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## The Formula One Australian Grand Prix: Exploring the triple bottom line

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## ARTICLE INFO

## Article history:

Received 10 October 2009

Received in revised form 28 July 2010

Accepted 30 July 2010

Available online 6 September 2010

## Keywords:

Event management

Sport tourism

Triple bottom line

Sustainability

Economic impact

## ABSTRACT

This case highlights issues associated with the Formula One (F1) Australian Grand Prix held in the city of Melbourne, Victoria. The event receives substantial government funding and therefore the worth of the event receives consistent public scrutiny. Jim Kranger, CEO of the Victorian Major Events Corporation, is put in charge of assessing the value of the event to the State of Victoria. The results of Kranger's report will determine whether the government will continue to financially support the event. Kranger realizes that he must consider economic, social, political, and environmental issues. The case highlights the challenges that Major Events Corporations, and by extension, the government face in providing public funding to a sport event. The case also highlights the problems with economic impact studies and the need to focus on the triple bottom line approach by examining the economic, social, and environmental issues associated with the event. Further, the case highlights issues relating to the use of secondary data sources to make decisions. The case encourages students to consider the theoretical and practical issues at the cross-section of sport event, destination, and stakeholder management.

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## Teaching note

## 1. Introduction

The Formula One (F1) Australian Grand Prix is an annual motor racing event that forms one leg of the international F1 Series championship circuit. While the F1 Australian Grand Prix event was initially held in Adelaide, South Australia, after an aggressive takeover strategy, Melbourne (in the state of Victoria) won the right to host the event in 1996. Formula One Management (FOM) own and operate the F1 Series—with Bernie Ecclestone as the President. Each F1 Series event host must pay a substantial licensing fee to FOM to host the event. The Australian Grand Prix Corporation (AGPC) is responsible for managing and delivering the event in Melbourne and has a multi-year deal with FOM to host the event until 2015. While there is no standard licensing fee from country to country, the licensing fee for the F1 Australian Grand Prix is reported to be AU\$ 30 million per year, compounded annually at 15% (Sylt & Reid, 2008). Given the high licensing fee to host the event, the Victorian state government contributes approximately \$40 million of public monies to the event each year—the government often justifies this funding based on the economic benefit that the event is thought to bring to the state of Victoria.

The net benefits and therefore the long-term sustainability of the F1 Australian Grand Prix have been heavily scrutinized in recent years. In assessing the viability of the event, the Auditor-General for the Victorian government recommended a

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cost-benefit analysis of the event be conducted using the triple bottom line approach—thus examining the economic, social, and environmental impact of the event. This case takes the perspective of Jim Kranger, whose responsibility it is to compile existing information on the impact of the event and then analyse the sustainability of the event in order to report to the state government of Victoria (a major stakeholder) about the future of the F1 Australian Grand Prix.

The case uses a compilation of stakeholder reports and secondary research that has focused on various elements of the review of the F1 Australian Grand Prix. The case highlights the challenges host governments face in supplying public monies to sport events, as well as the tensions faced by major events corporations (who are government entities themselves). Further, it highlights the range of different stakeholders that have a vested interest in large multi-national events and the conflict that can arise between the government perspective with the perspective of private event operators including the event owners and host destination managers.

This case can be used in both undergraduate and postgraduate classes that address issues in facility and/or event management; tourism; or strategy and stakeholder management. The case assumes that students have a broad understanding of economic impact analysis (such as through a finance class).

Instructors will be able to use the case to allow students to examine problems with economic impact studies and highlight the need to broaden impact studies to include the triple bottom line approach—examining the economic, social, and environmental issues associated with events. In the case of the F1 Australian Grand Prix, this is a particularly important consideration given the event's heavy reliance on attracting tourism to ensure that it provides a return on investment for the state government. The case encourages students to think through the theoretical and practical issues at the nexus of sport event, destination, and stakeholder management. Though the data used comes from actual reports generated by various organizations in relation to the F1 Australian Grand Prix, the story has been modified to maximize student learning. Further, stakeholder names have been changed to preserve anonymity.

## 2. Theoretical classroom applications

### 2.1. Triple bottom line approach

Triple bottom line highlights non-market and non-financial areas of corporate performance and responsibility looking specifically at: economic, environment, and social impact (Suggett & Goodsir, 2002). A diagrammatic representation of the triple bottom line approach is included in Fig. 1. Coined by Elkington (1997), the triple bottom line is used as a framework for measuring and reporting corporate performance against economic, social, and environmental parameters. The core characteristics of the approach include accountability to shareholders and relevant stakeholders, transparency in reporting of activities, and integration of the tenets of the triple bottom line into strategic planning and operations, and stakeholder engagement (Suggett & Goodsir, 2002). While some companies use the term triple bottom line, others refer to such things as “corporate citizenship,” “sustainable development” or “corporate social responsibility.” Event organizers and destination managers are now encouraged to assess the impact of events using a triple bottom line approach (Hede, 2008; Suggett & Goodsir, 2002).

The triple bottom line approach has its roots in sustainability and thus is concerned with meeting the needs of the present without compromising the needs of the future. That is, even though an event may attract a large number of tourists to a destination, the mass influx on the destination may cause long-term environmental destruction. Further, an event may have either positive or negative effects on the host community. Thus, it is pertinent for those who assess the impact of sport events to consider economic, social, and environmental impact.

