



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

PUBLIC AUDIT COMMITTEE

Wednesday 25 March 2015

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PUBLIC AUDIT COMMITTEE
6th Meeting 2015, Session 4

CONVENER

*Paul Martin (Glasgow Provan) (Lab)

DEPUTY CONVENER

*Mary Scanlon (Highlands and Islands) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Nigel Don (Angus North and Mearns) (SNP)
*Colin Keir (Edinburgh Western) (SNP)
*Stuart McMillan (West Scotland) (SNP)
*Tavish Scott (Shetland Islands) (LD)
*Drew Smith (Glasgow) (Lab)
*David Torrance (Kirkcaldy) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Angela Cullen (Audit Scotland)
Sharon Fairweather (Scottish Government)
Caroline Gardner (Auditor General for Scotland)
Tricia Meldrum (Audit Scotland)
David Middleton (Transport Scotland)
John Nicholls (Transport Scotland)
Michael Oliphant (Audit Scotland)
John Scott (Ayr) (Con)

CLERK TO THE COMMITTEE

Jane Williams

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Public Audit Committee

Wednesday 25 March 2015

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Paul Martin): Good morning, colleagues. I welcome members of the press and public to the sixth meeting in 2015 of the Public Audit Committee. I ask all those present to ensure that their electronic items are switched off or put into flight mode to ensure that they do not affect the work of the committee.

Agenda item 1 is a decision on taking business in private. Do members agree to take agenda items 4 and 5 in private?

Members *indicated agreement.*

Section 23 Reports

“The Scottish Government’s purchase of Glasgow Prestwick Airport”

09:30

The Convener: Agenda item 2 is on the section 23 report, “The Scottish Government’s purchase of Glasgow Prestwick Airport”. I welcome our panel members. David Middleton is chief executive of Transport Scotland; John Nicholls is director of aviation, maritime, freight and canals with Transport Scotland; and Sharon Fairweather, who is currently deputy director of finance programme management with the Scottish Government, but who was, at the time of the airport’s purchase, Transport Scotland’s finance director.

I understand that Mr Middleton would like to make a brief opening statement.

David Middleton (Transport Scotland): Thank you, convener, and thank you for the opportunity to come along today to discuss the Audit Scotland report, “The Scottish Government’s purchase of Glasgow Prestwick Airport”. We note in particular the key messages in the report that the Scottish Government’s “purchase process was reasonable” and that

“Good governance arrangements are in place to monitor the airport’s ongoing business and financial performance.”

We have noted what Audit Scotland said about passenger growth assumptions in the purchase business plan. The business plan was commissioned from appropriate professional advisers who, in turn, based their projections on analysis from aviation experts. That assisted in informing the purchase process, which, as noted, was conducted in six weeks. We understand Audit Scotland’s observation that the assumptions were “optimistic”, although we also note Audit Scotland’s judgment that recalculation using less optimistic assumptions would not have influenced the decision to buy.

The purchase business plan was only the start of a process. Since acquisition, it has been a challenge for the board and Prestwick’s management to deal with the realities of actual passenger and freight numbers and to develop a vision for Prestwick. Initially, a senior adviser was appointed to prepare a revised business plan. That work was completed in May 2014. As noted in the Audit Scotland report, in October 2014, the airport published its strategic vision, which was a combination of the senior adviser’s work and other factors that the airport considered might play a critical part in its future business strategy.

In her evidence to the committee four weeks ago, the Auditor General for Scotland said that

“The strategic vision looks reasonable”.

Of course, there is no quick fix, as has been said on a number of occasions. As the Auditor General also noted at the committee meeting last month, there are considerable challenges—for example:

“Forecasting the future, as they say, is always difficult”.—[*Official Report, Public Audit Committee*, 25 February 2015; c 27-28.]

However, a non-executive chair, Andrew Miller, is now in place, and we are in the process of appointing other non-executive directors with commercial, property and aviation or engineering backgrounds. We have, as the report noted,

“Good governance arrangements ... in place to monitor the airport’s ongoing”

operations.

We all want to see that performance improve so that the hope and intention that the then Deputy First Minister expressed in her statement to Parliament on 8 October 2013 can be fulfilled—namely,

“to see Prestwick, as a thriving airport, return to private sector ownership at some point in the future.”—[*Official Report*, 8 October 2013; c 23389.]

Ministers have not set a timescale for that, as the report records, because the long-term opportunities could take some years to take effect.

We should, however, recognise the improvements in Prestwick’s fortunes since acquisition. Freight cargo tonnages have grown by 32 per cent since acquisition, to a rolling annual total of 12,683 tonnes. That follows Cargolux increasing its weekly services from four to six in early 2014, combined with improved charter and Air France performance.

The Bristow Helicopters search and rescue base has been secured and construction has commenced, ahead of a 1 January 2016 start date. The Trump Organization has decided to base its aircraft at Prestwick to link with Turnberry and its other resorts. As the committee noted previously, Prestwick has been shortlisted for the location of the United Kingdom spaceport. It has redeveloped and sold non-operational and surplus land holdings where appropriate, and it has worked with local partners to recommence the Scottish air show after a 22-year absence. Work is now taking place to build on the success of the 2014 show.

The team at Prestwick is working on a range of other potential opportunities. Although they are commercially confidential at this stage, we hope to hear some positive announcements later this year. By working on those and other initiatives, we hope

that Prestwick will prosper, to the benefit of Ayrshire and, of course, the Scottish economy as a whole.

The Convener: Thank you for your presentation, Mr Middleton. I have a couple of questions before I hand over to colleagues, who also have questions.

For the record, will you clarify who the accountable officer was during the negotiations that took place?

David Middleton: I was the accountable officer for the acquisition.

The Convener: Okay. Obviously, it is not every day that you find yourself acquiring an airport on behalf of the Scottish Government. That involved quite significant responsibility on your part. Can you say without fear of contradiction that you had all the information available to you prior to the acquisition of the airport?

David Middleton: We had all the necessary information.

The Convener: You said “necessary”. Will you expand on that?

David Middleton: I am sorry; I did not mean that to have significance. We had all the information available to us, which allowed us to make the decision.

The Convener: Okay. The Auditor General’s report raises issues around planning and around modelling the airport’s reliance on a single operator. Did you have all that information before you in detailed spreadsheets at that point, as well?

David Middleton: I am not sure what “detailed spreadsheets” means in that context. I will ask my colleague Sharon Fairweather to expand on that point.

It was very clearly understood that there was a single operator. I think that the Audit Scotland report referred to issues around modelling in that regard. We accept as a statement of fact that we did not model that particular aspect, but we were very clear in our minds that we understood that there was a single operator, and we were perfectly clear about the consequences and significance of that. I think that the Auditor General in her evidence a few weeks ago recognised that it was ultimately a yes or no decision.

You mentioned spreadsheets in relation to particular issues. Perhaps it would be best if I invited Sharon Fairweather to say a few words about that.

Sharon Fairweather (Scottish Government): During the acquisition process, we worked very closely with the advisers who were alongside us during due diligence and the preparation of the

business plan, so we were very clear about the information that they used as their source information, the assumptions that they applied to that, and the outputs from that. We had that level of detail, which enabled us to do our assessment. The spreadsheet models that they used to produce those outputs, based on the inputs and the assumptions that we had agreed with them, were the only things that we did not have.

The Convener: Can you appreciate the position that the Auditor General has set out, which we have discussed with her? You said that you had all the necessary information available to you prior to the acquisition. Could information have been sought following the acquisition that should have been sought?

David Middleton: People are always bound to know more about assets in a commercial operation once they are in possession of it and once the management is, in a sense, directly accountable. We can always be better informed; that is almost inevitable when taking something over.

As you said, we do not do this kind of thing every day, but we have learned nothing since then that has led us to revisit, reconsider or reflect on any part of the decision-making process. Parliament clearly expressed general satisfaction with and approval of the intention and principle that the then Deputy First Minister announced on 8 October 2013. From then on, we had a process to undertake. There may have been circumstances in which we could have gone back to ministers. We knew that it was a challenge and that there were difficulties; after all, it is a statement of fact that the airport had been in commercial difficulties and had not been making money. That is why its owner put it up for sale and why it had clearly not proved attractive to another commercial purchaser.

We knew that there were challenges. Obviously, people learn more once they become the owner, but there is nothing that we have subsequently found out or learned about the business since the acquisition that has led us to reconsider any aspect of the decision-making process.

The Convener: I welcome John Scott to the committee. I note that he has a constituency interest in the report.

John Scott (Ayr) (Con): Thank you. I am sorry I was late—I was in another meeting. Forgive me.

Mary Scanlon (Highlands and Islands) (Con): We all want Prestwick to be a thriving airport. You mentioned freight, Mr Middleton. There has been a very welcome increase in the airport's freight volumes, as well as a significant increase in freight at Glasgow airport.

