Greyhound Racing New Zealand

Submission on

The John Messara Review of the New Zealand Racing Industry

Submitted 16 October 2018
GRNZ SUBMISSION

RE: THE JOHN MESSARA REVIEW
OF THE NEW ZEALAND RACING INDUSTRY

OVERALL SUMMARY
GRNZ welcomes the opportunity to respond to the Review of the New Zealand Racing Industry, authored by Mr John Messara AM, 31 July 2018 ('The Messara Report').

In principle, GRNZ supports a majority of the Messara Report recommendations and wishes to work with the Racing Industry to create a vibrant and successful future for all our participants.

However, it has been publicly noted and accepted that the Report has especially focussed on the needs of the Thoroughbred Racing Code (Report pg 4), and GRNZ believes that that this focus has created:

1. An inherent bias towards the needs and issues facing Thoroughbred Racing, some of which are the opposite of those facing Greyhound Racing and - in certain recommendations - means that GRNZ is materially disadvantaged.
2. An inability to recognise that 'one size does not fit all' and that - in certain recommendations - GRNZ should be provided with flexibility / capability to operate with a different business model than that of the Thoroughbred Racing Code, in order to survive and prosper.

These two basic themes play out in the three (3) key recommendations that GRNZ believes need to be changed or adjusted to better reflect the needs of the Racing Industry, rather than the Thoroughbred Code.

While it may be tempting to see the Messara Report as a total answer / total package, the clear focus on Thoroughbred Racing means that implementing the Report recommendations 'as is' will mean locking in systemic disadvantage, and undermining the possibility of this being a sustainable and lasting foundation for the Racing Industry.

The three (3) key recommendations that GRNZ believes should be adjusted are:

2. Racing New Zealand (Rec #2).
3. The Code Funding Model (Rec #5).

RITA
On 30 August 2018 The Minister of Racing released the Messara Report. During the speech releasing the Report, the Minister made reference to the creation and implementation of the Racing Industry Transitional Agency. This was not referenced in the Report itself, but we believe was described as "A transitional Agency would smooth the operational process particularly if there are changes in racing governance structure".

To date, there has been no detail around the structure, membership, powers, costs and objectives of the RITA entity. Additionally, the relationship and relative responsibilities as between RITA and the New Zealand Racing Board are also not yet detailed.
GRNZ believes that the NZRB and the Codes are best placed to manage the transition collaboratively, and that this can be managed within the existing NZRB / Code framework. We note that the NZRB Board is due for major renewal and we would suggest that new Directors could be used as the vehicle for assisting the Industry with change.

Additionally, GRNZ is concerned that the focus on the needs of Thoroughbred Racing inherent in the Messara Report could be more easily and unintentionally translated into new or additional structural inequities by RITA. This would be on the basis that the body itself is potentially predetermined either in its views or behaviours - having had them shaped by the Report itself.

RACING NEW ZEALAND
The Report states that the proposed governance model for the Board of Racing NZ would be 2 New Zealand Thoroughbred Racing members (incl the Chair and Casting Vote), 1 from Harness Racing New Zealand, and 1 from Greyhound Racing New Zealand.

Racing NZ would either determine or meaningfully influence the racing calendar for New Zealand, including overseas broadcasting. Clearly the makeup of this Board has conflict potential, and GRNZ believes that the proposed structure provides for at least the appearance of bias and control in favour of Thoroughbred Racing New Zealand.

Instead, GRNZ proposes that Racing New Zealand need not be established. We believe that simply allowing the Codes to determine these matters between themselves and the wagering body directly, ensures the ecosystem retains both flexibility and fairness. This is the current construct and while the Codes do not always agree, workable solutions are generally concluded.

CODE FUNDING
GRNZ acknowledges that Code Funding will always be a relatively contentious matter in that all three codes draw the majority of their funding from the same source.

The Messara Report proposes a model that:

- Rewards revenue not profitability
- Locks in Codes for 10 years without adequately recognising or responding to changes in product volume or profitability
- Includes a 50% funding calculation built on an ‘industry contribution’ model - a model that has not been commissioned or created for this purpose, is not fit for this purpose, and is not legally robust for this purpose
- Essentially allows one Code the right of veto over any potential change to the model.

Instead, GRNZ proposes a model that reflects the concepts behind the Messara Report, but not the exact construct of the Messara Report.

GRNZ proposes incremental funding be based not on the 25% + 25% + 50% formula, but rather, 100% of code contribution to NZRB profitability from both domestic and international wagering - which equates to:

- Thoroughbred Racing 59.9%
- Harness Racing 20.3%
- Greyhound Racing 19.8%
CONCLUDING COMMENTS
GRNZ wishes to make clear that it is supportive of many other recommendations, *in principle*, but includes a number of recommendations and adjustments of its own, to better serve the wider interests of the New Zealand Racing Industry.

Included below are specific responses to all the recommendations and sub-recommendations contained within the Messara Report. In part, this means that more detail or further recommendations of our own can be found within the main body of the submission, below.

We have also included a specific section / submission in respect of a sustainable Code Funding Agreement. We wish to acknowledge the assistance of independent economic analysts Gravel Road in putting together a best practice model for correctly incentivised Code Funding.

Finally, we note that much of the Messara Report activity can be implemented without legislative intervention. GRNZ suggests that where possible, these steps should be taken as soon as agreed and possible. We note that many of these steps have always been available to industry and we look forward to seeing the entire Racing Community benefit from the additional support Thoroughbred Racing New Zealand will receive to ensure these outcome are achieved.
SPECIFIC GRNZ SUBMISSION IN SUPPORT OF A NEW AND SUSTAINABLE CODE FUNDING MODEL

Gross Betting Revenue is a poor measurement for meeting fairness, reasonableness and sustainability objectives. It is, however, linked to market drivers.

