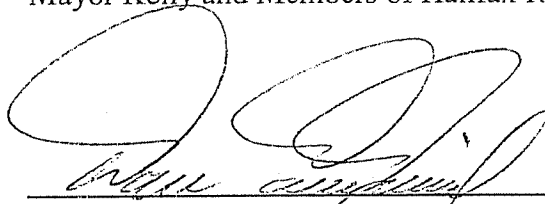


DECLASSIFIED

Halifax Regional Council
March 8, 2007
In Camera

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:



Dan English, Chief Administrative Officer

DATE: March 7, 2007

SUBJECT: 2014 Commonwealth Games

PRIVATE AND CONFIDENTIAL INFORMATION REPORT

ORIGIN

Halifax Regional Council In Camera meeting, May 6, 2006, Item 11.3, Contractual Matter - 2014 Commonwealth Games International Bid Budget.

Halifax Regional Council meeting, May 30, 2006, Item 10.1.10, HRM Share of 2014 Games International Bid Budget.

Halifax Regional Council Committee of the Whole meeting, January 30, 2007, presentation by the Chief Administrative Officer on progress and key dates.

Halifax Regional Council Information Report, February 27, 2007, Item 4, 2014 Commonwealth Games Bid Update.

BACKGROUND

In December 2005, Commonwealth Games Canada announced that Halifax Regional Municipality would be Canada's bid city for the 2014 Commonwealth Games. Shortly thereafter, the Halifax 2014 Bid Society was incorporated and mandated to develop the International Bid on behalf of the funding partners - HRM, the Provincial Government, and the Federal Government. In addition, the funding partners mandated the Bid Society to develop a proposed Games budget, including detailed operating and capital plans, for review and determination by the funding partners of their respective contributions and guarantees. In May 2006, Council passed a motion approving HRM's contribution to the International Bid budget. At that time, the total cost of the Games was estimated at approximately \$785 million.

During the May 2006 Council deliberations, the following principles were discussed in relation to the Bid process and resulting development of a Games budget:

- Ensure a fiscally responsible Bid;
- Maintain the long term financial health of HRM;
- Manage the impact on existing HRM services and capital projects;
- Minimize the financial impact on residents;
- Maximize the legacy return on investment;
- Ensure a "right sized" Bid for HRM.

These principles have remained consistent throughout the Bid process. Moreover, 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 date, Council's discussions in relation to the Commonwealth Games has been conducted primarily In Camera. Section 22 of the MGA gives Council the choice as to whether to address the Commonwealth Games budget in public. However, in this case that choice is overridden by section 4.7 of the legally binding Bid City Agreement with Commonwealth Games Canada. That agreement precludes public release of information that would "interfere with the Parties' ability to plan, organize, stage and finance the Games".

DISCUSSION

The bid to host the Commonwealth Games in HRM has reached a critical stage. The international Commonwealth Games Federation (CGF) requires specific financial and non-financial guarantees as part of the lodgement of the international bid. One of the financial guarantees required is confirmation of the contribution levels from the public partners. As the date for the formal bid lodgement is May 9, 2007 the contributions of the funding partners and all associated guarantees must be determined and approved this month (March) to allow time for completion and submission of the Bid Book. To determine the amount of revenue required to fund the Games through public contribution, a proposed expenditure budget was prepared by staff of 2014, portions of which were

developed in consultation with external experts and the public partners. The proposed expenditure budget was tabled with the Halifax 2014 Board of Directors on January 26, 2007. On January 29, each funding partner received a large volume of proposed budget information and supporting documentation. This material included capital and operating expenditure estimates, a proposed business plan, Class "C" architectural plans and estimates for proposed Games infrastructure, environmental assessments, and associated reviews and studies.

The gross budget is currently estimated at approximately \$1.36 billion in 2007 dollars. This figure including an inflation estimate is approximately \$1.6 billion. Current revenue assumptions include \$400 million as a result of the Federal government contribution announced on November 30, 2006 and an estimated \$165 million in other revenue (i.e. tickets, merchandising, private sponsorship, etc). The proposed gross budget (including the inflation estimate) less known revenue leaves a revenue gap of approximately \$1.035 billion to be funded by HRM and the Province of Nova Scotia. Preliminary affordability analyses conducted by HRM and the Province resulted in a possible maximum combined contribution of approximately \$550 million, leaving an unfunded gap in the Games budget of approximately \$485 million. Attempts to find ways to significantly close this funding gap have proven unsuccessful.

