives and the 2010 desired performance outcomes.

VANOC's strategic objectives were a guide to the team throughout the planning process, especially when priorities were being set. Both the function business plans and this VANOC Business Plan are aligned with, and enable, the achievement of the VANOC Strategic Plan.

2.1.2 Determined Function Scope

In fall 2005, workshops were held with each of the function teams to identify and confirm the function's scope/roles and responsibilities and mission, interdependencies and issues. The workshops resulted in all functions having scope definitions prior to initiating the detailed business planning process.

2.1.3 Completed Research, Including Previous Games Experience

Considerable research was undertaken leading up to, and as part of, the Torino 2006 Winter Games and prior to writing the business plans. This research and benchmarking continued throughout the planning processes.

The starting point for research was the IOC Olympic Games Knowledge Management System (OGKM) extranet site with benchmark information, reports and presentations from previous Games organizers. The Games functions technical manuals and regular meetings with IOC function counterparts were valuable planning aids.

The IOC also offers OGKM workshops and a network of experts with Games experience. More than 20 OGKM workshops have been delivered to VANOC staff teams and partners. Many of the workshops focused on addressing specific business planning issues and challenges.

Eighty VANOC employees, along with many partners, experienced the magnitude and complexity of the Torino 2006 Winter Games in person and participated in the OGKM Observer Programs. In addition, 16 VANOC staff members worked directly for the Torino Organizing Committee (TOROC) on secondments for training purposes.

The five-day Torino Debrief Session held in Vancouver in July 2006 was also a valuable opportunity to discuss TOROC's experience – what worked well, the challenges faced, opportunities and recommendations for improvement.

Another solid source of information is in the VANOC team itself. VANOC has deliberately hired experienced people early. Many members of the VANOC Team (both partners and VANOC employees) have in-depth Games experience and an extensive network of Games contacts, while others have valuable corporate experience, including best practice and market information for exploring new and creative solutions. This combination of skills and experience helped us challenge the status quo and find creative solutions.

2.1.4 Writing and Updating Function Business Plans

Using a common function business plan template and a series of facilitated sessions, all VANOC functions drafted their preliminary function business plans by May 31, 2006. These plans include:

- Mission and performance outcomes
- Roles and responsibilities
- Contractual obligations
- Customers
- Services delivered to and received from other VANOC functions
- Issues
- Key planning assumptions
- Key delivery strategies
- Key deliverables and schedules
- A workforce plan

The final update of the function business plans was completed in November 2006 to ensure all function plan information was sufficiently detailed and accurate to be included in the VANOC Business Plan. However, as new information becomes available, each function business plan is subject to further updates and more detail.

2.1.5 Cross-Function Reviews and Validations

Once the preliminary function business plans were drafted, the next step was to build a common understanding of the various planning assumptions made across all of VANOC functions. A cross-function review of the draft function business plans was completed. The objectives of the review were to verify interdependencies, cross-function planning assumptions and services, to identify gaps, duplications or inconsistencies, and resolve them.

Functions received a summary of the services they were expected to deliver and presented with key planning assumptions that were linked to their function and identified in other plans. Discrepancies and duplications were identified, discussed and reconciled. Services and key

assumptions were confirmed and function business plans were updated. This exercise was repeated several times as the budgets changed and plans were modified.

Another form of cross-function review was building the VANOC Master Schedule. Individual function schedules were integrated into the VANOC Master Schedule. The schedule addressed identified gaps, duplicates, sequencing and timing issues.

2.1.6 Built Detailed Budgeting Models and Workforce Plan

The preliminary budget and workforce plan information was consolidated and reviewed with the Executive Team in May 2006. The Executive Team provided direction and recommended budget targets for each function. The Finance team also provided functions with a set of standard budgeting guidelines.

Over the summer 2006, function teams worked with their function business managers and Workforce representatives to develop detailed function budgets and workforce plans that were aligned with their business plan deliverables and services. Budget assumptions and cost parameters were refined; the associated resource requirements (people, goods and services) were quantified and then tested and validated. A detailed budget model was built for each function.

2.1.7 Financial and Workforce Due Diligence Reviews Completed

In August 2006, financial review sessions were held with every function. The responsible function and its executive and the finance and planning teams reviewed the function business plan and budget in detail. Planning and budgeting assumptions were challenged with the goal of ensuring that every expense was critical, realistic and consistent across all functions. Gaps, overlaps/redundancies, opportunities, efficiencies and uncertainties were identified and addressed.

There were a series of benchmarking exercises. Budgets and workforce plans were compared to previous organizing committee statistics, with a focus on the Torino 2006 and Salt Lake 2002 Games. Two expert advisors with previous organizing committee experience completed a comprehensive review of the function budgets and workforce plans and recommended changes. The finance and workforce teams then met with every function to review and update their workforce plans, budgets and business plan.