It is inconsistent with Mr Messara’s intent to link Code distribution to their contribution to NZRB profitability, in that it does not take account of the costs involved for NZRB to wager, market, and promote customer use, which vary by Code.

The best practice measurement for linking distribution to market signals, sustainability, and fairness, is ‘economic margin’ often referred to as ‘contribution to profitability’ - as described by Mr Messara himself.

The ‘50% from economic activity’ is therefore inappropriate as:

a. It was based on the IER report, which was not commissioned or provided for this purpose. In fact, it has a disclaimer specifically avoiding this kind of additional inappropriate and unforeseen use.

b. It is not market led, as it does not tie to either the revenue or cost structure of wagering, or marketing the customer offer.

c. It locks in existing code based industry cost structures and provides no incentive for the management of this.

d. It rewards inefficient behaviour – if code revenues have stayed the same while their costs have gone up it rewards that code at the expense of codes that have lower cost structures.

e. The share of NZRB’s distribution should not be based on industry costs that are driven by non-racing purposes such as the sale of breeding animals. These costs are included in the IER report on economic stimulation.

f. Economic stimulation is a gross figure (as is GDP), it does not reflect the usefulness of the stimulation to NZ, nor its sustainability or desirability. Economic stimulation can be gamed (e.g. knocking down an existing bridge and rebuilding it again is great for economic stimulation, but actually reduces the usefulness (utility) of the bridge because it is unavailable for a period of time).

h. Economic stimulation does not measure the efficiency or sustainability of the activity that generates the stimulation. A better measure is productivity which is a measure of outputs over inputs.

i. We believe that basing an argument on economic stimulation rather than productivity is considered poor practice by the NZ Government and The Treasury in particular.
**Contribution to NZRB Profit by Code**

The correct measure for code distribution should be based on share of contribution to profitability generated in NZRB by each code, as already recognised by Mr Messara.

Table 1, below, shows the contribution towards profits based on NZRB 2014 figures. We would welcome the NZRB updating the below with current figures.

<table>
<thead>
<tr>
<th>Products &amp; Services</th>
<th>Net Betting Revenue ($m)</th>
<th>Activity Driven Costs ($m)</th>
<th>Contribution towards profits ($m)</th>
<th>Share of contribution towards profits (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand Thoroughbred</td>
<td>75.0</td>
<td>18.3</td>
<td>56.6</td>
<td>32.4</td>
</tr>
<tr>
<td>New Zealand Harness</td>
<td>31.5</td>
<td>9.4</td>
<td>22.0</td>
<td>12.6</td>
</tr>
<tr>
<td>New Zealand Greyhound</td>
<td>25.1</td>
<td>5.8</td>
<td>19.3</td>
<td>11.0</td>
</tr>
<tr>
<td>Australian Thoroughbred</td>
<td>64.0</td>
<td>23.7</td>
<td>40.3</td>
<td>23.1</td>
</tr>
<tr>
<td>Australian Harness</td>
<td>14.0</td>
<td>4.9</td>
<td>9.1</td>
<td>5.2</td>
</tr>
<tr>
<td>Australian Greyhound</td>
<td>17.1</td>
<td>6.1</td>
<td>11.0</td>
<td>6.3</td>
</tr>
<tr>
<td>International Meetings</td>
<td>8.5</td>
<td>0.8</td>
<td>7.7</td>
<td>4.4</td>
</tr>
<tr>
<td>HR &amp; GR New Zealand Shared Meetings</td>
<td>10.9</td>
<td>2.1</td>
<td>8.7</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Total Products &amp; Services</strong></td>
<td><strong>246.0</strong></td>
<td><strong>71.2</strong></td>
<td><strong>174.8</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The contribution to NZRB profit by code with international revenue included by code, other international revenue attributed to Thoroughbred Racing, and NZ Shared Meetings split equally between Harness Racing and Greyhound Racing, produces the following share of contribution to profits:

- **Thoroughbred Racing** 59.9%
- **Harness Racing** 20.3%
- **Greyhound Racing** 19.8%

Thus the increment component of code distribution formula should be:

*100% of code contribution to NZRB profitability from both domestic and international wagering.*
**Sources of Information / Analysis**
This Submission uses NZRB economic analysis of the cost of holding and wagering race meetings in 2014.

This information was used to assess code, club, and NZRB economic sustainability. As part of this process it assesses the sources of revenue to NZRB, the way in which contributions to profit are derived from this revenue, and the costs required to support this revenue.

This analysis produces economic gross margins from sales of product and services, often referred to as ‘contribution to profits’.

It does not allocate shared cost structures to codes as this process is always arbitrary.

The following breakdown of revenue and cost categories’ used are:

**Sources of increment revenue included are:**
- Retail Branches & Agencies
- Retail Pubs & Clubs turnover
- On-course
- Phonebet
- Touch Tone
- Mobile
- Online.

**Sources of incremental costs used are:**
- Commissions Paid
- Broadcast costs
- On Course
- Race Integrity
- Odds Setting
- Retail and On Course Selling
- Call Centre
- Labour
- Vehicles
- Property.

**Capital Capacity treatment:**
- Capital costs incur WACC cost at source at 12.5%
- Capital costs use economic depreciation for renewal (spread evenly over asset life)
- Used capital capacity is absorbed at cost for both peak and off-peak use (only peak use drives capacity requirements) (relevant to mainly broadcasting trucks)
- Unused capital capacity is treated as a shared cost.

