

AUDITOR-GENERAL'S REPORT

PERFORMANCE AUDIT

Government Investment in V8 Supercar Races at Sydney Olympic Park

Industry & Investment NSW
Homebush Motor Racing Authority
Events NSW



The Legislative Assembly
Parliament House
SYDNEY NSW 2000

The Legislative Council
Parliament House
SYDNEY NSW 2000

In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Government investment in V8 supercar races at Sydney Olympic Park: Industry & Investment NSW, Homebush Motor Racing Authority, Events NSW.**

A handwritten signature in black ink that reads "Peter Achterstraat".

Peter Achterstraat
Auditor-General

Sydney
June 2010

State Library of New South Wales cataloguing-in publication data

New South Wales. Audit Office

Government investment in V8 supercar races at Sydney Olympic Park : Industry and Investment NSW, Events NSW / [The Audit Office of New South Wales]. (Performance audit).

9781921252402

1. New South Wales - Homebush Motor Racing Authority - Auditing. 2. New South Wales - Dept. of Industry and Investment - Auditing. 3. Events NSW - Auditing. 4. Public investments - New South Wales - Auditing. 5. Automobile racing - New South Wales - Sydney Olympic Park. 6. Sports car events - New South Wales - Sydney Olympic Park. 7. Sydney Olympic Park (N.S.W.).

I. Title: Government investment in V8 supercar races at Sydney Olympic Park : Industry and Investment NSW, Events NSW. II. Title: NSW Auditor-General's report : Government investment in V8 supercar races at Sydney Olympic Park : Industry and Investment NSW, Events NSW. III. Series: Performance audit (New South Wales. Audit Office).

352.46243909944

332.67252099441

© Copyright reserved by the Audit Office of New South Wales. All rights reserved. No part of this publication may be reproduced without prior consent of the Audit Office of New South Wales.

The Audit Office does not accept responsibility for loss or damage suffered by any person acting on or refraining from action as a result of any of this material.

Contents

Foreword	
Audit conclusion and recommendations	1
Recommendations	2
Phase 1 - Direct negotiation with proponent needs to be justified	8
Phase 2 - Application assessed by major event experts	10
Phase 3 - Negotiation timetable and event plan resolved	12
Phase 5 - Letter of intent signed and approval made public. Deed/Agreement then signed	12
Phase 4 - Costs, benefits and options clarified. Business case revised.	15
Phase 6 - Evaluation of event against KPIs	20
Appendix 1 - Timeline for the V8 supercar races at Sydney Olympic Park	22
Appendix 2 - KPMG review of investment options in Eastern Creek	23
Appendix 3 - Comparison of economic models for event analysis	24
Appendix 4 - Bibliography	32
Appendix 5 - About the audit	33
Performance audit reports and related publications	35

Foreword

Business cases are an important part of justifying the investment of taxpayers' money. Public officials prepare them for Government to provide analysis and investment options. The advice should be objective and well supported. The Government may accept, vary or reject the advice received in business cases.

When government directly negotiates with proponents there is no competitive tendering. In this situation business cases, probity plans and expert advice are essential to ensure accountability.

This audit looks at the Government's significant investment in the V8 supercar races at Sydney Olympic Park, which was the result of a direct negotiation with V8 Supercars Australia. It examines: the quality of advice provided by a number of agencies to government; the implementation of Cabinet's decision; and the performance of the first race against key indicators in the business case.

The audit recommends improved business cases for major event proposals, better costing of government services that support major events and expanded reporting on event performance.

These recommendations, and the audit's findings, are a timely reminder for agencies of the risks involved in direct negotiations with private and non-government organisations for government funds.

Peter Achterstraat
Auditor-General

June 2010

Audit conclusion and recommendations

Background

Governments provide support for many major events and rely on the public service to provide advice about the costs and economic impacts of these events and how taxpayers' funds are best spent.

Government funding for some major events, in the past, has been underestimated. For example, the costs to the State for the World Youth Day festival in Sydney were \$64 million more than initially budgeted. This raised concerns about whether Government is receiving the right advice on major events.

A proposal for government funding of street car races at Sydney Olympic Park was presented to the Minister for State Development by V8 Supercars Australia (V8SA) in April 2008. In previous years V8 supercar races had been held at both Oran Park and Eastern Creek raceways in Sydney. The Oran Park Raceway closed in July 2009 and V8SA decided that Eastern Creek International Raceway was no longer suitable for the type of event it wished to stage.

The Government announced its support for the event at Sydney Olympic Park in late September 2008. An industry assistance grant was capped at \$35 million for five annual races from 2009. The first race was held over 4-6 December 2009 and attracted an estimated 77,000 individual spectators over the three days, or a total of 151,000 through the gates.

The audit did not question Government policy; it examined how effectively Government was advised and its decisions implemented. The audit includes assessment of the event's performance in its first year.

The audit's objective was to examine the effectiveness of the process and analysis supporting the Government's investment in the V8 supercar races at Sydney Olympic Park. In reaching the conclusion against the objective, the audit answers the two lines of inquiry set out in the conclusions below.

Our primary goal for doing this was to look at what lessons can be learned for the future.

(Please note that a reference to State Development means the Department of State and Regional Development, which became part of Industry and Investment NSW in July 2009.)

Conclusions

We recognise that the event was prepared in a tight timeframe, attracted a large crowd and was proclaimed a success by the Premier.

However, we concluded that:

- Government received inadequate advice when assessing the proposal
- Post-event analysis indicates that costs are more than planned and that economic impacts are less than estimated largely because of fewer visitors from interstate.

Was direct negotiation with the proponent properly handled?

We concluded that direct negotiation with the proponent was not well handled. The approach to assessing the proposal and negotiating an agreement did not follow established procedures for investing public funds. We found that:

- Initial advice by State Development to Cabinet in June 2008 was not based around a business case and did not allow Government to make a well informed decision.
- Further advice provided to Cabinet in July and September 2008 was based on limited analysis and restricted consideration of options.
- Events NSW, the major event experts, were not requested to provide advice to Government before the Cabinet's in-principle support in June.
- The Government's negotiating position was weakened by the media reports in July 2008 about the Government's in-principle support for the event at Sydney Olympic Park. The Government and the proponent negotiated an agreement ten months later.

Were estimates of costs and benefits complete and accurate?

We concluded that estimates of costs and benefits were not complete and accurate. We found that:

- Costs to Government are estimated to exceed the cap of \$35 million of cash and in-kind costs approved by Cabinet by \$10 million relating to government agency support. There is no indication that the contribution to V8SA will be exceeded.
- Government received advice that the net direct cost to government would be approximately \$33.9 million. The cost to government will also be reduced by an estimated \$2 million from the sale of infrastructure purchased for the event.
- Estimated economic impacts of the proposal have declined by at least 24 per cent. They are now near the level of earlier benefits analysis that rejected the event at Sydney Olympic Park. While the global financial crisis was a factor in the decline, the 2008 economic analysis of the event proposal was based on increased attendance figures for interstate and overseas visitors.
- The costs and benefits of major events are not routinely made public.

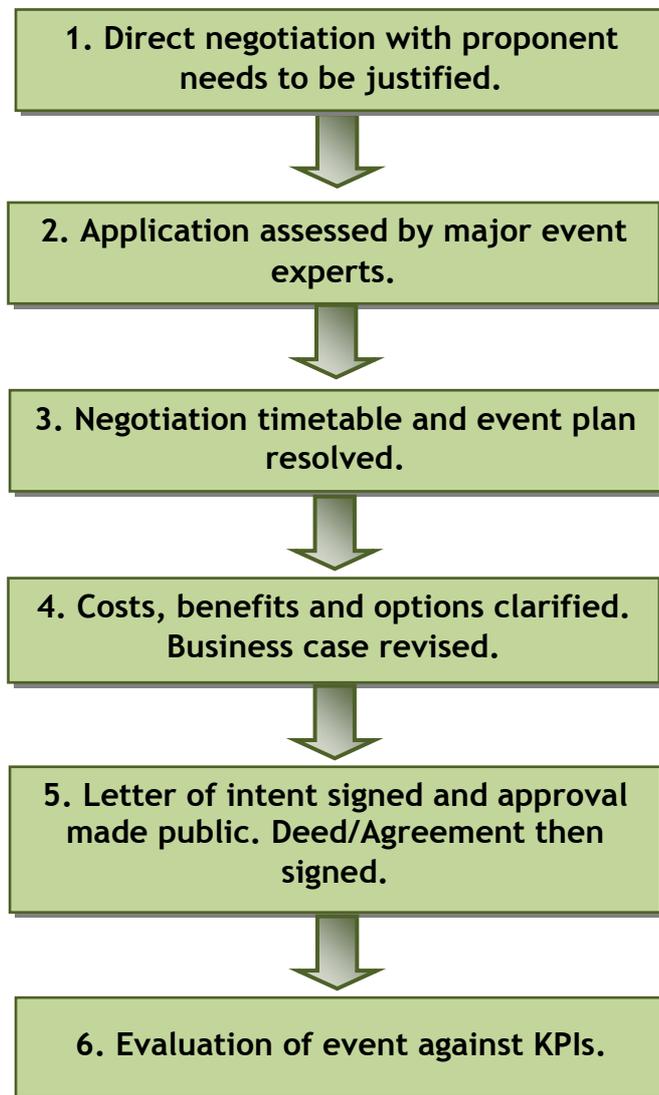
Recommendations

Our recommendations focus on assisting major event agencies to adopt a more coherent strategy for approaching and assessing major events.

We recommend:

1. Events NSW provide expert advice for assessing and negotiating major event proposals adopting guidelines for economic evaluations agreed with NSW Treasury by 1 March 2011 (page 12).
2. Agencies agree a consistent method for determining the impacts of major events by 1 March 2011 (page 12).
3. Where investments in major events are not co-ordinated through Events NSW, that assessment, negotiation and management of the event by the government agency follow relevant best practices. These relate to preparation of business cases, analysis of costs and economic impacts, use of expert assistance, negotiation strategies, supervision and post-event evaluation (page 12).
4. More consistent, complete and accurate costing of events by all agencies involved by 30 June 2011 (page 17).
(We support the proposed review of user charges policy for events.)
5. Agencies expand their reporting on major event performance by 30 June 2011 (page 21).

Exhibit 1: Best practice for major events



Source: Based on NSW Audit Office research.

A timeline of key actions from August 2006 to December 2009 is provided in Appendix 1.

Response from the Department of Industry & Investment NSW

The Report by the Audit Office identifies that the event was prepared in a tight timeframe and it attracted a large crowd.

I have received the Performance Audit Report and provide comment on the Audit Office's recommendations, findings and related matters.

Recommendations

In response to the recommendations I advise as follows:

1. Noted.
2. Noted.
3. Noted. Industry & Investment NSW aims to follow NSW public sector best practice guidelines at all times.
4. Noted.
5. Noted.

