



Isle of Man
Government

Reiltys Ellan Vannin

TT & Festival of Motorsport Economic Impact Assessment

Economic Affairs

Cabinet Office

June 2018

GD 2018/0036

Contents

Foreword.....	2
Introduction	3
Methodology.....	4
Economic Impact – Government.....	6
Department for Enterprise	6
Department of Home Affairs	8
Department for Health and Social Care	8
Department of Infrastructure	9
Department of Environment, Food and Agriculture.....	10
Department for Education, Sport and Children.....	11
Manx National Heritage	11
Conclusion.....	12
Next Steps.....	14

Foreword

All forms of sport including motorsport are an important part of the Island's culture, history and identity.

Since 1907 the TT has grown into a world renowned motorsport event but also a defining feature of why the Isle of Man is different. Different in that it is forward looking and embraces change and innovation.

However, the management and running of the TT and Festival of Motorcycling was bought into the spotlight after the decision to cease negotiations with the company Vision Nine to promote and organise it.

A subsequent report by the Economic Policy Review Committee had a number of recommendations including;

That the Economic Affairs Division should complete a detailed economic impact assessment of the TT and Festival of Motorcycling; and that a report on the assessment, including an explanation of the methodology adopted, should be laid before Tynwald by June 2018.

I believe that Tynwald and the people of this island recognise the value of the TT and Festival of Motorcycling both in cultural terms and the way it enhances our international reputation. But what we don't know for certain is the true cost of the event and the benefits it brings to our island.

This first report deals with the costs to government. It has taken time to try and find exact costs, expenses and incomes from all the sections of our public services.

Some costs are shared between departments. Other costs such as maintaining the roads are for the benefit for everyone and not just for racing. I believe that this document gives an honest and open assessment of the overall financial cost of the festivals.

The next step is to look outside of government to the financial impact for individuals companies large and small and charities. A further report will follow the extensive public consultation and hopefully give us the real cost of something we value so much.

Dr Alex Allinson MHK

Member for Cabinet Office

Introduction

The TT and Festival of Motorsport Economic Impact Assessment was commissioned as a result of Recommendation Two from the Economic Policy Review Committee in relation to Vision Nine, which was approved by Tynwald in January 2018.

There have been previous attempts by various Government departments to assess the impact of motorsport events, particularly the TT and to a lesser extent the Festival of Motorsport, although these have been to a varying degree of success and completeness. These have generally focussed only on the internal cost to Government and not the wider economy.

Part of the benefit of the events has been regularly available as part a series of TT, Festival of Motorsport (or previously the Manx Grand Prix) and more recently the Southern 100 surveys. The visitor surveys estimate both the total number of visitors to each event, along with the estimated average expenditure. From this, estimates for the total expenditure of visitors to the events are created and include estimates of total contribution to national income and exchequer benefit.

These surveys however do not cover any benefit that these events might generate from residents, in increased spending with local businesses, or any of the negative impacts that may also be experienced by residents, businesses and perhaps Government.

The remit of this assessment is therefore to cover all elements of the impact that these two events have on the Island, both to Government and the wider economy. As detailed in the methodology, due to the scale of this assessment, the process has been broken down into two reports.

This first report, which addresses the impact the events have upon Government internally, and a second report, due by no later than January 2019, into the wider impact that the events have on the Island's economy.

Methodology

Due to the scope of the assessment to not only consider the impact on Government, but the wider impact on the whole economy, the methodology that was approved by the Council of Ministers in March 2018 will split the process into two sections.

The first section, which this report focuses on, is the internal costs and benefits of the event to the Isle of Man Government. The second report, due by January 2019 will focus on the impact on the wider economy.

The approach which has been taken in respect of the cost and benefits to the Isle of Man Government has been drawn from two sources. The first source is from the 2017 TT and Festival of Motorsport surveys for the estimated contribution to the exchequer and secondly data from the Government's accounting system for income and expenditure information.

