

# **PUBLIC AUDIT COMMITTEE**

Wednesday 27 January 2010

Session 3

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## PUBLIC AUDIT COMMITTEE

### 2<sup>nd</sup> Meeting 2010, Session 3

#### CONVENER

\*Hugh Henry (Paisley South) (Lab)

#### DEPUTY CONVENER

Murdo Fraser (Mid Scotland and Fife) (Con)

#### COMMITTEE MEMBERS

\*Willie Coffey (Kilmarnock and Loudoun) (SNP)

Cathie Craigie (Cumbernauld and Kilsyth) (Lab)

George Foulkes (Lothians) (Lab)

\*Bill Kidd (Glasgow) (SNP)

\*Anne McLaughlin (Glasgow) (SNP)

Nicol Stephen (Aberdeen South) (LD)

#### COMMITTEE SUBSTITUTES

\*Derek Brownlee (South of Scotland) (Con)

Linda Fabiani (Central Scotland) (SNP)

\*James Kelly (Glasgow Rutherglen) (Lab)

John Farquhar Munro (Ross, Skye and Inverness West) (LD)

\* attended

#### THE FOLLOWING GAVE EVIDENCE:

George Black (Glasgow City Council)

Lynn Brown (Glasgow City Council)

Liz Hunter (Scottish Government Equalities, Social Inclusion and Sport Directorate)

Ian Reid (Glasgow 2014 Ltd)

John Scott (Glasgow 2014 Ltd)

#### CLERK TO THE COMMITTEE

Tracey White

#### SENIOR ASSISTANT CLERK

Joanna Hardy

#### ASSISTANT CLERK

Jason Nairn

#### LOCATION

Committee Room 4



## Scottish Parliament

### Public Audit Committee

*Wednesday 27 January 2010*

[THE CONVENER *opened the meeting at 10:00*]

### Decision on Taking Business in Private

10:00

**The Convener (Hugh Henry):** Good morning. I welcome everyone to the second meeting in 2010 of the Public Audit Committee. I ask everyone to ensure that all electronic devices are switched off so that they do not interfere with our recording equipment. I welcome the team from Audit Scotland and people in the gallery. We have received apologies from Nicol Stephen, Cathie Craigie, George Foulkes and Murdo Fraser. John Farquhar Munro may attend the meeting in place of Nicol Stephen, James Kelly is substituting for George Foulkes and Derek Brownlee is substituting for Murdo Fraser.

The first item on the agenda is consideration of whether to take in private items 4, 5, 6 and 7. Is that agreed?

**Members** *indicated agreement.*

## Section 23 Report

### “Commonwealth Games 2014: Progress report on planning for the delivery of the XX<sup>th</sup> Games”

10:00

**The Convener:** The second item on the agenda is a section 23 report, “Commonwealth Games 2014: Progress report on planning for the delivery of the XX<sup>th</sup> Games”. We have already heard from the Auditor General, but decided to take further evidence. We have a substantial cast before us today. I welcome Liz Hunter, the director of the Scottish Government’s equalities, social inclusion and sport directorate; Derek Bearhop, the head of the games delivery team; John Scott, the chief executive of Glasgow 2014 Ltd; Ian Reid, the finance manager for Glasgow 2014 Ltd; George Black, the chief executive of Glasgow City Council; Lynn Brown, the executive director of financial services at Glasgow City Council; and Jon Doig, the chief executive of Commonwealth Games Scotland. I believe that Liz Hunter would like to make an opening statement.

**Liz Hunter (Scottish Government Equalities, Social Inclusion and Sport Directorate):** Thank you, convener. I make the following statement on behalf of all four partners who are represented here.

The partnership between the Scottish Government, Glasgow City Council and Commonwealth Games Scotland was absolutely fundamental to winning the bid for the 2014 games. Since November 2007, the Glasgow 2014 organising committee has also played a major role in working with the original partners to ensure that the games will be delivered successfully and serve as the basis for a lasting legacy for the whole of Scotland.

It is still four and a half years until the opening ceremony, but the partners have been working closely for more than two years to ensure that there is a solid planning framework in place for the games. Audit Scotland acknowledges in its report that the partnership is working well and that we have a clear understanding of our respective responsibilities. We are very aware of the size and importance of the task that we face over the coming years, but we believe at this stage that we have good foundations in place to carry it out successfully.

The partners found it helpful to have the discipline of an external audit of our planning processes: we will learn from Audit Scotland’s helpful observations. It is important to emphasise, however, that the study was a snapshot of where

we were in August 2009 and that planning for the games is moving forward rapidly. Since that time, substantial progress has been made, which has overtaken some of the report's findings, although its initial findings helped us in making that progress. That is particularly evident in relation to the games budget, which was increased on 16 November following a detailed budget review. As was noted by Audit Scotland, the top risk on our risk register last summer was the prospect of a budget shortfall, but that has been addressed following a review process that was described as "robust" by Caroline Gardner in evidence to the committee before Christmas. The budget review process included a review of the level of contingency funding within the budget based on the likelihood and potential financial impact of identified risks occurring. The contingency fund will be strongly governed and accessed only if it is absolutely necessary for successful delivery of the games.

The games partners are all aware that the management of risk is one of the key tasks that we face in preparing for the games. Good risk management is key to the delivery of any project, but it is even more important for one that is being planned over such a lengthy period. A comprehensive risk register that forms the basis for regular reporting throughout the governance structure for the games has been prepared, and individual partners have their own risk registers, which feed into and complement the shared register. The Scottish Government has made particular progress in that area since last summer. We now have in place an internal risk-management and reporting structure to manage our specific risks and to support our contribution to the games' successful delivery.

Items on the risk registers are not certain or even likely to happen; rather, they are conceivable, and action can be taken to manage down risks or to mitigate their effects, should they materialise. I am sure that members are aware that something as large and complex as the Commonwealth games cannot be entirely risk free, but the risk register that is operated by the partners demonstrates that the risks around 2014 are manageable within acceptable limits. We are working hard across the partnership to maintain that position.

There has been media coverage of the construction programme for the venues. We can confirm that all the venues are on schedule to be completed in plenty of time for the games.

It is clear that change is a feature of the planning of any complex event. Since the bid was won two years ago, we have improved our knowledge and learned from our experience. In many instances, we have found better ways to do things than were

in the plan in 2007, and no doubt there will be further changes as our planning becomes more refined. Obviously, it is good to maintain flexibility to respond to the challenges that we expect to face.

Our joint approach to risk management and programme planning is ensuring that all the partners are closely involved in directing the project, and that individual strengths are being complemented. We believe that we are in a good position at this point. Indeed, in October, the president of the Commonwealth Games Federation said that the federation was pleased with the very good progress that had been made in preparing for the games, and that

"the 2014 Games are in very good hands".

We were pleased about that.

All the partners fully understand their responsibilities to the taxpayer and the council tax payer. There are representatives of each of the funding partners on the board of the organising committee, and Lord Smith has publicly committed to running a tight ship. We are united in the belief that the games can be a catalyst for significant change and that they will generate enormous sporting, social and economic benefits for the whole of Scotland.

**The Convener:** Thank you. Mr Black, do you want to say anything on behalf of Glasgow City Council, or has Liz Hunter covered things?

**George Black (Glasgow City Council):** I am comfortable with what has been said.

**The Convener:** I have a question for Liz Hunter. Which organisation—the Scottish Government or the council—is the lead on the project?

**Liz Hunter:** We are working in a four-way partnership to deliver the games—it would be wrong to see any one partner as being in the lead. The Government is the overall backstop guarantor for the games, but there is a partnership across the piece, and we do not see any one of the partners as being in the lead.

**The Convener:** I understand that the partnership is very close and I can see that it has been very productive so far, but we know from experience—indeed, from previous Commonwealth games in Scotland—that problems can arise. If a problem arises, who will ultimately take responsibility?

**Liz Hunter:** Responsibility would be taken by the strategic group that is chaired by the First Minister, on which all four partners are represented. That group is the ultimate decision-making body and dispute-resolution mechanism for the games.

