

FORMULA ONE AUSTRALIAN GRAND PRIX: BENEFITS TO VICTORIA

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SUMMARY

- Victoria's major events deliver a combined economic impact to the State of approximately \$1.4 billion annually and attract over 230,000 international visitors every year.
- The Formula One Australian Grand Prix (the 'Grand Prix') is an important part of Victoria's annual calendar of major international events.
- Collectively, these events work together to promote Melbourne and Victoria to the world and drive significant economic, social and cultural benefits to the State.
- The Victorian Government recently commissioned a study on *The Economic Impact of the 2011 Formula 1 Australian Grand Prix*, undertaken by Ernst & Young.
- Ernst & Young's study estimated that the 2011 Grand Prix increased Victoria's Gross State Product (GSP) by between \$32.04 million and \$39.34 million and generated between 351 and 411 full-time equivalent jobs.
- A separate report by Comperio Research into the branding value of the 2009 Grand Prix estimated that it alone provides a media or advertising-equivalent value of \$35.6 million to Victoria.¹

PURPOSE

This report outlines the economic impact and brand value to Victoria from hosting the Formula One Australian Grand Prix.

BACKGROUND

Formula One racing is recognised as the pinnacle of motor racing. It attracts large audiences at the race itself, worldwide television audiences, media attention, and a large amount of sponsorship.

The Formula One season is conducted each year in major cities around the world. In 1996, Victoria staged its first Formula One Australian Grand Prix. The event has since been held every year over four days in March or early April in Albert Park, Melbourne.

The Grand Prix is organised and promoted by the Australian Grand Prix Corporation (AGPC), and partially funded by the Victorian Government.

The Victorian Government supports the Grand Prix as part of a broader strategy to secure and stage an annual calendar of international events so as to promote Melbourne and Victoria to the world and generate significant economic, social and cultural benefits to the State. These benefits include job creation, industry development, inward investment, tourism attraction, infrastructure development and community involvement.

VICTORIAN MAJOR EVENTS CALENDAR

Victoria's major events calendar is arguably one of the most prestigious and successful in the world. A report² commissioned by the Victorian Major Events Company (VMEC) estimates that Victoria's major events deliver a combined economic impact to the State of approximately \$1.4 billion annually. Major events attract over 230,000 international visitors to Victoria every year – representing 23 per cent of all international visitors to Victoria - and the industry employs over 3,350 Victorians.

Melbourne itself is home to some of the finest sporting and cultural facilities in the world, most of which are close to the city centre and easily accessible by public transport. The 2009 Brand Health Survey, administered by Roy Morgan Research, showed that Melbourne is recognised as the number one Australian capital city for hosting major international sporting and cultural events.³ Melbourne was also named the world's 'Best Sports City' in 2009 at the SportBusiness Sports Event Management Awards, ahead of Berlin, Singapore and Doha.⁴

There is now strong national and international competition for major events and their attendant benefits. In this context, the Grand Prix is one of the most visible events on Victoria's major events calendar, along with the Australian Open Tennis Championships, the AFL Grand Final and the Spring Racing Carnival. Together, these four events are central to Victoria's position as an internationally recognised events destination. They also:

- Attract large numbers of visitors to the State and provide significant branding and positioning for Melbourne and Victoria both interstate and internationally;
- Support infrastructure such as the Melbourne Cricket Ground and Melbourne and Olympic Parks which are enjoyed by the wider community year round;
- Position Melbourne for attracting new, drawcard sporting and cultural events such as the Melbourne 2006 Commonwealth Games, Melbourne Winter Masterpieces and the Presidents Cup 2011;

2 Ernst & Young/Victorian Major Events Company joint research project, An Eventful Year: Economic Impact of the Victorian Major Events Calendar, November 2010.

3 Tourism Victoria, Ten Year Tourism & Events Industry Strategy: Progress Report, 2010

4 Ibid

- Generate local business expertise which improves the performance of other Victorian events and can lead to international business opportunities; and
- Provide exposure for smaller cultural and sporting events and allow them to leverage interstate and international visitors.

BRANDING AND POSITIONING OF MELBOURNE AND VICTORIA

Major events such as the Grand Prix provide branding and positioning for Melbourne and Victoria nationally and internationally, both through media coverage and 'word of mouth' from those that experience the event themselves. The longer-term benefits of such exposure, such as increased tourism, can be difficult to quantify. One partial way to measure this can be to estimate the national and international broadcast impacts of the Grand Prix.

In 2009, Tourism Victoria commissioned Comperio Research to provide a report on the broadcast value of the 2009 Grand Prix entitled *FI Australian Grand Prix: Comparative Broadcast Analysis*.

