

From: Dale MacLennan
To: Cathie O'Toole; Eric Savard; mcmahonb@mts.net; Paul Johnston; Tracey Williams; Trice Cameron
Date: 10/02/2007 2:01:13 pm
Subject: **risk documents-highly confidential**

** Confidential **

Attached are the risk summaries.

If you have any questions please contact me.

Thank you

CC: Dawn Keizer; Elaine_Harvey@pch.gc.ca; Martha MacRae; Scott Logan(CWG);
Tony Holding

Financial Risk Assessment Summary - Revenue

Revenue Item	Budget (Millions)	Budget VIK (Millions)	Total	Risk	Explanation of the Risk Factor	Comments
Public Funding	985.7	150.2	1135.9			
				Very High	Until funding is finalised the impact is critical to the delivery viability of the Games	External reviews and partner evaluation underway
Sponsorships	57.3	39.7	97			
				High	Sales target is challenging	Sales target, although reviewed by experts and market comparisons, is challenging
				Medium	Product attractiveness	The Commonwealth Games is not a high profile brand in Canada and without necessary brand awareness and PR activity it will be a challenge to obtain the necessary corporate buy in.
				Medium	Olympic impact	The Vancouver Olympics may have a negative impact on the sponsorship revenue through the impact of the large amounts of sponsorship funds committed four years prior to the CWG'd and amortised across several years.
				Low	Olympic impact	The Olympics may drive sponsorship revenues up due to sponsors positive experiences and corporations that missed the opportunity to sponsor the Olympics seeking involvement in the Commonwealth Games.
				Low	With decrease in expenses, sponsor revenue will not all be budget relieving	OC must put more emphasis on cash component of sponsorship
Friends of the Games/Donation	0.8	0	0.8	Very Low		
Ticketing	42.4	0	42.4	Medium	Sales target not reached	The target is conservative with a low seat fill rate but the total sales are significantly higher (over a longer period of days) than previous events for the area - no experience in local market.
				Low	ticket management issues	If there was poor distribution management or similar accessibility challenges that create a scandal that results in loss of confidence and subsequent impact on the sales. Not a Hfx 2014 specific risk.
				Medium	Local market challenges	Previous events suggest 80 - 85% of ticket sales will come from the Atlantic Region, which is a relatively low population and varied per capita income that may reduce the total available population capacity to purchase tickets.
				Medium	Accommodation shortage	Direct impact on ticketing. Accommodation alternative must be found - may cause additional costs.
				Low	No focus groups yet at Bid stage	ticket model based on Games and Events experience and local market
Licensing and Concession	2.6	0	2.6			
Broadcasting rights	65.3	0	65.3	Medium	The broadcasting rights figure is based on an estimate provided by the CGF's broadcast sales consultant and does not reflect recent Canadian TV rights sales	The estimate is a large increase from recent Commonwealth Games rights fees, although a Games in Canada will increase the rights fee. Managed through appropriate contingency.
				Medium	Need enough budget for it to be budget relieving	have reviewed each primary area and adjusted to accommodate
				Medium	CGF owns TV rights and will give us the net after service costs	OC has no control over the negotiation
				Medium	Australian TV rights - Australia paid high amount - we know Canada will not pay that so we have a risk because the Australian amount is not known.	OC has no control over the negotiation
Other	3.8	0	3.8			
Total	\$1,157.9	\$189.9	1347.8			