**The Convener:** Thank you for that. We will move on to your £445 million budget.

**Anne McLaughlin (Glasgow) (SNP):** None of us can overstate the importance of the games to the whole country. We have an interesting opportunity to take evidence today.

Will the revised games budget of £454 million be sufficient? The footnote on page 23 of Audit Scotland's progress report states that the costs for "Manchester Commonwealth Games 2002 increased by 120 per cent",

which is next to nothing compared with the

"Delhi Commonwealth Games 2010 latest forecast increase of 280 per cent"

and the

"London Olympics ... forecast increase of 300 per cent."

What controls and measures do you have in place to control the budget and to be able to know in advance whether it will not be sufficient?

**Liz Hunter:** There are several points to make in response to that, the first of which is that, in setting out how to submit a bid, the Commonwealth Games Federation was very aware of the huge overruns that you just pointed out. The arrangements at the time of the 2007 bid budget were considerably tightened up in that respect. We are therefore confident that the bid budget that was presented was much more robust than was perhaps the case on previous occasions. The budget review endorsed that bid budget; it did not say, "You've got half of it wrong," or, "There's a huge amount there that needs to be changed." The review said that, in a fast-moving world, some things had moved on since 2007—technology and so on—and that we needed a relatively small increase to cover that and ensure that we had enough in the budget for contingencies—the known unknowns and the unknown unknowns.

We are therefore confident, right across the partnership, that the budget is robust. You quoted the figure of £454 million, which is correct. It consists of the core budget, with the contingency and the reserve. We are also keen to ensure that the contingency and reserve are not used for the games. The purpose of the risk register and the partnership working is to minimise the calls on that money. The core budget of £374 million is what, when we did the review, we felt was essential for delivering the games. However, because we were five years out from 2014, it was clearly prudent to have a fairly significant contingency budget to use, should events prove to be slightly different from what had been predicted. The Scottish Government is setting aside a £20 million reserve in the later years for the really unexpected, left-field event that might take place.

**Anne McLaughlin:** You referred to "the really unexpected", so I suppose we cannot ask you what that will be. However, you also referred to the known unknowns and the unknown unknowns, with regard to areas of risk and uncertainty in the finances. Can you go through what some of them might be? Will the contingency be sufficient to cover all the known unknowns and unknown unknowns—I am getting myself all mixed up here—in the worst-case scenario? Can you give us examples of the areas of uncertainty?

**Liz Hunter:** Mr Black may want to say a bit more about this later on, because some contracts for capital works for venues and overlays to make existing venues ready for the games are not all pinned down yet, so some risk is associated with that. You will have gathered from the Audit Scotland report that the work that is going on in Hampden is particularly technically innovative, so there is clearly risk there. It was for that kind of area that PricewaterhouseCoopers, when it did its work on the budget, was particularly concerned to add more contingency to ensure that the risk had been fully taken into account.

You will be aware that the core budget increase is £41 million, but as much again has been added to the budget to cover contingency and unknown unknowns to ensure that we are satisfied that the games are doable within the total budget. We do not expect new things to come in that would push the budget up in any sense.

**Derek Brownlee (South of Scotland) (Con):** I am interested in what you said about those issues, because I checked back to what Parliament was told when the Glasgow Commonwealth Games Bill was going through. Those issues were raised then because we all recognised that there was a history of cost overruns in such events. The Parliament was told in 2007 that all the issues had been considered, that lessons had been learned from the Manchester and London games, and that

"the budget is the result of extensive work over several years by"

the organising committee,

"the city council, the Scottish Government, the Commonwealth Games Council for Scotland and PricewaterhouseCoopers",

and that it had been scrutinised by the Commonwealth Games Federation. The Parliament was also told that the contingency of £40 million was appropriate and that it would be

"capable of absorbing any changes in revenue or expenditure",

and that the

"bid document cost is an accurate estimate of the cost". — [Official Report, Finance Committee, 11 December; c 242-243.]

We were told that the governance arrangements would have facilities to allow budget overruns or potential overruns to be “caught very quickly”. We did not hear of any overruns until November last year and we were told that the £40 million contingency had enough slack in it to deal with the risks on the capital projects.

You paint a very different picture today from what we were told when we were asked to pass the legislation to enable the bid to proceed.

10:15

**Liz Hunter:** It is not a different picture, actually. We hope, and are pretty confident, that £40 million will be enough. However, the advice that we got was that, for example, the technological advances in broadcasting since 2007—high-definition television, the red button and all the rest of it—meant that it was not possible to be absolutely sure how much the broadcasting costs or income would be. That is a change since 2007, which meant that it was prudent to put the contingency up at this stage.

As far as the venues are concerned, there are no more risks now than there were in 2007, but there was already £40 million in the contingency at that point. It is prudent to put that up to £60 million to cover new things that have emerged since 2007. However, we certainly hope that we can bring it back down over the early years in the work that we are doing across the partnership to manage the risk. As the contracts are let and we find out the final figures for the venues, it should be possible with increasing assurance to reduce the level of contingency because we will have managed out some of the risks of which we are taking account now.

**Derek Brownlee:** The risk of technology moving on is always with us and would have been an issue at any previous games. Broadcasting and broadcast income were considered at some length back in 2007. Had you said to the Parliament in 2007 that there was a lot of uncertainty and that you hoped that the budget would be £373 million but it might have to be £454 million, we would have had greater clarity of expectation. Instead, we were told that £373 million was, in effect, the cap; there was almost no risk of the budget exceeding that. That is not the message that you are giving today, and it makes me wonder whether we can have any confidence that the figures that you are providing are accurate or whether the games are another example of a project that is out of control.

**Liz Hunter:** No. The project is not out of control. All the partners would agree that it is not. When the bid budget was proposed, we did not have an organising committee. Once there are people in

place who consider in great detail what needs to be done, small refinements are made and different ways of phasing brought in. It was always the intention that, once we had an organising committee and officers in place working with John Scott and examining the budget, it would be looked at across the piece. The organising committee must be sure and satisfied that it can deliver the games within the budget. That is one thing that has happened since 2007.

We are confident because the huge amount of work that PWC did in the review did not suggest that the original bid budget of £373 million included items that had been misunderstood or underestimated. A change in pensions legislation had to be taken into account. Technological change is always with us, but it has moved on exponentially in the past couple of years, as people will be aware in the light of what is now available in home televisions. The 2007 position is different from the position now and it would have been difficult to have sorted out in absolute detail at the time.

The increase is significant and I am not minimising it, but the increase in the core budget is £41 million, as the original core was £333 million. As an increase over two years and given the changes that have taken place, that is not a sign of a budget that is out of control.

However, we must not only put all that in but set aside money for contingencies to ensure that we give Parliament the total figure—that is, the outlying figure in the documents—and that, from this point on, we are clear what the maximum will be. That is a good and sensible approach to take four and a half years from this sporting event.

**Derek Brownlee:** I do not want to dwell on this at too great length—I want the committee to move on—but, in relation to the first part of your answer in particular, the statements that I quoted about the robustness of the process and all the lessons that had been learned were made to me by the interim chief executive of the organising committee. It is not the case that, as you said, the organising committee could not have foreseen the uncertainty because, at that time, that uncertainty did not exist. The committee gave evidence to the Parliament, suggesting that the process was robust.

**Liz Hunter:** According to PWC, the Audit Scotland report and all the partners, the process was robust. The budget post-bid has not been called into question when it has been looked at. However, it is prudent and sensible to take into account in the budget that we are putting forward now the fact that since 2007 certain things have changed.



Although, at the time you are talking about, there was an interim chief executive, the directors in the different areas of the organising committee were not there and it made sense for the committee to ensure that it was comfortable with what was in the budget and, indeed, to own it. That was one of the purposes of the budget review.

**The Convener:** What financial impact did the change of pension regulations have?

**Liz Hunter:** I would need to look that up—Ian Reid might be able to give that information.

**Ian Reid (Glasgow 2014 Ltd):** The impact was in the region of £2 million to £2.5 million. The bid budget contained no provision for workforce pensions because at the time there was no mandatory requirement to do so. However, following the introduction of legislation, it became a statutory requirement for an employer to make a contribution to each staff member's pension.

