

One Racing: Industry Taskforce Report

A fresh start – a change for good

November 2009



Foreword

Racing is an exhilarating sport that attracts (and employs) people from all walks of life, in all manner of roles from stable hands to trainers, jockeys to owners and administrators to punters.

It's an industry that has a proud and successful heritage. Despite this, we are having to work harder to attract and keep customers by giving them an unparalleled experience that in turn enables the industry to flourish.

This requires a critical examination of our industry structure to determine whether it's in optimal shape to meet the needs of our changing – and challenging – times.

Today, racing is part of a global entertainment industry that's getting more competitive each day and we have to respond to these pressures.

Not only must our industry be successful locally, it must succeed internationally.

During its deliberations, the Industry Taskforce considered developments in other racing jurisdictions, particularly Australia where significant reform is occurring.

Racing codes around the world are recognising that yesterday's solutions are not suitable for today's challenges.

In our case, New Zealand Thoroughbred Racing does not have sufficient authority or resources to do justice to our industry.

We need to address our weaknesses:

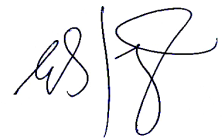
- competing leadership;
- complex and fragmented decision-making processes; and
- duplication of costs.

The recommendations in this report address these problems.

Racing needs strong and decisive leadership, a coherent and consistent vision and strategy, and the ability to implement that strategy quickly.

I encourage all stakeholders to set aside partisan or parochial views and to keep an open mind when considering the recommendations in this report.

It's time for a fresh approach.



Guy Sargent
Chairman, New Zealand Thoroughbred Racing

Introduction

New Zealand racing is an economic powerhouse supporting 18,000 full-time jobs. Our industry may be strong and resilient, but we are not well positioned to tackle the many challenges we face.

If we want to continue to grow and to prosper, we need to change.

The racing industry needs to:

- eliminate duplication of costs;
- streamline decision-making; and
- become more efficient.

This is not an easy task as demonstrated by the multitude of unheeded calls for restructure over the past six decades.

But it is a task that industry leaders are determined to complete for the long-term benefit of all racing stakeholders who stand to gain from a world-class racing industry that's cost effective, efficient and guided by strong leadership.

This report is a blueprint for making a great sport even greater. It lays out a framework that will allow the racing industry to think strategically, act decisively and work for the long-term sustainability of the industry.

It is important to note that this report does not dwell on the problems inherent in the current industry organisational structure. These have been canvassed in detail in numerous government and industry reports over the years.

Instead, this report focuses on the huge benefits to be gained from implementing long overdue changes to the industry structure and operations.

The report calls for the creation of a new organisation – “Racing and Wagering New Zealand” – to make more efficient use of resources and provide more effective leadership.

Now is time for action.

The price of doing nothing is far too high, not just for individual codes, but for the industry as a whole.

Let's make racing more cost effective, more efficient and more successful.



Michael Stiassny
Chairman, New Zealand Racing Board

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Industry Taskforce

This report summarises the findings of an Industry Taskforce set up to identify savings by integrating the management activities of New Zealand Thoroughbred Racing and the New Zealand Racing Board, through the establishment of a shared services model.

The Taskforce notes that the greatest efficiencies would be achieved if Harness Racing New Zealand and the New Zealand Greyhound Racing Association were also involved in the integration of back office services.

The report also recommends the creation a new governance body – “Racing and Wagering New Zealand” – that would reposition the industry for considerably improved performance.

The success of the racing industry depends on all the racing codes and constituents working more closely together to derive maximum benefit from their collective resources and assets.

The Taskforce strongly recommends that all stakeholders set aside partisan or parochial issues when considering this report.

Taskforce membership

The taskforce was formed in May 2009 following the recommendations of the New Zealand Thoroughbred Racing governance review that was completed in April 2009.

The Taskforce members include:

- Sir Patrick Hogan
- Bill Gianotti
- Kevin Hickman
- Kerry Hoggard
- Guy Sargent
- Michael Stiasny
- Alistair Sutherland
- Andrew Brown

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Executive summary

1 Background and objectives

Item	Summary
Terms of reference	<ul style="list-style-type: none">• Identification of operational savings that would accrue from integrating the management activities of New Zealand Thoroughbred Racing and the New Zealand Racing Board.• To recommend an organisational structure that would yield such savings. <p>(Note: The greatest efficiencies would be achieved if Harness Racing New Zealand and the New Zealand Greyhound Racing Association were also involved in the integration.)</p>
Objectives	<ul style="list-style-type: none">• The desired outcome for the taskforce is a governance structure for the racing industry that is:<ul style="list-style-type: none">○ More efficient in terms of utilisation of industry resources○ More effective in providing the leadership to assure industry sustainability and success
Context	<ul style="list-style-type: none">• Social and economic forces are negatively impacting the racing industry;• The industry is too focussed on internal territory or sovereignty issues;• The industry structure causes unnecessary costs, and deprives investors of optimum returns;• The industry structure is complex and ill equipped to quickly address emerging issues;• The industry has frustrated the implementation of most of the recommendations of various government and industry investigations and reports over the past six decades.• The representative model on which industry body appointments are made is outdated;

