

## **Measuring the impact of the Olympics in the National Accounts**

### **Introduction**

At its 117<sup>th</sup> meeting in Singapore the International Olympic Committee (IOC) revealed that the city of London had been successful in its bid to hold the 2012 Olympic and Paralympic Games. From this point a significant amount of planning, organising and economic activity has been completed aimed at the successful staging of the games between July and September of this year.

The challenge for ONS is to ensure that these activities are recorded and recognised in the National Accounts, consistent with the requirements of the System of National Accounts 1993 and its European equivalent the European System of Accounts 1995.

In the National Accounts, output is equal to revenue accrued plus any capital work completed on own account. One of the key issues for ONS is to ensure that expenditure and income relating to output (for example purchases of tickets and receipt of income for TV rights) are recognised in the period when the output actually occurs. i.e. 2012 quarter three, when the games are held.

This issue is of paramount importance given the different timings and economic benefits arising from television rights, sponsorship, ticket revenues, and the sales of consumer products.

Other measurement issues include the recording of activities in the lead up to the Games, the movement of athletes and tourists and the subsequent promotional impact.

A precedent for measuring the impact of the Olympic Games on the National Accounts has been established by the Australian Bureau of Statistics (ABS) in 2000, in response to the measurement challenge posed by the Sydney Games.

Given adherence to international National Accounting Standards it is unsurprising that the UK's approach will be similar to that employed by the ABS. Recognising the differences in each country however, (geographical proximity, transport infrastructure, advances in technology over the last twelve years) it is expected that the economic outcomes of each of these games will differ.

### **Delivery**

A joint agreement between the Department for Culture, Media and Sport, the Lord Mayor of London and the British Olympic body established the London Organising Committee of the Olympic Games Limited (LOCOG), the body responsible for delivering the 2012 Olympic and Paralympic Games. The Olympic Delivery Authority, established by the London Olympic Games and Paralympic Games Act in 2006, has worked closely with LOCOG in the establishment of venues and infrastructure for the games, taking over the responsibility from the London Development Agency and Transport for London.

For the purposes of the National Accounts, ONS classified LOCOG output as Central Government for the period 2004 to April 2008. Thereafter LOCOG's output has been measured via its revenue and as such the body was re-classified in the Public Non-Financial Corporations sector.

### Measuring the impact of the Olympic and Paralympic Games in the National Accounts

Table 1.1 Outlines the areas where data will (or have been) collected to estimate the impact of the games within the National Accounts.

Measurement Themes	Activity	Detail
<b>Organising bodies</b>	Activities of LOCOG and ODA	Planning, promotion and staging of the 2012 Olympic games
<b>Lead-up to the Games</b>	Construction of infrastructure, acquisition of land, etc.	London Olympic stadium, development of London transport links (e.g. development of the East London and Dockland Light Railway Woolwich Extension)
<b>Tickets</b>	Majority of tickets sold in 2011 quarter two	System of National Accounts require that prepayments for a service (tickets), made by UK Households, businesses and overseas residents, be recognised in the period when the economic benefit is transferred, i.e 2012 quarter three
<b>Movement of athletes/tourists</b>	Influx of athletes and tourists and impact on Transport, Ticket sales Hotels and restaurants	Impact on exports of goods and services account
	Universities – many athletes will be based at universities in the build-up to the Games	Impact on Non Profit Institutions serving Households (NPISH) expenditure
	Resident v Non-resident economic impact	
<b>Promotional effect</b>	Increase in tourism beyond the event	Impact on exports of goods and services, Household Final consumption expenditure
	Reduction in domestic activity due to disruption and congestion	International Passenger Survey
<b>Tourism</b>	Government (DCMS) is due to publish a report after the games on the economic impact of additional tourists visiting the UK for the Games	Impact on exports of goods and services  International Passenger Survey
<b>Television rights</b>	Purchase of Television rights by resident and non-resident broadcasters	Public Corporations expenditure figures and exports of goods and services
<b>Sponsorship / Advertising</b>	Purchase of Sponsorship and Advertising rights by resident and non-resident bodies	PNFC Intermediate consumption figures and exports of goods and services

We shall now examine each of these areas in more detail.

## Organising Bodies

ONS captured the activity of the Organising bodies (LOCOG and the ODA) via collection of their operational data. The optimal approach to achieving this goal was to sum each of these bodies' expenses up until April 2008, when LOCOG output was classified as Central Government, and via its revenues when it was re-classified in April 2008, as described above. Consequently, prior to the Games, these activities were measured (planning, promotion and staging) as the sum of labour costs, depreciation expenses and those expenses relating to intermediate inputs (mainly service and input costs to assist with planning and promotion).

During the period of the Games however, the value of LOCOG's output will be equal to its revenue (at £2bn) less the value of output recorded in previous periods.

As well as measuring expenses there is an important issue of appropriately recognising the revenues (targeted at £2bn, of which £1bn to be raised from ticket sales) of LOCOG arising from ticket sales and television rights. The System of National Accounts directs that such revenues cannot be recognised until the associated economic benefit has been transferred from the Organisers to those who have purchased the TV rights or tickets. Clearly the benefit will not transfer until the Games take place. To address the timing issue between payment and benefit, inventories figures in the National Accounts are increased in the payment period and subsequently released and included in the output figures during the period when the economic benefit occurs, namely 2012 quarter three when the Games are held.

