

March 26, 2007

Rhonda Neatt
Standing Committee on Public Accounts Clerk
Legislative Committees Office
House of Assembly
1740 Granville Street, 3rd Floor
Halifax NS B3J 3N5

Dear Ms. Neatt:

Further to your request to appear before the Standing Committee on Public Accounts I am forwarding the following information for your perusal:

- Operating Budget Information
- Business Plan Information: Executive summary, Halifax 2014 business plan, appendices
- Commonwealth Park Venues Volume 1
- Community Venues Volume 2
- Price Waterhouse Coopers (PWC) Report- Draft
- Halifax 2014 Response to the PWC Report
- McMahon Consulting Report
- Canmac Economics Ltd. Report
- Halifax 2014 Frequently Asked questions
- Executive Summaries Price Waterhouse Coopers (PWC) Capital budget: McMahon report
- Assorted presentations
- Halifax 2014 Board and Executive Committee Minutes
- Correspondence between HRM/PNS & Halifax 2014 Feb 22-07 and March 7-07
- List of Halifax 2014 Board And Executive Committee members

We have been asked by Sport Canada to request that the Public Accounts Committee discuss the McMahon Consulting report in camera and we would ask that you consider their request. Furthermore we are requesting that the information included in Commonwealth Park Venues Volume 1 and Community Venues Volume 2 be discussed in camera. We understand that these documents contain information that may compromise the commercial interests of a third party.

Should you require any additional information please contact Tracey Williams at williatl@gov.ns.ca or by calling 424-7324. We look forward to our discussion on Wednesday.

Sincerely,

Duff Montgomerie
Deputy Minister

attachment

Background To The Cabinet Decision of March 7, 2007

- On December 15, 2005, Commonwealth Games Canada announced that Halifax would be Canada's bid city for the 2014 Commonwealth Games international bid process.
- Soon after winning the Domestic bid, the government partners - HRM, the Province of Nova Scotia, and the Government of Canada - agreed that the Bid process would only proceed as a full partnership of all three public funding bodies.
- To determine the CWG funding requirements, the potential funding partners (HRM, the Provincial Government, and the Federal Government) mandated the Halifax 2014 Bid Society to develop a proposed Games budget - including detailed operating, capital and business plans - for review and determination by the funding partners of their respective contributions and guarantees.
- The proposed budget was tabled with the Board of the Directors on January 26, 2007. The budget was developed in consultation with a number of experts and the public partners.
- On January 29, each funding partner received the proposed budget information and supporting documentation. This material included capital and operating expenditures, a draft Business Plan, Class "C" architectural plans and estimates for proposed Games infrastructure, environmental assessments, and associated reviews and studies.
- The gross budget was estimated at approximately \$1.36 billion in 2007 dollars - \$1.6 billion including an inflation estimate. The original budget estimates from the domestic bid were pegged at \$667M (\$785M with inflation).
- Revenue assumptions included \$400 million as a result of the Federal government contribution announced on November 30, 2006 and an estimated \$165 million (originally estimated at \$211 million) in other revenue (i.e. tickets, merchandising, private sponsorship, etc). The proposed gross budget (including inflation) less known revenue left a revenue gap of approximately \$1.035 billion to be funded by HRM and the Province of Nova Scotia.
- For the funding partners, this due diligence process included risk identification, affordability analysis, economic impact analysis, and benefits and legacy review.
- Preliminary affordability analyses conducted by HRM and the Province indicated that staff from the respective partners were in a position to recommend a maximum combined contribution of approximately \$500 - \$550 million. This proposed contribution would have left an unfunded gap in the Games budget of approximately \$485 - \$535 million, plus additional financial risks which had not been completely quantified.
- Preliminary feedback from the consultants engaged by the public partners (McMahon Consulting-operations review; Price Waterhouse Coopers Limited -capital review; Canmac Economics Inc- economic impact assessment study) to review and assess the budget

indicated a degree of risk that potentially exposed the Province of Nova Scotia to costs in addition to those estimated in the budget.

- The risks identified by the due diligence process combined with the significant funding gap that was identified made it apparent that a sufficient business case did not exist for the two local funding partners to proceed with submitting a bid.
- From a provincial perspective, the principles of never compromising the province's fiscal position; ensuring the Games were "right sized" for the Province and that we would have the winning conditions for the Games to leave a lasting legacy for residents were consistently upheld to Cabinet Issues Committee and Halifax 2014 Bid Committee.
- Providing the funding required to close the funding gap and submit the bid based on the proposed budget would have compromised the fiscal position and exposed the Province to undue financial risk. For example, the Province would have had to also guarantee (at least at 50%) any Games deficits and/or cost overruns.
- Joint letters from senior staff of HRM and the Province of Nova Scotia were sent to Halifax 2014 on February 22 and March 2 to indicate concerns with the total budget and request that options for reduction be developed.
- At a 2014 Executive Committee meeting on March 7, the local funding partner representatives reiterated their concerns as expressed at previous meetings with the total budget and resulting funding gap. The representatives indicated their intention to recommend against proceeding with the bid and develop a joint exit strategy with Halifax 2014. At the meeting, Halifax 2014 staff produced a summary of additional proposed cuts (approximately \$250 million) which were not ratified by the Board. During the meeting, Andrew Pipe (President of Commonwealth Games Canada) requested an extra week to review the proposed budget and reduce it to \$1 billion.
- Upon considering the requests for additional time to reduce the Games budget, the local funding partner representatives decided to jointly proceed to their respective political bodies with a recommendation to discontinue the bid process.
- After ten months of detailed budget development by Halifax 2014 staff and more than a month of intense internal and external due diligence conducted by the funding partners, it was felt that one week did not provide enough time to effectively manage the substantial reduction required in the Games budget. Agreeing to additional time for further budget reductions would have further impacted the "winnability" of the bid and the potential legacy benefits, which had both been offered as the main reasons that cuts were not made sooner. There was not sufficient time prior to the proposed finalization of the Bid Book for the funding partners to again conduct the necessary due diligence to ensure that the reduced budget would not create undue financial risks. In addition, this process would have required additional funds to complete. There was also significant negotiation that would have been required to complete the Multi-Party Agreement once the Games budget had been confirmed, but not enough time to complete this negotiation prior to bid lodgement. Finally, the fact remained that the local funding partners would have been required to guarantee any potential deficit and cost overruns, a risk that was not in the best financial interest of tax payers.