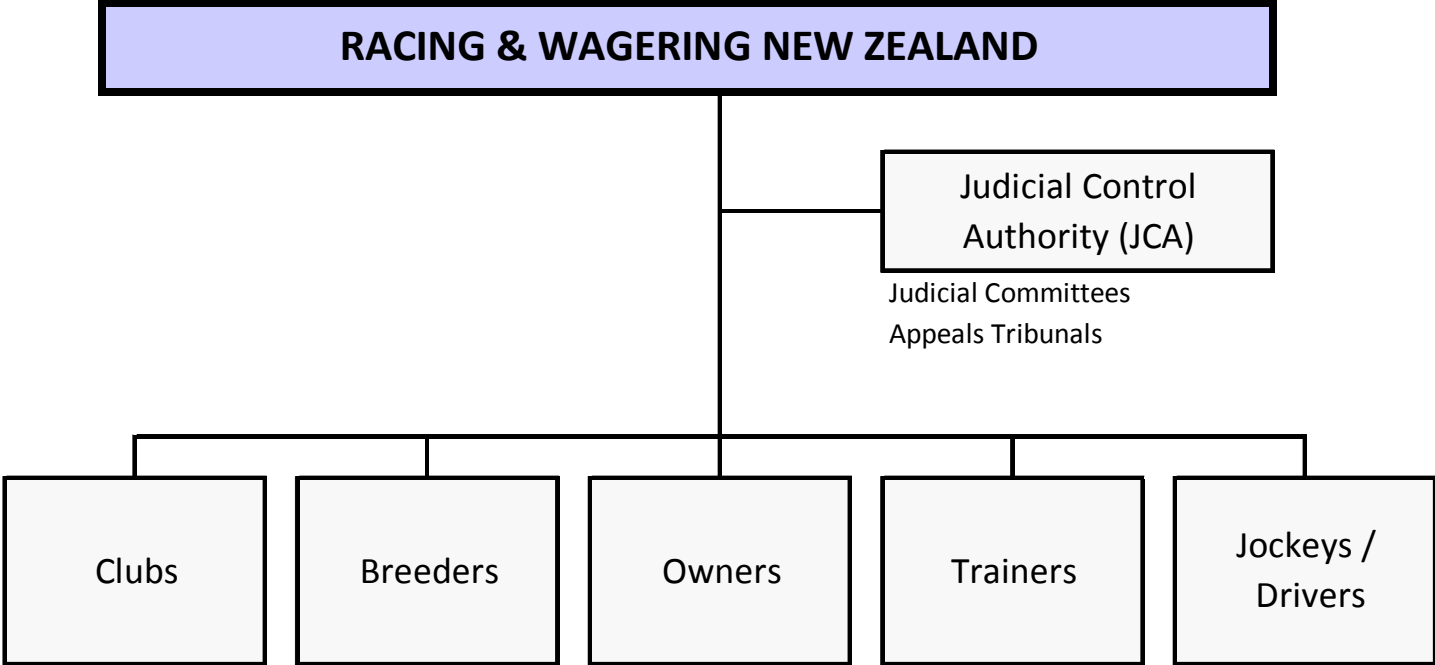
2 Key findings

Area	Key findings / observations
Cost savings	<ul style="list-style-type: none"> • Cost savings of at least \$7 million per year would be made by sharing services across the four industry administration bodies. • The adoption of a one industry approach will lead to additional savings in how the industry organises the delivery of its product, i.e. regional and club costs. The Taskforce expects this to achieve ongoing savings of at least \$4 million a year. • The adoption of the Taskforce recommendations is expected to deliver total savings of more than \$11.6 million a year. This should be considered in the context of total stakes payments in the current season of \$90 million.
Establishment costs	<ul style="list-style-type: none"> • A one-off transitional cost of \$4.1 million would be incurred to establish and optimise a shared services model for the four industry administration bodies (NZ Racing Board, NZ Thoroughbred Racing, Harness Racing NZ and NZ Greyhound Racing Association).
Accountability of other parties	<ul style="list-style-type: none"> • Other parties involved in the racing industry must address difficult operational decisions if the three racing Codes and New Zealand Racing Board accept accountability for the industry's future performance.

3 Key recommendations

Area	Key recommendations
Shared services	<ul style="list-style-type: none"> • New Zealand Thoroughbred Racing, Harness Racing New Zealand, New Zealand Greyhound Racing Association and the New Zealand Racing Board adopt a shared services model to make more efficient use of people and capital and save \$7 million a year in costs.
Governance	<ul style="list-style-type: none"> • NZ Thoroughbred Racing, Harness Racing NZ, NZ Greyhound Racing Association and NZ Racing Board seek the appropriate legislative environment to establish a new industry body – “Racing and Wagering New Zealand”.
Transition	<ul style="list-style-type: none"> • Establish a Racing Council to manage the transition process with the following representation: <ul style="list-style-type: none"> ○ 3 appointees nominated by NZ Thoroughbred Racing ○ 2 appointees nominated by Harness Racing NZ ○ 1 appointee nominated by NZ Greyhound Racing Association ○ Chairman of NZ Racing Board • The Racing Council will: <ul style="list-style-type: none"> ○ monitor the transition process ○ in conjunction with a reputable agency be responsible for assessing and appointing seven to nine Directors to Racing and Wagering New Zealand (the Minister of Racing selecting the Chairman from the appointed directors); and ○ if the shared services model is endorsed by all bodies, begin identifying and implementing cost reduction opportunities in the delivery of racing product.

Draft structure of one industry entity



Racing and Wagering New Zealand will incorporate all operational functions including the Industry Integrity Unit, wagering, broadcasting, racing, IT, finance, communications, marketing and publications.

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Background

New Zealand Thoroughbred Racing commissioned a review of its governance structure and effectiveness which was carried out by BoardWorks International, and published in April 2009.

The primary recommendation of that review was that New Zealand Thoroughbred Racing should work with the New Zealand Racing Board to create a new organisation to combine operational management and governance functions.

The wider conclusions and recommendations of the governance review provide a coherent summary of the advantages that would be derived through changes to the current multi-layered governance structure of the racing industry.

Key conclusions and recommendations are highlighted in the following paragraphs:

“What is required in order to take the industry forward is a governance structure that is more efficient in terms of the utilisation of industry resources, and more effective in providing industry-wide leadership needed to assure sustainability and success.”

“In various consultations with thoroughbred industry participants, it became apparent that many had an inclination to the formation of a tri-code governance model.”

The principal reasons for proposing that New Zealand Thoroughbred Racing seek to integrate its affairs with the New Zealand Racing Board are that:

- The Racing Board controls many of the decisions that go to the heart of the viability and future of the thoroughbred racing industry; and
- New Zealand Thoroughbred Racing cannot meet its own responsibilities, not only because it does not have sufficient authority, but the resources upon which thoroughbred racing depends are largely ‘handed down’ from the Racing Board.

The BoardWorks report also said:

“Removing the NZ Thoroughbred Racing ‘layer’ of governance would improve efficiency by removing some costs. More importantly however, by removing a layer of decision making in the industry, it would increase accountability – both at NZ Racing Board and at club/cluster level.

“To advance the recommended new enterprise option, it is recommended that an integration taskforce be formed. Its brief would be to scope, plan and implement the integration option.”

This “One Industry” concept has been accepted by the New Zealand Thoroughbred Racing Board.

The move from two tiers of governance to one improves strategic capability and encourages a broader overview of the industry.

This also enables better information sharing and collaborative decision-making that will benefit the entire industry, as well as yielding day-to-day operational efficiencies and savings.

As a first step toward this outcome, the New Zealand Thoroughbred Racing Board resolved to integrate as much of its operation with the New Zealand Racing Board as makes financial sense.

The Racing Board agreed to support this approach. A taskforce was then convened to identify benefits and facilitate outcomes.

