

# Grand Prix Facts

## The REAL facts on the grand prix

Save Albert Park Inc Fact Sheet 2018

**Why is the Formula One grand prix the misfit in Melbourne's successful sports industry? While all of Melbourne's successful sporting events provide a benefit to the economy, this government-run event, using a failed business model, causes a net loss to the Victorian economy in excess of \$60 million annually. It has corrupted both major parties and survives on false and misleading claims.**

**The Australian F1 grand prix has cost Victorian taxpayers more than one billion dollars in direct and indirect subsidies.** This shows how wrong Premier Jeff Kennett was in his promise, "*Victorian taxpayers would not be asked to meet the cost of the event, with the State Government only prepared to act as guarantor for loans required to establish the race.*" (Herald Sun 18/12/93). Daniel Andrews, like Kennett, shows he also has a similar disregard for value for money, public parkland and honest claims.

This fact sheet shows how Victorian governments have systematically lied to the public in order to gain support for the massive subsidies required to run this event on a temporary circuit in a public park.

### **Here are examples of the misleading and deceptive claims:**

- Despite evidence from the Auditor-General that the economic losses from the event are greater than the benefits, successive governments have commissioned economic 'impact' studies and claimed a benefit. A car crash or a bush fire causes an 'impact' but like the grand prix they don't benefit the economy.
- Despite evidence of ticket prices, seating capacity and audited ticket sales figures showing the event sells no more than 70,000 tickets, they claim massive crowds that mysteriously are never visible in those numbers during the event telecast.
- Despite getting free ticket scanners from the ticketing agency and despite ridiculously cheap internet connections, they have convinced judges at VCAT that it is 'cost prohibitive' to actually count patrons. We now know that in 2013 it cost nearly half a million dollars to hide the facts: \$359,129.59 for in-house lawyers and \$101,590 for case lawyers. It also refuses to comply with Parliament's order to count attendees. But they did admit, "the truth would hurt us."
- Despite evidence the global television audience for the Australian grand prix is only 10 to 15 million, Premiers claim hundreds of millions of viewers. Fake news, Mr Andrews? In a similar misleading claim the Australian Grand Prix Corporation published an Australian tv audience **seven times greater** than the actual, not very significant telecast audience for their 2017 race.

**As the Victorian government is drawing up a Master Plan for Albert Park that will 'lock in' the grand prix for a further 25 years, all Victorians should be concerned. This means we are to pay several billion dollars in ongoing subsidies all based on misleading and deceptive claims, as the evidence in our fact sheet shows.**

## **Global TV audience figures are grossly exaggerated.** Are Premiers dishonest or misinformed?

- Independent ratings agencies, [The Economist](#) and [F1 itself](#) indicate the global live audience for the Australian grand prix is **fewer than 15 million viewers**. **Warning:** former GP Chairman Ron Walker made claims of 350 million, 500 million and 600 million viewers for his race! He even reported the annual F1 season telecast totals 55 billion<sup>1</sup> and on ABC radio 774, said 54 billion. The new GP chairman John Harnden also claimed 54 billion<sup>2</sup> viewers when he was CEO and used that to gain Federal Government approval to broadcast tobacco advertising. Now he claims “a vast global audience.” Events are compared by their live viewing audience as this is the internationally recognised benchmark. The GP corporation has never acknowledged its **real global audience is actually only around 10 to 15 million**.
- The [viewing audience](#) for the 2016 F1 season was a cumulative total of 390 million viewers globally for a total of 21 races, giving an average of 19 million per race. Liberty Media, the new owners of F1 have now reported they have a more accurate way of counting this ‘peak’ audience and have owned up to a total of [only 352 million viewers for the 2017 season](#) and the 2016 season of races. Whatever the figure, the Melbourne race has a poor global audience because it is broadcast at the wrong time for important markets. Also, the F1 figures should be discounted because they do not meet the industry standard comparison of average viewing audience for the *entire* broadcast. [Motoring.com.au](#) reports Formula 1 uses instead a 15 minute ‘peak’ audience measure. This is why the *real* global audience for the Melbourne race may only be around 10 million or less.
- In 2014, then Premier Denis Napthine [misleadingly claimed](#) an audience of [450 million](#), which is greater than the [predicted global audience](#) for the FIFA World Cup soccer final and more than four times that of the US Superbowl final! His disregard for factual evidence was exposed on [ABC’s 7.30](#) and [FactCheck](#). In 2015, new Premier Daniel Andrews also had no regard for the facts [when he said](#), “*This is such a significant event; hundreds of millions watch the race.*” Lies like this may be an important reason why our politicians are held in such low esteem. The GP corporation continues this deception for the 2017 event, by claiming: “302,000,000 people reached globally”, which is total rubbish as events are benchmarked by their global viewing audience, which is only 3% of this claim!