Exchequer Benefit

The exchequer benefit is derived from TT and Festival of Motorsport surveys which were undertaken in 2017 on behalf of the Department for Enterprise (then Economic Development). The data is captured through interviews with departing passengers at both the sea terminal and Isle of Man Airport, and captures their spending in three broad categories of Travel, Accommodation and Other.

The estimates of total contribution to National Income and then Exchequer benefit are derived from multipliers which are applied to the total estimated expenditure of all visitors. In the reports, a multiplier of 0.72 is applied to Total Expenditure to generate the Contribution to National Income. A second multiplier of 0.18 is applied to the Contribution to National Income to provide an estimate of the Exchequer Benefit which the events provide.

The Contribution to National Income is an estimate of the value added to the Island's economy from the expenditure of the visitors, such as wages to paid staff in the industries where the spending occurs and the additional profit that companies make from this spending.

The Exchequer Benefit is then an estimate of the taxes which are paid on this contribution, excluding national insurance contributions. In the majority of cases this will apply to personal taxation as most companies who benefit from this visitor expenditure will be 0% rated.

Government Income and Expenditure

When considering the internal income and expenditure that the events generate or incur to Government, it has been important to specify that as part of this assessment, only incremental/avoidable income or expenditure will be included within the analysis.

The purpose of this to avoid over inflating any income or expenditure estimates which would then skew the analysis. This is because there are costs which Government would incur regardless of whether the events took place or not. For example, it would be incorrect to include the regular running costs of Noble's Hospital for the two week periods of the TT or

the Festival of Motorsport, as it would need to be staffed to a given level regardless of the events being undertaken. The same would be applicable to other departments such as Home Affairs where there would be a given number of police officers on duty for those two weeks.

Economic Affairs has worked with the finance officers throughout Government and the various statutory boards and offices to identify these incremental/avoidable costs, and where possible to classify them by event so that analysis can be undertaken for each event separately. However in some cases this has not been possible and therefore some income and expenditure has been presented as a joint cost between the two events.

The wider economy

Greater detail will be provided in the methodology section of the second report which relates to the impact the events have on the wider economy. However broadly this area will focus on speaking with Manx businesses, self-employed individuals and other groups such as charities who are impacted, either positively or negatively (or in some cases a mixed impact).

Whilst Economic Affairs has undertaken a stakeholder analysis which has produced an initial list of parties that are most likely to be impacted by the events, a call for evidence has also been launched via the Consultation Hub. This was undertaken to ensure that any parties who might be impacted had the opportunity to provide information. This call for evidence was launched on the 16 April 2018 and ran until the 18 May 2018. The results of this process will be used to inform the research for the second report to ensure that all sectors are represented.

The second report will look to evaluate three areas:

- Direct Impacts which covers income, expenditure and jobs that are directly linked to the jobs;
- Indirect Impacts, such as the reputational impact of the events, advertising value of the event, the benefit that suppliers to those directly involved in the events may gain, but also issues such as opportunity costs and loss of productivity;
- Induced impacts, for example the spending in the general economy by workers whose employed is directly linked to the events.

Economic Impact – Government

All Government departments, along with the majority of the offices and boards, were consulted and asked to provide a return with details about the income and expenditure of the TT and Festival of Motorsport. The Isle of Man Post Office has not been included in this analysis; however they will be included in second report within the sectoral analysis.

The following analysis will be undertaken be broken down by department to provide a greater level of detail about where and what the income and expenditure relating to the two events is.

As expected, a number of boards and offices provided a nil return in relation to the two events as they are outside of their remit. These were:

Communications Commission
 Gambling Commission
 Financial Services Authority
 Financial Intelligence Unit
 Treasury
 Cabinet Office

The remaining Government departments have provided a response and have been broken down below.

Department for Enterprise

As the department with responsibility for motorsport, the Department for Enterprise incurs the most expenditure in relation to the two events. It also generates the largest income from the two events as well.

The costs for the event breakdown into six general categories, along with non-attributable costs.