The following modifications have been made to the original 2014 figures:
- On-track non-betting revenue has been removed as this is redefined as club/code sourced revenue
- On-track costs not met by NZRB have been removed as these are also redefined as club/code sourced costs.
- Prize money has been removed as this is moved to be treated as a code distribution dividend.
## Overall Summary

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>GRNZ Response</th>
</tr>
</thead>
</table>
| 1 Change the governance structure, so the NZRB becomes Wagering NZ with racing responsibilities devolving to the individual Codes. This will sharpen the commercial focus of TAB operations and improve the decision-making and accountability of the Codes. | **SUPPORTS** in Principle  
GRNZ would seek a one-off ‘upscaling’ payment - this reflects the fact that GRNZ is the Code most integrated with the NZRB and will have to undertake a substantial upscaling to meet all the potential devolving obligations.  
GRNZ would seek to clearly identify exactly what is being ‘devolved’ to the Codes. Key issues for clarification would be the ownership of international rights and pathways for those rights. |
| 2 Establish Racing NZ as a consultative forum for the three Codes to agree on issues such as entering into commercial agreements with Wagering NZ, approving betting rules and budgets for the integrity bodies, equine health & research, etc. | **OPPOSES** in Principle  
GRNZ believes that no such body is required.  
The Codes can work constructively and collaboratively to make industry wide / calendar based decisions. Additionally, the Wagering NZ body would be responsible for managing / negotiating a racing calendar to suit, and all 3 Codes are represented on that Body.  
GRNZ absolutely opposes the Governance Model for this body - 2 NZTR, 1 HRNZ and 1 GRNZ. This is potentially biased, conflicted and undermines the notion of industry engagement with one Code having effective control of the entire racing industry.  
This is an unnecessary step in the process - the most efficient system is to allow the Codes to directly engage with Wagering NZ and meet as and when required among themselves for inter-code related activity. |
| 3 Change the composition and qualifications for directors of regulatory bodies. | **SUPPORTS**  
GRNZ believes that this could make a positive contribution to the racing community but that it should be implemented in conjunction with some training and development investment for Racing Industry Club board members / directors. |
4  Request that a Performance and Efficiency Audit of the NZRB be initiated under section 14 of the Racing Act 2003, with particular emphasis on the operating costs of the NZRB.

**SUPPORTS**

While there is a reasonable view that this body will be altered or replaced in due course, GRNZ believes that there is value to be found in completing a costs review ahead of undertaking substantial industry change, and that the law governing the NZRB should be observed as it currently stands.

**OPPOSES**

GRNZ opposes the proposal as it currently stands - based on the details of the formula applied.

GRNZ opposes the 10 year term and the 25% + 25% + 50% formula for additional industry funding.

GRNZ instead proposed all incremental funding be based on 100% of code contribution to the NZRB profitability from both domestic and international wagering:

- NZTR: 59.9%
- HRNZ: 20.3%
- GRNZ: 19.8%

This model should be put in place for 2-3 years, in order to assess its fairness and impact.

5  Amend the Section 16 distribution formula of the Racing Act 2003 to a more equitable basis for fixed 10-year terms.

**SUPPORTS**

GRNZ believes that the RIU and and other Integrity partners are an integral part of the confidence that the community has in the Racing Industry.

GRNZ believes that the most cost effective model for Industry Integrity should be pursued, but wishes to record that it strongly advocates for combined / shared services in this area.

**OPPOSES**

GRNZ opposes the proposal as it currently stands - based on the details of the formula applied.

6  Initiate a special review of the structure and efficacy of the RIU and allied integrity bodies, to be conducted by an independent qualified person.

**SUPPORTS**

GRNZ believes that the RIU and and other Integrity partners are an integral part of the confidence that the community has in the Racing Industry.

GRNZ believes that the most cost effective model for Industry Integrity should be pursued, but wishes to record that it strongly advocates for combined / shared services in this area.

7  Begin negotiation for the outsourcing of the TAB’s commercial activities to an international wagering operator, to gain the significant advantages of scale.

**SUPPORTS in Principle**

GRNZ believes that the possible outsourcing of the TAB’s wagering business should be investigated. However, we note that this is effectively going to permanently denude the Racing Industry of a domestic wagering capability and that this requires careful assessment.
To that end, **GRNZ recommends**: 

- That such contracting out be voluntary, rather than mandatory - this would protect the negotiation position if nothing else  
- That the consideration of outsourcing include corporatising and limited share sales 
- That the final decision on outsourcing include an assessment as against the current NZRB SOI returns prediction 
- That the Codes be involved in the final decision-making with respect to outsourcing.

**8** Seek approval for a suite of new wagering products to increase funding for the industry. 

**SUPPORTS** 

GRNZ believes that this is a reasonable action on behalf of New Zealand betting participants and that this would increase the scope of wagering behaviours that could fall within our domestic harm prevention programmes.

Many of these activities are already available to New Zealanders through the internet and this provides a safer environment for the activity that also provides a return to the New Zealand industry.

**9** Confirm the assignment of Intellectual Property (IP) by the Clubs to the Codes. 

**OPPOSES in Principle** 

GRNZ believes that - at least for the purpose of maximising domestic racing wagering in Australasia - a granting of non-exclusive rights in the Codes is preferable.