Audit Findings

Estimates of Costs

The Performance Audit states that the \$35M budget for an annual V8 Supercar event at Sydney Olympic Park until 2013 will be exceeded by an estimated \$10.107M. The Department strongly refutes that claim based on the following reasoning.

Of this amount identified, \$6.945M is "value-in-kind" costs by other Government agencies but not actually expended. "Value-in-kind" or VIK is not an operational or tangible cost, and is not passed on. For example, the Audit Report refers to the Sydney Olympic Park Authority's (SOPA) value-in-kind costs of approximately \$5.575M over 5 years for potential commercial rents of roads, land and facilities (costs that are not recovered nor able to be charged in this context).

In previous cases where the Government has provided exclusive access to roads or streets for an event, the VIK contribution has not been identified as a cost. In future, to avoid this inconsistency, consideration needs to be given to developing a standard approach for assessing and attributing the VIK for all projects that utilise government assets and services which are not charged at full commercial rates by the Government to the proponents.

The reference to the need for make-good costs of \$2M after the 5 year term is disputed. To ensure that potential costs of this nature were eliminated, major civil works already undertaken to the existing roads and footpaths, are to remain a permanent legacy. V8 Supercars Australia has worked closely with the Sydney Olympic Park Authority and the Homebush Motor Racing Authority in relation to the suitability and acceptance of design and quality of finish. It should be noted that the cost and works associated with any temporary works and the removal of temporary overlay at the end of each year are the responsibility of V8 Supercars Australia, and these make good costs are met by V8 Supercars Australia.

In addition to the annual V8 Supercar event, the Homebush Motor Racing Authority has to date been involved in a number of other motor sport events and projects including the World Rally Championship, and feasibility studies into a number of other events and projects. On this basis, it is not appropriate to attribute all of the Authority's staffing and operating costs to the V8 Supercars. Total operating costs attributable to the V8 Supercars is approximately \$2M over the five years.

All capital expenditure items funded by the NSW Government such as concrete barriers, safety fencing, pedestrian bridges and the like will be returned to Government for disposal following the final event. The Audit Report recognises that the sale of these items will potentially realise a return to Government estimated at \$2M, again reducing the anticipated overrun.

The Performance Audit concludes there is no indication that the agreed contribution from Government to the event proponent, V8 Supercars Australia, will be exceeded.

Discounting VIK contribution, which is not actually expended, and taking into account a \$2M return on assets and a more accurate salary allocation, will eliminate the estimated \$10M projected overrun in Government agency costs. This will result in the annual V8 Supercar race at Sydney Olympic Park until 2013 being delivered within the approved budget allocation.

Business cases and value for money

The Audit Office comments that *"economic analysis after the event indicates that there is a significant decrease in the impacts on the State economy, when compared to the analysis supporting the proposal"*, Industry & Investment NSW notes that State Development varied its estimates as new information and circumstances came to light.

The 2009 pre-event economic impact assessment (EIA) revision, was performed due to the impact of the 'Global Financial Crisis'. The impact of the Global Financial Crisis was not foreseeable when the initial EIA was prepared in April 2008. The subsequent 2009 pre-event EIA revision estimated interstate and international attendance to be only 7% lower than actual figures.

V8 Supercars Australia Pty Ltd (V8SA) approached the NSW Government with a proposal for a premium street race event to be staged at the Homebush Bay Olympic precinct. Alternative venues for the V8 Supercar event were not investigated as V8SA's position was that the Homebush site was the only suitable venue for a V8 Supercar Championship Series street race.

Methods of assessing the impacts of major events on the economy

Industry and Investment NSW uses NSW Input-Output (I-O) tables to assess the economic impact of projects and events. The methodology is simple to use, transparent, and is commonly used by other agencies in Australia and internationally. Events NSW has adopted a simpler approach which restricts itself to a direct expenditure analysis.

In common with the more complex Computable General Equilibrium (CGE) approach, the I-O method enables the analysis to include economic flow-on and employment effects, While Industry & Investment NSW recognises the limitations of I-O modelling and adjusts to allow for displacement and capacity constraints, it also notes that this methodology is widely used, and considers that the use of I-O modelling in this case was appropriate. This is in line with the comment in the Performance Audit which states *"The degree of accuracy required in the assessment may not of course always warrant the undertaking of a CGE analysis and this is a judgment for the analyst to make."* (p26)

The Performance Audit Report does not appear to present a balanced viewpoint with regards to the selection of evaluation methodologies. The Audit Office has listed the advantages of the more complex CGE modelling, without a corresponding listing of the advantages of other methodologies. The shortcomings of CGE modelling are not discussed in the same manner and detail as the shortcomings of other methods. The CGE model is far more costly to run and as such is more appropriately used for "mega" events.

The Performance Audit states that State Development's methodology in assessing the V8 Supercar race *"is not a preferred methodology for evaluating major events"*. Industry & Investment NSW does not share that view and believes some of the criticisms of the Input-output (I-O) methodology are either inaccurate or also apply to the methodologies suggested by the Performance Audit.

The use of I-O Table analysis is an extension of the direct expenditure assessment model used by Events NSW, as acknowledged in the Performance Audit report. NSW Treasury Research and Information Paper TRP 09-3 lists I-O modelling as being a *"long established and standard technique"*. NSW Treasury Policy and Guidelines Paper TPP 09-7 further states: *"Input-output models are widely used to assess the economic impact of projects including employment impacts ... It has the benefit of being relatively simple and transparent"* (p7-8). It is also misleading to

suggest that the criticisms of I-O modelling do not apply to other modelling methodologies - all economic modelling methodologies use restrictive assumptions about social and environmental costs, as models necessarily simplify real-world phenomena.

Further, while the Performance Audit suggests the Department should have used CGE modelling, NSW Treasury guidelines state that: "*CGE models ... are very complex, requiring a high level of expertise to use. Estimates from a CGE model may be sensitive to assumptions imposed on the model, and are reliant on data that has its own limitations such as sampling errors. CGE modelling cannot avoid subjective judgements ... Therefore, for most actions, CGE modelling would be an excessively costly or time-consuming exercise. CGE models are usually only used to assess the impacts of major economic reforms and large projects and events*" (TPP 09-7, p8).

The Performance Audit has also criticised Industry & Investment NSW for not having conducted a cost-benefit analysis (CSA), while at the same time acknowledging that "*(g)iven the large data requirement for a detailed CBA to be conducted it is not practicable to use it for most events*", and "*(a) review of the worldwide literature on event assessment reveals that only a handful of studies have employed CBA*". The Audit Office's statements appear to be contradictory. *

Industry & Investment NSW's view is that care needs to be taken to recognise that each methodology and model type has its own particular strengths and weaknesses. Economic modelling is not a precise science and relies on assumptions and linkages made by the model builder. Accordingly, the models adopted for ongoing use need to be identified on the basis of their suitability for events that are generally relatively small in scale and impact.

While Industry & Investment NSW recognises the limitations of I-O modelling, it also notes that this methodology is commonly used by other agencies in Australia and internationally, and considers that the use of I-O modelling in this case was appropriate.

Release of the Audit Report

The preliminary draft of the Audit Report dated 3 May 2010, or parts thereof, was electronically circulated to a number of organisations at the time it was provided to Industry & Investment NSW. There appears to have been inadequate regard for the confidentiality of the material contained in the draft report, which was still subject to ongoing consultation and negotiation.

On the other hand, the Sydney Olympic Park Authority was not provided with a draft copy of the Report for their comment, and V8 Supercars Australia was not given the opportunity to participate in the audit process, although their input may have been of assistance to the Audit Office in evaluating Government processes.

As the Audit Report recognises, the inaugural three-day V8 Supercar event at Sydney Olympic Park attracted a large crowd and was proclaimed a success by the Premier. Work is now underway to deliver an even better event in 2010.

(signed)

Richard Sheldrake
Director General

Dated: 11 June 2010

* Audit Office comment: These quotations from Appendix 3 were subsequently revised following late representations from NSW Treasury. Please see the top of page 29 for the revised commentary on issues with the cost benefit analysis (CBA). The Appendix canvasses the pros and cons of the various approaches to the economic modelling of major events and should be read as a whole. The audit supports the use of CBA for major events.

Comment by the Auditor General on agency responses to the audit

No stated commitment to the audit's recommendations

The agencies audited have failed to publicly commit to implementing the audit's recommendations. This is disappointing as the recommendations aim to achieve a coherent strategy for approaching and assessing future major events. The approach must be improved to better justify the use of taxpayers' funds for major events.

Shortcomings in the response from Industry and Investment NSW

The response received from Industry and Investment NSW disagrees with a number of the report's findings. Contrary to Cabinet's decision the agency is continuing to exclude in-kind costs from the event's budget. The agency is also using economic modelling for industry assistance that is not supported by NSW Treasury. This matter should be resolved urgently.

Contrary to the response from Industry and Investment, the Sydney Olympic Park Authority did receive relevant extracts from the report for comment. Specific matters requiring the attention of V8 Supercars Australia were satisfactorily addressed via the Homebush Motor Racing Authority.

Unacceptable early release of the report

All my reports are distributed for comment and clearly marked confidential. This is Audit Office practice and meets the requirements of natural justice. Unfortunately, there was a breach of this confidential government process by persons unknown. I intend to pursue an amendment to the Public Finance and Audit Act to make this an offence.

Phase 1 - Direct negotiation with proponent needs to be justified

Direct negotiations with the proponent did not clearly follow due process and value for money was not demonstrated. There was not:

- a business case justifying negotiation with the proponent only
- appropriate analysis of costs and benefits
- expert advice from major event specialists
- a negotiation strategy with a steering group to oversight progress.

Justifying direct negotiations

Government support for major events is generally the result of a direct approach from a proponent. Lack of competitive process means that direct negotiations should be well justified.

Independent Commission Against Corruption (ICAC) guidelines provide principles for negotiations with companies that directly approach ministers and agencies for government support and funding.

State Development’s position is that their industry assistance processes conform to the ICAC guidelines.

Exhibit 2: Key principals for direct negotiations

Direct negotiation is justified on the grounds that:	Direct negotiation should generally include:
<ul style="list-style-type: none"> • a competitive tender is not appropriate 	<ul style="list-style-type: none"> • contingency planning
<ul style="list-style-type: none"> • the outcome is consistent with the agency’s business 	<ul style="list-style-type: none"> • expert external assistance and a steering committee or similar oversight mechanism
<ul style="list-style-type: none"> • it is supported by a business case* 	<ul style="list-style-type: none"> • negotiation protocols and a timetable
<ul style="list-style-type: none"> • analysis of costs and benefits validates value for money. 	<ul style="list-style-type: none"> • a probity plan and accountability through segregated responsibilities to manage potential conflicts of interest.