## **Economic evidence. Who do you trust, the Auditor-General or a [Consultant paid to boost F1?](#)**

- **The Victorian Auditor-General’s [peer reviewed cost-benefit analysis of the 2005 race](#)** found the GP is a net loser for Victoria and his office found there is no evidence of extra tourists coming to Melbourne because a grand prix is held here.
- **The Victorian Auditor-General (A-G) recommended an annual, follow up cost-benefit analysis (CBA) be done.** The A-G said an economic impact study “*cannot address*

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<sup>1</sup> 2002 Annual Report of the Australian Grand Prix Corporation

<sup>2</sup> 2002 AGPC commercial in confidence letter to Federal Government requesting tobacco advertising exemption.

*the issue of whether a project is worth proceeding with; hence the need for a CBA (Cost-benefit analysis) approach.”*

- **In 2011, the Victorian Government deliberately misled the Victorian public by commissioning an ‘economic impact’ study (from Ernst & Young), rather than the A-G’s recommended cost-benefit analysis. They know economic ‘impacts’ are not economic ‘benefits’.** Economic impact studies ignore costs so they always come up with a positive figure. Natural disasters - and the GP - generate an ‘impact’ but these disasters - like the GP - cause a net loss to the state in both economic and financial terms.
- **A 2013 update of the Auditor-General’s cost-benefit analysis** was undertaken by the independent [Economists at Large Pty Ltd](#). **They found the 2011 GP caused a net economic loss to Victoria of \$51.7 million, the 2012 event was worse, with a \$60.5 million loss and the 2013 event caused a \$54.3 million loss to the Victorian economy. This means for every taxpayer dollar spent on the GP losses, this causes a net one dollar loss to the Victorian economy.**
- **The government’s most recent ‘economic impact’ study by Ernst & Young (the non - recommended model) has failed an independent peer review.** The report assumed Victorians would be three times more likely to travel to an interstate grand prix than other Australians currently travel to Victoria for the GP. On top of this, a patronage figure 56% greater than that indicated by the AGPC’s audited ticket sales figures was used as the key multiplier. Tourism Victoria and the government claimed their impact study showed an economic “benefit”, which is deliberately misleading. **Ernst & Young were very clear about so called benefit and what they were paid to do, or not do**, as follows: “[T]he scope of the Assessment is limited to an economic impact analysis, and as such, it is difficult to make judgements as to whether the event leaves Victoria “better (or worse) off” from a welfare perspective. ... **To understand whether the Grand Prix delivers net welfare improvements to Victoria, a full cost benefit analysis would need to be prepared.... A cost benefit analysis is outside the scope of the Assessment.** (p55)”
- **Despite the Auditor-General’s findings of no extra tourists, governments have claimed ‘branding’ or ‘intangible’ benefits to Victoria but struggle to find independent evidence.** Bizarrely, the F1 industry publication, *FormulaMoney*, in its “Return on Investment” review, said the worldwide branding exposure of ‘MELBOURNE’ at the [2011 F1GP was valued at only \\$262,552](#). The AGPC wrote to *FormulaMoney* and the value is now \$217m<sup>3</sup>! The government sat on this this ‘boosterism’ report and one year later the AGPC disgorged it. As expected, it is all smoke and mirrors. No real ‘return on investment’ is involved. **Who do you trust, the Auditor-General or a consultant trying to boost the F1 industry?**
- **For more than a decade, the Australian corporate world has been reluctant to sponsor the grand prix. The lack of a naming rights sponsor once again in 2013 indicated the real global exposure or ‘branding’ of the grand prix is well south of \$1m.** The Herald Sun’s business writer, [Terry McCrann told us](#) the last time this so called massive global exposure was on sale Qantas “paid just \$100,000 for naming rights.” This demonstrates the absurd claims of the government and its consultant are not believed in the Australian business world. Now the AGPC has an emergency annual sponsor, Rolex,

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<sup>3</sup> 2012 Annual Report of the Australian Grand Prix Corporation, p.2

dropped in courtesy of Bernie Ecclestone. Australian businesses support real major events because they do the research.