Terms of reference

The original primary focus of work to be addressed by the Industry Taskforce was the identification of operational savings that would accrue through the integration of management activities of New Zealand Thoroughbred Racing and the Racing Board, and to provide a recommendation of an organisational structure that would yield such savings.

It has become clear that the greatest efficiencies will be derived if Harness Racing New Zealand and the New Zealand Greyhound Racing Association were also parties to an integration of industry governance functions.

Objectives

As proposed by the BoardWorks governance review, the targeted outcome for the taskforce is a governance structure for the racing industry that is:

- More efficient in terms of utilisation of industry resources.
- More effective in providing the leadership to assure industry sustainability and success.

Industry governance

The New Zealand racing industry has a complex governance structure with duplication of roles and responsibilities and lengthy decision-making processes.

In turn, this imposes significant costs upon the industry and hampers the ability of the industry to utilise its resources in response to changing economic times, for the benefit of the industry's participants.

At the top of the governance structure is the New Zealand Racing Board which is responsible for funding and promoting the racing industry and looking after the wellbeing of its participants.

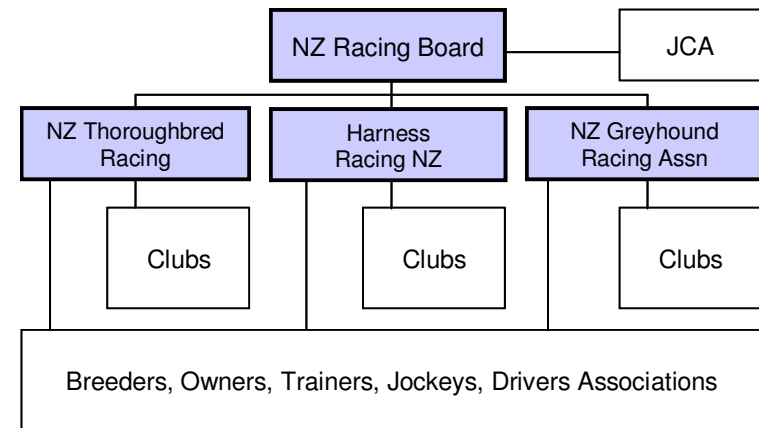
However, the Racing Board does not have decision-making authority over the industry (apart from funding and deciding the racing calendar).

Each body or club is able to make decisions according to its objectives/charter and the will of its board or committee. This distribution of authority is seen by some as an impediment to the implementation of a coherent industry strategy.

In this context, the ability of each industry body to implement its decisions and strategies usually depends on the cooperation of other entities.

The absence of a shared industry strategy and sometimes conflicting objectives often makes effective collaboration difficult to achieve.

New Zealand racing industry governance structure



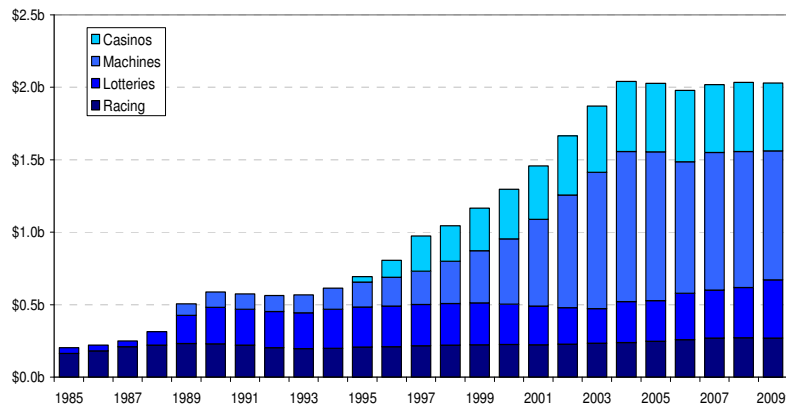
The current operating environment

New Zealand's gambling entertainment market has changed dramatically since the mid-1980s when wagering on racing dominated the scene.

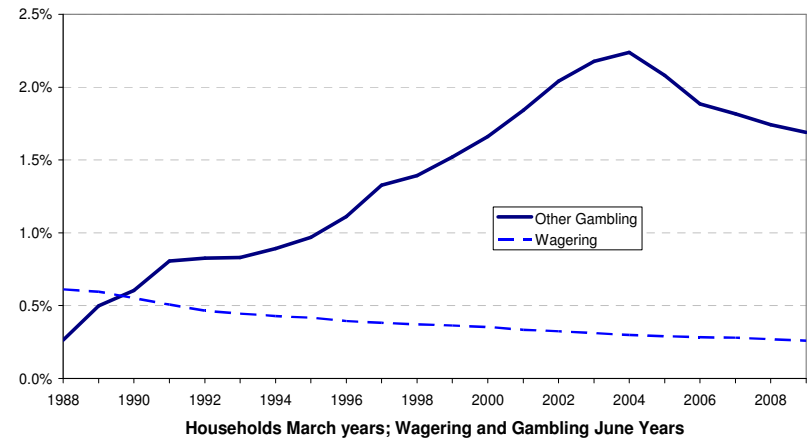
The addition of Lotto in the late 1980s and gaming machine and casino growth from the mid-1990s saw New Zealand's total gambling expenditure¹ peak at \$2 billion in 2004.

Since then, tighter rules in the Gambling Act 2003, smoking bans in pubs and clubs, and recent recessionary factors have impacted on gaming machine revenues and curbed growth in overall gambling expenditure. Lotteries have been the only sector recording any significant growth in recent years.

Total net expenditure¹ on gambling in New Zealand



Net expenditure¹ on gambling as a percentage of household spending

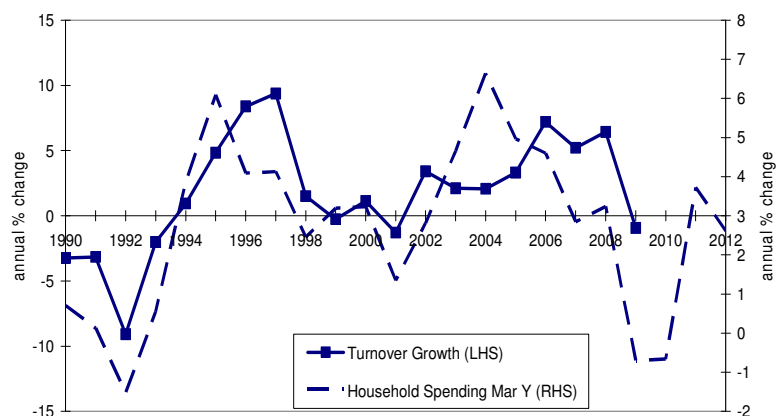


From 1998 to 2004, gambling expenditure¹ grew as a percentage of household spending, but has since been in decline (due to the reasons cited above).

