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**'Report on the Report'**

**An assessment of the 2014 Annual Report of the Australian Grand Prix Corporation by Save Albert Park Inc., August 2015.**

The [2014 annual report](#) of the Australian Grand Prix Corporation (AGPC) has been assessed with regard to the Corporation's performance in the staging of the Formula One grand prix in Albert Park Reserve, specifically with respect to the following items in its list of strategic priorities:

- To ensure local and global branding of Melbourne and Victoria.
- To drive national and international awareness of the events, Melbourne and Victoria.
- To integrate the events into tourism strategies developed by the Victorian Government and its agencies.
- To contribute to the growth of the local economy by providing opportunities to showcase Victorian businesses.

The assessment also comments on the accuracy, clarity and adequacy of the financial information it provides.

**Summary**

This assessment has found that the AGPC's 2014 Annual Report has provided no credible evidence that any national or international 'branding' or awareness created by the grand prix has induced post-event tourism or generated new business opportunities in Victoria.

The 'Report of the Chairman' contains a series of highly questionable claims regarding the international TV audience for the event and the attendance at the circuit which were stated to provide 'huge benefits' for Melbourne and Victoria. However, no attempt was made to show how these benefits translated into increased tourism or growth of the local economy.

There was no discussion regarding the serious issue of the soaring operating losses incurred by the event and the threat of further increases following the devaluation of the Australian dollar.

The Report of the Chairman appears to be an exercise in 'spin-doctoring', which has the effect of misleading parliament and the general public as to the real value of the event. Cost benefit analyses by the Auditor-General and Economists at Large have shown conclusively that the grand prix is damaging the Victorian economy, not creating benefits.

Discrepancies were found between the *Summary of Financial Results*, placed at the front of the 'Financial Information' section and the *Revenue and Expenses* table placed 28 pages further in.

This report questions the use of public funds to build a brick-paved pathway to the site of the VIP 'Paddock Club' and the pit buildings, and to erect a prominent monument to Formula One motor racing in the park.

## **Comments on the 'Report of the Chairman' (pages 2,3)**

### **'Ultimate Sports City' award**

The chairman's report states that the world has now "**officially agreed**" that Melbourne has achieved "sporting supremacy" by being named '2014 Sports Business Ultimate Sports City'. This award was made by Sport Business International, a London-based sport business publication.

It appears that this award is based on multiple factors such as event and tourism infrastructure, not wholly on actual events being hosted and organized by cities. Also Melbourne won the title in the 'large city' category, but was second in the overall rankings behind London. Another London-based organization, Sportcal (a sport marketing intelligence agency) which used a different ranking system, put Melbourne at number 36 in the world.

**The Ultimate Sports City award was made from a restricted business perspective, and the organization behind it could hardly claim to represent 'official' world opinion. The chairman should not expect his statement to be taken seriously.**

### **Access to global markets in tourism and events**

The chairman's report states that hosting the grand prix for a further five years will provide "*unrivalled access to global markets in tourism and the events industry, which are widely acknowledged as key contributors to Victoria's economy.*"

There is no available evidence that the grand prix has ever generated post event tourism, or that hosting the event has been a significant factor in attracting other major events to the state.

**While tourism may be a 'key contributor' to Victoria's economy, the economic impact of the grand prix (\$35-40m) represents only 0.011% of the state's GDP and overall, the event creates a net economic loss to the state.**

### **TV audience**

The chairman's report refers to "a season's tally of 450 million (TV) viewers in 185 countries and territories".

The 450 million figure actually refers to the whole 2013 Formula One season of 19 races. The statement is misleading as it has the effect of linking the Melbourne grand prix and a TV audience of 450 million.

A cumulative total of 450 million over a season of 19 races indicates an average of 24 million per race. The Melbourne race is one of the least watched races because the broadcast reaches Europe in the early morning. This means the average figure would be the top limit. There are far more popular races and the likely figure would be in the range of 10-15 million.

