Maximising the Social and Economic Benefits of Connacht Rugby for the West of Ireland: The Challenge Ahead

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Executive Summary

1. Connacht Rugby is the most important professional sports organisation in the West of Ireland and has achieved notable international success in recent years. It oversees rugby in the region, where it has greatly expanded its support and participation in the sport, and it's top teams regularly bring world class athletes to the area. However, Connacht Rugby has no purpose built rugby stadium in which to play its home games. Instead, it operates from Galway Greyhound Stadium as a sub-tenant, a situation that is unsuitable for players and supporters and that is imposing constraints on the organisation.

2. Standing still is not a viable options for a modern professional sports organisation. Connacht Rugby has set out an ambitious vision to build on the progress that has been made. Providing a modern purpose built rugby stadium is at the heart of this vision. Achieving this vision is crucial if the benefits of the team's success in recent years and the potential that the organisation has demonstrated are to be realised.

3. From a socioeconomic point of view, one of greatest attractions of Connacht Rugby is that it is a success story that is firmly rooted in one of the Ireland's lagging regions. Compared to the leading regions, incomes are relatively low in the West of Ireland, job creation is sluggish and demographic weaknesses are ongoing. Regional imbalance is not new to Ireland, but the economic crash of a decade ago and the recovery of recent years have highlighted the fact that these imbalances are ongoing and intensifying.

4. Connacht Rugby has a considerable economic and social impact on the region. The organisation directly employs 97 people full-time, an additional 33 part-time and occasional workers on match days. There are also 20 full-timers and 20 part-timers associated with the academy. Direct expenditure by the organisation amounts to €8.83 million per annum. When related consumer expenditure and expenditure by visitors to home games is included, the total direct economic impact of Connacht Rugby is estimated to be €15 million per annum. Most of this expenditure is within the Galway region and secondary multiplier effects are also important. When these are included the total economic impact of Connacht Rugby is estimated at €27 million per annum.

5. It is not a coincidence that the strongest economic areas in Ireland, as in most countries, are centred around the larest cities. Important dynamic effects are at work

and regions require competitive cities if they are to perform well. However, for a city to fulfil its role as a generator of economic impetus it must be competitive in key respects. Successful cities require scale, effective systems and must provide services if they are to lead their regions. Consumer services, such as entertainment and professional sports, are essential elements of the mix of services that only cities can provide.

6. The importance of creating centres with sufficient mass and energy to lead their regions has been reflected in Irish economic policy over the past two decades. However, designing the correct interventions to create the necessary dynamics can be very difficult and it is recognised that policy should concentrate on supporting indigenous strengths and extending the beneficial effects of these to surrounding areas. The fact that international success can be achieved by a club that is based locally in the West of Ireland is hugely significant for the standing of Galway as a city and indicates the importance of Connacht Rugby's presence. As such, Connacht Rugby makes an essential contribution to the ability of Galway to fulfil its role as a core for achieving balanced economic development on the island in the longer term.

7. The benefits of Connacht Rugby are not limited to its economic effects as it is widely accepted that sports organisations also have considerable social benefits. Estimating economic values for these social effects can be difficult, but it is clear that the level of participation in the teams it organises and the volunteer activity that is associated with Connacht Rugby means that this impact is considerable. Based on previously published research and research undertaken by Connacht Rugby, the social value of the volunteering and the health benefits of participation in rugby in the Connacht region are estimated at €7.4 million per annum. This social impact is in addition to the estimated economic impact with the result that the total socioeconomic impact of Connacht Rugby is estimated to be €34.4 million per annum.

8. These estimates and features of Connacht Rugby show that it is very important to the West of Ireland and that building on the success it has achieved will be essential if its potential benefits are to be realised. However, Connacht Rugby is not in a position to finance the cost of the playing facilities that are required and public support will be required to fund the construction of a new stadium. There is a real possibility that the momentum that has been created by recent success would be lost without support.

9. Before committing public funds, it is important to examine if there is a rationale for public involvement, if it is feasible to expect that the funds will result in a desired

outcome that would not otherwise occur, and that there will be a socioeconomic return on the funds invested. If a rationale exists, and if it is feasible to expect that investment of public funds would address the issue, and if there is a sufficient return to make the investment viable then there is a strong economic case that support should be provided.

10. In relation to the first of these requirements, there are numerous market failures that mean that investment is sports infrastructure would be insufficient if left to market forces only. These market failures include externalities associated with sports, the feel good factor that success engenders in a population, the social benefits of sports, proven productivity and economic benefits, and issues related to discount rates and risk. These market failures provide the rationale for public support.

11. Sustaining the success of Connacht Rugby means that a purpose built rugby stadium is an essential requirement. As a result, the organisation has placed the construction of these facilities at the centre of its strategic plan and vision for the future. The plan is that the stadium will be built with support, but there is no doubt that it would not be built without support. As a result, it is feasible to argue that funding is the essential requirement for the plan to go ahead and that there would be a low level of deadweight associated with the public funds that would be allocated to this project.

12. A full cost benefit analysis may be undertaken at a later stage in the development of the project to identify if the investment of public funds would have a net positive impact on economic welfare when all economic and social costs and benefits are assessed. This assessment would need to extend beyond a narrow focus on economic activities and expenditures that might be directly associated with Connacht Rugby. Importantly, the assessment would need to include the benefits that arise from the role that a stadium would play in enhancing Galway city's ability to play a leading role in the economic and social development of the West of Ireland. It would also need to include the important social benefits that would arise from participation in sport as a result of a successful professional team being located in Galway.

1. Introduction

1.1 Background & Context

Although it had achieved considerable successes in terms of growing its support base and increasing the number of people playing the game in the West of Ireland, for many years following the introduction of professional rugby, Connacht Rugby continued to be seen as the poor relation of professional rugby clubs in Ireland. It remained relatively small compared to the other professional clubs and had not seen the level of successes in European competitions and international caps that the other provincial sides were achieving.

This changed in 2016 with the province's success in the Pro 12, an international competition featuring teams from Wales, Scotland, Italy and Ireland[1]. Connacht showed that, in professional sport as in so many other aspects of life, it is not the resources you start with or the limits that others might place on your ambitions that count. Instead it is the ambitions you set for yourself and the actions you take to realise those ambitions that determine the outcome.

Connacht Rugby has displayed the ambition and the determination to move from a supporting role to centre stage in European club rugby. But there is no destination in professional sport, just ever moving targets. It would be a major mistake to rest on past achievements or to assume that recent successes provide any guarantees for the future. Fortunately, there is no indication of Connacht Rugby making this mistake. Rather than looking back, the club has set ambitious targets for the near term future in its strategic plan *Grassroots to Green Shirts: Vision and Strategy 2016-2020.* Fulfilling this vision would build on the base that has been put in place and harness the momentum that has been created by success to move to the next stage of development.

Ambition and determination are essential requirements, but are insufficient to achieve the vision that has been set out by Connacht Rugby. The reality is that there are serious practical constraints that could constrain progress. In primary place among these is the lack of facilities to accommodate a professional rugby club and its supporters. As a result, Connacht Rugby have begun the process of planning the future development of a fit-for-

[1] There are plans to expand the Pro 12 and in coming years it is expected that the competition will include teams from the US, Canada and other European cities.

purpose stadium for Connacht Rugby that is aligned with the potential and ambitions of the organisation. This is the background against which Connacht Rugby requested KHSK Economic Consultants to prepare a report on the current and potential social and economic impact of Connacht Rugby on the west of Ireland.

The report has been prepared based on information provided by Connacht Rugby in relation to its operations and information obtained by the consultants from other published sources. Its preparation at a relatively early stage of the planning process means that it is not an assessment of a specific proposal for developing a stadium although the broad outlines of what is required are known. Other preparatory work is also being undertaken and the information that has emerged from that work is incorporated into this report.

1.2 Report Structure

While it is inevitable that some technical terms are used in this report, it has been prepared as far as possible for a general audience without particular insight into the economy of the west of Ireland or the performance of Connacht Rugby. With this in mind, Section 2 of the report contains an overview of the development strategy that has been identified by Connacht Rugby and where this study fits into their vision. It also summarises what has been done so far in terms of implementing this strategy in respect of developing a new stadium and base for Connacht Rugby.

The location of Connacht in the West of Ireland provides an important element in the context of developing a stadium. Section 3 places the club in this regional context by means of a socioeconomic profile of the region. It also discusses the way in which sports can contribute to addressing the increasingly serious regional disparities in Ireland and briefly reviews Irish policy in this regard. Section 4 examines the economic and social value of sport in Ireland and provides detail on the economic impact and role of Connacht Rugby and its potential to increase this contribution.

Section 5 discusses issues concerned with funding the stadium. Public support will be required and this requires that some important issues are clarified. First, is there reason to expect that the private sector would not provide adequate funds to construct a stadium even though doing so would be in the public interest? Second, are there market failures associated with a proposal to build a new stadium that would be likely to deter investment? Third, would public funds be likely to provide a socioeconomic return in

terms of higher welfare and what issues would need to be examined in determining if this is the case? These issues are addressed with reference to available studies and international literature on the returns from investment in sports facilities, the current stage of development of Connacht Rugby, and its role in the economy of the West of Ireland. The final section of the report summarises the main conclusions.

2. Strategy and Vision

2.1 Successes and Challenges

A strategic plan has been developed by Connacht Rugby to guide its progress over the next few years[2]. The vision that guides this plan has been developed in the context of a glaring weakness in Connacht Rugby – the club plays its home games at the Sportsground, otherwise known as Galway Greyhound track, which it sub-leases from Bord na gCon/the Irish Greyhound Board (IGB). The design of this facility places considerable constraints on the ability of the club to move to the next stage in its development as well as imposing operational costs as the site needs to be prepared, with temporary spectator fixtures for many home games. Even then, spectator feedback indicates that the facilities fall short of what is expected at professional rugby games and they are inadequate to meet basic requirements for some Pro 12 games.

Attendances at home games provides an indication of the extent to which successes on the pitch in recent years has fired local support for Connacht Rugby. Total attendance at home games in 2013-14 season was less than 45,000 people. Total attendance in the 2016-17 season more than doubled this figure and exceeded 99,400. Season ticket sales, which had been running at about 3,000 for a number of years have jumped to just under 4,000 in the past year.

Spectator capacity at the Sportsground is capped at 6,190 and, as the numbers wishing to attend games have grown, it has proven necessary to provide temporary spaces for some matches during the past year. This is expensive and a drain on resources, but it has enabled capacity to be expanded to 8,090 for high profile games.

While the increase in attendance is notable, it hides an important issue. Non-season tickets, which had accounted for 54% of attendances in the 2013/14 season, rose to 65% of attendances last year. Average attendance was 53% of capacity for home games in 2013/14, but this rose to 76% in the past season and exceeded 90% for 4 of the 14 games played. Based on information in relation to attendance rates by season ticket holders, which averaged 62% in the 2016/17 season, it was possible to allow the total number of tickets sold for home games – season tickets plus match tickets – to exceed capacity for most games during the season while continuing to observe strict safety requirements.