After the financial and workforce reviews were completed, function leads created an executive summary of their business plan, budget and workforce summaries. These summaries formed the basis of the Executive Team, Board of Directors and VANOC partner presentations.

2.1.8 Executive Team Workshops – Balancing Resources and Budgets across the Functions and Setting the VANOC Business Plan Framework

The Executive Team spent much of September 2006 in intensive business planning workshops to review every function business plan, challenge planning assumptions, explore creative solutions and recommend changes to function plans and budgets.

The focus then turned to gaining a deep understanding of the integrated VANOC picture, including the consolidated budget, contingency plans, risk assessments, overall priorities, trade-offs and opportunities with a final evaluation against expectations set out in VANOC's strategic plan.

The appropriate level of contingency, the risk profile and setting specific budget priorities sparked healthy and open debate. Every alternate scenario was thoroughly discussed.

After these sessions, work began to consolidate the information and understanding into a document that would clearly describe all material elements of the VANOC Business Plan.

2.1.9 Board of Directors and IOC Review Sessions Completed

The VANOC Board of Directors participated in a two-day business planning review session in mid-October 2006 with a further review in early November. The objective was to build a clear understanding and confidence in the overall business plan and processes by which it was developed. The material risks, issues and opportunities, key deliverables, planning assumptions, challenges, opportunities and risks were all discussed. The consolidated VANOC budget, contingency plan and risk profile were also discussed.

The session also provided management with valuable input, insight and direction as to how VANOC can best reach its goal of achieving a balanced budget and finalize the VANOC Business Plan in the first quarter of 2007.

In March 2007, VANOC concluded its negotiations with the IOC related to the amount of the IOC revenue contribution and the sharing of costs in a number of areas including Olympic Broadcast Services (OBS). The results of these negotiations are reflected in this Business Plan.

2.2 Future Business Plans

With the approval of this Business Plan, VANOC has a new starting point for a series of plan revisions and budget re-allocations that will take place between now and Games time. Looking ahead, VANOC's business planning and budgeting will be a very dynamic process governed by a rigorous set of checks and balances that ensure planned expenditures at any point in time are always met with secure revenue sources.

Version 3 of the plan and budget is expected to be completed in fall 2008. It will be based on 18 months of further detailed operational planning and early Test Events. Version 3 will largely be an exercise at further validating our budget assumptions and forecasts, helping to ensure the budget continues to be realistic and achievable. By then, our operating plans will be well advanced. This work will be completed in about 16 months in advance of the Games and will reflect an even higher degree of confidence in final costs and revenues associated with staging the Games.

2.3 The VANOC Environment

VANOC operates in a complex, multi-stakeholder environment. Its plans and budgets are subject to extensive oversight by its government partners, the International Olympic Committee, the International Paralympic Committee, International Sport Federations (IFs) and others. There are high expectations from government partners, the public, numerous special interest groups, the media, the sport community and others that the Organizing Committee must live up to. At every stage, VANOC's actions will be under close scrutiny. With a policy of openness and transparency, VANOC will continue to earn the public's confidence and trust.

Politically, VANOC has the support of all levels of government. However, elections are anticipated between now and 2010 at the federal level, provincially in BC, in Vancouver and Whistler and also in the venue communities of Richmond and West Vancouver. Changes in governments could change the environment VANOC operates within, however VANOC will continue to plan based on the ongoing support of all of its partners as demonstrated to date. Clearly, this support is essential to VANOC's success in staging the Games.

Canada and British Columbia continue to experience robust economic growth with strong investment, low unemployment and intense competition for skilled labour in some sectors. While the very positive business and employment picture is welcome, it does pose challenges in terms of cost pressures. This has been most visible in the construction sector and venue development costs reflect this fact. See further details in Appendix 6: The Working Environment.

2.4 Pre-existing Contracts and Commitments

The operations of VANOC are subject to several key agreements and commitments. Some are very fundamental to VANOC's operations and its obligations. In many cases, these agreements were made during the Bid phase, which have subsequently been assigned to VANOC and drive many of the assumptions in the Organizing Committee's planning. Key agreements include the following:

2.4.1 Multiparty Agreement (MPA)

Dated November 2002, parties to the MPA are the Government of Canada, the Province of British Columbia, the Canadian Olympic Committee, the Canadian Paralympic Committee, the City of Vancouver (COV) and the Resort Municipality of Whistler (RMOW). VANOC joined on October 31, 2003. The MPA has three primary objectives:

- Define, in advance, the parties' respective roles in VANOC; hence the VANOC structure, Letters Patent and bylaws
- Secure the commitments of the parties to each other to ensure the success of the Games
- Define the contributions (financial and non-financial) that each of the Government partners will make to the Games

2.4.2 Host City Contract (HCC)

Dated July 2003, parties to the HCC are the COC, IOC and COV. VANOC joined in December 2003. The HCC sets out the relationship and respective rights and obligations of the parties related to organizing and hosting the Games. It includes extensive VANOC obligations that are incorporated into this plan. The HCC also requires that Vancouver host the Paralympic Winter Games and establishes the standards for those Games by a reference to an agreement between the IPC and IOC.

