I refer to your letter of 3 February in which you have sought additional information for the Public Audit Committee from the Games partners following our oral evidence to the Committee on 27 January. This response is submitted on behalf of all the Games partners who have contributed to its preparation. The Games partners appreciate the acknowledgement in your letter of the progress that has been made in our planning for the Games; a sentiment which was also expressed in the Audit Scotland report on the Games preparations.

Your letter seeks information across a wide range of issues. I will group this response under headings for convenience.

**Pension Arrangements**

At bid stage, there was an assumption that due to the short term nature of the majority of the Organising Committee’s (OC) workforce the company would not make any employer pension contributions to staff members. Following the appointment of the OC’s Chairman and Chief Executive and the introduction of the Pensions Act 2008 (which requires employers to make a mandatory contribution from 2012) it was decided to set up a Glasgow 2014 Limited Pension Scheme with the support of Deloitte LLP. It was also recognised that in order to attract and retain the high calibre staff who would work over a period of up to five years and who would make a significant contribution towards delivering a successful games, a reasonably attractive pension needed to be offered in what is a highly competitive market. Following some detailed benchmarking work Deloitte advised the OC to set up a Defined Contribution Scheme with the company contributing a fixed 8% of salaries to each employee who joins the scheme. It should be noted that the scheme is not a “public sector final salary scheme” meaning the company knows exactly how much it will pay for each employee and is not exposed to any pension liability based on market performance. The OC’s pension scheme is also substantially cheaper than the public sector equivalent.

The additional cost to the company from setting up this scheme was included in the budget review announced in November 2009 of £454m (including contingency). Based on current workforce projections and assuming all staff members join the pension scheme for the full period of their employment, the cost to the Organising Committee will be £3m (at 2007 prices). We would however expect there to be a proportion of employees (especially those that join in the final year) who do not join the pension scheme or who join later in their employment. On this basis the Organising Committee has therefore estimated its pension costs to be between £2m and £2.5m (at 2007 prices).

From its inception to January 2010, the Organising Committee has made pension contributions of £64,823 to the company’s pension scheme.

**Road Map**

The road map referred to by John Scott on 27 January is attached.

**Athletes’ Village**

The bid document describes an Athletes’ Village with accommodation for up to 6,500 athletes and officials in permanent buildings, with the potential to increase the capacity to 8,000 through the use of temporary facilities. The Village is to be low density, with no units
above four storeys, and the accommodation is to be low carbon, built to the “eco homes excellent” standard. The Village is also intended to conform to the Scottish Housing for Varying Needs standard, an international accessibility standard, with all accommodation “barrier free”. All facilities, both permanent and temporary, are to meet the standards laid out in the Commonwealth Games Federation’s (CGF) Candidate City Manual and Games Manual – Villages (December 2006). The bid estimated the cost of providing the permanent accommodation, including the post-Games refit as c. £228m, with the Games overlay and temporary works priced at c. £17m.

The bid outlines the strategy for developing the Village based on a partnership agreement with the private sector to construct a new, high quality residential district in the Dalmarnock area. This will provide a mixed tenure residential neighbourhood with social, affordable, and private housing in an attractive riverside setting, which will create an enduring legacy for the east end of the city.

Since the success of the city’s bid in November 2007, the Council has taken steps to consolidate ownership of the site, including the successful promotion of a Compulsory Purchase Order. In addition, decontamination and ground remediation works are underway to prepare the site for development. The cost of this acquisition and remediation package is c. £30m.

The Council employed consultants EKS, and took advice from a range of stakeholders in developing the Brief for the procurement exercise to appoint a private sector partner. The Brief incorporated all of the requirements of the CGF’s Candidate City Manual and Games manual – Villages (December 2006) for the Athletes’ Village, as well as the Council’s longer term requirements for the Legacy Development. The procurement took the form of a Competitive Dialogue process which began in November 2008, and concluded in February 2010 with the appointment of City Legacy (CL) as the Games Village developer.

CL’s bid meets or betters all of the requirements of the Council’s Development Brief. They will build a total of 700 units of accommodation by January 2014, with the capacity to house more than 7,000 athletes and officials. In post Games use 300 units will be for social rent and will be owned and managed by local housing associations. 100 units will be for Middle Market Rent, a new tenure type promoted by the Scottish Government, and the remaining 300 units will be owner occupied. Through the inclusion of a combined heat and power plant and the use of innovative passive design features in the accommodation, carbon reductions of more than 95% will be achieved. 650 of the homes built for the games will be terraced or semi detached houses, with only 50 flats constructed in this first phase. The flats will be at or below four storeys. All of this will be delivered at a cost of c. £200m for the housing development and post Games refit.