The chairman's report also states that the grand prix had "4.39 million TV viewers in capital cities across Australia ...." According to OzTAM (the main TV industry ratings source) as quoted by ABC Fact Check ('How many people in the world watch the Australian Formula One Grand Prix March 18, 2014) 1.3 million people watched the 2014 grand prix race in five Australian cities, Sydney, Melbourne, Brisbane, Adelaide and Perth, up from 1.2 million in 2013.

**The international TV audience for the Melbourne grand prix is a prime indicator of the success of the event and the numbers claimed should be honestly reported. Past AGPC annual reports and official programs of the event have claimed vastly exaggerated estimates such as of 'hundreds of millions' or '350 million'. The chairman's report appears to contain an echo of those claims.**

### **Attendance at 2014 grand prix**

The chairman's report states:

"... an estimated aggregate crowd of 314,900 people flocked to the lakeside circuit..."

In fact:

- the attendance figure refers to the total of the AGPC's estimates for the four days of the event, and includes repeat attendances by the same people, plus 14,500-15,000 per day

(58-60,000 over four days) of attendances by 'accredited attendees' (event staff, officials, media representatives and race teams),

- turnstiles or ticket scanning is not used at the event so the AGPC has no way of knowing exactly how many actual patrons (spectators) enter the circuit.
- attendance estimates are determined by the AGPC, using a secret method, involving tickets sold and issued free, observation at the circuit, and 'experience' in staging the event. Details of tickets issued (eg, number of free tickets issued) are also not available to the public. Its methodology is known by only three people in the organisation, is under lock and key and is password protected.
- analysis of the 2014 ticket sales revenue (\$29,255m) indicates that it could have been generated by a total of around 70,000 individual patrons, buying their own tickets or being the guests of a corporate sponsor, with some patrons attending the event more than once. The AGPC has admitted to printing free tickets and counting them as 'attending' but this does not explain the massive discrepancy between the claimed attendance figure and the actual evidence in the accounts, when matched to the data contained in seat numbers and ticket prices.

**The chairman's statement is highly misleading, as the attendance figure is nothing like an accurate count of the number of actual spectators and goes further to suggest that the figure represents the patronage of the event.**

#### **'Huge benefits' from the grand prix**

The chairman's report claims that the TV viewing figures and the attendances at the event provide proof that the grand prix is beneficial for Victoria. The report states: *"It's undeniable. Our city and state reap huge benefits from hosting major events of global interest such as Formula One."*

It's true that the grand prix generates benefits, but it has never been demonstrated that the benefits have ever exceeded the costs of staging the event. Cost benefit analyses by the Victorian Auditor-General of the 2005 event and by Economists at Large of the 2011-13 events have all shown that the event produces an overall economic loss.

The benefits generated by the 2014 grand prix were experienced not by ordinary Victorians, but by the contractors who shared in the \$100 million spent by the Victorian Government on staging the event, and by the hospitality businesses that obtained an increase in turnover from the spending in Melbourne by grand prix visitors. For these businesses (including the casino, which has interstate ownership) the government-funded grand prix provided some welcome corporate welfare.

However, for ordinary Victorians, the 2014 grand prix had a very different effect. The 2014 grand prix produced an operating loss of \$60 million of public funds that might otherwise have been spent on projects of community benefit, eg, related to health, education or public transport. For many Melbourne citizens the grand prix also means loss of use and amenity of Albert Park Reserve during 3-4 months of construction and dismantling of the temporary car racing circuit.

Based on the AGPC's attendance "information", grand prix visitors generally spend around \$35 million in Melbourne on accommodation, meals and entertainment. This represents the so-called 'economic impact' of new money being brought into the state, and is often claimed to be the reason the grand prix is "good for Victoria". However, in 2014 any positive impact on the economy of Victoria from visitor spending was effectively cancelled out by the transfer of about \$36 million of 'old' Victorian public funds into the bank account of the Formula One organization in Europe, to pay the grand prix race licence fee.