2.4.3 Marketing Plan Agreement (MPA2)

Dated April 2005, parties to MPA2 are the IOC and VANOC. MPA2 sets out the comprehensive marketing relationship between VANOC and the IOC and their respective sponsors and licensees, including the grant to VANOC of the right to market the Vancouver 2010 Olympic brand in Canada and the right to retain most of the revenues derived from this marketing effort. MPA2 also details the terms and conditions under which VANOC's Marketing Plan is to be implemented in Canada and the IOC's commitments to pay to VANOC a portion of the revenues from the IOC's international sponsorship program – The Olympic Partner Programme (TOP).

2.4.4 Joint Marketing Plan Agreement (JMPA)

Dated June 2003, parties include the COC and COV. VANOC joined the agreement in December 2003. The JMPA creates a simplified and unified marketing structure for Olympic marketing within Canada for the Games. The JMPA includes the compensation structure payable to the COC for granting to VANOC exclusive marketing rights in Canada related to the

IOC, the Olympic Movement, the COC and the Games for the period January 1, 2005 through December 31, 2012.

2.4.5 Venue Agreements

A number of venue agreements were completed during the Bid phase, by the Vancouver 2010 Bid Corporation, and most have since been joined by VANOC. With some additional agreements recently completed, most are now in place. While most elements are covered in these agreements, some have certain points requiring further definition. These agreements are reflected in this Business Plan.

2.4.6 Shared Legacy Agreement

Dated November 2002, parties are the Lil'wat and Squamish First Nations, the Government of British Columbia and the Vancouver 2010 Bid Corporation. The agreement sets out shared legacy commitments to First Nations arising from the 2010 Games. They include: commitments of shared ownership of the Whistler Nordic and sliding venues through the Whistler Legacies Society, Olympic housing legacy, contracting opportunities and an Aboriginal youth sports legacy.

2.4.7 Canadian Paralympic Committee (CPC) Joint Marketing Agreement

VANOC has entered into a Joint Marketing Agreement with the CPC. Dated January 1, 2005, the agreement addresses marketing issues pertaining to VANOC and the CPC.

2.5 Other Olympic and Paralympic Winter Games

The two Olympic and Paralympic Winter Games held this decade provide valuable lessons and learning resources for Vancouver 2010. VANOC has consulted extensively with those involved in the Salt Lake 2002 and Torino 2006 Winter Games in the development of its operational plans and function budgets. The Olympic Games Knowledge Management (OGKM) service also provides the ongoing transfer of knowledge from previous Games.

2.6 Core Assumptions

2.6.1 Inflation, Cost Escalation and As-Spent Dollars

The Vancouver 2010 Winter Games financial plan is built in “as-spent” Canadian Dollars. This means that an item budgeted to cost \$1 million in 2009 will in fact cost \$1 million and not a figure that is increased due to inflation or cost escalation. This approach differs significantly from that adopted in the Bid phase where the IOC required that all budgets be submitted in fixed 2002 USD.

Inflation is assumed to be generally consistent with that of the past several years: an annual change in the CPI index of approximately 2.0 per cent. Higher annual rates of inflation are allowed for in specific expenditure categories where current trends demands. Examples are energy and construction costs.

2.6.2 Foreign Currency

This budget is stated in Canadian Dollars (CAD). However, significant revenues of VANOC will be received in United States Dollars (USD) and in Euros (€) and most will be converted to Canadian Dollars to meet what are, for the most part, Canadian Dollar expenditures. VANOC will also have some foreign currency payment obligations. As these amounts are confirmed, VANOC removes the net future foreign exchange risk by securing in advance the rates at which the foreign currency amounts will eventually be converted to Canadian Dollars. This is done through contracts (hedges) with a major bank counterparty and are disclosed in each quarterly reporting of VANOC’s financial results. Where such hedge contracts have yet to be entered into, the prevailing spot foreign exchange rates have been assumed in the budget forecast.

VANOC’s foreign exchange risk management strategy is to use hedging to protect our current budget by removing in the order of 90 per cent of the risk of a strengthening Canadian Dollar diminishing the value of future foreign denominated cash flows. In so doing, it will not be necessary in VANOC budgeting to make predictions as to the future exchange rates in converting foreign currency amounts as these rates will be determined in advance.