I want to focus on the passenger numbers, however. Over the past year, passenger numbers have fallen by 15.2 per cent. That is obviously a significant fall. On page 26 of the report, Audit Scotland mentions that, despite that fall of 15.2 per cent, you were projecting an annual growth rate of 10.2 per cent for passenger numbers. However, you have revised that to 6.5 per cent: we have a fall of 15.2 per cent, and a revised estimate of 6.5 per cent growth.

I want to ask a question on the back of what the convener said. With reference to the revised business plan, I understand that the passenger growth forecasts are still higher in each of the five years compared with the Department for Transport's United Kingdom aviation forecasts, which I believe were of between 1 and 3 per cent. That is quite a difference compared with your 6.5 per cent.

I also understand that the Scottish Government assumed higher growth in passenger numbers on the advice of its aviation experts. Was there a difference? Why did you come up with 6.5 per cent, given that the Department for Transport's UK aviation forecasts were of between 1 and 3 per cent?

David Middleton: I hope that this is helpful to the committee. There are general projections for the aviation business, which is an uncertain and highly competitive business in which things change all the time. Forecasts and projections are made over a number of years.

We knew that the number of passengers at Prestwick was much smaller than would be ideal. The percentage impact of Ryanair's adjustments to its service pattern in 2014 had an impact and makes the figures look very difficult over a short period of time.

When we project numbers or make use of projections, we are not saying that they are exact or precise predictions for all services in all circumstances. We consider the generality of the aviation industry and of projections. Edinburgh airport's growth is above the DFT's projected growth. That does not make the DFT wrong, as its assumptions are put in the general context of aviation across Britain.

In the case of Prestwick as a particular airport, although the loss of certain services makes a big percentage reduction in its business, if, as we all hope, it is successful in attracting some new services and route development, that will have a percentage increase that might be quite high over the short term.

It is always difficult to examine percentage assumptions and to compare them over a very short period of months. Inevitably, some decisions will have a disproportionate impact. We hope that

there is scope for building business at Prestwick—we must all hope that—and we hope that the additional route development will come along.

Passenger growth is not the sole generator of revenue for Prestwick. Passenger services are an element of Prestwick airport's income—indeed, they are an unusually small element, compared with some other airports. However, we were satisfied at the purchase point that we could see a path for the airport to return to prosperity. We have never said that that would be easy, and we never said that it would happen quickly. There is no quick fix: it will be a challenge over a number of years.

I hesitate to suggest that we base all our consideration on one set of projections. At the moment, we are concentrating on helping the board and the management to develop their vision and to consider all the business opportunities that exist to boost revenue at Prestwick airport.

09:45

Mary Scanlon: I can only base my assumptions and questions on the information that I have in front of me in the Audit Scotland report, which says that there was a 15 per cent reduction in passenger numbers between 2013 and 2014 and that Ryanair made 29 fewer flights a week. I also have information that the Department for Transport's projected annual growth rate is between 1 and 3 per cent and that your revised annual growth rate is down from 10 per cent to 6 per cent.

Forgive me, Mr Middleton, but I am not making up figures. Everything is in front of me, and I would be failing in my duty as a member of the committee if I did not ask you questions. I ask you again: why were your projections three times higher than the Department for Transport's?

David Middleton: The projections that were in our purchase business plan were part of the due diligence that we commissioned. That was not the sole piece of work. It was not based only on projected passenger numbers; it was about a range of financial and commercial matters concerning Prestwick airport. The professional advisers provided perfectly credible professional advice. Although Audit Scotland has made a number of comments on the matter, it did not suggest that we did not appoint appropriate professional advisers.

I ask Sharon Fairweather to add a little bit on the business case assumptions.

Sharon Fairweather: When we looked at the passenger number assumptions, we examined not only the growth in the number of passengers that we had at that point in time but the potential for

future development and what that would mean for bringing extra aircraft into Prestwick. As David Middleton said, if we bring one extra aircraft into Prestwick, we get a step increase in passenger numbers.

David Middleton also said that the DFT comparison covers the whole of the UK, including Heathrow. Heathrow is a large airport that is capacity constrained. In the absence of an extra runway, the potential for growth at Heathrow is constrained, which has an impact on the overall DFT numbers.

We considered the overall DFT numbers, the economic outlook, the current passenger numbers and what Prestwick is capable of. The airport has significant capacity—we have no capacity constraints at Prestwick at the moment—so there are opportunities to attract additional airlines and we considered the types of airline that we would wish to attract. All that type of thinking went into the work that we did with the professional advisers on future passenger numbers.

The numbers that you quote are correct but you will also note from the Audit Scotland report that, post the first five years, our assumed growth in passenger numbers is below the projections for general growth that you quote from the DFT. Therefore, we are looking at a step change in the first five years, with renewed management, renewed focus and renewed effort on increasing passenger numbers at Prestwick.

Mary Scanlon: Are you confident that, in the first five years, you will achieve that annual passenger growth rate of 6.5 per cent, with Mr Trump and other operators coming into Prestwick?

David Middleton: If it was that simple to predict the future and be absolutely confident, a commercial operator would have purchased Prestwick. We are saying that, on the basis of the opportunities that exist, that growth is achievable if we have an energised management with a well-led board examining all the opportunities.

There is a difference between going into a proposition that we believe is achievable and stating as a fact that it will happen. I do not have the capacity to state as a fact that it will happen. We have put the infrastructure in place, the governance arrangements are in place—that has been commented on—we are in the process of recruiting non-executive directors, and we hope that, with energy and ideas, things are possible.

The key point about Prestwick is that there are clearly opportunities that are, perhaps, not mainstream in terms of the other big airports. If those are realised, it can be successful and have a place in Scotland. However, we cannot absolutely predict the future.

Mary Scanlon: I did not ask you to predict the future; I asked whether you were confident that your projections were realistic. Please do not try to put words in my mouth that I did not use in the question. I asked whether the projections were realistic, which is a reasonable question, and I would have hoped for a reasonable answer.

David Middleton: I am sorry, I did not mean that at all. I was only trying to help by discussing the context in which all this is taking place.

Mary Scanlon: I do not expect you to be Mystic Meg but I expect you to be reasonable with the questions that I ask.

David Middleton: Indeed. I hope that I am always reasonable. I have confidence that the projections are credible. We are confident that the vision for Prestwick is credible and achievable. However, it is fair to say that whether it will be achieved remains to be seen.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Before the Government started to negotiate the purchase of the airport, what options did the multi-agency group consider and why were they not considered viable?

David Middleton: Perhaps John Nicholls, who was a regular attender at the multi-agency group, could say a word about that.

John Nicholls (Transport Scotland): The multi-agency group was convened initially about a year before the airport's acquisition. It was led by South Ayrshire Council and included a number of agencies, among which were Transport Scotland and Scottish Enterprise.

The initial strategy for the multi-agency group was to try to secure a good investor in the airport—a credible purchaser from the private sector. That was part of our activity throughout the process. We identified various Government supports that we could offer to a good investor.

We also considered options for supporting the current owner, which were similar to those for supporting a new investor. The other options that we considered concerned a joint venture between the public and private sectors and various options for public ownership, including local authority involvement, as well as outright Government ownership.

Infratil, the vendor, was unable to find a private sector purchaser on terms that were acceptable to it and had made a strategic decision to divest itself of its various airport interests in the UK and Europe, so those options were ruled out. On examination, the other options were not viable, which left the multi-agency group and the Scottish Government with the remaining option, which is the one that was taken in the end.

Colin Beattie: Before the purchase, there was no great quantifying of the economic benefits to the area around the airport and to Scotland. Has any calculation been done of the economic benefits of continuing the airport?

David Middleton: The economic benefit in the sense of the number of jobs involved at various levels and, as Audit Scotland reports, the gross annual value to the local economy were certainly described and considered in the business case.

John, is there anything further to say about the economic benefits in the area?

John Nicholls: As David Middleton mentioned and as the Audit Scotland report identifies, a significant number of jobs are associated directly and indirectly with the airport. There was an underlying above-average unemployment rate in Ayrshire at the time of the acquisition.

Since the purchase, the multi-agency group has been reconfigured into another stakeholder group which, again, is led by South Ayrshire Council. As well as including the Government agencies, public sector agencies and the other Ayrshire local authorities, it also includes the airport and a number of private sector bodies that are associated with it. That group is undertaking a body of work that is aimed at putting Prestwick in the right place in the overall economics of Ayrshire and Scotland as a whole.

The airport business is undertaking its own work on the economic contribution and viability. It was discussed with the airport yesterday at its most recent board meeting. Some of that work is commercially confidential; it is also at an early stage. In the run-up to the acquisition, work was done on the airport's gross value added, which was identified as substantial and worth around £61.5 million to the Scottish economy.

