FORMAL RESPONSE FROM THE MINISTER FOR PUBLIC HEALTH AND SPORT, SCOTTISH GOVERNMENT, TO HUGH HENRY, CONVENOR OF THE PUBLIC AUDIT COMMITTEE

PUBLIC AUDIT COMMITTEE - PROGRESS ON PLANNING FOR THE DELIVERY OF THE COMMONWEALTH GAMES 2014

On behalf of the partners with responsibility for delivering the Glasgow 2014 Commonwealth Games (the Glasgow 2014 Organising Committee, Commonwealth Games Scotland, Glasgow City Council and the Scottish Government) I am writing to acknowledge the Committee’s report published on 7 October 2010.

The Committee’s report builds upon the earlier progress report prepared by Audit Scotland and published on 19 November 2009. The Games partners have found both reports valuable aids that will assist us in our planning for a successful Games in Glasgow in 4 years. Significant progress has been made around our preparations for the Games since November 2009 and the Committee’s recommendations in this latest report provide a welcome opportunity to ensure that those preparations remain soundly based and on track. A number of comments on the Committee’s recommendations are appended to this letter but in summary the Games partners are happy to act upon the recommendations made by the Committee. We will consider these fully in our forward planning.

We look forward to continuing to work with the Public Audit Committee and Audit Scotland as the project progresses.

Yours sincerely

SHONA ROBISON
Response to Individual recommendations

The Committee has made a number of specific recommendations in relation to which the Games partners offer the following comments:

The Committee recommends that given the experience of cost over-runs in previous games, the Strategic Group ensures that delivery partners establish the costs associated with any areas of significant uncertainty as early as possible, to ensure that they can be adequately covered by the contingency.

The Games partners recognise that a number of areas of financial uncertainty exist at this stage four years ahead of the Games. While we are working to a timetable which will resolve many of these uncertainties as a matter of due process (such as the letting of major contracts and the securing of sponsorship), the partners will always work to obtain financial clarity wherever possible and to avoid any requirement to draw upon the funds set aside as contingency.

The Committee recommends that the Strategic Group should scrutinise the underlying assumptions that accompany the budget frequently to ensure that the budget remains realistic.

The partners take this approach and will continue to do so.

Whilst the Committee notes that it was written into the minute of agreement that inflation would be factored into the budget going forward, it remains unconvinced by explanations as to why a detailed breakdown of budget figures adjusted to reflect potential inflationary increases were not published until 2010.

There is little to add to the evidence provided to the Committee on this matter and the partners regret that the Committee remains unconvinced by that evidence. Until the intended annual expenditure in each year of the programme was known, it was not possible to apply an inflation forecast for each year’s budget. The profiling of expenditure into individual financial years was only possible after the major budget review in November 2009. The inflation estimates were published in 2010 as soon as they were available.

The Committee asks that the Scottish Government ensures that its lead officials are familiar with the detail of such a major project.

The Scottish Government takes its responsibilities around the delivery of this project seriously and has devoted appropriate staffing and financial resource to support this. It does not accept that lead officials are unfamiliar with the detail of the Government’s responsibilities for the Games or do not have appropriate oversight of the whole project.

The Committee recommends that the OC continues to provide, in its annual Business Plan, a budget adjusted for inflation, together with a comparison of 2007 prices.

The Organising Committee plans to do this.
The Committee recommends that the Strategic Group ensures that robust monitoring and risk management procedures are maintained to mitigate the use of the contingency and maintain the cost of the Games at £454 million at 2007 prices, in accordance with the delivery partners’ commitment.

The OC Board receives a risk management and budget monitoring report at every Board meeting. The Strategic Group will ensure that this continues to be the case.

The Committee recommends that for future spending on events of a similar nature, where budgets must be submitted in real terms, the Scottish Government ensures that budgets are also expressed in cash terms, factoring in potential inflationary increases, where relevant, to improve transparency and ensure proper accountability.

The Scottish Government notes this recommendation.

The Committee seeks the OC’s clarification as to whether the ticket projection models have been revised to reflect the national economic situation and if not whether it plans to do so.

The OC, in creating the budget ticket projection model, worked in conjunction with a world leading expert who has extensive experience in this area, including several multi sport games. In July 2009 the OC downweighted its ticket revenue target to reflect the changing economic circumstance since the time when the bid projections were completed (2007).