## Tourism and business claims

- **On GP weekend there are plenty of spare hotel rooms** on the booking site [wotif.com](http://wotif.com), indicating the long claimed tourism bonanza is false. The GP suffers from the well-known 'go away/stay away effect', where tourists stay away and locals go away because of the noise and disruption. **The Victorian Auditor-General's finding of no extra tourists has settled this argument.** Even way back in the so called glory days of the GP, Ansett Airlines said in 1999: *"There doesn't seem to be any increase in the number of passengers travelling on the Labour Day weekend when the Grand Prix is on compared to Labour Day when the Grand Prix was not held there."*
- The GP chairman's claims on so called tourism benefits were [reported in the Herald Sun](#) in March 2012 as follows, "...30,000 international visitors and an even greater number of interstate visitors will flock to the city for the Grand Prix, filling nearly 70,000 hotel rooms." **This contradicts Tourism Victoria and the ABS as they reported a total 27,986 hotel rooms across greater Melbourne. Room occupancy rates were above 77% for the entire December 2012 and March 2013 quarters yet many rooms were empty on grand prix weekend. Ernst & Young (the government's consultant) confirms the chairman's claims are wrong** . Update: in 2016, [Melbourne had 31,709 rooms](#) occupied at greater than 81.5% year round, with the March quarter at 82.9%. This 1.4% above the average would more likely be due to the Tennis Open as it is everything the grand prix is not.
- "MORE THAN 300,000 ATTENDEES FROM ALL OVER THE WORLD" is on the [AGPC's promotional video for the GP](#). A fool may take this to mean a crowd of 300,000 ticket buying spectators "from all over the world", yet the government's economic 'impact' study by Ernst & Young [estimated](#) the total "specific and extended stay spectators and accompanying persons" from overseas in 2011 at **only 9,053. This is just 3% of the claimed 300,000 attendees and appears to be a new level of exaggeration on crowds by the AGPC.**
- Surveys in 1996, 1998, 2000 and 2005 by the government consultants National Institute of Economic and Industry Research (NIEIR) and by community volunteers showed that more local businesses either suffered a decrease in trade or experienced no change during the grand prix period than those that had extra business. After the very first GP, the Herald Sun headline read "Grand Prix shop horror." Plus ça change!

## Attendance claims

- **In 2011 and 2012 adjudications by the Press Council on specific reports in The Age and the Herald Sun showed that GP attendance and other claims of the grand prix corporation are "strongly contested in detailed analyses from other sources" and the GP's figures are of "doubtful accuracy."**
- **The Melbourne F1GP is the only major event that has not used a bar-code, turnstile or similar direct system to accurately record attendances.** Attendance numbers for the GP were quoted as fact until the Victorian Ombudsman investigated and found attendance figures are estimated. Also, the AGPC admitted at VCAT they print many free tickets that are counted as attending and include around 15,000 'credentialed' attendees *each day* in the attendance 'estimate'.

- The grossly inflated attendance figures were outed by respected sporting journalists Greg Baum of [The Age](#) and Patrick Smith “April fools as rev heads get caught in slow lane”, *The Australian*, April 01, 2006. If all areas are full, the maximum spectator number cannot exceed 70,000, yet the AGPC has incorrectly claimed this is “the largest single-day sporting event in Australia”. The following paragraphs will show why this is impossible.
- **With only 25,415 grandstand and 7,000 corporate seats in 2017, the maximum possible attendance cannot exceed 70,000** as the only other spectator areas are the five grassy mounds, together carrying **12,000** at most and the remainder in the outfield, in between the infrastructure. The outfield needs to be packed four deep or more to achieve another **16,000** spectators, giving a not so grand total far short of 70,000. The grand prix telecast confirms those spectators along the fence are mostly spread at fewer than four deep. SAP allows a figure of 70,000 as some may come and go during the day and maybe others are just “*chugging beer in the bowels of the circuit*”, as Crikey.com so colourfully described it.
- **The GP corporation’s attendance and underlying patronage figures grossly exceed the audited income in their accounts.** The evidence is the plummeting ticket sales revenue and sponsorship dollars. The AGPC’s 2011 audited accounts had a sales figure that, when divided by the number of grandstand and corporate seats and prices and the remainder general admission, revealed fewer than 60,000 ticket buying patrons, yet the AGPC claimed 111,000 (of those 60,000!) attended on race day and 298,000 over the four days – totally impossible, given the evidence. The event telecast also supports this. It was a similar story in 2012, 2013, 2014, 2015, 2016 and 2017. Over four days the exaggeration exceeds 100,000 attendees every year. SAP maintains anyone can prove this by using published ticket revue figures and ticket prices. Try it yourself to uncover the government deception.
- Up until 2011 the GP corporation’s website boasted 80,000 corporate attendances but only had 9,220 seats in 2009, dropping to 6,600 in 2015. Many of the boxes are empty for the first two days of the grand prix, showing this to be another claim that fails the test of on the ground evidence. **Audited ticket sales data and evidence in the economic reports indicate the corporate claim was out by almost 400%! This is an even greater exaggeration than the GP corporation’s total attendance figures!**
- In 2007, the GP corporation said it cannot use temporary turnstiles because they are cost prohibitive. In 2012 we asked for proof – its answer to the FOI was “*no such documents exist.*” We asked other major events. **They use temporary turnstiles or barcode counters because, “They reduce the occurrence of fraud and are available at very little cost.”** In 2013 the **AGPC admitted in evidence to VCAT that their ticketing company provides bar code readers (scanners) at no cost. The AGPC refuses to use them to count patrons, even after being ordered by Parliament.** They argued at VCAT that the “truth would hurt us” in response to a request to disclose their secret methodology. **Ironically they spent \$359,129.59 on in-house lawyers that year and \$101,590 on case lawyers to convince the tribunal it is “cost prohibitive” to connect the free scanners to perform an accurate count!**
- The AGPC and the government are deliberately avoiding scrutiny because their figures are blatantly false but worse, they are neglecting their duty of care to patrons by ‘making up’ attendances. This is an abrogation of their responsibility to protect patrons in any civil emergency.