Colin Beattie: The Government taking on an airport is a unique situation, but was any post-purchase evaluation of the process done to determine whether lessons can be learned for any similar, large acquisitions, should they come about?

David Middleton: The Audit Scotland report provides context to that. In many ways, I am glad that that report, whatever comments it offers, says that the process was reasonable and that Her Majesty Treasury's checklist of issues for the business case was generally followed. Given the short period from the decision to acquire to the completion of the acquisition, we feel a certain satisfaction in the amount of process that was undertaken.

Sharon Fairweather can outline a number of the tasks that had to be completed. Some of those may be relevant to other investments; others

would be relevant only to an airport with particular characteristics.

Sharon Fairweather: I will put into context the work that we undertook over that six-week period. From the time of the then Deputy First Minister's statement, we procured and mobilised the advisers; we completed the due diligence, which covered financial, legal, real estate, tax and insurance matters; we developed the acquisition business plan and, alongside that, the business case; and we undertook the overall negotiations with the seller on the high-level aspects of the sale, particularly with regard to the significant debt write-off that it undertook as part of the acquisition.

We then led on negotiations around the sale and purchase, including indemnity and liability issues. In covering the debt write-off, we undertook the negotiation on the tax covenants, the interim operations to enable us to continue operating the airport without a blip and the transitional arrangements with other airports—we had to work with a number of arrangements across several airports.

We also secured all the operational issues. We ensured that the airport was properly insured from the point of acquisition, and that bank accounts were set up and running, with money in them to make the payroll the day after acquisition.

We did all the negotiations with the Civil Aviation Authority, to enable us to operate the airport without stoppage at any time. We also ensured that things such as gas and electricity contracts were transferred, so that the airport could operate throughout the period.

We undertook that body of work over that six-week period in order to secure the acquisition. It would be fair to say that no one, in an operational sense, will have noticed the handover from Infratil to our ownership on the day of acquisition because it all ran smoothly throughout that period.

Colin Beattie: That is an impressive list. How big was the team working on that?

Sharon Fairweather: The Scottish Government team was relatively small, but a body of advisers worked with us. We had a firm a financial advisers, we had legal advisers, we had advisers helping with the business plan and we had insurance advisers on board. The financial advisers provided tax advice alongside that. We had a small internal team, but we had a significant resource attached to it.

The Convener: You have provided an exhaustive list of the processes followed. Do you accept the Auditor General report's recommendations and findings?

Sharon Fairweather: Yes.

David Middleton: Yes.

The Convener: The Auditor General says in the report:

"The Scottish Government's purchase process was reasonable",

but the business case

"could have included further evaluation".

Do you accept that, too? I asked earlier whether anything further could have been done. You have advised us that you have accepted the Auditor General's report and the Auditor General says that further evaluation could have been carried out—irrespective of the exhaustive list that you have set out.

Sharon Fairweather: We could have carried out more evaluation if we had had more time. However, as David Middleton mentioned, we undertook the evaluation that was needed to provide us with the information that we needed in order to make a decision. We did that. Therefore, the report confirms that our process was reasonable, because we had the information that we needed to make a decision.

The Convener: Will you clarify the significant risk attached to taking a decision in such a short time? By not carrying out further evaluation, you placed the public purse at substantial risk. If you accept the Auditor General's report, you have to accept that further evaluation should have been carried out.

I am asking Mr Middleton, as the accountable officer, a straight question. Do you accept the Auditor General's report? If you accept the report, you accept that further evaluation should have been carried out, but if you do not accept that point, you do not accept the report.

10:00

David Middleton: We accept the report. I read into the Auditor General's report, certainly when she outlines certain aspects of the business case and says that it should have been clearer, that there are issues in the business case that could have been spelled out to the Auditor General's satisfaction. I am accepting that as a fact. We could have said more about this and more about that.

Do I accept that anyone has suggested anywhere that there was something that we could have evaluated that would have led us to take a different decision or to see the decision in a different light? I do not think that that is what the recommendations are saying. They are saying that there are aspects of the writing up that could have been different.

The Convener: We have to be clear here. You are not here to interpret what the Auditor General's report actually says. You are entitled to your opinion on it, but it is for the Auditor General to clarify that.

All I am asking is whether you accept the report, which says that further evaluation should have been carried out. I am not trying to lead you down a particular path—I am just asking you if you accept that fact. It is important for the committee's work that we clarify whether you think that further evaluation should have been carried out. Yes or no?

David Middleton: Yes. I accept the report.

Colin Keir (Edinburgh Western) (SNP): Before I ask my question, I want to make one more comment on the issue that the convener has raised, concerning the time from the point at which you were tasked to look at the business case to the point of taking over the airport. The period of time was six weeks. Given the amount of work that was done, it seems—as Colin Beattie, who has a bit more of a background in finance than I do, has highlighted—that it was done incredibly quickly in comparison with the time that was taken over the acquisition of Edinburgh airport, for instance, which was completed over many more months.

Is it reasonable, without going too far into the matter, to say that the work that was done—against a time limit from Infratil, from what I can gather—was as much as could be done to get the information and the work process started and to undertake the due diligence process et cetera? That work was all crammed into six weeks. Was that enough time in which to do it, or were you hamstrung by the fact that Infratil had given you a time limit?

David Middleton: I think that we had enough time to get the information that satisfied us. Sharon Fairweather did a lot of those commercial negotiations, and I will ask her to elaborate.

Sharon Fairweather: One of the advantages that we had with this acquisition was that the advisers whom we secured to complete the due diligence process had been working on the acquisition of the airport for some time on behalf of other parties. Therefore, they were not coming in cold at the start of the six weeks but had already done a substantial body of work on the financial and legal aspects of the business before we came into the process. They had been working for a number of months, and we were able to take advantage of all that work. Colin Keir is right that, in the normal course of business, starting cold, we would need more than six weeks, but we were fortunate in that a significant body of work on the business had been undertaken by the external advisers. That included the advisers who were

helping with the development of the business plan; they had been working with the airport for some time anyway, so we were able to take advantage of that work.

Colin Keir: I have a question about the business case and, in particular, the reliance on Ryanair in terms of passenger numbers. As you have pointed out, aviation is an incredibly competitive business. The two main competitors—the two heavyweights—in the area are Glasgow and Edinburgh airports. Edinburgh airport is only a few years into new ownership, and Glasgow has also found itself under new ownership, and there is now going to be a hell-for-leather battle to get new routes to both of those airports. Was that taken into consideration in developing the business plan for Prestwick airport, which is at a geographical disadvantage—hence the reason why we are where we are at this time—and relies on one operator?

You will not be able to tell us who has been talked into bringing new routes in—that is obviously commercially sensitive—but how confident are you about the diversification of what is done at Prestwick? You made some good announcements about companies starting to move into Prestwick, but how confident are you that the business is stabilising and that you will be able to move it on to a stronger footing?

David Middleton: I will ask John Nicholls to talk about the position as we look to the future because, as he mentioned, he was at a board meeting yesterday. I repeat that we have seen some good signs, for example on the freight tonnage. We hope that the management will be motivated once the team of non-executive directors is fully in place.

The size of Prestwick's operation is different from that of Glasgow and Edinburgh airports. There is growth in the wider market, so it does not have to be a zero-sum game. We believe that there are areas that Prestwick can pursue because of its unique characteristics. As I said earlier, there is a challenge and, as the then Deputy First Minister said about Prestwick on a number of occasions, there is no quick fix. It may take a number of years, but we are confident that there is a credible path for Prestwick if some of the key unique opportunities for it can be exploited.

John Nicholls: As has been said previously, Prestwick is not a typical airport in the way that Glasgow and Edinburgh are. A range of activity goes on at Prestwick. In addition to the passenger and freight operations that we have heard about, there are also search and rescue facilities and fixed-based operations, and a lot of military activity is catered for. In addition, there is quite a lot of non-operational land, which is a potential source of revenue.

That said, we face a challenge. As the Auditor General's report recognises, it will be some years before there is a turnaround. As far as how we work towards that is concerned, as was mentioned earlier, the airport management team produced its strategic vision—which was largely based on the stage 2 business plan—on 31 October last year. The Auditor General said that that is a reasonable document.

At the Prestwick board meeting yesterday—I should clarify that I remain a non-executive director of the holding company—we heard that the board continues to work on the implementation of the strategic vision. The management team are energised towards delivering that. We have approved the budget for next year, which includes a lot of detail on the revenues and costs associated with the business going forward. Over the next few months, the airport team will develop its corporate plan, which will cover a longer period—a number of years—and will consider the various opportunities that exist to generate additional revenue and, where possible, to increase efficiencies.

