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VOTE: RACING

1. SECTOR OVERVIEW: RACING

RACING PORTFOLIO

The Racing portfolio encompasses:

- the broad responsibility for the government's racing industry policy
- (until 31 July 2003) the statutory responsibility for the Racing Act 1971, including appointing members to:
 - the Racing Industry Board (RIB)
 - the Totalisator Agency Board (TAB)
- (from 1 August 2003 – on current planning) the statutory responsibility for the Racing Act 2003, including appointing members to the New Zealand Racing Board (NZRB).

ECONOMIC IMPACT OF RACING

Racing in New Zealand has a significant economic impact in terms of the nation's GDP, employment and exports:

- in 1994, NZIER estimated that, in 1992/93, the racing industry (including ancillary industries such as thoroughbred breeding) contributed approximately \$256 million to the New Zealand economy (0.34% of New Zealand's GDP at the time)
- NZIER estimated that in 1992/93, there were 5,764 full-time equivalents (FTEs) employed in the industry (0.45% of total FTEs in New Zealand at the time)
- in 2002, 2,712 racehorses (1,924 thoroughbred; 788 standardbred) were exported for either racing or race breeding, at a total value of \$129m.

SOCIAL IMPACT OF RACING

In 1995, it was estimated that racing clubs had approximately 50,000 members. Many of the smaller clubs that offer one or two race days each year have strong community backing and run popular picnic meetings. Such clubs often depend on voluntary labour to run their meetings and maintain facilities, which provide a focal point for their communities.

RACE DATES

The following table shows the number of totalisator licences allocated to each code for the current season and the previous four seasons. The number of gallops meetings has declined, the number of harness racing meetings has declined a little, and the number of greyhound meetings has increased.

Code	1998/99	1999/2000	2000/01	2001/02	2002/03
Gallopings	325	310	290	289	289
Harness	238	234	229	231	229
Greyhound	233	239	242	252	254
Total	796	783	761	772	772

GAMING AND RACE BETTING

Between 1997 and 2002, annual expenditure¹ on the main gaming sectors (race and sports betting, casinos, non-casino gaming machines and Lotteries Commission products) increased from \$973 million to approximately \$1.7 billion. Most of that growth related to casinos and non-casino gaming machines.

Expenditure on racing industry products totalled \$228m in 2002, a small increase on 2001. Expenditure peaked at \$232m in 1989, slipped to \$198m in 1993, but has maintained steady growth since then. However, it should be noted that these figures are not adjusted for inflation. Adjusted figures show that, in real terms, annual expenditure on racing industry products has declined by 27% since 1989.

An analysis of race and sports betting turnover² over recent years shows a number of significant trends:

- off-course race-betting turnover has maintained steady growth, as a result of increased opportunities to bet on overseas racing. Domestic off-course turnover has declined by 15.5% since 1997, while overseas turnover now accounts for almost a third of total off-course race-betting turnover
- on-course race-betting turnover has declined significantly, maintaining a downward trend from a peak of \$210m in 1988 to \$74.8m in 2002. Adjusting for inflation would accentuate the decline
- sports betting has grown rapidly since its introduction in 1996. It totalled \$105m in 2002, accounting for 9.5% of the TAB's total turnover.

¹ Expenditure means the gross amount wagered minus the amount paid out or credited as prizes or dividends (i.e. the amount lost or spent by players).

² Turnover is the total gross amount wagered by punters. It includes a 'churn' factor or re-investment where the same dollar is counted more than once. Turnover is not an indicator of the amount spent by players or the profit of the operator.

2. STRATEGIC AND LEGISLATIVE FRAMEWORK: RACING

Racing is almost entirely dependent on a gambling product for its continued viability. Gambling generally has many inherent risks (problem gambling, unfair games, opportunities for crime, etc.), and successive Parliaments have chosen to regulate it to minimise these risks.

The statutory framework for racing encourages industry bodies to exercise their significant powers responsibly, to foster the interests of a wide range of industry participants, and to be aware of the risks inherent in the gambling products on which the industry's viability is based.

RACING ACT 1971

The Racing Act 1971 provides the current framework for the regulation and governance of the racing industry. It establishes the RIB, TAB and Judicial Control Authority, permits totalisator and fixed-odds race and sports betting, and requires the RIB to distribute the TAB's monopoly betting profits to the racing clubs. The Act will be repealed when the Racing Act 2003 comes into force (likely to be 1 August 2003).

RACING ACT 2003

On 10 March 2003, the Racing Act 2003 received Royal assent. The Act will come into force on a date to be specified by the Governor-General by Order in Council. The government has indicated that this date will be 1 August 2003, to coincide with the start of the new racing season.

The Racing Act 2003 establishes a new legislative framework for racing. The New Zealand Racing Board will broadly assume the functions of the RIB and TAB. There is almost universal support for this 'merger' of the two current boards.

