EDUCATION, CULTURE AND SPORT COMMITTEE

Tuesday 13 February 2001
(*Afternoon*)

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EDUCATION, CULTURE AND SPORT COMMITTEE
6th Meeting 2001, Session 1

CONVENER

*Karen Gillon (Clydesdale) (Lab)

DEPUTY CONVENER

Cathy Peattie (Falkirk East) (Lab)

COMMITTEE MEMBERS

*Ian Jenkins (Tweeddale, Ettrick and Lauderdale) (LD)
*Mr Frank McAveety (Glasgow Shettleston) (Lab)
*Irene McGugan (North-East Scotland) (SNP)
*Mr Brian Monteith (Mid Scotland and Fife) (Con)
Michael Russell (South of Scotland) (SNP)

*attended

THE FOLLOWING ALSO ATTENDED:

Mike Watson (Glasgow Cathcart) (Lab)

WITNESSES

David Gordon (Queen's Park Football Club)
Mr Jim Hastie (Queen's Park Football Club)
Mr Austin Reilly (Former Chief Executive of the National Stadium plc)

CLERK TO THE COMMITTEE

Martin Verity

ASSISTANT CLERK

Ian Cowan

LOCATION

Committee Room 1

Scottish Parliament

Education, Culture and Sport Committee

Tuesday 13 February 2001

(*Afternoon*)

[THE CONVENER *opened the meeting at 13:05*]

National Stadium

The Convener (Karen Gillon): Today we resume our evidence taking on the national stadium. Our first witness is Mr Austin Reilly. I understand, Mr Reilly, that you wish to make a statement. I ask you to keep that as brief as possible, as we are quite tight for time.

Mr Austin Reilly (Former Chief Executive of the National Stadium plc): I am accompanied today by my colleague, Michael Upton. I believe that it will be helpful if I make a statement, but I promise to keep it brief.

As I made clear in my written submission, I resigned from the National Stadium plc and from the general committee of Queen's Park Football Club on 31 March 2000, when the refunding package was secured and when governance of the stadium passed to the Scottish Football Association. From that time, I have not had access to the files or records of either the National Stadium or Queen's Park FC. None the less, I believe that the statements in my submission are accurate, and I shall do my best to assist members this afternoon.

In the past few days, I have had the opportunity to read Queen's Park Football Club's submission. It was prepared by former colleagues, who continue to have access to the files of both companies—Queen's Park and the National Stadium. I regard it as a true and accurate record of events that are relevant to the committee's inquiry.

Queen's Park was the applicant for, and the recipient of, grant aid from the co-funders. It entered into the contract with the management contractor for construction works. The National Stadium plc, usually referred to as TNS, was the agent of Queen's Park. Accordingly, there were close operational links, in addition to the reporting procedures, between the club and TNS at board and officer level.

My evidence reflects the role and performance of TNS as project manager, and addresses the key issues from that perspective. Although it necessarily highlights the traumatic events—of which there were a few—members will appreciate that there was also an overwhelming desire from all those who were engaged in the project to use their best endeavours to see it succeed.

I have made the case that the funding gap, which was agreed by all parties as £6.2 million, was the result of underfunding and of the escalation and acceleration of costs of the construction works. Despite our best efforts, the underfunding remained, and the cost escalation and acceleration was compacted at the end of the construction programme, when to abort the project would have been reckless and would have caused far greater problems than the search for a work-out solution.

My written submission contains my recollection of the scale and impact of each of those issues, which I am happy to explore further. I am grateful to the convener for asking that the *Official Report* of the evidence given by the representatives of the Millennium Commission last week be made available timeously.

I wish to draw attention to three items. First, my roles were those of chairman and chief executive of TNS and director of Queen's Park Football Club. Those roles were understood and agreed at the start of the project. It was the Millennium Commission, rather than Queen's Park, that insisted that TNS should act as project manager. My dual role allowed the Millennium Commission to speak with me as a director of the recipient company and as the chief executive of the project manager company.

The project was a fast-track one, in which a reduction in the number of links in the administrative chain was viewed by all concerned as an advantage and as the most pragmatic solution for the Queen's Park-TNS-Millennium Commission interface. The commission approved that arrangement from the start and never raised it with me as a problem—until it gave evidence last week.

Secondly, reference was made that the TNS annual accounts for 1998 had not been signed off by July or August 1999. TNS's auditors were KPMG, with which the company's relationship represented the proper and justified reliance that any enterprise is entitled to place on a major accountancy firm. KPMG handled matters with Companies House, and I believe that all procedures were correctly followed.

I am unclear about the allegations that have been made about the financial records that were maintained by TNS. There were no TNS project accounts as noted in the *Official Report* of last week's meeting. Those accounts were operated not by TNS, but by Queen's Park as the applicant for and recipient of the grant aid. The project accounts were based on information that was provided by TNS. I believe that they were meticulously kept throughout the project, including during the months that were specified in the evidence given by the Millennium Commission.

As for TNS's own business affairs, the company—through the stadium—was not in operational mode for most of the period concerned. I understand that records for the few transactions that arose were recorded on an information technology programme that the finance manager was well able to install and operate. Once the stadium had moved to an operational mode, the full bookkeeping system would have been in place.

Thirdly, there is the matter of the causes of the delay in the resolution, which brought about additional costs of £1.2 million. To highlight flaws in the project's or TNS's financial records is misconceived, and diverts attention from what I believe to be the principal factors, which I will now outline.

One factor was the use of external examiners, to the exclusion of those who were closest to the project, to determine the project's financial status. In that, I include the exclusion of TNS officers and their advisers from key meetings when flawed information was presented to the co-funders and subsequently to the press.

A further factor is the progressively non-negotiable position that the SFA should take over governance of the stadium, which may have followed the model that applies elsewhere in the United Kingdom, where sports governing bodies own or act as stewards of the national stadiums. That position gave licence to the SFA to set conditions over several months, which almost took the stadium and the club into liquidation, despite an alternative, less expensive proposal made in November 1999 by the Royal Bank of Scotland and despite the framework of an offer from Glasgow City Council in February 2000.

Finally, I turn to the question of whether I was aware of the funding-gap issue as it unfolded. The answer is yes. The fact that the gap grew in scale has been agreed and I have explained it in my submission. However, we always believed that the funding gap would be manageable through a work-out solution, future trading, bank support and so on. The other option was to abort within weeks of the opening ceremony, with the stadium 95 per cent complete. That would have brought down the project and the club, leaving the co-funders, sponsors and debenture holders with nothing for their support. The balance of convenience suggested that we should finish the job—that we should get it done.

Despite all the problems and the corporate and personal pain, we should not lose sight of the fact that a magnificent legacy has been created for the Scottish community. I understand that all members have visited the stadium. What better accolade than a five-star listing from the Union of European Football Associations and the hosting of the European Champions League final in 2002? The stadium was already set to achieve its business-plan projections under TNS's stewardship and I very much hope that it will continue to prosper in the future.

The Convener: Thank you for your statement. I invite questions from other committee members.

Mr Frank McAveety (Glasgow Shettleston) (Lab): One issue that was raised last week was that of accounting procedures. Could you amplify what you said in your statement about the position that the Millennium Commission identified last week? We were told that accounts were not presented for a considerable period in 1999, which would have implications for understanding the funding gap that emerged. Could you also outline where you disagree or agree with the Millennium Commission's overview?

13:15

Mr Reilly: I remain confused about the nature of the allegations, which we take very seriously. The project accounts, through which responsibility lay for drawing down money from the co-funders and disbursing it properly to the management contractor, were meticulously handled throughout by Queen's Park Football Club, in whose title they rested. Had they not been so, there would have been no possibility of taking the project forward month by month in 1999. The project accounts were properly handled by Queen's Park Football Club as the applicant for, and recipient of, the funds and as the holder of the contracts with the management contractors and others. The accounts went through Queen's Park.

As I interpret it, the criticism then appears to focus on TNS. TNS was not in operational mode during that period. We were a company whose single purpose was to complete the construction programme at the stadium, and we did that. The accounts for the period were minimal. They would have been addressed and recorded by the financial accountant, not necessarily in the standard way of an operational company. The system would certainly have been put in place, as the need arose, during the period of transition into operational mode.

I do not believe that there was any material influence on the project by those small accounts that were handled as part of TNS's daily business. Queen's Park's submission refers to that.

Mr McAveety: If the issue was critical, what was the process by which the Millennium Commission could intervene? Are you arguing that the issue was minor and not as large as the Millennium Commission suggested last week that it was?

Mr Reilly: I did not attend the meeting last week, so I find what was said difficult to understand. The project accounts, which were the principal accounts for delivering this major construction programme, were meticulously handled through Queen's Park Football Club and TNS. My problem is understanding the generality of the serious criticism that has been fired at either Queen's Park or TNS. No details have been given about what the implications were supposed to be for the project.

Mr McAveety: At any point during that period, did the Millennium Commission contact you about any of those issues?

Mr Reilly: The Millennium Commission and TNS discussed the shortfall in the funding. I do not recall the Millennium Commission contacting me about difficulties in our drawing down funding or its allocating funding to us during that period because proper financial records were not being kept.

Ian Jenkins (Tweeddale, Ettrick and Lauderdale) (LD): The Millennium Commission suggested last week that Queen's Park was not kept fully informed about the situation. You have said today that you were aware of the funding gap and the problems. The suggestion was that the Millennium Commission felt that Queen's Park was operating without quite knowing what the full situation was. What was the relationship between the National Stadium, Queen's Park and you, given that you were a pivotal figure and had a foot in both those institutions?

Mr Reilly: I will describe the situation, to which I referred in my report and my opening statement. It was the Millennium Commission that decided that a body at arm's length from Queen's Park Football Club should deliver the project. Queen's Park Football Club would have been quite happy to lead the project directly, but the Millennium Commission asked that, instead of placing the assets of the club in a trust, an arm's-length organisation be made responsible. I was then a director and past president of Queen's Park Football Club. I was already a director of the National Stadium, which had been formed to launch a debenture. At no time did anyone—co-funders, Queen's Park's general committee, the Millennium Commission or anyone else—suggest that that was not a prudent arrangement. The Millennium Commission understood that the arrangement allowed it to speak to someone who, as a director of Queen's Park, could speak not only with some authority as the recipient of the grant aid, but independently about how the funding was being spent by the leader of the project management team. The arrangement was an elegant solution to a fast-track project. Putting too many links in the chain might have distorted the flow of information and the speed of reaction.

Ian Jenkins: Did it not also mean that people felt they were being bypassed because there was communication that did not go through the middle link?

Mr Reilly: I do not think that that was the case. My relationship with Queen's Park remained close. As a director of the club and a member of its general committee, I attended each monthly board meeting and reported on the state of affairs. Because I was located 50m down the corridor in the same building, there was an easy interflow of information between the club and TNS. Information was dutifully communicated by the club and by me. The Millennium Commission had access to Queen's Park whenever it came to the stadium. When the director came to the stadium to meet me monthly, there was nothing to constrain or inhibit him from speaking directly to anyone at Queen's Park. I do not know why that criticism has been fired so late in the day.

Ian Jenkins: On the funding gap, anyone reading your paper would understand that landfill tax and so on put a strain on the funding. However, the Millennium Commission pointed out that work was done that was not in the original project and that it was unreasonable to expect the commission to fund. Who authorised the extra work? How did you expect to be funded for that?

Mr Reilly: The extra work that was done was necessary and was certainly not undertaken in a cavalier fashion. For example, the upgrading of the playing surface was a condition of the sponsorship by BT Scotland, which was very valuable to the club. Other work was done at the stadium for disabled people—we insisted on escalators—and with a view to the future commercial development and income of the stadium. Decisions on those matters were taken by TNS at a time when there was urgency over decisions on how best to use the funding. Because of safety requirements and decisions that had to be taken, the project developed from the original concept for the south and west stands to one that encompassed the whole stadium. The Millennium Commission's attendance at Hampden was so regular that it could not fail to see the steps that we were taking. I think that the Millennium Commission concedes in its evidence that it got value for money and a very good stadium.

You ask how we were going to pay for the extra work. You will remember that, when we were still operating as a successful and forward-looking company and the national stadium was unfolding to great accolades, there was interest from other sponsors. We entertained other sponsors at the stadium from whom we hoped to generate future income. We hoped that such funding would spill into the project.

Ian Jenkins: I will leave it at that and give someone else a chance.