There is a plan in place. As the Auditor General mentioned, it is important that we tie all that down and that we have a good strategic approach to the challenges that lie ahead. At this stage, we are satisfied that there are good governance arrangements in place and that plans are being developed to take the business forward.

Colin Keir: Are you confident that the business plan is robust enough to ensure that the loan agreements that are mentioned in the Auditor General's report will not be defaulted on?

David Middleton: Yes, we are confident of that at the moment.

Tavish Scott (Shetland Islands) (LD): I want to go back to the earlier point about the reasonableness of the purchase process. I accept Audit Scotland's findings, but it also found that the business plan did not model the impact of the likelihood of the reliance on Ryanair as the only passenger carrier. Could you give some context to that point?

David Middleton: I accept that that comment was made, but it is still difficult to see what modelling would have told us. As I think Ms Sturgeon and others have said in Parliament, either the Government purchased the airport or the airport closed—that was the stark choice. There might have been a better way to have modelled the situation, and clearly the reliance on one operator was an aspect. We could perhaps have set things out differently, but, in the circumstances, we were clear on the choice that was before us.

Tavish Scott: Does that not make the point that the convener was driving at earlier, which was that the business case would have been stronger if it had explained the other options that were considered and the reasons for ruling them out?

David Middleton: There were perhaps aspects that had been considered in the MAG process prior to the acquisition process, so I do not think that they were unknown. Clearly, however, if you are talking about a matter of explaining and writing things up, I accept that that could have been done.

Tavish Scott: I accept the point about Ryanair, but the reliance on a single carrier would illustrate the degree of risk that there was in taking the decision to nationalise the airport.

David Middleton: Yes. Again, I would never attempt to distance myself from the report or imply that I do not accept the report—I have been chided already with regards to a matter of interpretation—but it is not that we were unaware of the risk. If there are lessons to be taken on board about how better to articulate risks and ensure that they are better explained and put in a context that others will find helpful, we will do that. However, there is no suggestion that we were not aware of the risks or that the risks were not quite stark and quite clear. That is what I was trying to get at.

Tavish Scott: Absolutely. I think that that is fair.

Could you detail the exit strategy for the Scottish Government and Transport Scotland, or is it too early yet to have a clear idea of what that exit strategy looks like? I assume that the intention is to hand the airport back to a commercial operator.

David Middleton: That is the intention: I think that ministers have said in Parliament on a number of occasions that the hope is that the airport can return to the private sector. No one has put a timescale on that. We hope to see the vision for Prestwick realised and for it to be able to exploit its unique opportunities in its own particular niche in the market. We hope that at some point in the future—neither we nor ministers will put a timescale on that—it will return to the private sector.

Tavish Scott: So the business plan that Mr Nicholls mentioned in the context of the board does not yet specify a year when you expect the airport to break even, which is the point at which ministers would have the option that we are discussing.

David Middleton: I do not think that we would like to put any particular timescale on the issue. Whatever might be contained in commercially confidential plans, we face a challenge and there is a hard road to walk. We understand that.

Tavish Scott: I do not wish to put pejorative language on the table, but the financial exposure to Transport Scotland and the Scottish Government is, at this stage, open-ended. That is what the answer that you have just given suggests.

David Middleton: Using the phrase “open-ended” is perhaps putting words in my mouth. We have quantified the investment needs in terms of bringing certain things up to scratch and we have considered various investment needs in terms of exploiting Prestwick’s particular assets. Sharon Fairweather or John Nicholls might want to comment further on the totality of potential loan investment. I do not think that we would like to use the term “open-ended”, but we recognise the extent of the commitment that is implied.

Sharon Fairweather: We are clear that we need to continually review the situation, and we are aware that each budget that is set needs to be based on forward projection business plans that continue to meet the needs and the market economic investor principle that we are undertaking with the airport. That is continually under review. The final level of loan funding that will be required before the airport becomes self-sustaining may well change from what is in the report, but we will be continually monitoring that to ensure that it is viable and justifiable.

Tavish Scott: However, it is public money, and, by definition, it is auditable. You will correct me if I am wrong, but the Government has committed to provide £25.2 million of loan funding so far. However, again, in the Audit Scotland report, there is no limit on the overall funding that it might have to provide. I am trying to gain some sort of understanding of what the potential commitment of the taxpayer is to the on-going ownership of the airport.

10:15

David Middleton: A total for the potential loan funding up to 2020-21 is what has been provided.

Tavish Scott: And what figure would that be?

Sharon Fairweather: That is the number that you quoted.

Tavish Scott: So that is £25.2 million up to 2020-21.

Sharon Fairweather: By that point, we expect that the airport will be becoming profitable. We expect it to break even and then become cash profitable so it would be able to sustain itself.

Tavish Scott: Thank you. I just wanted to get that on the record. I appreciate that.

I have one last question—Colin Keir’s question made me think of it. Mr Middleton, I think that you

said that the airport was trying to attract new routes and new development. I quite understand that and I am not asking you to say what those are, but have Glasgow and Edinburgh airports—the private sector airports—made representations to Transport Scotland about that?

David Middleton: I think that both airports have made concerns known to ministers and, to a degree, those concerns are in the public domain. Clearly, if those airports believed that their own businesses—which are highly competitive, as has already been highlighted—were being affected, they would consider their own positions. I think that they understand the context in which ministers are working. They can speak for themselves, but they nonetheless have a clear commercial interest in the aviation business in Scotland.

Tavish Scott: Absolutely. Thank you.

Stuart McMillan (West Scotland) (SNP): I want to go back to Mary Scanlon’s line of questioning. I have a supplementary question for Sharon Fairweather.

Mary Scanlon asked about the business plan figures, which were higher than the Department for Transport projections. As regards the work that the DFT undertakes, does it have any weighting placed against any of the larger airports within the UK? It is not that I have not looked at its reports on a regular basis, I hasten to add.

Sharon Fairweather: We would have to go back to the report and pull out the information that the DFT provides on how it works out its numbers. I am afraid that I do not have that information to hand.

Stuart McMillan: Sure. You brought Heathrow airport into the discussion earlier, and it struck me that the DFT might undertake such a weighting when looking at all the airports across the UK. If it is possible for you to write to the committee with that information, that would be useful.

Moving on, there is the situation regarding the non-executive chairs for TS Prestwick Holdco Ltd and for Prestwick Aviation Holdings Ltd being the same person. Does that have an effect on how the Holdco board oversees the airport on behalf of the Scottish Government?

David Middleton: Audit Scotland has already said that the governance arrangements are good, but I will ask John Nicholls, who is more closely involved with that, to elaborate.

John Nicholls: The intention is to establish a two-tier governance system. The Holdco board was established for the purposes of the acquisition. Its relationship with the subsidiary companies reflects the advice from our professional advisers about how these things are best done and mirrors the arrangements that the

Welsh Assembly Government put in place for the purchase of Cardiff airport a little while ago.

The duality of the non-executive chair role flows through from that arrangement. Let me clear about the different roles of the Holdco board and the operational board: the intention behind the structure was to create an arm's-length arrangement for Prestwick so that it could operate—and be seen to operate—on a commercial basis without being under direct day-to-day commercial direction from central Government. The Holdco board exists to make a connection with the strategic approach that the Government takes while keeping a separation from the commercial and operational aspects that the operational board undertakes.

The non-executive chair will be common to both boards, but the new non-executive directors we are recruiting will sit solely on the operational board, not on the holding company board. That follows the advice of the senior adviser who produced the stage 2 business plan and looked at the corporate governance arrangements. His recommendations have been taken up and followed through in the way that I have just described.

Stuart McMillan: That is very helpful. In Scotland, the development at Prestwick has been a fairly recent one. You mentioned Cardiff airport. Is the structure still in place at Cardiff? Have there been any changes there? I am thinking about what will happen at Prestwick and how things will develop in future.

David Middleton: I would not like to comment on Cardiff's structure. Do you have any knowledge of Cardiff's structure, John?

John Nicholls: I do not have any immediate, first-hand knowledge of the structure at Cardiff, but I know that Andrew Miller, the non-executive chair of Glasgow Prestwick Airport, has had several discussions with his counterparts at Cardiff on their experience. There is some learning to be had there.

Stuart McMillan: I have a couple of further questions. First, on the business case, you listed a number of positive aspects in your opening comments, Mr Middleton, including those concerning tonnage and Bristow helicopters. You also mentioned the issue of the spaceport, with Prestwick being in the running. If the spaceport did not go to Prestwick, would that have a negative effect on the business case? If it did not go there, would that affect the Scottish Government's ownership of the airport?

David Middleton: There are a couple of questions in there. In terms of the business case, the purchase was not dependent on the spaceport. It is obvious from the plans for

Prestwick that there are number of areas that the operational board wishes to exploit. I would not like to say that, if Prestwick did not get the spaceport, that would necessarily nullify the vision for exploiting its assets.