Table 1 Department for Enterprise Income and Expenditure

	TT	Festival of Motorsport
Event Income	2,135,370	115,832
Expenditure		
Race Expenses	-549,337	-179,262
Course Expenses	-779,966	-518,594
Grandstand Area	-692,910	-27,910
Administration	-1,956,713	-766,047
Promotions/Festival Events	-112,874	-8,775
Prize money and appearance fees	-1,145,759	-286,303
Total - Expenditure	-5,237,559	-1,786,891
Net Event Expenditure	-3,102,189	-1,671,059
Shared Cost – Motorsport Team		-350,790
Total Net Expenditure		-5,124,038

Race Expenses

This category includes expenses related to racing itself, such as rider insurance, race organisation, the cost of programmes and other licences. For both events, insurance costs are the most significant cost for both events within this category.

Course Expenses

This category covers a wide range of costs associated with setting up and maintaining the course, such as medical expenses, helicopter costs and course contractor fees which relate to the physical set up of the course, including boundaries, fencing and security.

Grandstand Area

The main costs of this category relate to the maintenance of the physical infrastructure of the Grandstand itself. There is a significant cost attributed to the TT, however the Grand Prix and other events likely contribute to the wear and tear which is addressed within the maintenance budget. It also includes costs relating to the score boards and electronic timing.

Administration

This category is costs relating to the back office operation of the event, such as arranging sponsorship, the cost of hospitality and also media production costs for TV and other coverage of the event.

Promotions and Festival Events

These costs relate to the cost of additional activities that are undertaken around the events, such as fireworks, the Ramsey sprint, the Red Arrows and general costs of activities associated with the events.

Prize money and appearance fees

As competitive events, both events have prize money for the various classifications. As the TT is the flagship motorsport event for the Island, this category of spend also includes significant expenditure on appearance fees to secure riders for the event.

Income

Income for both events is varied, however the TT generates considerably more income than the Festival of Motorsport, most notably due to TV contract rights. The income streams for the event include program sales, sponsorship, trade sites, licencing and general ticket sales including hospitality.

Department of Home Affairs

Expenses for the Department of Home Affairs relate to the Police and Fire Service, with the majority of the additional cost relating to the Police. The largest proportion of these costs are also considered to be indirect costs, as they relate to the increased policing which is required to handle the number of visitors during the periods. The costs of directly policing the event are still substantial however.

Whilst there are some transport and supply costs related to the event, the majority of the costs are additional employee costs through overtime or additional staff on shift.

Event	Direct Cost	Indirect Cost
Police		
TT		
Employee costs	-191,440	-459,901
Transport expenses	-10,690	
Supplies and Services	-26,253	
Police - TT Total	-228,383	-459,901
Festival of Motorsport		
Employee costs	-47,295	-344,926
Transport expenses	-3,635	
Supplies and Services	-6,666	
Police - Festival of Motorsport	-57,596	-344,926
Fire		
TT – Employee costs	-10,771	
Festival of Motorsport – Employee Costs	-15,580	
Total Cost – TT		-699,055
Total Cost – Festival of Motorsport		-418,102
Total Event Costs		-1,117,157

Department for Health and Social Care

The Department for Health and Social Care costs are focused in two main areas: additional staffing costs for various functions and the cost of the air ambulance. Due to contracts for the provision of helicopter services being for the whole year, these costs cannot be allocated to each event.

Cost	TT	Festival of Motorsport
Radiology	-8,806	
Intensive Care	-6,000	
A&E	-47,032	
Paramedic	-6,000	-5,000
Technician	-3,000	-2,000
Blood stock	-12,834	
Event Expenditure	-83,672	-7,000
Helicopter and Air Ambulance – Both Events		-164,282
Total Event Costs		-254,954

Department of Infrastructure

As the Department of Infrastructure is responsible for the maintenance of public estates, there is a significant element of expenditure which is shared between the two events, particularly for the upkeep of various buildings around the course, including the Grandstand.

As the one way system is only in place for the TT, this results in significant cost expenditure compared with the Festival of Motorsport which does not have this requirement. Both events also generate an income for the department via Public Transport, although the TT is again the most significant income generator.