Mr Brian Monteith (Mid Scotland and Fife) (Con): I am particularly interested in your evidence about the saga of the museum and the museum trust. When an application was considered for the original grant from the European regional development fund, it was thought that it would be 50 per cent of £8 million. It then transpired that the figure would be not 50 per cent of £8 million but 36 per cent of £5.7 million. On most occasions when one applies for a grant, great care is taken to ascertain what qualifies. Who was responsible for putting the bid together?

Mr Reilly: The bid was the sole responsibility of the Scottish Football Association Museum Trust, whose officers include most of the office bearers of the SFA. My view was that trustees and officers of such seniority were capable of drawing up an application to the ERDF. In fact, they had done that before for their pilot venture at the Kelvin Hall. They worked with and through the ERDF.

Mr Monteith: Instead of achieving 50 per cent of £8 million, the bid achieved 36 per cent of a figure that came in at £5.7 million. That resulted in a shortfall, which your submission explains in some detail. Following that, several rather lengthy meetings took place. The final paragraph on page 26 of your paper describes a lengthy meeting at which it transpired that some work had been done on the project, but that the Scottish Football Association Museum Trust was unwilling to draw down on the £2.1 million that it had received. It was looking to TNS to commit £500,000 before it would start to draw down those moneys. Correct me if that is not chronologically correct or I have somehow misrepresented the position. That description suggests that a gun was put to your head and that you had to draw £500,000 from your project budget to get the £2.1 million—which was also less than you had expected. Is that a true reflection of the position?

Mr Reilly: I congratulate you on your interpretation of a story that is difficult to tell briefly. We made our best efforts, but your conclusion is correct. We were encouraged to believe that the SFAMT would be able to achieve a £4 million contribution for the museum. As that unfolded and the award was given, that figure became £2.1 million. You are correct—£2.1 million was not the 50 per cent of £8 million but 36 per cent of £5.7 million.

I do not want to delay the committee on the topic, as there will be many more questions to answer, but, as my report says, I received a telephone call from the office of the Secretary of State for Scotland and was told that there was a problem if I still wanted to have 50 per cent match funding from the Millennium Commission, as the 36.5 per cent left a gap of £700,000. I was asked how that would be filled. I received that phone call on the afternoon on which the programme would finish. SFAMT members were unavailable. I had to take a decision at 10 minutes to five o'clock—10 minutes before the programme finished—that the project would find £700,000 from somewhere to add to the contributions, so that we could secure the Millennium Commission's match funding.

We found that we had no option later in the day—not at an Austin Reilly meeting, but at a meeting of the trustees of the SFAMT and the non-executive directors of TNS. If we wanted to proceed to obtain the £2.1 million grant contribution from the SFAMT, we had to commit another £500,000. It took us about three or four hours in the afternoon to realise that the money would not come from the SFAMT or the SFA. We had a project purpose to deliver. We were already building through level two, where the museum was, so we had no option. Brian Monteith's interpretation is right—another £500,000 had to be drawn from elsewhere in the project.

Mr Monteith: If you had resisted that position and decided that there could be no museum because you could not move that £500,000 from other commitments, what would have been the repercussions? Obviously, there would have been no museum, but what would have been the financial implications for the project?

Mr Reilly: We would have had serious problems with the Millennium Commission, because when we started the project, we agreed a project purpose. That was specific and definitive about the size of the building and the allocation of areas. If we had returned to the Millennium Commission and said that we were withdrawing the museum because we had funding problems, we might have lost the £2.1 million draw-down through the ERDF, and the Millennium Commission could have responded by saying, "If you can't get the funding, we can't match it." They were the dangers at a time when the project was moving quickly. The board decided that it wanted to avoid that scenario.

Mr Monteith: Okay. I will probably ask some more questions later.

13:30

Irene McGugan (North-East Scotland) (SNP): Your submission tells us about a meeting that took place in January 1999 with TNS and the board members to tell the Millennium Commission about the project's difficulties. You say that the Millennium Commission gave no formal assurance about additional funding support, but that Lord Dalkeith said that

"the Project would not be allowed to fail".

What do you think that he meant? To what extent did you rely on those words?

Mr Reilly: The meeting was held with senior non-executive directors of TNS and me—that was its level of formality and contact. There is no doubt that the non-executive directors who attended that meeting gave vent to their concerns about TNS's funding position and highlighted that with the principal co-funder. They took a measure of assurance from those words. Although the road might be rocky and although we did not know the full extent of the funding gap even at that stage—because the project still had months to run and could have benefited from income or faced further problems—comfort was to be found in the fact that, one way or another, through the Millennium Commission, the project would not be allowed to fail. As the notes that reflect the board's views have recorded, the board took that position to be binding on the Millennium Commission.

Irene McGugan: Is it fair to say that the board of TNS was reassured by those words?

Mr Reilly: Yes. The board was reassured, but it was pragmatic and sensible enough to realise that it could not relax if there was a funding gap. We could not carry on thinking that, no matter what our performance, the Millennium Commission would provide continuing funding. The fallout from that meeting was that, although the project would not be allowed to fail, the level of assistance could not be estimated at that stage, because works packages had still to be undertaken and work had still to be followed up with potential sponsors. The word was that, rather than having any assistance drip-fed, our executive officers should remain in close contact with the commission as we reached the end of the project, when a final settlement would be more accurate and easier to deal with.

Irene McGugan: That leads me to my second point. It seems to have been difficult for any agency properly to get to grips with the level of underfunding or the funding gap at any stage in the development of the project. You described the Millennium Commission as not knowing what the future held yet as saying that the project would not be allowed to fail. Your submission acknowledges that the project started from a position of underfunding that would have to be resolved. What or who was primarily responsible for the underfunding and the funding gap? Who was principally responsible for resolving and addressing that problem? What was your role in that?

Mr Reilly: As has been said, the chief executive has a pivotal role. However, as I think my submission makes clear, I always held the view that starting the project with only £30 million rather than the £50 million that we thought would be necessary presented TNS with a problem of recovery.

As we went into the project, what we needed least of all was underfunding of the scale and nature that we experienced from a funder on whom we thought that we could rely. We expected income from the SFAMT's application and the additional £0.5 million that the Millennium Commission referred to as a gap. Had we received even those funds, we would have been better placed to deal with the short-term problem with McAlpine and we would not have got into the situation that we are in.

Looking back, I find it difficult to imagine how a management team could have dealt better with the situation. We were moving at great speed towards an event whose cancellation would have meant that the project would have failed. We were working at senior level with a number of bodies, including the Royal Bank of Scotland and Glasgow City Council, to find solutions. I do not believe that the management team of me and others could have done more to deliver the project and constrain what emerged as an overspend. We terminated the contract early and did everything possible to ensure that the project was completed and that it achieved its purpose—UEFA's five-star listing—while holding down costs as tightly as possible.

The Convener: I have a couple of questions. I find it difficult to understand how you could have been chairman and chief executive of TNS, a consultant to Queen's Park Football Club and then a consultant to TNS. How could you be a consultant to a company of which you were the chairman and chief executive? Was that not a bit incestuous?

Mr Reilly: I have tried to explain how the situation unfolded. When the project started, as the past president of the club I addressed the redevelopment and the opportunities for Hampden. The choice was between Hampden losing its safety certificate and closing down or going forward into a new stadium environment. The voluntary time that was given to the project became so overwhelming that something had to be done to ensure the continuity of expertise in the securing of grants and so on.

At that point, the Queen's Park committee invited me to take over, which I did. I was a director of Queen's Park Football Club, but that did not seem to conflict with the general will of the committee, which invited me to take on the appointment, nor did there seem to be any other conflict that would have made that an inappropriate appointment.

TNS had already been put in place as the body that would launch the debenture. I was a director of that body when the Millennium Commission decided that, rather than give Queen's Park Football Club the responsibility—with all its other interests in youth football and sponsorship of football and sports—a company slightly at arm's length should take on the debenture. With the Millennium Commission, the company recruited a high-powered board of directors, who are named in my submission. With their agreement, I became both managing director and chairman. I understand why that might be questioned at this point in the project, but the appointment came quite naturally and, until now, nobody has raised it as a matter of concern or suggested that it did not work properly.

I am not sure how I can better answer your question. No one suggested that my appointment was improper or not working properly. [*Interruption.*] I am reminded by my colleague that the consultancy arrangement was simply a means of gaining recompense for being managing director and chairman of the company.

As we moved forward, the dual role of chairman and chief executive was appropriate only at the time of the construction project, as we were also considering governance issues through KPMG. In early 1999, or even before, those governance issues were high on the agenda of TNS, and included the formation of committees for remuneration, audit and so on. At that point, we were considering creating an independent chairman, which would have happened as the project approached completion and the company went into operational mode.

The Convener: I understand the point that you are trying to make. My concern is that you received remuneration as chief executive of TNS and also received a consultancy fee.

Mr Reilly: Sorry?

The Convener: That is the information that I have from the Scottish Executive. Page 4 of the report that the Executive issued states:

"The same postholder occupied both positions of Chairman and Chief Executive of TNS. He was also employed on a consultancy basis firstly by QPFC and latterly by TNS under a consultancy agreement with AR Limited."

Mr Reilly: In taking up any or all of those appointments, I received only one remuneration package—for the consultancy agreement to act as chief executive of TNS. There were no duplicate payments. There was only one payment for that one position.

The Convener: That is somewhat confusing. We will raise the issue with the minister.

Mr Reilly: I would be pleased if you did that. There is obviously confusion in the report, which reflects badly on my position. I was asked to undertake a consultancy assignment and to fulfil the role of chief executive of the company that was delivering the project. The word "also" in the third line of the first bullet point on page 4 of the Executive report confuses matters. I received only one payment, which covered not only my position, but secretarial support and other factors within my office.

The Convener: My second question follows your answer to Irene McGugan. In the context of the failure of the museum trust and the Millennium Commission to award the money that you expected, you said that the push to deliver the national stadium in time for the Scottish cup final in 1999 caused your financial difficulties. I believe that the failure of the debenture scheme also played a part in creating those difficulties.

It is interesting that you think that the project would have failed if it had not hosted the cup final in 1999. Who made that decision? What role did the failure to compensate for the shortfall in the debenture scheme play in creating the financial shortfall, in addition to the other points that you mentioned? I think that it played an important role, which you have omitted to mention.

Mr Reilly: The debenture scheme was not as successful as we would have liked it to be, for a number of reasons that are explored in my submission. It must be remembered that the scheme was underwritten by the Royal Bank of Scotland to the extent of £6 million and that, although there was an underperformance in sales, protection of income was assured. What was your other question?

The Convener: Who made the decision to host the 1999 Scottish cup final at Hampden?

Mr Reilly: The debenture was properly launched, with a well-documented prospectus that included risk factors. None the less, there was a belief that debenture holders had purchased their asset on the clear understanding that the Scottish cup final would be held at Hampden in 1999. As we progressed towards that date in May, we were advised that pressure was growing on the Scottish Football Association to confirm the fixture. If it had not been confirmed, the game would have had to be played elsewhere and any other stadium would have had to have been advised earlier, because that is the time in the football calendar when playing surfaces are worked on and renewed.

As we proceeded towards the cup final, it became mandatory that the stadium be available for the game, or debenture holders would have been likely to ask for their money back. If we had delayed the cup final in any way, Hampden's authority and public profile would have been substantially diminished and I am not sure that the project would have recovered.

13:45

The Convener: In your response to Irene McGugan, you said that there was an efficient management that worked well, knew what was happening and was in control of the project. If that was the case—you were responsible for setting up and selling the debenture scheme—you knew that you had to deliver by the cup final in May.

Is it the case that you took heart from what was allegedly said by the Millennium Commission in January and realised that you could push ahead, knowing that the Millennium Commission would not allow the project to fail because it was too important? Was the excellent management system that you say was in place actually based on an assurance that the project would not be allowed to fail, and did you therefore take unnecessary risks to get the project completed and allow your debenture scheme to succeed?

Mr Reilly: The risks, if you want to use that word, were measured, but there is no doubt that the comfort that was given by the Millennium Commission in January played some part in encouraging us to move to completion. However, we did so diligently, taking account of other factors and other opportunities to scale down any potential overspend, such as the early termination of the contract. We were diligent in our approach to constrained costs, but you are right to say that the assurance given by the commission played a part in the board's view that the project should continue to completion.

Ian Jenkins: Moving towards the end of the affair, I would like to ask about your relationship with the SFA when it was introduced into the proposed structure of governance. How did you feel about that and how did you advise Queen's Park Football Club? What part did you play in the decision to put the project into administration?