Among the benefits claimed to be generated by the grand prix include 'intangibles' such as the promotion ('branding') of Melbourne and Victoria through TV broadcasts of the race. No evidence has ever been found which quantifies the effects of this promotion, for example, in terms of increased tourism or new business ventures.

**The 'Report of the Chairman' attempts to spruik the grand prix as a generator of great benefits for the state of Victoria, but the facts totally contradict that proposition. What is missing is any reference to a cost benefit analysis which could quantify the benefits if any exist. It is also significant that the cost benefit analyses conducted by the Auditor-General and Economists at Large are completely ignored.**

## Comments on the 'Summary of Financial Results' (page 18)

For the general public and the media, the most important item in the AGPC's annual report is the operating loss (or deficit) ie, the difference between the revenue from ticket sales and sponsorship) and the costs of staging the event.

The operating loss is recouped from state government sources and the AGPC has used various terms in the summary of its financial results to describe this process. From 1996 to 2004 the term used was 'government appropriations'. From 2005 to 2009, it was 'government contributions', and from 2010 when the operating loss had reached over \$50m, the term became 'government investment'.

What has remained constant over the years has been the lack of a clear relationship between the revenue and costs as set out in the '*Summary of financial results*' table, placed at the front of the 'Financial Information' section and the detailed '*Revenue and expenses from ordinary activities*' table placed towards the back (pages 18 and 49 respectively in the 2014 report).

When the Victorian Auditor-General's Office (VAGO) carried out a cost benefit analysis of the 2005 grand prix in 2007, revenue and expenditure figures were taken from the *Revenue and Expenses* table, not the *Summary* table.

It should be noted that VAGO's study excluded depreciation of grand prix infrastructure and other AGPC equipment from the expenditure figure, effectively lowering it by around \$2m. Economists at Large used the same procedure when it applied VAGO's cost benefit analysis methodology to the 2011-2013 events.

Set out the below are revenue and expenditure figures for the 2005, and 2011-2014 grand prix events, as recorded in the *Summary* tables(S) and in the *Revenue and Expenses* (R and E) tables (with depreciation excluded from expenditure, as noted above).

Year	Table	\$ Millions		
		Expenditure	Revenue	Operating loss
2005	S	66.244	52.663	13.661
	R and E	68.1	52.4	15.7
2011	S	83.852	33.402	50.050
	R and E	85.01	32.421	52.59
2012	S	93.02	36.366	56.656
	R and E	97.034	35.109	61.425
2013	S	90.751	40.080	50.671
	R and E	91.989	38.756	53.235
2014	S	98.266	38.291	59.975
	R and E	98.802	36.739	62.163

It will be noted that in every year the *Summary* table has figures that are higher for revenue and lower for expenditure when compared with the *Revenue and Expenses* tables. Revenue has been subtracted from expenditure to show the financial operating loss on each event, and in all cases the *Summary* table records a lower operating loss.

The *Summary* table figures are prominently presented at the front of the AGPC's annual report and provide a significantly more favourable impression of the event's financial result.

If there is an explanation as to why the two sets of figures differ, it should be provided. Otherwise there is good reason to suspect some manipulation of the AGPC's accounts.

## Comments on 'Capital Works Activities' (page 18)

**The AGPC's 2014 annual report refers to \$1.131m spent on capital works subsequently transferred 'free of charge' to Parks Victoria.**

These works included upgrading of the sewer system in the pit building, trenching for installation of electrical power, improving pedestrian and road access, improving event infrastructure and **construction of a brick paved path** from the former Aughtie Drive to the site of the grand prix 'Paddock Club' and the **'installation of a plaque recognizing the staging of the Grand Prix in Albert Park'**. Costs were not itemised.