I invite John Nicholls to say a little about how the spaceport figures in the future plans for Prestwick, which cannot assume any guarantees about it, of course. I also ask him to deal with the question whether if Prestwick is successful—I am sure that the board would be pleased if it was—that would have any effect on our relationship with Prestwick.

John Nicholls: I will expand on what David Middleton has just said. The spaceport proposition was not known about at the time of acquisition; it emerged last year.

As for where we are now, the Scottish ministers' priority is for the spaceport to come to Scotland. There are three remaining Scottish airfields on the shortlist, of which Prestwick is one. Campbeltown and Stornoway are the others, with a possible role for Leuchars envisaged by the UK Government.

It is clearly for the owners of those airfields to decide whether they wish to go forward with bids to the UK Government. The bidding process is now under way, and the UK Government has indicated that it will make decisions on it in October. There is a bit of process to be gone through as part of that, in that the UK Government will be holding some briefing sessions with representatives of the airfields that have expressed an interest. There are of course two other sites, in Cornwall and Wales, that are part of that.

It is probably a little too early to say exactly what the economic impact will be for any airfield that is successful in becoming the UK spaceport. The airport management team at Prestwick is considering that, in conjunction with colleagues from the stakeholder group that I mentioned earlier. Until we get a little further down the road, it is difficult to give any firm assessment of what the impact will be, but the UK Government has said that it will provide an anchor tenant for the successful spaceport bid. The anticipation is that there will be a substantial positive impact over the longer term for the airfield that is selected as the spaceport.

Stuart McMillan: Thank you. Mr Middleton said in his earlier comments that the business case does not depend on the spaceport going to Prestwick.

I have a final question about an earlier point. It is not every day that somebody takes over an airport, particularly a Government. That does not happen often. Did the Scottish Government have enough expertise to assist with and facilitate the

purchase of Prestwick airport at the time, and does it have enough now? If it does not, has it brought in enough people who have the expertise to ensure that Prestwick airport is successful?

David Middleton: A lot of the expertise that was required for the acquisition process was not necessarily narrowly related to aviation. Sharon Fairweather is a chartered accountant who has external private sector experience in commercial deals, so we had some acquisitions expertise. When we needed legal and financial expertise, we were able to buy that in. Similarly, we were able to access aviation advice that went into the business plan.

However, you are right to say that it is not every day that we do this. Although we have transport modelling experience, we were able to draw on some of our extensive project management experience when putting together the team that worked on the acquisition. That was one reason why, very early after acquisition, we sought input from a senior adviser who knew more about aviation, why we have recruited a chair, and why we are recruiting non-executive directors. The experience was, in the broadest sense, a learning experience for many of us.

John Scott: I thank the convener for allowing me to attend the committee.

I welcome the fact that the Audit Scotland report recognises that Prestwick is a strategic infrastructure asset that supports 1,800 jobs locally, contributes £61 million to the Scottish economy, and supports the maintenance, repair and overhaul hub that is around it, as well as having defence capabilities and importance for NATO.

Of the diversification options that are open to Prestwick, which are the most likely to succeed and which would you recommend that constituency members such as myself pursue through our representations when we travel around the country? I am thinking of the spaceport as an example.

David Middleton: All the ideas have their own story, and I would not like to rule any in or out at this stage. John Nicholls has experience of the board, so he might have thoughts about where it would most welcome Mr Scott's input.

John Nicholls: I know that Mr Scott's interest and input have been appreciated by the various parties for a long time and we need more of the same. It is important that the stakeholders and elected members continue to be engaged with the airport's senior management, who are probably best placed to advise you on exactly how your input can assist. I am conscious that there have been a number of briefing meetings between the

airport management team and local elected members, and I suggest that they continue.

John Scott: I want to pursue Tavish Scott's question about your exit strategy, which Audit Scotland says should be

"well-defined and regularly reviewed".

If a buyer was to emerge in the short or medium term, would the Scottish Government still consider accepting an offer from such a buyer, or is the airport no longer for sale?

10:30

David Middleton: I do not think that we expect any buyers. Because of the nature of the market and the nature of the challenge around Prestwick, it would be against the run of play to expect buyers, but it is clear that, if someone were to emerge, we would speak to them. I cannot imagine that ministers would expect us to turn anyone away from conversations, but a buyer's intentions must be clarified in any conversations.

It is clear that there would be no point in selling the airport if a buyer was going to exploit the assets in a different way and did not want to retain the core business. We should never say never but, on the face of it, a buyer seems unlikely until we reach a different position with Prestwick, which is what we are all working towards.

Drew Smith (Glasgow) (Lab): What we have gained from this and the previous evidence session on this report is an understanding of Prestwick airport's huge significance to the Ayrshire economy in terms of jobs and of the airport's potential as a strategic asset for the whole Scottish economy.

I wonder whether you can talk us through some of the timelines for the loan amounts, where they have changed and what the reasons for those changes might be. I also want to clarify the commitment on or the need for loans. I think that Sharon Fairweather mentioned £25.2 million, but I was not clear whether that was the commitment or the need up to 2021. Paragraph 52 of the Auditor General's report says that the loan funding requirement is £39.6 million. Are you saying that there is a difference between those two figures, because there will be a loan from someone else, or is that the loan that you understand will be required, but no one has committed to it as yet?

David Middleton: I will ask Sharon Fairweather to explain that. I think that a figure was put in a question; I will need to look back at the record, but I think that there was an allusion to £25 million, and Sharon Fairweather might have confirmed that at that point. Mr Smith might be correct that the numbers in the report are the ones that we should be speaking to, but instead of getting into

the difference between figures, I think that it might be simpler to let Sharon Fairweather say something about the loan issue overall.

Sharon Fairweather: The loan is required to cover several things, some of which the Auditor General has very usefully set out in the letter subsequent to her appearance a month ago. For a start, it is required to cover on-going losses until such time as the airport becomes revenue neutral and profit producing, for backlog maintenance—a different level of maintenance was needed at the airport to bring it up to a better standard—and for capital investment to generate further returns. The expectation is that, as the airport's position improves over the next few years, it will first of all become profitable and then self-sustaining; in other words, it will generate enough cash to cover not only its costs, but its capital expenditure. At that point, it will be in a position to start to repay the loans.

The acquisition business plan and the subsequent business plan set out the projections for the timescales for that loan funding, which will peak over the next three or four years. We certainly expect the requirement then to reduce as the airport becomes cash positive and is able to start to repay the loan. As we have said, the requirement for funding is continuously reviewed to ensure that, whatever further loan funding we put in, we are comfortable that we will get the loan funding back in the longer term, based on the business plan.

Drew Smith: This is all public money, and as I think Tavish Scott said, we need to follow the public pound. An element of that money will cover the operating loss. As we made the decision to run the airport, I do not think that that will be too controversial, and I do not think that the essential maintenance to keep the airport going is a particularly controversial matter. I am not saying that the third element—investments—is also controversial, but there is probably most interest in it, and we will want to be clear that investments are made on a genuine expectation that the money will be recouped at some point.

How can we be confident that the process is robust for the various elements of money? As has been said, there is a bit of a danger that, because public money is standing behind this, we might simply say, "Let's explore everything. Let's do everything we possibly can to grow the airport." It might be that, with the best will in the world, growth does not happen, because public money stands behind all this and the process in place is not hugely robust. How can you reassure me that that is not the case?

David Middleton: We are aiming to operate the airport as a commercial concern, so we are charging a rate of interest appropriate to that. As

far as the governance arrangements are concerned, our process of approving annual budgets and corporate plans ensures that we are not just passing on loan moneys. I invite John Nicholls to elaborate on that.

John Nicholls: I have already mentioned that the governance arrangements that we have put in place, which Audit Scotland has called reasonable, are designed to monitor business performance and financial activity continuously. In fact, just yesterday, we looked at budgets going forward. We need to keep that under continuous review.

As for the issue of public money and accountability, regular updates have been provided to the Infrastructure and Capital Investment Committee, and I think that the then Deputy First Minister envisaged that continuing for an indefinite period or certainly for the foreseeable future. That will provide an on-going opportunity for the funding streams and the loan arrangements to be examined.

Sharon Fairweather: I should add that, as part of the governance arrangements, the management of the airport is required to provide the board with business cases on the capital investments that it wishes to make. Those business cases are scrutinised by the board as part of the overall governance process, much as we would do in our own internal systems. Such systems are in place.

Drew Smith: That is helpful. If management had an idea that might make a difference, it would make the case for that to the board, and the board would scrutinise the proposal and either approve it or send it back. Would an application then be made to Transport Scotland that would be subject to ministerial approval?

David Middleton: The process is more dynamic than the one that you have described, which might fit with a more traditional public sector model.