[2] Connacht Rugby, *Grassroots to Green Shirts: Vision and Strategy 2016 – 2020*

However, this is only possible for terrace areas and it is clearly not a long term solution to the capacity constraint. Furthermore, it was still necessary to restrict sales of match tickets for some matches.

Taken together, these data show the success that has been achieved in building support in Connacht by extending the game beyond the traditional support base. However, the data also show that capacity at the Sportsground has become a constraint on progress this year despite the temporary increases that have been made, and will curtail further growth in coming years.

2.2 The Importance of an Ambitious Vision

In addition to identifying the organisational capacities and improvements that will be required, the strategic plan points to

> '*the need to plan and develop a modern stadium that reflects the commercial and performance needs of Connacht Rugby*'.

These modern facilities are identified in the plan as one of three '*big moves*' that will be required for sustained success and, within this, a fit-for-purpose stadium is identified as a key priority. The contribution that a properly designed facility would make towards fulfilling the club's ambitious vision is a positive statement in favour of building a new stadium. However, it does not capture the extent of the requirement and the urgency for action. The issue here is that there is a choice to be made and this is not a choice between remaining broadly at the current level of performance and achieving an ambitious level of development. Standing still is not a viable option. The alternative to progress is decline, either absolute decline from the current standing or decline relative to other professional teams.

Professional sport is a fast moving and fast changing sector. This is certainly true of professional rugby which has seen extremely fast growth and development over the past two decades, a trend that shows no sign of changing. This is seen in player and spectator numbers and in the economic and financial impact of the sport. For example, total spectator attendance for the first rugby world cup (RWC) in 1987 was 600,000 with an average of 18,800 per game. This increased to a total attendance of 1 million in 1991 and then to 2.25 million in 2007 with an average attendance of 46,900 per game[3]. While this

[3] *Potential economic Impact of the Rugby World Cup on a Host Nation*. Report by Deloitte to International Rugby Board, September 2008.

rate of growth has inevitably slowed – stadium capacities alone could not sustain a doubling every decade or so – total attendance at the 2015 RWC amounted to just under 2.5 million, with a further 1 million people who were unable to get tickets watching games in official fanzones[4]. The total television audience was estimated at over 4 billion, over 20 times its size of the first RWC, and the economic impact of direct expenditure at the event was estimated to have created an additional £855 million in output in the UK economy. This is a very fast changing and developing sector where standing still is not an option.

It is not even necessary to go to the international sphere to see the importance of not attempting to stand still. High performance sport is not designed as a stable system. This can be seen even by looking at top level sport within Ireland. An analysis of sporting success since 1980 for the four major team sports (Gaelic Football, soccer, rugby and hurling) by region in Ireland shows an interesting outcome[5]. One region dominates for each sport, with Limerick dominating in rugby with clubs from Limerick having won about 60% of All-Ireland League titles. However, a different region holds a dominant position in each sport. The West of Ireland does not top the winner's tables for any of the sports. The author concludes that

> *'It is clear that even in a small country like Ireland location matters for success in particular sports. There are some possible explanations, such as a type of demonstration effect where athletes in a county/region are drawn to the success of a particular sport in that area. This means history matters and there is an element of cumulative causation. This could also occur in relation to attracting funding and sponsorship'.*

This explanation basically means that the analysis suggests that success breeds success in each particular sport. This has an important implication.

The reasons for being dominant are likely different for the different sports with tradition being very important for GAA sports, but the 'cumulative causation' effect is likely to be far more important for soccer and rugby where players, particularly professional players, can change clubs more easily and do so more regularly. Consequently, there is constant competition between clubs off the field to retain players and resist the attraction that exists for them to go to the more successful clubs for both the possibility of greater success and greater financial rewards.

[4] *The Economic Impact of Rugby World Cup 2015: Post Event Study*. Report by EY Consultants.
[5] Jordan, D. (2015) 'Geographical Spread of Sporting Success in Ireland – a first look'. Online article: www.sportseconomics.org

This centripetal tendency exists in many sports – the most obvious example being European soccer – and requires deep structural interventions if it is to be counteracted[6]. The American college draft system is an example of an effective, counteracting mechanism where the best new talent is actively moved towards the weaker teams. Rugby has no such mechanism and Connacht Rugby has been particularly exposed to this danger over the years. As a result, there is a heightened requirement to build on the existing momentum from recent successes or else it will drain away to competing clubs with greater resources at their disposal and who are on a higher level of the virtuous spiral that is created by success.

2.3 Strategy Implementation

Planning for the development of a new stadium has already begun but is at an early stage. A number of successive engineering studies have been undertaken and an outline of what is required has been developed based on the facilities that are available to competing clubs. An appropriate stadium for Connacht Rugby would need to include:

- A playing pitch with stands and terraces to accommodate 12,000 spectators with flexibility to expand this in the future :
- Food and beverage facilities and a hospitality suite;
- Changing rooms and facilities for medical treatment;
- Conference facilities for use on non-match days;
- Onsite and offsite car parking; and
- Outside broadcast facilities.

Based on these requirements, a recent study undertaken by Tobin Engineering Consultants, considers three theoretically possible options for the development of a new stadium and playing facilities[7]. These are:

- Redevelopment of the Sportsground along with the Irish Greyhound Board;
- Redevelopment of the Sportsground, primarily as a rugby stadium, with greyhound racing being relocated; and
- Development of a rugby stadium at a new site.

[6] It is known that such features appear in economic systems and often result in outcomes such as increasing regional disparities or cycles of bubbles and crashes. Disequilibrium systems are generally considered to be disruptive, difficult to model and prone to result in undesirable outcomes that require intervention.
[7] *Site Selection for a New Stadium*. Report to Connacht Rugby by Tobin Engineering Consultants, April 2017

The first of these options would not address the issues and would not be compatible with achieving the ambitions that have been set out. Following consideration, the Board of Connacht Rugby concluded that attempting to redevelop what would continue to be a greyhound racing track would involve considerable expense and would still result in an outcome that did not meet the needs of Connacht Rugby. Connacht Rugby would remain sub-tenants at a facility that was inadequate for requirements leaving the organisation open to the risks above. This conclusion is supported by the analysis in the Tobin report.

The second option would enable the development of a rugby stadium at the Sportsground. However, it is not a feasible option since the IGB has stated recently that it has no plans to close any more greyhound racing tracks and has indicated that it does not wish to relocate from its current location in Galway. The Tobin report also shows that, even if the IGB were to consider moving, this option would involve considerable expense for Connacht Rugby in gaining control of the Sportsground and providing alternative locations for the extensive existing non-match day activities, such as training pitches, the gymnasium and the administrative headquarters. Consequently, while the Sportsground would be an attractive place to develop a stadium, given its location close to the city centre and the emotional factor that it is the home of Connacht Rugby, this is not currently a viable option.

This leaves the third option, to develop a stadium at an alternative site. The Tobin study identified two possible sites within walking distance – about 1 mile – of Eyre Square. These are Eamonn Deacy Park – where Galway United currently play their home games – and the playing pitches at Moneenageisha Community College. The study undertook a comparative analysis of these sites based on 17 criteria grouped in five categories. These categories are:

- Site Characteristics;
- Ownership and Availability;
- Planning and Construction Issues;
- Utilities and Services; and
- Other Issues such as the need to displace existing activities and the potential for alternative uses on non-match days.

The Tobin analysis identified the Moneenageisha site as the preferred location for development across these criteria. Importantly, it would be available on a lease basis and,

at 3.59 hectares, it is large enough for the facility and would not require additional land. This would help contain the overall initial costs of the development[8].

The Tobin study also provides an estimate of the cost of the new stadium excluding any costs associated with site acquisition or road realignment. This indicates a cost of €29.5 million for the stadium development. While this estimate is preliminary and is subject to revision, it does provide a cost estimate, within an order of magnitude, of what it will cost to provide the required facilities as outlined in the Connacht Rugby strategic plan.

[8] The study also identified that if the availability issue at the Sportsground were to be resolved to the satisfaction of Connacht Rugby in the future – although that is not currently foreseen – then that site should be considered to be an appropriate location for the stadium development.

3. Sport, Society and the Economy of the West of Ireland

3.1 Socioeconomic Profile of Support Region

The location of Connacht Rugby in the West of Ireland and the fact that it both depends on the local region for support and contributes to the economy of the region is an important issue to recognise. Although most sports clubs can legitimately point to cultural roots in their locality, from the point of view of a socioeconomic analysis it is not an exaggeration to say that it is possibly more important to recognise location as a key factor in the case of Connacht Rugby than for any other professional sports team in Ireland.

The West of Ireland has been characterised by a lagging economy for many decades with relatively low incomes and demographic weaknesses. There are many reasons for this weak performance and a full analysis is well beyond the scope of this report. However, it is very important to recognise that the situation has not improved. Ireland's regions were particularly hard hit by the economic crash, but they have continued to underperform in the recovery that has emerged in recent years. While long term underperformance may be due to many factors, policy initiatives are required, and can be effective in addressing this imbalance.

Ireland's future economic success will depend on knowledge driven manufacturing and services but the West is lagging in this respect and remains overly concentrated in traditional activities. For example, the Western region – comprising Galway, Mayo and Roscommon – contributed 9.6% of national gross value added (GVA) in agriculture – a widely used measure of productivity – but just 6.5% of national GVA in services[9]. Furthermore, GVA per person in the West is below 80% of the national average GVA per person.

The economic crash and the recovery that has taken place in recent years has emphasised the difficulties. Although the western region has a slightly lower participation rate than the state as a whole, the unemployment rate remains relatively high. There have been improvements, but in late 2016 it stood at 7.9%, a real improvement over 2 years earlier when it stood at 10.3%[10]. However, this hides a considerable under performance as the

[9] *Regional Indicators Report: Monitoring Framework for Implementation of the Regional Planning Guidelines*. Report to Regional Authorities of Ireland by Future Analytics, 2014.
[10] CSO (2017) *Quarterly National Household Survey*, Q 4, 2016

national rate, which was just over 10% in late 2014, had fallen much more rapidly to 6.7% in late 2016.

When looked at in terms of job creation the picture is even more concerning. Over 62 per cent of the new jobs in 2015-16 were created in just four counties: Dublin, Meath, Kildare and Wicklow. Per capita jobs growth in the West since the end of 2012 has been less than a quarter of what has been seen in Dublin and the numbers employed actually fell in the West in 2015. Overall employment growth per capita was 4.5 times as fast in Dublin as in the west in 2015-16. This is despite the fact that the Department of Jobs, Enterprise and Innovation published eight Regional Action Plans for Jobs up to 2016. It has been concluded that these trends mean that employment policy is failing to adequately recognise the differing needs of each part of the country[11]. One size does not fit all and the outcome of economic policy in recent years has been that aggregate economic growth has been prioritised over balanced regional growth.