An indicative design has been provided for the temporary facilities to ensure they fit within the overall site. Responsibility for finalising this design and procuring the temporary works lies with the 2014 Organising Committee. Completion of the design and the subsequent procurement exercise are likely to take place in 2013.

A second phase of development will be undertaken after the conclusion of the Games, and a further 750 units for sale will be constructed on the sites used during the Games for temporary facilities. CL’s best estimate for completion of this second phase is 2021. The Council will receive a land value during the second phase of the development, and in addition, the agreement includes an overage arrangement which will increase the return to the public sector should house prices rise above the level included in the bid.
Inflation

The Committee has requested additional information on the handling of inflation. It was a requirement of the Commonwealth Games Federation that all bids for the 2014 Commonwealth Games should be costed at April 2007 prices. This enabled the CGF to compare the financial viability of bids from countries with quite different economies. The Glasgow bid was submitted on this basis and the budget set out in the Financial Memorandum to the Glasgow Commonwealth Games Bill which was considered by the Finance Committee of the Parliament on 11 December 2007 was clearly expressed at 2007 prices. Shortly after the success of the Glasgow bid, a Minute of Agreement was signed by the 4 Games partners setting out the main governance structures and funding arrangements. The Minute of Agreement states that: "An allowance for inflation will be agreed annually by the Scottish Government and Glasgow City Council following discussion at the Strategic Group." It was suggested by the Committee during the evidence session on 27 January that inflation had been built into the financial planning for the Games for the first time only in 2010. This is incorrect. The requirement to provide funding in real terms was recognised from the outset and a mechanism has been in place to achieve this since 2008. It would not have been sensible to invoke that mechanism until now, since it required the Budget Review leading to a budget agreed with the OC to avoid recalculations. The budget announcement on 16 November 2009 also stated quite explicitly that the uplifted budget was expressed in 2007 prices to allow a like for like comparison to be made.

The level of budgetary provision within Government to support the 2014 Games is determined primarily by the budget profile prepared by the Organising Committee. There was a full 7 year profile in place prior to the conclusion of the budget review in November. That profile is being realigned at present to take account of the uplifted budget and also to reflect the greater knowledge that now exists within the Organising Committee on projected expenditure patterns. When received and approved by the Strategic Group, the Government will use the profile to ensure that sufficient resources are available within its budget line to cover its contribution to the publicly financed element of the budget. In calculating estimates of the level of provision for future years, it will be necessary to take account of HMT inflation indices. Although committed to an overall funding contribution, the phasing of the Government's contribution beyond the current Spending Review period will be considered, once we have the OC's revised profile, as part of the next Spending Review.

During our evidence session, the Committee pressed us on the handling of contingency. To be clear, the contingency fund is intended to cover any additional costs that may arise as a result of risks materialising which cannot be managed by realigning priorities elsewhere within the core Games Budget. The contingency fund is not intended to cover inflationary uplifts to the core budget. It is unavoidable that there will be some element of inflation over the 7 year preparation period for these Games but the exact level is subject to huge uncertainty. By definition, the extent to which it may be necessary to draw upon the contingency funding is also uncertain. Both elements will determine the final outturn of the Games Budget in cash terms. What is clear is that all partners are determined to manage down the risks and therefore the demands on the contingency.

OC-Generated Income

As part of the budget review exercise and the Joint Marketing Plan, the OC has reviewed in detail the income estimates for sponsorship, broadcasting and ticket sales using expert independent support to ensure that the budget reflects our best estimates based on the current available information.
**Ticketing**

Although the Commonwealth Games in Manchester provides a benchmark from which to project ticket sales and revenue for the Glasgow Games, Glasgow has a smaller market base, slightly lower average income and more tickets to sell than Manchester. With that in mind, the OC developed a detailed ticketing projections model taking into account the following factors:

1. The primary (Greater Glasgow), secondary (within 3 hours drive), domestic (wider UK) and travel (international visitors) markets.

2. Average annual income in Glasgow (benchmarking against Manchester and Melbourne).

3. Ticket Sales Inventory.

4. Seat kills (those seats required for camera positions, broadcast tribunes, and other obstructions that either eliminate or restrict viewing from seats).

5. Non revenue seats including requirements for VIP seating, athletes, broadcast and print media, sponsor contract requirements and seats used for promotions.