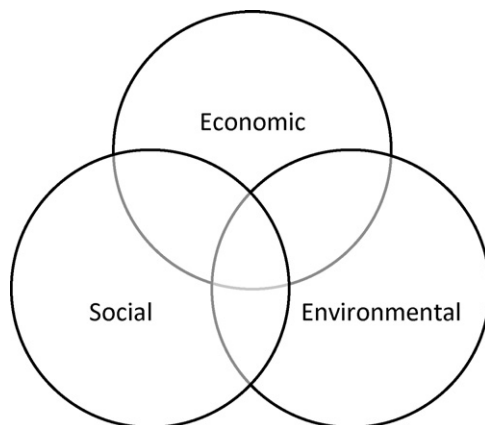


Fig. 1. Triple bottom line.

The Victorian Government contributes significantly to the F1 Australian Grand Prix. The large public subsidy is, in part, due to the significant rights fee that FOM commands.

### 2.1.1. Economic impact

A primary issue in this case is assumed value gained by the city of Melbourne, and state of Victoria, from hosting the F1 Australian Grand Prix. FOM must be paid for the rights to host the event. In addition, the host must also be able to cover the significant financial outlay required to cover the costs of running the event. The State Government of Victoria has provided this funding. However, for this to be justified as a prudent use of public monies, it must be demonstrated that significant benefit is gained by hosting the F1 Australian Grand Prix event. Obviously, being able to show a positive economic impact is useful for event organizers in justifying the worth and existence of their event, however, there are other issues that must also be considered.

Public funding for sport events is often heavily scrutinized and criticized as opponents claim that public monies should be used for social causes such as education and health care that are assumed to have wider influence across the community. If the Victorian government chooses to divert funds from other projects (e.g., education, infrastructure, social welfare) and use them for sport, the long-term value of the sport investment must exceed the long-term benefits that would be gained by investing the funds in alternate areas.

Sport researchers have found that public subsidies for professional sporting events do not always yield a positive economic impact for the host community (Baade, 1996; Baade, Bauman, & Matheson, 2008; Coates & Humphreys, 1999; Crompton, 1995; Delaney & Eckstein, 2003; Owen, 2005; Porter, 1999; Siegfried & Zimbalist, 2000). Despite *ex ante* studies, which are frequently commissioned by the sport entity (that show positive impacts of public investment in a sport event, team, or stadium), *ex post* analysis has been nearly universal in dismissing *ex ante* studies' favorable results. As seen in this case, the economic impact analysis conducted by the National Institute of Economic and Industry Research (NIEIR) and the Victorian Auditor-General's Office (VAGO) produce substantially different results. Students should note that the NIEIR report was commissioned by the Australian Grand Prix Committee (AGPC), while the VAGO report was conducted by an independent party. The discrepancies in economic impact studies can sometimes be attributed to the self-serving notions of the stakeholders that source them, while at other times can be the result of measurement error. Common sources of error include failing to take into account all costs, not considering the crowding-out effect (displacement of spending from locals or tourists that would have occurred anyway), false inclusion of residents and time-switchers (those who would have traveled to the destination anyway but change their itinerary to coincide with an event), and applying incorrect multipliers to the sport-related spending in the community.

Students often have trouble accepting that sport events could have a non-positive economic effect. They see the large amounts of money that enter a community during the event and cannot fathom how this is not a good thing for the community. In such a case, they are looking at only the "economic benefit," as opposed to the "economic impact." The latter takes into account the costs associated with the sport project. For example, if construction jobs are created because of a sport project, the community typically views this as a positive because it puts individuals to work. However, construction crews usually operate at full capacity, thus working on a publically supported sport project takes them away from existing private-sector activity (Owen, 2005).

In light of the government subsidies required for the F1 Australian Grand Prix, it appears that Victoria is not receiving the economic gains that it expected. From a purely financial point of view, it would be challenging, and apparently inaccurate, to say that the F1 race yields positive fiscal results. However, the financial models may fail to properly value a city's psychic impact of hosting an event. It is important for students to understand that even though an event may produce a negative economic impact, there may be other non-financial benefits that the event brings to the host destination.

### 2.1.2. Social impact

In addition to the economic benefits that a region may or may not enjoy from a sporting team or event, there may be non-pecuniary benefits for the local residents. Specifically, an event may contribute positive social benefits to a community including an increased quality of life, community pride and excitement (Garnham, 1996), upgraded infrastructure (Soutar & McLeod, 1993), increased social or recreational opportunities, or enhanced economic prosperity to a region (Fredline, 2005). However, negative events may also be the result of a destination hosting an event including: displacement of residents (Whitson & Macintosh, 1993), disruption to residents, or crowding and congestion (Fredline, 2005).

In some cases, the benefits are direct. For example, F1 fans in Victoria have access to the highest level of competition in the sport, and residents can enjoy the festival events surrounding the race day, such as the street parades, markets and annual rock concert held in conjunction with the race. Being able to participate in such activities may increase the quality of life for those living in the area.

Indirect benefits can be enjoyed even by those who do not attend the race events. Without paying for tickets to the race or associated events, residents may still derive pleasure from knowing that others in the community are enjoying the race. They may feel pride through having their home state hosting an event that draws such international interest. This is an externality often associated with sporting teams, or events, and their cities (Crompton, 2004).

If the benefits are thought to be derived from the additional activities surrounding the Grand Prix, students should be encouraged to consider whether the large rights fee paid to FOM is worth it. Kranger may want to consider another

community event, without the F1 race as the centerpiece, that includes the other elements of the festival that speak to the primary motives of attendees and the community as a whole.