This would follow current practice and assume that IP Rights are vested in the NZRB / Wagering NZ. This allows for the NZRB / Wagering New Zealand to maximise the total bundle of racing product and rights (and thus value) for the Industry as a whole.

**10** Introduce Race Field and Point of Consumption Tax legislation expeditiously. These two measures will bring New Zealand’s racing industry into line with its Australian counterparts and provide much needed additional revenue. 

**SUPPORTS** 

GRNZ believes that this should be actioned by separate legislation as quickly as possible.

GRNZ suggests that the NZRB / Wagering NZ be statutorily recognised as a collection agency for Race Fields fees and that the Codes should be entitled to elect to take this service from Wagering NZ.

**11** Repeal the existing betting levy of approximately $13 million per annum paid by the NZRB, given that the Thoroughbred

**SUPPORTS in Principle**
Code is a loss maker overall, with the net owners’ losses outweighing the NZRB’s net profit.

GRNZ believes that this is a positive step forward for the industry and will allow for further industry funding during a period of transition.

GRNZ OPPOSES the proposed funding split for this $13m annual sum. Instead, GRNZ suggests that it is set aside for industry infrastructure investment (so that it can be shown to have achieved specific outcomes) and that it be made available to Codes on the basis of the GRNZ suggested code distribution formula:

- 100% of code contribution to NZRB profitability from both domestic and international wagering.

Further, GRNZ suggests that the levy be placed in abeyance for between 5-10 years, and that at the end of that period it be put back in place as a gesture of good will to the public of New Zealand who have supported the Racing Industry during this period of reform.

12 Clarify legislation to vest Race Club property and assets to the Code regulatory bodies for the benefit of the industry as a whole.

OPPOSES

GRNZ believes that this is a genuine and good faith attempt to respond to poorly placed capital and infrastructure holdings in the Racing Industry ecosystem.

However, GRNZ believes that this process will likely create resentment and legal challenge. Further, we recommend that the NZRB be tasked with moving forward on the Industry wide Future Venue Plan undertaking. This is designed to deliver the same outcomes for the Industry but allows for consultation and debate, which will more likely generate the hoped for outcomes.

13 Reduce the number of Thoroughbred race tracks from 48 to 28 tracks under a scheduled program. This does not require the closure of any Club.

SUPPORTS in Principle

GRNZ believes that this is primarily a Thoroughbred issue and wishes to support our fellow Code in this matter.

However, GRNZ notes that this will have consequential impacts on Harness Racing New Zealand, which will have consequential impacts on GRNZ. Simply put, some Harness Tracks live inside Thoroughbred tracks, and some Greyhound tracks live inside Harness tracks.

As a result of this ‘domino effect’ GRNZ suggests that the NZRB / Code led Future Venue Plan system be used as the vehicle for final consultation and processing the venue consolidation and investment plan - such that these ‘consequential issues’ can be managed simultaneously.
14 Upgrade the facilities and tracks of the remaining racecourses with funds generated from the sale of surplus property resulting from track closures to provide a streamlined, modern and competitive Thoroughbred racing sector capable of marketing itself globally.

**SUPPORTS in Principle**

GRNZ believes that this is primarily a Thoroughbred issue and wishes to support our fellow Code in this matter.

However, GRNZ reiterates that it does not believe that a compulsory land and asset acquisition model is in the best interests of the outcome, and would instead suggest the use of the NZRB / Code Future Venue Plan model.

15 Construct three synthetic all-weather tracks at Cambridge, Awapuni & Riccarton with assistance from the New Zealand Government’s Provincial Growth Fund. Support the development of the Waikato Greenfields Project.

**SUPPORTS in Principle**

GRNZ believes that this is primarily a Thoroughbred issue and wishes to support our fellow Code in this matter.

GRNZ is supportive of moving forward with this process to a feasibility study. Final decisions should be made on this matter after the results of those studies have been determined.

GRNZ is also supportive of a ‘Greenfields’ undertaking in the Waikato - on the basis that this is a tri-code venue.

16 Introduce robust processes to establish traceability from birth and the re-homing of the entire Thoroughbred herd, as the foundation stone of the industry’s ongoing animal welfare programme.

**SUPPORTS**

GRNZ believes that this is primarily a Thoroughbred issue and wishes to support our fellow Code in this matter.

GRNZ adds that animal welfare is an ongoing concern for the industry and that it supports any efforts to maintain the comfort and confidence of the public.

17 Increase Thoroughbred prizemoney gradually to over $100 million per annum through a simplified three-tier racing model, with payments extended to tenth place in all races.

**SUPPORTS in Principle**

GRNZ believes that this is primarily a Thoroughbred issue and wishes to support our fellow Code in this matter.

GRNZ simply notes that it assumes a fair and agreed uplift in the prize money available to both Harness and Greyhounds will also apply.
### Wagering NZ