Comperio Research analysed television broadcasts of the 2009 Grand Prix across a sample size of 82 countries including the key markets of China, New Zealand, the United Kingdom and the USA. In total, these countries generated 444 television broadcast hours with extensive coverage across free-to-air television and a combined television audience of over 270 million. Comperio Research monitored a sample of 43 hours of dedicated television coverage of the event. From this, it is estimated that the 2009 Grand Prix returned a media or advertising-equivalent value to Victoria of \$35.6 million.

It is reasonable to assume the media value of staging the Grand Prix is now larger than in 2009, given growth in international television audiences in recent years. For example, the UK television audience was 2.5 million in 2011 compared to 1.7 million in 2009, France's television audience was 2.4 million compared to 2.1 million, and Germany's television audience was 5.2 million compared to 3.7 million.⁵ The Grand Prix also provides branding and positioning for Melbourne and Victoria in other media such as print, online and radio.

The television audience and media value associated with staging the Grand Prix highlights the national and international exposure of Melbourne and Victoria. This exposure is associated with longer-term benefits such as induced tourism, business linkages, industry development and inward investment. It can be particularly beneficial in markets that are growing in importance for Victoria in trade and tourism, such as China and India.

ASSESSING THE ECONOMIC IMPACT OF THE 2011 GRAND PRIX

The Victorian Government recently commissioned a study on *The Economic Impact of the 2011 Formula 1 Australian Grand Prix*, undertaken by Ernst & Young. The approach taken by Ernst & Young is consistent with the recommendations of the Auditor-General's 2007 report on *State Investment in Major Events*. Refer to **Appendix I** for further information on previous economic evaluations of the Grand Prix and the Auditor-General's report.

Measuring the Impact on the Victorian Economy

To measure the impact of the Grand Prix on the Victorian economy, Ernst & Young first measured attendance and expenditure on the event. This is discussed below.

Ernst & Young then used Computable General Equilibrium (CGE) modelling to compare the economic activity generated by the Grand Prix against hypothetical scenarios of Victoria without the event (i.e. the event being staged interstate or overseas).

⁵ International viewing audience numbers provided by Formula One Management (FOM).

Table I below summarises the economic impact of the 2011 Grand Prix on the Victorian economy.

Overall, the 2011 Grand Prix increased Victorian Gross State Product (GSP) by between \$32.04 million and \$39.34 million and created an additional 351 to 411 jobs in the State.

Table I: Macroeconomic variables (absolute deviations from baseline values)

	Scenario 1: Relative to GP not held in Victoria but held interstate	Scenario 2: Relative to GP not held in Victoria but held overseas
Real GSP	\$39.34m	\$32.04m
Real private consumption	-\$14.93m	-\$18.02m
Real investment	\$9.67m	\$6.64m
Employment (FTE jobs)	411	351

In Scenario 1, staging the 2011 Grand Prix in Victoria (rather than having it in another State) increased GSP by \$39.34 million and generated additional employment of 411 full-time equivalent positions. This was driven by an increase in investment in Victoria and an increase in net exports. However, private consumption declined by \$14.93 million. This is largely caused by 'international expenditures' of the AGPC, which includes the licence fee for the event, and is treated as domestic income being transferred overseas rather than being spent in Victoria.

In Scenario 2, the impacts of staging the 2011 Grand Prix in Victoria (rather than having it in another country) are more modest given the value of retained expenditure (money kept in the Victorian economy) is lower. This is because Victorians are less likely to travel overseas to attend the overseas event and as a result, less money leaves Victoria. Victorian businesses are also less likely to sponsor the Grand Prix if it were to move overseas than if it were to move interstate. The modelling showed an increase in GSP of \$32.04 million. Investment in Victoria also increased by \$6.64 million, while private consumption declined by \$18.02 million. The Grand Prix also leads to additional employment of 351 full-time equivalent positions.

It is important to note that the above results are an assessment of the **net** economic impact of the 2011 Grand Prix, not a measurement of **gross** economic activity. CGE models assume finite resources and that 'shocks' to the economy (such as staging a major event) divert resources away from other productive uses. This reduces the extent to which direct expenditure on an event leads to increases in economic growth and employment.

Measuring Grand Prix Attendance

The AGPC estimated total attendance for the 2011 Grand Prix as 298,187.

Based on information provided by AGPC and surveys of attendees, Ernst & Young estimated that the number of unique attendees at the 2011 Grand Prix was 123,787, including 109,234 spectators and 14,553 accredited attendees. The measurement of unique attendees highlights that people are inclined to attend more than one day of the Grand Prix. When it comes to interstate and international visitors, attendance on multiple days can be beneficial to Victoria in terms of additional direct expenditure (particularly on accommodation and hospitality) and associated economic activity.