Wagering spend has also been in relative decline which suggests that new or different gambling types are not substituting other types.

¹ Gambling expenditure is defined as the aggregate net spend by New Zealanders. It is the total amount wagered less dividends or other winnings returned.

Wagering turnover and household spending growth



Source: Statistics NZ, NZRB, NZIER

Generally, wagering turnover has only grown at about one-third the rate of household spending.

Household spending growth is forecast to be weak for the next three years.

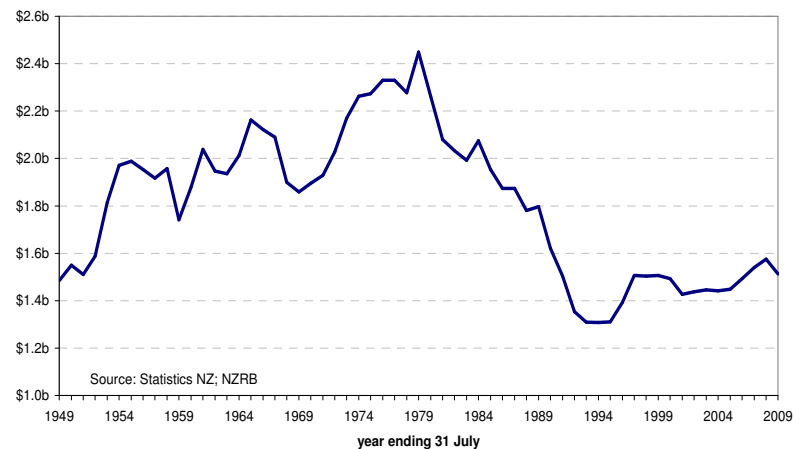
Over the long-term, wagering turnover has failed to keep pace with inflation and this has caused even greater problems with club profitability, given that costs have continued to rise with inflation. Last season, total turnover was the same as it was in 1951 (the year TAB was first set up) when adjusted for inflation.

There have been sharp declines in real turnover during recessions (1959, 1969, 1980, 1990, and 2008).

In addition, society changed a great deal from 1980 onwards – Saturday working and shopping, opening up of the economy to more choices for spending – internet, CDs, DVDs, eating out, mobiles, computers, international travel – all examples of spending that was far less prevalent (or not available) in 1980.

Wagering has to compete in a far more demanding discretionary spending space than 30 years ago.

Total turnover adjusted for CPI – 2009 prices



Source: Statistics NZ; NZRB

In addition to domestic economic pressures, leakage of wagering offshore is prevalent and growing.

New Zealanders wagered over \$250 million a year with offshore bookmakers, according to estimates in early 2008.

This could now be as much as \$300 million driven by further growth in broadband uptake and advertising in Australia.

Wagering leakage is a direct cost to the New Zealand racing industry and has been fuelled by greater product offerings, better prices for punters, higher levels of service - hours and technology, credit betting and rebating.

Offshore bookmakers profit with little or no contribution to the New Zealand racing industry.

Some may see this as an issue for the New Zealand Racing Board to counter, but in reality this and other challenges would be most effectively tackled by concerted efforts of the industry as a whole.

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The case for change

Decades of social and economic change have created ongoing pressures on New Zealand's racing industry and the industry hasn't kept up with these changes.

To respond to these pressures, various stakeholders have called for major restructuring of the industry (particularly during periods of decline) to become more efficient, agile and sustainable.

These calls for restructuring have included three major government reports (Finlay 1946, McCarthy 1970, McIlroy 1991) and many industry generated reports. See **Appendix A** for more details of each report.

In summary, these independent expert reports have recommended that:

- the racing industry faces up to the reality that it is not ideally positioned to adequately cope with the social and economic forces that it confronts; and
- the governing bodies of the industry, by nature of design, are ill-equipped to reposition racing for improved performance.

Despite the forcefulness and logic of the arguments for change, the racing industry has not implemented many of the major recommendations for restructuring.

This is mainly due to the fragmented nature of the industry.

"This is an industry with an infrastructure designed to support the dynamics of an earlier era.

"In our view the key issues stem from governance arrangements and the structure of the racing sector."

"The status quo is not an option if the Industry wants to prosper and create a base from which development opportunities can be leveraged."

"New Zealand Racing and Bloodstock Industry"
(PriceWaterhouseCoopers July 2002)

The Industry Taskforce has adopted the view that the various governing bodies of racing must consolidate their resources to:

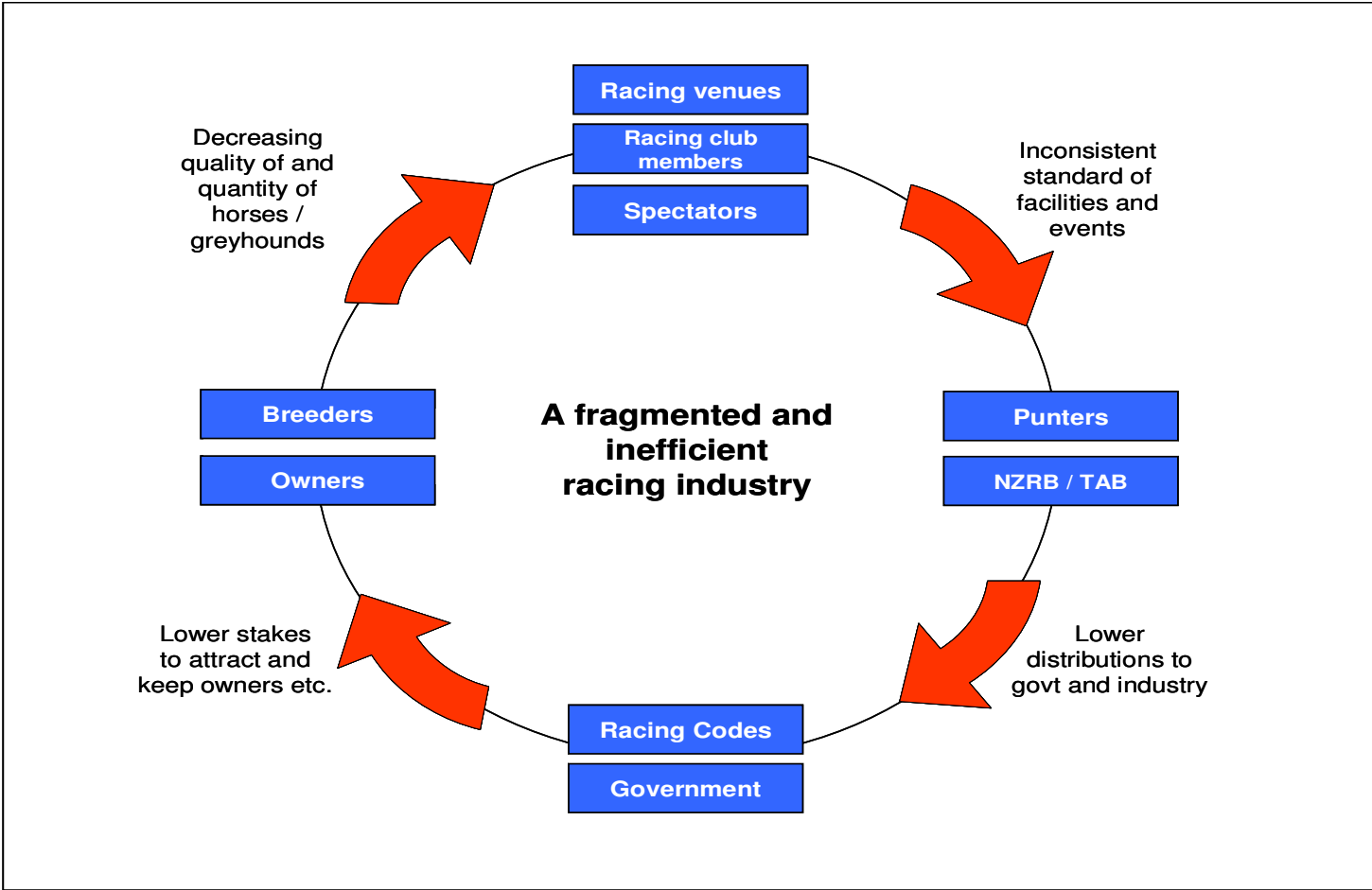
- reduce duplication of costs;
- streamline decision-making; and
- become more efficient.

