

THE ECONOMICS OF SPORTS
PETER MAZEY – NOVEMBER 2019

The President and members of FIA

Fellow presenters

Ladies and Gentlemen

Is Investment in Sports economical?

I am hoping that by the end of my presentation the answer will be a resounding yes and that maybe some of you will be proactive and work towards increasing investment in Sports in Fiji especially through Corporate Sponsorship.

I am hoping that today I can dispel some thoughts and comments on our current investments in Sport as being *“a waste of money”*.

Currently our media do not say much or even investigate the benefits of our investment and most comments are through social media, or letters to the editor, and they appear mainly negative, especially after our recent performance and results in the World Cup Rugby Tournament in Japan. “Negative comments were published that our \$2.5million investment in the preparation of our team to the world cup should have gone to new schools, housing or roads.”

NO one asked or pointed out the return on that investment.

But we do receive comments when requesting Companies to provide sponsorship such as *“Im sorry but my Finance Manager or Accountants advice we cant afford to sponsor sports or it is a waste of money.”*

Thankfully more and more companies are seeing the benefits and the return on their investment.

The economics of sports as with all accounting is measurable and looks at:

- Income and Expenditure – Benefits Received and Associated Cost
- Profit or Loss
- Return on Investment

We look at issues relating to the economic return of our investments in the following principal areas:

- The athlete
- The facilities
- The Nations Wellness
- Sports Tourism

Briefly I address these:

The athlete, the team –

We invest in their development, in the past year a study of 42 National Sports Organisation Annual Financial Reports showed:

Total Income: \$29,690,467

Income Received From:

34.54% International Sports Grants \$10,255,297

26.74% Private Company Sponsorship \$ 7,939,213

On sponsorship \$5.7million was for rugby, \$750,000 for rugby league and \$700,000 for football, the rest split between the other 42 sports and is all a minor contribution to their incomes. This is the area we need your help in and is why Government this year announced a 150% Tax concession for any sports sponsorship over \$15,000.

22.03% Fiji Government Sports Grants \$ 6,540,255

7.13% NSO Merchandising \$ 2,116,590

5.56% Event Income/Gatetaking \$ 1,650,476

2.54% NSO Fund Raising \$ 755,246

0.92% Australian Govt PSP Grants \$ 274,196

0.54% NSO Membership Fees \$ 159,196

Balancing this against the costs the majority of NSO's break even and don't record any substantial profits as they balance expenditure on development and their athletes.

In analyzing the Fiji Government contribution as allocated in the National Budget over the past 6 years Government has contributed an average of \$7.7million per year representing 0.2 per cent of its total budget or an average of \$9.62 per person.

But look at what is contributed back to the economy:

Remittances from sports people \$18.4million (2014 estimates – 11% of remittances) (today at 11% equates to \$66M)

International Sports Grants from Oseas \$10.3million

Total contributing to our foreign reserves \$28.7million (minimum)

Those are only figures that can be monitored as coming through the Banks or registered foreign exchange operations, it does not include funding that sports people bring home or send through mail or friends which the Reserve Bank admit could considerably increase the income received from Athletes.

And of course when looking at the economic benefits to Fiji we must also acknowledge the multiplier effect which if we use the bench mark of 3 we show direct economic benefits of \$86.1million

All on Governments investment of \$7.7million

NO ONE can deny that this is an excellent return on investment.

And that's only the start as I shall explain later as we look at the return on investments when hosting international sporting events in Fiji.

Our athletes need more recognition of what they contribute to our economy, they have a limited term in contribution and Fiji does nothing currently to assist our athletes after sport.

Facilities:

The economic return as seen previously from our athletes is only achievable by investing in providing development pathways for them and in ensuring they are provided with international standard sporting facilities to enable them to train in and develop their individual sporting talents.

Sports facilities in Fiji have generally been provided by or through Government, and local bodies, a number of private facilities were provided in the Colonial era by CSR and more recently by some of our tourist resorts or hotels.

Fiji Sports Council was set up 40 years ago principally as the result of Fiji hosting the Pacific Games in 1979. Today the Sports Council manages and owns 23 facilities around the country.

Principally among these are Fiji's only certified international venues being the ANZ Stadium, the Vodafone Arena, the FMF Gymnasium, the Damodhar Aquatic centre, the Victoria Tennis & Squash courts, the National Hockey centre, the Oceania Tennis Centre. The sports council operate other facilities in Sigatoka, Rakiraki and Navua.

With a current valuation of \$175million, without Governments ongoing support Fiji could not continue to support these venues.

Thankfully this Government sees the ongoing economic benefits of providing international venues and continues to invest in establishing more, especially with the upgrade of Lautoka's Churchill Park, with a proposed indoor arena and the almost completed 50 and 25metre swimming pools in Lautoka. Plans are being prepared for new facilities in Nasinu.