- The AGPC's CEO, Mr Andrew Westacott, emphatically stated on 3AW (10:40am, 17 Mar 2013) that the AGPC's attendance methodology "has been proven and reviewed" by the Auditor-General. [The Auditor-General's report](#), State Investment in Major Events, May 2007, clearly states this is not the case.
- In the Victorian Parliament (February 2013), the Liberal/National Party government voted to refuse a proper count of attendees at the 2013 grand prix, in denial of their election promise: ***"There will be no hidden agendas. There will be no spin. There will be no secrecy. Accountability and transparency will be the principles that underpin our government."*** In 2015, [Parliament voted](#) to demand the AGPC actually count its patrons. The Andrews government has also ensured this did not happen.
- **The Grands Prix Act 1994 overrules many good and valid laws, ensuring secrecy and lack of accountability as the hallmarks of this publicly funded event in a public park.**

## Financial losses

- **The real total of taxpayer funds committed to the grand prix is estimated to exceed \$1billion**, when all government subsidies are included – that is, subsidies such as park rental not paid to Parks Victoria, a \$50m hedge fund paid by Treasury for exchange rate losses, the interest (or opportunity cost) also incurred by State Treasury for the cash going into the GP and TAC, VicRoads and City of Melbourne sponsorships plus free tickets given away. **The GP and the government choose to hide the subsidies.**
- In hindsight, broken political promises have cost Victoria dearly and promises made to Victorians in order to establish the race in Albert Park were definitely in this category: *"Victorian taxpayers would not be asked to meet the cost of the event, with the State Government only prepared to act as guarantor for loans required to establish the race."* This is a quote from The Hon Jeff Kennett, Premier of Victoria, in the Herald Sun, 18 December 1993. **By 2017, Treasury has handed over \$835 million just to cover the operating losses and circuit costs. Many other hidden government subsidies have gone into this event, resulting in Victorian taxpayers being out of pocket for more than a billion dollars.** Mr Kennett also said the park would be disrupted for a week but the infrastructure, trucks, forklifts and disruption are there for up to four months every year, forcing out tourists and a whole community and its sporting clubs.
- In the grand prix corporation's 1996 annual report it committed "to make a cash surplus each financial year" but, as our previous paragraph shows, **it has demolished that by \$835 million in sunk costs and that's after all the government subsidies have been provided! Despite operating losses exceeding \$60m annually, the corporation's misleading and deceptive claims have never been investigated by Parliament.**

## Why do governments ignore or hide the actual facts?

FOIs asking for claims to be substantiated have been denied because disclosure would be "contrary to public interest" as it would "be likely to expose the Corporation to disadvantage". Indeed. The secret and unaccountable GP corporation appears to make many misleading and deceptive claims, as noted in this fact sheet. The GP and its corporate supporters therefore appear to be in contravention of Federal trade practices law, specifically the Competition and Consumer Act 2010, s.18. We have a legal opinion that confirms this.

More than 30 million people [fly into or out of Melbourne Airport every year](#). That's more than half a million per week. Melbourne's hotels enjoy a year round occupancy rate of greater than 80%, so do we really need to spend \$60m a year to attract a few thousand grand prix fans while other tourists go away or stay away because a grand prix is in town?

