LETTER FROM LIZ HUNTER, DIRECTOR OF EQUALITIES, SOCIAL INCLUSION AND SPORT TO THE CONVENER OF THE PUBLIC AUDIT COMMITTEE, 1 JULY 2010.

Thank you for your letter of 6 June in which you seek additional information for the Public Audit Committee following its meeting on 26 May which considered preparations for the Glasgow 2014 Commonwealth Games. This response is provided on behalf of all the Games partners who have contributed to its preparation.

The information you have requested falls under a number of headings.

**Pension arrangements for the Chief Executive**

Mr Scott was the Organising Committee’s (OC’s) first appointment before the Glasgow 2014 Limited Pension Scheme was established. Mr Scott was therefore offered membership of the Strathclyde Pension Fund and this became part of his employment contract. The Strathclyde Pension Fund operates on a Defined Benefit basis. The OC makes monthly contributions to this scheme based on the Common Employer Contribution rate as certified by the fund actuary. The ultimate liability relating to additional costs which may arise in respect of the OC’s membership of the scheme lies with Glasgow City Council.

The OC’s budget contains provision to make the relevant contributions to Mr Scott’s pension.

**Athletes’ Village**

Funding for the second phase of the Athletes’ Village is not linked to the first phase of the development. The second phase of the development is completely separate, and comprises homes for sale with a small number of local shops. It is entirely funded by the City Legacy consortium using a combination of debt and equity funding.

The timing of the second phase will depend very much on the rate of sales for the owner occupied units built for the first phase. If these units sell quickly, then the start of the second phase will be accelerated to maintain the momentum on site. If they are slow to sell then the site start will move nearer to the 2021 longstop date. It is difficult to predict an outcome given the current state of the housing market, however, the Council has provided for a “step in” right to the contract in the event that City Legacy fails to maintain progress in line with the agreed programme.

**Ticketing**

The Organising Committee’s ticket projection model benchmarks against Manchester and Melbourne but takes into account the specific Primary (within 2 hours drive) and Secondary (within 3 hours drive) ticket sales market in Glasgow, the average income in Greater Glasgow and the tickets available for sale compared with the two previous host cities. The ticket market used to inform the ticket sales projections therefore factors in the fact that the combined primary and secondary markets for Glasgow 2014 are approximately 34% smaller than those for Manchester. It also takes into account the fact that Glasgow has 20% more tickets to sell than Manchester due to the use of larger venues for ceremonies, athletics, rugby and gymnastics.

The ticketing model also includes a detailed analysis of the seating inventory which has been reduced by seats which cannot be sold due to broadcast requirements, Commonwealth Games obligations and sponsor contract seats. This work has been completed on an event-by-event basis. In addition, the OC’s model examined attendance for each individual
specific event for preliminaries, semi-finals and final sessions from previous games and includes an informed assumption around the demand for each session within each event.

The ticketing model was developed by one of the world’s leading experts with vast Commonwealth and Olympic ticketing experience.

Broadcasting

As part of the budget review in 2009, the OC appointed broadcasting specialists to review the likely achievable broadcasting revenues based on the significant change in economic circumstances since the bid submission. They concluded that, coupled with the general economic conditions, the financial health of the sector in general is not strong and there would be little competition for the rights. On the advice of the specialist advisors, the OC revised their domestic broadcast income target down to reflect these issues.

The OC has held constructive discussions with the BBC on both the rights and host broadcasting opportunities. The discussions are currently at a commercially sensitive point and the period between now and the end of 2010 is likely to be crucial. The OC will be happy to keep the Committee informed when any deal is agreed.

With regard to the media rights, the OC intends to maximise the audience for broadcast through initially targeting the national free-to-air broadcasters in each territory. The OC will balance this, of course, with the need to maximise the revenues that can be generated through rights sales.