**The Convener:** So, when the original costings were made, there was no intention to pay any pensions. However, after legislation was introduced, you had to account for pension payments. Are you honestly telling us that you would not have paid your staff a pension if the legislation had not been changed?

**Ian Reid:** The bid had no provision for staff pensions.

**Liz Hunter:** My understanding is that that was the normal procedure for such games because people are employed for only a short time and so on. That was the basis on which the bid budget was put together.

**The Convener:** How many people does the £2 million to £2.5 million relate to?

**Ian Reid:** It covers pension contributions for the forecast workforce of about 900 staff. Of course, as many of those people will be taken on towards the end of the games and employed for only a very short time, the financial implications for us will be reasonably small. The cost also covers the core team who will be employed for four to four and a half years up to the games themselves.

**The Convener:** Who decides on the pension levels? Are they set out in statute? Are they decided in relation to salary? Is it up to one of the component partners to decide how much to put into the pension pot?

**Ian Reid:** The level of employer contributions is decided by the organising committee board and executive team. It is not a final salary scheme; it is a contribution-based scheme, with employers contributing 8 per cent for each member of staff.

**The Convener:** I presume that the employer or whoever is responsible will work to guidelines that have been decided by the appropriate committee.

I realise that you cannot give us the pensions for each member of staff, but I would certainly be interested in seeing the guidelines determining pension levels. You will no doubt be aware of the significant and indeed growing concern about public sector pensions in Scotland, and I would be grateful if you could provide us with the rules governing how much individuals will be paid in a pension.

You mentioned monitoring. Who is responsible for monitoring and, indeed, for controlling the budget?

**Liz Hunter:** The strategic group has ultimate responsibility and any use of the contingency, for example, or access to the reserve or anything like that, would have to be the decision of that group. The organising committee monitors its budget as it goes through the board.

**The Convener:** That is what I am trying to get at. You have already explained that the First Minister chairs the strategic group. Although he and the group might ultimately make decisions on the basis of information that is presented to them, you could not expect the First Minister to be aware of day-to-day financial implications. Who, in that case, from within the plethora of organisations that are involved, is responsible for making sure that the budget is monitored and controlled?

**Liz Hunter:** Basically, it is the organising committee, but I will ask John Scott to give you a bit more detail.

**John Scott (Glasgow 2014 Ltd):** The prime responsibility lies with the organising committee. We now have a budget. We know the sum of money that we have been allocated, and Liz Hunter has told you what that is. We are profiling that over the duration of the games to 2014, and that will reflect the reviewing and planning work on what needs to be done when.

One of the biggest challenges with major games on this scale is understanding its complexity, and understanding the linkages and making sure that things fit together when they need to. I have been very conscious of the need to do things in a timely, but not premature, manner. It is very important that we do not incur unnecessary expenditure, but we must do things when they need to be done. We have therefore gone through a very detailed process of developing what we call the road map—which I am happy to share with the committee. It explains the phases and critical milestones.

The road map is now supported by what we call the games masterplan, which is 8,000 lines of activity showing how the integration of the total offering needs to come together. Against that, we are now working through a process to map how the money will be drawn down. You will have seen

that process in the evidence that Audit Scotland supplied. There is a finance committee that comprises the funding partners and the OC, who review the plan every quarter. We also have to submit to the partners through our annual business plan our expectation of funding against the activities that we have to deliver in that year.

So, at the highest level, we have the games operational plan, which is underpinned by the master schedule. Then we have an annual operating plan, which is supervised by the board, around which we have the membership, as Liz Hunter has explained. We also have representation from the funding partners. The finance committee oversees the detail to ensure that we are doing what needs to be done when it needs to be done, and that we are fitting within the limitations that have been set for the budget and the various budget lines.

**Bill Kidd (Glasgow) (SNP):** HM Treasury guidance recommends that inflation be included in all budgets but, according to page 23 of the Audit Scotland report on the Commonwealth games,

"The approved budget is based on 2007 prices"

and does not seem to take into account the possibility of inflation. How will the budget be considered in its development during the next five years, and how will inflation be accounted for?

**Liz Hunter:** The bid was done at 2007 prices, to the specification of the Commonwealth Games Federation so that all bids could be compared. It is important to keep talking about 2007 prices as we talk about the overall budget so that people can compare like with like just as we were doing earlier, and so that people can see whether there have been real increases in the budget, such as those that we instituted in November.

Inflation will need to be applied to many of the lines in the budget, depending on when the expenditure falls and what the rate of inflation is at that time. Some of the lines will not require that. Some are actuals in the budget. For example, some of the fees that go to the Commonwealth Games Federation are in cash terms, and we know what they will be. Clearly, there are other lines to which inflation will have to be applied. We are working in the finance group and with the organising committee to determine which those lines are and to ensure that we have a shared understanding of that.

As the committee will know, the Scottish Government's contribution will appear in its budget, which comes before Parliament. As with all the lines in the Scottish Government's budget, the line for the games will include inflation and will be in cash terms. The accounts will also be in cash terms, as they normally are. When we get to 2015-16, or whatever year the final accounts are

done, we will be able to look back and have a total that includes inflation, and we will be able to build that up as we go through the period to 2015-16.

10:30

**Bill Kidd:** That sounds kind of retrospective in terms of maintenance of a budget. Is there a projection based on 2010 prices of how costs may rise up to 2015-16?

**Liz Hunter:** We are working on that, but the 2010 prices are no more relevant than the 2007 ones. The profile of expenditure is such that most of the expenditure will fall in the last year or 18 months, because of the number of staff who will be employed then and the work on overlaying the existing venues for the games. The vast majority of expenditure will fall at the end of the period, and it is not an even spread. Therefore, until we know what the rate of inflation is in, say, 2014-15, it is not possible to have an absolute. However, a considerable proportion of the budget is for contingencies. We are working to manage that down. It would be very difficult to have a figure within that because at this stage we do not know how the contingencies will go, how much of that will be used and how much we will be applying in the last year to 18 months for inflation. It is expected that the total of £454 million will not be breached because we are not looking to use the entire contingency budget and the £20 million reserve.

**Bill Kidd:** You do not know for sure what the inflationary pressures will be at that time, nor exactly how much of the contingency money will be used, but you do know how many full-time and part-time staff will be employed. On that basis, are you working at least to a projected inflationary figure on the basis of what the rate of inflation has been over the past few years, to give you an idea of how close to the full budget you will go?

**Liz Hunter:** Yes. A lot of that has to do with the profiling work that John Scott has been describing, and the phasing work of the budget. Once we know what that is, we will be in a stronger position to estimate roughly where we will be. However, as we have been explaining, there are uncertainties to do with the contingencies and the rate of inflation, and, in the present public expenditure context, over capital projects and so on. All of that needs to be taken into account to get a strong estimate of where we will be.

**Bill Kidd:** And, if there was a requirement for it, additional funding would come from the partners that you mentioned earlier. Will you give us a wee idea of the implications of any further increases for the Scottish Government, Glasgow City Council and the organising committee?

**Liz Hunter:** As I have been saying, although we will be in a stronger position once the profiling work has been done, we are anticipating that the £454 million total will not be exceeded, including inflation. Clearly, though, more work needs to be done just to bottom all of that out.

**James Kelly (Glasgow Rutherglen) (Lab):** I am slightly worried by this approach to financial planning. Is it your planning assumption that the inflationary increases that have occurred since 2007 and will continue to occur to 2014 will come out of the existing contingency?

**Liz Hunter:** Yes, that is the first call. The organising committee in particular, and the partnership as a whole, are working to minimise the cost of the games to the public purse. We are all united in aiming to do that. John Scott and his team are working on the funding for the games in the most cost-effective way possible, and within budget. There will be small increases in some areas, but they may well be offset by decreases in other areas as we work through and as we find different ways of delivering some of the required programmes.

Overall, everything that John Scott has described aims to ensure that the games are delivered for the minimum safe cost—to give us a good games within budget. We are looking to balance out increases in one area with decreases in another.

**James Kelly:** You say that the contingency fund will be the first port of call for funding future inflation increases. Is there a ceiling on how much will be pulled from that fund to meet inflationary increases?