In accordance with the direction agreed upon by the funding partners, a process of due diligence and conducted a detailed review of the proposed Games expenditures was initiated. For HRM, this due diligence process included risk identification, affordability analysis, economic impact analysis, and benefits and legacy review. In addition to the significant due diligence being conducted by staff internally, external experts have been involved in the process. The funding partners engaged the services of experienced games and venue experts to review the proposed capital and operating budgets and offer comments on potential risks and issues. HRM, the Province, and ACOA commissioned a consultant to prepare an Economic Impact analysis to outline the potential benefits and legacy of the Games.

Preliminary feedback from the consultant reports have indicated some financial risk that potentially exposes HRM to costs in addition to those estimated in the budget. Taking these risks into consideration along with the significant funding gap that has been identified, it does not appear as though there is a sound business case for the three funding partners to proceed with submitting a Bid for the 2014 Commonwealth Games. From a municipal perspective, providing the funding required to close the funding gap and submit the Bid based on the proposed budget may compromise the financial health of the municipality, have a negative financial impact on residents, and/or expose the municipality to undue financial risk (i.e. require the municipality to take responsibility for deficits and/or cost overruns).

Attached to this report is a letter from the President of Commonwealth Games Canada seeking more time to allow the Halifax 2014 Bid Society to submit a revised budget based on the estimated funding contributions from the funding partners.

Halifax, NS
March 8, 2007

Mr. Bob Fowler
Mr. Duff Montgomery
Mr. Dan English
Mr. Wayne Anstey

Gentlemen,

Re: Halifax 2014 Games Bid

Thank you for the opportunity to address a number of the issues surrounding the 2014 Games bid process which formed the basis of our discussions today at the Executive Committee meeting.

It is very important that all involved in the funding decisions of the Games recognize the processes that were begun a short while ago and that have resulted in a dramatic reconfiguration of the Halifax 2014 bid; a process that is ongoing.

In response to the concerns voiced in earlier meetings, and reflected in the correspondence of Feb 22nd and March 2nd significant progress has been made in ensuring the evolution of a bid which respects the fiscal capability of the funding partners; is reflective of the underlying principles surrounding the intention to host the Games; recognizes the need to ensure a new approach to the design and development of the Games and associated operations; and which will ensure the creation of a unique legacy for the citizens of Halifax and Nova Scotia.

As we are aware, it would seem that the combined resources of the three funding partners would permit the application of approximately M\$900 to the support of the Games. Combined with commercial revenue, I am strongly of the view that it would be possible to continue the process begun in the past few weeks and deliver a bid whose total cost would be approximately one billion dollars; a view which is shared by my colleagues in the Halifax 2014 organizing committee.

I am particularly convinced that the work already begun will allow the development of a Games which will have an enhanced legacy (by virtue of the re-location of many venues); provide appropriate facilities consistent with the requirements of the CGF; ensure the delivery of a high-quality games; and garner support from members of the Commonwealth Games family many of whom, frankly, would welcome a Games model that could be replicated in a variety of settings and nations in the years to come.

That we are at the present point is in itself a reflection of the rigour of the processes that have been used to assess the cost implications of certain scenarios, a demonstration of the Halifax 2014 community's ability to respond appropriately to the appetite for a 'new model', and revealing of an innovative approach to the development of that model.

The relocation of certain facilities, to cite but one example, will result in significant cost-savings (as a consequence of significantly reduced land development and remediation costs) while potentially accentuating the ability of these facilities to more effectively serve the communities in which they will be sited.

As you know these reconfiguration activities began in response to requests, conveyed to the Executive Committee in recent weeks, to address the cost implications of initial plans. It is of paramount importance that all involved in considering the funding of the Games be aware of these most recent, and ongoing, developments.

Today marked the first opportunity to share with the local and provincial funding partners the work that has been commenced and the accomplishments to date. It would be exceedingly important in my view, that further opportunity is provided in the days ahead to complete the reconfiguration scenarios.

The result of this new approach will ensure a Games that are fiscally responsible, respect the needs and aspirations of the Halifax and Nova Scotia communities, ensure an appropriate legacy, and recognize the challenges of developing a Games model that is viable in other communities in the future. As I noted in my comments today, I believe that a new approach will be welcomed by many in the Commonwealth Games community and may in fact enhance the 'winnability' of our bid in certain quarters.

Finally, at the risk of repetition, it is important in my opinion that we be faithful to the bidding process, develop and deliver a reconfigured bid, while communicating all the many advantages of our approach. To withdraw support peremptorily does not seem to me to be an appropriate response at this point.

Thank you for the opportunity to raise these points in this way. I would welcome the opportunity to discuss these matters with you further at any time.

Yours sincerely,

Andrew Pipe, CM, MD, LLD(Hon), DSc(Hon)
President, Commonwealth Games Canada

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