Even for those in employment, earnings in the West have consistently been well below the national average. CSO data show that average weekly earnings in Connacht rose slightly from €609 in 2011 to €619 in 2014. Earnings in Dublin rose at a similar rate in that period, but in 2014 average weekly earnings in Dublin were €746, a premium of just over 20% above the Connacht level. Of course, costs are lower outside Dublin, but average earnings for employees in Connacht are noticeably lower than in both Munster and Leinster outside of Dublin, and are just 92.5% of the national average. These differences reflect the lower productivity noted above.

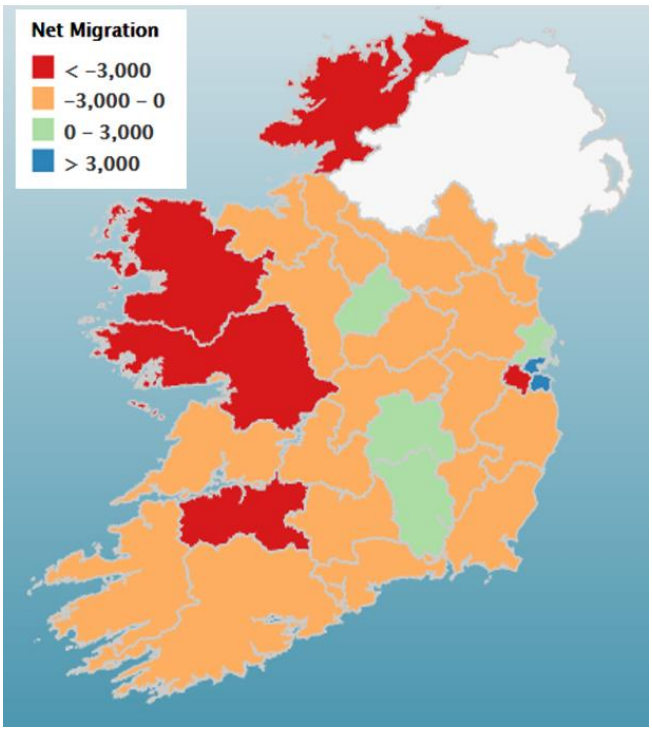
Such imbalances will inevitably lead to population shifts and the threat of an adverse spiral where a weak economy leads to loss of skills which further contributes to the weakness. This adverse spiral is the opposite of what is required and creates problems for both the weak area and problems such as overcrowding and competition for resources in the stronger region. The results are being clearly seen in the Dublin area at the moment and have been quantified by recent census data.

Preliminary *Census 2016* data show that the population of Ireland increased by 169,724 people, or 3.7%, between 2011 and 2016, mostly as a result of rapid growth in counties on the east coast. The population of the West in 2016 was 453,413, an increase of 8,057 (1.8%) since 2011, slightly under half the rate of increase for the country as a whole in this period. But this rise hides an important issue. Population change is made up of two flows: natural increase and net migration. Natural increase is normally determined by a

[11] *Employment Monitor*, Social Justice Ireland, September 2016.

population's demographic structure while migration flows are much more closely related to economic factors. Ireland's demographic structure means that natural increase remains positive across the country. However, when this is stripped out the resulting population changes, as a result of net migration, have been mostly determined by economic opportunities. The CSO have done this analysis for the period 2011 to 2016 and the results are shown in the map below.

Net Migration by County 2011-2016



Source: CSO, Census of Population 2016, Preliminary Report

This map shows that for most of the country net migration was relatively small in this period with most countries experiencing small declines. The exceptions were large positive flows into parts of Dublin and large outflows from four countries in the west. Two of these counties – Mayo and Galway – comprise the majority of the support base of Connacht Rugby and the area where its economic impact is most apparent. This map makes it clear that the recovery period has coincided with a continuation of the long term migration of population from the West of Ireland towards the Dublin area. This is apart altogether from the population losses as a result of emigration that hit the west following the economic crash.

There are also some weaknesses in the demographic structure of the population in the West, most noticeably in the age structure. Analysis of data from Census 2011 shows that 59.8% of the population were aged 20 to 64 – which is considered to be the productive

cohort of the population – while 13% are aged 65 years and over in the West. This contrasts with Dublin where 63.9% of the population are aged 20 to 64 with just 10.9% aged 65 or more. These differences in the age structure reflect the economic imbalances as it is this age group that migrates in search of opportunities. Furthermore, the West remains largely rural with 62% of its population living in rural areas, a dispersion exceeded only by the border region at 63%. This makes it more difficult to create the clusters and productive nodes that are recognised as important for economic development. Addressing this is a huge issue and will likely require a multi-generational strategy over a prolonged period.

3.2 Sports Facilities and Economic Development

Much of the literature on the role of sport in the economy, particularly from academic researchers, concentrates on the role that associated expenditure, during both stadium construction and in subsequent operations, has in stimulating the local economy. This is discussed further below as this issue is clearly important in relation to the proposal by Connacht Rugby to construct a new stadium. However, the role of sports infrastructure in supporting economic and societal development is more complex than this.

The type of analysis that has been mostly used in analysing the economic role of sports teams sees expenditure by the organisation and its supporters as the key impact. This expenditure has a direct impact and will have additional impacts as it stimulates further economic activity. However, this general approach, which fits well with a conceptual model that views the economy as a series of separate, but occasionally interacting, markets has been criticised by economists in recent decades as inadequate since it does not capture or explain the fact that economic activity is not distributed evenly but tends to be concentrated.

Successful regions have high productivity and higher incomes relative to other areas. Cities are the most competitive and productive areas of modern economies, even though wages, rents and service costs are typically higher in cities than in smaller towns. These higher costs for production are not a drain on competitiveness that will eventually dissipate the activity to other areas, but reflect the underlying competitiveness of the leading area. This means that once an area has obtained a position as a leading area, it will often continue to lead and, in the absence of intervention, the gap with lagging regions will get wider.

Such regions tend to have three distinct characteristics:

- First, they have sufficient scale to enable businesses and services that require a critical level of demand to be viable. In other words, it is a mistake to see many services as being able to grow incrementally. Instead, many services are viable above a certain level of demand but cannot survive unless this level of concentration is in place.
- Second, leading areas have efficient and effective systems in place. Such systems cover areas such as governance, security and transport. If there are weakness in these systems then gradual decline is often the outcome.
- Third, leading centres are recognised in the region as a key centre where services are concentrated. The expertise that is required to deliver these services is also concentrated into the area. These services generally cover areas such as financial and higher professional services, education, sports, and arts.

There are few successful, developed cities that don't have each of these requirements in place. Furthermore, there are few places that do have them that do not perform as successful leading centres.

A common thread running through these characteristics is that they require a critical mass of population size and infrastructure. This is more than just aggregation: concentration is important and there is a level below which operation is simply not viable. If the scale is available a service can survive and grow. The availability of services then attracts more population which can make the services and activities that require larger scale increasingly viable. In contrast, if population is lost, services are lost and a damaging spiral can emerge.

3.3 Irish Regional Policy

The role of concentration, or agglomeration, has been incorporated into economic thinking in Ireland due to the inclusion of concepts such as clusters and industrial districts in the intermediate objectives of industrial policy. Geographical proximity (or other ways – such as the use of IT – to improve information flows) encourage spillovers and thereby improve productive capability and efficiency. Cities and their environs clearly provide a readymade environment for these developments while also contributing the benefits that arise in relation to trade. The problem however is how to stimulate this development or to arrest decline. This has been a long term problem in Ireland and it appears to be immune to either boom or bust in the general economy. The forces continue to act in all

parts of the economic cycle, although policymakers' ability to intervene may differ at different times.

Ideas of the importance of the positive externalities that are created by locations with sufficient critical mass were at the core of the National Spatial Strategy (NSS) and they remain hugely important in the current revision of that policy[12]. The NSS states that

> 'Ireland's spatial context is closely related to the wider global context. Throughout the world, regions of international importance have emerged based on agglomeration of strong enterprise activity, innovation and assembly of factors critical to economic success' (page 19).

The idea is that Ireland needs to be able to leverage its position in relatively close proximity to the leading centres in the EU to improve its economy in general.

The analysis in the NSS then moves to the more narrowly defined regions within Ireland where the same thinking is put to use. Cities and larger towns represent successful areas within the economy that must be supported by, and must support, their hinterlands to achieve better regional development. The NSS states that

> 'This will be achieved through regional and county level settlement and planning policies. These should support the towns, as both generators of business activity and delivery points for the key services that people need if they are to continue living in or be drawn to a particular area' (NSS, page 74).

As one of Ireland's largest urban areas and the only place in the West of Ireland where the necessary critical mass exists, Galway is identified as having a key role as a 'Gateway' for the development of the west. The NSS states that

> 'Galway, with its population catchment, quality of life attractions, transport connections and capacity to innovate with the support of its third level institutions, will continue to play the crucial role which has been essential in activating the potential of the region. The challenge now is to sustain and broaden this role to strengthen other areas' (NSS, page 87).

This passage captures a lot how modern ideas on regional economic development apply to Galway. Note the importance of a centre of scale to act to drive development and also the importance of services to enhance the quality of life in order to ensure that knowledge driven jobs and the workforce to fill those opportunities can be developed and sustained in the region.

[12] *National Spatial Strategy* (2002) Government Publications

However, attempts to implement these ideas as actual regional development policies have tended to be piecemeal and poorly integrated or not sustained for a prolonged period and the National Spatial Strategy was not fully implemented even before the economic crash. This has not improved in the recovery. While Dublin is undergoing a construction boom in commercial infrastructure – with the residential property crisis casting doubts on the sustainability of what is happening – there is little evidence of such a recovery in Galway. Construction is currently underway on 30 office schemes in Dublin with over 4 million square feet of space in total and planning permission has been granted for a further 47 schemes[13]. In contrast, the only development currently underway in Galway is the Hynes Building on St. Augustine Street. This is despite the fact that the office vacancy rate in Galway is below Dublin's at just 8% at the end of 2016. Lack of capacity is also a concern for the IDA in trying to attract new business to the city, but rents remain low relative to Dublin. This private sector unwillingness to invest in Galway displays a lack of confidence and is the opposite to the type of dynamic that is required if the strategy that is contained in the NSS, and that looks set to remain important as a successor plan is developed, is to come to fruition. Clearly, this activity needs to be stimulated.

Work has been ongoing to develop a replacement for the NSS, known as the Ireland 2040 Plan, to provide a National Planning Framework for the next couple of decades. In a recent submission to the National Planning Framework IBEC, the representative group for Irish businesses, pointed to the problem that has emerged in the recovery and the need to act. It noted that

> "The Irish economy is recovering at a pace much faster than many expected, but not all parts of the country are benefiting equally … It makes economic sense to invest wisely now in the regions to allow businesses to create more jobs locally. Ireland needs an effective counter-balance to the Dublin economy[14].

The Construction Industry Federation has also outlined the need for public support for regional infrastructure and investment and has claimed that '*low Investment in regional Infrastructure is leading to a dangerously imbalanced economy*'[15].