These changes are necessary for racing to fully realise its potential for the benefit of all stakeholders associated with the three racing codes – thoroughbreds, harness racing and greyhounds. The changes are also needed to make effective use of people and capital and to provide the best possible experience for clubs, members, owners, breeders, trainers, jockeys, sponsors, betting agents, punters and taxpayers.

Racing needs strong and decisive leadership, a coherent and consistent vision and strategy, and the ability to implement that strategy quickly.

The current industry arrangements do not allow for this to happen.

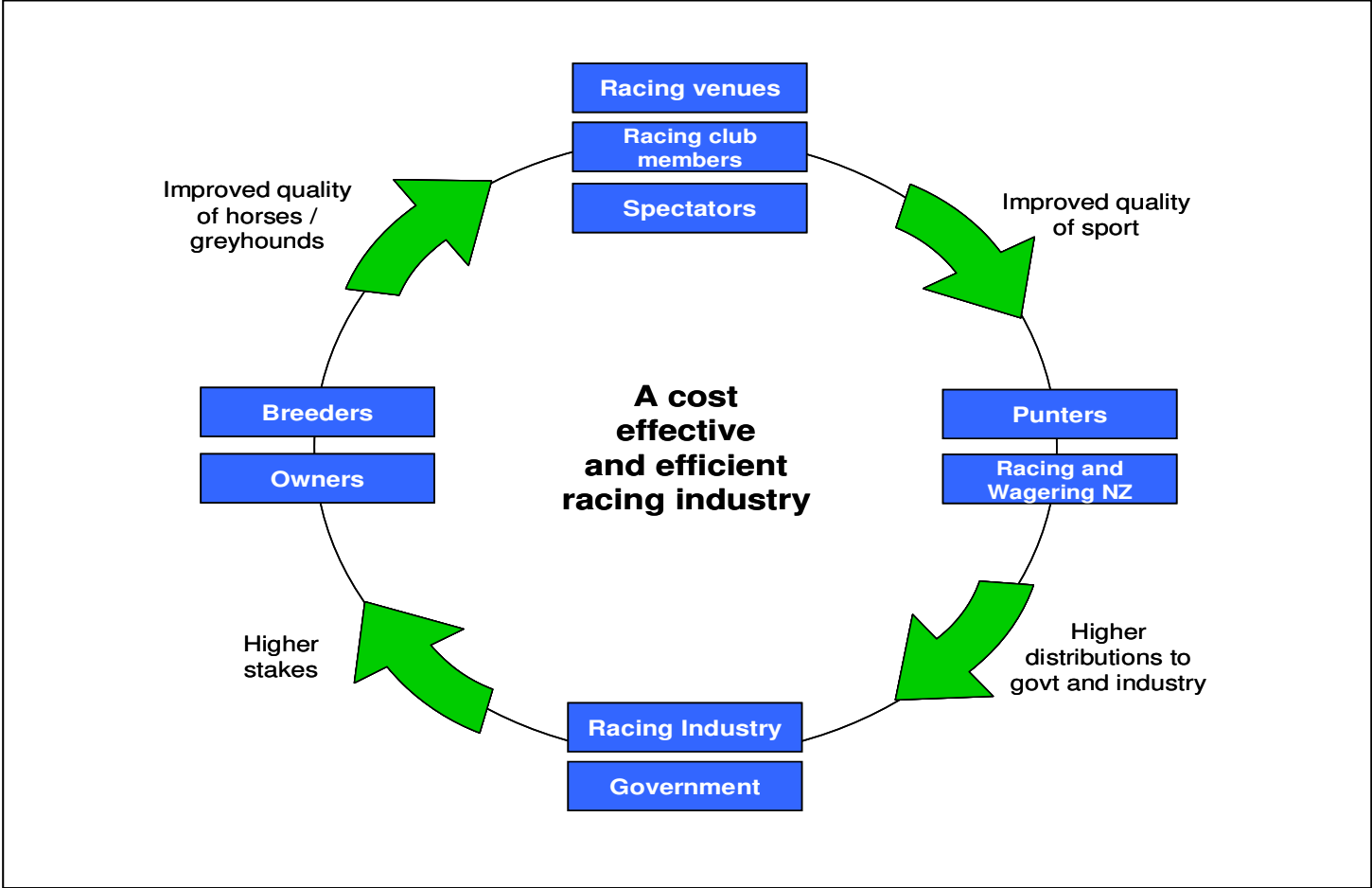
Summary of a fragmented industry



The rationale for change can be summarised as follows:

Proposed change	Rationale / benefits
Integration of specific functions into a shared services entity.	<ul style="list-style-type: none"> • Significant cost savings (up to \$7 million per year by sharing services across the four industry administration bodies). • Ongoing savings of at least \$4 million a year from one industry approach to delivery of product.
Orderly transition to single governing body and shared services model.	<ul style="list-style-type: none"> • Fair and equitable representation of each code • Transparent and accountable transition process • Early identification and exploitation of cost savings in the delivery of racing product.
Formation of a single governing body.	<ul style="list-style-type: none"> • More effective governance (i.e. leadership and accountability of the industry). • Clearer and more effective decision-making processes. • More efficient use of resources (people and capital) to respond to changing economic times, for the benefit of the industry's participants (especially owners). • Removal of existing barriers to development and implementation of a coherent industry strategy. • Removal of conflicting objectives of disparate bodies, making effective collaboration much easier. • Clearer roles and responsibilities for industry participants.