Source: ICAC *Guidelines for managing risks in direct negotiations* May 2006

Note: * also stipulated by NSW Treasury in *TPP 08-05 NSW Treasury Policy & Guidelines Paper: Guidelines for Capital Business Cases*

Business cases and value for money

We found that the business cases prepared by State Development were not comprehensive. State Development prepared submissions for Cabinet on three occasions: initially in June 2008, and revised versions in July and September 2008.

The lack of robust business cases meant that State Development analysis did not prove that investment in the race would achieve value for money.

The business cases didn't sufficiently analyse alternative venues to the proponent's proposal for Sydney Olympic Park such as upgrading the Eastern Creek International Raceway. State Development appear to have relied on the proponent's statements against Eastern Creek; that it was poorly managed, not convenient for public transport and required \$125 million to upgrade the track to make it suitable for V8 supercars.

Investing in Eastern Creek rather than Sydney Olympic Park would have avoided such costs as: special legislation for the staging of the event, a new authority for the event, potential damage to sensitive environment, haulage and storage of barriers etc, and 'make good' expenses following five years. Investment in Eastern Creek would create benefits all year round, rather than over a period of two weeks each year. However, V8SA were concerned about the limited crowds attracted to past supercar events at Eastern Creek and the limitations of public transport to the raceway.

A business case for investment options was prepared by consultants KPMG in March 2009 for Eastern Creek International Raceway. This is outlined in Appendix 2.

Negotiation strategy

We did not find a coherent negotiation strategy that best considered the Government's obligations. State Development did not agree a negotiation protocol with the proponent.

Initially the negotiation timeframe was influenced by the proponent's requirement for a quick decision, which proved to be unnecessary. (This is explained in commentary under Phase 2 - Application assessed by event experts.) Following this, there was a protracted period during which the deed was negotiated.

The scale of the intended event, its location and the level of government sponsorship required a more coherent approach to negotiations.

We found the assessment and negotiation processes in Events NSW would have better assessed value for money. Their procedures follow a sequence of justifying, planning, negotiating and announcing major events. It better mitigates risks of early Government announcements of event sponsorship and potential weakening of negotiating positions. There were variations by State Development from these better practices.

Expert advice from an advisory committee and other experts

State Development did not engage a project advisory committee to assist with the extended negotiations and did not develop a probity plan.

When conducting direct negotiations for large projects, it is standard practice for agencies to engage technical, legal, financial and probity advisers in order to satisfy themselves that direct negotiation risks are managed.

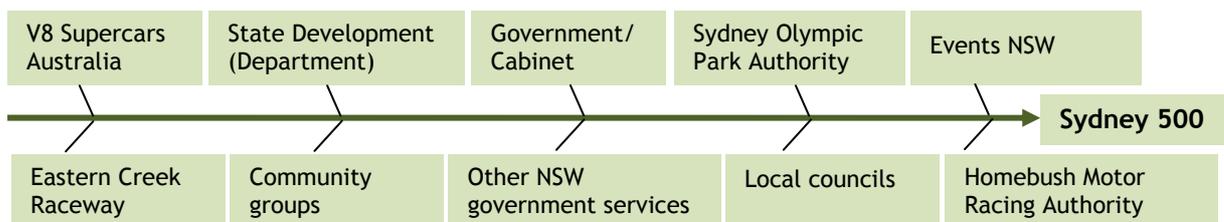
State Development complied partially with the guidelines. A Government appointed Project Steering Committee analysed costs over a six week period from early August to late September 2008. A legal firm was engaged to advise on the deed between Government and the proponents during the negotiation process. However, they were not part of an ongoing team overseeing negotiations. These initiatives went some way to reducing Government exposure to contract risks.

Managing potential conflicts of interest

Potential conflicts of interest were not dealt with actively through the use of a negotiation strategy to ensure that controls were operating.

In October 2008, questions were raised with the Minister for State Development in Parliament about possible conflicts of interest. These were also reported in the media at the time. Claims about possible conflicts due to his friendships with people associated with the negotiations were denied by the Minister. We observed a file note by a departmental officer who had enquired about the allegations made in Parliament. This was four months after the negotiations had commenced.

Exhibit 3: Key stakeholders in the event



Consultation with stakeholders

Effective consultation with stakeholders occurred late.

State Development consultation with the community only started in September 2008, three months after the in-principle decision by Cabinet was made. The Sydney Olympic Park Authority (SOPA) was consulted only after initial in-principle support was given by Cabinet.

Consultation processes were established in early 2009 with residents, businesses, local and State government agencies. This followed the establishment of the Homebush Motor Racing Authority.

Phase 2 - Application assessed by major event experts

The industry assistance process is not designed for the assessment of major events. As a result, Government did not get the quality of assessment it should have received.

Major event expert advice not sought

State Development did not seek advice from Events NSW before providing its initial advice to Cabinet in June 2008. Initial advice was sought from Events NSW by the Minister just days after the decision by Cabinet to support the event in-principle.

Initial feedback from Events NSW was that their limited analysis indicated the proposed event required further analysis to more fully assess the proposal. In response to this the Director General of State Development advised the CEO of Events NSW on 25 June 2008 that there was:

... no requirement for a new benefit cost analysis to be undertaken as the government commitment will not change from that approved by the Cabinet Budget Committee.

Events NSW provided further advice to State Development and the Premier over the next two months.

A letter from the CEO of Events NSW to the Acting Director General of State Development on 1 July 2008 advised that:

- the proponent's requirement for a Government decision by the end of July was unnecessarily short as this only applied to the programming of international races - a decision for domestic races was not required until 1 October [this was later accepted]
- an overlay plan for the event must be developed urgently for estimating costs and risks
- it is too early to estimate costs
- it will be difficult for the event to be cancelled once it is announced.

On 3 July 2008 the Chairman of Events NSW wrote to the Premier expressing concern about:

... the haste with which the proposal is being driven ... at odds with the appropriate need for due diligence

... progressing a proposal to Hallmark Event status without reference to Events NSW ... [that] ... has developed a robust process for assessing events for inclusion in Sydney's Master Calendar...

In a further letter to the Premier on 29 August 2008, in relation to the revised estimates of government costs of \$36.5 million over five years, the Chairman of Events NSW stated that:

... the V8 supercar proposal appears to afford minimal return on a very large investment, relative to other options ... and that ... this event is not accurately represented as being a strong driver of economic return on investment, or of significant international exposure.

The Government and State Development did not agree with Events NSW's position and State Development continued in the pivotal position as key adviser to Government.

The tipping point for the Government appeared to be V8SA's advice that the event would be lost to Sydney without significant government investment.

Responsibility for major events

We have concerns about State Development being the best agency for assessing and negotiating major sporting events and their industry assistance grants being the most appropriate means of funding.

In late 2007 the major events function moved from State Development to Events NSW. Prior to this, State Development had provided two assessments of the proponent's proposals, both of which were rejected. The initial approach by State Development in 2006 was assessed as unsuitable for the Olympic precinct, and the second in 2007 as providing too low a return to justify government sponsorship. A revised proposal, provided to the Minister for State Development in April 2008 was presented to Cabinet in June 2008.

State Development and major sporting events

It is unusual for State Development to provide a grant for a major sporting event. State Development has a broad mandate to provide industry assistance grants to promote economic growth through attracting new business investment and helping existing enterprises grow and improve their competitiveness. The last major event supported by an industry assistance grant was the Forbes International Business Conference in 2005.

The State Development website directs inquirers seeking information on government support for major events to contact Events NSW.

The role of Events NSW

Events NSW was established in late 2007 following recommendations made in the O'Neill review into a possible events corporation for NSW (June 2007). It reported that:

... The situation has been exacerbated by a fragmented and confused governance structure for Sydney, the absence of clear, committed and co-ordinated mechanisms for its promotion, and contradictory incentives for the use of some important, relevant facilities.

The review recommended that:

... The Events Corporation would subsume the functions currently under the Major Events Board and ... a few related departmental roles.

Events NSW is to identify, attract and nurture events which will provide significant economic and/or community benefits to Sydney and NSW. This includes encouraging investment and infrastructure development, and promoting a master calendar of events. As a State owned company Events NSW has a commercial outlook. Its budget for investing in major events is \$85 million over the three years 2007-08 to 2009-10.

We recommend:

- Events NSW provide expert advice for assessing and negotiating major event proposals adopting guidelines for economic evaluations agreed with NSW Treasury by 1 March 2011.
- Agencies agree a consistent method for determining the benefits of major events by 1 March 2011.
- Where major events are not co-ordinated through Events NSW, that assessment, negotiation and management of the event by the Government agency follow relevant best practices. These relate to preparation of business cases, analysis of costs and benefits, use of expert assistance, negotiation strategies, supervision and post-event evaluation.

Phase 3 - Negotiation timetable and event plan resolved

and

**Phase 5 - Letter of intent signed and approval made public.
Deed/Agreement then signed**

Initial analysis was unnecessarily rushed and the Government's negotiating position was exposed in the media before it could finalise its position. An extended negotiation and approval process followed.

The Government announced its support in late September 2009. At this time, there was no letter of intent signed between the Government and the proponent based on analysis of finalised plans. It was another seven months before a Deed was signed in April 2009.

The preferred approach is to maintain confidentiality until negotiations have finalised event details and the Government's commitment. Letters of intent can then be exchanged prior to the Deed being signed.

Initial negotiations rushed

From the start, negotiations were not well planned and they proceeded in a disjointed manner.

The timetable presented to Government was very tight and put State Development and Cabinet under pressure to make decisions based on rushed and limited analysis. The Government was concerned with V8SA's advice that they would withdraw from holding a supercar race in Sydney if their proposal was not supported. Cabinet's initial considerations on 16 June and 28 July 2008 were based on advice from State Development and V8SA that approval was required by end July 2008.

Events NSW had in early July 2008 advised State Development that V8SA had until 1 October 2008 to meet the notification date required by the racing authorities. The July deadline advised by V8SA related to international events only, so there was time for additional consideration.

Media exposure puts pressure on Government

Media coverage of Cabinet's decision of in-principle support for the development of the proposed event at Sydney Olympic Park put greater pressure on the Government to approve it. The coverage in early July 2008 included the proponent's statement that it was withdrawing from Eastern Creek where it had previously held V8 supercar races.

Public exposure occurred prior to the Government receiving a robust business case and providing formal approval. Being so early in the negotiation process it potentially weakened the Government's competitive position in negotiations. Comments in the media included:

Cabinet's in-principle approval to V8SA proposal ... how V8SA were frustrated previously by bureaucrats (Daily Telegraph, 3 July 2008)

... costs estimates likely to be under-estimated ... V8SA not supportive of Eastern Creek ... claims of lack of consultation with residents (Sydney Morning Herald, 4 July 2008)

V8SA having no intention of going back to Eastern Creek (Wheels, 11 July 2008).

Further negotiations take time

Approval was given by Government as negotiations and detailed planning for the event continued. The preferred approach, which is to maintain confidentiality until negotiations have finalised details, and letters of intent have been exchanged, was not taken.