These approaches to addressing the problem adopt a supply side approach. In other words, they see the problem as a lack of productivity in the regions and advocate increased productive capital i.e. greater investment in infrastructure as a means to provide an immediate stimulus and to create the productive base. This is certainly required. However, the thinking behind the NSS, as discussed above, requires an

[13] 'Galway must up its game or live on Dublin's crumbs' *Irish Independent*, April 13th, 2017
[14] 'Regional economic and development balance is vital, says IBEC'. Irish Examiner, 10th April, 2017.
[15] Construction Industry federation (2017) 'Invest in Infrastructure: Connect Ireland's Economic Clusters'.

emphasises on the fact that people make decisions on where to live based to a considerable extent on the standard of living that an area can provide. Consumption opportunities are a key part of this. This demand side approach was used in a NESC report which pointed to the importance of including better consumption and lifestyle opportunities in our understanding of 'quality of life', as distinct from sometimes narrow interpretation of this term that is sometimes adopted, as a key issue in achieving more balanced regional development in Ireland[16].

Finding ways to combine these approaches, an investment approach that emphasises improvements in the productive capacity of the regions and a more people centred approach that directly addresses consumption opportunities as a key factor in determining decisions of where people wish to live, will be key to success in changing the adverse regional imbalances of the economic recovery. Improved facilities for leisure and recreation, such as sports facilities, are an obvious way in which both can be addressed.

[16] *Population Distribution and Economic Development: Trends and Policy Implication*. NESC Report number 102

4. The Economic Value of Connacht Rugby

4.1 The Economic Value of Sport

While there is a considerable academic literature and numerous policy oriented reports that support the general conclusion that agglomeration economies and associated externalities are extremely important as foundations for growth in modern economies, there has been very little work in relation to how a value could be placed on the contribution that key facilities, such as sports facilities, make in promoting the process of agglomeration. As a result, placing values on direct expenditure and related activities remains the main way in which the economic impact of sport is assessed.

Research published by Irish Sports Council estimates that 1.7 million Irish adults, 47.2 per cent of the population, participate regularly in sporting activity[17]. Participation by females has been rising thereby narrowing the gender gap. Participation is also higher among higher education and income groups.

The amount of economic activity that is generated by this participation is considerable with an estimated 38,225 jobs, about 2 per cent of total employment, being supported by expenditure on sports events and related activities[18]. It was estimated that consumer expenditure related to sport amounted to €1.89 billion in 2008, about 2% of all consumer expenditure in Ireland in that year. The total contribution of sport to GDP was estimated at over €1.8 billion, or 1.4% of total GVA. This estimate broadly confirms earlier work by the ESRI that placed a value of €1.86 billion, 1.3% of GDP, on the value of expenditure on sport in Ireland in 2003[19]. Expenditure by overseas visitors on sporting activities was estimated at just over €200 million in the year. When secondary expenditure is included the total amounts to over €454 million. This was estimated to support 2,859 full time jobs. One interesting result of the study was that Government expenditure on sport in 2008 amounted to €618 million, but the exchequer received revenues of €922 million from taxes on sport-supported activity. This means a net exchequer return of €304 million, or €1.49 for every €1 of public money that was spent on sport.

[17] Irish Sports Council (2014) *Irish Sports Monitor 2013 Annual Report*.
[18] *Assessment of the Economic Impact of Sport in Ireland*. Report to Irish Sports Council by Indecon Consultants, November 2010
[19] Delaney, L. and T. Fahey (2005) *The Social and Economic Value of Sport in Ireland*. ESRI, Research Paper

Golf is a major economic activity within the sports sector and consumer spending on golf in Ireland amounted to €374 in 2014, which is equivalent to about 0.4% of all consumer spending in Ireland[20]. Gross value added by golf in Ireland has been estimated at €202 million. When secondary impacts are included it is estimated that total GVA that can be attributed to golf amounted to €275 million in the year.

High profile sporting events are also a large contributor and it is estimated that the top mass participation events held in Ireland during in 2014 had an economic impact of €46.6 million[21]. These events were hugely important for local economies with €24.8 million directly spent in local economies and 95,133 bednights generated from hosting sports tourists. Even single events have a big impact. For example, it is estimated that the Ireland-England Six Nations game in 2015 attracted 15,000 out-of-state visitors to Dublin and that these fans spent €11.5 million in Dublin during their visit[22]. Altogether, the match added an estimated €21.3 million to the Irish economy and created activity equivalent to an additional 200 jobs for one year.

4.2 The Economic Impact of Connacht Rugby

While it has been pointed out that the total economic contribution and impact of Connacht Rugby, in particular when it is viewed as a dynamic asset that can contribute to the development of the economy of Galway and its hinterland, is more than simply the value of transactions that are undertaken in any time, it is also the case that it there is no reliable way that an economic value can be placed on this benefit. As a result, in line with virtually all other estimates of economic impact this assessment estimates the economic contribution through the expenditure impact of Connacht Rugby. As such, it is assessed in line with the value of transactions that are associated with the operation of Connacht Rugby.

There are a number of headings under which these arise. The first is direct expenditure by, or on behalf of, the organisation. This principally includes the payment of salaries for players and others, and overheads, as there is no debt. The second heading is consumer

[20] *A Satellite Account for Golf in the Republic of Ireland*. Report by the Sport Industry Research Centre to the Confederation of Golf in Ireland, October 2016

[21] Irish Sports Council (2016) *National Sport Tourism Monitor 2015 Annual Report*. Report by W2 Consulting

[22] These estimates were based on a survey that was undertaken by UCD Michael Smurfit Graduate Business School for Dublin Chambers of Commerce.

expenditure associated with supporters of Connacht Rugby. The third is expenditure by visiting teams and their supporters.

Direct Expenditure by Connacht Rugby

Data provided by Connacht Rugby indicate that total expenditure related to its operations amounted to €8.83 million in the year to June 2016. Almost all of this accrued as direct expenditure into the local economy around Galway.

The largest element was accounted for by salaries to club employees and players. In total, Connacht Rugby directly employs 130 people, including players, but not including occasional workers who are employed to undertake specific roles on match days and to cover leave periods. The breakdown of this employment is shown in Table 4.1. There are also an additional 20 full-time and 20 part-time personnel affiliated with the academy and shown in the table[23]. On the usual assumption that part-time and seasonal workers are equivalent to 50% of a full-time staff member, this means that the number of full time equivalent positions associated with Connacht Rugby is estimated at 147.

Table 4.1: Number of Personnel in Connacht Rugby

Category	Number	Number of FTEs
Full time	97	97
Part time and seasonal	26	13
Interns and CES	7	7
Academy (full-time)	20	20
Academy (part-time)	20	10
	170	147

Connacht rugby also purchases professional services from physiotherapists and medical personnel that are not included in this table, but the costs paid in respect of these services can be considered to accrue as salaries. Based on analysis of the data that has been provided it is estimated that the total salary expenses, including these services, was €5.95 million in the 2016-17 season, equal to 67.5% of the total budget. This expenditure arises as incomes for local residents as all players live in the Galway area.

Analysis of data provided by Connacht Rugby indicates that, of the remaining expenditure, about €1.3 million (14.5%) is spent on a range of services that are available within the

[23] Academy personnel are distinguished separately as they do not receive an income from Connacht Rugby.

Galway region, covering from cleaning to IT, while virtually all of the remining €1.6 million (18% of the total) is spent elsewhere in the Irish economy. As a result, the import content of running Connacht Rugby appears to be a very small part of overall expenditure and 82% of the total stays within the local economy. Thus, for its size, the expenditure of Connacht Rugby means that it is a very local business and is deeply integrated into the local economy.

Other Related Consumer Expenditure

Consumers spend money on goods and other merchandise that creates incomes in the Irish economy and where the decision to spend is directly related to Connacht Rugby, but the expenditure does not directly create income for the organisation and is therefore not reflected in the data above.

Private consumer expenditure in 2016 is estimated to have amounted to €96.1 billion[24]. The Indecon report estimated that consumer expenditure on sports and sports related activity accounted for 2% of all consumer expenditure and this was not out of line with other estimates. This would amount to €1.9 billion in 2016. There are no sufficiently detailed data to directly disaggregate this estimate across sports, much less than to Connacht Rugby specifically. However, it is possible to get an estimate.

A specific module of the Quarterly National Household Survey in 2013 obtained information on which sports people participated in the most[25]. Rugby accounted for 1.6% of all people. If it is assumed that participation reflects peoples' primary sports interests and that expenditure then reflects their primary interest, then expenditure on rugby would account for 1.6% of their consumer expenditure on sports. In 2016 this would amount to consumer expenditure of €30.75 million related to rugby. Assume that attendances at home professional games reflect the level of support for rugby in each province. Average home attendances are currently running at about 19,200 for Leinster, 15,300 for Munster and 5,100 for Connacht. Based on this, Connacht have 12.9% of the Irish market. This would equate to consumer expenditure of €3.94 million on sports related goods that are related to Connacht Rugby per annum.

[24] ESRI (201&) *Quarterly Economic Commentary*, Spring 2017
[25] CSO (2013) QNHS, Quarter 2, *Sport and Physical Exercise*

Expenditure by Visitors to Galway

Tourism to Ireland has performed very strongly in recent years with over 9.5 million visitors in 2016. This represents an increase of 3.5 million, or 63%, since 2010. However, despite this growth there has been virtually no change in the seasonal profile of when these visitors arrive and only about 40% arrive in the six months from October to March each year. The situation is even more pronounced when only holidaymakers are included and when the data are restricted to tourism outside Dublin. This has considerable implications for those involved in the sector as it means that capacity utilisation varies considerably across the year. This reduces margins and results in less returns to both capital – because of lower capacity utilisation – and workers as many jobs are seasonal.

Galway is a leading tourism centre being third in importance after Dublin and Kerry based on the number of visitors and visitor expenditure. However, it is particularly prone to seasonal peaks and troughs. Hotel occupancy is a good indicator of this cycle in terms of its economic impact. Average occupancy for all hotels in Ireland in 2015 was 77.8% for the months from April to September, but was only 57.4% for the other six months of the off-season[26]. In the western region, average occupancy was at a similar level in the summer months, but was only 50.9% in the six months from October to March. As a result, efforts to improve the economic return from hotels need to concentrate on improving capacity in the off-season months and the returns from this in the West would be particularly valuable.

In this respect, Connacht Rugby plays an important role as a source of demand in the tourism offseason. As a winter sport, all home rugby games are played in this 'quiet' period when hotels find it hardest to access new business. There are no specific data on the numbers of visitors who come to Galway for Connacht Rugby matches, but it is possible to infer an estimate based on sales of tickets on the internet.