	TT	Festival of Motorsport
Income	227,845	3,526
Expenditure		
Public Estates	-8,411	
Highway Services	-130,476	-21,815
Public Transport	-46,202	
Ports	-13,124	
Total Expenditure per event	-198,213	-21,815
Net Income/Expenditure per event	29,632	-18,289
Shared Costs		
Public Estates		-199,000
Public Transport		-11,000
Total Net Cost of Events		-198,657

Public Estates

Expenditure within this category relates to maintaining the various motorsport properties that are around the course, such as marshal facilities and also the Grandstand. There were some additional upgrade and remedial works that were also carried out in relation points around the course in preparation for the 2017 events.

Highway Services

The most significant cost expenditure for this area relates to the one way system for the mountain road, which is a cost which the Festival of Motorsport does not incur. The remaining costs within each event are similar, such as the removal of traffic islands, the access roads and various signage.

Public Transport

Costs for Public Transport relate to overtime and additional rota costs for staff to operate the extended timetable and also the cost of two additional double decker buses which would otherwise have been single decker buses. This cost has been spread across 10 years.

Public Transport is also responsible for the income of the department for both events.

Ports

Port costs relate to additional hours required by security staff at both the Sea Terminal and airport. The majority of the expense relates to the Sea Terminal due to the extended timetable which the Isle of Man Steam Packet operates over this time.

Department of Environment, Food and Agriculture

The Office of Fair Trading (OFT) and Road Transport Licencing Committee (RLC) have been included within the DEFA return.

Whilst the costs for DEFA are relatively minimal compared with other departments, its functions during the TT and Festival of Motorsport are wide ranging, from the Government Laboratory, Environmental Health, Planning and Building Control and Forestry.

	TT	Festival of Motorsport
Income	12,200	3,765
Expenditure		
Government Laboratory	-2,023	-2,594
Planning and Building Control	-130	-15
Environmental Health	-9,964	-5,549
Wildlife Park	-15,000	-20,000
Forestry	-8,050	
OFT	-1,970	-853
RLTC	-500	
Total Expenditure	-37,637	-29,011
Total Net Expenditure	-25,437	-25,246

Income

The income is generated from non-resident trader permits, storage licences and Sulby Claddaghs camping permits issued for the season.

Government Laboratory

This expenditure relates to fuel testing which is undertaken for the race events to ensure adherence to racing regulations.

Environmental Health

These costs relate to inspections of various public facilities including B&Bs and caterers.

Wildlife Park

There is no additional expenditure at the Wildlife Park as a result of the events, however because the facility is on the race course, an estimate has been made of the likely loss of income which is experienced because of the roads being closed.

Forestry

Forestry costs solely relate to the maintenance and operation of the Sulby Claddaghs camp site, such as site preparation, toilet hiring and other operational costs.

Office of Fair Trading

These costs relate to officer time involved in inspections of traders and storage facilities.

Department for Education, Sport and Children

As a result of the re-organisation of functions from the Department of Enterprise, the Villa Gaiety falls under the remit of the Department for Education, Sport and Children.

The department also generates an income from providing camp site facilities provided on secondary school sites and camping at the NSC.

	TT
Income	
Villa Gaiety	30,000
Secondary Schools	20,000
NSC	23,100
Total Income	73,100
Expenditure	-3,600
Net Income	69,500

Manx National Heritage

Manx National Heritage does experience an increase in visitors during both the TT the Festival of Motorsport periods. These additional visitors do not incur material additional costs, as facilities are fully staffed over the periods regardless of the events.

Manx National Heritage estimate that they have an increase in income of £16,000 for the TT and £5,000 for the Festival of Motorsport.