John Nicholls: I think that that is right. The governance arrangements that I described earlier were designed to allow a measure of arm's-length arrangements to help us to comply with the market economy investor principle and to ensure that no state aid goes into the business. If very major decisions needed to be made about the future of the business, that would be a matter of judgment, but our intention is for the Holdco board to set the strategic arrangements and relationship with central Government and for the operational company to take the day-to-day commercial decisions.

Drew Smith: Who would give final approval to increase the amounts of money available?

John Nicholls: Are you talking about loan funding?

Drew Smith: Yes.

John Nicholls: If there was a requirement for additional investment in the form of more loan funding, that would necessarily come back to Transport Scotland.

Drew Smith: And you would decide whether to involve the minister; it would not necessarily be a ministerial decision. There would be an element of flexibility.

David Middleton: I cannot imagine that if we were to go beyond any of the figures that have been put in the public domain or that are covered in the Auditor General's report, ministers would not be informed and advised on those matters.

Drew Smith: That is helpful.

It was also helpful that you said that the purchase decision was not predicated on the possibility of a spaceport at Prestwick, but that it is an interesting and exciting prospect and that you are potentially hopeful about the future vision. Can we assume that the Scottish Government regards Prestwick as its preferred location for the spaceport?

David Middleton: No. I think that the Scottish Government's position is that it would like the spaceport to be located in Scotland.

Drew Smith: But, as the owner of one of the candidates, it does not view that candidate as being its preferred solution.

David Middleton: It would be invidious for ministers to choose between different parts of Scotland in that way; I think that they would stick to their neutrality. However, the prime hope is that the spaceport will be located somewhere in Scotland. If it were decided that it should come to Prestwick, that would be a good decision in the context of the aspirations for Prestwick, but the fundamental principle is that the spaceport should be located in Scotland.

Drew Smith: Is the Scottish Government giving advice or support in relation to the other two locations in Scotland?

John Nicholls: Stornoway is owned by—

The Convener: I ask that we focus on the report, which refers to the spaceport in respect of Prestwick. Questions on other areas are potentially a matter for another day.

Drew Smith: I am in your hands, convener. I am happy to leave the matter there.

The Convener: As no one else has any questions, I thank the panel for its time and consideration of the issues, and I suspend the

committee briefly to allow for a changeover of witnesses.

10:40

Meeting suspended.

10:44

On resuming—

“Commonwealth Games 2014: Third report”

The Convener: Under item 3, we will take evidence from Audit Scotland on the Auditor General for Scotland's Commonwealth games report. I welcome Caroline Gardner, Auditor General for Scotland. From Audit Scotland are Angela Cullen, assistant director; Tricia Meldrum, senior manager; and Michael Oliphant, project manager. The Auditor General has a brief opening statement.

Caroline Gardner (Auditor General for Scotland): The report is the third in a series of reports looking at the Commonwealth games, which took place in Glasgow last summer. As the committee will know, we published two earlier reports on planning for the games in November 2009 and March 2012. Those reports focused on whether the strategic partners—the Scottish Government, Glasgow City Council and Glasgow 2014, which made up the organising committee, and Commonwealth Games Scotland—were on track to deliver the games on time and on budget. Both reports considered the main risks at that time and how well the partners were managing them.

Today's report is our first following the games. It focuses on the overall cost of the games and how that compares with the budget that was set, including the financial contribution from the Scottish Government and Glasgow City Council. The report also considers the plans of the Scottish Government and Glasgow City Council for tracking, monitoring and reporting on the expected legacy benefits, which were an important feature of Glasgow's successful bid to host the games.

I will summarise our findings under three areas, the first of which is the overall success of the games. We found good evidence that the games were successful for Glasgow and Scotland. That included higher-than-expected ticket sales, positive feedback from spectators, high visitor numbers to Scotland, a record number of participants and a high level of international media coverage.

The main reasons for the success of the games were early planning, a strong commitment from the strategic partners to delivering a successful games and good partnership working from all the

organisations involved. That example of good partnership working could be spread more widely to other parts of the public sector, since partnership working is becoming increasingly important.

We found that the overall cost of the games was £543 million, which was £32 million less than the £575 million budget that was set. Importantly, the public sector contribution was £37.2 million less than expected, with the Scottish Government and Glasgow City Council together spending £424.5 million of the £461.7 million that they had set aside to fund the games. The remaining costs of the games were met by income received from private sources such as ticket sales, sponsorship and broadcasting rights.

The overall cost included £88.3 million spent on delivering the safety and security operation, which was overseen by Police Scotland. The games passed without major safety or security concerns, and Police Scotland delivered the operation within its final budget of £90 million.

Finally, we found that the Scottish Government and Glasgow City Council have developed clear plans for delivering legacy benefits from the games. The games legacy covers sporting participation, together with wider impacts on healthier lifestyles, the environment and the economy. The Scottish Government and Glasgow City Council are leading on a range of national and local programmes and projects that are designed to contribute to legacy outcomes. Those outcomes will be measured using a variety of methods, including tracking 58 indicators, an economic evaluation assessment and a longitudinal study focusing on the impact of housing and neighbourhood regeneration on the health and wellbeing of communities in the east end of Glasgow.

Our report makes recommendations for the Scottish Government and Glasgow City Council to help them to continue building on the good legacy work so far. For example, we have recommended that they ensure that the evaluation, which is due this spring, assesses the impact of their investment on legacy outcomes. Looking ahead, the Scottish Government plans to report on the legacy each year up to 2019. We will continue to monitor progress.

As always, convener, my colleagues and I are happy to answer questions from the committee.

The Convener: Thank you. I have a technical point to ask about. Who on Glasgow City Council will carry out the evaluation?

Caroline Gardner: I think that the evaluation, which is planned to be published this spring, is being carried out by an external partner. Michael Oliphant will pick up that point.

Michael Oliphant (Audit Scotland): A group called the Glasgow legacy evaluation working group—or GLEWG, to give it a short and snappy title—has been created. It is made up of partners including the Scottish Government, Glasgow City Council, academics and the national health service.

The Convener: An obvious question to ask is whether evaluating its own participation is the normal process for a body to follow. That would not be considered to be an independent evaluation, would it?

Michael Oliphant: As there are so many partners involved, including the academics, I think that they will provide the challenge to the statisticians and economists who are involved in the group.

Caroline Gardner: We did not think it unusual for the evaluation to be carried out in such a way by the partners. We will certainly examine all the evaluation that takes place over the coming years to ensure that it is rigorous, as you would expect it to be. That does not necessarily mean that it should be carried out by somebody who is entirely independent of the partners.

Mary Scanlon: Although 98 per cent of tickets were sold, the income was £34 million, which was £6 million less than for the Melbourne games in 2006, where only 85 per cent of tickets were sold. I welcome the fact that the games were accessible to people on a wide range of incomes.

In one of your earlier reports, you mentioned the security budget rising from £27 million to £90 million. That was quite a significant increase—a £63 million increase. On page 22 of your current report, we have the breakdown of the safety and security spending, which came in £2 million under budget, at £88 million. However, 40 per cent of it—£37 million—was spent on equipment. I notice that that included

“perimeter fencing, airport-style security scanners and radio communications.”

Was the £37 million that Police Scotland spent used for equipment that was uniquely and solely for the games, or will it be part of Police Scotland’s investment for future operations?

Caroline Gardner: You are right that the budget for security increased from £27 million to £90 million. In part, that reflects a recommendation that we made in one of our earlier reports, which suggested that the budget might not be enough to cover the requirements, and it reflects the organising committee’s ability to learn from the experience in the London Olympics in 2012.

The £37 million to which you refer was for required equipment purchase and hire. I ask

Michael Oliphant take you through a bit more of what we know about that.

Michael Oliphant: The equipment that was hired included airport-style security scanners and fencing that was used to fence off some of the venues and the perimeter area. That was not just standard fencing; it was high-technology fencing with security cameras and so forth on it. Some specialist equipment was purchased, including radio communications equipment that can continue to be used for Police Scotland. There was a combination of hire and purchase.

Mary Scanlon: This is my only issue to raise, so I will drill down into that. How much of the £37 million was an investment only for the games and how much is continued investment for Police Scotland, such as the radio communications equipment?

Michael Oliphant: I am afraid that I do not have that detailed information to hand.

Mary Scanlon: Okay.

Tavish Scott: I will also ask about security, which Mary Scanlon pursued. I notice that paragraph 52, on page 22, states that the overtime costs for policing amounted to £16.8 million. Did you examine that figure? It seems like a big number, given that the whole security budget was originally £27 million.

Caroline Gardner: Michael Oliphant will give more detail on what we know. The figure for overtime costs includes the overtime that was required for policing the games in Glasgow and for support that was given to other parts of Scotland to reflect the fact that a number of police officers were pulled into that central location.