Benefits of a cost effective, efficient industry



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Cost savings

The full amalgamation of the functions of the New Zealand Racing Board, New Zealand Thoroughbred Racing, New Zealand Greyhound Racing Association, and Harness Racing New Zealand, and creation of a new governing body would provide potential savings of at least \$7.6 million.

These savings would be made up of:

- \$7.0 million from a shared services model
- \$0.6 million from a single governing body

It is estimated that the one-off transitional costs of implementing new business processes and restructuring staffing would be approximately \$4.1 million, mainly incurred in the first year of amalgamation.

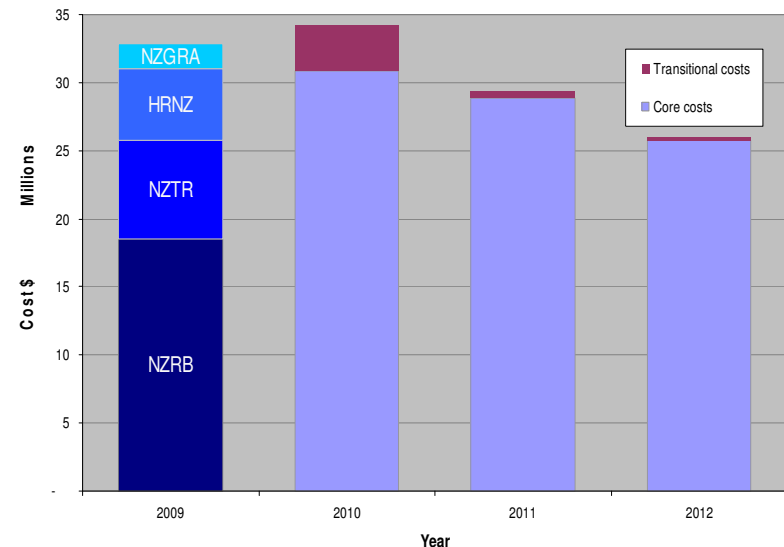
Total savings, assuming a full amalgamation of activities, executive and governance, are shown in the following tables.

The first shows the status quo cost structure of \$32.8 million² (based on 2007/08 financial accounts), decreasing to a target industry administration cost structure of \$25.8 million. Estimated transitional costs are overlaid.

² The \$32.8 million relates to operating expenses that are within the scope of a shared services model, and excludes NZRB broadcasting and retail and wagering activities.

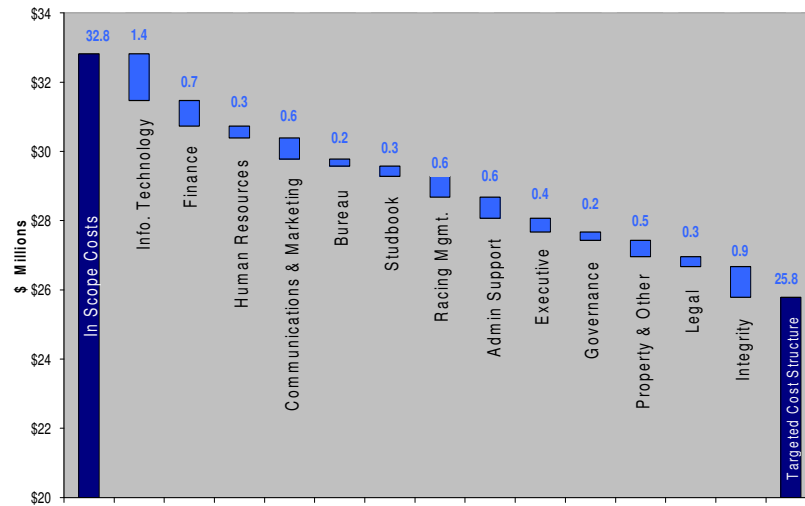
Appendix B provides a full description of “in scope” and “out of scope” expenses.

Total cost targets for industry shared services 2009 to 2012



The graph below indicates the targeted annual savings that would be derived, by activity type, by 2012 if the cost structure of \$25.8 million is achieved.

Targeted cost savings from 2009 – 2012



All of the above savings targets are derived from analysis of the core activities undertaken by each racing body and the detail of this analysis is outlined in **Appendix B**.

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Full shared services model

The Taskforce was charged with identifying the operational savings that would accrue from integrating the management activities of New Zealand Thoroughbred Racing and the New Zealand Racing Board.

However, the greatest efficiencies would accrue if Harness Racing New Zealand and New Zealand Greyhound Racing were involved in amalgamating administrative functions.

The three racing codes share the same essential functions in common, including:

- Drafting and approval of Rules of Racing
- Integrity services (stipendiary stewards and racecourse inspectors)
- Drug sample collection
- Participant licensing
- Registration / studbook / DNA
- Racing administration including nominations & acceptances
- Ownership initiatives
- Communications, marketing & publishing
- Track & Facility inspection

While it is healthy to see competition between the racing codes for members and sponsors, they should be united in the objective to maximise the wagering dollar and to operate efficiently so that Industry returns, specifically returns to owners, are maximised.

In addition, there are few barriers to sharing intellectual capital and no requirement to differentiate each code in terms of the quality of back office support.