Approval for the industry assistance grant was given by Cabinet in mid-September 2008. This was followed by public announcement of Government support in late September 2008. The Deed, between Government and proponent, was signed seven months later on 24 April 2009.

This extended ten month delay between initial negotiations and the Deed being signed was exacerbated by the lack of a clear timetable for negotiations (as above) and lengthy planning for the race precinct. This overlay planning for the event should have been finalised earlier to facilitate negotiations, budgets and consultation.

State Development advised that the reason for extending the time period to negotiate the Deed was to ensure that Government's rights were fully protected and maximised and that all foreseeable risks were mitigated.

Overlay planning was required from the proponent five months before the first race, by 4 July 2009. This was stipulated in a Ministerial Order of 28 May 2009. However, details of the first stage of construction, including road works and the associated traffic management plan were not made available for public viewing until 7 July 2009. Plans and dates for the 'bump-in' for construction of temporary grandstands, and the installation of concrete blocks, temporary fencing and pedestrian bridges were not made until late October 2009. This was well after public announcement of the event in September 2008 and the preparation of supporting submissions to Cabinet.

The Homebush Motor Racing Authority (HMRA) advised that it was not possible to have all the final details of the event and overlay planning ready six months out from the event, as the fine details were not known or available.

A further factor delaying the signing of the Deed was approval by the Commonwealth Department of Environment, Water, Heritage and the Arts required under the Environment Protection and Biodiversity Conservation Act 1999. The approval was sought by V8SA on 6 March 2009 and granted on 2 April 2009.

Establishment of event specific legislation

Negotiations were also delayed by the decision to establish HMRA.

In mid-2008 the Government was advised that to successfully stage the races at Sydney Olympic Park the Sydney Olympic Park Authority's (SOPA) legislation would have to be substantially amended.

In December 2008 legislation creating HMRA was proclaimed. The legislation gives HMRA control of Sydney Olympic Park by overriding sections of the SOPA legislation for the staging of the supercar races. The Act constrains compensation, planning and environment requirements and assumes responsibilities from SOPA necessary for the event. The Act is similar to that for the World Youth Day event held in Sydney in July 2008.

HMRA advised that the establishment of the Authority in early January 2009 left sufficient time (although tight) in the remaining 11 months to adequately manage planning for the event, and that this was proven by the success of the event.

Recent changes to major event arrangements

Changes to administrative arrangements for future major events provide this audit with an opportunity to influence how they will be implemented.

In October 2009 the Major Events Act came into force. Under the Act, the responsible Minister or the Premier can declare a major event by regulation. This overcomes the need for specific event legislation like that for the recent World (car) Rally and the V8 supercars events.

The Act also allows an event specific authority or the Department of Premier and Cabinet power to be responsible for entering into arrangements with the event organiser. Other powers include co-ordinating transport services and traffic arrangements, controlling event overlay marketing and advertising, enforcing safety and crowd provisions, and modifying environment and noise provisions for an event.

On 11 March 2010, the Minister for Major Events was appointed with responsibility for acquiring and attracting events. The new Minister is also responsible for State and Regional Development. The Premier continues to have responsibility for Events NSW and a new Cabinet Committee will support the events strategy.

Phase 4 - Costs, benefits and options clarified. Business case revised.

The assessments of costs and benefits were not robust.

Economic analysis after the event indicates that there is a significant decrease in the impacts on the State economy, when compared to the analysis supporting the proposal.

Costs to Government are estimated to exceed the cap of \$35 million approved by Cabinet.

The basis for determining user charges for major events should be reviewed.

Government agency costs greater than anticipated

We anticipate that the initial government agency costs will double and that the cap of \$35 million will be exceeded in the third year. The table below indicates our estimate of the full extent of this.

The Deed between Government and V8SA limits the contribution to V8SA to \$26.49 million over five years. There is no suggestion that this will be exceeded at this stage. The balance of \$8.51 million over the five years is for other government activities. It is crucial that this amount remains firm, if the budget is to stay within the cap set by Cabinet of \$35 million for both cash and in-kind costs.

The Audit Office's estimates of government agency costs are based on analysis of advice from the agencies involved and include consideration of in-kind costs. HMRA's budget did not include in-kind costs. We observed that the supporting agencies did not record costs on a consistent basis and our estimates could be understated.

Exhibit 4: Government agency costs

\$million	Budget estimate for 5 years ^a	Audit Office 5 year estimate ^b	Value in-kind included by AO	Difference between Budget & AO
Sydney Olympic Park Authority	3.595	6.089	5.575	2.494
Transport agencies ^c	2.390	3.914 ^d	0.450	1.524
State Development/ HMRA	0.650	6.330	-	5.680
Police Force	1.170	1.818	0.920	0.648
Ambulance Service/ Fire Brigade	0.440	0.200	-	(0.240)
Total	8.245	18.352	6.945	10.107

Notes: ^a from Budget Impact Statement of September 2008

^b based on recent advice from agencies and including invoiced and in-kind costs

^c trains, buses and co-ordination

^d transport costs are net of the transport subsidy of approximately \$720,000 per annum paid by V8SA.

Major reasons for the higher Audit Office estimates are:

- SOPA in-kind costs of approximately \$680,000 per annum for commercial rents of land and facilities that are not recovered; and SOPA estimate of \$2 million for 'make good' of the race area after five years.
- Under-estimation of all transport costs based on lower attendance figures.
- HMRA setup costs being at least \$725,000 (budget = \$250,000) and running costs of \$900,000 per annum (budget = \$80,000 per annum).

HMRA's costs do not include the proceeds from the sale of raceway equipment purchased by V8SA but owned by the State. The items include protective fencing, concrete barriers, pedestrian bridges, signs, portable buildings, tyre bundles, start lights and timing equipment. The total cost of this in 2009 was approximately \$10 million. The Audit Office anticipates the proceeds of the sale of these items in late 2013 being approximately \$1.5 to \$2 million. This figure is low because of the specialised and physical nature of many items, wear and tear, and significant storage costs. Also, the items are not part of an on-going business. HRMA believes that the items could sell for up to \$3 million.

Budget estimates for government agency costs

Budget estimates for government agencies did not include in-kind costs.

External reviews of the adequacy of V8SA's funding proposal were in two stages.

First, a review by an independent consultant conducted over a ten day period was advised to the July 2008 Cabinet meeting. It excluded most supporting agency costs and therefore didn't include in-kind costs.

Second, the Project Steering Committee (PSC) review was presented to the September 2008 Cabinet meeting. The Committee comprised government agency representatives and an independent chair, and was assisted by a firm of consultants. It met over six weeks. The Chairman advised the Minister for State Development that the PSC had undertaken a comprehensive review of costs and risks associated with the proposed race proposal. However, the PSC, like the earlier review, only considered the budget on a cash basis and did not consider in-kind costs required to support the race. These and other benchmarks are outlined in the table below.

Exhibit 5: Comparison of event budgets for five years

\$ million	V8SA proposal April 2008	Crawford review July 2008 (to Cabinet)	PSC review (initial) Sept 2008	PSC review (revised) Sept 2008 (to Cabinet)	Deed April 2009	HMRA March 2010	Audit Office estimate
V8SA Capital	13	14.2-15.4	14.75	13	14.74	14.74	14.74
V8SA Recurrent	12.5	16.2-20.5	12.5	12.5	11.75	11.75	11.75
Total V8SA	25.5	30.4-35.9	27.25	25.5	26.49	26.49	26.49
Government agency costs	not provided	2	9.09	6.1	8.51*	8.77	18.35
Total cost to Government	-	32.4-37.9	36.34	31.6	35	35.26	44.84

Note: * Government services not costs referenced in Deed. Figure is balancing amount to equal cap of \$35 million.

In response to the PSC review, Treasury recommended to Cabinet that they not support the funding of the event. Treasury noted that the return on investment is not attractive given the risks, such as costs being exceeded, associated with the proposal.

Other concerns about the budget for agency costs

Budgets were prepared at a time when the event planning was significantly incomplete. Without appropriate planning and sufficient time for analysis, costs for the event are at greater risk of exceeding the cap of \$35 million.

Under the Deed, the Government is responsible for agency costs. V8SA are only responsible for a contribution towards meeting public transport costs. However, the budgets prepared for the proposal did not include contingency reserves for costs above the approved cap. There was limited modelling of different scenarios such as best case, worst case and most likely. In such circumstances where funding is capped, increases in government agency costs can only be met by additional government spending.

Determining what event organisers pay for government services

We found inconsistencies with how the user charges policy was applied to this event.

User charges applied to the V8 supercar races as they were declared a hallmark event by Cabinet. Under the policy, hallmark events are typically major events of national or international importance that enhance awareness, appeal and profitability of a destination. They are to provide significant social and economic benefit, and involve complex logistics including co-ordinated assistance from transport, road, police and emergency services.

The user charges for an event are based on avoidable costs. Full costs are not recovered. Avoidable costs are defined as the variable costs that would have been avoided by an agency if its services were not provided. For example, overtime is claimed for the personnel involved but not overheads incurred in employing the staff members or supplying and operating the related standard plant and equipment required. This minimal level of costing contributes to the level of subsidy events receive.

The Government agency costs, calculated under the user charges policy, are funded from appropriation received by HMRA. V8SA are contributing approximately \$720,000 per year towards public transport costs. Government agency costs paid by HMRA in the first year are greater than twice the transport contribution alone. In addition, V8SA also receive from government \$2.35 million each year for recurrent costs, which can be applied to the transport costs.

Other issues raised with us by agencies were narrowly defined event boundaries and an increasing number of user charges events. Instances cited were: traffic congestion outside the venue not normally being covered by user charges, and the increasing number of subsidised events putting pressure on agency budgets.

We have been advised by the Department of Premier and Cabinet that the current user charges policy is under review.

Recommendation

We support the review of the user charges policy for major and special events by 30 June 2011. We recommend that agency costs under the policy should be calculated more consistently and that the full extent of government subsidy for events be identified and better managed.

State Development's economic analysis

The evaluation of the economic analysis using performance results from the first race shows that impacts have significantly reduced and now approximate the analysis by State Development in 2007 that the return on government investment was very low when compared to major event benchmarks.

State Development conducted Economic Impact Analysis (EIA) of V8SA proposals on a number of occasions.

On the basis of the September 2007 economic analysis the Director General of the Department of State and Regional Development did not support V8SA's proposal on the grounds that it indicated a low return on investment. In April 2008 an EIA was again undertaken on a revised proposal by V8SA. The results of this analysis were provided to Cabinet. This EIA, with some minor adjustments, was made public by the Minister of State Development in November 2008. A further revision of this EIA in April 2009 assessed the impacts of the global economic crisis.