Data from Connacht Rugby show that a total of 38,530 attended home games in the 2016/17 season, excluding season ticket holders. Data from the Connacht Rugby internet site indicate that of the sales that were made online in this period, 89% were from Irish IP addresses with the remainder from abroad. This indicates that 11% of online ticket sales were to people from outside the country. Based on this, it is estimated that Connacht Rugby attracted a total of 4,250 visitors to the city in the past year and that these generated 8,500 bednights for the local accommodation sector. Teams will also bring travelling parties of players and officials. If it is assumed that the average travelling party comprises forty persons then for the 30 matches held in Galway, comprising the

[26] Crowe Horwath (2016) *Ireland Hotel Industry Survey 2015*, 20th Edition

professional team and other grades, a total of 2,400 additional bednights would be generated by visiting team players and officials.

Data from Munster Rugby indicate that a travelling supporter typically stays 2 nights in the host city and spends a total of €537 per visit[27]. Based on this, the contribution of the visiting supporters to the Galway economy would be €2.28 million in a year[28]. As this expenditure arises in the off-season it is particularly valuable to Galway's tourism sector.

4.3 Total Economic Impact of Expenditure

The estimated expenditures related to Connacht Rugby are summarised in Table 4.2. These amount to just over €15 million in a year.

Table 4.2: Estimated Expenditures Related to Connacht Rugby (€ million)

Direct Expenditure by Connacht Rugby	8.83
Related Consumer Expenditure	3.94
Expenditure by Visiting Supporters	2.28
Total	15.05

The direct expenditure that is measured by these numbers leads to additional expenditure along the supply chain, known as indirect effects, and as money that is received as income is subsequently spent, known as the induced effect. Together, these secondary effects are described by the expenditure multiplier which is defined as the ratio of indirect and induced impacts to direct expenditure. As this name suggests, the total economic impact that can be attributed to arise as a result of the first round of direct expenditure is a multiple of the direct expenditure.

Estimates of appropriate values for the sports expenditure multiplier can be obtained from previous research and show that the appropriate value is greatly affected by the source of the first round of expenditure. For example, in the case of all expenditure on golf it was estimated that direct turnover of €397 million in the sport in 2014, which arises primarily from the expenditure of Irish residents including expenditure on imported

[27] The Economic Impact of a Thomond Park Match' (www.munsterrugby.ie)

[28] Visiting teams would also spend money in the economy. However, when Connacht go to away match they spend money in the host city. It is assumed that these two flows cancel each other and the Connacht expenditure has already been included in the estimate of economic impact above.

equipment, resulted in an additional €82 million in indirect effects and €67 million in induced effects[29]. This implies a multiplier of 0.38 for sport as a whole. In contrast, the Indecon report from 2010 looked specifically at the impact of sports tourists on the Irish economy. That study estimated the GVA of direct spending by sports tourists at €201 million and the multiplier values at €254 million giving a multiplier of 1.27. This means that the final impact of expenditure by overseas tourists is much greater relative to the first round effect than is the case of expenditure by Irish residents. Research on the impact of expenditure by spectators at sporting events where there is a combination of local and overseas attendees has returned multipliers within this range. For example, direct expenditure of €21.3 million at the Ireland-England Six Nations match in Dublin in 2015 found that direct expenditure of €11.5 million led to a total impact of €21.3 million indicating a multiplier value of 0.85[30]. This is a similar value to what was produced by research from the Irish Sports Council which found that direct expenditure of €24.8 million at 12 mass participation sports events in 2013 had a total economic impact of €46.6 million implying a multiplier of 0.88[31].

As the direct expenditure by Connacht Rugby mostly comprises salaries and purchases within the Irish economy, the multiplier effects of this expenditure would be towards the upper end of the estimates and so a value of 0.85 is used for this expenditure. However, consumer expenditure is likely to have a much lower salary content and a substantial import content. As a result, the multiplier that was found in the case of the golf study (0.38) is used. As with the studies above on match attendances, expenditure by visiting supporters would have a much greater impact and so a multiplier of 1.27 is used. The results of applying these estimates to the direct expenditures is shown in Table 4.3.

Table 4.3: Direct and Indirect Expenditures Related to Connacht Rugby (€ million)

	Direct	Multiplier	Secondary	Total
Direct Expenditure	8.83	0.85	7.51	16.34
Consumer Expenditure	3.94	0.38	1.50	5.44
Visiting Supporters	2.28	1.27	2.90	5.18
Total	15.05		11.91	26.96

[29] *A Satellite Account for Golf in the Republic of Ireland*. Report by the Sport Industry Research Centre at Sheffield Hallam University to the Confederation of Golf in Ireland, October 2016. The figures included here are turnover numbers. The associated GVA values for golf are about 50% of these values but the multiple values are the same.

[30] Results of a survey that was undertaken by UCD Michael Smurfit Graduate Business School for Dublin Chambers of Commerce. (www.dubchamber.ie)

[31] Irish Sports Council (2016) *National Sport Tourism Monitor 2015 Annual Report: Economic Analysis of Mass Participation Sport Tourism*. Report by W2 Consulting.

This table indicates a total economic impact for Connacht Rugby of just under €27 million when secondary impacts are included. However, while this type of analysis has been widely used, as shown above, and can be justified based on the structure of the economy, caution is advised with the interpretation of the estimates that include the secondary (indirect and induced) effects of first round expenditure. The estimates relate to economic activity that is not undertaken by Connacht Rugby although it is related through being stimulated, in part, by the existence of the organisation. They are also not fully additional to the economy as at least some of this expenditure, particularly in relation to consumer expenditure, will be displaced from elsewhere in the economy. Furthermore, they are indicative in the sense that in a number of cases the underlying metrics are inferred from research undertaken elsewhere.

5. The Social Value of Connacht Rugby

5.1 The Social Value of Sport

For most people, sport is a social activity rather than a physical activity. However, there has been limited research on the value that should be placed on the social activity that accompanies sport due to the difficulty of actually quantifying this in some manner. Even if some measurement of social activity can be made it is a difficult step to translate this into a social return that can be compared to the economic investment to identify a social return on investment.

A study by the Economic and Social Research Institute also examined the social returns based on survey evidence from participants although it did not go as far as to actually place a comparative valuation on these outcomes relative to the level of investment and public funding[32]. However, the study found the evidence of positive returns to be compelling and concluded that this

> 'supports the idea that public investment in sport is very likely to bring health benefits where it increases the number of active participants, and likely to provide social benefits too, including for volunteers, club members and spectators'. (ESRI, 2008, page 55).

This reflects the conclusion of earlier work at the ESRI that found that

> Sports policy in Ireland should recognise the social aspects of sport, taking account of the social bonding, community involvement and general contribution to the effective functioning of society which they help to bring about, and frame policy accordingly (Delaney and Fahey, page 71).

Despite the inherent difficulties with placing values on social aspects of sports, a number of studies have provided estimates. A major recent study in the UK found that the social returns to investment are much higher than those achieved in many other areas, particularly when the expenditure of public funds is concerned[33]. This study looked at total investment of UK£23.46 billion in sport in England in 2013-14. It found that when the social benefits from this are translated into economic values, this investment resulted

[32] Lunn, P. (2008) 'Getting Out What You Put In: An Evaluation of Public Investment in Irish Sport' in Callan, T. (ed.) *Budget Perspectives 2009*, pp. 51-73. ESRI Research Series, Number 4

[33] Davies, L., P. Taylor, G. Ramchandani and E. Christy (2016) *Social Return on Investment in Sport: A participation-wide model for England*. Sport Industry Research Centre, Sheffield Hallam University

in a return of UK£1.91 for every £1 invested. The benefits included better health outcomes, lower crime, improved educational performance, volunteering and improved wellbeing. In reaching this estimate, the study adopted conservative values for subjective wellbeing and also found that the results were not sensitive to alternative values for other social impacts. The investment was provided by a mix of private funding and support from public sources. This meant that the public expenditure was able to leverage the private contribution with the result that the return on public expenditure was considerable higher. The research estimated that every £1 of public money invested generated a positive social impact of £3.15.

Research in Ireland supports these positive results. The ESRI study from 2005 identified the importance of the social value of sport and found that

> 'The role of sport in generating social engagement is not far short of its role in generating physical exercise' (page 71) [34].

This study estimated that volunteering in sport equates to an annual labour input of 22,500 full time workers. By valuing this time input at the minimum wage in that year this input equated to a value of €267 million per year. This study also looked at the value of areas of activity that were identified as the main social aspects of sport, as distinct from simply aggregating the value of associated transactions. The study placed an economic value of €1.26 billion on these social aspects in 2003, equivalent to 1.26% of GDP in that year.

The 2010 Indecon study looked as aspects of the social value of sport and estimated that almost 270,000 people volunteered for sport related activity in 2008[35]. The study placed an annual value of between €322 and €582 million on this social activity depending on whether this time was valued at the minimum wage or at the average industrial wage. The Irish Sports Council has since updated these estimated as its more recent research indicated that the level of volunteering increased significantly from a rate of 7.8% of the adult population in 2008 to 13.3% in 2013[36]. The new data led to an estimated value for volunteering in sports of €689 to €1,367 million.

The conclusion therefore is that research supports the idea that there are valuable and considerable social benefits associated with sport even though it is acknowledged that the fact that these often arise without an economic transaction taking place means that values must be inferred. The conclusions of this research support the idea that social

[34] Delaney, L. and T. Fahey (2005) *The Social and Economic Value of Sport in Ireland*. ESRI, Research Paper
[35] *Assessment of the Economic Impact of Sport in Ireland*. Report to Irish Sports Council by Indecon Consultants, November 2010
[36] Irish Sports Council *Irish Sports Monitor 2013*, page 68

returns must be considered in undertaking any evaluation of investment. This is also important in light of earlier discussion above that economic development depends to a considerable extent on ensuring that attractive social and consumption opportunities are available to residents in order to maintain the skilled labour force that is required to generate economic momentum.

5.2 Socioeconomic Activity of Connacht Rugby

Connacht Rugby fulfils a dual role: running the high profile professional team and other teams, such as the women's and underage teams, that play at the highest levels, and overseeing the management and operation of rugby in the Connacht region at all levels including schools, underage, and junior and senior club levels. This link between international performance and local presence is key and Connacht Rugby has a considerable local presence that means it is integrated, both socially and economically, into Galway and the region. As with so many other sports as discussed above, volunteers play a hugely important role in the organising and development of rugby in Connacht at all levels.

There are 27 rugby clubs playing under the auspices of Connacht Rugby. Most clubs have numerous teams at all levels with over 160 teams involved in competitions in the 2016/17 season. Table 5.1 shows the numbers of club teams at adult and youth levels.

Table 5.1: Number of Club Teams in the Connacht Region

Team Category	Number
Male Youth Club Teams	99
Female Youth Club Teams	12
Male Adult Club Teams	42
Female Adult Club Teams	9

The past two seasons have witnessed a big increase in participation in games with the number of players playing at least one game in the season rising to over 3,700. In addition, there were also almost 3,000 players involved in mini competitions during the season. What has been even more notable during the year is the level of commitment of players with the number playing 3 to 6 games increasing by 54% in 2016/17, when compared to the previous season, to just under 3,000 players. The data in Table 5.2 show that this increased commitment was seen across all player categories – youth and adult, female and male – with a very big increase in involvement among male youth. There can

be little doubt that this is a direct result of the important signal that Connacht's success at the professional level has in terms of the sporting options that are open to boys.