**Liz Hunter:** The contingency fund is there to cover increases that the partnership agrees are required. That includes inflation. There is no doubt that some inflationary increases will be required. However, they are a relatively small proportion of the total amount, given what has happened over the past few years and what we think will happen over the next while. Once the OC has done the work on phasing that it is currently engaged in, we will be in a better position to consider that and to ensure that we are still satisfied that we are working within sensible and safe limits.

**James Kelly:** I can understand your saying that the amount for inflation will be a relatively small proportion of the overall budget, which is set at £454 million at 2007 prices. You said that the bulk of the expenditure will fall during the 18-month run-in to 2014 and, even with a very simplistic analysis, we would expect prices to rise by at least 10 per cent between 2007 and 2014. That would suggest a shortfall of £45 million. I have concerns about the approach that has been taken to financial planning, and I am concerned that there

does not seem to be anything like enough contingency funding to fund inflationary increases. I suggest that the £454 million figure will increase again.

**Liz Hunter:** We will not apply an inflationary figure to the whole budget. For a start, the £454 million contains a contingency and a reserve, and there are set figures for the fees to the Commonwealth Games Federation and so on. The budget covers security costs and a range of other things. There would have been a major pressure on the budget if we had been building new stadia across Glasgow in order to provide for the games, but that is not the case, as 70 per cent of the venues are already there. That gives us a high level of confidence that the amount that we will need for inflation will not be as large as you suggest.

**James Kelly:** I am suggesting a moderate inflation increase.

How much of the £60 million contingency fund can be relied on to fund inflationary increases?

**John Scott:** Liz Hunter has explained things in a certain way but, from the OC's perspective, it is important that it be understood that the costs at 2007 prices will need to be inflated as we come to know the actual expenditure required. I have mentioned the profiling that we are doing. Much of our expenditure must be tested in the marketplace—we must secure a huge amount of overlay work, for example. We have gone through a robust process to cost that, but we will not know until we test the market what the real cost of it will be. The budget required for it was set on an understanding of the 2007 price and will need to be increased for inflation. The contingency fund is there to meet and deal with the risks that are embedded in the risk register and the risks that will inevitably arise as we progress with the development of the project—there is a distinction between the two.

As Liz Hunter has explained, the decision was made to use 2007 prices so that we could compare apples with apples when the project was conceived. However, the costs of those items, with inflation, are likely to increase over the period. We will try to drive those costs down through our procurement process, but there will be an inflationary aspect.

**The Convener:** I ask for clarification, as that has left me more confused. Liz Hunter suggested that inflationary costs will be met from the contingency fund, but you have suggested that the contingency fund will be used to address risk factors but not inflation.

**John Scott:** The purpose of the contingency fund is to deal with the risks that are associated with the project; the inflation is dealt with

separately. There is a minute of agreement between the parties that states that the inflation will be paid for separately as part of the process—that is embedded in the minute of agreement between the parties.

**The Convener:** But that is different from what we heard from Liz Hunter. She said that inflation would be met from the contingency fund.

**Liz Hunter:** I agree absolutely with what John Scott has said. I have possibly explained the situation badly to the committee, so allow me to clarify. John Scott has explained it correctly. However, the expectation is that, because of the work that we are doing on the mitigation of risk right across the partnership, the total cost including inflation will not be more than £454 million. That is the expectation on which ministers are working. In the event, that will mean that we will be able to use the budget that we have set aside not as a contingency fund, as intended, but to pay for inflation. There is an agreement that inflation will be added to certain lines—not the whole budget, by any means—and we are still working through which those lines are and how that cost will be met.

**The Convener:** Okay. Let us come back to what was at the heart of the question. We have heard from Mr Scott that inflation will have to be applied to the baseline budget. How much do you expect to be applied to the baseline budget, leaving aside the issue of contingency?

**John Scott:** It is difficult to predict that—no one is in a position to know exactly where inflation will go over the next four and a half years, although there are certain elements on which one could make a prediction using the current retail prices index or whatever. As I have explained, we intend to profile when we will need the money, which will give an indication of the potential exposure. We will then have to get agreement between the partners on how any inflation assessment will be achieved—that has not yet been addressed. We have focused on profiling and understanding when the expenditure is likely to be incurred.

In terms of the budget increase that has already been secured—we are grateful for the support from the funding partners for that—the majority of the expenditure will not take place until 2014. Therefore, according to the current profiling that is being used by the Scottish Government, against which the draw-down meets current expectations, the additional expenditure will be incurred in the very late stages.

**The Convener:** The contingency fund is there to address risk factors, but you are suggesting that the core budget of £374 million will be exceeded and that we are still applying 2007 prices although we recognise that those will not apply.

10:45

**John Scott:** I agree. However, it is important to understand that we are saying that it will not be a real budget increase—it will be an inflationary increase. Our intention is to keep expenditure at the level that would have been incurred had the games been staged in 2007, but we must understand that there is likely to be an inflationary aspect that we are not able to predict accurately.

**The Convener:** I understand that. Forgive my ignorance—I am not as well versed in these matters as the witnesses, who deal with them on an almost daily basis—but I thought that you indicated in response to Derek Brownlee and James Kelly that you would live within the budgets; that is what I took from Liz Hunter's comments. Now we find that, leaving aside the contingency, which is to deal with risk factors, expenditure will be not £374 million but £374 million plus whatever inflation is. I understand that; it is perfectly logical. However, it is slightly different from what was suggested earlier.

**Liz Hunter:** Your summary is correct, but the expectation is that expenditure will not exceed £454 million, because of all the activity in which we are engaged to minimise risk and reduce the call on the contingency and the reserve.

**The Convener:** You say that expenditure of £374 million plus inflation will not exceed £454 million, which includes the contingency element. However, the contingency has nothing to do with inflation and is intended to address risk factors. If risk factors eat up the contingency, will expenditure not exceed £454 million? On the one hand, you seem to be suggesting that there is a relationship between the contingency and inflation but, on the other hand, we hear that the two are separate. Which is it to be?

**Liz Hunter:** There is no relationship in principle. As you said, the contingency is intended to address risk factors. I am saying that, in practice, because we are all working so hard to minimise calls on the contingency, resources that the partners have set aside for contingency will not be needed for that and will, therefore, be available to deal with inflation. You are right to say that, should the worst happen and the whole contingency is required to mitigate risk, there will be inflation on top of that. We do not think that that will happen, as we have made generous contingency and reserve arrangements.

**The Convener:** Leaving aside inflation, you are telling us today that expenditure will be higher than £374 million.

**Liz Hunter:** The core budget of £374 million is at 2007 prices, so by the time that we get to 2015 it will certainly go up by an amount for inflation.

**The Convener:** So expenditure will be higher than £374 million. That has nothing to do with the contingency, which is over and above that.

**Liz Hunter:** Inflation will have to be applied to the figure of £374 million, in ways that we are still working out and depending on phasing and so on. We still plan and expect that total expenditure will not exceed £454 million. I am mixing matters up and understand why the committee is pressing the point. There is a point of principle, but there is also a practical point about the use of the funding that is set aside for contingency. Earlier, I mixed up the two in an unhelpful way.

**The Convener:** If you intend to manage everything within a budget of £454 million, including the contingency, you are expecting your inflationary costs to be met from the contingency budget, but we have heard that they have nothing to do with that budget.

**Liz Hunter:** No. The partners have set aside £60 million and the Scottish Government an additional £20 million for contingency. We will not exceed the figure of £374 million until the last year, because of how the work is phased. Even with inflation, £374 million will be more than enough right up to the end of the process. By that point, it will be significantly clearer how much of the contingency will be required. We hope that, over the preceding period, we will have managed out most of the risks in the budget. At that stage, we will know how much contingency funding needs to be applied. That will free up resource with Glasgow City Council and the Scottish Government that we will be able to apply to inflation.

**The Convener:** So you can confirm for us today that the estimated budget will not exceed £374 million until the last year in 2013.

**Liz Hunter:** Because of the phasing, but I would just like Ian Reid to check—

**The Convener:** I am not talking about actual expenditure; I realise that expenditure will be phased. I am talking about your budget. You said that, until 2013, your budget will not exceed £374 million. Is that correct?