It is expected that much of the payment of television rights to LOCOG will come from abroad. Consequently large increases in the service of exports and goods account are expected to be recorded during 2012 quarter three. This increase recognises that the payments could have been made at a prior date and that the ONS will have raised appropriate inventories as outlined. Any sponsorship revenues received from abroad will be treated in much the same way, although these revenues will be recorded under "Royalties and license fees". Expenditure by non-residents on consumer products will be categorised in a similar way, save for the raising of inventory. If products are shipped abroad then these will be classified as merchandise exports in the balance of payments.

Following the Games, there will be sizeable assets on the balance sheet of the ODA, relating to the construction of stadia and new facilities. Since ODA will cease its activities sometime in the future, it is anticipated that these assets will be transferred from the balance sheet of Central Government, to Local Government, as these assets are used for new purposes following the end of the Games.

Any payments made by LOCOG to the International Olympic Committee, or vice versa, in relation to the staging of the Games will be recorded in the balance of payments as current transfer debits/credits accordingly. Similarly any such payments made to other countries to support the cost of travel for example, will be treated in much the same way. Any goods brought from abroad by competing nations to support the staging of the Games will be recorded in the balance of payments as goods imports in the normal way. In comparison, athletes sporting equipment will be treated as temporary imports and consequently will not be recorded in the balance of payments.

## **Construction Activities in the Lead up to the Games**

The ODA has been heavily involved in co-ordinating construction activity relating to the staging of Games, including the building of stadia and infrastructure developments to improve the capacity for athletes and tourists to move freely across locations.

The largest part of these activities will be completed before the Games commence in July 2012 and as such this construction activity will have already been captured in the National Accounts, within construction output and gross fixed capital formation estimates.

## **Tickets**

The majority of Olympic tickets were sold in 2011 quarter two. National Accounts concepts however, require that this expenditure by households, businesses and overseas residents be recognised in the period where the transfer of the economic benefit arising from the ticket purchase occurs, namely 2012 quarter three, when the Games are held. Clearly there is a timing issue between the point of sale and the transfer of economic benefit. As such ONS, in line with the International System of National Accounts (SNA) accrues the ticket expenditure from 2011 quarter two and will release this accrual in 2012 quarter three. For more details on the sale of Olympic tickets in the National Accounts, please see the attached link.

[www.ons.gov.uk/ons/rel/naa2/second-estimate-of-gdp/q2-2011/treatment-of-the-sale-of-olympic-tickets.pdf](http://www.ons.gov.uk/ons/rel/naa2/second-estimate-of-gdp/q2-2011/treatment-of-the-sale-of-olympic-tickets.pdf)

## **Movement of Athletes and Tourists**

It is anticipated that the number of tourists visiting the UK and UK residents travelling as a result of the Games will increase significantly (Bank of England May 2012 Inflation report P.27) , with a consequent impact on economic activity compared with a situation where the Games had not taken place. This increase in activity however, needs to be balanced against the economic activity that is likely to be displaced, where residents choose not to visit hotels and restaurants as a result of the expected increased tourist numbers and congestion. It is expected that the components of consumption expenditure likely to be most affected will be hotels and restaurants and recreation and culture.

As well as the impact on measurements of domestic economic activity the spending of non-residents will be reflected in the exports of goods and services accounts. As well as non-residents expenditure on hotels and restaurants and other services, the ticket revenues relating to non-residents will be recorded as exports of goods and services and treated in the same way as mentioned above, i.e. inventory increased during the period of expenditure and this total released at the time when economic benefit is realised.

The increased number of tourists arriving in the UK as a result of the Games will be captured via the International Passenger Survey. The survey will be enhanced both in terms of the number of questions asked and its sample size, during the first half of August 2012, to address the expected

peak flow in visitors to the Games. As well as sampling greater numbers of passengers, the enhancement to the survey will cover a greater number of ports of entry to the UK.

### **The promotional impact of the Games.**

Heightened media attention and the impact of promotional activities are expected to stimulate tourist numbers during and following the games. These impacts will be recorded in estimates of expenditure by non-residents, as outlined above, in the exports of goods and services accounts and subsequently in the net tourism figures of the Household expenditure account. As mentioned earlier, the International Passenger Survey will capture the promotional impact of the Games, when tourists are questioned on their reasons for visiting the UK, post the Games.

ONS is aware that other Government Departments, including the Department for Culture Media and Sport (DCMS), have commissioned bespoke longitudinal pieces of quantitative analysis, to capture the impact of the Games. One of the issues to be addressed in this report will be the impact of promotional activities on tourist numbers.

### **Summary**

As noted in the Bank of England's most recent inflation report (P.26 & 27, May 2012), it is difficult to estimate the quantitative impact of the Games, given the potential substitution effects arising from their occurrence and the corresponding displacement of economic activity, particularly in relation to domestic tourism and consumption. ONS is however able to provide guidance as to the areas of the accounts which are likely to be affected by the related activities.

Clearly, sizeable economic activity has been generated through construction activities, the estimates of which will have been captured in the National Accounts to date. Spending by residents and non-residents, individuals and companies, will be recognised in estimates of household final consumption, the revenues of the organising bodies and the Balance of Payments. The measurement of these activities on a coherent basis, i.e. ensuring that associated expenditures and incomes are recognised when economic benefit has transferred from the Games' organisers to recipients, has posed a major challenge for ONS.