The Racing Act 2003:

- repeals the Racing Act 1971 and substitutes a simpler piece of legislation
- disestablishes the RIB and TAB and establishes a single body to take over their functions (including the TAB's race and sports betting functions)
- gives the three racing codes increased responsibilities, especially around expenditure and governance arrangements
- strengthens the accountability arrangements for industry bodies, including deeming the rules of racing to be regulations
- requires the Board to distribute betting profits to the three racing code bodies for onward distribution to their constituent racing clubs
- maintains horse racing's statutory judicial system (the Judicial Control Authority).

3. VOTE: RACING

Vote: Racing for 2002/03 and outyears is \$190,000 (GST exclusive).

The vote purchases policy advice and information on matters relating to racing and sports betting and on the racing industry generally, as well as draft replies to ministerial correspondence, parliamentary questions, Official Information Act requests, and Ombudsman's enquiries.

Policy advice also involves preparation of briefings and speech notes and the provision of support for the Minister as required in Cabinet committees, select committees and Parliament.

4. MINISTER'S ROLE: RACING

Under the Racing Act 1971, the Minister for Racing:

- appoints all members to the RIB and the TAB on the nomination of industry groups or other organisations or persons as prescribed by the Act
- tables the annual reports and statements of intent of both the RIB and TAB
- must approve or veto terms of reference and the auditor for the five-yearly performance and efficiency audits of the RIB and TAB
- may request the RIB to investigate any matter
- may veto RIB decisions on the rules of racing.

The Minister's role under the Racing Act 2003 will be similar to the Minister's current role under the Racing Act 1971.

In addition the Minister frequently receives submissions from organisations and individuals on a wide range of issues facing the industry, such as taxation, gaming and racing administration. In many cases, the Minister is viewed as a final "court of appeal" when stakeholders (e.g. racing clubs) disagree with the decisions of the various decision-making bodies (e.g. the allocation of race dates or funds). The Minister has no statutory role in these matters because most decision-making powers are delegated to industry bodies.

The Minister regularly meets with Australian state and territory racing ministers to discuss issues affecting the industry in this part of the world. The Australasian Racing Ministers' Conference meets once or twice a year. Recent agenda items have included the impact of Internet gambling and equine disease management.

5. DEPARTMENT'S ROLE: RACING

The Department provides policy advice and administrative support to the Minister, in respect of both the Minister's statutory responsibilities outlined above and any ad hoc issues. The Gaming, Racing and Censorship policy team is responsible for providing advice on matters relating to the Racing portfolio.

In 2002/03, the Department has provided advice and support on a range of topics including the Racing Bill, the Gaming Review, taxation issues, the economic development strategy and board appointments.

Under the Racing Act 1971 (and under the Racing Act 2003), the Secretary for Internal Affairs has the power to appoint inspectors of totalisators (called “government inspectors” under the Racing Act 2003). Although this power originated at the time of on-course mechanised totalisators (rather than the TAB’s unified computerised system), it still provides a useful means of checking the integrity of betting systems, should the need arise.

6. KEY ISSUES: RACING

RACING ACT 2003 IMPLEMENTATION

The Racing Act 2003 prescribes a lengthy appointments process that is especially protracted for the inaugural board because it is necessary to appoint a chairperson in advance of the three independent members. This is because the chairperson is a member of a ‘nomination advisory panel’, which makes recommendations to the Minister concerning these three appointments.

Appendix A shows an up-to-date timetable for appointments to the NZRB and for the commencement of the Racing Act 2003.

THE RESPONSIBLE GAMBLING BILL

The Responsible Gambling Bill has significant implications for racing, given that the racing industry’s viability is largely dependent on a gambling product.

As the Bill stands, it is by and large favourable to the racing industry. For example, it:

- preserves the TAB’s monopoly on race and sports betting
- gives the TAB a statutory monopoly on remote interactive gaming (i.e. race and sports betting via the Internet/TV)
- allows the TAB and racing clubs to operate gaming machines in TAB agencies and at racecourses (assuming they comply with other aspects of the licensing regime)
- enables the TAB to establish outlets in casinos (with the casino’s agreement)
- prohibits the advertising within New Zealand of overseas-based gambling opportunities (thus combating the activities of overseas bookmakers that make no contribution to New Zealand racing)
- restricts some of racing’s competitors for the betting dollar.

The Responsible Gambling Bill also places a number of new requirements on the racing industry. For example, racing will:

- require local authority approval for new TAB venues
- be levied to pay for a public health approach to problem gambling issues.

The Bill was reported back to Parliament by the select committee on 19 November 2002, and has been set down for its second reading.