Differences between the revised 2009 analysis of the accepted proposal and the 2007 analysis rejecting an earlier proposal have narrowed. The September 2007 economic evaluation estimated the present value of the impact on Gross State Product (GSP), over five years, as \$46 million after government contributions. This is only marginally more than the relevant figure in the 2009 analysis of \$40 million - see Exhibit 6.

Exhibit 6: Comparing State Development Economic Impact Assessments

Assumptions		Revised 2009 GSP impact \$ million				2008 Analysis GSP impact \$ million	
		Present value	Change from 2008	Nominal value	Change from 2008	Present value	Nominal value
No spectator increase each year	Government financial assistance deducted	34	(46%)	41	(44%)	63	74
	Government financial assistance NOT deducted	73	(18%)	83	(18%)	89	101*
With spectator increase of 10% each year	Government financial assistance deducted	40	(43%)	48	(42%)	71	83
	Government financial assistance NOT deducted	75	(22%)	86	(22%)	96	110*

Source: State Development EIA April 2009.

Note: * These figures were quoted in the Minister for State Development's press release of 13 November 2008 when releasing details of the event's economic modelling.

In March 2010 State Development undertook post-event analysis of their April 2009 EIA, using the attendance survey results from the first race. The basis of comparison used in the analysis was the total direct expenditure by visitors from interstate and overseas, including teams and sponsors. In EIA analysis this figure is adjusted by economic multipliers to estimate the impact on Gross State Product, as indicated above.

State Development advised that the post-event analysis confirmed their 2009 analysis and its estimate of total direct expenditure by visitors. Compared to the 2008 analysis there is a 24 per cent reduction in direct expenditure for the first race. As indicated in the exhibit below, the confirmed 2009 figure is lower than the direct expenditure estimate made in 2007 when a similar proposal from V8SA was not supported. This relates to variations in numbers of interstate and overseas visitors.

Exhibit 7: Estimates of direct expenditure by visitors attending the first supercar race

Date of analysis:	September 2007	April 2008	April 2009 & March 2010
Estimated expenditure by interstate and overseas visitors	\$22.1 m	\$26.9 m	\$20.4 m
Estimated interstate & overseas visitor numbers	14,200	17,553	14,000

Source: State Development economic analysis

Methods of assessing the impact of major events on the economy

The economic impact analysis (EIA) applied by State Development when assessing industry assistance, and applied to supercar races, is not a preferred method for evaluating major events. NSW Treasury have indicated that they agree with this assessment that EIA is not a preferred method.

In comparison to other forms of economic assessment, EIA (or input-output analysis) is criticised because it fails to allow for resource constraints and for its restrictive assumptions about social and environment costs. Its use of multipliers also exaggerates economic impacts.

Events NSW's method for the evaluation for major events is the direct expenditure assessment model. This method takes into account monies flowing into New South Wales from spending by spectators, competitors, officials and media from outside the State or outside the event area within the State. The number of visitors and their expenditure is predominantly captured by sampling and on-line surveys. In EIA economic multipliers are applied to these estimates.

The attraction of the direct expenditure assessment approach for small to medium sized major events is that it applies straight forward analysis, and that on its own terms, results are easily compared, pre and post-event. Criticism is that it provides only limited insight into the economic benefit arising from the visitors' expenditure.

Cost benefit analysis (CBA) is the widely accepted method of economic evaluation. Another generally accepted method of economic impact analysis is the computable general equilibrium (CGE) method. CBA is a longstanding approach where investment decisions are considered to the extent that benefits exceed costs. The CGE method expands many of the EIA assumptions and depending on model availability need not be much more costly. A CGE model for New South Wales is available. CBA is strong at estimating net social benefits and CGE at economic activity analysis. It is possible to integrate the two approaches to combine their strengths in the evaluation of large events.

For further discussion of these approaches please see Appendix 3.

Jobs supported by Government's investment

The estimated number of jobs supported by the event has also reduced in line with the revised economic analysis. In 2008 State Development estimated that an equivalent of 110 full time jobs would be supported by the event over five years. Based on these job numbers State Development estimated that payroll taxes of \$1.1 million would be generated over the five years of races. In September 2008 they advised Cabinet that the net direct cost to government could be approximately \$33.9 million (that is, the cap of \$35 million less estimated payroll receipts).

Using the same method as State Development, the calculation was re-performed by the Audit Office using information from State Development's post-race analysis undertaken in March 2010 and their April 2009 analysis which assessed the impact of the global financial crisis. The result is 71 full time equivalent jobs supported by the event over five years, or a 35 per cent decrease from the 2008 estimate.

Recommendation

We recommend that the methods for determining the benefits of major events be consolidated and agreed to support consistent evaluation pre and post-events by 30 June 2011.

Phase 6 - Evaluation of event against KPIs

State Development and Events NSW provide very limited public disclosure of sponsored events' performance. It should be expanded and only be limited by proven commercial risks.

The Key Performance Indicators (KPIs), agreed between Government and proponent, should be evaluated after each event. They should be made public to the extent possible.

Extent of reporting on major events' performance

There is limited public disclosure on the performance of government sponsorship of major events, including the V8 supercar event.

Neither State Development nor the HMRA have policies and procedures in place to publically report the performance of industry assistance grants. This finding was also reported by past reviews of industry assistance by the Public Accounts Committee (2001) and the Audit Office (1998).

Events NSW, a State owned company, provides an annual report on their performance to the Premier and the Treasurer. An annual report isn't provided to Parliament, or otherwise made public.

Reasons for this lack of reporting are:

- the confidential nature of the commercial arrangements with proponents, and
- sensitivity about the release of funding details, etc to competitors, including other States - giving them an advantage in future bidding for events.

On the other hand:

- agencies need to be accountable to taxpayers for how public funds are spent on major events and the extent to which they are providing value for money
- the investment is apparent when the event is held, and
- many promoters release performance figures to advertise their success.

We consider that essential measures of a major event's performance to be publicly reported are:

- its financial impact on the State, and
- attendance by visitors from overseas and interstate.

These are two objective measures generally included in the evaluations conducted before and after major events. By not reporting the performance of the Government's investment in major events, the agencies cannot substantiate claims that they are performing as well as they claim.

The Deed contains a number of KPIs. The following table compares Deed KPIs with the market research figures provided by HMRA.

Exhibit 8: Event Key Performance Indicators (KPI)

KPI	Deed target for 2009	Market research result for event
Total attendees	80,000	77,000 *
Interstate visitors	13,000	8,000
Overseas visitors	1,200	2,000

Note: * This figure is for individual attendees over the three days of races. It is not the figure for their multiple attendances over the three days, which was estimated to be 151,000.

Market survey further indicated that 85 per cent of attendees came from NSW (67,000) with the vast majority from Sydney. Forty per cent of visitors rated the importance of after race entertainment as high. They stayed about four days, spending approximately \$150 per day.

We are uncertain of the extent to which the market research figures include those who were with sponsors or race teams.

Recommendation

We recommend greater reporting on the performance of major events. In doing so, we recognise that this may sometimes be limited because of the competition for events.

Appendix 1 - Timeline for the V8 supercar races at Sydney Olympic Park

August 2006	<ul style="list-style-type: none"> - letter from Director-General State Development to V8SA stating he can't support their proposal based on SOPA's legacy and legislation, and level of contribution requested
September 2007	<ul style="list-style-type: none"> - economic impact analysis by State Development of further proposal by V8SA confirms low return - Events NSW established as State's major event specialist - staff moved there from State Development
April 2008	<ul style="list-style-type: none"> - revised V8SA proposal to Minister for State Development for government payments to V8SA of \$25.5 million over five years - economic impact analysis re-performed by State Development using increased attendance figures - this analysis provided to Cabinet
June 2008	<ul style="list-style-type: none"> - Cabinet give in-principle support for development of V8 supercar event at SOP - supporting analysis by State Development (as above)
July 2008	<ul style="list-style-type: none"> - media report on in-principle Government support and also report that V8SA rejects Eastern Creek as alternative venue - Events NSW writes to Premier saying they can't support the event - SOPA writes to State Development saying they don't support the event as it is incompatible with their purpose - independent advice by expert to State Development that government costs for event in range \$32 to \$38 million - Cabinet agree to establishment of a Project Steering Committee (PSC) of key agencies to further study cost to government
September 2008	<ul style="list-style-type: none"> - State Development provide advice to Cabinet including independent chairman of PSC estimating costs to Government of \$32 million over five years - Cabinet limits Government contribution to host event at \$35 million in cash or in-kind over five years - Premier publicly announces Government's support
November 2008	<ul style="list-style-type: none"> - State Development economic impact analysis made public by the Minister
December 2008	<ul style="list-style-type: none"> - HRMA created by legislation to facilitate event
April 2009	<ul style="list-style-type: none"> - approval for event received from Federal Environment Department - deed signed by State Development and V8SA and includes government contribution to V8SA of \$26.5 million over five years (leaving \$8.5 million, within the cap approved by Cabinet, for other government activities) - State Development revise their economic analysis indicating fewer benefits
July 2009	<ul style="list-style-type: none"> - civil works begin on establishing the race track by V8SA contractors, includes the removal of trees for road widening and the replanting and replacement of trees within Sydney Olympic Park
December 2009	<ul style="list-style-type: none"> - first Sydney 500 held on 4, 5 and 6 December at Sydney Olympic Park with an estimated 77,000 individual spectators over the three days, or a total of 151,000 through the gates.

Appendix 2 - KPMG review of investment options in Eastern Creek

The KPMG report assesses six options for investing in the raceway on cost and benefit grounds. The report was prepared for the current lessees of Eastern Creek, the Australian Racing Drivers Club (ARDC). The review's preferred option is number four. It is claimed the investment of \$73.4 million will support the best return on investment to meet the long term needs of Sydney's racing community and help attract major race meetings on a year-round basis.

Options \$ million	1	2	3	4	5	6
Capital contribution to upgrade Eastern Creek facilities	1.0	8.6	68.0	73.4	104.3	110.3
Gross State Product benefit (achieved 2 years following construction)	1.2	5.1	49.1	50.9	67.1	70.3
Employment (supported 2 years following construction)	8 jobs	32 jobs	307 jobs	317 jobs	419 jobs	440 jobs

Source: Business Case for Eastern Creek Redevelopment, KPMG, March 2009.

The consultant's report is sympathetic with the Blacktown Council's vision to create a permanent home for all forms of motor sport in Sydney, and to cluster advanced motor-related businesses with a connection to motor racing around the existing motor racing facilities at Eastern Creek.

The KPMG report applies the computable general equilibrium (CGE) model which, as was argued earlier, is superior to the economic impact analysis (EIA) applied by State Development (see page 19).

Appendix 3 - Comparison of economic models for event analysis

This appendix extends the discussion on page 19 of economic impact analysis or input-output modelling, as used by State Development, computable general equilibrium analysis (CGE), costs benefit analysis (CBA) and the direct or injected expenditure approach used by Events NSW.