Mr Reilly: The SFA's governance of the stadium was something that the board members of TNS would have agreed with in principle. The problem was that, working with our professional advisers, we did not see that that was the most cost-effective solution. In fact, the records and the correspondence show that the proposed rescue package through the Royal Bank of Scotland was a much less expensive alternative to the Scottish Football Association taking over governance of the stadium on its own terms. Similarly, the proposal that was being drawn together—although it may never have been finalised—and studied by the managers ad interim, Arthur Andersen, for Glasgow City Council to take over is on record as being a less expensive solution than the SFA's governance of the stadium.

In considering those issues we also considered whether a solution could be delivered at the end of the day. We asked what SFA members would think about the SFA taking governance of a stadium owned by a member club and whether the SFA would dutifully support a project that had been publicly funded and maintain it at the high standard at which we had handed it over. It goes without argument that, if the SFA is ploughing money into Hampden, some clubs may say, "But we don't own this. Why should not that money go to our club?" All sorts of issues might arise.

If Hampden is the success that the business plans demonstrate it can be, would the SFA be free to distribute those profits among its members? That would seem to be an abuse of public sector funding of an asset. We were facing all those issues as we moved towards a solution in which the SFA was likely to take over. We wondered whether that could ever be delivered.

I was asked about my role. It was actually Queen's Park Football Club that went into administration, not TNS. That is critical and must be understood. Queen's Park Football Club has been well and rigorously managed for 125 or 140 years. It is an amateur club but has professional management, ambitions and aspirations. The directors of the club take their positions very seriously. As they moved from one solution to the other, it became apparent that the club was running out of money to fund its business and the costs associated with the work-out solution. Professional legal advice was that, as of January, the club's funds and any reserve packages would be exhausted. At that point, the directors had no option but to follow the advice on wrongful trading.

Queen's Park directors were then quite improperly criticised by the Scottish Executive—and even by the minister—who said that the directors had acted improperly in moving so quickly into administration. However—and this point must be understood—although Queen's Park Football Club is a company limited by guarantee, so that its members are subject to a penalty of only £1 on failure, the directors are not covered by that and, in a position of insolvency, their personal assets are liable. The Queen's Park directors had no alternative, on the day in question, but to move into administration. Through our professional advisers, and having been present as events unfolded, we understand that that fact was known to the co-funders and their advisers. It was a huge surprise and a huge irritation—in fact, it was horrible—to be accused of acting without due concern for the project and of acting precipitously.

We did not.

Ian Jenkins: You are clearly emotional about that. However, it obviously came as a great surprise to the co-funders and—

Mr Reilly: I am sorry, but I do not believe that to be the case. From being a party to events as they unfolded, and having taken advice from our legal advisers prior to attending this inquiry, I have no doubt whatever that the co-funders should have been advised by their professional advisers that Queen’s Park was about to move into administration.

Ian Jenkins: When you were close to an agreement before Christmas, did not that impact on your thinking? Approaching that point, did you not realise that something had to be done to conclude things? In one of your submissions you suggest that there comes a point when you have to say, “Let’s shut it up and get it done.”

Mr Reilly: I do not think that that applied. We were definitely going ahead with the conclusion of the construction programme but, at meetings with their professional advisers, Queen’s Park’s directors took very seriously, step by step, any exposure to wrongful trading. They supported the project as far as they possibly could. They supported the work that was unfolding for the SFA to take over governance of the stadium. However, there came a point beyond which they could not continue. In accounting or legal terms, I think that it is called the point of no return; some horrible phrase is used that causes you to freeze. That phrase was used to the directors of Queen’s Park and they were left with no alternative. My understanding, which I think can be substantiated by our professional advisers, is that that fact was known to the professional advisers of the co-funders. What happened should not have been a surprise to them.

Ian Jenkins: Some other documents that we have seen indicate that that action added a big expense to the solution to the whole problem. Do you accept that?

Mr Reilly: I have no doubt that prolonging the work-out solution to eight or nine months did nothing other than increase the cost. The question has to be asked: was it a benefit to the project and to the finances that were supported by the public sector not to proceed with the work-out solution through the Royal Bank of Scotland, an international financial institution? That solution was rejected by the co-funders in November—it would have been implemented five months earlier and saved five months’ costs, but it was rejected. That confused us.

The Convener: It did not confuse us.

Mr Reilly: We understood that the proposal was not acceptable to the SFA and that, if the solution had been accepted, the SFA would not have taken over governance of the stadium. Similarly, when Glasgow City Council drew together its package, the reason given by the managers ad interim for rejecting that solution—which was a less expensive solution for the club and was better for the creditors, for the bank and for capital leasing—was that the SFA could not give an assurance that it would continue with its arrangements at the stadium if it did not assume governance. As the managing director, I reported to and worked steadily with the chairman of the company, and we found those to be devastating factors, which were bound to add costs to Queen’s Park.

Mr McAveety: Your submission does not paint a particularly attractive picture of the role of the SFA—it is like asking Ted Heath to write a biography of Margaret Thatcher. Given that the SFA’s £0.5 million contribution was, in your opinion, a contributory factor to the shortfall in funding, is the SFA a credible organisation that can still play a role in this process?

Mr Reilly: That is a matter of opinion. In analysing the problems of the project, I do not think that many organisations, including our own, can put up their hands and say that, with hindsight, they would not have done things differently and that they could not have done things slightly better. We all have to take account of that. In my quieter moments, when I am looking for the reason why Queen’s Park Football Club and we were beset with this wonderful five-star stadium, where we had done much more than we were asked to do to enhance the stadium in relation to safety issues and sponsorship conditions, I realise that we needed to cross the bridge to a successful business plan, but no one was there to help us over the bridge, which became bigger and bigger.

Looking at the underfunding, I felt particularly disappointed by the SFA’s response. I had no cause to believe, given its experience and track record, that it had the readily available and demonstrable competencies to run a national stadium. However, it has taken over now, and I am relaxed about that. If the SFA continues, through appointments and consultancy arrangements, to make a success of the stadium, I will be delighted. If in so doing the SFA protects the stadium, and helps Queen’s Park in all the good work that it does with youth development and so on, it is better to go into the future carrying no baggage and to wish the SFA and the project well, rather than to carry forward any resentments.

Mr McAveety: You mentioned the board of directors that you put together. Was that a stable board that was put together early in the project?

Mr Reilly: Yes.

Mr McAveety: In the latter stages, did it reflect the skills and experiences that were needed to develop the project?

Mr Reilly: We were fortunate. The only change in the original structure of the board arose following the resignation of Lex Gold when he took over the chairmanship of Hibernian Football Club, because that was determined by the SFA to be a conflict of interest. He was replaced by a senior adviser to the Royal Bank of Scotland. The constitution of the board remained excellent and, until the various resignations, Audrey Baxter tried through personal relationships to broker deals with the Millennium Commission at a senior level through its chairman or Lord Dalkeith. All those factors helped. The board, non-executive as it was, contributed greatly to the project.

Mr McAveety: Did you have senior representation latterly from the city council?

Mr Reilly: Did I have senior representation? I was satisfied that the representation that we had gave us a conduit to the city council. The professionalism of the chief executive's office allowed us to share problems and possible solutions. I was pleased with the association that we had with Glasgow City Council.

Mr Monteith: Page 6 of your submission suggests that the managers ad interim, Arthur Andersen, deemed it necessary

"to write directly and in considerable detail to the Minister on 24th February, 2000 regarding what they described as 'misconceptions'."

Could that letter be made available to us?

Mr Reilly: The letter may have been available in the first submission, which was confidential. If not, I have no problem with making it available and I do not think that Arthur Andersen would have a problem with it either.

14:00

Mr Monteith: Thank you, I will check that. In paragraph 4(i), you mention that there was a

"cost escalation as the Management Contractor failed to deliver the Stadium".

Did the contractor suffer any penalties for failing to meet certain time scales?

Mr Reilly: That was not built into the management contract. It was drawn together at the beginning of the project. In a management contract, there is always the problem that one might not have enough money to finish the project, so to bind the management contractor into something becomes quite difficult. Notwithstanding that, we dutifully kept a strict record of all the issues that we believed would result in possible claims and negotiations with the management contractor at the end of the project. Through the cost consultants, we prepared a document that extended to 57 pages and listed £7 million-worth of what were called client instructions—they may well have been client instructions, but we believed that they were there because the client was not happy with something else that was happening.

I am not suggesting that there were £7 million of claims. I have been through that document again and I am estimating something between £2 million and £4 million of claims. My point in making that an issue is that, with the co-funders and their professional advisers, we were able to negotiate down the fees due to the management contractor and the design team. However, the result was not that far short of what might have been negotiated with those parties as we went through the normal process at the end of a project.

We have been talking about the management of the company and it is important to remember that we had a very senior officer—he was experienced in contract law, was an architect by background and was a former member of the city council—who dutifully recorded all those items and client instructions. The cost consultants prepared the report well in advance of the traumas that we encountered; we considered it our proper duty to undertake that exercise. I could go into examples—there were some wonderful examples of where money was spent, spent again and had to be put down to client instruction. I had to say, "Well, frankly, there will come a day of reckoning"—and so there would have been. The correspondence to that effect has been submitted to the committee.

Mr Monteith: In paragraph 4(ii), you mention renewing and repositioning the playing surface in relation to the BT sponsorship, but you also mention the upgrading of the perimeter track and essential safety works to the north and east stands. Why were those required? Was some of that safety work carried out in respect of obtaining UEFA five-star ranking?

Mr Reilly: Clearly, the stadium would not receive UEFA five-star ranking if there were safety problems in any part of the ground, so that work had to be undertaken. The essential works to the north and east stands had to be undertaken because it was about five years since a major event had taken place at the stadium. In that time, safety elements had—properly—been upgraded through the national guidelines. The toilet facilities and turnstiles at the north and east stands were considered deficient in some ways. To obtain a certificate that would allow a game to be played at the stadium, we had no alternative but to carry out the work.

I would have hated to have appeared before the committee having to say that we had the best south and west stands in Europe but that unfortunately no games could be played at the stadium. The work was mandatory, and we undertook it. I cannot remember the figure for the safety work on the north and east stands exactly, but I guess that it was something like £600,000 or £637,000. We were not putting the project in substantial difficulty by performing the work.

You mentioned the perimeter track. That is an example of a difficult situation that can be faced when one runs a big project. The stadium was going to look wonderful, and people would enjoy its facilities. The playing surface would just have been renewed and an expensive drainage system, water supply recirculation unit and sprinkler systems would have been installed. That would be breathtaking. However, when people saw the track, when it was wet, it would be a mud heap, which would add to continuing maintenance costs. When it was dry, it would create red blaes dust, which would blow all over the seats. We had to ask ourselves whether it was worth upgrading the track at that stage.

Then we fed in the additional requirement that the venue had to be one of the finest and cost-effective for concerts for which heavy low-loaders and other wagons were brought in to aid the construction of staging. At other stadiums, those wagons are stopped before they enter the stadium, and all the equipment must be put on to low-loaders before it can be taken into the stadium. We constructed the track at Hampden to accommodate those heavy vehicles, to make Hampden a cost-effective and attractive venue for concerts.

At a stroke, we faced a dilemma. We were working on the stadium and the playing surface, which would be wrecked by the sight of the track. We knew that upgrading the track would save cleaning costs and add to the stadium's commercial value. The question was whether we should work on the track. Knowing that sponsorship deals would probably be forthcoming and that we had to deliver on the stadium and other assurances, we decided to upgrade the track. That was probably the correct decision, but it was hard.

Mr Monteith: Would it have been better for someone to have foreseen that and advised you that the track might need attention—not least upgrading—before the project was costed?

Mr Reilly: That is true. However, you may remember that, when we started the project, we were simply looking head-on at the south and west stands, and a fence that defined the project was pretty well in place at the south and west stands. That is what we focused on. We might not have tackled the track had we not benefited from the sponsorship that allowed us to tackle the playing surface, which just isolated the track. At that point, we felt that we had to work on it.

Mr Monteith: Given your answer to that question, might it have been easier to have constructed a new stadium—as a project for which everything was quantified, because you would have been starting from scratch—than to run a project to redevelop part of an existing stadium only to find that other aspects had to be upgraded to match that class A project?