6. Projected attendance: the attendance figures were developed on an event by event basis taking into account preliminary rounds, semi-finals and finals with reference to previous games and the Glasgow specific venues.

7. Ticket prices - these were set following a full review of international multi-sport events and UK sport and cultural event pricing. The prices were set in consideration of the following criteria:

   - Games and non-games price comparisons
   - The relative size of the Glasgow market
   - Historical levels of interest for various events
   - Venue capacity relative to event popularity
   - The objective of full stadia
   - Achieving satisfactory ticket revenue.

**Sponsorship**

The OC’s sponsorship target was developed through the detailed work carried out for the OC’s Joint Marketing Plan. The plan includes a full review of the market with sector targets within each tier of sponsorship. It has been both independently reviewed and approved by the Organising Committee’s Board and the Commonwealth Games Federation.

The Organising Committee is already engaged with a number of potential sponsors and will have support from a specialist agent to ensure the maximum commercial revenue available is generated.

**Broadcasting**

The CGF has already secured a deal for the international broadcasting rights in Australia and assigned this to the OC. This is around 85% of our international broadcasting target.
The CGF has now passed the rights / responsibility to negotiate the remaining international and domestic rights to the OC.

The OC has also reviewed its domestic broadcast revenue target downwards during the budget review. Due to the significant change in economic circumstances and the potential differing approach from the BBC (compared with Manchester) the OC thought it prudent to appoint specialists to re-evaluate the domestic target. The specialists evaluated the domestic broadcast value separately from the host broadcast service and this informed the revised target.

**Outstanding Information**

Your letter acknowledges that we are not yet in a position to provide some further information that the Committee has requested. The Organising Committee’s approved Business Plan for 2010-11 and the budget profile for future years will not be available until after these have been presented to the Glasgow 2014 Strategic Group for approval in late March. We would expect to be able to respond to the Committee’s requests for these documents in early April.

If you require any further information please let me know.

Yours sincerely

**LIZ HUNTER**

Copies to: Robert Black (Audit Scotland), George Black (GCC), Jon Doig (Commonwealth Games Scotland) & John Scott (Glasgow 2014 Organising Committee)
I am writing on behalf of the Public Audit Committee to thank you and your colleagues for giving oral evidence to the Committee at its meeting on 27 January 2010, as part of its consideration of the AGS report entitled, Commonwealth Games 2014, Progress report on planning for the delivery of the XXth Games.

You will receive an email with the written transcript of the evidence given to the Committee from the Official Report in due course. This will give you the opportunity to check that it accurately reflects what you said.

The Committee would like to take this opportunity to acknowledge the progress the partners have made so far and looks forward to receiving further information from you as set out below. I would be grateful if you would arrange for a co-ordinated response to be supplied on behalf of the partners.

You offered to come back to the Committee with the following supplementary information—

- Details of the guidelines to which the Organising Committee is/will be operating in relation to pension arrangements for its staff and confirmation of the anticipated impact of the change on the budget;
- Details of the “road map” of phases and milestones to be used in delivering the games;
- Details of the spend profile (when completed);
- A copy of the organising committee’s April 2010 business plan (when agreed by the partners); and
- Details of the agreed budget for the athletes’ village.

In relation to the first bullet point, the Committee would like to know how much, if anything, has been spent to date on employer’s contribution to staff pensions and what the total final cost of such contributions is estimated to be.

The Committee would also be grateful for additional information about how inflation has been treated since the beginning of the games project. In particular, it would like to know how the estimated cost to the Scottish Government, including inflation, is reflected in the relevant line of the government’s budget year-on-year and confirmation of how inflation will be treated in the organising committee’s April 2010 business plan. The Committee would also like you to confirm whether inflation is expected to be met from the contingency funding in the revised budget.

And finally, the Committee would appreciate further details of how the latest estimates of income were calculated for each of the three categories of sponsorship, broadcasting and ticket sales. The ticket sales assumptions are of particular interest to the Committee as your evidence indicated that 90 per cent of sales are expected to come from the domestic market. What market penetration will this target require and how does this compare with the experience in Manchester given that the catchment area population of Glasgow is much smaller than Manchester?

I would be grateful if you would respond on these matters by email to pa.committee@scottish.parliament.uk at your earliest convenience. Where possible, the Committee would wish to be in receipt of the supplementary material no later than 17 February 2010.
If you have any queries please contact me on 0131 348 5390.

Yours sincerely

Tracey White
Clerk to the Public Audit Committee

cc  Kevin Woods, Accountable Officer