

NEW ZEALAND RACING BOARD OVERVIEW AND RACING INDUSTRY CHALLENGES

About the New Zealand Racing Board

The New Zealand Racing Board (NZRB) is a statutory body established by the Racing Act 2003. NZRB's primary purpose under the Racing Act 2003 is to promote the racing industry, facilitate betting and maximise profits for the benefit of the racing industry.

It operates the country's official racing and sports betting agency, the TAB. The TAB is a major entertainment business with more than 154,000 active TAB account-holders and a retail network consisting of more than 675 outlets. Every bet placed with the TAB makes an integral contribution to the growth of racing and sport in New Zealand and the livelihoods of hundreds of thousands of Kiwis involved in the racing and sport sectors.

We support betting on more than 68,000 domestic and imported thoroughbred, harness and greyhound races each season, as well as on approximately 29,000 domestic and international sporting events. NZRB has betting agreements with 33 New Zealand national sporting organisations.

The New Zealand Racing Board (NZRB) has also held a Class 4 Operator's Licence since 2011. Currently only 33 of our 675 TAB retail network sites host gaming machines controlled by NZRB. We estimate the NZRB operates around 3% of the total number of Class 4 Venues and around 2% of the total number of gaming machines. Net proceeds are split with 80% funding racing Authorised Purposes (e.g. the majority is used to fund integrity measures such as the Racing Integrity Unit, NZ Racing Laboratory Services and Judicial Control Authority), and up to 20% distributed to community sports.

NZRB directly employs around 820 personnel (full-time, part-time and casual), with the majority of these people involved in the various facets that make up the TAB operation – scheduling daily racing for customers in New Zealand, selling racing and sports bets through our retail network, online and telephony channels, or the broadcast of racing on our national channels TAB Trackside 1, TAB Trackside 2, and TAB Trackside Radio.

After operating costs and expenses, our surplus is available for distribution to the three New Zealand Racing Codes – New Zealand Thoroughbred Racing, Harness Racing New Zealand and Greyhound Racing New Zealand – in accordance with an agreed funding model.

NZRB makes a significant contribution to the development of sports in New Zealand through the commission we pay to national sporting bodies for sports on which we take bets. In the 2013/14 year, NZRB paid and accrued a total of \$5.0 million to national sporting organisations across the country.

Key Issues and Challenges

State of the Industry

The racing industry is battling tough economic headwinds: poor stakes, dwindling fields, falling returns, low wages and a declining share of the economy. In 2004, the industry represented 1.3% of New Zealand's GDP, however this has declined to under 1% in 2010. Similarly the number of jobs has fallen from over 18,300 to less than 17,000. The trend across a range of key measures confirms that the racing industry is under increasing stress:

- On course attendance has declined over the 14 years to 2012 by more than 30%.
- Stake monies in the five years to 2012 remained relatively flat with a 0.2% decline (five year CAGR).
- Ownership costs across all racing codes are growing. As at 2012 total costs across all codes were estimated to be \$238 million. This translates to a return to owners of just 24%, meaning 76 cents of every dollar invested is lost.

The New Zealand racing industry is heavily dependent on profits generated by the TAB. Almost 75 per cent of revenues supporting racing is generated through betting at the TAB. However, internationally, betting on racing is facing a number of pressures. New Zealand is no exception. The decline in higher margin totalisator business and corresponding increase in lower margin fixed odds business puts pressure on profitability and increases volatility. In addition, turnover from domestic racing is declining as a share of overall NZRB turnover, with gaming, sports betting and international racing turnover all growing at a faster rate. Online competition from large offshore corporate bookmakers is also growing rapidly. These trends are exacerbated by a shrinking market and NZD/AUD exchange rate pressures.

- Over the past decade New Zealand's gambling market has shrunk in real terms by 19%. Betting has the smallest share of the total market accounting for 14% of total expenditure. In real terms, expenditure on betting has remained relatively static, declining 2% over the past decade.
- Total racing tote betting is in a long term decline, dropping 6% in the last 6 years. This compares to a 247% increase in racing fixed odds betting and a 124% increase in sports fixed odds betting.
- For the first time in our history, betting on international racing has overtaken betting on domestic racing. Turnover from domestic racing tote has declined by 27% over the past 6 years while international racing tote has increased by 29%.
- In 1985 a quarter of the adult population participated in horse or racing betting, but by 2005 participation has fallen to 14%.

Offshore Betting

Globally, online gambling is the fastest growing channel. Analysts estimate that worldwide online gambling revenues have grown from US\$600 million in 2004 to \$US28 billion in 2011. The New Zealand betting market has followed these trends. NZRB estimates the percentage of New Zealanders participating in online gambling has almost quadrupled since the current laws were proposed. Further, KPMG estimates the annual growth of New Zealand customers to Northern Territory based bookmakers is 175 per cent. Estimates on the amount of betting vary, but could be as high as \$300 million.

Online gambling is more accessible than ever. Since the passage of the current law, more New Zealanders have access to the internet, from more devices, at faster speeds. When the current gambling laws were passed just over a third of households had an internet connection. Today over 75 per cent have a connection. In addition, the number of mobile internet connections has skyrocketed to 3.2 million, growing by 70% in just two years. The shift offshore is also being driven by competitors able to offer a wider range and greater number of products than the TAB (e.g. betting on outcome of TV show The Block, the election, the gender of the next royal baby etc), at more competitive rates.

New Zealand law hasn't kept pace with the rapidly evolving market. The result being that current legislation largely ignores the fastest growing area of gambling – offshore online gambling. Offshore betting agencies access the New Zealand market without bearing the responsibilities of the NZRB. For example, offshore bookmakers are not required to:

- Hold a New Zealand gambling licence;
- Provide any betting transaction information to regulators or sports organisations;
- Pay gambling levies, totalisator duty, or GST;
- Put measures in place to manage problem gambling or corruption in sports;
- Pay for the use of New Zealand racing or sports products; or
- Distribute profits to the racing or sports communities.

This damages a critical part of the New Zealand economy and further undermines employment and investment in the racing industry. The lack of oversight also leaves New Zealand consumers unprotected, raises issues for sports integrity, and presents an unexplored risk in terms of problem and underage gambling.

We welcome your clear commitment to “take action” and to prioritise officials to work with the industry to find “practical options with the aim of implementing a solution”. We look forward to working with officials to develop these solutions.

GST and Racing

In July, you and Minister McClay announced that Inland Revenue officials will work with the New Zealand Thoroughbred Breeders' Association on a range of tax issues raised by the industry. We welcome your acknowledgement of the considerable contribution from thoroughbred breeding (conservatively estimated to contribute an export value of \$130 million) to the economy. It is our understanding that the GST treatment of racing as a taxable activity will form part of that discussion. The implications for the wider industry of this discussion are very significant. We look forward to a further indication of IRD's position in the near future and the opportunity to engage further on the matter.

Racing Safety Development Fund

The Racing Safety Development Fund is a \$1 million contestable fund that supports racing club projects that improve safety at racecourses. The fund pays up to half the costs of projects that enhance safety in the racing industry. The racing club is required to meet the other half of the cost. These projects include the safety in riders, spectators, officials and the health and safety of the animals.

The fund has been in operation for seven years and has provided funding for close to 300 projects. The funding rounds are very competitive, for example, the last two years the fund has attracted significantly more claims than it has been able to approve. Last year alone the total value of the claims was \$1.8 million. This is in part a reflection of the growing costs racing clubs are facing. For example, the increase in GST to 15% added significant additional costs to the industry. It is expected the changes and regulations from the Health and Safety Reform Bill currently before Parliament will also bring a significant increase in costs.