

# Grand Prix Facts

## The REAL facts on the grand prix

Save Albert Park Inc Fact Sheet 2016

**Why is the Formula One grand prix the misfit in Melbourne's successful sports industry?**

**The Australian Formula One grand prix has been staged annually in Albert Park since 1996. In that time, operating losses and circuit capital costs have cost Victorian taxpayers more than \$695 million dollars. When other government subsidies and debt servicing costs are taken into account, the real cost to the Victorian economy reaches beyond one billion dollars.** 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).

The Australian Grand Prix Corporation has survived for 21 years without being held to account for any of its claims because it has bi-partisan support. To maintain public support the AGPC and successive governments have simply 'made up' their own 'facts' by using what is cynically called major events mathematics and boosterism economics. The real facts show the grand prix has failed Victorian taxpayers.

Former Premier Napthine repeated the mantra that the event has to provide 'value for money for Victorian taxpayers', but failed to substantiate any real case to support the government subsidies. Now, Premier Andrews predicts "our state will enjoy the significant economic benefits<sup>1</sup>." His minister, John Eren claimed "there is no question that the event holds huge value to the State". This is in complete denial of the facts we present here.

**Our fact sheet provides links to the Victorian Auditor-General's comprehensive economic analysis and follow up reports. These show the event now causes a net loss to the economy of around one dollar for every dollar invested. Governments ignore these reports and instead pay for economic 'impact' reports. They then obfuscate by claiming 'impact' means 'benefit'. By ignoring the costs this fails both the English test and value for money test but reinforces the public's opinion that politicians are full of spin, especially in regard to Victoria's biggest sporting loser.**

Victorians pay dearly for this event every year but are poorly served by governments that will not tell taxpayers the facts. It appears the Andrews government has also chosen to also go down that road.

**This SAP Fact Sheet for 2016 provides the real unvarnished facts on the grand prix.**

---

<sup>1</sup> Official F1 grand prix race program, 2016

**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 16 million viewers**. **Warning:** former GP Chairman Ron Walker made claims of 350 million, 500 million and 600 million viewers. He even reported the annual F1 season telecast totals 55 billion<sup>2</sup> and on ABC radio 774, said 54 billion. The new GP chairman John Harnden also claimed 54 billion<sup>3</sup> viewers when he was CEO. 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 their **real global audience is actually only around 10 to 15 million**.
- 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 has no regard for the facts [when he said](#), "This is such a significant event; hundreds of millions watch the race."

**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 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 going into the GP, around one dollar is now lost 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

---

<sup>2</sup> 2002 Annual Report of the Australian Grand Prix Corporation

<sup>3</sup> 2002 AGPC commercial in confidence letter to Federal Government requesting tobacco advertising exemption.

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>4</sup>! The government sat on 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 sponsor, Rolex, 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](#), 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**

---

<sup>4</sup> 2012 Annual Report of the Australian Grand Prix Corporation, p.2

**claims are wrong** . Update: in 2015, [Melbourne had 31,955 rooms](#) occupied at greater than 78.6% year round, with the March quarter at 81.2%. The extra 2.6% 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 may never be used 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”.
- **With only 26,292 grandstand and 6,600 corporate seats in 2015, 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. For 2016, the grandstand seat count has shrunk to 24,396.
- **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, reveals 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 and 2015. Over four days the exaggeration exceeds 100,000 attendees.

- 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.** The AGPC and the government are deliberately avoiding scrutiny 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 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 from Parks Victoria, the interest (or opportunity cost) incurred by State Treasury for the cash going into the GP, TAC and VicRoads sponsorship, City of Melbourne, etc and free tickets given away. **The GP and the government choose to hide the subsidies.**
- In hindsight, broken promises are apparently the costliest in politics 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 2015, Treasury has handed over \$695 million just to cover the operating losses and circuit costs.** 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 the previous paragraph shows, **it has demolished that by \$695 million in sunk costs and that's after all the government subsidies have been provided! Despite operating losses exceeding \$60m annually, the corporation's claims have never been investigated by Parliament.**

### **Why does the government ignore the facts and uses spin instead?**

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 570,000 a week. Melbourne's hotels enjoy a year round occupancy rate of greater than 75%, 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.

**Save Albert Park Inc:**

**Media Peter Logan 0412697074. President Peter Goad 0407192455 0396997932**

**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:**

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 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.

DOI: 10.1177/0193723509334171