**Liz Hunter:** I am saying that we will not need to spend more than £374 million up to that point.

**The Convener:** I am not asking that. I know that you will not spend it all because of the profiling. I am asking about your budget. You said earlier that your budget would not exceed £374 million until the last year. Is that correct?

**Liz Hunter:** If I said that, I was not quite right. In terms of what the OC will require in each year, we will not need to spend anywhere near the 2007 core price budget of £374 million by 2013 because of the phasing. We will work with the OC on the

phasing and on what that means in terms of inflation in each year. The Scottish Government budget that comes before Parliament will have amounts in it each year up to that point that will have inflation added.

**The Convener:** So will your budgeted expenditure exceed £374 million for the total project before the year 2013-14?

**Ian Reid:** The £374 million core budget is at 2007 prices, as was the £333 million before we did the budget review. It was always anticipated that inflation would be added to the core budget on the basis that we were seven years away from the games and a lot of the expenditure would be done at the end of the process, when prices and salaries would be higher than they were in 2007.

Secondly, there is a contingency to cover risk. All that Liz Hunter was saying was that, if the full contingency is not used come the end of the games, part of it might be able to pick up the increase for inflation. The total required will not necessarily be the full budget plus inflation, as we might have some contingency left over to pick up the increase.

**The Convener:** I understand that, but God forbid that you have to eat into your contingency for the various risk factors. I am trying to ascertain how much the core budget is likely to be by the end of the games period if you have to eat into your contingency. Will it exceed £374 million? On the one hand, we heard that it will exceed £374 million only in the final year of the games period, but now you seem to be suggesting that it will exceed £374 million before that. Presumably, you would be able to come back to us and apply inflation. It would be helpful to show what the inflationary trends have been since 2007. We were getting a bit confused about what the factors are that are being used.

**Ian Reid:** That is absolutely right. The exercise that we are doing now is to profile the expenditure as we have described it. Once we have done that, we will apply the inflation rates to date, and we can run various scenarios on potential inflationary factors in the future. However, the forecast can only be on the basis that we do not know when we may draw down contingency, when some of our commercial income will come in, or when broadcasting agreements will be struck, and at what phase the cash for those will come in. We are purely making a projection, but we are working with our partners on that and it could be available in the short term.

**The Convener:** Liz Hunter said earlier that the profiling work is being undertaken. When will it be finished?

**Ian Reid:** We hope to have the first profiling work within our business plan for the start of our next financial year on 1 April.

**Anne McLaughlin:** As Hugh Henry rightly said, we are not experts in accounting, but some of you are. I understand that you had to give the costs at 2007 prices because the Commonwealth games bid had to be made in that way. However, it all seems to be a bit strange to us, even though you have explained it. Is it peculiar to your organisation to account in that way, or is it standard practice among organisations?

**John Scott:** It is expected that bodies that control games such as the Commonwealth games have to be conscious that they are comparing like with like when they go through the various bidding cities, and of course inflation rates vary significantly between countries. The bodies try to get to the bottom of that by asking, "What is the cost of doing it at this point in time?" so that they have a comparator that allows them to compare what it will cost to hold the games in, say, Abuja, Halifax or Glasgow.

In taking the review forward, the Scottish Government wanted to be able to demonstrate where there had been an increase and to understand why. As Liz Hunter explained, it was not necessarily because no robust assessment had been done at the time of the bid; it was because of significant changes in circumstances, among the most significant of which was the rapid development that there had been in technology and the change in the value of rights. In the commercial downturn, one of our biggest challenges is the impact on the value of the rights of the games. It is tougher to generate the sort of returns that we could have achieved in 2000.

**Anne McLaughlin:** I think that I am asking whether it is normal practice for you to continue to give us costings at 2007 prices. Is that particular to Commonwealth games accounts or is it normal accounting practice?

**John Scott:** It is a decision that was reached by the partners working with the Scottish Government, and the Government has found it helpful in allowing it to understand the budget baseline.

**The Convener:** Before I bring in James Kelly, I say that being able to compare like with like at the time of the bids is perfectly understandable. Once the bid has been agreed and a range of public agencies with public funds are involved, will all such agencies and organisations be subject to normal accounting guidelines and criteria?

**Liz Hunter:** Yes.

**James Kelly:** In response to Anne McLaughlin's question, I say that from my experience of working

in business before I became an MSP it is unusual, to say the least, not to build in inflation when trying to forecast what will happen seven years in advance. I find that staggering. Mr Reid's clarification about the production of the business plan that will be published on 1 April was helpful: you will build into the plan inflation increases. Is this the first point in your forecasting for 2014 at which inflationary assumptions have been built into your financial planning?

**Ian Reid:** To add in the inflation we had to do the profiling. The organisation still has only 22 staff, some of whom joined in the past six months and we are still to be joined by transport people. We had to get the right expertise to get the profiling right and feed that information into when those strategies and plans would be put in place by the relevant individuals. We now have a sound basis on which to do that profiling exercise and we are working on it as we speak. As soon as it is done, inflation will be applied. That will be the first time that we have a fully inflated budget, because this is the first time that we have had all the information to inform the profiling exercise.

**James Kelly:** That is clear. My point was that it is a concern that, in 2010, three years after the bid was accepted in 2007, this is the first time that inflation has been built into the financial planning.

**Bill Kidd:** If the profiling spend over the next five years is due relatively shortly and inflation will be built into it, will we be able to receive that information?

**John Scott:** Yes. Our business plan will be shared with the partners and, once it has been agreed with them and the board, we will be happy to make it available to you.

11:00

**Willie Coffey (Kilmarnock and Loudoun) (SNP):** I am reasonably comfortable with the explanations that have been offered. According to the figures in front of us, the contingency fund now sits at £60 million, and there is an additional £20 million reserve fund. If we call the set-aside £80 million, that is a substantial amount in relation to the core budget, which is about £333 million—it is a contingency of almost 25 per cent, which is quite substantial. In that context, I am reasonably comfortable with the discussion that is taking place, notwithstanding the convener's concern about how we would pay for the inflationary element of the project cost in the event that the worst-case scenario arose and all the contingency funding was required to deal with risk events. I suppose that the real question is who would fund that. The inevitable answer, as I understand it, is that the Scottish public would.

I want to pick up on some aspects of the additional allocation of £59 million by the Scottish Government and £9 million by Glasgow City Council. How were those figures arrived at? They seem fairly arbitrary as far as the overall budget is concerned. How comfortable are we that they represent an accurate current statement of the requirement to top up the budgets?

**Liz Hunter:** The PWC review looked closely at every line of the budget and recommended where there needed to be increases, so the £59 million is strongly based on that work, as agreed by the funding partners and the strategic group afterwards.

George Black might want to add to that.

**George Black:** I will be careful not to confuse the issue any more. I think that what is being played out is the negotiating process that takes place between the funders and a bidder. In other words, the OC wants to secure sufficient resources to deliver the games. The funders—the Government and the council—want to ensure that the level of resources that is provided is at an absolute minimum.

What is coming through in the answers is that the Government and the council are aware that the financial situation that we face over the next five to 10 years will be significantly different from the one that we faced over the past 10 years. Liz Hunter talks about expectations. In that regard, the council's position is similar to the Government's—our expectation is that the budget will be kept tightly controlled and that there is no right to inflationary increases. For example, the direction of travel on salaries in the public sector is not upwards, so our starting position is that there will not be an automatic right to an inflationary update for salaries. The salaries that are ultimately set for the workforce will have to be negotiated. The point that I am making is that, ultimately, it is negotiations that lead to the setting of the figures. The committee is hearing about some of the plays that have been taking place behind the scenes.

**Willie Coffey:** I will dig a wee bit further. The initial pro rata share of costs was that £238 million would be provided by the Scottish Government and £60 million by Glasgow City Council. The top-up element that members are discussing involves the provision of £59 million by the Scottish Government and £9 million by Glasgow City Council.