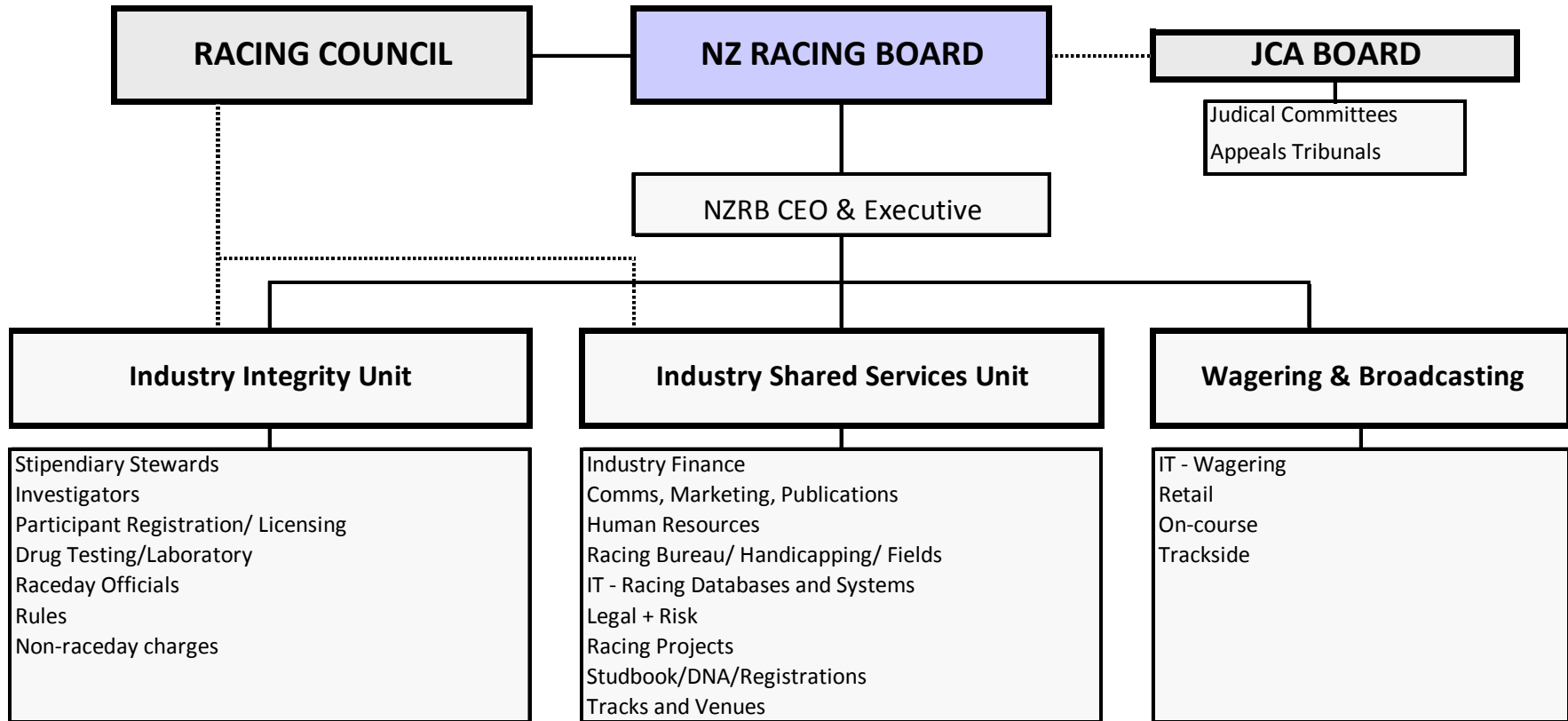
Quality of services

The quality of the service provided under a shared service model must be maintained or improved. To achieve this, the following steps must be taken:

- Full ownership and buy-in from the racing codes (and staff)
- Appropriate recognition of the level of effort / commitment required throughout implementation
- Provision of sufficient training and support for any new functions
- Effective communication of changes to all stakeholders

The diagram on the next page shows how a shared services model would be structured to provide greatest benefit for the New Zealand Racing Board and the three racing codes.

Draft structure of industry shared services administration



Key points of the structure:

- Industry Shared Services Unit to provide the functions as listed on the chart.
- Industry Integrity Unit shown separately, but also regarded as a shared service.
- The Racing Council would be formed with the following representation:
 - 3 appointees nominated by NZ Thoroughbred Racing
 - 2 appointees nominated by Harness Racing NZ
 - 1 appointee nominated by NZ Greyhound Racing Association
 - Chairman of NZ Racing Board

The Racing Council would oversee transition through to the shared services model, and in conjunction with a suitably qualified selection agency would be responsible for assessing and appointing seven to nine directors to a new statutory body (Racing and Wagering New Zealand), with the Minister of Racing selecting the Chairman from the appointed directors.

In accord with the preceding diagram, the Industry Shared Services Unit would incorporate those elements of the New Zealand Racing Board that are not specifically centred on Wagering and Broadcasting.

Those activities are excluded on the basis that there is little synergy with the functions of the three racing codes.

More general Racing Board functions such as Racing Management, Finance, Human Resources, Communications and IT Management & Office Support are included, as there is benefit to be gained by the inclusion of these units in the shared services environment.

With respect to the racing Codes, all administrative functions are considered for inclusion in the Industry Shared Services Unit, with the exception of stewarding and other integrity functions which are included in the proposed Industry Integrity Unit.

The split of functions outlined are intended to allow savings estimation, and would not necessarily reflect the organisational divisions of a shared services unit.

Significant operational savings have been targeted on an activity by activity basis, with the aim that over a one to three-year period, the operational and staffing requirements of the unit can be optimised.

The following table shows the targeted annual savings by business activity, which would be achieved by year three.

In addition, the table shows the aggregate one-off costs to implement these savings, identified as 'transitional costs'.

Annual operational savings of \$7.0 million are targeted, which would cost an estimated aggregate of \$4.1 million to implement.

Set against 2009/10 total industry stakes payments of \$90 million, these savings would provide material benefits to the industry.

	Salary Savings (\$000's)	Systems Savings (\$000's)	Other Savings (\$000's)	Total Savings (\$000's)	Aggregate Transitional Costs (\$000's)
Info. Technology	810	546	-	1,356	2,000
Finance	528	212	-	740	500
Human Resources	228	-	108	336	175
Communications & Marketing	120	-	493	613	100
Bureau	144	56	-	200	200
Studbook	180	120	-	300	200
Racing Management	300	-	300	600	100
Admin Support	125	-	480	605	50
Executive	400	-	-	400	200
Governance	-	-	242	242	-
Property & Other	-	-	467	467	-
Legal	-	-	292	292	50
Integrity	630	-	250	880	500
	3,465	934	2,632	7,031	4,075

Salary savings afforded through rationalised business practices are estimated on activity basis:

	Current Headcount	2012 Headcount	Headcount Reduction	Salary Savings (\$000's)
Info. Technology	34	25	9	810
Finance	26.6	20	6.6	528
Human Resources	15.8	12	3.8	228
Communications & Marketing	10.5	9	1.5	120
Bureau (note below)	10.4	8	2.4	144
Studbook	10	7	3	180
Racing Management	15	10	5	300
Admin Support	7.5	5	2.5	125
Executive	4	1	3	400
Legal	1	1	-	-
Integrity	40	31	9	630
	174.8	129	46	3,465

It should be noted that any staff reductions are conceptual only. The Taskforce acknowledges that due process and consultation would be required and including feedback from impacted staff, prior to any final decisions being made or implemented.