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>GRNZ Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Rename the NZRB as Wagering NZ.</td>
<td>SUPPORT</td>
</tr>
<tr>
<td>2 Restructure the composition and amend qualifications for Directors of the Board of Wagering NZ.</td>
<td>SUPPORT - in Principle</td>
</tr>
<tr>
<td><strong>GRNZ notes</strong> that the Independent Chair is retained and that the concept of independence is kept for all Independent Members of the Board. For the sake of clarity GRNZ recommends that Independent Chair should be further defined as someone who has not been a Director or Officer of any of the Codes.</td>
<td></td>
</tr>
<tr>
<td>3 Stipulate the role, functions and responsibilities of Wagering NZ. Legislation to require Wagering NZ to act in the interests of the general public and the Racing Codes.</td>
<td>SUPPORT in Principle</td>
</tr>
<tr>
<td>GRNZ notes that there may be a potential conflict between the commercial imperatives behind the interests of the general public and the Racing Codes. GRNZ suggests that this be refined and that Wagering NZ be obliged to act in the interests of Racing Codes, while balancing and supporting a public interest in avoiding problem gambling.</td>
<td></td>
</tr>
<tr>
<td>4 Initiate a Performance &amp; Efficiency Audit of the NZRB under section 14 of the Racing Act 2003, with an emphasis on operating costs.</td>
<td>SUPPORT in Principle</td>
</tr>
<tr>
<td>GRNZ notes that there may be value in conducting this review - with specific reference to costs analysis - as a tool for assisting transition.</td>
<td></td>
</tr>
<tr>
<td>5 Transfer all racing functions to individual Codes.</td>
<td>SUPPORT in Principle</td>
</tr>
<tr>
<td>GRNZ simply wishes to record that a proper process will be required between the Codes and the NZRB / Wagering NZ to sustainably identify and pass over these functions. Additionally, GRNZ notes that it would require transitional funding to (potentially) manage the uptake of these functions. We note that GRNZ has a staffing level of between 12-15 FTEs only and is heavily reliant upon the existing shared services infrastructure available from the current NZRB.</td>
<td></td>
</tr>
<tr>
<td>6 Require Wagering NZ to enter into commercial agreement with the Racing Codes for the provision of betting services and</td>
<td>SUPPORT in Principle</td>
</tr>
<tr>
<td>GRNZ believes that this is the correct model for maximising industry benefit.</td>
<td></td>
</tr>
</tbody>
</table>
the distribution of profits to the Codes.

We reiterate that there is no need to introduce Racing NZ into this equation as an additional layer of bureaucracy and potential bias.

7 Require Wagering NZ to prepare a statement of intent in consultation with and having due regard to views of the Racing Codes. Rule changes to be approved by the Racing Codes but the Codes cannot reasonably withhold approval. Statement of Intent, annual report and rule changes to be submitted to the Minister.

SUPPORT in Principle

GRNZ believes that this (sub) recommendation reflects an oversight of the Industry Betting Rules (not Code Rules of Racing - which would remain the purview of the respective Racing Codes).

8 Confirm that Wagering NZ’s statutory monopoly on wagering remains in place and confirm existing advertising restrictions on other wagering operators are retained.

SUPPORT

GRNZ believes that this is a vital part of supporting the Racing Industry and ensuring it’s sustainability.

Additionally, GRNZ notes that the statutory monopoly should be extended to include new bet types - novelty / exotic wagering.
<table>
<thead>
<tr>
<th>Racing Codes</th>
<th>GRNZ Response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation</strong></td>
<td><strong>GRNZ Response</strong></td>
</tr>
</tbody>
</table>
| 1 Stipulate the role, functions and responsibilities of the Codes and provide for adoption of all racing functions transferred from NZRB. | **SUPPORT** in Principle  
GRNZ again notes that it wishes to record that a proper process will be required between the Codes and the NZRB / Wagering NZ to sustainably identify and pass over these functions.  
Additionally, GRNZ notes that it would require transitionary funding to (potentially) manage the uptake of these functions. We note that GRNZ has a staffing level of between 12-15 FTEs only and is heavily reliant upon the shared services infrastructure available from the current NZRB. |
| 2 Prescribe a statutory requirement that the constitutions of Codes provide for appointment of at least two independent Board members and set qualifications for independent members. | **SUPPORT** in Principle  
GRNZ already has this requirement within its own Board and Constitution. There is a possibility that the concept of independent for this clause may differ from the one currently in use within GRNZ and as a result of that, there may be constitutional change required. Time should be allowed for this. |
| 3 Legislation to provide clauses requiring members of the Boards of the Codes to act in the interests of the public and respective industries as a whole, and for a nominated member to put the interests to which the duty relates before the interests of the body that nominated the member. | **SUPPORT** in Principle  
GRNZ questions exactly where the balance between the interests of the Public and the interests of the Codes may lie. In particular, while no doubt attempting to provide comfort and security to the public, this could be seen as potentially confusing and counter intuitive on reflection.  
GRNZ would ask what additional detail or potential issues the specific need to act in the interests of the Public speaks to - as opposed to the inherent obligations found in being a good and competent director.  
GRNZ also notes the extensive statute and common law relating to Director duties and further questions what additional obligations need to be regulated. |
| 4 Legislation to require Codes to submit their constitutions and any changes thereto to the Minister for approval, to publish their statements of intent and business plans and to submit their annual reports to the | **OPPOSE** in Principle  
GRNZ is comfortable providing the Minister with this information.  
GRNZ does question the need for the Minister to approve Code Constitutional change. This may be seen as allowing |
Minister for tabling in Parliament. They should also be required to submit their rules to the Minister for presentation to Parliament.

However, we suggest that Wagering NZ would be the more appropriate body to receive and support the Minister in Constitutional matters with respect to the Codes. This would be a better reflection of specialisation and skills in the industry and within the Minister’s portfolio support structure.

We OPPOSE in Principle

As already noted, GRNZ believes that no such formal body is required.

The Codes can work constructively and collaboratively to make industry wide / calendar based decisions. Additionally, the Wagering NZ body would be responsible for managing / negotiating a racing calendar to suit, and all 3 Codes are represented on that Body.

GRNZ absolutely opposes the Governance Model for this body - 2 NZTR, 1 HRNZ and 1 GRNZ. This is potentially biased and conflicted.