Fiji Sports Council only makes an operating profit on 3 facilities being the ANZ stadium, the Vodafone Arena and the FMF Gymnasium this can principally be seen from them not just being used for sports but as special venues for any event, also from them being able to be supported by naming rights sponsors and thanks for this must go to ANZ, Vodafone, Damodhar City and FMF who contribute annually over \$500,000 to FSC income.

All have renewed their contracts so therefore we have companies who see the advantages and must measure the economic return to their business for them to continue their commitment.

The cost of operating and maintaining the FSC facilities is substantial, and upgrading facilities has been an ongoing commitment of the Council, of Government and with the support of our Bankers ANZ.

The ANZ stadium upgrade in 2012-2013 cost \$22million since then the operating profit has been approx.. \$1million annually .

We now after 6 years need to replace the running track a cost of close to \$5million.

Is it economically viable to do the answer is NO, especially when we only charge athletes \$1 per day to train on the track, but then what if we don't – NO Chow Games, NO Coke Games and NO international athletic events.

It is only viable to the Country, due to the economic return received from Hosting such events.

The upgrade of FMF Gymnasium in 2017 cost \$4.5million and the Vodafone Arena opened last Friday \$16.6million. These venues do show an operating profit but they don't show a reasonable return on investment, again this comes from the economic return provided due to having international standard events. Again I will address that later as Hosting of Events is very viable to the economy.

The other stadiums and facilities around the country are all run down and need basically replacing except Churchill Park. These being run by local bodies mean we have no figures on their income or expenditure, on their sustainability or on what they contribute to the economy. Their expenses come out of rates so it is hard to judge.

They do contribute to local competitions, the development of our athletes and to the wellness of our country.

It is very obvious that while we must continue to invest in Sports infrastructure we will in the future need to look at more involvement in their development through Public and Private partnerships as is being practiced more and more overseas.

The Sports Council in the next week is demolishing all the buildings at the old Laucala Bay Secondary School site, it is to be cleared and through public and private partnerships a series of new high rise buildings, including sports facilities will be established and provide Hotel and budget accommodation for visiting athletes, offices including indoor gymnasium and halls for sports such as Table Tennis, Judo, Taekwondo. More multipurpose courts will be established.

All in all this development will provide the funding for sports through the investment in a multiuse mixture of commercial and sports facilities.

As we proceed with this we will be looking for commercial partners so I trust that support will come from a number of you present here today.

Nations Wellness:

Sports and Physical activity has been identified as contributing to wellness of the nation and to the economy.

We all know of our major problems of NCD's. It has affected us all, it has affected our businesses, we have lost a number of trained staff. It has affected our families and life style as we have lost our bread winners.

The investment by Government and international agencies to sports wellness and fitness programs will never be enough but thankfully a number of businesses have taken up this challenge and are running physical activity and sports programs for their staff.

The cost and economic burden to Fiji as recently announced by our President is estimated to be around \$406 million annually.

We must do more and while Government through the Commission and Ministry of Health provides funding to assist in community programs. Our investment and that of every corporation or business must increase as we can't continue to have such an economic loss effect on our operations.

The economic return to our companies must be measured and the right investment must be made by each and everyone one of us.

Our budget items in Expenditure for Staff wellness must increase and start to reflect the return we can expect from a healthier workforce.

A recent English study shows that people taking part in regular sport can save the equivalent of FJ\$5,052 in health care costs per person.

Thus we see that Sports can contribute to all businesses and provide an economic incentive for businesss to invest more in growing our sports and that sponsorship should not be seen as a burden but an investment in our future.

Sports Tourism

The Economic effect of Sports Tourism is different to that of Hosting International Sports events which I will address next.

Sports Tourism has basically no cost involved to Fiji apart from investing in Tourism marketing to show Fiji's ability to host events but the returns to Fiji are many. The measurement of economic returns will be measured by Tourism Fiji but is currently only included in the Tourism Stats of incoming visitors and through the hotels in their returns of guests.

The current Tourism Fiji budget for sports events is \$300,000 which represents the only cost to Fiji we can currently identify.

Sports Tourism is generally where groups of likeminded individuals regularly travel internationally to play sports as part of their holidays or overseas experience. It has become an industry with several international travel agencies and some airlines concentrating on this niche market and their organization. Generally they are affluent many retired and while they will come for sports they will stay an average of 7 days and play sports for 2. The majority of their time is spent touring in Fiji. School tours attract many parents who while their children will stay in villages, school dorms, or budget accommodation, the parents' choice our 5 star accommodations.

Sports Tourism includes:

School sports teams visiting (both primary & secondary)

Masters Sporting Events (Golden Oldey or Vintage Tournaments)

Ocean Swimming Events
Yachting match racing

Recent events have seen:
Masters Cricket
Masters Netball
Masters Bowls
Denerau Open Waters Event
World Hash Harriers Event

Happening as we speak the World Vintage Rugby Tournament at Churchill Park.

As I said we have no figures for their spend, the Tourist industry certainly welcomes them as they spend large, come in our off seasons and contribute to the economy. The return on investment is substantial. Thankfully Fiji's inbound tour operators have now identified this as a growing niche market for our Tourism industry.