- On March 7, Nova Scotia Cabinet confirmed that the Province would not provide a financial contribution to support the Commonwealth Games. Throughout the process there were a number of conversations with federal elected officials discussing options and inviting them to be part of the next steps.
- On March 7, 2007 Cabinet met and decided they could not support a financial contribution to the CWG.
- To date the province has contributed \$367,000 to the domestic bid process, and \$3.5M (as per the decision of Cabinet in May 2006) to the international bid process. In addition we have contributed approximately \$155,000 in consultant's fees for reviews and provided other support through staff resources and in kind contributions

CHRONOLOGY OF EVENTS- KEY DATES

December 21

- During a meeting of the Halifax 2014 Executive Committee, the local funding partners expressed concern regarding the amount of the potential Games budget expenditures and approved potential options for capital budget cuts. The preliminary budget figure discussed was \$1.375 billion and the Executive directed that the budget be reduced to \$1.2 billion.

January 9-11

- Halifax 2014 conducted three days of budget validation meetings to go through the initial draft budget figures in detail and identify areas of major risk. All three levels of government were represented. At this point, the total draft figure was approximately \$1.37 billion, but much of the work on budget details was not yet complete.

January 24

- At a Halifax 2014 Executive Committee meeting, members were provided a copy of proposed expenditures and passed a motion to recommend that the 2014 Board of Directors approve the proposed expenditures for the purpose of detailed review and assessment of all partners. During the meeting, local funding partners expressed concern related to the impending funding gap.

January 26

- The 2014 Board of Directors approves the proposed expenditures for release to the funding partners for detailed review and assessment.

January 29

- Each funding partner received a large volume of proposed budget information developed by the Bid Society. This material included capital and operating expenditure estimates, a proposed business plan, architectural plans and estimates for proposed Games infrastructure, detailed environmental assessments, and all associated supporting documentation. Proposed expenditures at this point were estimated at \$1.348 billion in 2007 dollars.

February 9

- Requested meeting with Prime Minister and Mayor was cancelled. Premier discussed file with Prime Minister and requested further support.

February 14

- At a Halifax 2014 Executive Committee meeting, the funding partners expressed concern regarding capacity and the ability to match total public funding to support the expenditures outlined in the proposed Games budget. The funding partners suggested that consideration be given to budget amendments to close the funding gap.

February 17

- Mayor Kelly discusses file with Minister MacKay.

February 22

- HRM and the Province of Nova Scotia provided a letter to Halifax 2014 to indicate the budget concerns in writing and request that options for reduction to be developed.

February 23

- Minister Barnet discussed file with Prime Minister at opening of Canada Games.

February 27

- Senior Province of Nova Scotia staff, on behalf of local funding partners, meet with H2014 staff to understand the difference between the proposed budget and the \$785 originally discussed. It was apparent at this time that H2014 staff had not seen the letter of February 22.

March 1

- Meeting with Premier MacDonald, Minister Barnet, Mayor Kelly and staff to discuss Games funding. Meeting with Regional Minister and Minister of Sport requested.

March 1

- HRM and PNS senior staff provided overview of preliminary findings of Price Waterhouse Coopers review of Halifax 2014 capital plan and budget review.

March 2

- In follow-up to February 22 letter, the local funding partners requested clarification on specific risk areas and budget concerns as identified in preliminary consultants reports.

March 4

- Mayor discusses file with Minister MacKay via phone requesting consideration of further support.

March 5

- Draft final report on the review of the 2014 proposed business plan and budget by McMahon Consulting received by funding partners and Halifax 2014.

March 5

- At the monthly meeting of Halifax 2014 staff with the Commonwealth games Council Advisory Committee, the approach to taking Games budget information to Council was discussed.

March 6

- Halifax 2014 provided a briefing note suggesting adjustments resulting in a proposed total budget of approximately \$1.6 billion, including inflation, and indicating that a one week period for further review and/or adjustments would be requested at the March 7 Executive Committee meeting.

March 6

- Draft final report on the review of the 2014 proposed capital plan and budget by Price Waterhouse Coopers received by funding partners and Halifax 2014.

March 6

- Conference Call with Minister MacKay, Minister Guergis, Minister Barnet, Mayor Kelly and senior staff to discuss Federal funding for the Games budget.

March 7

- Conference Call with Minister MacKay, Minister Guergis, Minister Barnet, Mayor Kelly and senior staff to discuss Federal funding for the Games budget.

March 7

- At a Halifax 2014 Executive Committee meeting, the local funding partners reiterated concerns regarding the total budget and resulting funding gap and indicated a desire to recommend against proceeding with the Bid. Andrew Pipe, President of Commonwealth Games Canada requested an extra week to review the proposed budget and reduce the total to approximately \$1 billion.

March 7

- A letter was received from Andrew Pipe, President of Commonwealth Games Canada, requesting additional time to allow Halifax 2014 to reconfigure the Bid and decrease the proposed budget.

March 7

- Provincial Cabinet decide to discontinue process to fund the 2014 Commonwealth Games.

March 8

- Council session followed by formal announcement of joint HRM / Province of Nova Scotia decision to withdraw the Games bid.