### 2.1.3. Environmental impact

In addition to the economic and social impacts of an event, event planners also consider the impact of the event on the environment (Hede, 2008). Environmental considerations include factors such as air pollution, damage to natural resources and noise disturbance. Given that the F1 Australian Grand Prix event is held in a public park (Albert Park Reserve), students should be encouraged to consider the impact that this event in particular has on a natural area such as public parkland. Students should be encouraged to think about the environmental damage, pollution, and disruption of the ecosystem. Further, students should recognise that such factors may be of concern for local residents, but the environmental effects may also be an issue for event sponsors who must answer to their customers about the negative impact of the event they are supporting (O'Brien & Chalip, 2008). Students considering the long-term viability of an event should address the sustainability of the event and what *ex ante* planning can be done.

The existence of the Australian Grands Prix Act 1994 (AGP Act) creates a unique situation in the case of the F1 Australian Grand Prix held at Albert Park Reserve. The government has existing environmental laws for the park (e.g., Albert Park Land Act 1972, Environment Effects Act 1978; Conservation, Forests and Lands Act 1987), however the AGP Act grants a specific dispensation to the Australian Grand Prix Corporation for it to organize the event. In essence, the AGP Act explicitly nullifies previous environmental legislation as it applies to any F1 Australian Grand Prix event-related endeavors. Although the Australian Grand Prix Corporation has the legal right to operate with environmental impunity, students should question whether it is in the best interest of the race organizers to do so.

## 2.2. Impact of the F1 Australian Grand Prix using a triple bottom line framework

1. What should Kranger do to reconcile the information on the conflicting economic impact reports provided by NIEIR and VAGO? Even if the F1 Australian Grand Prix were to break even financially, is it a good investment for the Victorian government? Why or why not? What benefits must be achieved in order to make it worthwhile for the Victorian government to continue subsidising the F1 Australian Grand Prix?
2. What possible opportunity costs are being endured by the Victorian government because of their financial contribution towards the F1 Australian Grand Prix?
3. Given the popularity of the activities surrounding the F1 Australian Grand Prix (e.g., the V8 Supercar race, annual rock concert), do you think there might be a greater opportunity to create social impact if the F1 Grand Prix is replaced by a community festival that continues to provide the popular associated events rather than the race itself? How important is the F1 Australian Grand Prix in keeping Melbourne's profile as a "sporting" city?
4. What are the environmental impacts of the F1 Australian Grand Prix, and its associated events? What steps should be taken to mediate their impacts? How does the existence of the Australian Grands Prix Act 1994 affect the *ex ante* environmental planning of the AGPC (the event organizers)?
5. If the F1 Australian Grand Prix is going to continue to be held in Melbourne, should Kranger consider switching the timing of the race (as per the request of Bernie Ecclestone) knowing that this would bring with it added expenses?
6. Given your analysis in the previous five questions, what should Jim Kranger's recommendation to the Victorian government be based on the triple bottom line analysis of the F1 Australian Grand Prix?

## 2.3. Stakeholder management

Stakeholder theory is an approach to management that focuses on the individuals or groups who affect, or are affected by, the impact of a particular activity or event (Covell, 2004; Freeman, 1984). Clarkson (1995) notes that stakeholders are individuals or organizations who "have claim or ownership rights, interests in a corporation and its activities, past present and future" (p. 106). As noted by Hede (2008), the Triple Bottom Line and Stakeholder Theory are inextricably linked when examining special events given that the social, environmental, and economic outcomes of events may have different importance to each of the stakeholders of events—thus producing a mixed economy. The mixed economy of sport events requires a greater articulation to understand the complexity of commercial, government and not-for-profit stakeholders, and collaborations among them. In the case of the F1 Australian Grand Prix, it is clear from the data included in the case, that government interest in the event is focused more on the perceived positive economic outcomes for the host destination (Melbourne and Victoria). On the other hand, the interests of the "Save Albert Park" group are fundamentally about the detrimental economic and environmental outcomes of the event for the host community. The key question that this case forces students to address is "whose interests (that is which stakeholder's interests) are most important, and why?"

The literature that examines questions such as these have used stakeholder maps to illustrate the salience of different stakeholders, and the relationships between them. In the case of the F1 Australian Grand Prix, it is suggested that instructors conduct a classroom activity (in the form of a debate as described further in Section 2.5 of this teaching note) to assist students to develop an understanding of at least three different stakeholders, their focus from a triple bottom line analysis, and the relationships that have developed among them. In general a stakeholder map can be a simple diagram to show

importance of stakeholders, and the strength of relationships between them. However, stakeholder maps can also be more complex, such as the one developed by Hede (2008) that integrates triple bottom line and stakeholder theory. For the purposes of this case, a stakeholder map such as that one is not necessary. It can be as simple as facilitating a class discussion at the completion of their debate to produce a diagram that represents the relative importance and position of each of the stakeholders.

The triple bottom line approach suggests that organizations should assume accountability for their economic, social, and environmental impact and that such assessment should be measured and communicated to relevant stakeholders (Suggett & Goodsir, 2002). Further, organizations are encouraged to engage stakeholders that matter to the economic prosperity, environmental planning, and social well-being of those stakeholders—taking into consideration the relationship between business and society in general. Kranger faces a challenge in part because the F1 Grand Prix affects and is affected by so many groups and individuals. Kranger must consider the residents in Victoria (e.g., those living closest to the venue, the taxpayers throughout the state, the “Save Albert Park” lobbying group), employees and business that rely on the Grand Prix for income, F1 fans, sport tourists, and the Victorian government. The aforementioned are stakeholders in the decision about the future of the F1 Australian Grand Prix and are in some way impacted by Kranger’s decision. There are numerous entities vying for Kranger’s attention, which he will need to consider when making his decision. Further, Kranger cannot make decisions or suggested changes to the event without considering another set of stakeholders including FOM, Bernie Ecclestone, the Ten Network (and affiliated broadcast rights holders), and event sponsors.