TAXATION

Taxation matters are the responsibility of the Revenue Minister. Industry representatives regularly make representations to Ministers on both totalisator duty (there is an industry expectation that the government will reduce the rate of totalisator duty to produce what it considers “a level playing field”) and on the depreciation rates for bloodstock (breeders routinely argue for more favourable rates for bloodstock to encourage investment in the breeding industry).

ECONOMIC DEVELOPMENT

In 2001/02 the Minister for Racing and the Minister for Economic Development agreed to sponsor the initial work on an economic development strategy for the New Zealand racing and bloodstock industry.

PricewaterhouseCoopers (PWC) was commissioned to undertake a scoping study of the industry. In its report PWC recommended a fundamental reform of racing’s governance arrangements (a ‘rules-based commercial model’). The RIB established a working group to develop this idea, and it published a report in November 2002. The key recommendations of the Working Group Report were:

- the establishment of a single executive organisation, accountable to an independent Board, to undertake the present executive functions of the RIB, TAB and the three racing code bodies
- a single 5-year strategic plan for the industry, to which the executive organisation would be accountable, with commercial objectives for the growth of both the racing industry and TAB revenues
- an over-riding commercial objective of increasing, over five years, the percentage of owners’ costs covered by stake money from 33% to 66%.

The RIB consulted with the industry on the Working Group Report, and will pass the results of this consultation on to the New Zealand Racing Board for consideration.

7. CROWN ENTITIES AND STATUTORY BODIES

The Racing Act 1971 governs three statutory bodies (the Racing Industry Board, the Totalisator Agency Board and the Judicial Control Authority). There are no Crown entities, as defined by the Fourth Schedule of the Public Finance Act 1989, in the racing industry.

The Racing Act 2003 will disestablish the RIB and TAB, establish the NZRB in their place, and continue the JCA.

RACING INDUSTRY BOARD (RIB)

The RIB determines the deductions from the betting dollar and the distribution of TAB profits, allocates totalisator licences (thus determining the racing calendar), and may change or rescind any rule of racing that affects the welfare, image or integrity of racing. The RIB’s main officeholders are as follows:

- President – Rick Bettle
- Acting Chief Executive – Jim Leach

TOTALISATOR AGENCY BOARD (TAB)

The TAB was established in 1950 to resolve problems associated with illegal off-course bookmaking. Today it has an effective monopoly on both race betting and sports betting. All TAB profits are returned to the industry (mainly the clubs) through the RIB. The TAB's main officeholders are as follows:

- President – Rick Bettle
- Transition General Manager – Jim Leach

The TAB's financial performance for 2001/02 can be summarised as follows:

- TAB betting turnover - \$1,107.4 million
- winning dividends returned to punters - \$894.7 million (or 81% of turnover)
- deduction of levies - e.g. on-course development levy - (\$3.7 million) and deduction of sporting body royalties (\$1.8 million)
- payment of duty and GST - \$36.4 million and \$22.2 million respectively
- total operating revenue - \$158.1 million (includes additional income of \$9.6m)
- the TAB's total operating revenue was applied as follows:
 - TAB operating expenses - \$94.2 million
 - RIB costs - \$2.2 million
 - club product payment (i.e. payment to racing clubs) - \$56.4 million.
- TAB net deficit of -\$1.4 million (deficit due to abnormal item – asset revaluation of -\$6.7m).

From the above summary, it can be noted that for 2001/02, racing clubs received \$56.4 million from the TAB. Racing clubs paid \$53.8m in gross raceday stakes for 2001/02.

NEW ZEALAND RACING BOARD

From 1 August 2003, the New Zealand Racing Board will effectively take over the role of both the RIB and the TAB. The Racing Act 2003 prescribes the following functions:

- (a) to develop policies that are conducive to the overall economic development of the racing industry, and the economic well-being of people who, and organisations which, derive their livelihoods from racing
- (b) to determine the racing calendar each year, and issue betting licences
- (c) to conduct racing betting and sports betting, and make rules relating to betting
- (d) to distribute funds obtained from betting to the racing codes
- (e) to administer the racing judicial system

- (f) to develop or implement (or arrange for) programmes for the purposes of reducing problem gambling and minimising the effects of that gambling
- (g) to undertake (or arrange for) research, development and education for the benefit of New Zealand racing
- (h) to use its resources for purposes that will directly or indirectly benefit New Zealand racing
- (i) to keep under review all aspects of racing and to advise the Minister of those aspects
- (j) any other functions that it is given by or under the Racing Act 2003 or any other Act.

JUDICIAL CONTROL AUTHORITY (JCA)

The JCA, established in 1996, appoints judicial panels for harness and thoroughbred race meetings and to hear non-raceday enquiries relating to the rules of racing (e.g. horse ownership issues, racehorse doping, etc). It also appoints tribunals to hear raceday and non-raceday appeals. Greyhound racing judicial panels are appointed in accordance with the rules of greyhound racing, and are not part of the racing judicial system mandated by statute.