Table 5.2: Number of Club Players in the Connacht Region

	2015/16	2016/17	Change
Male Youth (1 game +)	1,909	2,103	194
Male Youth (3-6 games)	1,042	1,776	734
Female Youth (1 game +)	237	213	- 24
Female Youth (3-6 games)	101	144	43
Male Adult (1 game +)	1,254	1,231	- 23
Male Adult (3-6 games)	668	932	264
Female Adult (1 game +)	200	156	- 44
Female Adult (3-6 games)	105	106	1
Total Club Players (1 game+)	3,600	3,703	103
Total Club Players (3-6 games)	1,916	2,958	1,042

The growth in participation in rugby in the Connacht region has been seen over a prolonged period and is reflected in the number of games played. For example, there were a total of 387 games played in the 2009-10 season, 369 involving male teams and 18 games involving female teams. In the most recent season, the number of games totalled 1,138 with 1,059 games between male teams and 85 games involving female teams.

Based on research that was undertaken by Connacht Rugby in January 2016, it is estimated that there were 1,041 volunteers involved in running the clubs and, of these, a total of 757 were involved in coaching and managing club teams. There are also 69 Connacht Branch rugby referees, 86 volunteers on the Council of Connacht Rugby, an estimated 81 volunteers on various committees organised by Connacht Rugby, including the Board, and 16 volunteers involved with Connacht Rugby's underage, junior and women's squads.

There is also a considerable volunteer input to organising rugby in schools. In 2016, a total of 54 affiliated secondary schools took part in Schools' Cup competitions organised by Connacht Rugby including both male and female competitions. Altogether, over 70 teams took part in these competitions playing about 220 games involving an estimated 1,900 players. A further 12 secondary schools that were not involved in Schools Competitions were delivered coaching sessions by club and community rugby officers sponsored by Connacht Rugby with a view to preparing them for possible inclusion in these competitions in the future. Furthermore, to encourage greater participation among younger age groups, the coaching officers provided rugby coaching sessions to 104 national schools in the region in 2016. As well as the time input, most of these sessions

also provided participants with 'Play Rugby' packs to further encourage participation among these younger age groups.

This gives a total of 170 schools involved in rugby. If it is assumed that each secondary team that plays in the Schools' Cup competitions has three volunteers, with another three in each school that plays rugby, but not in these competitions, and that there is one volunteer in each national school, then this would mean that there are 365 volunteers connected with schools rugby.

Volunteering is also important in running the professional teams. For professional home matches, there will be an average of 139 volunteers involved including stewards, gate stewards and others.

It is possible to get an estimate of what this means in terms of time input. The Indecon report assessed volunteering activity in sports based on an average input of 4 hours per week for 40 hours per week. Some adjustment can be made to this in respect of volunteering in Connacht Rugby to allow for the different time inputs that might be expected for different aspects of volunteering. The resulting estimate of the time input is shown in Table 5.3. This table shows an estimated time input by volunteers totalling 211,940 hours per annum and involving 1,556 people to run rugby in Connacht.

Table 5.3: Estimated Time Input by Volunteers

	Number	Hours per week	Weeks per year	Total hours
Clubs – Coaches/Managers	757	6	30	136,260
Clubs - Others	284	3	40	34,080
Referees	69	6	40	16,560
Council & Committees	183	4	40	29,280
Secondary Schools (Cups)	225	6	20	27,000
Schools (Others)	140	2	20	5,600
Professional matches	139	4	15	8,340
Totals	1,797			257,120

Obtaining this level of commitment and involvement on a regular basis is a major achievement and is dependent to a considerable extent on the success of the professional team that brings players of international standing, from across Ireland and Europe, to Galway on a regular basis throughout the season. The success of the professional team is therefore key to the performance of the game far beyond the relatively small number of players that are involved at the elite level.

5.3 The Socioeconomic Value of Connacht Rugby

Rugby, as is the case with all sports, confers social benefits on participants and all those involved. However, as discussed earlier, placing an economic value on the social aspects of sports participation is very difficult as there are no transactions directly involved. The Indecon report noted a number of benefits including health benefits, social capital and behavioural benefits but did not place any value on these. However, they placed values on the time input of volunteers as an indication of the value that society places on sports. A broadly similar approach was taken in the reports published by the ESRI. However, the report by the Sport Industry research Centre in the UK used metrics from the literature to provide an estimate of social values for a range of social benefits including health, behaviour, educational performance, and volunteering to estimate the social value of sport[37]. They also assessed wellbeing by means of a survey and this aspect of sport accounted for about two-thirds of the values they obtained. There are no relevant data for use in the case of Connacht Rugby. Of the other social benefits, volunteering accounted for about 54% of the estimated benefits.

The earlier Irish work valued volunteering according to the money that volunteers would earn if they were to be paid for this work at two different rates: the minimum wage and the average industrial wage[38]. Based on the information in Table 5.3 above, this gives an economic value of between €2.35 million and €5.66 million, with a mid-point estimated value of just over €4 million for the voluntary time that is put into rugby in Connacht each year.

If it is assumed, as was found in the study in the UK, that the value of volunteering accounts for 54% of the total social value of sport, including health and other social benefits, but excluding the value of the feeling of wellbeing that is generated by participation in sport, then the total social benefits of Connacht Rugby would have a mid-point estimated value of €7.42 million[39].

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[37] *Social Return on Investment in Sport: A participation-wide model for England*. Report by Sport Industry Research Centre, Sheffield Hallam University (2016)

[38] There is a good argument to support this approach in economic theory as people are assumed to work up to a number of hours where the value they place on leisure time is equal to the value they place on money. As volunteers can come from any socioeconomic stratum, this value can be approximated by these averages for the value of the time input to volunteering. The adult minimum wage in Ireland in 2016 was €9.15 per hour. According to the most recent CSO *Earnings and Labour Costs Quarterly*, the average industrial wage in mid-2016 was €22.03 per hour.

[39] It is recognised that the health and other benefits do not accrue to the volunteers, but to the participants in sports, but as all are part of society this is not an issue in this calculation.

6. Funding a Stadium

6.1 Financial Requirements and Resources

The discussion so far shows that sport has a valuable economic and social role to play. This value arises as a result of participation in playing sports but also from supporting others and from providing the voluntary labour that makes it all happen. Professional teams are a big part of this and this is true for Connacht Rugby which is by far the largest professional sports organisation in the West of Ireland. Its location in a lagging region is important as sports, along with a range of other private and public services, are a big part of what makes cities more than just large towns and enables cities to lead economic development. But future progress at Connacht Rugby will depend on new playing facilities in the form of a suitable rugby stadium for home games. Initial planning work has been undertaken. This indicates an estimated cost in the region of €30 million, although this could change as planning progresses. The immediate question is how this might be funded.

Examination of relevant accounts shows that income at the organisation in the year to end June 2016 was €5.57 million and that following all costs there was a surplus of €317,018. Total reserves amounted to €562,637. While these figures have shown good growth in recent years they do not provide a financial basis on which to undertake an investment of this scale. Borrowing on the scale to finance the investment would not be possible[40]. Income from sponsorship, which currently amounts to €1.2 million per annum, would rise but there is no prospect that it would increase to anything even close to what would be required. Gate receipts would also rise, but even if a 50% rise was achieved, equal to about €550,000 per annum, the investment would still be well beyond the financial reach of Connacht Rugby.

It is clear, therefore, that the new stadium will not be built without substantial external investment. Some of this may be raised from within the IRFU or from other sources but it can be taken as certain that access to public funds will be required. It is not possible at this stage to place an estimate on the level of public funding that will be required nor to indicate how this might be structured. However, this situation leads to a very important

[40] Even if the organisation could raise 10% of this capital cost and borrow the rest over 30 years at 5% the annual repayments for this loan would be over €1.7 million. This would far exceed the resources available. For example, if Connacht Rugby's 2015/16 surplus is interpreted as net profit, the interest payment required in the first year would be over 4.2 times the profit. This is a totally unrealistic proposition.

conclusion: the stadium will not be built if the funds are not provided but it would be built and used as a home for Connacht Rugby if they were made available.

This conclusion is important for two reasons. First, it addresses a key criterion in any evaluation of public expenditure, namely, that it must be feasible to argue that the public expenditure would address a specified problem. This is clearly the case here. Second, the deadweight that would be associated with the expenditure of the funds would be low. While alternative sources of funding would be to be maximised – leveraging private or other sources of funds would increase the potential returns on any public funds that might be invested – the investment would not proceed without public support. This has important implications for any future evaluation of the returns that might be earned by the expenditure of these public funds.

In summary, a new stadium is needed but the cost could not be borne by Connacht Rugby and the returns that would be likely to accrue would be inadequate to make the investment viable for any private investor. However, a stadium is needed and this problem would be solved by public support. The issue then is to examine if there is reason to expect if an intervention such as this would be justified from the point of view of achieving an optimal use of public resources. This is addressed in the next sections below.

6.2 Sports Investment and Market Failure

Economic theory concludes that an efficient free market will produce the best possible outcome in terms of the allocation of resources and the welfare of society. The Government could not improve on this outcome through policy intervention. However, the key requirement for this outcome is that the market is efficient. The fact is that markets are seldom efficient in terms of the outcomes they produce. This means that it is almost always possible to envisage a better outcome. Where this happens it is referred to as a market failure. Therefore, a market failure occurs when the outcome that is produced as a result of decisionmakers operating in their own interests and according to their own free will is suboptimal to what could be achieved. This means it is possible that the government could intervene in some manner to change the outcome by influencing the decisions and provides the rationale for government intervention in markets right across the economy in multiple ways. It also means that in advance of any call for government action – for example, to provide a certain infrastructure – it is necessary to

identify the market failure, or failures, that are preventing the private sector acting in response to market signals, from providing that infrastructure.

As with pretty much all sectors of the economy, sport is subject to market failure[41]. The ESRI has summarised these under three headings. These are:

- External social benefits known as positive externalities. Market decisions are made on the basis of private costs and benefits but there are many cases where benefits may arise to people that are not involved in making decisions. These will not be taken into account and so the market outcome may not reflect the true balance of costs and benefits when these wider interests are included.
- Issues of equity and fairness. Markets do not value equity or fairness and so, if society values fairness, there may be a justification for a government to intervene to ensure that access to sport is not constrained by socioeconomic disadvantage.
- The long time period that may be involved before benefits are seen. Sport confers social benefits as discussed earlier but these may not be realised for many years and may be uncertain. Society has no problem in waiting for these, but private individuals who make market decisions may be unwilling to wait.

The net effect of each of these is that the benefits to society of an investment in sport exceed the benefits to private individuals or organisations that make decisions about investment and that would have to bear the full costs of the investment in the absence of intervention. As a result, the market will produce a level of investment in sport and in sports facilities that reflects the interests of private decisionmakers, but that is less than what would be best for society as a whole.