In order to sort out levels of stakeholder salience, Mitchell, Agle, and Wood (1997) suggest evaluating possible stakeholders in terms of each stakeholder’s power, legitimacy, and urgency in the relationship. For example, an individual who lives next to Albert Park may have a legitimate and urgent claim, but lacks power to enforce change.

Students should be asked to produce a stakeholder map (c.f., Hede, 2008; Reid, 2004) that identifies each of the key stakeholders in the case, and the stakes that they have in the event.

#### 2.4. Classroom activity to demonstrate stakeholder relationships in the F1 Australian Grand Prix

A good classroom activity that can engage students in the content and assist in demonstrating the nuances in the issues within the case and the various stakeholder relationships represented is a debate—between the community lobby group “Save Albert Park” and the state government of Victoria. The debate is to be adjudicated by Kranger, the CEO of VMEC, and one of his assistants. Such a debate can assist in exploring arguments about the utility of events and the associated public investment. Instructors should assign students to appropriate groups (Save Albert Park or state government of Victoria) as well as to assign two students to the role of adjudicator (representing VMEC). The title of the debate should be “The F1 Australian Grand Prix should be held annually at Albert Park Reserve.” Students assigned to the government of Victoria must argue the pro side of this argument (that is, agreeing with the statement). Students assigned to the “Save Albert Park” group must argue the con side of this argument (that is, that the event should not be held annually at Albert Park Reserve). The students assigned to VMEC must adjudicate the debate. These students must highlight the strengths and weaknesses of each team’s arguments and choose a winning team.

To prepare for the debate, students should be encouraged to explore the issues in the case from a broad perspective. The instructor needs to set the scene to encourage students to read widely and bring issues to the debate—such as opinions about motorsports and their impact on urban environments, or the importance of the event for the community as two examples. The debate should be lively. All students should be encouraged to visit the websites of each of the stakeholder groups for general information in preparation for the debate. All students should be exposed to the popularity and international nature of the F1 Series through the official website ([www.formula1.com](http://www.formula1.com)). Further, students should become familiar with the particular event under study—the F1 Australian Grand Prix, through their official website ([www.agpc.com.au](http://www.agpc.com.au)). By doing so, students should gain an understanding of the event and its location (Albert Park Reserve) before they arrive at class. Students should note that the F1 Australian Grand Prix is held in the public parkland where the urban (public) streets that transverse Albert Park Reserve are transformed into a street circuit for the event.

Students assigned to represent the “Save Albert Park” group are encouraged to visit the official website for the community lobby group “Save Albert Park.” Their website contains many documents including opinion pieces published in newspapers as well as official reports that can assist in developing sound arguments (<http://www.save-albert-park.org.au>).

Students assigned to represent the government of Victoria have ample information available to them in the case study. However, they are also encouraged to visit the official website for the F1 Australian Grand Prix ([www.grandprix.com.au](http://www.grandprix.com.au)) and the official website of the Victorian Major Events Company ([www.vmec.com.au](http://www.vmec.com.au)). Students might also find it useful to visit the website for Tourism Victoria ([www.tourism.vic.gov.au](http://www.tourism.vic.gov.au)) to further explore the importance of events to Melbourne in planning for future tourism to the city.

At the completion of the debate, it is useful for the instructor to facilitate a discussion about the salience of stakeholders involved in this case, and to develop a diagram that represents the relationships among them. Prompt students with questions such as “Why did the group representing [the government] or [the Save Albert Park lobby group] win the debate?” This can be followed by questions such as “What made their argument the strongest in this case?” and “Why do you think VMEC as the adjudicator announced this group as the winner?” Through such questioning, instructors can explore the relationships between the stakeholders and the influence that they have on each other.

## 2.5. Stakeholder questions

1. Who are the key stakeholders effected by Kranger's decision?
2. What relationship attributes does each stakeholder possess that need to be considered by Kranger?
3. Would moving the event to another place alleviate the concerns of the Save Albert Park lobby group? How do you think FOM and Bernie Ecclestone might react to the event being moved?

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# The Formula One Australian Grand Prix: Exploring the triple bottom line

## Case study

### 1. Introduction

Globally, there is increasing competition between cities to host events. In Australia, most states and regions have event corporations at local, regional, and/or state levels established specifically to attract and retain events in their region. In order to attract international cultural and sporting events to the city of Melbourne, and the state of Victoria, the Victorian government established the Victorian Major Events Company (VMEC) to oversee these efforts. VMEC does not manage or deliver events, but rather is responsible for identifying and pursuing major events that have the potential to bring economic, broadcast/media exposure, cultural and social benefits to the state of Victoria. Jim Kranger, CEO of VMEC, has a multitude of proposals from international sport organizations who wish to stage their events in the city of Melbourne. Further, Kranger and his team scope the globe to find events and bring them to Melbourne and the state of Victoria. Part of Kranger's role is to craft an event strategy for Melbourne and Victoria that ensures that the events that it attracts are a "match" for the city and the state.

Melbourne, and by extension, the state of Victoria, positions itself as the event capital of the world—and the VMEC has been responsible for securing events that have helped to build this profile. Sports Business International named Melbourne as the "best city in the world to host a sports event" in 2007 and 2008 (SportBusiness Group, 2008). Melbourne boasts a host of world class stadia and sporting facilities that can cater to a multitude of sports including the 100,000-seat Melbourne Cricket Ground (MCG); Etihad Stadium, which has a retractable roof and capacity of 74,000; the Melbourne and Olympic Park Trust sporting precinct, and the Melbourne Sports and Aquatic Centre (VMEC, n.d.)—all of which assist the VMEC to attract events to the city and the state. Melbourne has recently hosted the Commonwealth Games in 2006, the annual Australian Open (tennis), and the FINA World Championships (swimming), each of which are foundational to the city's positioning and the VMEC was a key stakeholder in drawing them to the city.