Mr Reilly: Without question, the most cost-effective solution is to find a greenfield site that is well positioned for access and other features. A new build, using new methods such as those for steel construction, is better than ripping down an elderly stadium and trying to manoeuvre and orchestrate the different bits around it. That cannot be denied—it is a matter of construction.

The other side of the equation is that—if you are a football person—Hampden has always been the home of Scottish football. It is the spiritual home of football and is well recognised internationally. The SFA regarded Hampden as the national stadium and considered that there was no need, unless a very good alternative appeared before it, to redevelop it.

I have no doubt that, had we moved to a greenfield site, or had the project been delivered on a greenfield site, there would have been a different configuration. Would we have had a track of that dimension? At other stadiums—for example, one in Edinburgh, whose name I will not mention—you are very close to the playing surface and that produces a wonderful atmosphere. The configuration could have been different. However, the decision was taken to go ahead with Hampden—that was what the Millennium Commission was funding, and we took the funds.

I mentioned to Michael Forsyth—he just threw back his chair and thought about it—that we had brought more than £35 million of non-Scottish money into the Scottish economy to redevelop Hampden. I thought that that was pretty good. I had difficulty convincing Michael Forsyth of that interpretation but, if we include the London-based money, that was that we did. Had we not used that money for Hampden, it would have gone elsewhere.

Ian Jenkins: I return to the idea that, in retrospect, the fact that responsibility was invested in one person—you—left you exposed in a way that makes you feel uncomfortable and unhappy. Would you accept, with hindsight, that that was not the best mechanism, because it made it appear that you were Mr Queen's Park and Mr National Stadium, which meant that, when things went wrong, you would get the blame?

Mr Reilly: If you are talking about having hindsight, I have a lot of sympathy with what you have said. I have tried to explain the way in which the matter unfolded. If you started from the end position and worked back, you might come up with a different structure. I do not deny that, at various times, that might have been helpful to me.

Mr McAveety: I thought that Brian Monteith's contribution was an attempt to revitalise Meadowbank.

Last week, the Millennium Commission made great play of the fact that additional works were carried out

"outwith the project scope that the Millennium Commission or sportscotland had funded. For example, work was done on the pitch that was not in our original project."—[*Official Report, Education, Culture and Sport Committee*, 6 February 2001; c 2020.]

What would the process for that have been? Were there any discussions with the co-funders about the additional work, especially on the pitch? Was there any approval? If there was not, how could you undertake that work without consultation?

Mr Reilly: I do not recall a formal application to the Millennium Commission or the other co-funders about the work to fund the playing surface. I do not remember approaching the Millennium Commission and saying, "We have got the project purpose formally now. I am either advising you or asking for further grant to undertake the additional work."

The playing surface, which is a good example, came because, in the original submission to the Millennium Commission, we undertook to win sponsorship funds. In the case of BT Scotland, where the generous award was £5 million, BT asked for something to be done that would be identified with the company, so that those making the contribution within BT could report to their board that something substantial had been done that anyone attending the stadium could identify with BT.

That gave us the opportunity to use a small part—I cannot remember, but it may have been £0.5 million or less—of the BT money to upgrade the playing surface. The point was well made last week. I did not send a formal note to the Millennium Commission to say, "We are about to undertake this work", because we were already ahead of our budget in sponsorship income. We had been promised about £4 million in sponsorship income; with Coca-Cola's deal, we were getting close to the £6 million mark. If one of the conditions was to upgrade the playing surface, that seemed the natural thing to do. The point was well made.

Although there was no formal documentation to the commission, people at various levels from the commission visited us on a monthly basis. There was no way that the conversation could not have included mention of the fact that that was the work that we were doing—they could see the work that we were doing because it was dramatic. Perhaps, if the work had not been so clearly visible, we might have taken the option to record formally that we were undertaking the work. However, as they were in such close proximity, it emerged as they were walking round the stadium—they could clearly see that the work was being done.

Mr McAveety: You mentioned the role of BT. Was there not already a commitment that the frontage of the stadium would indicate the significant contribution that BT was making? One might argue that that was sufficient, so I am surprised that the pitch would be an additional element of that. Even if that were the case, was it not part of the dialogue with the Millennium Commission?

14:15

Mr Reilly: Do you mean the benefits that were to go to BT?

Mr McAveety: If the name is up in neon lights on the stadium, I would have thought that it would be obvious to the ordinary punter that BT was involved. That involvement is welcome because, without the input from BT, the shortfall would have been much larger. However, unless you were going to paint the name on the pitch as well, what was the additional BT element?

Mr Reilly: It became almost a condition of the grant aid that BT would get certain benefits; part of the funding would be used for the playing service and BT would get exposure on the south stand. You are right to say that that is quite dramatic, although not unattractive.

Mr McAveety: Is it only BT shareholders who get Hampden turf the way that Scotland supporters got Wembley turf?

Mr Reilly: Something like that.

Irene McGugan: You say that agencies were kept informed by standard monitoring and reporting procedures, yet we have heard that there was an incredible lack of awareness on the part of many people at several stages. What kind of monitoring procedures and sharing of information were set up between Queen's Park, the National Stadium, the Executive and the Millennium Commission?

Mr Reilly: Some of the criticisms have left us a wee bit confused because they are very general. It has been said that the reporting procedures were not that good and that there were other elements that did not match, but such criticisms lack precision. The reporting procedures with Queen's

Park and TNS were very good. I was a member of the general committee and attended all the meetings. The funding for the project—income and expenditure—went through Queen's Park Football Club and the treasurer was aware of those matters. That was all in order.

The Millennium Commission had monthly reports from me, as the project manager, backed up by monthly reports from the management contractor and cost reports from our cost consultants, Gardiner & Theobald—a blue-chip company. Those reports went to another company, Davis Langdon Everest, which was recruited by the Millennium Commission. The Millennium Commission attended meetings monthly, sometimes at officer level and sometimes at director level. As I was there in my capacity as project manager and as director of the recipient company, there was an open telephone line between me, the director of projects and deputy director of projects to discuss informally at any time issues that arose.

The Millennium Commission knew and believed that it could have access to Queen's Park, and probably did have access to Queen's Park, when it appeared at meetings. At Hampden, no attempt was made to isolate the Millennium Commission or any other party. There was a genuine desire for transparency. I find it hard to understand the criticism that the interface procedures were not in place. The submission contains documentation on the various reports that were carried out weekly and monthly with the design team and others.

The Convener: I would like to ask a few final, sweeping-up questions. You spoke vociferously about the Glasgow City Council package and the Royal Bank of Scotland package. With whom would the management of the stadium have rested if either of those packages had gone ahead?

Mr Reilly: When those packages were drawn together, the proposal was that the governance of the stadium would remain with the National Stadium—but not necessarily with the same officers in charge. For example, I had explained my role to the National Stadium when I decided to accept not a permanent post but a contract. Going back to the original discussions with QPFC, I believed that my role was to complete the construction project, to ensure that business plans were available and then to withdraw to allow the appointment of an international manager. So, to answer your question, the management would have rested with TNS, but a TNS that had been restructured and was capable of managing the venue.

The Convener: So governance would not have rested with the SFA?

Mr Reilly: No.

The Convener: I take it from what you have said, and from the written evidence, that you did not want the SFA to take on the governance of the stadium—whatever the cost, it was not to get it. That cost the public purse a substantial amount of cash.

Mr Reilly: With all due respect, I disagree. When proposals were put forward, we did not see the SFA as being the least expensive or the best solution. However, there was no hostility towards the SFA. If the SFA is now governing the stadium, no resentment or baggage is carried over. I urge you, convener, not to think that there was hostility to any management solution that involved the SFA simply because it was the SFA. That was not the case. We were looking for the best and the cheapest solution to a funding-gap problem. We did not take an anti-SFA stance.

The Convener: Okay—I will pursue that point further with other witnesses.

Mr Reilly: Okay.

The Convener: You spoke about clubs being unhappy with the SFA taking on the governance of the stadium because it would have cost them money. Which clubs raised that concern?

Mr Reilly: We were dealing with a view—which came to us from the SFA through its former chief executive—about the atmosphere throughout the SFA and about the attitude towards supporting Hampden. It was pointed out to us that the articles of association of the SFA do not include being in governance and assisting a member club to run its stadium. The logic was that member clubs might find the SFA's position to be in direct conflict with what it was doing at Hampden.

The Convener: But no club raised that specifically with the National Stadium?

Mr Reilly: No club approached us to say, "No, we won't have that."

The Convener: We have a note that says that the co-funders, along with the Royal Bank of Scotland and McAlpine, met to agree a funding package to secure the future of the stadium. That was on 16 December. On the evening of 21 December, people were told of an additional £0.5 million shortfall. How did that £0.5 million come up in five days?

Mr Reilly: I do not have an answer to that, convener. I am really sorry, but the research that I have done for this inquiry has not covered that point. I dare say that, through Arthur Andersen or any of the professional advisers, or through their submissions, you will find an answer. I am certain that there is an answer, but I do not want to venture an opinion. I am sorry.

The Convener: It seems that, every time a funding package was about to be put in place to meet a financial requirement, additional moneys were then required on top of that. We are considering the public purse, and it seems that management was uncontrolled. The evidence that we have from around the December period is that money was needed that was additional to the agreed package. That affected QPFC, TNS and the public purse. I will raise that point with other people.

Mr Reilly: I know that there was correspondence between our professional advisers and the professional advisers of the co-funders. You have to forgive me for saying this—and I do not have a hostile attitude towards the SFA—but, according to the correspondence, when the SFA was moving into governance, it changed its demands, requiring further contributions from Queen's Park Football Club. Three times it changed things, delaying a solution.

You have referred to a particular case involving the Royal Bank of Scotland, but I do not have the answer to that question. However, as we moved forward, there was a continual changing of demands from the parties that were taking over. The longer it went on, the worse it got. There were estimates for things that were not to be delivered for another month, and then the costs for that month had to be included, and I think that the parties got overtaken by things.

The Convener: What was the cost to the public purse of the change to the pitch? Was there a cost?

Mr Reilly: The answer is no, because that was funded by sponsorship money from BT Scotland.

The Convener: So there was absolutely no cost to the public purse because of the change to the pitch?

Mr Reilly: No—but I would add that, if BT had not asked to renew the playing surface, and had we not chosen to do so, that additional money would probably have been available for the project. However, the change to the pitch was conditional on funding from BT Scotland.

The Convener: Thank you very much for your time. If there is anything else, we will get back in touch.

Mr Reilly: Thank you.

The Convener: We will take a break before hearing from Queen's Park Football Club.

14:26

Meeting adjourned.

14:36

On resuming—

The Convener: I call the meeting back to order. I apologise to the members of Queen's Park Football Club for the delay in proceedings, but it is important for us to deal with all the issues. I put it on record that I have asked the minister back to the committee on 27 February, in the first week after the recess. As the minister has other commitments later this afternoon, I think that it is worth exploring the issues with Queen's Park and then inviting the minister back to be the final witness in the inquiry.

I ask Mr Jim Hastie, who is here on behalf of Queen's Park, to introduce his colleagues and make an opening statement.

Mr Jim Hastie (Queen's Park Football Club): On my left is Jim Nicholson, who is president of Queen's Park. He is a former player who is probably slightly more nervous about this afternoon than he was about playing in front of 28,000 in the celebrity all-stars match in which he faced Kenny Dalglish and Rod Stewart.

To my right is David Gordon, who is club treasurer and a qualified accountant. He is here after a last-minute change to our team line-up as, unfortunately, our club auditor, Ken Harkness, of Hardie Caldwell, has been fogbound at Manchester airport. Given the adverse publicity last week, we had hoped that he could be here today. Part of his written statement to me is incorporated in the opening statement that I will now make to the inquiry.

After six months' delay, Queen's Park is delighted to give this statement to your inquiry on both the strategic and the project issues at Hampden. Queen's Park will focus its evidence on the project issues that are associated with the completion of the stadium in May 1999. We will be happy to return to subsequent hearings to answer questions on issues relating to both the project and the longer-term viability of the stadium.

Our club remains at a difficult stage of transition. We have to agree the final accounting with all the co-funders by May 2001, which was the date that was set in the contract with the Millennium Commission. We would welcome early recommendations from the committee that would inform the process. We hope that your recommendations on the project issues will be available by the end of March.

At this initial hearing, we must make clear our views on inaccurate evidence that the inquiry has received on the financial position of the project and the National Stadium. As I said, Ken Harkness, who is the senior partner in our club's auditors, Hardie Caldwell, is fogbound at

Manchester, but he would be happy to attend future hearings with both Deloitte & Touche and KPMG, in which, if necessary, financial management issues could be discussed.