Economic evaluation and economic impact analysis

A full economic evaluation is an evaluation of all costs and benefits associated with an event. As NSW Treasury (2007) observes, such an evaluation is a cost benefit analysis conducted in accordance with NSW Government Guidelines for Economic Appraisal. CBA is the core instrument for evaluating public policies and projects within the NSW public service and internationally.

An economic impact analysis (EIA) is an analysis of impacts on gross state product (GSP) and employment. However, estimates of GSP make no allowance for the full costs of provision of the output produced within NSW by externally provided capital or labour, for various non-marketed benefits to consumers for environmental costs or benefits, or for the cost of leisure foregone. A comprehensive CBA includes allowances for all these important factors.

The key input to EIA is the amount of expenditure by visitors, accompanying persons, organisers, delegates, sponsors, and others (for example, media). Primarily it is that proportion of expenditure that represents an injection of 'new money' into an area that is relevant to the estimation of the economic impacts on GSP/GDP, value added and employment. Like local expenditure the 'new money' is serviced by diverting resources from the production of other goods and services.

Since this injected expenditure can have secondary (indirect plus induced) effects on the economy, multipliers may be used to determine an event's contribution to destination output, value added, and employment. The type of model employed in EIA will determine the size of the multipliers and the estimates of changes in output, value added, and employment resulting from the holding of some major or hallmark event.

In addition, holding an event may generate wider economic effects and 'intangible' costs and benefits. By their nature, these intangibles are not quantifiable as precisely or objectively, in an EIA, as are the economic impacts.

Input-Output models

I-O models are a traditional method of estimating economic impacts on GSP and employment, but not full welfare effects. However, it is now recognised that even as models of such economic impacts they are a flawed process for the following reasons (Briassoulis 1991; Fletcher 1994):

1. I-O models assume that inputs and resources are supplied freely and that there are no resource constraints. However, in real-world economies resource constraints generally are present and must be taken into account when estimating the impacts of the increased visitor expenditure on economic activity.
2. I-O assumptions that there are constant proportions between inputs and output, labour and output, and value added and output are unrealistic if relative prices change and cause businesses to change the composition of their inputs or if resources must be drawn away from other parts of the economy.

3. All price effects and financial effects are treated as neutral when there may be capacity constraints in the economy that cause prices and costs to rise in an expansion of economic activity. If the prices of inputs and wages increase, the net impact on output and jobs from the increase in demand is much less than the initial injection of spending. These price rises limit the extent of the expansion and may even lead to contractions in economic activity in some sectors.

4. The behaviour of the government budget sector is treated as neutral in I-O analysis. However, tax revenue will increase as a result of an economic expansion, enabling the government to increase spending, reduce other taxes, reduce borrowings from the public, or some combination of these, with further effects on activity.

In summary, actual economies comprise a complex pattern of feedback effects and resource constraints which are not captured by I-O analysis. In terms of economic evaluation, the key weaknesses are the lack of any resource constraints and their failure to capture some significant welfare impacts.

Input-Output model compared to using a CGE model to estimate economic impacts of events

CGE models provide a significantly more sophisticated and acceptable method of assessing impacts of changes in expenditure within an economy and at an industry level. CGE analysis is often employed to explore the economic impacts of policy initiatives and frameworks and broader changes as diverse as trade liberalisation, tariff protection, environment-economy interactions, structural adjustment, agricultural stabilisation programs, technological change, labour market deregulation, financial market deregulation, taxation changes, macroeconomic reform, economic transition, international capital linkages, public infrastructure, and industry-sector studies (Fossati and Wiegard 2001).

Proponents of CGE modelling point out that those economy-wide, interactive effects should be taken into account in determining the impacts of increased tourism expenditure on a destination. In a CGE model resource supplies are constrained, and increased resource requirements in one part of the economy will lead to lower output in other parts of the economy. Prices for goods and services that are used as inputs will be bid up, discouraging production elsewhere in the economy. When there is an increase in spending in the economy from visitors, the exchange rate may be bid up, discouraging exports and economic activity in other parts of the economy. CGE models are now increasingly used to assess the economic impacts of major events (Blake 2005, Madden 2006, Dwyer, Forsyth and Spurr 2006, Victorian Auditor General 2007).

Compared to I-O modelling, the main advantages of a CGE model for event assessment are:

1. CGE models include more specifications of the behaviour of consumers, producers and investors, thus permitting specific models to be calibrated to actual conditions for a particular event in a particular economy.
2. The events sector will need to expand output to meet additional demand by employing additional land, labour, capital plant and equipment. CGE models can allow for the resource constraints on land, labour and capital can limit changes in economic activity due to an event related increase in the final demand for goods and services. The constraints are perhaps most evident for skilled labour.
3. CGE models recognise that relative prices of land, labour and capital may change due to an event, causing businesses to change the composition of their inputs. These price rises, including (for some destinations) any upward pressure on the exchange rate due to increased foreign expenditure associated with an event, limit economic expansion associated with the event, and may even lead to contractions in economic activity in some sectors.

4. CGE models recognise the behaviour of the government budget sector as relevant to the estimated economic impacts of a special event. For example, if additional infrastructure spending by government is required to support a special event, such as expenditure on stadia, roads, fencing etc, there will be a positive effect on spending but it must be financed. This may moderate the growth in private consumption associated with the event, leading to downward pressure on the output of consumption-oriented industries.
5. CGE models can include a welfare measure. This measure takes the results from what may be quite complex effects of a simulation on a household and produces a single value to describe how much better (or worse) off the economy is as a result of such effects.
6. CGE models can recognise that the net impact on economic activity within the state, in the rest of the economy, and the national economy will differ according to the source of the additional spending.
7. The assumptions of a CGE model can be varied and the sensitivity to them tested to assess the economic impacts of an event. These include assumptions about factor constraints, workings of the labour market, changes in real wage rates and prices, and government taxing and spending policies. This can provide very useful information in predicting the economic impacts of particular types of events in different macroeconomic contexts.

Does event size matter?

While, in principle, it can be applied to events of any size, the CGE model is better applied to larger events. With large events, such as the Olympics or World Cup, the negative impacts on other parts of the regional and national economies may be obvious - accommodation prices are bid up, as is the price of skilled labour. When the event is smaller these effects still exist, though they are not so obvious. It may also be noted that a CGE model can provide insights into interactive effects even for small changes. For example, it may provide insights into how an increase in tourism demand affects various sectors. The degree of accuracy required in the assessment may not, of course, always warrant the undertaking of a CGE analysis and this is a judgment for the analyst to make. A CBA may draw on these insights from a CGE analysis and use the outputs when estimating the impacts, say, of a temporary event lasting one or even two weeks.

I-O versus CGE results

In 1996, the Industry Commission in Australia undertook an evaluation of the Formula 1 Grand Prix using CGE techniques, which are more rigorous than those that had been used by consultants commissioned by the state government (Industry Commission 1996). It found that the impacts on economic activity were much lower than those claimed, and it also highlighted the negative impacts on states other than the host state.

A CGE model was employed to estimate the economic impacts of the Sydney Olympics (Arthur Andersen/CREA 1999). The model enabled estimates to be made of the economic impact of the event on New South Wales and Australia for each of the pre-event, event year and post-event phases. Results indicated that in the post-event phase (to 2006), New South Wales would suffer reductions in real GSP, real consumption and employment, while nationally, there would be a reduction in real consumption and employment. Similar results were obtained by Madden (2006). The Victorian Auditor General (2007) also found that the economic impacts of the Melbourne Formula One Grand prix event were much higher when I-O multipliers were used rather than CGE analysis.

A study by the Sustainable Tourism Cooperative Research Centre (STCRC), supported by the Australian Government, compared the results of using CGE and I-O modelling to estimate the economic impacts of a special event. The expenditure data were based on that for the Qantas Australian Grand Prix 2000, held in Melbourne. The I-O model used was that contained within the CGE model developed by the STCRC economic modelling group (Dwyer, Forsyth and Spurr 2005). The researchers estimated the economic impacts of the event on the NSW and Australian economies, and on the economy of the rest of Australia assuming that an event with the same expenditure profile was to be held in New South Wales. Both a CGE and an I-O model were used to estimate the results. The comparison revealed substantial differences between the techniques with respect to estimates of the economic impacts.

The expenditure data fed into the I-O and CGE models included the total injected amount of expenditure associated with visitation and administration of the event from interstate and overseas sources (\$51.25 million). Expenditure injected from interstate sources was \$28.55 million, while expenditure injected from overseas was \$22.7 million. The same as for visitor expenditure, injected organiser expenditure was allocated to the main industry sectors prior to the modelling exercise.

I-O AND CGE OUTPUT, GSP, AND EMPLOYMENT MULTIPLIERS FOR NSW AND THE RoA FOR A LARGE EVENT HELD IN NSW^a

Macro Variable	I-O Model			CGE Model		
	NSW	RoA	Australia	NSW	RoA	Australia
Change in real output (\$million)	112.00	8.1	120.1	56.70	-32.24	24.46
Change in real GSP/GDP (\$million)	38.90	4.4	43.3	19.41	-10.61	8.80
Change in employment (number of jobs)	521	71	592	318	-189	129
Output multiplier	2.2	0.16	2.3	1.2	-0.3	0.9
GSP/GDP (or Value added multipliers)	0.8	0.09	0.8	0.4	-0.2	0.3
Employment multiplier (per million dollar)	10.2	1.4	11.6	6.2	-3.7	2.5

Note: Shock = \$51.25 million; I-O = input-output; CGE = computable general equilibrium; GSP = gross state product; GDP = gross national product; NSW = New South Wales; RoA= rest of Australia.

Source: Dwyer, Forsyth and Spurr (2005).

Differences in real output, GSP and employment

The table contains estimated impacts of a major event that injects \$51.25 million into the NSW economy. The impacts are distinguished according to the model used (I-O, CGE) and the impact on the host state (NSW), the rest of Australia (RoA) and the nation as a whole (Aus).

The differences in the projected impacts of the event on real output are substantial. The simulations reveal that I-O modelling projects a much greater impact on real output on both New South Wales and Australia (\$112.0 million and \$120.1 million), as compared to CGE modelling (\$56.70 million and \$24.46 million). The output multiplier for New South Wales is 2.2 using the I-O model but only 1.11 using the CGE model. For Australia as a whole, the I-O model yields an output multiplier of 2.3 whereas the CGE model yields a substantially smaller output multiplier of 0.5.

On the I-O model, the projected change in GSP/GDP due to the event is \$38.9 million for New South Wales and \$43.3 million for Australia. In contrast, the CGE model projects a change in GSP/GDP of \$19.41 million for the state and \$8.80 million for Australia.

The value added multiplier using I-O modelling is 0.759 and 0.844 for New South Wales and Australia, respectively, as compared to value added multipliers of 0.4 and 0.2 using CGE analysis.