8. KEY RACING INDUSTRY STAKEHOLDERS

STATUTORY BODIES

As noted in the previous section, the Racing Act 1971 governs:

- the Racing Industry Board
- the Totalisator Agency Board
- the Judicial Control Authority.

From 1 August 2003, the Racing Act 2003 will govern:

- the New Zealand Racing Board
- the Judicial Control Authority.

THE RECOGNISED INDUSTRY ORGANISATIONS

The racing legislation (1971 and 2003) identifies over 140 “Recognised Industry Organisations”. These include the three racing code bodies, numerous racing clubs (galloping, harness or greyhound) and several sector groups:

Racing Code Bodies

The governing bodies of the three racing “codes” are New Zealand Thoroughbred Racing, Harness Racing New Zealand and the New Zealand Greyhound Racing Association. The racing code bodies are sometimes referred to as the “conferences” because they are associations of racing clubs that meet at an annual conference. The code bodies are responsible for the rules of racing, and for the licensing and registration of all racing participants (e.g. horses, greyhounds, trainers, breeders, jockeys, drivers etc.).

The codes' main officeholders are as follows:

New Zealand Thoroughbred Racing

Chairman: Murray Acklin

Chief Executive: Allan Fenwick

Harness Racing New Zealand

Chairman: Jim Wakefield

General Manager: Edward Rennell

New Zealand Greyhound Racing Association

President: Jeremy Kennerley

Chief Executive: Jeff Lenz

Racing Clubs

Racing clubs promote, conduct and control race meetings in accordance with the relevant rules of racing. They are mostly incorporated societies. There are approximately 70 thoroughbred racing clubs currently holding licences to conduct totalisator race meetings, 50 harness racing clubs and 9 greyhound racing clubs.

Sector Groups

The following sector groups represent the interests of various industry professionals and other participants, and are recognised by the Racing Act 1971 (and by the Racing Act 2003):

- New Zealand Racehorse Owners' Federation
- New Zealand Thoroughbred Breeders' Association
- New Zealand Trainers' Association
- New Zealand Jockeys' Association
- New Zealand Standardbred Breeders' Association
- New Zealand Harness Racing Trainers' and Drivers' Association
- New Zealand Trotting Owners' Association.

OTHER STAKEHOLDERS

Other racing industry stakeholders include:

- New Zealand Bloodstock Ltd - New Zealand's premier thoroughbred sales company. In January / February each year it runs the national yearling sales series at Karaka, which is the focal point of New Zealand's bloodstock activities
- the Association of Provincial Racing Clubs – a newly formed lobby group that claims to represent more than half the galloping clubs and their associated communities

- Racing Support New Zealand - a predominantly rural racing lobby group
- New Zealand Thoroughbred Marketing Ltd (NZTM) – a body established in 1997 to market the New Zealand thoroughbred industry to domestic and international markets. NZTM is funded by industry contributions
- the Problem Gambling Committee - a charitable trust funded partly by a levy imposed on non-casino gaming machines and partly by contributions from the racing industry, the casinos and the Lottery Grants Board. Its primary function is the purchase of problem gambling services. It receives statutory recognition under the Gaming and Lotteries Act 1977.

APPENDIX A

NZRB APPOINTMENTS / RACING ACT 2003 COMMENCEMENT: INDICATIVE TIMETABLE

Date	Appointment of Chair & Code Nominees	Appointment of Other Members
28 March	Minister to identify desired skills and qualifications of persons for appointment to the NZRB [s12(3)(a)]	
	Notice sent to recognised industry organisations, government members and relevant government departments and agencies inviting nominations for appointment to the NZRB [s12(3)(a)]	
28 March		Nominations invited
30 April*		Closing date for receipt of nominations
by 9 May		Instructions to PCO to draft a commencement order
by 13 May	Minister to consult with industry on appointment of chairperson [s11(1)(a)]	
27 May		Minister to send list of nominated persons to recognised industry organisations [s12(3)(c)]
29 May - 9 June		Codes to consult with affiliated recognised industry organisations on list of nominees [s12(3)(d)] <i>N.B. Min. 7 days for consultation</i>
11 June / 16 June	APH & Cabinet consideration of paper proposing appointment of chair & three code nominees	
12 June / 16 June	LEG & Cabinet consideration of paper proposing commencement of Racing Act 2003 by Order in Council	
17 June	Minister appoints chairperson & three code nominees	
Week commencing 23 June		Nomination Advisory Panel meets & recommends appointment of three members [s12(2)]
27 June		Governor-General signs Commencement Order
2 July / 7 July		POL (for APH) & Cabinet consideration of paper proposing 3 appointments
3 July		Notification of Commencement Order published in <i>Gazette</i>
1 August		Commencement of Racing Act 2003