2.6.3 Taxes

As VANOC is a not-for-profit corporation incorporated under Part II of the Canada Corporations Act, it is not subject to Canadian income tax. It is, however, required to withhold Canadian taxes on certain transactions with foreign individuals or companies.

VANOC is fully subject to the 7.0 per cent provincial sales tax (PST) required by British Columbia. PST, where it applies, is included in budget estimates. Consistent with practice at past major games, certain assumptions have been made in respect of transactions for which VANOC anticipates that a remission of import duties and PST will be granted.

VANOC is also subject to Canada's 6.0 per cent Goods and Services Tax (GST). As a not-for-profit entity, VANOC is not automatically entitled to a full recovery of its input tax credits. A detailed assessment of VANOC's tax position and development of its tax strategy is underway. Under the terms of the Host City Contract, VANOC may be responsible for foreign or Canadian taxes associated with transactions with members of the Olympic Family, generally the IOC, Olympic Broadcast Services (OBS) or The Olympic Partner Programme (TOP).

The Government of Canada, in its budget tabled in March 2007, has proposed: 1) to waive any non-resident withholding tax liability of the IOC and IPC for any payment made after 2005 and before 2011; 2) to amend the Income Tax Act to ensure that non-resident athletes and other non-resident individuals are not taxed as a direct result of their participation in the Games; and 3) to remit all or a portion of the customs duties, excise taxes and GST/HST on certain goods imported into Canada in connection with the Games.

2.6.4 Completeness

Building a plan to cover a period of three years into the future in an environment of change is challenging. Even with the significant amount of work done, both during and since the Bid, there are areas where the ability to accurately predict future events is limited. To deliver the most complete estimates possible, VANOC relied on:

- **Research** – Each function team has carefully researched the requirements of their particular functions. Research has included reviewing IOC technical manuals, accessing Olympic Games Knowledge Management (OGKM) materials, observation of the Torino Games, attendance at the Torino 2006 debrief sessions in July 2006, meeting with managers experienced at Torino, Salt Lake 2002 and other Games and other sources.
- **Comparison to other Games** – Financial results from the Salt Lake 2002 Games have been analyzed. VANOC managers have met on numerous occasions with key staff from both the Salt Lake and Torino 2006 Organizing Committees, including key members of their executive teams. Relationships were established with colleagues in both cities that allowed for a very full and extensive review of their operations and results.
- **Experience and expertise** – VANOC staff includes several individuals who have worked on one or more Olympic or other major Games. Most functions have a games-experienced leader or have accessed the services of a games-experienced person. This experience has added to their understanding of requirements and possible risks.
- **Contingency** – Understanding there will be changes to the plan and budget to reflect new information, changes in underlying assumptions and other factors, a project contingency is included in the budget. The contingency for the Games operating budget is planned to ensure that costs associated with unforeseen events and other challenges can be accommodated.

2.6.5 Value in Kind (VIK)

VIK goods and services are the product of marketing agreements. Sponsors provide to VANOC specified goods and services as partial or complete payment for marketing and other rights that they obtain from VANOC. VIK typically comprises a substantial portion of an organizing committee's budget. VANOC anticipates VIK to be in excess of \$400 million. In budgeting and recording VIK transactions, VANOC follows Canadian Generally Accepted Accounting Principles (GAAP). For the purposes of building this Business Plan, transactions anticipated to be in the form of VIK are priced at estimated levels that would be paid in the marketplace in the absence of a sponsorship agreement.

3. RISKS

Any project of the size and complexity of the Olympic and Paralympic Games inherently involves some risk. Throughout the planning process, risks specific to functions have been identified. In many cases, mitigation strategies have also been identified. Foreign exchange risk, for example, is largely removed through a hedging program as described in section 2.6.2. The Risk Management Plan, included as part of this Business Plan, addresses a strategy for dealing with project risk which is one of VANOC management's most important responsibilities.

Many risks were identified in the Bid phase and in VANOC's early foundation planning phase. The most significant of these risks are identified below and discussed in more detail elsewhere in this Plan.

As with all Games organizing committees, VANOC has some exposure to the certain risks in achieving its strategic objectives and mandate.

Financial risks: In the context of its Business Plan and Budget, VANOC faces financial risk as revenues and expenditures transition from planned activities, to contractual commitments, to actual results.

During the first transition from planning to commitments, risk arises in the form of:

- Planning gaps – expenditures are required that were not identified in the Plan due to either oversight or changes in circumstances. This risk is mitigated through the extensive planning activities described in section 2 of this Plan and through the continuous monitoring and adjustment of the Plan.
- Changes in market pricing – the risk that scope is properly defined but, when entering into the procurement phase, pricing is materially different from expectations. While a certain element of this risk is beyond VANOC's control, it is mitigated by extensive research, sound procurement practices and some ability to manage scope.