This is also an unnecessary step in the process - the most efficient system allows the Codes to directly engage with Wagering NZ and meet as and when required among themselves for inter-code related activity.

5 Participation in the Racing NZ forum with the other Codes to address issues of mutual concern.

for potential political interference or intervention, and overly politicising Code decision making.
Racing NZ

Recommendation

1. Establish a consultative forum named Racing NZ to allow the Codes to discuss and agree on matters of mutual concern, including:

- Entering into commercial arrangements with Wagering NZ
- Development of the racing calendar in conjunction with Wagering NZ
- Approving budgets, plans and administrative support to the JCA, RIU and the Laboratory where required
- Consulting with Wagering NZ on whole of industry issues such as Betting Rules and financial support of the NZ Equine Research Foundation (NZERF) and the NZ Equine Health Association (NZEHA).

GRNZ Response

OPPOSE

As discussed, GRNZ believes that no such body is required.

The Codes can work constructively and collaboratively to make industry wide / calendar based decisions. Additionally, the Wagering NZ body would be responsible for managing / negotiating a racing calendar to suit, and all 3 Codes are represented on that Body.

GRNZ absolutely opposes the Governance Model for this body - 2 NZTR, 1 HRNZ and 1 GRNZ. This is potentially biased and conflicted and undermines the notion of industry engagement with one Code having effective control of the entire racing industry.

This is an unnecessary step in the process - the most efficient system is to allow the Codes to directly engage with Wagering NZ and meet as and when required among themselves for inter-code related activity.

OPPOSE - this should be done by the Codes directly.

OPPOSE - GRNZ absolutely opposes the Governance Model for this body, and it would be this body making decisions on the racing calendar.

OPPOSE - this can be done through the use of Code Board Members on the Board’s of the RIU and JCA. A special panel of the Codes can be convened to manage the Laboratory as required.

OPPOSE - this should be done by the Codes directly.
<table>
<thead>
<tr>
<th>Race Clubs</th>
<th>Recommendation</th>
<th>GRNZ Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Amend Club Constitutions to provide for appointment of at least two independent Committee/Board members.</td>
<td>SUPPORT - Clubs should meet professional and reasonable standards.</td>
<td></td>
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<tr>
<td>2 Require Clubs to submit their constitutions and any amendments to the relevant Code for Board approval.</td>
<td>SUPPORT - Clubs should meet professional and reasonable standards.</td>
<td>GRNZ does question the need for the Code to approve Club Constitutional change. This may be seen as allowing for potential political interference or intervention, and overly politicising club decision making. Additionally, GRNZ's approval of amendments to Club Constitutions may lead to unforeseen legal or accounting consequences and therefore needs to be carefully managed.</td>
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<tr>
<td>Recommendation</td>
<td>GRNZ Response</td>
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</table>
| 1 Appoint a well-qualified independent person to review the overall Integrity model for its efficacy, independence and accountability. | SUPPORT in Principle
GRNZ agrees that there may be efficiencies that can be found in the integrity function within the industry. However, GRNZ believes that the RIU, the JCA and other Integrity partners are an integral part of the confidence that the community has in the Racing Industry. GRNZ believes that the most cost effective model for Industry Integrity should be pursued, but wishes to record that it strongly advocates for combined / shared services in this area. |
| 2 Introduce robust processes to establish traceability from birth and the re-homing of the entire Thoroughbred herd, as the foundation stone of the industry's ongoing welfare programme. | SUPPORT
GRNZ believes that this is primarily a Thoroughbred issue and wishes to support our fellow Code in this matter. GRNZ adds that animal welfare is an ongoing concern for the industry and that it supports any efforts to maintain the comfort and confidence of the public. |
### Finances & Distribution to Codes

#### Recommendation

1. **Repeal the Government betting levy and distribute proceeds to Codes based on their respective contribution to the New Zealand economy.**

   **GRNZ Response**

   **SUPPORT in Principle**

   GRNZ believes that this is a positive step forward for the industry and will allow for further industry funding during a period of transition.

   **OPPOSE**

   GRNZ **OPPOSES** the proposed funding split for this $13m annual sum. Instead, GRNZ suggests that it is set aside for industry infrastructure investment (so that it can be shown to have achieved specific outcomes) and that it be made available to Codes on the basis of domestic market share.

   Further, GRNZ suggests that the levy be placed in abeyance for between 5-10 years, and that at the end of that period it be put back in place as a gesture of good will to the public of New Zealand who have supported the Racing Industry during this period of reform.

2. **Amend Section 16 of Act to provide that NZRB (Wagering NZ) profits are distributed to Codes on following basis:**

   - **Provided the NZRB (Wagering NZ) surplus is sufficient, each Code to receive the same amount in any year that it received in the previous year (where the surplus is less than the previous year, the Codes will receive a proportionate amount based on their previous year’s receipts)**

   - **Additional amounts are to be calculated as follows:**

     **GRNZ Response**

     **OPPOSE**

     This formula:

     - Rewards cost structures, not profitability
- 25% on Gross Betting Revenue on Code domestic racing
- 25% on Gross Betting Revenue on Code overseas racing
- 50% on each Code’s contribution to NZ economy.

- Locks in Codes for 10 years without adequately recognising or responding to changes in product volume or profitability
- Includes a 50% funding calculation built on an ‘industry contribution’ model - a model that has not been commissioned or created for this purpose, is not fit for this purpose, and is not legally robust for this purpose
- Essentially allows one code the right of veto over any potential change to the model.