The OC will work with the Commonwealth Games Federation, the Commonwealth Games Associations and the Commonwealth Broadcasters Association to identify networks across all territories to work with to develop the Games broadcasting proposition and will continue to work with the Commonwealth Games Federation to raise the profile of the Games across all territories.

Additionally, the OC will seek, through its commercial programme, to use mobile and internet services to broadcast images to as wide an audience as possible.

I hope that the Committee find this additional information helpful. If the Committee requires any further information please let me know.

LIZ HUNTER
Thank you for your letter of 6 May and for providing the Committee with advance copies of Glasgow 2014’s Annual Business Plan 2010/11. The Committee considered these, along with your letter of 22 February, at its meeting on 26 May. The Official Report of that meeting is available at the following link:
http://www.scottish.parliament.uk/s3/committees/publicAudit/meetings.htm

Following discussion, the Committee had a number of outstanding issues and would be grateful for further information on the following.

**Pension arrangements**
The Committee notes the information you have provided regarding the Glasgow 2014 Limited Pension Scheme and understands that this was established following detailed benchmarking work by Deloitte LLP. The Committee understands, however, that the Chief Executive is a member of the Strathclyde Pension Fund, and that the Organising Committee may be contributing to that fund.

- The Committee would welcome clarification of the reasons for Mr Scott remaining a part of the Strathclyde pension fund, as well as the implications of this on the Organising Committee’s pension budget, including whether these contributions are accounted for in the existing budget for the pensions.

**Athletes Village**
The Committee notes from your response that following a second phase of development, a further 750 units for sale are estimated to be available from 2021, however the Committee was unclear as to whether the costs for this development are part of the overall budget for the games.

- Can you provide clarity as to how this second phase of development will be funded and whether it is part of the current overall budget for the Games?
- What assurances can you give now that this second phase of development will be delivered, following the games?

**OC Generated Income**
The Committee had a number of concerns regarding OC generated income, particularly in how maximum revenue could be achieved in light of Glasgow’s smaller market base, slightly lower average income and higher volume of tickets to sell (compared with Manchester). The Committee notes from your letter of 22 February that the OC has developed a detailed ticketing projections model to determine projected ticket sales, the Committee would therefore welcome further clarification on:

- what analysis has been undertaken to ensure that the model accurately projects ticket sales for the Glasgow Games, given the size and socio-economic profile of the population of Glasgow and its periphery
- what assumptions have been made about ticket sales to the Glasgow population, Scottish population and visitors from elsewhere
- how these assumption compare with ticket sales for the Manchester Games.

The Committee also discussed broadcasting revenue and the Committee would welcome:

- information on why the Organising Committee has reviewed its projected broadcast revenue target downwards.
an update on the progress of your discussions with the BBC on host broadcasting, including any comments you may have on why they may be taking a differing approach (compared with Manchester).

- information on the range of broadcasting methods the Organising Committee intends to use to broadcast the Games nationally and worldwide, specifically plans for free-to-air broadcasting and internet media broadcasting.

I would be grateful for a response to these questions by 12 July.

Finally, the Committee refutes the comment in your 22 February letter that it was the Committee who suggested that inflation had been built into the financial planning for the Games for the first time only in 2010. The Committee’s recollection of oral evidence from 27 January was that the evidence on inflation was both unclear and contradictory, for example I draw your attention to column 1486 of the Official Report where the Committee asked “Is this (the OC business plan) the first point in your forecasting for 2014 at which inflationary assumptions have been built into your financial planning?” In response, Ian Reid confirmed that “this will be the first time that we have a fully inflated budget, because this is the first time we have had all the information to inform the profiling exercise.”

I also attach a link to the Official Report of 27 January, where this matter was discussed in detail:
http://www.scottish.parliament.uk/s3/committees/publicAudit/or-10/pau10-0202.htm#Col1468

Should you have any queries, please contact the clerk to the committee on 0131 348 5390 or pa.committee@scottish.parliament.uk.

Yours sincerely

Hugh Henry MSP
Convener, Public Audit Committee