Michael Oliphant: The policing costs included the salary costs of the planning and delivery team that existed in the run-up to and during the games. They also covered overtime, travel and various allowances for not only Police Scotland officers but mutual-aid officers from other UK forces who provided specialist support.

That was the bulk of the figure. There was also about £700,000-worth of what was described as business-as-usual costs, which covered overtime payments for policing in other areas of Scotland, to ensure business as usual during the games.

Tavish Scott: Did other agencies—the Scottish Ambulance Service, the Scottish Fire and Rescue Service and other blue-light emergency services—adopt the same strategy? Perhaps I should not use the word “strategy”; that is unfair. Did they adopt the same practice of, as it were, charging the games organisers on exactly the basis that you have described?

Michael Oliphant: In paragraph 59, we refer to the Scottish Ambulance Service and the Scottish Fire and Rescue Service. Money was not included in the overall games budget for their additional services, so those costs were additional costs to the games, which are outlined in that paragraph. The Scottish Fire and Rescue Service estimated costs of around £2.2 million for providing services, training and support during the games, and the Scottish Ambulance Service estimated costs of around £1.2 million, half of which was provided for in the games budget. I think that those additional costs have been finalised, but we worked with estimates at the time of the audit.

Tavish Scott: Those costs are quite small in comparison with the police costs. Why was the police's overtime spend so large? Was it just inevitable that it would be, given the number of police officers who were involved? I take the Auditor General's point that we called for a budget increase, but the budget rose from £27 million to £90 million, which is a big leap by any standard and, when we hear that the thick end of £17 million was spent on overtime, it sounds as if the costs ran away with themselves.

Caroline Gardner: We would make the point that the £16.8 million for overtime did not cover just the 11-day period of the games; it also covered the planning and preparation period, and there was a lot of real-time updating of plans and responding to issues.

Tavish Scott: So the money was not for overtime—it was for normal work, but it was charged under the overtime arrangements.

Caroline Gardner: That is right. The additional time that was required came from a range of sources. That is how the funding worked. For example, we say in the report that it became clear at one point that, on days when all the major venues were in use, the transport system would not be able to cope. There was a very quick response to planning how that would work, to which the police were central.

Tavish Scott: The more proper question is, are you satisfied that the movement in the budget for safety and security from £27 million to £90 million was justified and is fully auditable on that basis?

Caroline Gardner: Yes. As you would expect, we looked closely at that budget heading. It was one of those classic situations—a bit like the year 2000 information technology concerns—where, if something had gone badly wrong and spending had not been in place, it would have been easy to criticise. The fact that everything went smoothly means that the question whether the money was needed is raised. However, we do not have concerns in this case.

Colin Beattie: I welcome the report, which is really positive. It underscores the success of the games. We already knew that they were successful and it is nice to see you supporting that.

Clearly, one of the important elements is the legacy benefits, which have always been emphasised. On page 25, you say that clear plans and comprehensive sets of indicators are in place. It is encouraging that you say that there are already examples of successful legacy outcomes, although you acknowledge that it is early days.

Is the legacy of the games predicated on public sector funding? Is that an essential element to ensuring that the legacy benefits are achieved?

Caroline Gardner: I will kick off by saying that we always try to ensure that our reports are fair and balanced and to give credit for good performance, as well as identifying where there is room for improvement. You are right to say that, in this report, we say that planning for the legacy has been good so far, and we identify challenges with demonstrating that over time.

By its nature, it is difficult to show the link between the investment that is made and the wide-ranging legacy benefits. We have identified a risk that, with the continuing pressure on public sector budgets, other things might happen to make the benefits harder to achieve, such as reduced opening hours for sports facilities or higher ticket prices, for example.

The point that we are making is that the games would not have happened without the £420 million or so of public sector investment from the Government and Glasgow City Council. The bid's success was based to a large extent on the benefits that were intended to come from that investment.

11:00

Although we recognise that it is not straightforward, continuing the link between the money that was spent and the benefits that are achieved seems to be an important part of the evaluation that is due this spring and the evaluation over a longer period. It is particularly important in the evaluation by GoWell east of the specific benefits for the community in the east end of Glasgow, where the potential to transform people's lives and their environment exists, but careful attention is required to ensure that that happens in practice.

Colin Beattie: I will stay on page 25 of the report. You state in the first paragraph that there are

"clear plans for realising legacy benefits from the Games at local, city-wide and national levels."

I ask out of curiosity about the reference in paragraph 65, on page 27, to three legacy projects in Wales and one in England, which I am surprised about.

Caroline Gardner: I ask Tricia Meldrum and Michael Oliphant to talk you through the background to that.

Tricia Meldrum (Audit Scotland): Legacy 2014 is a brand, if you like, so a number of projects meet the requirements for classification to use the branding that is associated with the games. They are not specific to Scotland—they have wider benefits across the UK.

Michael Oliphant: The Big Lottery Fund is a key funder of a lot of those projects. It is a UK organisation, and it has provided funding to projects in Wales and England, too. Those projects have access to the Glasgow legacy logo and so on. I do not know the detail of the projects, but they were designed to increase participation in sport among young people in the areas that were selected, and they are drawing money from the Big Lottery Fund.

Colin Beattie: That answers what would have been my next question. I was concerned that public funds might be getting used for projects elsewhere, but if the funding comes from lottery money in support of the games, that does not seem unreasonable.

Drew Smith: On one level, the Commonwealth games were a huge success. All credit should go to Glasgow City Council's previous executive for going for the bid, and to the council and the Scottish Government for pursuing it when circumstances changed. In many ways, the environment for hosting the games became less than ideal following the financial crash.

The Auditor General talks about the effect on the legacy of pressures on public sector budgets. However, the crash also had an impact on people having money in their pocket to buy tickets, on broadcasters being interested in bidding for licences and on money being available for sponsorship. To have pulled off the event in that environment makes for a really encouraging report.

As the report highlights, we can evaluate whether the event's legacy has represented value for money only over the long term. That is classically the most difficult part to evaluate. How big a risk is the on-going situation with public sector support for projects to achieving the outcome of a legacy?

Caroline Gardner: Our starting point is that the planning for the legacy has been done well. From the original bid, the case for putting the games on and investing public money was that there would

be a legacy. The legacy outcomes were well specified at the local level in Glasgow and across Scotland, and that is a good thing.

We outline in part 3 of the report the framework for the outcomes, with the 58 national indicators and the other measures for the legacy. All of that is a great start.

You are right that there is now a risk, either because people take their eye off the ball as we have had such a great games and the event has been such a great success or, more realistically, because there are other pressures on budgets that will continue through the years ahead and might make some of the legacy outcomes tougher to achieve than we might have expected back in 2004. There is no lessening of the commitment from the Government or Glasgow City Council—or from the other 31 councils—to ensuring that the benefits are achieved. That is why the continuing focus by the Government and councils on what they are getting is so important and why we will continue to monitor it.

It is human nature to shift attention from what has been achieved to the next big thing that is coming. We think that it is important for Scotland that the benefits can be demonstrated so that, when future opportunities like the games come up, there is no risk of cynicism in thinking about what we might be able to do if we put the money in. We can demonstrate the achievements that were made and capitalise on the success that was achieved last summer.

Tricia Meldrum: One of the positive things that are continuing is our legacy leads group, which was established in the run-up to the games to consider the legacy across the country. The decision has been made that there is value in that group continuing to exist and continuing to share, roll out and support good practice for what is being done in areas across the country.

Drew Smith: For me, one of the greatest achievements of the games is that they challenge our cynicism about things. I spoke to people in advance of the games, and they said that, if we were planning and going for the event in the current environment, we would not do it—yet the fact is that we were able to persevere with it, and we did it.

Are there any key long-term lessons for us when it comes to thinking about bidding for future international events? The timescales are so large, and there are so many unpredictables ahead. What are the key things to take from our experience?

Caroline Gardner: Some of the things that we say in our report about why the games were a success are important things not to lose sight of. There was a strong, clear, shared vision on the

part of the Government and Glasgow City Council about why they wanted to do the games, and that worked all the way through into clarity about what the benefits would be last summer and for a generation to come. That was not just left as a nice, warm feeling; the Government and the council did the hard work of asking who would do what and how they could ensure that their governance arrangements were fit for purpose. The governance arrangements continued to evolve so that issues that came up as the games approached could be responded to quickly.

On planning and financial management, there was a strong response to differences in, for example, venue costs: when venues cost more than had been expected and required money from somewhere else in the budget, as well as when venues cost less, which freed up money to invest in something else. All of that worked very well.

You are right that the circumstances in 2014 were very different from those at the point at which the successful bid was announced. However, things that we had reported on as being risky, such as income from ticket sales and broadcasting rights, came in either at or above the level of expectations. That reflects that really strong partnership working.