**Why use spin about Melbourne's branding when our reputation as the most liveable city is well known and is underpinned by our magnificent parks and gardens. Albert Park without a car race could be landscaped, maintained and loved much the same as New York's Central Park.**

**Further reading:** SAP has researched papers and reports that show –

- Australian state and territory governments choose to run street races that lose many millions annually but are short on facts to substantiate the expenditure.
- Governments make claims that do not withstand scrutiny.
- Street racing is probably the most cost inefficient way to conduct motor racing.
- Governments, with the exception of the ACT must believe if you throw a lot of money at these races they will eventually be successful. The evidence proves otherwise.

**Reports:**

Victorian Auditor-General's Office 2007 report: "**State Investment in Major Events**" <https://www.audit.vic.gov.au/sites/default/files/20070523-Investment-in-Major-Events.pdf>

ACT Auditor-General's Office 2002 report "**V8 Car Races in Canberra – Costs and Benefits**" Like the grand prix in Melbourne, this 'street race' was found to be an economic loser. The ACT Government promptly cancelled the remaining years of the race contract.

NSW Auditor-General's Office 2010 report "**Government Investment in V8 Supercar Races at Sydney Olympic Park**". Once again, another 'street race', another loser. The government chose to retain the race because of the money already sunk into the event but several years later the NSW ICAC received allegations that the relevant minister received a bribe to move the racing from an established circuit to the costlier temporary street circuit.

Auditor-General of Queensland 2010 report "**Audit of A1 Grand Prix Agreements**", highlighting another government sponsored 'street racing' debacle.

Confidential report to Queensland parliament "**2009 Gold, Coast Motor Sport Event Review**" by David Williams, a former director of this street event. It shows the event loses between \$27m and \$11.6m per annum and 48% of the people attending the event were on free tickets. SAP has a copy of this review.

**Papers:**

**Evaluating Major Events and Avoiding the Mercantilist Fallacy.** Author Peter Abelson. 2011 The Economic Society of Australia doi: 10.1111/j.1759-3441.2011.00096.x

**The place of motorsport in public health: an Australian perspective.** Paul J. Tranter, Mark Douglas Lowes.

**Life in the Fast Lane: Environmental, Economic, and Public Health Outcomes of Motorsport Spectacles in Australia.** Paul J. Tranter and Mark Lowes, *Journal of Sport and Social Issues* 2009; 33; 150 originally published online Apr 7, 2009.

**Motor racing in Australia's Parliamentary Zone: successful event tourism or the Emperor's new clothes?** Paul J. Tranter School of Physical, Environmental and Mathematical Sciences , University of New South Wales , Canberra, Australia & Timothy J. Keefe School of Physical, Environmental and Mathematical Sciences , University of New South Wales , Canberra, Australia. Pages 169-187 | Published online: 24 Jan 2007

**From their own annual reports, Australian Tennis Open vs Australian Grand Prix 2017:**

Which one is a successful event, run by experts in a cost effective venue and which one is a government run organisation run on a temporary circuit, with an unlimited government guarantee, no matter how much it racks up in losses and hidden state subsidies?

Revenue	Australian Tennis Open	Australian Grand Prix
Sales revenue	\$89.790m	\$32.126m
Sponsorship/commercial revenue/media rights	\$195.610m	\$6.402m
Other, including merchandise, investment income and grants	\$35.274m	\$1.197m
Government subsidies, including operating loss, capital advances , \$12.304m and \$1.075m 'interest' from early Treasury advances		\$70.940m*
Total Revenue	\$320.674m	\$110.665m

\*Note: A further \$50m was provided to the AGPC by Treasury in 2015 via a hedge fund to cover exchange rate losses over the last three years. The loss for 2017 was \$30.648m as recorded on p.60 of the annual report. None of this is included in the AGPC's cash flow accounts. It is an 'off balance sheet' loss.

**Conclusion:**

With only 36% of its revenue is from trade and commerce (not counting the Treasury subsidy of \$30.648m) the AGPC balance sheet shows it has a failed business model. With 64% of revenue coming from taxpayers and the prospect of Albert Park being remodelled for another 25 years of grand prix, this commits a further two billion dollars or more to the event.

Worse, Victoria's Auditor-General established in 2007 that the event causes a net annual loss to the Victorian economy and since that cost benefit analysis was performed revenue has slumped and costs have risen to the point that now, for every dollar injected by government, it causes a net one dollar loss to the economy. This compares with a 50c loss for every dollar invested on the 2005 event, the subject of the A-G's study.

Sources:

[ATO annual report 2016/2017](#), p.62

[AGPC annual report 2017](#), p.52

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