However, Kranger was at a major crossroads. The state government had recently asked him to provide an analysis of F1 Australian Grand Prix event—one that has been staged annually in Melbourne since 1996. The state government has invested public monies into hosting the event since its inception in 1996, and it has been a cornerstone event for the city, as well as a key marketing tool for the VMEC when it "sells" Melbourne as an event city to potential sport event organizations who they want to attract to the region. Kranger knew that the F1 Australian Grand Prix was also controversial. He was aware that previous impact studies had not been favorable for the event, and the methods used for data collection were also questionable. Kranger knew of two studies in particular that detailed an assessment of the economic and financial components of the F1 Australian Grand Prix. The first study was commissioned by the Australian Grand Prix Corporation (the company that manage and deliver the event) and conducted by the National Institute of Economic and Industry Research (NIEIR). The second study was an independent audit conducted by the Victorian Auditor-General's Office (VAGO) after economists and activist groups made claims that there were gross inaccuracies in the NIEIR report. Both reports were conducted on the 2005 F1 Australian Grand Prix however the VAGO report was not released until 2007.

Kranger needed to gather all of the information that he could about the review of the F1 Australian Grand Prix. He knew already that many different stakeholders had vested interests in the results of his review and its recommendations—the least of which was his own organization—the VMEC. Kranger was in an awkward position. He was instructed to perform an analysis of all available secondary data on the F1 Australian Grand Prix. He had his office provide him with all the relevant documents, and he reflected on some major issues as he read through the data.

#### 1.1. Background The F1 Australian Grand Prix

The F1 Australian Grand Prix is an annual Formula One (F1) motor racing event that forms one leg of the F1 Series championship circuit. Formula One Management (FOM) and Bernie Ecclestone (the President) own and operate the F1 Series. While the F1 Australian Grand Prix was initially held in Adelaide, South Australia, after an aggressive takeover strategy, Melbourne (in the state of Victoria) won the right to host the event and has done so since 1996. The Australian Grand Prix Corporation (AGPC) is responsible for managing and delivering the F1 Australian Grand Prix event in Melbourne and has a multi-year deal with FOM to host the event until at least 2015. Each event host (such as the AGPC in this case) must pay a substantial licensing fee to FOM for the right to host an F1 Series event. Interestingly, there is no standard licensing fee for all F1 Series host cities—each city is provided with a non-negotiable licensing fee from FOM and Bernie Ecclestone. Table 1 reports the rights fees for host cities in the 2008 F1 Series. The licensing fee for the F1 Australian Grand Prix is reported to be AU\$ 30 million per year, compounded annually at 15% (Sylt & Reid, 2008).

#### 1.2. State Government investment in the F1 Australian Grand Prix

Given the high licensing fee required to host the F1 Australian Grand Prix, the state government of Victoria subsidises the event; in 2008, it contributed approximately \$40 million of public monies to the event (AGPC, 2008). The state government

**Table 1**  
F1 series race agreements (in AU\$).

Grand Prix race	Sanction fees (in millions)	First GP at circuit	Contract end
Australian	29.9	1996	2015
Malaysian	46.0	1999	2015
Bahrain	31.0	2004	2016
Spanish	19.1	1991	2016
Turkish <sup>a</sup>	29.6	2005	2021
Monaco	None	1950	Ongoing
Canadian	22.2	1978	2011
French	19.1	1991	2010
British	19.1	1950	2009
German	23.8	1970	2010
Hungarian	20.8	1986	2011
European	38.8	2008	2014
Belgian	26.3	1950	2015 <sup>b</sup>
Italian	4.7	1950	Ongoing
Singapore	44.3	2008	2012
Japanese	42.6	1976	Ongoing
Chinese	36.8	2004	2010
Brazilian	22.2	1973	2015

Source: Sylt and Reid (2008).

<sup>a</sup> The Turkish Grand Prix's promoter is currently owned by the Formula One Group, therefore the money will only move between members of the same group.

<sup>b</sup> Reported extension.

justifies public funding for the event based on the economic benefit that the F1 Australian Grand Prix is thought to bring to the state. For example, the Premier of Victoria claimed that the F1 Australian Grand Prix is a crucial part of the city's tourism strategy. Through the event, Melbourne (and by extension the state of Victoria) is believed to receive significant global exposure through live broadcasting and highlights packages that are distributed through the Ten Network and eleven global affiliate broadcasters.

The F1 Australian Grand Prix receives more state funding than any other annual event in Victoria (VAGO, 2007). Therefore, the Victorian government is a major stakeholder in the event. In 1993, when Victoria won the event from Adelaide, the then Premier of Victoria, The Hon Jeff Kennett stated, "Victorian taxpayers would not be asked to meet the cost of the event, with the State Government only prepared to act as a guarantor for loans required to establish the race" (Pinkney, 1993). This quote has been widely used by those against the hosting of the F1 Australian Grand Prix at Albert Park, with the aim to firstly, apply pressure to the government to cease using public monies to fund the event, and second, to call for the cessation of the event completely.

## 2. The event: the F1 Australian Grand Prix

The F1 Australian Grand Prix is not just an F1 racing event, but rather it is a 4 day festival event with the F1 race as its centerpiece ([www.grandprix.com.au](http://www.grandprix.com.au)). The F1 Australian Grand Prix includes associated events such as a V8 Supercar race, celebrity challenge, kids events, street parades and music festivals. Most events are themed to match the F1 event itself. The vast array of associated entertainment options that are included in the F1 Australian Grand Prix event serve to attract non-traditional F1 racing target markets as well as non-traditional car-racing fans. Thus, these auxiliary events are designed to cater for a wide cross-section of the population, therefore justifying the spending of public monies on the event. Through the multi-faceted event, the F1 Australian Grand Prix hopes to provide a connection with the wider community and facilitate a positive community perception of the event—mitigating any animosity related to the spending of public monies on it.