I will also comment on the role of the former stadium director, Austin Reilly. The consultancy contract that Austin had with Queen's Park was terminated on 31 December 1998, but that should not deflect attention from the important and positive contribution that he made to the redevelopment of Hampden. Austin is no longer a director of, or a consultant to, QPFC, but he remains a member of the club. He does not represent the views of the present committee of Queen's Park or its financial advisers, but we respect his views.

We hope to introduce a new focus to the inquiry. We are unique and are the oldest senior football club in Scotland, but we are now at risk as we have had to contribute an astonishing £9.3 million to the cost of the last phase of redevelopment and have had to accept the introduction of new management arrangements.

Queen's Park welcomes your inquiry and your complex remit. However, we hope that you will consider the detailed evidence rather than unsubstantiated opinion. We have submitted a number of detailed schedules of key documents. Those documents include the minutes of the first TNS board meeting at which Mr Gold, seconded by Councillor Macdiarmid, appointed Mr Reilly as chair and chief executive of TNS. Decisions such as that were taken within the National Stadium. The documents also include the letter that was sent by Arthur Andersen to the minister in February 2000, which explained why additional funds of between £1 million and £1.8 million would be necessary to reach a settlement and enable new management arrangements to be introduced.

I will briefly address the project purpose and budget. The vision for the project was ambitious and the original grant application was for a £67 million budget, of which 50 per cent—£33.5 million—would come from the Millennium Commission. Major redesign and the deletion of elements of the project, including community facilities, had to be undertaken when a £51 million project was agreed in August 1996. The Millennium Commission's commitment to that was 45 per cent—£23 million. The Hampden redevelopment has been poorly resourced from lottery funds compared with Wembley, for which the Football Association was given £120 million to acquire the site in March 1999—although no work has started—or the dome, which at the last reckoning has received £628 million from the Millennium Commission.

We maintained a clear intent for the project. The purpose was to complete the reconstruction of Scotland's national stadium to a standard consistent with the five-star listing of FIFA and the Union of European Football Associations. Queen's Park is delighted that that has been achieved and that the Champions League final will be played at Hampden in May 2002. We also wanted to include in the magnificent new south stand a national museum of football; an all-sports medical research and rehabilitation centre; an international media centre; and office accommodation for the SFA, all the football leagues in Scotland and Queen's Park.

Difficulties arose in the implementation of the project. Queen's Park welcomes the opportunity to submit evidence to the inquiry. We will focus specifically on issues relating to the contractual and financial framework and the role of the funding agencies. First, I will set out the roles and responsibilities under the contract for the second phase of redevelopment at Hampden. Queen's Park was the project sponsor. We were the grant recipient and the principal in the contracts for the works to complete the redevelopment of the stadium. All the expenditure and income arising from the project was accounted for in the books of Queen's Park.

Schedule 3, which is attached to our initial submission, gives a clear understanding of the timing and scale of the grant contributions from the seven public funders and how those were deployed to make contractual payments to Sir Robert McAlpine and the design team and to meet other contractual and statutory obligations. The three schedules that are attached to our supplementary memorandum should allow the committee to consider the following points in detail.

Project expenditure was made up of three distinct elements: reconstruction works under the Sir Robert McAlpine contract, which totalled £54.2 million; essential costs to meet contractual and statutory obligations associated with the safety certificate and the debenture scheme, which totalled £4.8 million; and the cost of introducing new management arrangements, which were part of the grant conditions, which totalled £4.7 million. That gives a total cost of £63.7 million.

The project income that has been received or guaranteed to restore solvency to Queen's Park comes from the following sources: the Millennium Commission, which originally put in £23 million in 1996 and increased that figure to £24.1 million; Scottish-based co-funders, who originally put in £15.4 million and have contributed £21.8 million; and the outturn figure from debentures and commercial sponsors, which was targeted at £12.6 million and was £8.5 million. Queen's Park's contribution to the last phase of redevelopment was budgeted at nil, but the actual contribution was £9.4 million. Finally, McAlpine's trust fund, with which an arrangement has been made to guarantee a return to solvency, looks like making a contribution in the order of £300,000, bringing the total to £64.1 million. Queen's Park, Sir Robert McAlpine and the Scottish-based co-funders have to date been required to dig deep to fund the additional costs incurred at Hampden.

14:45

Although Queen's Park had a 133-year history, in making a lottery grant of £23 million the Millennium Commission insisted that our wholly owned subsidiary, the National Stadium plc, should be restructured with Queen's Park under a 40-year management and licence agreement lasting from 1996 until 2036—copies of which have been supplied—which existed until it was terminated in March 2000. A board of seven eminent people, five of whom were not members of Queen's Park, a management team of highly qualified staff and a group of high-profile consultants were set up to undertake three core business activities.

The first was to undertake project management agency services, negotiating with consultants, accountants and contractors on behalf of Queen's Park in the redevelopment contract. It is important to point out that all appointments, contracts and payments were entered into with and by Queen's Park as the disclosed principal. The second business activity was the launch and servicing of a debenture scheme to raise up to £8 million. The third activity was a stadium management agency service on behalf of Queen's Park, which became operational only on 20 May 1999, when the safety certificate was issued.

As the sole shareholder of the National Stadium plc and the organisation to which it was providing services, Queen's Park was fully aware of the importance of maintaining close lines of liaison, communication and reporting, while respecting each other's remits and responsibilities. Serious concerns have been expressed by other parties and their professional consultants in evidence to this inquiry about the financial management of the project and Queen's Park's liaison arrangements with the National Stadium plc. Our club's committee requested our auditors, Hardie Caldwell, to examine that evidence and we wish the following statement from our auditors to be placed in the *Official Report* of this inquiry:

"All accounting for the project for the re-development of the South and West Stands was accounted for in the financial records of The Queen's Park Football Club Limited (QPFC). This includes all payments to contractors and the receipt of income from the Co-funders. No project accounting was accounted for in the records of the National Stadium plc other than the income under the Debenture Issue which was immediately passed to the parent on receipt."

I turn to the accounts of TNS plc to 31 December 1998 and allegations of ledger postings from December 1998 to August 1999:

"The evidence presented to the Committee verbally on 6th February 2001 and in writing on 5th February 2001 is not correct in the following aspects.

The Group accounts of QPFC for the year ended 31st December 1998, including the accounts of its subsidiary TNS plc, which were approved by its Board on 16th April 1999, were approved by the Committee of QPFC on 6th April 1999 and signed off by its auditors with an unqualified opinion on 16th April 1999. The accounts of the company with responsibility for the financial records of the project were therefore signed off in April 1999, some 3-4 months before the appointment of the Co-funders consultants, Deloitte and Touche.

The statement that 'they did not find any postings in the ledger between December 1998 and the appointment of Deloitte and Touche in August' is misleading if not incorrect. The recording of the transactions relative to the project takes place in the records of QPFC. These records have been meticulously maintained in an up to date position. The only transaction to be recorded in the records of the subsidiary were therefore the Debenture receipts and income for Stadium events. The records for the Debenture issue were maintained by the company appointed to manage the database of Debenture holders. These were capable of being matched to entries in the QPFC records. The lack of entries relative to Stadium events is not surprising given that the Stadium was not operational until May 1999. Historically, Stadium events have been accounted for in arrears."

On statements in written submissions that are disputed by QPFC's auditors, our auditors say:

"Specifically the written submission dated 5th February 2001 is incorrect in the following aspects:

Messrs KPMG were not engaged by QPFC to work with the Co-funders on a rescue package. They were engaged by TNS.

The remit given to the consultants appointed by the Millennium Commission on 13th August 1999 included 'to establish the extent of the shortfall in the capital funds available to TNS'. No capital funds were ever available to TNS, only to QPFC.

As auditors to QPFC, and therefore in possession of a significant amount of information about the project, and also about the outturn of previous projects"

and phases of development

"at Hampden Park, some contact between the consultants who 'focused on the financial position of QPFC' would have been expected. There was none.

Paragraph 2.3.4 states that there were no management accounts or cash flow projections available. QPFC maintained a system of monthly management reporting and several cash flow projections were maintained and updated by QPFC and TNS."

The full cash flow projections and figures for TNS as at January 1999 are included in the additional documentation that we have provided.

"There was no 'absence of proper accounts for the project'.

There are no circumstances connected with 'irregularities surrounding the administration of the ERDF grant'. QPFC is not involved in ERDF funding. It has received funds from the Scottish Football Museum Trust who, in turn, received funds from ERDF.

One of the pre-conditions set by the Co-funders was 'agreement with the Royal Bank of Scotland to provide a term loan in respect of the unsold Debentures replacing the existing funding arrangements which were due to expire and fell to be repaid in March 2000'. The facility letter issued by the Royal Bank of Scotland in January 1998 and accepted by QPFC on 10th March 1998 contained the agreement for the arrangements which were to apply beyond 31st March 2000."

That is the end of the auditors' statement.

In the complex multi-agency project at Hampden, there were problems converting in-principle funding commitments to firm grant offers, which were primarily with the SFA and the Heritage Lottery Fund. There were problems in achieving the funding targets set out in the debenture issues of November 1998 and October 1999. Issues remain to be resolved between the SFA Museum Trust and the ERDF to allow repayment to QPFC of the costs incurred by the project in fitting out the museum.

However, in the view of QPFC, the major contributory factor to the cost of introducing new management arrangements was the inappropriate approach of the Millennium Commission, as lead funder, to the problems that were identified in late 1998 and which grew in scale during 1999. Our concerns have been set out at length in paragraphs 42 to 47 of the supplementary memorandum under the following topic headings.

First, there was an over-emphasis on assessing a project funding gap that was extremely difficult to quantify accurately and a disappointing lack of action to assist the cash flow crisis, which resulted in adverse publicity. Secondly, warning signals were ignored and an inappropriate "completion strategy" was adopted. Thirdly, there was a failure to respond promptly to additional grant applications, which perhaps might merit a straight contrast with the dome. Fourthly, no conditions were attached to the additional grant of £250,000 to the National Stadium plc trust fund administered by Dundas & Wilson, although QPFC welcomes the Millennium Commission's director's statement to the inquiry confirming that this was an additional grant. Finally, there was a weakness in introducing solutions by mid July 1999 at the latest. Such solutions had to be introduced by that date to avoid adverse publicity.

Through our MP, John Maxton, QPFC has lobbied to secure for the Millennium Commission an extension of life order. Furthermore, the House of Commons awarded the commission additional resources of £30 million in December 2000 which was meant to put existing projects on a sound financial footing. It is essential that the final accounting process has an appropriate framework that involves all the co-funders and the new tenants, Hampden Park Ltd, to ensure that the project is completed quickly and that both QPFC and Hampden Park Ltd—the SFA subsidiary—have a sound financial basis.

In the early 21st century, the key recommendations sought from the inquiry are to provide recommendations which will enable a more equitable final account to be negotiated in the £59 million project to complete Hampden as Scotland's national stadium and to ensure that the co-funders who agreed new management arrangements involving the SFA—which cost Queen's Park £4.5 million to introduce—make an appropriate contribution.

Firm recommendations are required from the inquiry to ensure that QPFC's contributions of £9.3 million to date are appropriately reimbursed and that Sir Robert McAlpine receives the full settlement agreed in October and November 1999. Such recommendations will be recognised by the commission and would ensure a more equitable final settlement. The Scottish Parliament must assist the process whereby QPFC as owners since 1920 of the 33 acres of the Hampden complex and head landlords of the magnificent national stadium element—for which there was no ground rental for the eight-year redevelopment period that ended in May 1999—is put on a sound financial footing.

The Convener: Thank you. I will now open the session up to questions. Which member wants to start the ball rolling?

15:00

Ian Jenkins: Which additional features of the project were not included in the initial agreement with the Millennium Commission?

Mr Hastie: The additional features can be split into two sections, of which schedule 1.2, which is attached to our supplementary memorandum, tries to provide a good summary. The extra costs in the main construction contract with Sir Robert McAlpine are set out in schedule 1.3; however, the costs in the McAlpine contract increased only from £51 million at the budget date to £54.2 million. An analysis of how that increase happened will highlight factors such as the slippage in the site start date and the allowance for inflation.