These issues clearly arise in respect of the proposed investment in the provision of a stadium for Connacht Rugby and it is not difficult to see how these, and other, market failures arise in this context.

Externalities

There are considerable externalities associated with investment in sports facilities. A new stadium would attract additional supporters to the region to watch games. While these people would pay for access and would purchase other goods at the stadium – these are private benefits associated with the stadium – they would also purchase additional goods and services in the Galway region during their stay. Primary among these would be expenditure on accommodation and food, and other tourism related activities. This

[41] Research published by the Economic and Social Research Institute has identified that there are a number of market failures associated with sport that provide a rationale for public intervention. See Delaney, L. and T. Fahey (2005) *The Social and Economic Value of Sport in Ireland*. ESRI Research Paper

would benefit the local economy and also the wider national economy through taxes and reduced welfare payments as people are employed to service this market. In effect, Galway would be a more desirable place to visit, but many of those who would benefit from this extra attractiveness would not have contributed to paying the costs associated with the source of the business. There would also be other external benefits created such as supporters who do not attend the game benefitting from the enhanced potential for Connacht to compete at the highest level, which is ultimately the objective of the new stadium. This is a clear case where investment would be less than the social optimum if left to the free market.

The other type of externality of relevance arises from the agglomeration issues discussed in Section 3 above. As shown, improved sports facilities and successful teams have a part to play in the attractiveness of a city and its ability to act as a centre for economic development. This is a wider benefit that is akin, from a productivity point of view, to infrastructure such as a new motorway, but also enhances the attractiveness of a location from a consumer's point of view. However, there would be no direct payment to the actual investors in the stadium who would bear the costs and so under-investment would result unless action is taken to match the costs with the benefits.

Public goods – the feel good factor

People feel better when their local team is more successful. This translates into a better social mood and higher productivity as discussed earlier. There is also empirical evidence that this is not just a transitory result of a team experiencing what may be passing success but is better seen as an enhanced perception of the quality of life of a city with a successful team. For example, it has been observed in studies over a prolonged period that cities that have professional sports team, or that acquire such teams when none was previously present, see residential rents rise by an average of 8% above where they otherwise would be[42]. In other words, people perceive that value of being able to live in that city, with everything else held constant, as having increased by 8% as a result of the team. However, this depends on private decisions to bear the costs of investment.

Social benefits

The earlier discussion showed that there are considerable and valuable social benefits associated with sport. Studies have shown that these include better health, improved public order among younger age groups and enhanced ambition. Again, these benefits

[42] Carlino, G. and N. Coulson (2004) 'Compensating Differentials and the Social Benefits of the NFL'. Journal of Urban Economics, Vol. 56 (1) pp 25-50

arise to the wider community and unless the costs of achieving them are allocated similarly a market failure and under-investment will be the outcome.

Productivity and economic benefits

Success is important for the full benefits of a local sports team to be realised as it stimulates increased economic activity and increased welfare through the feeling of wellbeing and confidence that winning generates[43]. This goes beyond the immediate expenditure that may be generated and there is also evidence that success does not just mean winning the biggest tournaments. For example, while it has been known that residents of the home cities of American football teams that win the Super Bowl experience an increase in personal incomes, research has shown that positive economic benefits are also seen in cities whose – less successful – teams experience winning seasons i.e. they win more games than they lose in a season[44]. This means that a positive effect from team performance on the economy should, on average, be seen in about half of the cities that have a team. A good performance would be expected to result in higher demand for products associated with the team in the form of higher attendance at games and sales of merchandise. However, the researchers concluded that there was more than this happening. They found that the positive effect was likely to be the result of a better social mood resulting in higher productivity rather than the economic impacts of higher demand and higher expenditure which is the usual approach to estimating economic impacts.

Time and the private discount rate

Many of the benefits that arise from sports facilities, particularly the public benefits, only do so over a prolonged period. If private funds are used for the investment, then the decision to invest will discount future benefits, if the public ones are included at all, according to the private discount rate. It is a standard result in economic literature that the private discount rate exceeds the social discount rate, probably by a multiple of 2 to 3. It is recommended that when evaluating the expenditure of public funds in Ireland that a real discount rate of 5% per annum should be used to discount future returns[45]. However, typical private investment appraisals would target internal rates of return of

[43] Various commentators have pointed – albeit without definitive proof as such things are notoriously difficult to measure quantitatively – to the success of the Irish soccer team in the early 1990s as one factor that contributed to kicking off the Irish economic successes of that decade due to the feeling of confidence it helped to promote.

[44] Davis, M. and C. End (2007) 'A Winning Proposition: The Economic Impact of Successful NFL Franchises'. University of Missouri Working Paper

[45] Department of Public Expenditure and Reform (2013) *The Public Spending Code: Expenditure Planning, Appraisal & Evaluation in the Irish Public Service – Standard Rules and Procedures*. Central Expenditure Evaluation Unit

perhaps 10 to 15%, depending on the financial structure and cost of funds. As a result, a private evaluation of an investment opportunity will value future benefits much lower than society would and under-investment, from the point of view of the wider economy, will be the result.

Risk

Risk is a common source of market failure. In some cases this can be addressed by a secondary market to reduce the risk by spreading it, for example, insurance and futures markets. In the absence of such a market, a portfolio approach is an efficient means to reduce risk. With this approach, the risk associated with any particular investment is not actually reduced or spread. Instead, by allocating funds across a range of, ideally uncorrelated projects, the aggregate risk that should be attached to future returns is reduced. In the case of a sports stadium, this cannot be done by a single club or team as there will be just one stadium. However, the public sector invests in a wide range of types of infrastructure and can therefore take a portfolio approach to risk when assessing the returns. This enhances the value that can be attached to future benefits.

A disequilibrium system

An important assumption that underlies the conclusion that markets provide the best outcome is an assumption that stable equilibria are possible and that there are forces that operate to move the market towards an equilibrium outcome. At its simplest, as the price of a good or service increases, if everything else is held constant, then a decisionmaker has an increasing incentive not to buy the good and hold onto the money. This also works in reverse. It also works for a supplier of a good – the incentive is to provide more as the price increases – and moves the market towards a position where price is such that what is produced can be sold[46]. However, in some cases, the forces that act to produce an outcome do not provide these sorts of results and no equilibrium is produced.

Professional sports is a system where the market exhibits disequilibrium outcomes in many team sports. For example, if a team can become successful for some reason for a period of time, then even if the initial reason no longer has any role to play, the team may continue to be successful. The initial success results in factors such as higher earning potential, better facilities, or a better chance of success and higher profile that attracts better players. This will, on average, result in more success and the impetus is

[46] Similar assumptions are made, usually with good justification, in many mainstream economic models giving rise to concepts such as diminishing marginal utility, economies of scale and so on. These are essential in different formulations for the predictions of these models. Disequilibria arise commonly in the physical world where a system that may have been stable for a period of time, if once disturbed, does not return to its previous structure without intervention to bring it about.

maintained. This works in reverse but there is no force in this system that causes a team on an upwards trajectory to reverse. This would require some sort of external force to intervene. As a result, there is a market failure where the best get better while the weaker fall further behind. Ultimately this would reduce competitiveness within the competition unless there is some mechanism involved to counteract these tendencies. An example is external funding, either a transfer from the stronger to the relatively weaker teams or injected from outside[47]. This is an intervention to address a market failure as the free market would lead to a sub-optimal outcome i.e. fewer teams and less competition.

In summary, these market failure mean that a private evaluation of a proposal to invest in a sports stadium will result in a decision that undervalues the benefits relative to the costs and will result in a suboptimal level of investment, even though this is the correct decision for the private assessor. An assessment from the point of view of society will result in a different outcome.

It is important to note that the existence of these market failures provide a justification for state intervention in the form of a subsidy to reduce the costs that are seen by private decisionmakers. By doing so it would rebalance the costs and benefits so that the private costs are reduced to a level where the private benefits make investment viable. However, market failure is a necessary requirement for intervention, it is not an adequate justification. The issue is that the benefits that are realised by society must be adequate to provide a return on the funds that are invested. This requires an estimation and comparison of the costs and benefits of the stadium from the point of view of society to see if there is an expected adequate return on the investment to make it viable.

6.3 Assessing the Potential Return on Investment

Viability can often be the deciding factor in determining if a project is supported by public funds. Cost benefit analysis (CBA) is the standard approach that is used to evaluate expenditure proposals to assess viability. This can also be strengthened by including an exchequer flow analysis. This approach is in keeping with what has been set out by various Government publications in recent years[48].

[47] An example is the element of pooling of television revenues within soccer and rugby through governing bodies. The grant to Connacht Rugby from the IRFU can also be justified on this basis. However, there is always a tension in such mechanisms as they can be perceived to penalise success and reward underperformance.

[48] In particular, in *The Public Spending Code* published by the Central Expenditure Evaluation Unit

However, the project is too early a stage in the planning process to undertake a full formal socioeconomic CBA[49]. There is a considerable literature in this area but its results are controversial and heavily influenced by studies of US professional sports. Unlike in European sports, teams in the US are structured on a footloose franchise basis and cities compete to attract these teams. They often do this by offering publicly funded incentives, often in the form of tax breaks, but also by subsidising playing facilities and stadia. The case for these subsidies is usually put by emphasising narrow economic impacts such as employment creation, incomes and the expenditure impacts of public funding of stadia. However, as cities have competed in recent decades to attract teams, an opportunity has been created for franchise owners to extract substantial subsidies. As a result, doubts have been raised in connection to the actual net returns that have been earned as a result of the expenditure of these funds and it is often concluded that there is a much less certain relationship between expenditure to attract new teams or retain existing teams – which often means providing new stadia – and the actual economic impact of these teams.

Some of these studies have received a lot of attention[50]. This debate around the returns to funding sport facilities has also received coverage in mainstream media, but this is often in a manner that fails to examine the specific circumstances that are required for the conclusions to be relevant and valid[51]. Although publications by academic researchers are generally seen as impartial, these types of studies and the applicability of their conclusions have been criticised under a number of headings. For a start, sports stadia are not a generic product or investment but exhibit key differences depending on their locations and purposes. One key difference arises depending on whether the stadium is located in a city or further out in the suburbs. It has been found that stadiums in cities tend to be integrated into their areas and can provide, and avail of, services that are

[49] Socioeconomic CBA differs from internal CBA in that it seeks to incorporate all the social costs and benefits as well as the internal cost and returns.

[50] For examples of this research see Noll, R. and A. Zimbalist (Eds.) (1997) *Sports, Jobs, and Taxes: The Economic Impact of Sports Teams and Stadiums*, Brookings Institution Press; deMause, N. and J. Cagan (2008) *Field of Schemes: How the Great Stadium Swindle Turns Public Money into Private Profit*, Bison Books, Revised edition; and Bennett, J. (2012) *They Play, You Pay: Why Taxpayers Build Ballparks, Stadiums, and Arenas for Billionaire Owners and Millionaire Players*. Springer Publishing. Despite these negative results, these studies have not led to a slowdown in the rush by US cities to subsidise sports stadia.