For us, the main lesson is that getting the partnership working right can have a huge pay-off. We rely on that model of partnership working for lots of other bits of public policy, including health and social care integration and community planning. What lessons can we learn for those areas, which might not have the same immediate glamour as the games, but which are at least as important in terms of changing the way in which public services operate and the success of Scotland?

Drew Smith: There is much cause for optimism there.

I have two further questions. The first is on the legacy. You have spoken about the challenge of public budgets. Where is the legacy from the commercial elements of revenue and sponsorship? Perhaps it was not possible to do more, but is that legacy sufficient? Were we able to convince people to become involved in the success of the games and to commit to something bigger than just the games? Did the commercial reality mean that people were only interested in the two weeks in Glasgow?

Caroline Gardner: At the bid stage, the initial expectation was that the commercial income, and particularly the sponsorship income, would simply be another source of funding for delivering a successful games. Michael Oliphant and Tricia Meldrum might wish to add something about

whether the result was different from what was expected.

Michael Oliphant: Sponsorship was a very positive aspect of the commercial income. From the point of view of bidding for future events in Scotland, rather than from the legacy perspective, that has allowed the commercial partners and all the different sponsors involved to realise that they might possibly wish to get involved in future events. EventScotland has highlighted a number of different world championships that are coming to Scotland over the next year. The success of the Commonwealth games creates that platform for commercial partners to sponsor future events.

Drew Smith: You make a specific recommendation about the GoWell research project. I give you an opportunity to say a bit about why you think that what you recommend is important. I presume that you think that it is deliverable—that it could be fairly easily done and that it would be worth spending the time and money doing it.

Caroline Gardner: Our view is that, as well as the broader benefits for Glasgow and for Scotland from the games, the particular benefits for the community in the east end of Glasgow were a key part of the bid. We had a real opportunity to change lives in a place that has lagged behind the rest of Scotland for a long period, in spite of great efforts over a long time.

The GoWell initiative predates the Commonwealth games bid but, after the successful bid, there was a specific focus on extending the initiative to get more detail about the lives of people in the area and their health and wellbeing. Under current plans, it will end in 2016. We think that that is not long enough for it to be able to demonstrate the changes that are envisaged for people's lives and for communities, and we have recommended that it should be extended to 2026 to allow much richer information to be provided about what has happened for that group.

Tricia Meldrum might have something to add on the context and our thinking.

Tricia Meldrum: Yes. We think that, because the GoWell evaluation has a number of strands to it, it will give some quite powerful information about the impact for those communities. For example, one aspect of it is face-to-face interviews with around 1,000 people in the communities that have been directly affected by the regeneration for the games. Those interviews will cover issues such as people's physical activity, their wellbeing and their experience of the neighbourhood and of housing. That will be a rich data source, and indicators and outcomes will be tracked.

However, if the final interviews and the final data collection are carried out in 2016, there will not be much time to look at the impact of all the work that has been done. For example, some people will move into the houses only in 2015.

Drew Smith: I presume that that is a decision for the Scottish Government to make. You have not had a response to the publication of the report that says that the Government is considering your recommendation, so it might be for Parliament to encourage it to do that.

Caroline Gardner: It is our recommendation, but it is for the Government and its partners to decide whether to accept it.

Nigel Don (Angus North and Mearns) (SNP): I go back to exhibit 6. We note that the military personnel were provided at no cost. I am not suggesting that you would ever have got the Ministry of Defence to give you a cost, but can any value be attached to the involvement of military personnel, which I presume was significant? If they had not been involved in the games, exhibit 6 would have had another entry with a number attached to it. Do we know what the substitute cost was?

Michael Oliphant: We do not know what the substitute cost was. The table includes accommodation costs and some logistical costs, but the personnel themselves were provided at no charge. We have no information on what that value would have been.

Nigel Don: I suggest that for the record—for the future rather than for the committee's purposes—you might want to evaluate the number of man hours involved. Maybe the extent of the military's involvement was insignificant—I do not know; I was not involved—but if a significant number of people were involved for a significant number of hours, the total costs that we have in exhibit 6 might deceive someone who decided to put on such an event in the future as regards expenditure on security. I leave that with you.

I want to pick up on the issue that Drew Smith helpfully brought up about the GoWell programme. I endorse your view and encourage you to make strongly to the Government the point that the research community will be extremely grateful if we have good, rich data and longitudinal studies. The Parliament will discuss health inequalities tomorrow afternoon, and that is precisely the kind of information that we need to enable us to evaluate what is going on. The subject is difficult enough to understand—it is difficult enough even to theorise on—even when we have some data, but if we do not have data, there is a risk that it becomes a lot of hot air. I am sure that the entire research community would encourage you to make that point strongly to the Government.

Caroline Gardner: I think that the committee's backing for that recommendation—if you reach that position—would also be a strong encouragement.

Stuart McMillan: I have a comment and a question. My comment is about ticket sales. I am sure that if last year's Commonwealth games had had a stadium the size of the Melbourne cricket ground—which holds around 90,000 people—we would have sold even more tickets and the ticket sales revenue would have been even greater, but that might be an issue for the future.

11:15

My question is about your opening comments, Auditor General. It has been widely recognised that the Glasgow Commonwealth games was a success—your report certainly states that, too. I want to look at the international perspective. Scotland has organised such a successful games, but it is not very good at saying when it has done something well. Unfortunately, one of its failing is that we do not have—

The Convener: I ask colleagues to focus on their questions.

Stuart McMillan: Sorry, convener.

How does Scotland tell the wider world about its expertise so that, when other big activities are taking place, it can offer its services and people can look at what happened here and learn from what we did last year?

Caroline Gardner: You are right about ticket sales—98 per cent of the available tickets were sold. It is hard to see that the sales or income could have been much higher, so I absolutely accept the point.

On the benefits to Scotland from managing a large and complex event, we should not discount the intangible, hard-to-quantify but real benefits that will flow from Scotland having been on the public stage for that fortnight last summer. The evaluation should be looking at how we capture that. We recognise that putting a number on that is not straightforward—there is still a value to it, although a number may not exist

On expertise, a component of the agreement with the Commonwealth Games Federation is that knowledge transfer must take place as part of the wind-down exercise. I think that that has been completed successfully and that the organising committee here has received the payment that was due on successful completion of that work.

Michael Oliphant may be able to tell you more about the bigger picture and what is happening.

Michael Oliphant: Knowledge transfer is a key point. The Commonwealth Games Federation

expects a level of knowledge transfer between host cities, so that lessons learned can be applied on an on-going basis—in this case, to the Gold Coast in Australia.

A tangible example that has been mentioned a few times is the Hampden restructure that took place, where the playing field was raised to include an athletics track. That has become known internationally as the Glasgow solution—sports stadia can be transformed in that way without the need to create the white elephants that we have perhaps seen with previous games. That is a positive aspect of transferring the learning from the Glasgow games to other games, whether they are Commonwealth or Olympic games.

Stuart McMillan: That was an interesting response, Mr Oliphant. It made me smile because it took me back to when the Stade de France was built. That is a multi-use stadium—it is not used just for one purpose; football, rugby, athletics and other activities take place there. We did not have the opportunity to build a new stadium, but it is heartening to hear about the Glasgow solution.

Colin Keir: My question is about case study 2 on page 29 of the report, which refers to employment and to

“a variety of legacy schemes”

that target

“the unemployed, under-employed and young people”.

Apprenticeships are also mentioned, and the report says that

“203 people have been helped into work.”

Is there a breakdown of the type of employment in that regard? How many apprenticeships were there? Are the jobs short term or long term?

Caroline Gardner: There is certainly more detail available than is in our report. I ask Michael Oliphant to talk you through the information that we have and the information that we may be able to provide separately.

Michael Oliphant: We wanted to give a flavour of the activities that were going on in the case study. I do not know whether we have a breakdown of the type of jobs or if we can say whether they are short term or long term. The nature of apprenticeships is that they are short term initially but the hope is that, on completion, the apprentices have the necessary training to seek permanent employment. I do not know the detail behind that.

Caroline Gardner: We would expect the evaluation to pick up that issue and to provide much more detail on the employment that has been created, including how much of it related to the short-term construction of venues and how

much of it has been converted into skills that are used much more widely in the economy.

Colin Keir: It would be useful to know how the employment opportunities have expanded and whether they are permanent or semi-permanent solutions or whether they were very short-term facility building opportunities.

Caroline Gardner: Absolutely.

Angela Cullen (Audit Scotland): Glasgow City Council has probably been monitoring that. A lot of the contracts that it awarded for work throughout the games included community benefit clauses, and apprenticeships and jobs were part of those. We reported on the state of play in that regard in our 2012 report. The council should have been monitoring the situation.

The Convener: I thank the Auditor General and her team for their time this morning.

11:20

Meeting continued in private until 11:50.

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