**Liz Hunter:** That is simply because the £20 million reserve is being provided solely by the Scottish Government. It remains the case that there is an 80:20 split for all of the budget, including the contingency, but the Scottish Government agreed to set aside £20 million as a reserve, just to be absolutely sure that we had

resources in place and to give the organising committee comfort that resources were in place, should an unknown unknown emerge in the later years. That is why it does not look from the figures as if there is an 80:20 split. It is simply that the £20 million reserve is being provided entirely by the Scottish Government.

**Willie Coffey:** I was just trying to tease out whether the top-up for safety was arbitrary or whether it was based on any forecast or planning that has been done to date.

**Liz Hunter:** It was based on the work that PWC did on the total element of risk.

**Willie Coffey:** The Audit Scotland report suggests that the income target from the whole games experience has been revised to £88 million, which I think represents an increase of £13 million. How has that projection been arrived at? I know that the games are some years off, but given the economic climate that we are in, how comfortable are we about the accuracy of the revenue generation figure from the whole games experience?

**Liz Hunter:** John Scott is perhaps best placed to answer that question.

**John Scott:** When the budget review was being undertaken, we understood very clearly that existing financial pressures mean that it is terribly important that we absolutely stretch ourselves to do our bit. We need to be as aggressive as we can be in the commercial marketplace to secure those revenues through the limited number of sources that are available to us. The principal source of revenue is sponsorship, for which we have a target. The second source is ticket sales and the third is broadcasting revenues.

On sponsorship, we honestly believe that the quality of the product in Glasgow brings unique attributes that, along with the increased appetite that will exist following London 2012, will be to our advantage. Therefore, we have increased our commercial targets. That is not based on a wing and a prayer but follows a huge amount of work that we have done with advisers in the sponsorship market. The issue comes down to the quality of the product, the values that it represents and how we continue to project those. With that appetite from London 2012 and with the unique nature of the offering that we have in Glasgow, I honestly believe that we will have a spectacular games that people will want to be associated with. We intend to drive commercial revenue as hard as we can.

However, we are realistic, so we have reviewed down the budget line for ticket sales. One challenge for the Glasgow games will be to secure the sort of occupancy rates that we need to deliver full stadia. The Manchester games in 2002 had a

critical hinterland of between 8 million and 10 million people who were within about two hours' journey time. We do not have the same number of people within that critical time-distance band, so we will need to work very hard to fill the stadia, although that is also part of our strategy.

We believe that it is absolutely right and proper that we should do our bit by challenging ourselves. The team is really up for that. We realise that we need to gain the maximum revenue that we can from the games, but we believe that we can do that. Although the target is stretching, we do not think that it is unrealistic.

**Willie Coffey:** How do the targets compare with those of previous games? Are they on a par with those, or are they relatively more ambitious?

**John Scott:** Our targets are more ambitious than those for the Manchester games. Obviously, the world has moved on since then. The big challenge for us—I think that the committee is aware of this from Audit Scotland's report—is on the broadcasting side. At the time of the bid, the assumption was that an arrangement would be made with the BBC to lump together the rights and the host broadcast responsibility so that, in return for securing the rights, the BBC would undertake the host broadcast. However, the BBC is a different animal now from what it was in 2002 and it is going through further challenges as an institution. Therefore, we need to work very hard with the BBC to persuade it of the value of the product and of the significance of the games in helping the BBC to meet its responsibilities as a public service broadcaster.

**The Convener:** Do we have an idea of the breakdown of the potential market for ticket sales? What percentage of tickets is expected to be bought by people in Scotland, what percentage by people from elsewhere in the UK, and what percentage by people from other countries?

**John Scott:** We are just beginning some modelling of ticketing, on which a lot of information is now available. We are very lucky that, since the Manchester games, the Commonwealth Games Federation has put in place a transfer of knowledge programme that provides much more detailed information from previous games, so a lot more raw data are coming out of Manchester. Clearly, we have an extremely good working relationship with London 2012 and we are looking similarly at the consumption patterns that are going into those games. Over the next year, we will start our ticketing strategy process.

Of course, we need to understand that, as a games that is receiving a significant amount of public money, it is very important that we get the pricing right. We want to ensure that the maximum number of people can have access to the games,

but at the same time we need to drive revenues. There is a pretty fine balance to be struck that will need a great deal of thought and a great deal of work. Clearly, there will be premium tickets—if Usain Bolt is running in the 100m athletics, that is likely to be a premium ticket. However, because of the sporting programme, we also have the opportunity to have events that will be free, such as road races, mountain biking events and the triathlon, which will give people the opportunity to see, feel and touch the games without having to pay a premium price.

**The Convener:** Glasgow has a different sort of hinterland from Manchester. Will our games be more reliant than Manchester's on people travelling to Glasgow from the rest of the United Kingdom and abroad?

**John Scott:** That is a possible conclusion. With regard to the Commonwealth games, the UK is represented by seven different Commonwealth games associations that retain the rights to their own territories. We are in the process of securing the rights to those territories so that we can market the games there. Those negotiations are progressing well and we hope to secure the biggest territory, England, in the next few months. Once we have done that, we will begin actively to market the games in England—obviously, the English market is important with regard to our ability to fill the number of seats that we have on offer.

Around 90 per cent of the ticket sales for most Commonwealth games are domestic sales.

**The Convener:** But Glasgow's hinterland is significantly different. Will domestic sales still be around 90 per cent?

**John Scott:** The OC will have to work much harder to generate the longer-distance ticket sales. That will come down to how creative we can be with the packaging—we need to make people an attractive offer that combines the games with something else. One of the advantages that we have is that there is so much on offer in Scotland that a lot of people want to get access to, such as the landscape and the golf. We will work hard to sell that.

**The Convener:** Will our hotels and other tourism infrastructure be capable of sustaining a significant outside interest?

**John Scott:** The work that was done during the bid showed that Glasgow is well endowed in that regard and has adequate provision across the piece. Where we are challenged is at the top end of the market. We need to ensure that we have adequate provision for the sort of packages that sponsors need—the number of high-profile individuals whom sponsors bring to games consumes a lot of top-end hotel provision. We are



working closely with the city on that issue, and we hope that some top-end hotels will be delivered before 2014.

**The Convener:** Liz Hunter indicated that we are fortunate in that we have a number of established venues already. Nevertheless, we still have to keep our eye on the costs. What are the risks of cost increases for each of the venues and other infrastructure projects that are associated with the games?

**George Black:** With regard to the council's venues, we have found over the past couple of years that potential inflationary increases have not occurred, and that the tender prices that have been coming in are more in line with our expectations.

I do not want to be complacent about that, as a number of the projects are quite high risk. However, we have been pleasantly surprised by the tender returns to date.

**The Convener:** When will the budgets for the venues and other major projects be more certain?

**George Black:** Budgets have been set for the venues that are under way. We have the tender costs for those projects, so the bids are certain. Discussions are still taking place with sporting bodies about the exact specifications of other venues.

The two most advanced projects on site at the moment are the M74 and the Riverside museum, and they are going very well at this point in time.

11:15

**The Convener:** Liz Hunter said that Hampden was "technically innovative"—normally, that is shorthand for "spiralling costs". What is the technical innovation at Hampden? What are the current projected costs and what are the anticipated final costs?

**John Scott:** That is one of the venues for which the OC retains responsibility. We intend to create a temporary raised platform in Hampden, which will enable the footprint of the athletics track to be accommodated. Basically, we need a wider, longer footprint to put in the 400m track and all the other bits and pieces that are associated with athletics. That means raising the floor level of Hampden by between 1.3m and 1.5m—the exact level is in the process of being determined. That is linked principally to sight lines—we want to optimise the sight lines for the audience.

It is innovative, because it has never been done before, and it is technically feasible. We are now working through the options for how it can be done physically. There are a number of options. We could use basic in-fill or a motorway construction

methodology that involves big chunks of polystyrene, which are in-filled with hard core, over which the various ground surfaces and drainage are laid, which will enable the track to be laid.

It has been looked at by a number of countries but has not yet been delivered. We are working with our consulting engineers and we are confident that it will be delivered. One of the great things is that when we show that it is possible, it will transform major multisport events in the future. The biggest difficulty that any city or country that hosts these games has is deciding what to do with a big athletics stadium. Very few countries can sustain an 80,000 or 90,000 seat stadium, as you might have seen with all the stuff that has been in the press about the London Olympic stadium, which will have to be down-sized after the games. The technology would mean that the games could be more accessible to a lot more countries. There will be a unique knowledge base here in Scotland going forward that will be very attractive internationally.