Instead, GRNZ recommends that the formula for incremental / additional distribution be 100% of code contribution to NZRB profitability from both domestic and international wagering - which equates to:

- Thoroughbred Racing 59.9%
- Harness Racing 20.3%
- Greyhound Racing 19.8%

3 Provide for the new scheme to be fixed for a period of 10 years unless changes are agreed unanimously between the Codes and approved by Minister.  

**OPPOSE**

GRNZ opposes the 10 year term and the 25% + 25% + 50% formula for additional industry funding. This model ‘locks in’ funding inequality.

GRNZ instead suggests a 2-3 year initial period from which lessons can be learned and adjustments made as needed.

4 Provide for an independent review of the scheme after 10 years.

**OPPOSE**

GRNZ opposes the 10 year term. GRNZ suggests an initial term of approximately 2-3 years.

5 Continue to fund the racing integrity services from NZRB (Wagering NZ) gaming profits.

**SUPPORT**

This is a wise use of industry funding and should be protected.

6 Allow the NZRB (Wagering NZ) to operate on all sporting events (with or without agreement with National Sporting Organisations) and make payments to sports based on minimum payments prescribed under Section 57 of the Act.

**SUPPORT**

This is a course of action that best balances the needs and investment of Sport with the needs and investment of the Racing Industry.
### Racing Amendment Bill

<table>
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<th>Recommendation</th>
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<td>It is recommended that the Racing Amendment Bill be enacted at the earliest opportunity either as a standalone Bill as presently drafted or as a component of wider legislation.</td>
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The following changes are recommended to the Bill:

1. The role of Designated Authority in terms of the Betting Information Usage Charges should be allocated to the three Codes of Racing and Sport New Zealand. The role of Designated Authority in respect of the Consumption Charges should be allocated to the Department of Internal Affairs or such other Department as is appropriate.

   - **SUPPORT**
   - GRNZ notes though that Wagering NZ should be designated as a collection agency for the Codes such that they can undertake this activity on behalf of the Codes if requested.

2. Authorisation under each scheme should only be issued to persons licensed or authorised to operate as a wagering operator under the legislation of a relevant Country or State, or licensed by an authorised racing body.

   - **SUPPORT**

3. For the purposes of the Consumption Charges, the location of a punter should be determined based on the punter’s home address.

   - **SUPPORT**

4. The legislation should also provide for the cancellation, revocation or variation of authorisations where the operator fails to pay amounts due to the Designated Authority or fails to comply with the
Regulations or any conditions attached to the authorisation.

5 The legislation should provide for an administrative review of any decision not to approve an application for an authorisation or of any decision to cancel, revoke or vary an authorisation.

SUPPORT

6 Revenue generated from the Betting Information Use Agreements should accrue directly to the three Codes of Racing and relevant Sporting Authorities in accordance with the respective shares of that revenue generated by them.

SUPPORT

7 Revenue generated under the Consumption Charges Scheme and collected by the Department of Internal Affairs should be applied firstly to the administration of the scheme, with any balance distributed in accordance with a formula based on the respective shares of the total investments made currently with the NZRB (Wagering NZ) plus harm minimisation initiatives, etc.

SUPPORT in Principle

GRNZ believes that a maximum sum or percentage should be determined for the collection fee.

Further, GRNZ submits that the appropriate collection agency should be Wagering NZ.

8 Assessment of fees should be based on turnover and the systems should allow bookmakers to claim bet-back credits where they lay off all or part of a bet made with them but only where the bet is laid off with another operator who is liable for the New Zealand charges.

SUPPORT

9 The wagering operator is to provide information to allow the monitoring of matters relating to the integrity of New Zealand Racing and Sporting events.

SUPPORT

10 The Conditions or Regulations making provision for the

SUPPORT
inspection of betting records held by the operator to also allow an investigation relating to the integrity of New Zealand Racing and Sporting events. Provision should also be made requiring the operator to allow an audit of the operator’s financial records by an independent auditor approved by the Designated Authority with the costs of such audit being borne by the operator.

11 Provide for revenue generated under existing authorisations entered into by the NZRB to be directed to the relevant Code or Sport New Zealand.

12 Consideration should be given to adding custodial penalties for persons found guilty of breaching the legislation.
Wagering & The TAB

**Recommendation**

1. Progress full operational outsourcing of all domestic wagering, broadcast and gaming operations, to a single third-party wagering and media operator of international scale, under a long term arrangement with the NZRB (Wagering NZ) holding the licence and contracting all operational activities to a selected outsourced operator.

   **SUPPORTS** in Principle

   GRNZ believes that the possible outsourcing of the TAB’s wagering business should be investigated. However, we note that this is effectively going to permanently denude the Racing Industry of a domestic wagering capability and that this requires careful assessment. It is not prudent to determine the outcome without a full and proper analysis.

   To that end, **GRNZ recommends**:

   - That such contracting out be voluntary, rather than mandatory - this would protect the negotiation position if nothing else
   - That the consideration of outsourcing include corporatising and limited share sales
   - That the final decision on outsourcing include an assessment as against the current NZRB SOI returns prediction
   - That the Codes be involved in the final decision-making with respect to outsourcing.

2. Seek the approval for the NZRB (Wagering NZ) to:

   - Conduct virtual racing games **SUPPORT**
   - Remove legal restrictions in Section 33(3) of the Gambling Act that prevent the NZRB (Wagering NZ) from acquiring class 4 gaming licence venues **SUPPORT**
   - Conduct in-the-run race betting **SUPPORT**
   - Conduct betting on sports where there is no agreement with a national sports organisation **SUPPORT**
3 Complete the chain of agreements and arrangements to prepare for the outsourcing process including the assignment of Intellectual Property (IP) by the Clubs to the Codes.