For example, the Scottish Parliament building contract—which has one funder—contains a contingency allowance of 10 per cent; in contrast, the contingency allowance for a complex project such as Hampden was set at 5 per cent. One can only conclude that the project management agencies; the design team, which was based in Scotland; the lead consulting engineers, Thorburn

Colquhoun; and the contractors performed pretty well.

The purpose of the project was to complete a national stadium to UEFA and five-star grading, not to complete the south and west stands. In our view, the costs of the pitch, the renovation and the museum fit-out were all part of the initial project purpose. Furthermore, because of the debenture scheme, we would have realised contingent liabilities of £2 million if the hospitality areas had not been fitted out.

There were also essential safety and staff training costs, because staff cannot be employed on the day a football stadium opens. As the design of the stadium had to take account of operational staff, the staff had to be in post ready for the operational date. As schedule 1.2 shows, we paid out £4.75 million in additional costs to meet contractual and statutory obligations.

The consultants to the co-funders estimated the project expenditure increases because at no time did they estimate the cost of introducing new management arrangements. Those outturn costs were estimated at £60.5 million; in fact, through good project management and control by the consultant team, engineers and contractors, Queen's Park and TNS contained them at well below the figure emphasised by the Millennium Commission.

Mr Monteith: I was interested to note in your statement of co-funding contribution in schedule 1.1 that the ERDF grant appears to be £200,000 short of the projected £2.1 million. Has that money since been received or is there any other explanation for that shortfall?

Mr Hastie: That issue is still under negotiation with the SFA and the SFA Museum Trust, which are responsible for attracting that money from the ERDF. We would not dispute earlier evidence that the application was made in 1995. The £2.1 million award was wholly inadequate to meet the cost of the museum shell and the fit-out. However, even that funding application was at risk. As the documentary evidence shows, if we did not comply with a condition of the award that the work had to be completed and paid for by 31 December 1998, the grant would be called back.

The project management service was in full discussion with the SFA Museum Trust and SFA staff on this issue and the decision that was taken probably annoyed Sir Robert McAlpine and the main management contractor. The museum trust was very keen for a specialist contractor—Silver Knight from Manchester—to fit out the museum space and a £2.1 million contract was placed in late 1998 so that we could comply with the ERDF grant condition.

It is probable that one of the contributing factors to the project's cash flow problems was that the museum trust did not have the resources to meet those costs; the fit-out went ahead in the name of Queen's Park and was fully paid for to be completed by 31 December 1998. Unfortunately for the museum trust, the application for draw-down funds proved very slow. The ERDF auditors then claimed that the money had not been disbursed by 31 December 1998. Queen's Park's position is that the contract was fully carried out and paid for, but the dispute about getting that money back lies between the Scottish Football Association Museum Trust and the ERDF.

Queen's Park has an additional problem: we have had to carry on a contingent liability. Because of an irregularity associated with the delayed payment, the ERDF auditors wish to impose a 37 per cent penalty, which could lead to a grant clawback of £390,000. In our view, the liability to Queen's Park is still £210,000, although the framework agreement shows that Queen's Park is carrying forward a potential liability of £180,000, which is associated with the potential clawback of the ERDF grant.

That is the background. I have highlighted only one or two of the complicated issues involved in a multi-agency project such as the national stadium and have indicated why the contingency factor should have been far higher than it was.

Mr Monteith: Thank you, Mr Hastie. That full answer touched on matters that relate to further questions that I wanted to ask you.

In paragraph 28 on page 9 of your supplementary memorandum, you mention that there is

"risk due to grant re-payment claims by ERDF".

You also mention the Scottish Executive. I presume that those were the areas on which you touched during your previous answers. Could you elaborate on where the Scottish Executive fits into a grant repayment claim?

Mr Hastie: I understand that the sponsor department for the ERDF money, which is administered by the Strathclyde European partnership, was the Scottish Office industry department. We understand from consultants' reports that there was liaison between the Scottish Office industry department and the ERDF on the so-called irregularity.

We are not privy to those discussions—we know about them only from consultants' reports. When one is owed a debt of £210,000, one looks into the background in some detail. Yesterday, I discussed this issue with David Taylor, the SFA's chief executive, who is in Geneva. A trustees' meeting will be held on Friday and David Taylor and I are hopeful that the matter can be resolved quickly and in time for the final accounting. There is no doubt that the debt gave rise to quite a lot of tension between the SFA and TNS's project management services, which is understandable.

Mr Monteith: You will be familiar with the fact that many members of the committee have visited both Hampden and the museum. It seems rather odd that, even at this stage, deliberations about clawback and commitments being met are continuing, when the museum has been fitted out to an extent and other works have been undertaken since our visit to Hampden. Are some people simply being belligerent to justify the fact that they earn professional fees from auditing and showing up possible discrepancies, given that the museum clearly exists?

Mr Hastie: It comes down to the contractual arrangements between the Scottish Football Association Museum Trust and the ERDF and, to be honest, we do not want to be drawn into those arrangements. Our problem is the outstanding debt and, in my view, it should be easy to unwind that technicality between the Executive, the museum trust and the ERDF. I am not concerned about Queen's Park's potential liability, because the debt should be easy to resolve in time for the final accounting.

Mr Monteith: In schedule 1.1, you show that the debenture issue was quite disappointing, to say the least, in relation to the targets set for the public sector. You also show a target for the SFA of £2.5 million, which turned into an outturn of zero. For the record, are you able to say more about the story behind that?

Mr Hastie: We are prepared to speak about that issue. In fairness to the SFA, you should note that the Football Trust's input increased from £5 million to £7 million. It has to be acknowledged that the SFA fully backed an additional application to the Football Trust, which generated an extra £2 million. Therefore, it is wrong to portray the SFA as owing £2.5 million because it supported that application, which exceeded the target for the Football Trust. That is my first point about the SFA's contribution.

As far as Queen's Park and TNS are concerned, we relied on assurances from the former chief executive of the SFA to contribute £500,000 to the cost of redeveloping Hampden. That commitment was recorded in a full debate of the National Heritage Committee—the Culture, Media and Sport Committee's predecessor—of the House of Commons. Unfortunately, that in-principle commitment was never translated into firm funding offers from the council of the SFA. Therefore, a funding commitment was given but never realised, and that is as much as we know.

Irene McGugan: Just over a year ago, Queen's Park applied to the court to appoint interim managers as part of the administration process. It has been suggested by the Scottish Executive and others that that process increased the project's costs. The Executive's submission says that there was

"an astonishing provision for professional fees made by the Interim Managers".

What were you thinking in the lead-up to that decision, and why would the Millennium Commission allege that you took it without any reference to the co-funders?

Mr Hastie: The issue of trading wrongfully bore heavily on Queen's Park from late July 1999 onwards. Our documents show the advice that the directors of Queen's Park received in mid-August 1999 on the risks of trading wrongfully and the importance of avoiding that by setting up trust funds, through which insolvency experts and advisers would authorise expenditure and trading accounts. Queen's Park took advice on that point and committed to a work-out solution. Board resolutions from mid-September 1999 show Queen's Park's commitment to a work-out solution involving the SFA.

We could not let negotiations continue for ever. The trust fund that was set up to avoid charges of insolvent trading had a limited income stream, although it was boosted by the income that Queen's Park and TNS received from the Scotland v England Euro 2000 play-off. While Hampden was portrayed as a huge white elephant that was running massive trading losses, the Euro 2000 play-off that took place during the negotiation period provided a huge income boost. That might have made the stadium appear even more attractive to one or two people who wished to take over the management of the stadium. However, that income boost was only going to carry the directors through for a certain amount of time, negotiations had to be concluded by a set point in time, and creditors were complaining.

In December, our legal advice on the weaknesses in the arrangements was based on three points. The first was that the level of additional funding that was put in by the co-funders would leave Queen's Park with a contingent liability and potential losses that would quickly make us insolvent. Queen's Park did not have a guaranteed fixed-interest loan from the bank at that time—we had a fluctuating interest deal—yet Queen's Park was to get a set rental income stream under the new arrangements with the SFA.

The second problem was associated with the inability to reach agreement with the SFA on the BT Scotland arrangements for the fitting out of office accommodation on level 6. If the co-funders had made additional funds available, I am sure that we would have been able to conclude heads of agreement on both those matters in December 1999.

Third, our big worry was that a creditor would jump the gun—as they jumped the gun in late July—and this time petition for receivership or liquidation. Queen's Park, under the rules of the Scottish Football League, would have lost its status in senior football. We could not allow the negotiations to go on and on, so we had to place the club into administration to give us the protection of the court while negotiations were concluded with the SFA. That is our understanding of the position.

Our legal advice was not to advise the other parties, I suspect because that might have provoked a creditor. People call all those organisations co-funders; in fact several could deem themselves to be creditors of Queen's Park, so the directors were in a vulnerable position. It is not our usual way of doing business not to tell other parties what is happening, but in certain circumstances you are under legal advice about how to behave.

15:15

Irene McGugan: So it was on legal advice that you chose not to confide in the other partners in the project?

Mr Hastie: It was on legal advice and there was no agreement with the SFA that we could have entered into. Again, we have correspondence with the SFA's solicitors, which confirms the areas of disagreement. There was no agreement there for us to conclude with the SFA on that date.

Irene McGugan: No, but you did not even advise the other partners of difficulties that you felt Queen's Park was in. You did not share with them the fact that you were about to go into administration.

Mr Hastie: It was on legal advice, but these negotiations had been continuing for five months—they were not easy. The minister's statement and press release in October said that it would take time to resolve the negotiations. The SFA had a very good arrangement with Hampden and Queen's Park. A contractual arrangement was in place for it to stage events at the stadium, when it was paying Queen's Park only a portion of the ground rent. All the commercial sponsorship and media rights—the big money that is made in modern-day professional, or commercial, football—were the entitlement of the SFA.

The SFA should not be portrayed as a tremendously willing participator in a new business venture that took it into stadium management and operation. It had a very good staging agreement with Queen's Park, which had to be entered into in mid-1998 before we could launch the debenture scheme. The SFA was sitting with a sound contractual arrangement with Queen's Park. The SFA had to be persuaded to become a stadium operator—and I am sure that David Taylor would confirm that to you—as it was a new business venture for it. The SFA should not be portrayed as desperately trying to take over this operation.

Irene McGugan: Thank you. That is clear. I was trying to get to the bottom of why it was, allegedly, a shock to the Millennium Commission to find out that Queen's Park had entered into the administration procedure.

Mr Hastie: All I would say is that the Millennium Commission's state of mind has surprised us on several occasions as well.

I emphasise that, at all times, we took every step to mitigate loss. If members read the evidence they will see that it was Queen's Park that questioned the fees at that stage, pressed the administrators and their legal advisers to reduce the allowance for fees that was put into the initial settlement to the minister and achieved a reduction. Again, that correspondence is in our additional documentary evidence. There was no direct financial benefit to Queen's Park, but the correspondence shows that we leant on the administrators to reduce the fees. The administrators were forced to put the fee arrangement to a committee of creditors on 29 March. The committee of creditors approved the fee level. That was all done because Queen's Park's directors were diligent during that process, even though we were in administration. That is shown in our additional evidence. We were conscious that this would be portrayed as costing additional public moneys.

Ian Jenkins: I will move on to the provisions of the grant that the Millennium Commission made in the first place—that is perhaps moving on faster than some members might want. One of the provisions of the grant was that the project would link with the local community and the provision of facilities and activities in the stadium and on the campus adjacent to the stadium.

What is Queen's Park doing to make the stadium—as it says on the question paper in what is perhaps a harsh way of putting it—more of an asset than a burden to the local community? Can you tell me about Lesser Hampden and youth projects? How does that fit in with the situation that Queen's Park is now in?

Mr Hastie: Unfortunately, one of the key project aims that was in the original project purpose had to be deleted when it ran into financial problems.

At Lesser Hampden, we operate out of portacabins, which were supposed to be demolished. Phase 3 of Hampden's redevelopment was supposed to provide new facilities for amateur and youth football. Queen's Park's ethos is all about participation in football. That was supposed to be phase 3 of Hampden's redevelopment. That would have been kick-started through TNS, the wholly owned subsidiary. Queen's Park now has no access to the income from TNS and Hampden cannot be run in the way in which it might have been, because of the new arrangements that have been introduced.

We are in discussions with Glasgow City Council as to how a proposal can be brought forward by the club to build new offices, training facilities and a good indoor facility at Lesser Hampden, but we have no access to resources. Unless we get a reasonable final account through the last phase of redevelopment, it will take years to build up those resources. That is part of the club's resentment at the way in which it has been treated in the interim settlement that has been arranged at this point in time. All I can say is that that is under discussion.