All the indications to date are very positive. Correctly, at the time of the bid, there was an increase in the budget for Hampden of £2 million. That was primarily to account for the project management cost. There will need to be very tight project management. We as an OC are not skilled in doing that. We will need to employ the professionals to do it. That is why that money was put in. The work that the Miller Partnership has been doing for us—those engineers were involved in the original construction of Hampden and know the building inside out—is extremely positive at this stage. That is why we are continuing to monitor it. We retain it on our risk register, which is appropriate, but the good news is that it is looking extremely doable.

**The Convener:** Thank you for that.

What is the current estimated cost of the athletes village?

**George Black:** We are at a very delicate stage in the process. The consortium, City Legacy, today and Friday goes to its boards to seek approval for the negotiated development agreement. There is then a 10-day standstill period in which the agreement is subject to challenge. It might be frustrating for you, but, at this point in time, I do not want to get into the detail of that. Once we get past that period, I am happy to provide the information. If it suits the committee, I am quite happy to arrange a site visit in Glasgow, to show you the games village, the national indoor sports arena and the velodrome, which are in a very tight area. You might find that helpful in your considerations.

**The Convener:** Thank you for that offer. The point that you make about the contracts is entirely

reasonable. We will get that information. I want to finish on the issue of the athletes village before I come back to Hampden. How is the athletes village being funded?

**George Black:** There is a development agreement with the private sector. The council is putting land into the deal and is funding the provision of a care home facility. The public sector will be providing funding for 300 social houses. The balance will be private sector housing development. There are around 1,400 properties in total—about 700 will be prepared before the games and 700 after. Of the first 700, 300 will be social housing.

**The Convener:** Notwithstanding the confidential issues surrounding where you are just now, how do your current estimated costs compare with the estimated costs at the time of the bid?

**George Black:** The estimates are holding up, but it is uncertain whether a profit will be made in the deal overall when all the housing development is complete. There is a sharing arrangement between the council and the developer. The figures stack up at the moment, but the proof of the pudding will be when we complete the development.

**The Convener:** If there are financial issues to do with the funding of the athletes village, will that lead potentially to a call on the contingency fund, or is that being accounted for separately?

**George Black:** It is entirely separate from the OC's budget.

**Willie Coffey:** I want to pick up on the issue of Hampden with Mr Scott. After that solution is in place, what will the capacity of the stadium be? I understand that Hampden holds about 52,000 people just now.

**John Scott:** We are working on the final number. It will be around 42,000 to 43,000.

**Willie Coffey:** So, it will lose 10,000 in capacity.

**John Scott:** Yes. That is a good size for the Commonwealth games. The stadium in Manchester held 34,000 people, so it will be bigger than that.

**Bill Kidd:** I am interested in the impact on Hampden of the installation of the running track. Will that be prefabricated and easily removable? Who will own the technology once the games are over? The organising committee will not exist any more. Will it be owned by the Miller Partnership, for example?

**John Scott:** Miller is doing the consulting work; the contract for the work is yet to be procured. The businesses that have been involved in the solution will own a lot of the intellectual property. Ownership of the particular solution will reside with

the OC, and all rights that we inherit will be passed to the Commonwealth Games Federation as part of the host city contract—it is a very generous contract in favour of the Commonwealth Games Federation. Importantly, the businesses that create the solution and understand it will own the intellectual property, which will be the sellable part.

**Anne McLaughlin:** In talking about the BBC, you said that one of the known unknowns is what the broadcasting rights and responsibilities will be. Are you saying that the expectation at the outset was that the BBC would have the rights to broadcast the entire Commonwealth games but that it is now saying that it may not want to do that? What is the issue?

**John Scott:** We are just beginning the negotiations with the BBC. It has, quite rightly, asked what our expectations are, and we are formulating those at the moment. Those expectations partly involve what technical solution we expect the BBC to provide, and we are seeking advice on that. The pace of change is staggering. I attended an event only last year at which I was told that we did not need to worry about three-dimensional television, as it would take probably three to four years to develop. However, recent adverts have announced an intention to cover six nations rugby championship matches in 3D television. The advance has been made far quicker than anyone expected.

We must decide what we are going to offer and what the market expects, and we have yet to sell some of the rights. So far, we have sold the rights only to Australia; we need to go out and sell them to other markets. We are, therefore, bottoming out the expectation of the market in terms of the return that investors expect from their investment in us.

In the BBC's submission to the Davies review, it argued that the Commonwealth games should be a listed event because of its importance to the people of the United Kingdom. The BBC was quite shocked at the viewing figures for the games, which rival those for the Olympics, the football world cup and the European football championships. We argue that the BBC, as the public service broadcaster, should take the rights and deliver a host broadcast opportunity that meets the expectations of the people. The BBC as an institution is big enough to cover all the mediums such as radio, television and the web. It is multichannel, which is very useful in trying to communicate the breadth of the Commonwealth games.

**Anne McLaughlin:** But the BBC is not saying that it does not want to do that—you are still at the negotiating stage.

**John Scott:** Absolutely. The BBC is saying that there are challenges—financial challenges, for

example—but the issue concerns the type of choices that the BBC has to make. It is incurring significant costs around the London games and from moving its sports department to Manchester. The issue is how the BBC manages our needs in terms of its overall available budget. The great thing about the BBC is that it knows what its income will be, because that is based on the licence fee.

**The Convener:** We move on to risks.

**James Kelly:** We have spoken about how risks are managed and why that is important in the delivery of the overall project; Liz Hunter touched on the subject in her opening remarks. We know that 247 risks have been identified. How have they been scored? Have any costs been identified with regard to managing those risks?

**John Scott:** During the budget review process, we carried out an evaluation of the potential financial exposure from those risks. An accepted model was applied, and we then had a choice around how far up the confidence axis we wanted to go to mitigate the exposure from those risks. That is how we reached that figure with the Scottish Government and Glasgow City Council.

We are in the process of procuring risk advisers and insurance advice. Under the host city contract, we are obliged to seek a number of insurances, such as cancellation insurance. We have been informed that if we can demonstrate through the advice that we get from risk advisers the quality of our risk management and mitigation, it will have a net benefit for our insurance costs.

Insurance costs are pretty steep these days, so it is important that we drive them down. The invitation to tender required tenderers to demonstrate significant understanding of the risks that are involved in this type of major event. As we review the risks, the advisers will bring added value, and will help with mitigation and securing the insurance for the risks that we need to insure.

**James Kelly:** The Audit Scotland progress report states at paragraph 54 that Glasgow City Council

“has still to estimate the costs of its plans to manage the risks”.

You have outlined the process of procuring risk advice. Will that be adequate to manage the risks that have been identified?

**John Scott:** I referred to the risks that we, as the OC, have to insure. The Audit Scotland report might be referring to the wider programme—George Black will be able to answer that. There are the games and there is the broader programme, but I was referring to our expectation with regard to the risks.

**James Kelly:** Sorry—perhaps I was not entirely clear. For how many of the 247 risks is the OC responsible?

**John Scott:** I am sorry; I do not have the—

**James Kelly:** Let me rephrase the question. The Audit Scotland report states that no costs have been identified by the city council in assessing the management of its risks. Have any such costs been established with regard to the city council, the Scottish Government or the organising committee?

11:30

**John Scott:** I will pass to George Black in a moment, but first I will deal with the risk number that you asked about. We have an agreement between the partners whereby risks that are at a certain level are brought to the strategic group so that it is aware of them and is kept informed of the success of the mitigation strategy that we have put in place. Obviously, the situation changes constantly and there will be regular review. Each partner has its own risks, which it is responsible for managing. That is the aspect that I was talking about when I said that the organising committee is seeking additional advice on insurance. As I said, we have a host city contract obligation on insurance. The contract specifies what we have to insure, which, by the way, includes insuring the Commonwealth Games Federation. That is the process that we are entering into.