Financial Risk Assessment - Summary

Budget Department	Cash (Millions)	Risk	Explanation of the Risk Factor	Comments
101 CEO Office	1.9	Low	Governance structure- partners reviewing but sign-off o/s	
		Low	Trips for other Games - Will be pressure to do more.	Expectations must be managed
103 CGC Relations/104 CGF Relations	51.1	Low	Management of travel subsidy - Team size may be higher; therefore need a maximum	Set cap in the definition of the grant
		Low	Contractual obligations	Fixed in contract / MPA therefore low
		Low	Pressure to increase due to speculation about competitors. Competitor position unknown at present.	Unknown as to what competitors will do but Hfx2014 refuses to enter a bidding war so the risk to cost is low
Finance, Admin, Legal	24.5	Low	Taxation assumptions - biggest planning impact will relate to chosen capital build entity structure.	Future structure will impact the capital corporation structure
		Low	Uncertainty of audit fees this many years in advance	Reasonable based on previous experience
		High	2008 - 2012 - is there sufficient space for workforce. Possibility for use of surplus HRM space for office HQ.	Space options available and partner controlled, but final location undetermined so will carry risk until space secured
Technology	36.1	Medium	Uncertain what will be tech requirements in 2014.	Budget is similar to Melbourne and although some items will be less expensive or redundant with new technology, new technology will come at a higher cost that is not possible to predict
		Medium	May be sole supplier - less ability to negotiate (monopoly pricing)	
		Medium	Pressure to enhance some events despite approved plan and budget	Limited built-in technology or infrastructure, ie - Stadium, will impact on ability to meet the demand for some events - ie: Ceremonies
		High	Less capacity for testing/planning	Generally reduced staff months has reduced the testing plan
Sport	17.2	Low	Number of tech experts and days in some cases we will pay for competition expertise from an NSO when none will exist.	Numbers are known and costs are able to be fixed under contract
		High	Shortage of sufficient numbers of technical officials in Atlantic Canada	Need to train or attract from outside region which comes at a cost - the more from outside the greater the costs - included in the assumptions
		High	Shortage of sport volunteers with specialized skills in Atlantic Canada	Need to train or attract from outside region which comes at a cost - the more from outside the greater the costs. In both cases Legacy fund and partner programming can ensure sport expertise legacy to help address shortage.
		Low	Amount to support the PSO and NSO's to help is consistent with previous Canadian Games (not VANOC, VANOC higher)	Amount is insignificant and to be contracted to fix a fee
		High	Workforce late therefore creates risk related to capacity to test	Testing program will be reduced and condensed closer to Games time - still achievable but less "recovery time"
		Medium	Test events budget creates risk of inadequately tested sports	Not a financial risk, rather, operational viability risk - time available is challenging
		Low	May need more resources to attend other sporting events	Time and available events is limiting - fixed cost
		Low	Number of observers to go to previous games (two people for two events) -hard to evaluate - OC will have pressure to increase.	Need to manage expectations

Financial Risk Assessment - Summary

Budget Department	Cash (Millions)	Risk	Explanation of the Risk Factor	Comments
252 Medical & Doping		Medium	number of tests and inability to predict what will be required in 2014	Estimate reasonable based on scope and uncertainty
		High	Medical staff volunteer assumption and availability	Not a large population to draw personnel so specialised skills may be a challenge
		Low	Cannot buy health insurance at cost we budgeted	estimates reasonable
		Medium	Hfx 2014 did not include all of CCES estimate - included admin costs	CCES estimate for actual services is included - excessive admin costs not included in estimate.
Venues	57.1			
301 Venue Operations		Medium	Signifiacnt time required to create temp facility - CWP stadium	
		Medium	Assumption for partner owned facilities (and others) is for operating costs but no rent	Contract out the risk
		High	New facilities create a risk because everything is new and must be tested.	To allow venues to be commissioned earlier, legacy fund must be available pre-Games to support venue operations costs. This is included in assumptions now. Decision pending by partners.
		Medium	Venue agreements are a significant risk management tool - pre-win, venue agreements cannot be as detailed as final versions.	Basic Venue agreements will be in place before bid book is filed.
		High	Time - budget created based on assumptions not on a detailed plan. Bid stage versus post-win planning	
302 Venue Overlay		Low	↓ pressure on capital creates increased pressure on overlay	Has been considered and adjusted
		High	Expectations of broader OC functional areas	Overlay will be seen as the solution to all problems
		High	Upward pressure of expectations for venues	Future influencers may seek to increase venue design scope. Partners have agreed for budget assumption to a separate entity for capital to contain capital scope creep risk
		High	Budget based on assumptions, not operational plan - operational plan drives overlay.	
		High	Ensure sufficient funds to do what is planned plus things that cannot be planned.	Until venues are built and operations plans complete, uncertainty remains
303 Look & Signage		Medium	Pressure to improve look between venues.	Decision clear now - fully vetted with partners
Games Operations	21.8			
354 Materials Mgmt		Low	Rental Rate is based on current market conditions	
		Low	Hard to determine space requirements seven years prior to games time.	
353 Transport		Low	Actual number of vehicles required uncertain (cars and coaches)	Estimate of number of vehicles, buses uncertain given that no detailed transportation plan at bid phase - based on Melbourne - reasonable base assumption with a scope reductions for total number of vehicles.
		High	Service level not defined in detailed plan	Based on assumptions not the final plan post-win - not as predictable
		High	Availability of operators	July is peak season for coaches
		Very High	Emptying of CWP may be too long. Risk associated with viability of solution to mitigate.	If operation plan is not viable additional planning and costs may be incurred.
Games Operations - Accreditation		Low	Hard to ID total number of accreditations required	
Games Operations - CCW		Medium	Spectator experience	
		Medium	Level of service - spectator experience (cleaning)	
Workforce	101.8	Low	Number of volunteers required and number of volunteer shifts.	Hours per shift will have an impact on numbers of volunteers