The two models give different employment projections also. The projected increase in employment using an I-O model is 521 (full-time equivalent) jobs in NSW and 592 jobs throughout Australia. Using a CGE model the projected employment effects are 318 jobs and 129 jobs, respectively. The I-O model projects increased employment in RoA whereas the CGE model projects relatively large job losses in RoA. The I-O employment multiplier is 10.2 for New South Wales and 11.6 for Australia, while the CGE employment multipliers are 6.2 and 2.5, respectively.

Industry differences

I-O modelling projects a positive change in output and employment in all industries in New South Wales except oil, natural gas and brown coal where no change is projected. In contrast, the CGE model projects reduced output and employment in several industries in New South Wales, including some mining sectors and transport services.

Cost benefit analysis

Estimation of the economic impacts of events is only part of the evaluation story. To better understand the benefits, community costs must be taken further into account. In considering whether government assistance should be provided to support an event, it is necessary that the cost to the taxpayer be compared to the wider costs and benefits from the event. Many potential effects of events are often not accounted for in a standard economic impact analysis. In order for the Government to be more comprehensively apprised, event assessments need to be broadened to take, where practicable, a more detailed approach embracing not only economic but social and environmental factors. This is done using cost benefit analysis.

As noted above, the economic impacts of an event are not the same as the economic benefits. Economic impact studies focus on the effects on variables such as GDP or GSP, employment, etc. The impact on GSP is a measure of the gross change in value of output as a result of an event. This addition to output normally requires additional inputs, of land, labour and capital, to enable it to be produced. These inputs have a cost, and this cost must be deducted from the change in value of gross output if a measure of the net economic gain is to be made. In addition, non-marketed consumer benefits and environmental impacts should be factored into the welfare analysis.

With information about the net economic benefits from the event, a government or agency can make an informed decision about the event. In CBA, 'value' or 'benefit' is measured by willingness to pay – what people are willing to pay (or give up) to get what a project provides. Economic costs are measured by 'opportunity cost' – what people or a society give up by investing capital and employing workers in one project or activity as opposed to any other. The relevant question is: What are the implications to a region of holding an event as compared to what could be expected without it and what costs and benefits do they entail? A prerequisite for this is an understanding of the main types of effects that must be valued.

The CBA framework can be applied in a straightforward manner to special events. In this context, CBA attempts to incorporate all of the costs incurred and the benefits received by the community as a result of the holding of an event. If the benefits exceed costs, and all relevant benefits and costs have been included, there is a positive net social benefit and the event should be approved. Conversely, if costs exceed benefits, there is a negative net social benefit and the event should be modified or not supported. The main problem involves identifying and valuing the event associated costs and benefits as comprehensively as is feasible.

While economic impact assessments of events emphasise the injected expenditure associated with events as the basis for further analysis, a CBA recognises that the consumer surpluses of residents may be important to event evaluation. As indicated above, the expenditures of residents are regarded as transferred expenditure for economic impact assessment purposes but the consumer surpluses they receive due to the holding of the event are a primary component of benefit assessment in a CBA of the event.

On the basis of a CBA, it is possible for the decision maker to make a judgement of whether the economic benefits of the event are greater than the costs, and to also judge whether the event would represent the best use of the funds, when funds are limited and alternative calls on funds exist.

The following are the types of costs and benefits that would be quantified in a detailed CBA of the V8 Supercars events (Victorian Auditor General 2007):

Benefits

- Payments to event organisers (ticket revenue, sponsorship revenue)
- NSW household consumer surpluses from direct enjoyment of the event (attendees)
- NSW household consumer surpluses of attendees of offsite events/activities
- NSW household benefits from indirect enjoyment of the event (non attendees)
- Surpluses to NSW businesses (returns to NSW-owned capital above opportunity costs)
- Benefits to NSW labour (above opportunity costs).

Costs

- Capital expenditures
- Operating expenditures (for example, event management and staging, recurrent engineering, marketing/promotion and catering, administration)
- Other event related costs incurred by other state government agencies might include payments in respect of: RTA, Police, Ambulance, Fire Brigade, and State Emergency Services
- Social and environmental costs such as disruption to business and resident lifestyles, traffic congestion, road accidents, crime, litter, noise, crowds, property damage, environmental degradation, vandalism, congestion, noise, pollution, carbon footprint.

The problems of CBA should not be ignored. The Victorian Auditor General (VAG 2007: 37) states that in the context of events ‘the CBA approach has its limitations in that: it does not measure flow-on effects and overall outcomes for an economy such as employment or income changes, and it is difficult to place a monetary value on some important categories of benefits and costs’. The use of CBA involves making assumptions about the availability of labour and the amount of output displaced. It may also be necessary to make some assumptions about short-term inter-industry effects whereby an expansion of some sectors most relevant to events (accommodation, transport) may increase at the expense of reductions in the outputs of other industry sectors. Estimation problems often result in environmental and social effects to be labelled as ‘intangibles’. All these assumptions are required for any form of evaluation and are not particular to CBA. However, CBA is better at addressing the collective issues.

CBA or CGE?

As indicated above, CBA is a method designed to estimate the welfare impacts of an event on the relevant society. CBA is an inclusive method where relevant costs and benefits are estimated based on a standard set of valuation principles. The results are largely transparent and CBA can provide the net benefit measures necessary for government to determine the net socio-economic value from its investment.

CGE models were developed to estimate economic impacts such as the value of output produced (GSP) and employment. These are important inputs to a public policy decision and measures of economic welfare can be derived by adding additional assumptions to the standard CGE model.

Criticisms are that CGE models are relatively complex and their workings not so transparent. These critics also claim that for temporary and relatively small expenditures compared with GSP, CBA is much more suited.

For large events, say those over \$50 million capital expenditure, a CGE model can provide insights into how resources move between industries and provide useful inputs to a cost benefit analysis.

This complementarity perspective was recognised in Dwyer et al (2006) and in the report by VAG (2007). More recently it has been argued for by Peter Forsyth and Larry Dwyer (2009) and Forsyth (2010). These researchers argue that the techniques are complementary and that it is possible to use both in an ‘integrated approach’ to improve event evaluation.

The injected expenditure approach

Another model, used by Events NSW, is a direct expenditure assessment model which does not use any multipliers. This method takes into account monies that flow into a state or region from outside.

It has been argued that for events below a certain threshold of government support the level of injected expenditure can suffice for assessment (Jago and Dwyer 2006). The level of this threshold is flexible and can be determined on practical grounds by government agencies.

The key to conducting any direct expenditure assessment of an event is capturing a representative sample of the various groups that attend including spectators, accompanying persons, competitors, media and officials and the businesses that supply goods and services to the event attendees, teams and organisers. The objective is to estimate ‘the net expenditure inflow’. The underlying assumption of this method is that the net benefits to society will be correlated with, and a positive function of, the net expenditure inflow.

However two things must be borne in mind. First, this expenditure is not a free good. It must be serviced and this requires resources. Some expenditure inflow may require more servicing than other inflows and thus produce more (or less) net surplus. Secondly, different levels of local capital expenditure outlays may be associated with these expenditure inflows. It is quite possible for an expenditure inflow to be associated with a net loss to society.

In addition to the net expenditure estimate, Events NSW also employs some 'benefit scores' based on economic valuation criteria, marketing/strategic evaluation criteria and community evaluation criteria. This recognises that event assessment must occur in the context of a business case. In this analysis some objectives are not monetised. This raises the danger in the benefit scores approach that arbitrary values (scores) will be attached to different goals in such a way as to manipulate the outcome.

The gross expenditure inflow may be a starting indicator of potential benefit. However, a proper evaluation will take full account of the capital and operating costs of servicing this expenditure.

Notwithstanding the practical advantages of conducting a direct expenditure approach, a CBA takes into account both the local capital expenditure and the operating costs of servicing external expenditure. In this context, what matters is the net surplus or deficit not the gross expenditure inflow.

Appendix 4 - Bibliography

- ACT Auditor General (2002), *ACT Auditor General's Office Performance Audit Report V8 Car Races in Canberra - Costs and Benefits*, Canberra, ACT
- Arthur Andersen and Centre for Regional Economic Analysis (CREA) (1999), *Economic Impact Study of the Sydney 2000 Olympic Games*, Centre for Regional Economic Analysis, University of Tasmania, January
- Audit Office of NSW (2008), *Provision of Industry Assistance by the Department of State and Regional Development*, Sydney NSW, December
- Banks, G (2002), 'Inter-state bidding wars: calling a truce', Speech to the Committee for Economic Development of Australia, Brisbane, November, www.pc.gov.au
- Blake, A (2005), *The Economic Impact of the London 2012 Olympics*, Research Report 2005/5, Christel DeHaan Tourism and Travel Research Institute, Nottingham University Business School, email: <http://www.nottingham.ac.uk/ttri>
- Briassoulis, H (1991), 'Methodological Issues: Tourism Input-Output Analysis', *Annals of Tourism Research*, 18, pp 435-449
- Dwyer L, P Forsyth, R Spurr, T Ho (2003) 'Contribution of Tourism by Origin Market to a State Economy: a Multi-regional general equilibrium analysis' *Tourism Economics*, 9, (4), pp 431-448
- Dwyer L, P Forsyth, and R Spurr (2005), 'Estimating the Impacts of Special Events on the Economy', *Journal of Travel Research*, 43, May, pp 351-59
- Dwyer L, P Forsyth, R Spurr (2006a) 'Assessing the Economic Impacts of Events: A Computable General Equilibrium Approach' *Journal of Travel Research* Vol. 45, pp 59-66
- Dwyer L, P Forsyth and R Spurr (2006b) 'Assessing the Economic Impacts of Special Events' in L Dwyer and P. Forsyth (eds) *International Handbook of Tourism Economics*, Edward Elgar, UK, July
- Dwyer L, P Forsyth, R Spurr, T Ho (2006) 'Economic Impacts and Benefits of Tourism in Australia: a general equilibrium approach' STCRC Sustainable Tourism Monograph Series, February, ISBN 1920704108
- Dwyer L and P Forsyth (2009) 'Public Sector Support for Special Events' *Eastern Economic Journal* Vol 35 No. 4 Fall, pp 481-499
- Fletcher, J (1994). 'Input-Output Analysis' in *Tourism Marketing and Management Handbook*, 2nd ed., edited by S. Witt and L. Moutinho, London, Prentice-Hall International, pp 480-484
- Forsyth P (2010) 'Evaluating Investments: CBA or CGE?' Brookings/ADB/CAMA Conference Lowy Institute Keynote Presentation
- Fossati, A, and W. Wiegard, eds (2001) *Policy Evaluation with Computable General Equilibrium Models*. New York: Routledge
- Jago, L and L Dwyer (2006), *Economic Evaluation of Special Events: A Practitioners Guide*, Common Ground Publishing Pty. Ltd., Altona, Australia
- Madden J (2006), 'Economic and Fiscal Impacts of Mega Sporting Events: A General Equilibrium Assessment', *Public Finance and Management* Volume Six, Number 3, pp 346-394
- NSW Treasury (2007), *NSW Government Guidelines for Economic Appraisal*, Sydney NSW, July
- Public Accounts Committee of NSW (2001), *Industry Assistance by the Department of State and Regional Development*, Sydney NSW, June
- Shaffer M, A Greer, and C Mauboules (2003), 'Olympic Costs and Benefits', *Canadian Centre for Policy Alternatives Publication*, February
- Victorian Auditor General (2007), *State Investment in Major Events Victorian*, Government Printer, Victoria, May.