**George Black:** I will give examples of the type of risk that we are trying to manage. Lynn Brown will then set out in detail how we manage risk on particular capital projects.

We have a point-scoring system for risk, but we feel that it is not appropriate to try to put a financial value on some risks. For example, one of the top risks that we are managing is the economic uncertainty. For any project, we need to consider whether we can get sufficient tenderers and whether enough competition is in place. That situation has changed significantly. A couple of years ago, in the economic boom, we were worried about whether enough tenderers would be interested in projects in Glasgow. Now, once we get a contractor, we are worried about whether they will be able to complete the scheme without getting into difficulty. We have not costed the risk arising from the overall economic situation.

We have not costed the financial uncertainty facing local government in general and Glasgow in particular, but that is a major risk to our ability to continue to fund the projects that are under way.

A third risk is a more practical one that relates to co-ordinating the work of utility companies, such as water and electricity companies. There is no

direct financial risk to us; the issue is more about ensuring that the utilities work together. That is an example of a case in which we feel that we cannot put a reasonable cost against the risk. However, we provide financial quantification in relation to individual capital projects.

**James Kelly:** That was all very useful. I apologise if I have not been clear, but what I am driving at is that a cost must be associated with managing the 247 risks that have been identified. I am not talking about the costs that arise if something goes wrong; I am asking about the costs of managing the risk process. The Audit Scotland report said that no costs had been identified to manage the risk. I am trying to establish whether any progress has been made. Perhaps Lynn Brown has further information.

**Lynn Brown (Glasgow City Council):** We have put in place governance arrangements, to which a cost will be attached, because people are employed to take on specific responsibilities. To put the issue into context, Glasgow's capital programme is about £1.5 billion, of which the Commonwealth games programme represents 20 per cent. We have risk programmes in place for the overall programme, but we streamlined and focused them specifically for the Commonwealth games. We began by taking advice on how to manage the programme. Although it is a significant programme, it is concentrated geographically and within a timeframe. It also involves many projects that interact with one another, such as the east end regeneration route and the M74 project. We employed the consultants Ernst & Young and we have now put in place governance arrangements.

We have a dedicated team that is responsible for managing the delivery of the infrastructure for the city. Within that, we employ experts as we need to. There is a board, which is chaired by the chief executive; I sit on it along with the council solicitor. We focus on risk—every month we consider the risks that George Black mentioned. We then report on a quarterly basis to the council's executive committee and the situation is scrutinised by our finance and audit scrutiny committee on a quarterly basis. We have considered the governance arrangements thoroughly. There are costs attached to them, although they are not necessarily additional costs, because we already had a fairly significant capital programme in place.

Mr Black touched on the risks that are attached to some of the Commonwealth games projects in which we are involved—for example, the games village and the ice arena. We build in two levels of risk in any project. First, we build in specific risk, because every project is slightly different and we must take that into consideration. Secondly, we

have an optimum bias across all the projects, which I hold at the centre. The council's programme for that is roughly 15 per cent.

To pick up on what Mr Black said, we are extremely conscious of the future public sector environment and of the fact that we are looking after public money. We have downsized, rescope or rescheduled programmes to fit in with our financial framework and we will continue to do so. That is the context in which we work, and the Commonwealth games represents about 20 per cent of that spend.

**James Kelly:** That is helpful information about the context. Ian Reid explained to us earlier that the business plan will be available on 1 April. Is there a line in that to cover the cost of managing risk?

**Ian Reid:** Yes. As John Scott described, we are procuring the advisers who will help to support that mitigation and management strategy. There are resources through the contingency fund and specific resources for the risk management programme.

**James Kelly:** Is that line in addition to the original costs that were set out in 2007, or was there something in the original budget for that?

**Ian Reid:** No, it was always recognised that there would need to be risk advice and insurance to manage the risk programme for the OC.

**James Kelly:** The report noted that the Scottish Government still had work to do in risk assessment. Liz Hunter said in her opening remarks that progress has been made in that regard. Has the Scottish Government done a proper risk assessment? Has the Government got software in place to assess all that, as Glasgow City Council has?

**Liz Hunter:** Yes. The point at question before was that we did not have a separate risk register that pulled together the risks across the Scottish Government. However, we did that, as proposed by the Audit Scotland report, for the end of the calendar year in 2009.

**Anne McLaughlin:** Previous organising committees have found that one of the biggest risks and the most common problems is loss of staff in the run-up to the games, primarily because staff are on fixed-term contracts, which is understandable. If key staff are lost, the risk is that key knowledge is lost. I understand that small core teams are involved in the work. Are all four partners tackling the management of that risk? Can you give us an update on what progress has been made on that? Liz Hunter talked about managing down the risks by retaining staff for the length of their contract and, if that cannot be done, mitigating the effects by ensuring that knowledge

is kept. I know that the games are four and a half years away, but what plans are in place to ensure that both those things are done?

**John Scott:** The OC is probably at greatest risk. We offer a huge opportunity to be associated with a games, but that obviously has a finite life. People know that they will not have a job come the end of August 2014. We are finalising our performance management and retention policy. We are embedding a retention element in our performance management, which will be an incentive for key staff to remain until the conclusion of the games. We are also ensuring that, as we begin to populate the key parts of the organisation, we bring in individuals on a team basis. We are ensuring that, through the reporting and the various management arrangements—team working, management and senior management—there is transfer and cross-organisation awareness.

Retaining staff is always a challenge, but we are trading very heavily on the opportunity that the games present. A future employer in a games environment will want someone who has seen it through and done the business. If someone jumps ship rather conveniently before the games happen, that does not do a great deal for their CV. As we go through our recruitment process, we are making it very clear to people what our values are, what we are striving to achieve, how we will work and what our expectations of them are. We tell people that if they can commit to that, they are welcome; otherwise, we say, "Please do not come."

Knowledge transfer, to which I referred previously, is also important. As part of our input to the on-going knowledge transfer programme, we must collect all that we do in a way that can be used by future games. The fact that that source of information is embedded in the OC is equally valuable to us, should we lose specific individuals.

**Anne McLaughlin:** You cannot compel people to stay until the end of their contracts, so that is the most important thing you can do. People will leave for all sorts of reasons, such as family problems, so retaining the knowledge is important. Given that previous organising committees' costs have spiralled out of control, would it not be wonderful if people could come to Glasgow in the future and ask the city to share its knowledge of how to manage a games successfully? It is interesting that you are talking about keeping the information not just for the organising committee, but for future organising committees.

**John Scott:** That was very much at the heart of the bid. It was made clear that the bid was about the future of the Commonwealth games as much as it was about the games in Glasgow. The vision and mission that the board has endorsed and

which it fully supports are very much about Scotland not only meeting its obligations under the host city contract, but contributing to the future of the movement. The Commonwealth games needs a future, and we have a role to play in securing that.

**The Convener:** Thank you very much for coming along and helping us with our inquiry. We look forward to getting the further, useful information that you said that you would provide on issues such as pensions and the athletes village, once that issue has been resolved. We will reflect on what you have said today. To echo the points that Anne McLaughlin made at the beginning, the Commonwealth games is a very significant event for the whole of Scotland. We all hope that it goes well and that it will be a major success, not just for the city of Glasgow but the whole country. Nevertheless, we are all duty bound, as Lynn Brown, George Black and others indicated, to ensure that public funds are used to best effect, so thank you for your information in that regard.

11:43

*Meeting suspended.*

11:49

*On resuming—***“Major Capital Projects”**

**The Convener:** Agenda item 3 is consideration of correspondence from the permanent secretary on our report on “Major Capital Projects”. It provides a very helpful explanation, with interesting detail. The permanent secretary has offered to give us a regular update, which is helpful. Once the next update is available, it may be worth looking at some projects in more detail. However, if the committee agrees, we will just note the correspondence for the moment.

**Willie Coffey:** It is very encouraging to see the comments on project costs, time estimating and making better use of post-project evaluation—that has been an old song at this committee for some time. The proof will be in the pudding later, though, through the reports that the convener mentioned.

**The Convener:** Thank you for that. We will consider the remaining items in private.

11:50

*Meeting continued in private until 12:21.*

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