One of the largest associated events during the F1 Australian Grand Prix is the Sprint Gas V8 Supercars Manufacturers Challenge, which involves three races over 3 days, plus a street parade. V8 Supercar racing is the most popular motorsport in Australia and hosts one of Australia's biggest brand rivalries between Ford and Holden cars. The V8 Supercar season in Australia is 14 weeks and draws crowds upwards of 250,000 per race. The race that is included as part of the F1 Australian Grand Prix event is exhibition only, but draws a large audience that might not have otherwise been interested in attending the F1 Series event.

The other major draw card for the F1 Australian Grand Prix is the inclusion of a world renowned music act to close the four day festival. For example, past acts include rock band Kiss (in 2008) and legendary British band The Who (in 2009). Individuals who have a valid ticket to the final day of the event are able to enter the concert, while a limited number of concert-only tickets are available for purchase. Other inclusions in the four day event include a Celebrity Challenge (held over two days) featuring racing by well known Australian sporting greats; children's concerts; contests; and prizes each themed to attract different target markets including families and children.



## 2.1. Attendance at the F1 Australian Grand Prix

Kranger compiled attendance figures for the F1 Australian Grand Prix using various media sources. While noting that this is a limitation of his report, Kranger thought that the more information he could source, the better position he would be in to make a decision. In 1996, the first Australian Grand Prix held in Melbourne attracted 401,000 attendees. Over the following 12 years, attendance decreased over 25%.

There has been considerable controversy and questioning of the accuracy of the attendance figures reported by the AGPC. As noted in the next section of the case, under the AGP Act, the AGPC does not have to report any figures. Groups such as Save Albert Park posit that the attendance figures are inflated by as much as 45% due to the inclusion of free and giveaway general admission tickets (Save Albert Park, 2005). The VAGO report seems to support that there is inflation of attendance numbers, reporting that the 2005 attendance figures include 28,100 free general admission tickets (VAGO, 2007).

Given the disputed attendance figures, an element that Kranger thought would be a straightforward and measurable metric, Kranger realized that this exercise was going to be harder than he originally anticipated. Kranger searched for further information on media viewership, but was unable to source any figures. He moved forward with cautious optimism looking for other reports and information on the event. He remembered he had both the NIEIR report and VAGO report that were handed to him when he was originally given the task of assessing the event, and it was to those that he turned next.

## 2.2. Tourism impact of the F1 Australian Grand Prix

The NIEIR report estimated that the event attracted 23,606 international visitors, 32,503 interstate visitors, and 12,281 visitors from areas of Victoria outside of Melbourne. The report estimated that 27,764 attendees were *Extra Visitors* who would not have traveled to Victoria if it was not for the Australian Grand Prix. A further 2,458 visitors were reported to be *Stay-extenders*, who extended their planned stay in Melbourne by an average of 8.5 days due to the F1 Australian Grand Prix. The report further stated that the event attracted over 3,000 drivers, team members, and officials, as well as 800 media representatives. Of these 3,800 visitors, 2,668 traveled from outside of Victoria. The NIEIR report referred to this segment as *Other Visitors*. In total, the *Extra Visitors* reportedly contributed 174,034 visitor-nights to the state of Victoria, with an average of 5.7 visitor-nights per person (VAGO, 2007).

The NIEIR used this data, which was collected from 2,600 attendee surveys (which represents 2.7% of the 97,400 average attendance in 2005), to estimate the average daily and per trip expenditure from the different visitor groups on purchases such as hotel, food, entertainment, and shopping. These figures can be seen in Tables 2 and 3.

**Table 2**  
Estimated Expenditures (in AU\$) by NIEIR report (2005).

	Extra visitors		Stay-extenders		Other visitors	
	Per trip	Per night	Per trip	Per night	Per trip	Per night
Interstate	1,248	275	1,490	277	1,340	201
Overseas	1,564	196	2,175	193	2,301	132

Source: NIEIR (2005).

Note. Expenditure by interstate and international visitors excludes airfares and expenditure on the grand prix tickets.

**Table 3**  
Total additional expenditure (in AU\$) by visitors in Victoria in 2005.

Visitor group	Numbers	\$/trip <sup>a</sup>	\$ million
Extra trips			
Interstate	19,502	1,248	24.3
International	8,262	1,564	12.9
Extended stay			
Interstate	1,149	1,490	1.7
International	1,309	2,175	2.8
Sub-total			41.7
Media	668 <sup>b</sup>	3,593 <sup>c</sup>	2.4
Grand prix teams	2,000 <sup>b</sup>	7,950 <sup>c</sup>	15.9
Total			60.9

Source: NIEIR (2005).

<sup>a</sup> Excludes purchase of grand prix tickets.

<sup>b</sup> Assumed break-up of 2,668 media and grand prix team visitors.

<sup>c</sup> NIEIR total figures divided by estimated numbers.

**Table 4**  
Comparison of NIEIR and VAGO Calculations (in AU\$).

	NIEIR	VAGO
Economic impact (increase in GSP)	174.8 m	62.4 m
Net economic benefit	Not determined	–6.7 m
State tax receipts	15.2 m	3.5 m
Economic impact on Australia	54.2 m	1.9 m
Commonwealth tax receipts	9.0 m	2.7 m
Jobs created	3,650	400

Source: Save Albert Park (2008).