Conclusion

Based on the data collected from across all Government departments, boards and offices, the impact of the TT and Festival of Motorsport events directly on the Isle of Man Government is as follows:

	Income	Expenditure
TT		
Exchequer Benefit ¹	4,400,000	
Department for Enterprise	2,135,370	-5,237,559
Department of Home Affairs		-699,055
Department of Health and Social Care		-83,672
Department of Infrastructure	227,845	-198,213
Department of Environment, Food and Agriculture	12,200	-37,637
Department of Education, Sport and Culture	73,100	-3,600
Manx National Heritage	16,000	
TT Sub total	6,864,515	-6,259,736
TT Net Income		604,779
Festival of Motorsport		
Exchequer Benefit ²	1,300,000	
Department for Enterprise	115,832	-1,786,891
Department of Home Affairs		-418,102
Department of Health and Social Care		-7,000
Department of Infrastructure	3,526	-21,815
Department of Environment, Food and Agriculture	3,765	-29,011
Manx National Heritage	5,000	
Festival of Motorsport Sub Total	1,428,123	-2,262,819
Festival of Motorsport Net Expenditure		-834,696
Shared Event Costs		
Department for Enterprise		-350,790
Department of Health and Social Care		-164,282
Department of Infrastructure		-210,000
Manx National Heritage		
Total Shared Costs		-725,072
Total Net Expenditure for both events		-954,989

¹ Table 8 (b), TT Survey 2017, Department for Enterprise, August 2017
<https://www.gov.im/media/1358080/tt-survey-2017-report.pdf>

² Table 9 (b), Festival of Motorsport Survey 2017, Department for Enterprise, December 2017
<https://www.gov.im/media/1359721/fom-2017-report.pdf>

As shown in the results above, the TT event currently generates a net income for the Isle of Man Government of £604,779, whilst the Festival of Motorsport results in a net expenditure of £834,696.

However after allowing for shared costs for both events, the TT and Festival of Motorsport have a total net expenditure of £954,989.

In visitor terms, there were 45,054 visitors for the TT compared with 16,218 for the Festival of Motorsport. The TT achieves a greater level of economies of scale, as the TT generates £152 per visitor of income versus £88 per visitor, whereas the cost is about the same for each event at £138 per visitor for the TT and £140 per visitor for the Festival of Motorsport.

Whilst this information shows that together these events result in a net expenditure by Government, the full impact of the events will only become clear once the investigation into the wider economy has been undertaken.

Next Steps

As highlighted in the introduction and methodology, the process of assessing the economic impact of the TT and Festival of Motorsport events has been broken down into two sections. This report, which addresses the impact on Government and the second report which will look at the wider economy and bring together the information in this report to create an overall assessment of the two events.

An initial stakeholder analysis by Economic Affairs has identified various sectors and parties which may be impacted by the events, either positively or negatively. However the call for evidence was issued with the intention of ensuring that all parties have the opportunity to be considered and assessed.

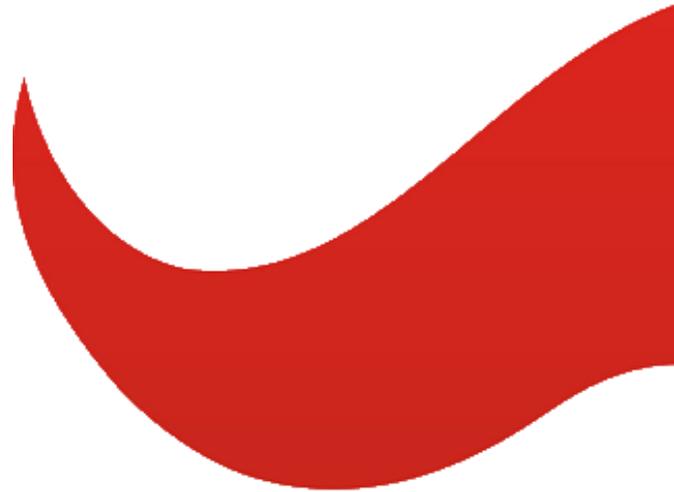
As discussed in the methodology, the wider review will encompass not only the direct impact of the events, but also seek to quantify the indirect and induced impacts of the events on the economy.

This second part of this report is intended to be completed by no later than the Tynwald sitting of January 2019.



Isle of Man
Government

Reilrys Ellan Vannin



Isle of Man Government
Government Office
Bucks Road, Douglas
Isle of Man, IM1 3PN

Telephone: (+44) 01624 685758

Email: **economics@gov.im**

www.gov.im/