Appendix 5 - About the audit

Audit objective, lines of inquiry and criteria

The audit examined the effectiveness of the process and analysis supporting the Government's investment in the V8 supercar races at Sydney Olympic Park.

The audit achieved this objective by answering the following lines of inquiry and assessing the agencies' performance against the supporting criteria.

Line of inquiry 1 - Was direct negotiation with the proponent properly handled?

Criteria 1.1 Was a business case prepared, including consideration of:

- estimated costs and benefits
- alternative courses of action
- risks for government
- sharing of responsibilities
- an overall plan for the event?

Criteria 1.2 Was there a negotiation strategy

- providing clear direction and timeframes
- ensuring independent and expert advice
- managing conflicts of interest
- providing for transparency?

Line of inquiry 2 - Were estimates of costs and benefits complete and accurate?

Criteria 2.1 Was the Government's budget for the event complete and accurate?

Criteria 2.2 Did the cost benefit analysis include relevant direct and indirect costs and benefits?

Basis of criteria

The model underlying the criteria is based on ICAC guidelines, government guidance on business cases for budget submissions, major events evaluation, better practice guides and policy development and implementation. The model's outline is:

- Guidance for proponents of major events is transparent and requires full and factual disclosure in a business case like manner.
- Government assessment includes consideration of the options, direct and indirect costs and benefits, risks, responsibilities, stakeholders and event planning.
- Assessment clearly justifies direct negotiation with proponent.
- Government commitment is supported by final analysis of cost estimates and risks for the major event, including appropriate profiling and scoping of critical issues.
- Negotiations with proponents are well directed, independent and follow principals of probity and conflicts of interest.
- The agreement between government and the proponent clearly sets out responsibilities, performance thresholds, strategies etc.
- Government oversees event implementation and management against agreed commitments.
- The major event's performance is assessed against the established KPIs, including costs and benefits.

Audit's scope and focus

The audit's scope was the processes supporting government investment in the event including major event assessment by State Development and Events NSW, and the resulting negotiations and agreement between Government and the supercar event proponent including post-event performance.

NSW Treasury and the Department of Premier and Cabinet were included to the extent that their policies and advice included major events.

The audit did not question the merits of Government policy objectives.

Audit approach

We acquired subject matter expertise by:

- conducting interviews with relevant agency staff and stakeholders
- reviewing relevant documents on the proposal, its analysis, negotiation and the resulting deed
- reviewing interstate and overseas practices and reports
- engaging an expert in the fields of tourism and economics
- consulting with the agencies on the results of analysis.

Audit selection

We use a strategic approach to selecting performance audits which balances our performance audit program to reflect issues of interest to Parliament and the community. Details of our approach to selecting topics and our forward program are available on our website.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standards on Assurance Engagements, ASAE 3500 Performance Engagements, and to reflect current thinking on performance auditing practices.

Audits are produced under the Office's quality control policies and practices, including a quality management system certified to International Standard ISO 9001. Our processes have also been designed to comply with the *Public Finance and Audit Act 1983*.

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by the Homebush Motor Racing Authority, Industry and Investment NSW, Events NSW, NSW Treasury and the Department of Premier and Cabinet. In particular we wish to thank our liaison officers within those agencies, as well as agency staff who participated in interviews and provided other material for the audit.

Audit team

Our team leader for the performance audit was Chris Bowdler, who was assisted by Susy Selvarajan. Sean Crumlin provided direction and quality assurance.

Professor Larry Dwyer, Qantas Professor of Travel and Tourism Economics from the University of New South Wales provided expert advice to the team.

Audit cost

Including staff costs, printing costs and overheads, the estimated cost of the audit is \$229,000.

Performance Auditing

What are performance audits?

Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

Performance audits may review a government program, all or part of a government agency or consider particular issues which affect the whole public sector.

Where appropriate, performance audits make recommendations for improvements.

If you wish to find out what performance audits are currently in progress, visit our website at www.audit.nsw.gov.au.

Why do we conduct performance audits?

Performance audits provide independent assurance to Parliament and the public that government funds are being spent efficiently and effectively, and in accordance with the law.

Performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also assist the accountability process by holding managers to account for agency performance.

What are the phases in performance auditing?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team will develop audit criteria and define the audit field work.

At the completion of field work we will meet with agency management to discuss all significant matters arising out of the audit. Following this, we will prepare a draft performance audit report.

We meet with agency management to check that facts presented in the report are accurate and that recommendations are practical and appropriate. Following this, a formal draft report is provided to the CEO for comment. The relevant Minister is also provided with a copy of the final

report. The final report, which is tabled in Parliament, includes any comment made by the CEO on the conclusion and the recommendations of the audit.

Depending on the scope, performance audits can take several months to complete.

Copies of our performance audit reports can be obtained from our website or by contacting our Office.

How do we measure an agency's performance?

During the planning phase, the team develops the audit criteria. These are standards of performance against which the agency or program is assessed. Criteria may be based on best practice, government targets, benchmarks, or published guidelines.

Do we check to see if recommendations have been implemented?

Agencies are requested to report actions taken against each recommendation in their annual report so that we can monitor progress.

The Public Accounts Committee (PAC) may conduct reviews or hold inquiries into matters raised in performance audit reports. These inquiries are usually held 12 months after the report is tabled.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards. This includes ongoing independent certification of our ISO 9001 quality management system.

The PAC is also responsible for overseeing the activities of the Audit Office and conducts a review of our operations every three years.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament and from internal sources.

Further information

Further information can be obtained from our website www.audit.nsw.gov.au or by contacting us on 9275 7277.

Performance Audit Reports

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
202	Industry & Investment NSW Homebush Motor Racing Authority Events NSW	<i>Government Investment in V8 Supercar Races at Sydney Olympic Park</i>	June 2010
201	Department of Premier and Cabinet	<i>Severance Payments to Special Temporary Employees</i>	16 June 2010
200	Department of Human Services - Ageing, Disability and Home Care	<i>Access to Overnight Centre-Based Disability Respite</i>	5 May 2010
199	Department of Premier and Cabinet NSW Treasury WorkCover NSW	<i>Injury Management in the NSW Public Sector</i>	31 March 2010
198	NSW Transport and Infrastructure	<i>Improving the Performance of Metropolitan Bus Services</i>	10 March 2010
197	Roads and Traffic Authority of NSW	<i>Improving Road Safety: School Zones</i>	25 February 2010
196	NSW Commission for Children and Young People	<i>Working with Children Check</i>	24 February 2010
195	NSW Police Force NSW Department of Health	<i>Managing Forensic Analysis - Fingerprints and DNA</i>	10 February 2010
194	Department of Premier and Cabinet Department of Services, Technology and Administration NSW Treasury	<i>Government Advertising</i>	10 December 2009
193	Roads and Traffic Authority of NSW	<i>Handback of the M4 Tollway</i>	27 October 2009
192	Department of Services, Technology and Administration	<i>Government Licensing Project</i>	7 October 2009
191	Land and Property Management Authority Maritime Authority of NSW	<i>Administering Domestic Waterfront Tenancies</i>	23 September 2009
190	Department of Environment, Climate Change and Water NSW Environmental Trust	<i>Environmental Grants Administration</i>	26 August 2009
189	NSW Attorney General's Department NSW Department of Health NSW Police Force	<i>Helping Aboriginal Defendants through MERIT</i>	5 August 2009
188	NSW Department of Health	<i>Tackling Cancer with Radiotherapy</i>	23 June 2009
187	Roads and Traffic Authority of NSW	<i>Improving Road Safety - Heavy Vehicles</i>	13 May 2009
186	Grants	<i>Grants Administration</i>	6 May 2009
185	Forests NSW	<i>Sustaining Native Forest Operations</i>	29 April 2009
184	NSW Police Force	<i>Managing Injured Police</i>	10 December 2008
183	Department of Education and Training	<i>Improving Literacy and Numeracy in NSW Public Schools</i>	22 October 2008

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
182	Department of Health	<i>Delivering Health Care out of Hospitals</i>	24 September 2008
181	Department of Environment and Climate Change	<i>Recycling and Reuse of Waste in the NSW Public Sector</i>	11 June 2008
180	Follow-up of 2003 Performance Audit	<i>Protecting Our Rivers</i>	21 May 2008
179	NSW Office of Liquor, Gaming and Racing; NSW Police Force	<i>Working with Hotels and Clubs to reduce alcohol-related crime</i>	23 April 2008
178	Greyhound and Harness Racing Regulatory Authority	<i>Managing the Amalgamation of the Greyhound and Harness Racing Regulatory Authority</i>	3 April 2008
177	Office of the Director of Public Prosecutions	<i>Efficiency of the Office of the Director of Public Prosecutions</i>	26 March 2008
176*	Better Practice Guide	<i>Implementing Successful Amalgamations</i>	5 March 2008
175	Department of Commerce Department of Primary Industries	<i>Managing Departmental Amalgamations</i>	5 March 2008
174	Department of Education and Training	<i>Ageing workforce - Teachers</i>	13 February 2008
173	NSW Police Force	<i>Police Rostering</i>	5 December 2007
172	Department of Primary Industries	<i>Improving Efficiency of Irrigation Water Use on Farms</i>	21 November 2007
171	Department of Premier and Cabinet Department of Commerce	<i>Government Advertising</i>	29 August 2007
170	RailCorp	<i>Signal Failures on the Metropolitan Rail Network</i>	15 August 2007
169	NSW Police Force	<i>Dealing with Household Burglaries</i>	27 June 2007
168	Ministry of Transport	<i>Connecting with Public Transport</i>	6 June 2007
167	Follow-up of 2001 Performance Audit: Ambulance Service of New South Wales	<i>Readiness to Respond</i>	6 June 2007
166	Follow-up of Performance Audit Department of Education and Training	<i>Using Computers in Schools for Teaching and Learning</i>	9 May 2007
165	Homelessness	<i>Responding to Homelessness</i>	2 May 2007
164	Department of Juvenile Justice NSW Police Force	<i>Addressing the Needs of Young Offenders</i>	28 March 2007

* Better Practice Guides

Performance audits on our website

A list of performance audits tabled or published since March 1997, as well as those currently in progress, can be found on our website www.audit.nsw.gov.au.

If you have any problems accessing these reports, or are seeking older reports, please contact our Office Services Manager on (02) 9275 7116.