The brick path was not essential for access or safety. An asphalt path runs alongside it. It was apparently constructed to impress and provide comfort of VIP guests at the Paddock Club. It serves no useful purpose outside the four days of the grand prix.

The plaque is mounted on a 2 metres high pedestal 2 X 2.5 metres at the base, and is located in a prominent position next to Coot picnic area, alongside a path leading from the main car park to the MSAC (Melbourne Sports and Aquatic Centre). Its purpose is to promote a commercial, foreign-based motor racing entertainment. Like the brick path, the plaque on its pedestal in no way serves to enhance the park for the public. It is unattractive visually, sitting out in the open rather like a gigantic abandoned ATM machine. The installation of the plaque follows the installation in 2013 of busts of racing drivers Sir Jack Brabham and Alan Jones, next to the pit buildings.

**The brick path, the plaque and other grand prix-related capital works activities undertaken in 2014 by the AGPC have been carried out at public expense and apparently with a free rein as to what can be done.**

**Meanwhile, an essential task in the park, the repair of the collapsed east side of the lake wall, remains stalled. The AGPC can spend \$1.131m on its activities while there is only \$400,000, derived from car parking fees, available for the lake wall repair.**

## Comments on grand prix cost and revenue trends

Since 2005, the grand prix event has suffered a marked increase in operating losses. This has followed a fall in attendance and revenue and a steady increase in costs. From 2005 to 2014, revenue from ticket sales and sponsorship has fallen 30.6% while costs have increased 44%.

In summary, with figures rounded, the sales results and costs for the 2014 grand prix as given in the *'Revenue and Expenses'* table on page 46 of the annual report, were as follows:

**Revenue:** ticket sales - \$29m; sponsorship and other revenue - \$8m; **total \$37m**

**Expenses:** setup/take down of temporary circuit - \$30m; event management and staging (including \$36m race licence fee) - \$53m, advertising and catering -\$12.5m; administration - \$6m; **total \$101.5**

The cumulative operating loss over the ten grand prix events from 1996 to 2005 was \$65m. Over the next ten years, including 2015, the cumulative loss can be expected to be around \$475m.

Cost benefit analyses by the Victorian Auditor-General and Economists at Large have indicated that the overall economic loss on each event increased from \$6.7m in 2005 to over \$60m during the 2011-2015 race contract.

These trends appear likely to continue or become even more unfavourable because of the current sharp fall in the value of the Australian dollar. The race licence fee charged by Formula One is a major cost item and has to be paid in US dollars. The fee is supposed to be confidential but is known to be the major component of the 'Events Management and Staging' cost item.

The AGPC report states (p.61): *The Corporation has not disclosed the gross value payable and receivable under foreign currency contracts and is exempted from doing so under Section 49 of the Australian Grands Prix Act 1994.*

However, the fees paid during the 2011-2015 contracts were leaked to the *Herald Sun* newspaper in January 2013. The amounts were (in \$A): 2011, \$31m; 2012, \$32.6m; 2013, \$34.2; 2014, \$35.9m; 2015, \$37.7m. These amounts show an annual escalation factor of

5%. It is known that in the past, Formula One has applied a 10% escalation, and there are reports that some circuits are now being charged fees of up to \$US70m.

During 2011-13, in the contract period just ended, the \$A was trading around parity with the \$US. By 2014, the \$A had fallen to \$US0.85. It is now trading below \$US0.75, and is forecast to fall to \$US0.65 by the end of 2016. This means that with annual escalation the race licence fee for the Melbourne grand prix could increase to \$A65m or more, which could bring the operating loss per race into the \$80m's.

The Victorian Government makes hedging arrangements in connection with its foreign currency commitments, but it is unlikely that all the effects of the fall in the \$A could be avoided.

**Staging the grand prix (particularly on a temporary circuit) has never been a rational, responsible means of promoting Melbourne. Under current circumstances to continue staging the event is worse than incompetence; it borders on culpability.**

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