Ticket prices will be set before the Ticketing launch in May 2013. Prior to this time the OC will develop its full ticketing model that will seek to achieve the balance between maximising revenue from ticket sales, while making tickets affordable for a wide cross-section of society.

The Committee recommends that the Strategic Group ensures that robust monitoring systems are in place alongside the ticket projection model to track actual against predicted sales. This should allow action to be taken early on to ensure maximum revenue from ticket sales, should early sales figures indicate less than expected uptake.

The ticketing marketing strategy will be completed in March 2012. As part of this strategy monitoring systems will be included in order to track progress and contingency plans will be created to ensure swift, corrective action will be taken if necessary.

The Committee recommends that the OC looks at lessons learned from other high profile events in Scotland in relation to realising revenue from ticket sales.

The Organising Committee will be drawing extensively upon the experience of other organisations and event organisers to develop an effective ticket marketing strategy. This will extend to events outwith Scotland including the experience of previous Commonwealth Games and the London 2012 Olympic and Paralympic Games.
The Committee recommends that the Strategic Group ensure that the OC provides annual updates on its actual and predicted income from the key areas of sponsorship, ticket sales and broadcasting, and that any revisions to strategies or financial plans are included in the OC’s annual business plan.

The Strategic Group is required to approve all proposals to adjust the Games Budget. It receives detailed income and expenditure proposals from the Organising Committee each year for approval and the agreed budget is published thereafter in the annual Business Plan.

The Committee acknowledges that although benefits could be gained from the knowledge base of the works involved at Hampden being kept in Scotland, however it is concerned that such a technically innovative project has a greater risk of associated cost overruns. The Committee therefore seeks assurances from the OC about how the costs of this project will be managed and who will bear the burden of any cost overruns.

The OC established a Hampden Working Group (HWG) in May 2009 to review the proposals prepared at bid stage and produce a report with recommendations on how to take the project forward in terms of the technical elements, timescales, procurement and governance. Following extensive investigations and feasibility studies, the findings of the HWG were submitted to the OC Board and approved in July 2010. The report indicated that the Hampden Project is achievable technically, within the established budget, on time and to a high quality; in line with the OC’s aims of delivering an athlete centred and sport focused Games. Also, the report made recommendations with regard to procurement, governance, programming, communications and community engagement. These recommendations are now being implemented in line with the agreed programme. A Venues Development and Readiness Update detailing progress on all venues is submitted to OC Board meetings, which are held every two months. Any cost overruns will be met from the project contingency in the first instance and, should this be insufficient, the Games contingency. In both cases the appropriate approvals and sign-off procedures would be followed.

The Committee endorses the Auditor General for Scotland’s recommendation that the OC should closely monitor the progress of the National Stadium Hampden Park and agree actions to manage the risk of slippage on these to ensure it is ready in time for the Games.

These arrangements are in place.

The Committee recommends that the OC includes a yearly update on the progress of the development of the (Athletes Village), further information on when cost estimates will be available, and information on any revisions to its plans in its annual business plan.

The Athletes’ Village will transfer to the Organising Committee for final fit out and overlay in January 2014. Until that stage, the development of the Village site will be led by Glasgow City Council who will report routinely to the partners and to the Strategic Group. The OC’s budget will only account for the costs associated with overlay works.

The Committee recommends that the progress on the delivery of the Athletes’ Village is regularly reported to the Public Audit Committee as part of the Scottish Government’s six monthly updates on Major Capital Projects.
The development of the Athletes Village is being taken forward by Glasgow City Council. The partners will provide updates to the Committee on progress with the Athletes Village.

The Committee endorses the AGS’s recommendation that Glasgow City Council monitors the progress of the Athletes’ Village and agree actions to manage the risk of slippage on this to ensure it is ready in time for the Games.

This approach has been in place since the outset as part of sound project management to which the Council is committed.

The Committee recommends that the strategic partners should, as a matter of some urgency, cost any mitigating actions which they may be ultimately responsible for, where the costs of implementing these actions are likely to be significant.

Our evidence to the Committee covered why the partners do not consider it appropriate to cost mitigating actions for every risk. However, the Organising Committee is working with its risk advisors to ensure that any costs associated with mitigation for which it is responsible are affordable.

The Committee shares the AGS’s view that the strategic partners should develop and continue to review plans for managing staff continuity and ensuring that knowledge is retained in the organisation following any changes in key staff.

The Games partners recognise the importance of staff continuity and good knowledge transfer and have taken on board this recommendation from the Audit Scotland report.