

## ECONOMIC APPRAISAL OF EURO 2008: SUMMARY OF KEY ISSUES AND RESULTS

1. This note sets out some of the key issues surrounding the economic appraisal of Euro 2008 and presents the key results.
2. Euro 2008 will be of economic advantage to Scotland if the benefits created by the event are greater than the costs of holding the event. Determining the likelihood of this requires a large degree of judgement since knowledge in certain key areas is inherently uncertain. These include: the extent to which the economic activity will be additional or displace normal activity; the evaluation of unquantifiable costs and benefits; the long term impacts of such events; and the opportunity cost of the resources that would be needed to host Euro 2008. Any judgement is necessarily more difficult because the appraisal of Euro 2008 concerns these issues 5-8 years hence.

### Financial costs

3. The financial costs that would be incurred by the Scottish Executive have been estimated for alternative stadium options. The costs are estimated to range between £60-87m for a sole bid and £27-50m for a joint bid. The costs include the stadium and associated infrastructure costs, additional policing costs and promotional costs. Because these costs would arise in future years, a discount rate has been applied to convert these costs into their present day values.

### Gross Benefits

4. The expenditure generated by Euro 2008 would generate income and employment effects. DTZ Piedad's best estimate is that Euro 2008 would generate<sup>1</sup>:
  - **Sole bid:** £106 m income and 7300 jobs for one year spread over 2005 to 2008;
  - **Joint Bid:** £79m income and 5500 jobs for one year spread over 2005 to 2008.
5. A key issue is the extent to which this increase in economic activity would be additional or simply push out normal activity. For a particular period of time, Euro 2008 will require a considerable share of the available resources (e.g. workforce, stadiums, hotels, restaurants, trains, planes etc.) making less resources available for other activities. The above estimates assume displacement will only be 15%, based on DTZ Piedad's analysis of the availability of accommodation for visitors. This implies that there would be sufficient spare capacity in the economy to ensure that most of the economic activity generated by Euro 2008 would be additional.
6. In contrast, Treasury guidance on economic appraisal suggests that 100% displacement should be assumed at the macroeconomic level. In other words, the Treasury approach would be to assume that the workforce and other assets would be drawn away from other activity unless there is clear evidence to the contrary. The different assumptions determine the degree to which the anticipated boost in demand from Euro 2008 would lead to an increase in output in the economy. More generally, greater benefits would be expected to accrue from projects that affect productivity rather than demand.

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<sup>1</sup> These estimates assume that: spend per supporter is the same as the real value of spend at Euro 1996, 85% of tickets are sold and displacement is 15%.

7. To the extent that recent history and current circumstances suggest the existence of spare capacity and can inform our understanding of future market conditions, there is an argument for relaxing the strict assumption in Treasury Guidance (i.e. 100%). The absence of hard evidence for the relevant time period also suggests it would be unwise to adopt the minimal displacement case (i.e. 15%). The likely degree of displacement lies somewhere in between.
8. Scottish Executive analysts have adjusted DTZ Peda's best estimates of gross benefit<sup>2</sup> and generated revised estimates which also reflect uncertainty over the degree of displacement that will occur in 2008. This generates the following ranges of estimates:
  - **Sole bid:** between £0m and £77m;
  - **Joint Bid:** between £0m and £69m.

### **Net Benefits**

9. The difference between the financial costs and the gross benefits generates the following ranges of estimates:
  - **Sole bid:** between £ -87m and £17m;
  - **Joint Bid:** between £ -50m and £42m.
10. In order to yield a positive benefit, displacement must not exceed between 9% and 27% in the case of a sole bid and between 41% and 62% in the case of a joint bid. In addition, in order to generate a positive net benefit, the opportunity cost of the resources used for Euro 2008 (i.e. the value of these resources used in their best alternative use) must be low. These are demanding requirements.

### **Non-quantified costs and benefits**

11. There are a number of important costs and benefits which are not readily amenable to quantification and are therefore not included in the range of estimates presented above. These include the unquantifiable aspects of the value derived by those who watch the event (e.g. excitement, identity, inspiration etc.) and the long-term impacts.

### **Value for Money (VfM)**

12. The benefits for Euro 2008 were compared with the benefits from alternative actions by government. The comparator used was an increase in VisitScotland's budget, which would also generate significant extra visitors to Scotland. VisitScotland's target is to generate £12 of expenditure for every £1 that they invest. Given that a sole bid and joint bid is estimated to generate between £2-4 and £2-7 of expenditure, for every £1 invested, respectively, Euro 2008 does not compare well against this target.

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<sup>2</sup> The original estimates have been adjusted to reflect the fact that: (a) a significant proportion of tourist expenditure will be on goods imported to Scotland from the rest of the UK and the rest of the world; (b) companies which supply tourists demands will benefit from Euro 2008 in terms of increased operating profits and this in turn will benefit the Scottish economy. This contribution (less the outflow from Scotland) has been estimated and included in the revised estimates; (c) the benefits (and costs) will occur in the future and hence ought to be discounted at the appropriate rate.

## **Conclusions**

13. Both the sole bid and the joint bid have the potential to generate net benefits or net costs. The economic analysis, therefore, does not provide a clear-cut answer to support a decision. Rather, the decision needs to be made in the knowledge that the economic benefits are uncertain. In order to yield a net benefit to the economy, a significant amount of the economic activity generated by the project must be additional and not substitute for existing activity, and must incur little cost. Ultimately, an assessment of the likely impact of Euro 2008 depends on which assumptions Ministers believe to be the most realistic, their assessment of the relative importance of the unquantified costs and benefits and their assessment of the risks associated with Euro 2008.

## Questions and Answers

### **1. Why was the solo bid rejected?**

Although the economic analysis shows that both bids have the potential to generate net benefits or net costs, the net benefits are greater and the net costs are lower under a joint bid as opposed to a sole bid. Further, higher levels of displacement can be sustained under a joint bid than a sole bid and the opportunity cost of resources needed to host a joint Euro 2008 would be lower than in the case of a sole bid.

The decision involved weighing up evidence on the impacts of Euro 2008 (quantitative and qualitative) and the potential risks associated with the event. The risk analysis was the deciding factor. All types of risk (economic, planning etc.) are lower for a joint bid than a sole bid.

### **2. What does the £500m figure presented in the Press represent and how does this relate to the figures presented in the Summary?**

The £500m figure represents the most optimistic, initial estimate of the total expenditure that would be generated by Euro 2008 (All initial estimates have subsequently been revised). The figures presented in the Summary represent estimates of the impact which this expenditure would have on the Scottish economy.

### **3. What is the Executive's best estimate of the economic benefits?**

The Executive does not have a single figure. Rather, it has a range of estimates, reflecting the uncertainty which exists in certain key areas. The range of estimates are presented in the Summary.

### **4. Why is the upper band of the Executive's range of gross benefit estimates lower than Pieda's estimate of gross benefit?**

Various adjustments were made to the DTZ Pieda estimates to bring these more into conformity with the Executive's normal methodological approach. Some of the adjustments had the effect of increasing the estimates, for example, companies which supply tourists demands will benefit from increased operating profits and this will benefit the Scottish economy. This contribution (less the flow out from Scotland) was estimated and included in the estimates.

Other adjustments had the effect of reducing the estimates, for example, the tourism expenditure estimates were reworked to allow for the fact that a significant proportion of tourist expenditure would be on goods imported to Scotland from the rest of the UK and the rest of the World (around 25% according to the latest Scottish input-output tables). The benefits were also adjusted to reflect the fact that that these would be generated in future years. This involved applying a 6% discount rate in line with Treasury Guidance.