Hosting of Internationally Sporting Events

We are grateful that Government has seen the benefits derived from the Hosting of International Events and we have of late seen a large increase in Governments budget for these events.

There is a major cost involved as generally the Host Sport pays the majority of costs in bringing teams and officials to the country.

No sport in Fiji can afford to fund such events and therefore relies on Government to provide, with some help from the Sports International Body.

Fiji is becoming a preferred destination in the Pacific due to Governments and the Sports Councils funding of international standard sporting facilities. We are now seen as the Sports Hub of the Pacific. Hence Hosting of Events shows a return to Government in their investment in infrastructure unrealized by the Sports Council.

Hosting of International events has been closely monitored and tracked through detailed acquitals of all expenditure and analyzing the income received through hotels and other providers.

An example was a recent survey done on the **Oceania Youth Tennis Event** held in Lautoka. Being a youth tournament the players were all accompanied by their parents, friends and siblings. As it was a small tournament we asked parents to complete a survey form to show what they spent while in Fiji.

Governments Contribution was:	\$ 25,000
Survey Results on dollars spent totaled approx..	\$900,000

As accountants you can see that Government received their investment several times over just in Taxes let alone the other benefits to the economy.

Super Rugby	Government Investment	\$2million
	Economic Return including broadcasting	\$19 million

Suva , Pac Harbour & Coral Coast Hotels all full, report best F&B income over 3 days

I have chosen three recent tournaments we hosted as an example of the return on investment for sports in Fiji.

International Weightlifting Junior World Championship – FMF Gymnasium, SUVA

Competing Countries Paid their own airfares and accommodation in Fiji for 10days

Total Visiting Competitors, Official’s & family 700

Government Grant: \$1,317,345

Spend in Fiji: Fiji Airways/ Suva Hotels/ Meals/Dep Tax/Shopping \$2,441,500 Oseas Income
 Local Organisation Expenditure into Community (Govt) \$ 998,612
 Total Contribution to Economy was: \$3,440,112

International Table Tennis World Cadet Challenge 2017 – Vodafone Arena

Total Visiting Competitors, Official’s & family 170 – 12 days

Government Grant: \$450,000

International Grant \$220,000

Spend in Fiji: Fiji Airways/ Suva Hotels/ Meals/Dep Tax/Shopping \$1,192,500 Oseas Income
 Local Organisation Expenditure into Community (Govt) \$ 500,000
 Total Contribution to Economy was: \$1,692,500

Oceania Rugby 7’s Tournament – ANZ Stadium

Total Visiting Competitors, Official’s & family 450 – 5 days

Government Grant: \$1,500,000

Spend in Fiji: Fiji Airways/ Suva Hotels/ Meals/Dep Tax/Shopping \$1,860,000
 Local Organisation Expenditure into Community (Govt) \$ 200,000
 Total Contribution to Economy was: \$2,060,500

Special Benefits for Destination Fiji Brand in Australia and New Zealand was an audience reach through SKY NZ TV reach of 342,000

Hosting of Events is a NO brainer the return on investment is good, it effects all areas of our economy.

Our SME’s Benefit through TShirt printing, supplying local gift packs and provide traditional food and entertainment.

Each event hosted requires substantial temporary staff at the venues so our unemployed benefit.

Globally the statistics are large:

PwC annually reports on the Sports Outlook for some countries, regrettably not Fiji currently.

In their 2018 report they looked at the North America Sports Market and in analysing Media Rights, Gate Revenues, Sponsorship and Merchandising they showed total revenue in the Sports Market of US \$71.1billion with an annual growth of 3%.

In New Zealand the sport and recreation sector contribute an estimated NZ \$4.9 billion per annum or 2.3% contribution to GDP. A NZ study shows that the tax revenue alone is 2 and half times that of Government expenditure. An excellent return.

In England the contribution is 1.9% to its GDP equating to 20.3 billion per annum.

It is very obvious that there is a huge impact of sport on the economic development of the country through employment, remittances, household income, contribution to GDP, reduction in healthcare costs, exports, creating sustainable local economies through tourism, infrastructure and improved regional and international country profile.

There is no debate, (I hope), Sports is economically good for the country, our communities and our businesses. There is a good return on our investment. We need your help to ensure it is sustainable.

I finish with a challenge I am hoping that FIA and your members will takes up.

Currently a large number of our National Sports Organisations are in trouble.

To obtain funding locally, or from Overseas, from Government or through International sports bodies they are required to produce financials.

Currently any NSO with an annual income of over \$100,000 must be audited, moves are afoot to ensure that as they receive public funding they should all be audited.

The costs of audit, and even some financial help, is prohibitive to the majority of them, as I'm sure you all know.

Is it possible to have audits done as an exercise of our senior university accounting students to be monitored by one of our audit firms.

Failing that, if anyone present is prepared to assist please let me know.

On that note I thank you for the invitation today and trust that you will spread the word that an investment in sports is not a waste of money.

Thanks