Ian Jenkins: When the committee was at Hampden, we saw the cabins and the potential that was there. It is a matter of regret that those facilities are not going to be progressed as quickly as they could be. Do you still feel that that aspect of the project should be funded from other sources, if not through this settlement?

Mr Hastie: It certainly should be, because it is associated with the Queen's Park ethos of participation in sport. We are an amateur club, so it is all about participation in recreation. That is where the Government should intervene in sport, not in the production of TNS which can be constructed to operate in a commercially viable way. I am certain that Hampden can be commercially viable. The provision of playing facilities for amateurs is a matter of some concern, on which discussions have been held. We have no profit motive; we have no intention of turning ourselves into a public limited company or making money out of football.

A reasonable final settlement would put Queen's Park in a position where we could establish a trust fund. That trust fund, in accordance with the ethos of Queen's Park, would be used to build up enough income during the redevelopment period of Lesser Hampden, so that it could be operated successfully over a number of years. An endowment fund, set up in the name of Queen's Park, could be an interesting example of a development to provide some of the pump-priming money that the voluntary and amateur sectors in Scotland badly need, because they get only percentage grant moneys from the sports lottery fund or anywhere else to make projects viable.

If the Scottish Parliament and the Executive are considering how Queen's Park and the unique structure at Hampden could be used positively to promote the improvement of playing fields for participation in sport, this final account recommendation could offer the Parliament and the minister an enormous opportunity.

Mr McAveety: You have made great play in your statement and the submissions about the information flow from the co-funders to the TNS committee and, from that, across into Queen's Park. A contention in the submissions that we have read is that there is a distinction between how you view the information about whether the Millennium Commission was aware of why you went into administration. I got the impression that you said that it should have been aware of that. Will you tell us about the role of the co-funders in that respect? Are you comfortable with the role that they have played? Can we learn any lessons?

Mr Hastie: It is too easy to attribute blame left, right and centre. A range of people, including Queen's Park, are responsible for errors of judgment that took place. Looking back, we feel aggrieved that the meeting of co-funders did not take place far earlier. Lord Dalkeith and the executive directors of TNS met in January, but the warning signals were there in the debenture prospectus. There is not much to criticise concerning what the co-funders did when they came in; it is a matter of the timing of when they came in. TNS made them fully aware—Queen's Park was fully aware—of the risks.

Mr McAveety: Could you help us with the time scale, as we have a volume of material and our ability to read it all now is limited?

Mr Hastie: It is clear that Austin Reilly and two of the non-executive directors—Ernie Walker and Mr Clydesdale, who were on the TNS board—held a meeting. It was not just a wee meeting with middle management staff at project level; it was with the Scottish representative on the board of the Millennium Commission and the director of projects. That meeting took place in Glasgow on 29 January 1999 and was intended to alert people to the storm clouds that were gathering on the horizon.

At that meeting, the commitment was given to sort the finances out, depending on how much sponsorship could be attracted. At that point, in January, there should have been a meeting of co-funders—that should not have been postponed until July 1999, especially because the project had a high profile. Everyone knew about Hampden, and it was bound to make the front-page news if anything went wrong. The meeting of the co-funders was convened far too late.

The grouping of the co-funders was also too loose. Why was Queen's Park not a co-funder? It was obvious that we were going to have to borrow from Sovereign Leasing and the Royal Bank of Scotland. Queen's Park was one of the main funding contributors to the second phase of redevelopment. How were the co-funders chosen? The SFA was not a contributor, but it is regarded in the completion report as one of the co-funders. The ERDF—and this caused some of the problems—is not on the list of co-funders. In any public-private sector venture, commercial sponsors and the private sector must also be brought around the table. The Royal Bank of Scotland and Sovereign Leasing were big co-funders of the project. Why were only the public sector funders grouped and brought in? There are many questions to be asked.

Finally, did all the co-funders really try to pass the blame to one another? They seem to have gone into paralysis by analysis on an exceptionally difficult project. We were not only trying to project the funding outcomes of a reconstruction project that was well done; we also had to consider aspects of stadium management, including income and trading losses, with a Scotland-England game thrown in. What made it absolutely impossible for the co-funders to assess the funding gap was the introduction of new management arrangements. The co-funders set themselves an impossible task. You can scrutinise the papers and reports as much as I have. They could not tie those responsibilities together any better than Queen's Park or TNS.

Mr McAveety: You have talked about reasonable financial accounts. What is reasonable?

Mr Hastie: I can tell you what is unreasonable. At present, what is unreasonable is what we have been left with. A meeting must take place, over the next month, involving all the co-funders. We also blame the Millennium Commission, as a lead funder, for the difficulties that arose primarily as a result of its approach to the project. Full marks are due to Sam Galbraith, the Executive and the Scottish agencies. If they had not brought in the additional moneys, you would not be discussing the national stadium with us; you would be discussing it with a receiver or a liquidator. We are grateful for those moneys.

Three issues must be taken into account in the final analysis: first, how the final accounting is carried out by the Millennium Commission; secondly, what will happen to the debenture scheme, which has been left for Queen's Park to manage; and, thirdly, what will happen to the ERDF-SFA Museum Trust. We are not saying that the final accounting should be the responsibility of any single body; we are saying that it is now the responsibility of all bodies to get together with the project sponsor and grant applicant.

The only reason we signed up to the administration is that we were committed, under the contractual arrangements, to a reasonable final accounting. That was part of our contractual arrangement with the Millennium Commission, which now needs to be put in place. I push the issue back to you. It is for the committee's inquiry—as you will have heard from all the parties—to come up with some firm recommendations on the way in which the final accounting should be carried out.

15:30

Mr McAveety: If things had not been finally settled, in the last stage of the process, what would have happened to TNS? If there are predators out there—in case I bump into them in the dark, on the south side of Glasgow—who might they be?

Mr Hastie: I do not know of any predators out there. Thank goodness, we reached an agreement. We must be careful how we speak about the national stadium. Queen's Park was an amateur football club with a run-down stadium that had a safety certificate for a capacity of only 32,000. That was probably an embarrassment to Scotland in the 1980s. Nevertheless, Queen's Park was still able to generate £1 million reserves to start the eight-year redevelopment of Hampden.

When one looks at the quality of what has been produced, and the new management, one can be confident that, provided that the debt structure is correct, it should not be too difficult to run what is now a national asset at a reasonable profit. However, that profit must be seen in terms of community use as well as financial gain. Queen's Park hopes that Hampden will be used for community sporting events, such as the national finals of schools football competitions, and for junior and amateur football as well as for the Scottish national team and the big occasions. The new hospitality suites, which have hosted Tina Turner, Rod Stewart and Robbie Williams, also mean that Hampden will be a potentially huge asset to Glasgow and Scotland.

The Convener: I have a couple of questions. You put some store by the committee's inquiry in relation to your financial situation. In the evidence that we have received, concern has been expressed that, somewhere along the line, somebody somewhere should have put together a business case when things were getting out of control—when additional costs were mounting up.

In the period until July 1999, no case for additional funding seems to have been made in writing. I could be wrong—I could have missed it in the volume of papers that the committee has received. However, there are recollections of a conversation, and great store seems to have been put in those recollections. According to some of the evidence that we have received, the extra expenditure seems to have been allowed to mount up on the assurance that that money would be forthcoming. Why was nothing written down, so that the co-funders and other funding organisations could read it and say, "Yes, we will fund that part," or "We will not fund X, Y and Z"?

Mr Hastie: Queen's Park carried out an intensive internal audit, and I went through as many of the papers as I could. We have submitted to you the final TNS business plan, which was drawn up in January 1999, and the debenture prospectus. That public document sets out the risks and the likelihood of this or that not happening, which could give rise to problems.

I think that the business case was there. If you look at the joint memorandum from Queen's Park and TNS, which had to be prepared to comply with the debenture prospectus of September 1998, you will see that the business case was there. A huge problem arose because the lead funder was distracted by the weight of lottery money that was coming to it and because of the fact that it was situated 400 miles away. It had to deal with other difficulties that arose with projects across the UK that had a far higher profile, yet it did not have regional offices—it was completely centralised in London.

It is also important to consider the situation in Scotland at the time. There was huge excitement about the setting up of our Parliament. Hampden was completed on 20 May 1999, and a month later Parliament was opened and there was a transfer of administration from Westminster to Edinburgh. Donald Dewar was interested in the project and we engaged a number of politicians. I do not mean especially to criticise our local MP, John Maxton, who was supportive from 1996 through to 1999, but a range of issues meant that eyes in Scotland were not properly focused on the difficulties at Hampden.

For the amateur football club, ensuring the transition of the stadium into operation was critical. Rather than being devoted to business plans, the resources of the amateur football club were devoted to ensuring that we had a celebrity all-stars team and could deliver a community audience of 28,000. That was run on almost completely voluntary efforts to ensure that the stadium was tried out a week before the Celtic v Rangers Scottish cup final. Can you imagine what might have happened in the heat of such an occasion if we had not given TNS and its security personnel a dry run? We were heavily involved in that and in the stadium being completed.

The Millennium Commission said that it would consider the sponsorship money and the debenture sales in order to ensure that everyone knew what the financial framework was, and that it would then sit down and sort out the situation. However, for some reason, the Millennium Commission decided to bring in additional teams of consultants who were totally new to the project and who, in my view, which is supported by the evidence of our auditors, misunderstood a number of aspects of financial control and implementation. That is where the difficulties arose.

The Convener: It would obviously be media-friendly to make this issue into the dome of Scotland and to say that Hampden could not get the money that it was due because of all the money that went into the dome. Last week, the Millennium Commission gave us answers to questions arising from that, which we will pursue with the minister next week.

I am not being critical of the role of Queen's Park in the organisation of the all-stars game before the cup final—I was at the cup final and can say that it was an excellent event that ran well; my concern is that additional costs were incurred. You employed a management team at substantial cost and, according to figures that I have before me, consultancy costs came to almost £1 million, including the fee of the stadium director and the cost of legal advice, and the National Stadium's trading expenses were £500,000.

When additional costs for items such as the escalators arose, was a package presented to any funding body? We asked about that last week and were told that TNS told the Millennium Commission not to worry and that funding would be forthcoming as plans were in place for private sector sponsorship and funding. I am a wee bit concerned that, after January 1999, no firm requests for money were put to anyone—no one said, "X amount of money is needed to pay for a certain piece of work. Can you help or not? If you can't help, we won't go ahead or will find the funding somewhere else."

Mr Hastie: The straight answer—which was in the earlier Millennium Commission submission that it updated because of the postponement of the inquiry—is that, between January and May 1999, there was plenty of dialogue between TNS and the Millennium Commission on the growing funding gap. Income contributions were going down and project costs and expenditure—particularly in relation to the safety certificate—were going up.

The funding gap was increasing, not because of financial mismanagement but because of real-world concerns such as the impact of things that were going right and things that were going wrong. There is no doubt that the final application, which was arrived at after six months of negotiation between TNS and the Millennium Commission, was submitted to the Millennium Commission on 5 July. The additional funding application that was presented solely to the Millennium Commission was for £3 million—against a funding gap that was later assessed to be £6.2 million.

The Millennium Commission had a meeting in London on 14 July. The Queen visited Hampden on 7 July, a week after the opening of the Scottish Parliament, and you can bet your bottom dollar that there were one or two people from the Millennium Commission there. I am certain that there would have been discussions about the problems at Hampden at that time. I have no idea why political pressure was not exerted to get a decision. A positive decision at that time rather than a decision to get in consultants to examine all the problems in Hampden would probably have enabled us to avoid an arrestment notice and introduce new management arrangements.

Queen's Park was absolutely sure about the fact that it no longer wanted to be the operator of the national stadium. We wanted that done either by TNS or by the SFA. Our interest in football is one of participation in an amateur sport. Running the national stadium is not something that we are set up to do—we each have careers to follow and we are volunteers. That case was made after a six or seven-month period of negotiation, which was far too long. At that point, for some reason, the decision was delayed for months and months. In October, the concept of new management arrangements was introduced.