**OPPOSES in Principle**

GRNZ believes that - at least for the purpose of maximising domestic racing wagering in Australasia - a granting of non-exclusive rights in the Codes is preferable.

This would follow current practice and assume that IP Rights are vested in the NZRB / Wagering NZ. This allows for the NZRB / Wagering New Zealand to maximise the total bundle of racing product and rights (and thus value) for the Industry as a whole.
 Clubs, Racecourses & Prize money

**Recommendation**

1. Reduce the number of existing Thoroughbred racing venues in New Zealand over the next 6 years by 20, from 48 to 28 venues, and establish Cambridge as a new synthetic track racing and training venue within 1 year, so making a total of 29 venues. Sell all freehold racecourse land of the closed venues with the proceeds to accrue to NZTR. Maintain racecourses in all regions of New Zealand where racing is currently conducted. Not require any Race Clubs to close but encourage them to race at another venue or merge with another Club.

2. Significantly improve the racing and facilities infrastructure at all remaining tracks over the next 6 years and build 3 synthetic racing and training tracks (including Cambridge) over the next 3 years, at an estimated total cost of about $190 million.

3. Fund all the proposed capital expenditure by the sale of surplus freehold racecourse land, grants from the Provincial Growth Fund for the synthetic tracks and co-funding by some Race Clubs. Clubs racing at retained venues (or NZTR as per recommendation 5 below) should also be required to sell any surplus freehold land holdings to help co-fund infrastructure investment.

4. Build an exceptional new racing and training venue in the Waikato within the next 8 to 10 years at an estimated cost of at

**GRNZ Response**

**SUPPORTS in Principle**

GRNZ believes that this is primarily a Thoroughbred issue and wishes to support our fellow Code in this matter.

However, GRNZ notes that this will have consequential impacts on Harness Racing New Zealand, and that that will have consequential impacts on GRNZ. Simply put, some Harness Tracks live inside Thoroughbred tracks, and some Greyhound tracks live inside Harness tracks.

As a result of this ‘domino effect; GRNZ suggests that the NZRB / Code led Future Venue Plan system be used as the vehicle for final consultation and processing the venue consolidation and investment plan - such that these ‘consequential issues’ can be managed simultaneously.

**SUPPORTS in Principle**

GRNZ believes that this is primarily a Thoroughbred issue and wishes to support our fellow Code in this matter.

GRNZ is supportive of moving forward with this process to a feasibility study. Final decisions should be made on this matter after the results of those studies have been determined.

**SUPPORTS in Principle**

Subject to its views on recommendation 5 below, GRNZ believes that this is primarily a Thoroughbred issue and wishes to support our fellow Code in this matter.

**SUPPORTS in Principle**

GRNZ is also supportive of a ‘Greenfields’ undertaking in the Waikato - on the basis that this is a tri-code venue.
least $110 million and then close and sell the Te Rapa, Cambridge and Te Awamutu racecourses to fund the development. There would then be 27 Thoroughbred venues racing in New Zealand.

5 To allow for recommendations 1 to 4 to be implemented, amend the Racing Act 2003 and any other relevant legislation to provide for the vesting in NZTR of the ownership of freehold racecourse land and other net assets of Race Clubs. This would allow NZTR, if it decided not to issue licences to a Race Club/s to hold any race meetings at a venue, to then take possession of the Race Club/s freehold racecourse land and sell the land with the proceeds being used to benefit the entire Thoroughbred racing industry. The proposed amendments to the Racing Act 2003 should also facilitate the ability of NZTR to negotiate loans, secured by the freehold racecourse land, to fund infrastructure investment before the freehold land of the closed venues is sold.

6 To introduce a simplified 3 Tier structure for New Zealand Thoroughbred racing and a simplified Prize money Matrix that will provide for about $110 million of prize money (up from $53.7 million in 2016/17 and an estimated $59.4 million in 2017/18), including 6th to 10th prize money, subject to the implementation of the other recommendations in this report. All races at the same meetings to have the same minimum prize money whether they be an Open Handicap or a Maiden race.

We note only that these matters have yet to complete business case testing and approval - and as such, we reserve the right not to proceed on the basis that the business casing is unsatisfactory.

**OPPOSES**

GRNZ believes that this is a genuine and good faith attempt to respond to poorly placed capital and infrastructure holdings in the Racing Industry ecosystem. However, GRNZ believes that this process will likely create resentment and legal challenge. Further, we recommend that the NZRB be tasked with moving forward on the Industry wide Future Venue Plan undertaking. This is designed to deliver the same outcomes for the Industry but allows for consultation and debate, which will more likely generate the hoped for outcomes.

**SUPPORTS in Principle**

GRNZ believes that this is primarily a Thoroughbred issue and wishes to support our fellow Code in this matter.

GRNZ simply notes that it assumes a fair and agreed uplift in the prize money available to both Harness and Greyhounds will also apply.
To introduce the measures described to reinforce the importance of good corporate governance practices by Race Club controlling Boards or Committees, to improve the Race Club management skills of CEOs and senior staff and to lift the NZTR minimum acceptable standards for racecourses in terms of the presentation of racing tracks, training tracks and facilities infrastructure. Increased attention should also be given to ensuring the adequate training of all Race Club staff and, in particular, track maintenance personnel.

**SUPPORTS**

GRNZ assumes there will be an all of Industry training fund for this activity across all 3 Codes.