Of the unique spectators, 38,439 were from interstate (26,699) or overseas (11,740). Eighty nine per cent of interstate spectators and 73 per cent of international spectators had travelled to Victoria specifically for the Grand Prix, or extended their stay because of it, with interstate spectators staying on average 3.9 nights and international spectators staying on average 6.0 nights. When combined with the 1,400 persons that accompanied those spectators as well as media, officials and participants, the total number of interstate and international visitors that specifically came to Victoria or extended their stay due to the Grand Prix is 37,323 persons.

Measuring Direct Expenditures on the Grand Prix

Direct expenditure in the Victorian economy is comprised of expenditure by interstate and overseas visitors that came to Victoria, or extended their stay in Victoria because of the Grand Prix, as well as expenditure by Victorians that was retained in Victoria because of the event. From this, all expenditure in staging the Grand Prix that went interstate or overseas was subtracted. This is summarised in **Table 2** below.

Table 2: Summary of direct expenditures to Victoria under the two scenarios

Summary of direct expenditures	Total expenditure accommodation café restaurant (000)	Total expenditure transport (000)	Total expenditure retail (000)	Total operations (various industries) (000)	Total direct expenditure (000)
Scenario 1 – GP elsewhere in Australia					
Total direct expenditure (by non-Victorians)	\$30,754	\$3,528	\$7,754	n/a	\$42,036
Total retained expenditure (by Victorians)	\$4,976	\$800	\$1,943	n/a	\$7,719
AGPC operations	n/a	n/a	n/a	-\$19,031	-\$19,031
Total direct expenditures under Scenario 1	\$35,730	\$4,328	\$9,697	-\$19,031	\$30,724
Scenario 2 – GP in another country					
Total direct expenditure (by non-Victorians)	\$30,754	\$3,528	\$7,754	n/a	\$42,036
Total retained expenditure (by Victorians)	\$1,334	\$234	\$655	n/a	\$2,223
AGPC operations	n/a	n/a	n/a	-25,407	-\$25,407
Total direct expenditures under Scenario 2	\$32,087	\$3,762	\$8,409	-\$25,407	\$18,852

Overall, hosting the 2011 Grand Prix in Victoria rather than elsewhere in Australia, increased total direct expenditure in Victoria by \$30.7 million. Hosting the Grand Prix in Victoria, rather than overseas, increased total direct expenditure by \$18.8 million.

CONCLUSION

Hosting the Formula One Australian Grand Prix brings significant benefits to Victoria.

In 2011, the Grand Prix increased Victoria's GSP by between \$32.04 million and \$39.34 million and generated between 351 and 411 full-time equivalent jobs.

The Grand Prix also provides significant branding and positioning for Melbourne and Victoria both nationally and internationally. The 2009 event alone provided a media or advertising-equivalent value of \$35.6 million to the State.

More broadly, the Grand Prix is an integral part of Victoria's major events calendar which promotes Melbourne and Victoria to the world, attracts over 230,000 international visitors every year, and generates significant benefits including job creation, tourism attraction, investment attraction and community involvement.

APPENDIX I

Approaches to Assessing the Economic Impact of Major Events

The economic value of major events can be measured using direct expenditure, input-output modelling, Computable General Equilibrium (CGE) modelling and/or cost-benefit analysis.

Input-output modelling assumes that a large investment in the economy, such as hosting a major event, will have flow-on effects to other industries that will increase production, employment and income. In comparison, CGE models assume that the economy has finite resources and that a large investment, such as hosting a major event, may direct resources away from other productive activities.

In 2007, the Victorian Auditor-General prepared a report on *State Investment in Major Events*. The Auditor-General concluded that input-output analysis is not appropriate for assessing the economic impact of major events (i.e. those that receive \$10 million or more in annual government funding). Using this approach, the estimated economic impact of an event is usually larger than an assessment based on CGE modelling.

In 2005, the AGPC commissioned the National Institute of Economic and Industry Research (NIEIR) to conduct an economic evaluation of the Grand Prix using input-output analysis. This study estimated an increase in Gross State Product (GSP) of between \$165.7 million and \$174.8 million from staging the 2005 Grand Prix, with the later figure including an assessment of the value of induced tourism (\$9.1 million).⁶

The Auditor-General recommended that CGE economic modelling be used to assess the economic impact of any events seeking \$10 million or more in annual government funding, given such a model can most accurately measure changes in GSP and its components – consumption, investment and employment.

The Auditor-General's report included a CGE analysis of the 2005 Grand Prix, undertaken by the Allen Consulting Group. This study estimated that staging the 2005 Grand Prix contributed between \$62.4 million and \$101.8 million to Victorian GSP and led to additional employment of between 400 and 600 full-time equivalent positions.

As explained above, input-output analysis and CGE modelling use different approaches and assumptions to measure the economic impact of major events, and therefore the NIEIR and Auditor-General report results cannot be directly compared.



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