[51] See for example, 'Publicly Financed Sports Stadiums Are A Game That Taxpayers Lose' www.forbes.com (January 2015) and 'Who pays for sports stadiums' stupid names? You do ' www.marketwatch.com (August 2016). Some of these media reports have also extended the critique of subsidising stadia for professional teams to argue against the long term benefits from investment in sports on the basis that the future is unknowable. See 'The myth of big returns for public investment' www.startribune.com (May 2015) for an example of this type of approach.

available and required in cities[52]. The economic returns are then much greater. In contrast, typical new stadiums in the US have often tended to be located in large car parks in suburban, or even semi-rural, areas where they are remote from the city. This issue reflects the importance of sports stadia being seen as part of a city as a centre to lead economic development, as discussed earlier, and that many of the benefits arise from the contribution to the city in this way, although these can be very difficult to measure.

Since these benefits can be difficult to quantify, it can be argued that the political support that is widely seen for investment in sports stadiums may better reflect these benefits, rather than economic models. However, Camino and Coulson suggest that residential rents reflect these quality of life factors and they argue that the impact of sports facilities on rents should be included as a measure of the benefits that arise[53]. They find evidence that rents are higher in US cities with professional sports teams and find, in sharp contrast to what had been previously concluded, that

> 'Once these quality-of-life benefits are included in the calculus, the large public expenditure on new stadiums appears to be a good investment for cities and their residents'. (page 25)

Owen (2006) also looked at this issue and asked why is it that, if economic studies often find it difficult to support the idea that subsidising facilities for professional teams confers economic benefits on a city, there remains strong support for subsidising such teams even if it means increased taxes?[54] His research, based on willingness-to-pay research, indicates that

> 'intangible benefits have to be considered an important factor in public support for stadium subsidies' (page 342).

He concludes that

> 'individual interest in the team is an important determinant of whether someone favours public subsidies, and acceptance of the criticisms of economic impact studies by the voting public may not change the level of public support (page 343).'

[52] Santo, C. (2005) 'The Economic Impact of Sports Stadiums' Journal of Urban Affairs, Vol. 27 (2) pp. 177-191 and Viton, P. (2015) 'Major League Sports Stadiums and Economic Development', *Working Paper* Ohio State University, both emphasise the importance of alternative uses and location within the city for stadiums if positive economic impacts are to be sufficient to offset costs. They also point out that stadiums in the past two decades have tended to be placed within cities in order to avail of this benefit but that economic research often includes older stadiums in the dataset.

[53] Carlino, G. and N. Coulson (2004) 'Compensating Differentials and the Social Benefits of the NFL'. Journal of Urban Economics, Vol. 56 (1) pp 25-50

[54] Owen, J. (2006) 'The Intangible Benefits of Sports Teams'. *Public Finance and Management*, Vol. 6 (3) pp. 321-345

In other words, there are benefits from having good facilities for professional sports teams that are not captured by economic impact studies. These benefits are sufficiently important that even if it is known that the measured economic benefits of the team, as usually identified, may not justify a large public subsidy towards developing facilities there will still be widespread public support.

Irrespective of these criticisms considerable care would have to be taken with applying a model that is based on funding in the US to the case of Connacht Rugby. The major issue is that US sports franchises can cause cities to engage in bidding wars in the US in order to extract higher subsidies. This inevitably reduces the net returns. However, there is no such issue in relation to the development of a new stadium for Connacht Rugby. This is important as it means that the feasibility criterion discussed above is violated in the US. In other words, the stadium could be built without the public subsidy – or with a smaller subsidy. The subsidy is determining the location of the stadium. This increases the cost but does not affect the benefits. There is a major issue with deadweight. A substantial element of the public funds are simply a transfer to the private franchise owners without any change in behaviour other than the location decision. There is then a weakened connection between the level of public funding and the returns as an element of the public expenditure is deadweight. In contrast, deadweight in the case of Connacht Rugby would be virtually eliminated as the only issue is how to fund the stadium in order to cause it to be built. Location is not an issue as it will be in Galway.

The published studies have also tended to exclude some important economic impacts that have been discussed earlier in this report and shown to be important. These studies have tended to focus on a narrow range of economic impacts such as the effect on expenditures and employment. However, including other economic impacts that are not easily measured, such as the impact of the feeling of wellbeing that sports teams can engender in an area and the positive contribution to agglomeration, as discussed earlier, is important. When these are included the conclusion in respect of the benefits can be very different. As a result, sports stadiums should be assessed on the same basis as other public institutions such as parks, museums and theatres as the benefits that matter most are similar[55]. This conclusion should not be a surprise given the importance that has been attached to including the social impacts of sports when assessing public expenditure by independent studies. For example, the ESRI has concluded that

> 'funding for sport should be shaped with a view to supporting the social as well as the physical benefits of sport … and facilitating attendance at sports events (for

[55] Rappaport, J. and C. Wilkerson (2001) 'What are the Benefits of Hosting a Major League Sports Franchise?' *Federal Reserve Bank of Kansas City Economic Review*, First Quarter, pp 55-86

example, in connection with funding for sports stadiums and club facilities for members).' (Delaney and Fahey, page 71) [56]

There are other issues also. US sports fans tend not to travel to away games in great numbers as to do so could involve very long trips. As a result, any expenditure at games tends to be almost wholly by home fans and so there is a high level of local displacement i.e. there is little net increase in expenditure as a result of the expenditure on sports. Furthermore, there is virtually no international travel associated with US sports and so no impact from international sports tourism. This is not the case in relation to Connacht Rugby and the potential impact of international sports tourism on a small economy such as Ireland has been indicated by preliminary studies of the impact of the Ireland hosting the Rugby World Cup in 2023 which have placed estimates in the range of €800 million to €2 billion in terms of its value to Irish economy[57].

A further issue arises from the location of Connacht Rugby in the West of Ireland that is additional to the regional disparity issue already covered. Fans like to support and identify with winning teams[58]. The importance of a new stadium for the future progress of Connacht Rugby has already been discussed. As a result, having a winning team in the West of Ireland would act as a form of import substitution with support that would otherwise leak to teams outside the area been availed of by the indigenous team. The sharp rise in attendances at home games is an indication of the potential for Connacht Rugby in this respect.

In conclusion, and in some contrast to many of the cities where the returns to public support for sports stadiums has been studied, Galway addresses many of the issues that contributed to lower than expected returns in those areas. Deadweight will be low, it is a relatively small city and the stadium would be integrated into the city, and it is well placed to benefit from the additional tourist expenditure.

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[56] Delaney, L. and T. Fahey (2005) *Social and Economic Value of Sport in Ireland*. Dublin: Economic and Social Research Institute

[57] The lower end of the range has been indicated by the IRFU as reported in *The Irish Times* (www.irishtimes.com) while the higher estimate has been produced by Dublin Chamber of Commerce (www.dubchamber.ie).

[58] End, C.M., B. Dietz-Uhler, E. A. Harrick, and L. Jacquemotte (2002) "Identifying With Winners: A Re-examination of Sport Fans' Tendency to BIRG." Journal of Applied Social Psychology, 32(5), 2002, 1017-1030. The acronym BIRG – basking in reflected glory – indicates the benefits to wellbeing of being associated, however tangential or subjective the association may be, with a winning team. When sport fans were asked to identify their favourite teams, the researchers found that the teams with which they identified had an average winning percentage significantly greater than 50%.

7. Conclusions

Connacht Rugby manages what is, by far, the most important professional sports team in the West of Ireland. But it has no purpose built rugby ground in which to play its home games operating instead from Galway Greyhound Track. The team's success has generated a momentum in recent years, but there are risks that this could be lost as a result of the constraints that are imposed on the organisation through the lack of proper playing facilities.

Connacht Rugby's location in the West of Ireland is important. Rugby is one of the few sports where Ireland excels regularly at international level and where Irish professional sports clubs are competitive at the highest levels of European sport. The fact that this can be achieved by a club that is based locally in the West of Ireland is hugely significant for the standing of Galway in being seen as a city that can provide the consumer services that are required of a city. From a socioeconomic point of view, one of greatest attractions of Connacht Rugby is that it is a success story that is firmly rooted in one of the Ireland's lagging regions. Regions require competitive cities if they are to perform well. For a city to fulfil its role as a generator of economic impetus it must be competitive in respect of all the areas where cities are expected to perform. Otherwise the city would be just a large town and would be unable to fulfil the leadership role that is required. Connacht Rugby can contribute to Galway fulfilling this role by providing a powerful indigenous node for the creation of the type of core that is required for balanced economic development in the longer term.

Connacht Rugby has a considerable economic and social impact on the region. The organisation directly employs 147 people on a full-time equivalent basis when the academy in included. Direct expenditure by the organisation amounts to €8.83 million per annum, mostly within the Galway region. When related consumer expenditure and expenditure by visitors to home games is included it is estimated that the total direct economic impact is about €15 million per annum. Most of this impact occurs within the Galway region and when secondary multiplier effects are included the total economic impact of Connacht Rugby is estimated at €27 million per annum.

As with other sports, this is only one part of the benefits that accrue. The social benefits of sport are known to be very large but can be difficult to quantify. Based on research that has been undertaken on sports in the economy and data on the activities of teams and competitions that are managed and organised by Connacht Rugby, it is estimated that the social value of volunteering and the health benefits of the organisation amount to

between €4.35 and €10.5 million per annum giving a mid-point estimated value of €7.4 million per annum.

It has been estimated that the required playing facilities would cost in the region of €30 million. While Connacht Rugby is clearly very important to the West of Ireland, it is not in a position to finance this construction cost. There is therefore a real possibility that the momentum that has been created could be lost.

Public support will be required to fund the construction of a new stadium. This is not unusual and most sports facilities in Ireland and around the world are built with varying degrees of public support. There are good economic reasons for this as there are numerous reasons why market failures mean that investment is sports infrastructure, no matter how desirable, would be totally insufficient if left to market forces only. These include externalities associated with sports, the feel good factor that success engenders in a population, the social benefits of sports, proven productivity and economic benefits, along with issues related to discount rates and risk.

While these market failures support the case that a new stadium should be funded, it is necessary to ensure that the stadium could be built with support, but would not be built without support. There is no doubt that this is the case and that there would be a low level of deadweight associated with any funds allocated to this project. It is also necessary that the investment of public funds would be viable in the sense that it would provide a positive return and have a net positive impact on economic welfare when all social costs and benefits are assessed.

This final requirement could be assessed by a cost benefit analysis of any prosed investment of public funds. The project is still at an early stage and so this cannot be undertaken. However, while there has a degree of controversy surrounding the returns that can be earned from the investment of public funds in sports facilities, it is important to note that in many case the conclusions of studies from other areas could not be transferred easily or correctly to Galway. Furthermore, any such assessment would need to include recognition of the role that a stadium in Galway city would play in enhancing the city and the importance of including social benefits as well as the impact of direct economic expenditure when assessing the returns.