### 2.3. Economic impact and cost-benefit analysis of the F1 Australian Grand Prix

Both the NIEIR and VAGO reports included an economic impact study of the F1 Australian Grand Prix. The results of both reports are presented in Table 4 for comparison.

The state government of Victoria's contribution to the event has increased from \$12.25 million in 2004 to \$40 million in 2008 (an increase of 219%) (AGPC, 2008). Kranger noticed that as the government increased its contribution to the event, the event experienced a 15.6% decrease in total generated revenue (from \$51.05 million to \$43.257 million) (AGPC, 2008). This decrease was attributed to dwindling ticket sales, decreased sponsorship and investment, and increased operating costs. In a report to the state government of Victoria, Ron Walker, the F1 Australian Grand Prix Chairman, acknowledged the deficit and predicted that it would increase by at least 10% per year (Spurgeon, 2002). Regardless, Mr. Walker is encouraging the extension of the contract with FOM.

For the 2005 F1 Australian Grand Prix event, the VAGO report indicated that the total construction and operation costs were \$68.1 million. In addition to the event production cost, VAGO estimated \$1.7 million in community costs, including F1 Australian Grand Prix-related government costs (e.g., ambulance, fire, police, roads), loss of use of Albert Park Reserve and amenities, transport congestion, and noise effects on property values. Thus, the VAGO report estimated a total cost of \$69.8 million for the 2005 event (VAGO, 2007).

The VAGO report estimated the financial benefits of the F1 Australian Grand Prix to be \$63.1 million. Revenues from ticket sales and sponsorship receipts accounted for \$52.4 million, while the balance (\$10.7 million) was estimated based on the indirect benefits experienced by the community. Specifically, the indirect benefits included consumer surplus (pecuniary quantification of the benefits received by residents and event attendees for which they did not pay), business surplus (additional commercial activity that would not have otherwise occurred), and labour surplus (additional employment created by the event). In the case of business and labour surpluses, the report accounts for the "crowding-out" effect; that is, the overall economic activity estimates have been reduced to reflect that some of the activity would have still occurred had the event not taken place. Thus, when considering all known and estimated inputs, the VAGO report suggests an overall loss of \$6.7 million for the 2005 F1 Australian Grand Prix (VAGO, 2007).

While VAGO reported a net economic benefit analysis, the NIEIR report chose to focus on the Economic Impact study. Kranger pondered the difference between an economic benefit analysis and an economic impact study. He remembered that the economic impact study represents the change in Gross State Product and does not include benefits to consumers or third party effects. On the other hand, the economic benefit analysis includes welfare benefits and costs for those who are involved in the event, and residents of the state. That reminded Kranger that he must also look at the social impact of the event. The social impact of the event has been most controversial—and centered around the location and use of the F1 Australian Grand Prix venue—a public park.

### 2.4. The venue: Albert Park Reserve

Centrally located 2 km south of Melbourne's Central Business District, Albert Park Reserve is a public park. It is one of Melbourne's most popular parks and currently hosts many amateur sports on over 20 sporting fields. In the first part of the 20<sup>th</sup> century, Albert Park had been home to some motor racing. However, in 1959, the state government of Victoria banned motor racing in Albert Park Reserve on the basis of noise (for the surrounding area had become high density residential) and hosting such events made Albert Park Reserve less accessible for the public. However, despite continued urban development surrounding Albert Park Reserve, in 1993 high level state government representatives, along with F1 Australian Grand Prix executives and other influential individuals from the city of Melbourne, made the decision to use Albert Park Reserve as the venue for the F1 Australian Grand Prix from 1996. This decision was made without Parliamentary debate, without normal political discussion in Cabinet, or public consultation. The F1 Australian Grand Prix is held annually in Albert Park Reserve where the urban (public) streets that transverse the reserve are closed for public access and transformed into a street circuit for the event.

Further, in order to cement the future F1 Australian Grand Prix at Albert Park Reserve, and to bypass various impact assessments including an environmental impact, the Australian Grands Prix Act (AGP Act) was introduced as state legislation in 1994. The AGP Act states that it "excludes claims for compensation, removes the [Formula One Australian Grand Prix] event from the jurisdiction of the Victorian Supreme Court, overrides environmental and planning laws and the Freedom of

Information Act, and grants the Australian Grand Prix Corporation extensive powers to occupy and undertake works on the park [Albert Park Reserve].” By overriding the Freedom of Information Act, the AGP Act prevents the disclosure of details of the AGPC’s budgets and business plans for a period of 5 years after the conclusion of the relevant financial year. Further, the AGP Act states that the public has no right to access information on the contents of any contract that the AGPC has entered into with either FOM or Bernie Ecclestone. Kranger realized that acquiring the appropriate information needed to make a decision about the event was going to be difficult given the AGP Act. Further, he realized that he is going to have to make a decision on the basis of incomplete and missing information. Moreover, as the AGP Act seems to place the F1 Australian Grand Prix above the general laws of the land, Kranger pondered the worth of an environmental impact study on his decision and recommendation.