If you are looking for lessons to apply to other big projects, I suggest that individual elements should be solved bit by bit. The last part of our jigsaw puzzle should have been the re-financing of the debenture scheme, but the Royal Bank of Scotland had underwritten that right up to 31 March 2001. If different components had been fitted in and if the funding agencies had adopted a more sensitive approach, costs would have been reduced. However, that did not happen. The funding agencies said that there would not be a penny of additional grant until new management arrangements were introduced. Therefore, the conclusion must be that the additional management costs were not the responsibility of Queen's Park or TNS.

The Convener: I am not convinced that that is the case.

I do not know whether you have seen the Executive's report that I have before me. It says that on 16 December a funding package was put together that would meet the shortfall in the disclosed figures that were available at the time. On the evening of 21 December, the Executive was informed that there was an additional £500,000 shortfall. That seems to be a lot of money to be found in five days. Where did it come from?

Mr Hastie: We had a quick discussion about that. David Gordon, who is the treasurer of the club, was on the committee at that point. We would have needed advance notice of your question in order to answer it today, but we can give you a note on our understanding of the matter. We can give you our assessment of what the issues were.

In relation to the funding gap, even with the McAlpine trust fund arrangement that was intended to resolve all the creditor problems, the maximum of creditors was estimated. We have begun a process of paying them off one by one. It is all to be unwound by May 2001. That is why we cannot do a final accounting until then. In my view, that is similar to what was happening in December, with different assessments of the outstanding creditor position coming into play. You must remember that that was balanced by quite significant income. It was not the trading liability that people are portraying it as. We had just had a Scotland v England Euro 2000 play-off and there was income to come in from the SFA from ground rental as well. David Gordon may want to enlarge on that.

15:45

David Gordon (Queen's Park Football Club): As we went through that process, there was negotiation with the SFA as to what responsibility it would take and which costs it would bear in future and which costs would be borne by the co-funders. Would the costs of apparently small things, such as car leases, be borne by the co-funders and paid off, or would the SFA take them on? Such costs were moving backwards and forwards between what was in the funding and what was not. As Jim Hastie said, I can give you complete details of what made that up. Costs like that were moving all the time.

The Convener: That would be helpful because, to a lay person, that seems quite a lot of money to incur in five days. A note from you would help us to understand that issue further.

Mr Monteith: Page 9 of your supplementary memorandum refers to the debenture prospectus and says that that

"the Royal Bank agreed to underwrite the issue up to the target net sales figure of £6m. In fact, the actual income from sales was £2.2m. The net contribution to the funding of the project was £1.2m against the target of £6m."

Can you explain the difference of £1 million between the gross and the net? It seems quite a large amount, but I am sure that there is an explanation for it. It suggests that the net sales target of £6 million would have been a gross of some £12 million.

Your other document does not seem to cover the meeting of that underwriting by the Royal Bank of Scotland. Has that been offset by the bank providing Queen's Park Football Club with a loan?

Mr Hastie: Yes. My understanding of the debenture is that its total value was £8 million. The original debenture prospectus made an allowance of £500,000 for marketing and consultants costs in launching the debenture. Two prospectuses were issued because, when the Scotland v England Euro 2000 play-off happened, a supplementary prospectus was issued in the hope of generating some more income from debenture sales. We had to update the figures at that point. It did not generate much interest, even on the back of the Scotland v England game, because of the trading uncertainty of Queen's Park Football Club and TNS. That was one of the great knock-on effects of not resolving the cash flow and funding crisis earlier.

With a Scotland v England game as one of the benefit packages, the supplementary prospectus could probably have done much better than it did. The reason for the marketing costs being so high, at £1 million, is that there were two issues during that period. I still think that those were very high professional and consultants fees for a very low return. If you spend £1 million on marketing and consultants fees for a £2.2 million gross return in debenture sales, that will not set you up as an expert in debenture sales marketing. From Queen's Park Football Club's point of view, that was one of the core business activities of TNS.

The Millennium Commission is so removed from events that it still thought that we were banking with the Bank of Scotland last week. One of the reasons for the delays in issuing the debenture was the difficulty in securing underwriting, because the Bank of Scotland would not do it. It took Austin Reilly and the TNS board some time to get the Royal Bank of Scotland engaged to underwrite the debenture facility. The Royal Bank of Scotland became the lender to the project half way through the project for that reason. It was not all to do with the SFA's delays in launching the prospectus. There were difficulties in getting the debenture prospectus in place.

Because the financial problems were not resolved until March 2000, the Royal Bank of Scotland was carrying a range of overdraft and funding facilities to Queen's Park Football Club and TNS. When the debenture underwriting facility stopped in March 2000, that had to be converted to term loans, and the Royal Bank of Scotland benefited to the tune of £1.5 million. As you can see from our spreadsheet, that was the proportion of the grant that went to the Royal Bank of Scotland to rationalise the banking facilities to TNS and Queen's Park Football Club in that period. The £3.1 million is now a term loan that is being serviced by part of the ground rent that we would have got from the SFA.

Ian Jenkins: The witnesses from the Millennium Commission suggested last week that they thought that Queen's Park Football Club was, in a sense, out of the loop and was not fully aware of the situation. They said that perhaps no one had been focusing on the debenture sales or noticing that something was going wrong and saying that something had to be done. It was suggested that the relationship and lines of communication between the Millennium Commission and Queen's Park Football Club were such that things fell through the net. What is your view?

Mr Hastie: The strength of the opinions on Queen's Park Football Club and TNS's financial management and the views that were expressed about it last week took us by surprise. If TNS was so badly run, was so out of control and had made such a non-success of the project because of its financial management, why did the Millennium Commission allow the organisation to restructure itself in September 1999? The commission's director of projects met TNS and, without any reference to Queen's Park Football Club, decided to allow TNS to restructure itself.

Ian Jenkins: So you were kept out of the loop.

Mr Hastie: We were kept out of that loop, but that is a different loop. To blame the inability to bring forward a solution on lack of two-way flow between Queen's Park Football Club and TNS is quite inappropriate. TNS made mistakes with the debenture launch and there were difficulties in project implementation. However, you have seen the quality and length of our submissions. That has not all been done in retrospect. Queen's Park Football Club had two active members out of seven on the board of TNS.

As Austin Reilly said, he attended monthly general committee meetings, and that dual interest was quite correct. It was two of the TNS board members who took the decision, which I think was wrong, to put Austin into the dual position of chairman and chief executive of TNS, but that is a different issue. In terms of the communication down to Queen's Park Football Club, it is unfortunate that you have been brought evidence of the type that you heard last week. I do not know on what basis the Millennium Commission made that assessment of the position.

Ian Jenkins: That brings us back to the convener's earlier question about who should say that something is going wrong, when they should talk to people and when they should put it on paper and ask for help. In this case, that was talked about and it was in the air, but it was never put down on paper in a memorandum or direct request to one or all of the co-funders. Did things just fall down somewhere along the line?

Mr Hastie: We have answered that. We have tried to say that the debenture prospectus and the joint board memorandum in September 1998 set out all the risks. The project was then heading for a £55 million plus VAT expenditure target. A lot of the income contributions were very soft.

In December 1998, Queen's Park Football Club refused to lift the expenditure ceiling that had been set for TNS. There was a request for the figure to be increased to £56 million. We left it in place at £51.2 million. We were well aware that that provoked the executive board to hold a high-level meeting with a commissioner and the director of projects in early January. It took them until July to bring in a team of independent consultants—a week after a grant application for an additional £3 million had been made. We must remember that the Queen was due to come to Hampden.

The problems were well known. The Millennium Commission's May 2000 submission to the committee shows the steps that were taken and the negotiations that took place between TNS, Queen's Park and the Millennium Commission. We may wish that we, Queen's Park, as project sponsor, had taken a more active role and projected that ourselves, but I return to the political point—the problems had been raised in January 1999 at the highest level. The debenture prospectus laid out all the risk factors for anyone to read.

The Convener: As there are no more questions, I thank the witnesses for their time. It would help to receive the note that was mentioned. If we require any further written information, we will ask you for it. We will try to expedite the inquiry.

Culture and Recreation Bill

The Convener: The Deputy Minister for Sport and Culture got his wires crossed and believed that we did not require him in addition to Mr Galbraith. Mr Wilson has left, and we cannot get him back today. I will seek to reschedule his evidence for another date.

Children's Commissioner

The Convener: Item 4 on the agenda is to consider whether we need to appoint an adviser on a children's commissioner. I suggest that it would be helpful to have an adviser. If the committee agrees, we will submit that idea to the appropriate bodies for their consent. Is that agreed?

Members *indicated agreement*.

The Convener: I have received from the clerks a large number of letters from various organisations that have requested to meet the committee. Some of the letters are quite recent, but several have been hanging over since August 2000. I have identified a potential gap in our diary on 13 March. If the committee agrees, we could try to accommodate some invitations on that date, along with an invitation to the grant-aided schools. We will not reopen the debate, but we will discuss some of their concerns. It would help to have that discussion in the committee.

If the committee agrees, I would like to schedule that for 13 March, along with an invitation to the Scottish Rugby Union, whose request to speak to us has been outstanding longest. Historic Scotland and the Scottish Schools Sports Federation also wish to discuss the report on sport in schools, which was published in October. I could suggest to the SRU, Historic Scotland and the Scottish Schools Sports Federation that each has half an hour. The committee could convene at 2 o'clock that day, and see the grant-aided schools at 3.30 pm. If the committee agrees, I will issue the invitations. Is that agreed?

Members *indicated agreement*.

16:00

The Convener: There is continuing concern about the Scottish Qualifications Authority. It would help if we saw its representatives earlier rather than later. We could see them on 27 February or 20 March, where there are gaps in our timetable. Given that the Deputy Minister for Sport and Culture will appear on 27 February, the most suitable date is probably 20 March. We could ask the SQA about some of the decisions that it took last week, the assessment of those decisions and how forward planning for this year's exams is proceeding. It would be useful to have such a session and have it in public. If that is okay, I will issue an invitation to the SQA to come on 20 March.

Ian Jenkins: What about 27 March?

The Convener: We would be pushing it to see the SQA on 27 March. We have set up the infrastructure and private-public partnerships seminar with Rob Ball for 6 March. It would be wrong to put that off. We have just agreed to see several organisations on 13 March, so there is a gap on 20 March, when we could see the SQA. If issues come up before then, I will return to the committee and ask it to reschedule the meeting earlier, but I think that 20 March may be suitable.

Mr Monteith: Would it be in order for you, convener, or the clerks to advise the relevant ministers that we will see the grant-aided schools on 16 March to take account of their concerns?

The Convener: I intend to ask the ministers whether they have a response to the special educational needs inquiry. However, we may not have that information for 16 March, because the report is likely to be discussed in the chamber in April or May. The Executive may not produce a response until then, but I will ask for any information.

Ian Jenkins: I would like to clarify what you said about Allan Wilson not coming today. Am I right in thinking that the motion on the Culture and Recreation Bill will now be discussed in the chamber?

The Convener: My understanding is that, if the motion is discussed in committee, it need not go to the chamber. However, it might now have to go to the chamber. As I understand it, Mike Russell requested that the committee discuss the issue. If the motion is not debated in committee, it will have to be debated in the chamber. We will have discussions with the minister.

Irene McGugan: The debate is listed in the business bulletin and has been scheduled for this Thursday for several days.

The Convener: So the bill will be discussed in the chamber on Thursday. I am sorry that that has happened. I do not know where the misunderstanding arose. It certainly did not come from us.

Mr Monteith: I do not know whether the minister can dispute his own letter, but it says that the motion

"will not be considered by the Parliament until after the Committee has had an opportunity to consider the Memorandum."

He may be able to go back on that, but that is what the letter says.

The Convener: I will check that with the minister and raise it with the appropriate parliamentary authorities. I will e-mail members as soon as I have any information.

Irene McGugan: Did I miss the bit about the adviser on the children's commissioner?

The Convener: Yes. We agreed that we would have an adviser.

Irene McGugan: Do we have names?

The Convener: The conveners liaison group has advised that committees could be subject to equal opportunities legislation because of the way in which we choose advisers, which depends on who knows whom and word of mouth. The group has adopted a new procedure for the appointment of advisers. An open advert will be placed, to allow people to offer themselves as advisers and give a list of their areas of expertise. From that, the Scottish Parliament information centre will draw up a list of several people to present to the committee, without names that would allow gender or racial origin to be identified.

I am not clear about when that procedure will start, but I understand that we must conduct things slightly differently now. I will ask Martin Verity and SPICe to arrange for a list of appropriate names and for adverts to be placed, so that we can get the adviser in place.

Meeting closed at 16:05.

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