Financial Risk Assessment - Summary

Budget Department	Cash (Millions)	Risk	Explanation of the Risk Factor	Comments
		Medium	Ability to predict market rates for compensation 7 years in advance.	
		High	Shortage of workforce in Atlantic Canada catchment area	Very high rate of volunteerism, but strategy required and costs to transport and accommodate required and budgeted
		Medium	Skills base in local community - staff and volunteers in small community (and contractors)	same as above
		Low	Ensure enough staff at end for Transfer of Knowledge program	CGF requirement
		Medium	Attrition risk and service costs of volunteers increase	
		High	Approach - heavy reliance on key volunteers	Requires formal recruitment of key volunteers - cost to manage included in budget
		Low	Adequacy of staff for Construction management	Separate structure/entity developed and included in capital budget with all staff and related costs included. OC has staff to link with construction management team.
		Medium	Reduced staff months has reduced time to prepare and execute testing plans	Test events will be very close to Games time which could distract full attention from Games delivery
		Medium	Adequacy of salaries to attract quality people	Salaries are positioned for local market not international or national market
		Medium	OC management structure will be created In final form after win	
Communications and Awareness	14.7	High	Ticket sales impact if this budget not adequate	Reductions in marketing costs may reduce revenues
		High	Public uproar and sponsorship difficulty if insufficient budget to support community awareness campaign adequately.	It will happen - timing will determine the severity of the impact. Partners activity must be in lead role here.
		Low	Difficulty getting prof agencies to produce what we need if staff numbers too low.	Contract management issue
		High	Pressure from funding partners to increase communications	Different objectives will impact budget control - in many areas
		Medium	Paid advertising will be important as assumption must be that positive messaging will not be picked up voluntarily by media	
		Low	Normal pressure will exist for the OC to be tasked by funding partners to handle issues that could be handled by funding partners	Clearly define roles
		Low	Pressure for more communications unrelated to ticketing and sponsorship	
501 VIP & Protocol	2.4	Low	Ability to determine number of VIP and guests	Numbers are difficult to predict but can be controlled from the local market
		Low	Accreditation numbers budgeted less than the number eligible	Risk is manageable if domestic requirements are not managed through accreditation
Ceremonies, QBR	28.3	High	Pressure from ceremonies team to access additional infrastructure than that available in capital plan	
		Low	QBR assumptions as for M2006. Touch and go in all Commonwealth countries, then relay once border (NS) is reached.	Assists ticket sales

Financial Risk Assessment - Summary

Budget Department	Cash (Millions)	Risk	Explanation of the Risk Factor	Comments
		Medium	Festivals - not enough for regional festival approach if all to be funded through Games.	Strategy will be to compile festival activity of partners into the Games timeframe for impact and to leverage
Broadcast and Media	79.8	Medium	French language	Assumptions re: OC responsibility clarified
		Medium	New technology requirements - cannot be known with certainty	
		Low	International pressure for increased coverage	CGF Broadcast requirement vague
		Very High	How the world perceives the game (consequences of getting it wrong)	Perception of Games - make an error and this will be the legacy
		Low	Can't fully predict what international broadcasters want	Requirements will be known only when broadcaster confirmed technology for 2014 better understood - passage of time.
Village	36.5	Medium	Deal with developer is subject to significant variables	OC will manage through RFP process
		Medium	Retrofit costs (in capital) are estimates	Assumptions only
		High	Land acquisition cost; the RFP for developer - uncertainty re: carrying costs; control is outside of OC	Difficult to know the exact costs prior to final negotiations
		Low	Capacity in local market for tents, trailers	
Cost of Sales	29.7	Low	Validity of assumptions	Market untested for duration of event. Estimates based on actual event experience and local market
Total before security	502.9			
351 Security (assets/venues)	13.2	High	Any increase on overall threat assessment will impact asset and venue security costs	
Total with Games security	516.1			
Policing & EMO	54.4	Very High	Any Increased threat assessment	Likelihood may be low but the impact very high and if occurs cannot be negotiated down.
		Very High	MPA - needs to clarify how scope changes are managed by the funding partners.	
Total before tax & contingency & legacy program	570.5			
Legacy	75.0	Low	As determined by Partners	
Taxes	22.6	Low	Based on 50% non-profit rate and conservative assumptions regarding taxable versus non-taxable	
Contingency	35.2	Low	Overall assumption of 8.5%. Additional contingencies exist in specific areas of increased risk - ie Broadcast rev.	
Total	703.3			