There have been calls from the motor racing industry (including F1 Series and V8 Supercars organizers and drivers alike) for a permanent track to be erected (on another site) for the F1 Australian Grand Prix. It is suggested that this alternate facility might also serve as an appropriate facility and venue for other motorsport events. Given the annual use of Albert Park Reserve as the F1 Australian Grand Prix facility since 1996, some permanent F1 Australian Grand Prix-specific structures have been built (including pit garages, concrete underpasses, and pit access lanes). However, the majority of infrastructure required for the event is temporary and therefore assembled and dismantled annually. Three months prior to the F1 Australian Grand Prix, temporary trackside fencing, pedestrian overpasses, grandstands, and other motorsport infrastructure are erected. This infrastructure is left in place until 6 weeks after the event. During this time, access to the Albert Park Reserve, including the aquatic center, golf course, football stadium, other football and cricket facilities, rowing facilities, and restaurants, is restricted. Additionally, some sport fields are damaged during the event, which can lead to longer-term closure. Dissent for using the Albert Park Reserve for the F1 Australian Grand Prix is often voiced as a result of the degradation to the park. Further, some Victorians, particularly the 115,000 residents that live within three kilometers of the track, object to the inconvenience of being limited in their use of Albert Park Reserve for approximately one-third of the year. It is not surprising then that there is much community activism that criticizes the event, including the well organized lobby group called “Save Albert Park.” Kranger decided he should further explore the issues voiced by Save Albert Park—the most vocal lobby group against the F1 Australian Grand Prix.

### 2.5. *Save Albert Park*

Formed in 1994, Save Albert Park is a lobby group that has the specific aim of forcing the F1 Australian Grand Prix to be relocated to a permanent track—so as to “reclaim and restore Albert Park [Reserve] as public open space and parkland” and to “work to protect Albert Park [Reserve] from the impact of the Grand Prix” (Save Albert Park, n.d.). Save Albert Park is a community movement that has received considerable support from organizations such as the Australian Conservation Foundation, the Victorian Trade Union Council, and three political parties: the Australian Labor Party, the Australian Democrats, and the Greens. The Save Albert Park community group conducts rallies, campaigns, and protests throughout the year, particularly around the F1 Australian Grand Prix event. Despite numerous arrests (but no convictions), the group is determined not to go away until Albert Park Reserve is restored to be accessible year-round for the public’s enjoyment of it as an important reserved parkland.

Kranger questioned whether this group was actually against the F1 Australian Grand Prix event itself, or whether the group was just adamantly opposed to the event taking place in Albert Park Reserve. Kranger therefore wondered whether moving the event to another location would appease this group.

The net benefits and sustainability of the F1 Australian Grand Prix have been heavily scrutinized, especially by various community groups including the lobby group Save Albert Park. In assessing the viability of the event, the Auditor-General for the state (who is commissioned to ensure transparent fiscal management of public monies) recommended a cost-benefit analysis of the event using a triple bottom line approach, thus examining the economic, social, and environmental impact of the F1 Australian Grand Prix.

In addition to the pressure from the government to prove that the public expenditure on the event is warranted, the sustainability of the F1 Australian Grand Prix also faces some challenges as Bernie Ecclestone, the President of FOM, is putting increased pressure on event organizers to change the timing of the event to a night race to accommodate European television audiences—the largest spectator market for F1 racing. Kranger is aware that changing the event to a night time race would accrue added expense to event organizers as a sophisticated and expensive lighting system would be required for this to happen. While Kranger could not find estimates of how much it would cost to install a temporary lighting in Albert Park, he was told that the cost of the temporary lighting system used by the Singapore Grand Prix was US\$ 7.3 million.

### 2.6. *Social impact of the F1 Australian Grand Prix*

Kranger was provided with a summary report of a social impact study that was done on the 2002 Grand Prix. The Sustainable Tourism Cooperative Research Centre collected data from 279 residents who live within a 15 km radius of Albert Park Reserve to assess their perception of how the F1 Australian Grand Prix affected their lives (Fredline, Deery, & Jago, 2005). Overall, residents did not believe the F1 Australian Grand Prix had a positive or negative effect on their lives, however they did identify that there were both positive and negative elements of the hosting the event at Albert Park Reserve. Positive elements included maintenance of public facilities, employment opportunities, entertainment opportunities, and pride for

Melbourne. In this sense, residents implied that due to the F1 Grand Prix being hosted at Albert Park Reserve, facilities in the parkland were perhaps better maintained than they normally would be, and they had access to greater levels of entertainment and casual work as a result of the event. Further, having the international event staged in their local community gave residents a sense of pride. However, residents also identified negative elements associated with the F1 Australian Grand Prix. These included noise levels and traffic congestion. That said, 68% of respondents in the study indicated that they would like the event to continue (Fredline et al., 2005).

## 2.7. Summary

Kranger sat down in his office to review all of the secondary information that he had collated. He understood that this evaluation was going to be difficult to complete because there were so many different stakeholders with competing needs from the event—not the least of which were his own needs as CEO of VMEC. He had so many ideas and questions running through his head. Under the current circumstances, he was wondering about what specific criteria he should use to evaluate the event—as each stakeholder has legitimate reasons for using different criteria. He wondered if the F1 Australian Grand Prix was really worth the \$40 million that the government is contributing to the event—could the money be spent more usefully elsewhere? From his perspective at the VMEC, he was quite clear about the role that the F1 Australian Grand Prix plays in the overall profile of Melbourne's event calendar, and the event as a cornerstone for Melbourne's profile as an event city? If Kranger suggested the discontinuation of the event, would this open the door for Sydney, or other competitors to secure the event? What alternate events of this caliber might be available to be lured to replace the F1 Australian Grand Prix? One of the ideas running through Kranger's head was to suggest a renegotiation of the rights fees with FOM and Bernie Ecclestone. As FOM was pushing Australia to turn to a night race, Kranger pondered whether he could use that as a means for negotiation. When Kranger mentioned this to his colleague, his colleague pointed out that FOM had recently dropped the Canadian Grand Prix from the race calendar when organizers there tried to negotiate their deal. Kranger knew that Melbourne should expect that the FOM negotiated with no one. If they did not provide the right conditions, FOM would take the event elsewhere. Did he really want that?

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