Savings of circa \$7.0 million a year significantly exceed cost savings that were identified in management forums established to explore rationalisation benefits of a shared services unit for the Racing Board and New Zealand Thoroughbred Racing.

A brief review of these forums is included as **Appendix C** to this report.

The savings target of \$7.0 million is estimated using judgement of what savings might be derived once the activities are managed in a shared services environment.

Further detailed process mapping and examination of the minimum staff and resources required to undertake the defined shared services functions, could identify more savings from a shared services model.

A brief summary of the basis for targeted cost savings for each activity is outlined in **Appendix D**.

Further savings from a single governing body

A natural progression of the industry shared services model would be provided by the dissolution of the New Zealand Racing Board and the three racing Codes upon the creation of a single governing body ("Racing and Wagering New Zealand") which represents the interests of all racing industry participants.

Through the formation of a single governing body, the pool of staff would be provided with appropriate and unambiguous leadership which would allow increased delegation of decision making authority within the organisation, freeing the executive and Board to concentrate on key strategic considerations.

In other words, there will be clear alignment of authority and accountability.

A single governing body would fully eliminate duplication of executive and governance costs.

In addition to the targeted savings outlined previously, incremental savings of \$0.6 million would accrue if a single governing body was eventually achieved:

	Salary Savings (\$000's)	Systems Savings (\$000's)	Other Savings (\$000's)	Total Savings (\$000's)	Aggregate Transitional Costs (\$000's)
Industry Shared Services Savings	3,465	934	2,632	7,031	4,075
Incremental Governance Savings	-	-	600	600	-
Total 'One Industry' Savings	3,465	934	3,232	7,631	4,075

Total savings targeted through the adoption of a shared services model, in addition to the incremental savings derived through the move to a single industry body is in total estimated as \$7.63 million, with 46 fewer FTEs.

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Proposed industry governance body

Name of Organisation

“Racing and Wagering New Zealand” (RWNZ)

The rationale for this name is that it encapsulates the two integral elements of the new organisation resulting from an amalgamation of the key functions of the New Zealand Racing Board and the Codes.

Organisational objectives

Could be kept similar to the current objectives of the Racing Board, which are to:

- promote the racing industry; and to
- facilitate and promote racing betting and sports betting; and
- maximise profits for the long-term benefit of New Zealand racing.

The objectives and functions of the new entity should be clarified to focus on major constituents such as owners as the ultimate beneficiaries of the activities of the new entity.

If owners are encouraged to continue to race horses and greyhounds or are newly attracted into racing, the success of industry professionals, service providers and producers

(jockeys/drivers, trainers, sales, transport, feed companies, breeders) will naturally follow.

The objectives must also recognise the pivotal role that the betting public hold in providing the prime income source to the industry in an increasingly globally competitive market.

Legal status

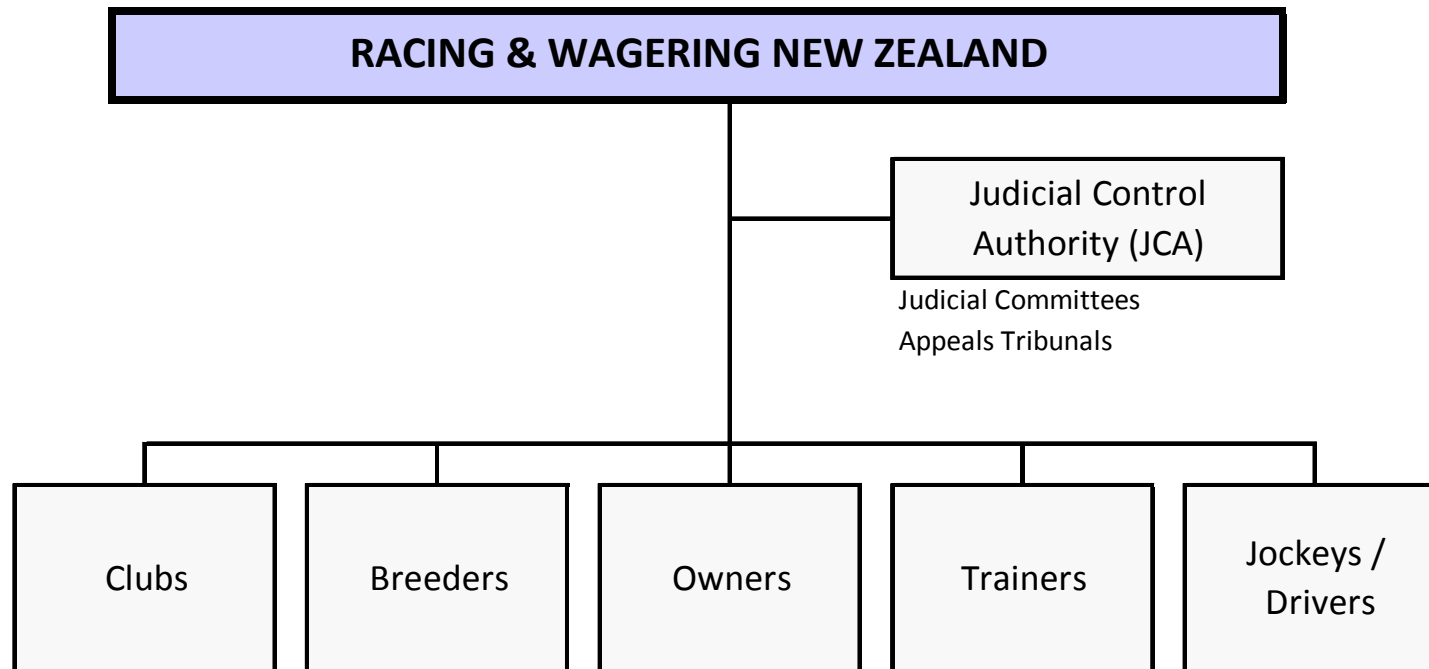
Amendments to the Racing Act 2003 would be required to unite the four separate organisations.

A preliminary structure for a single body is shown below.

Key points of the structure:

- The Board of Racing and Wagering New Zealand will have seven to nine Directors, with the Minister of Racing appointing the Chairman from the appointed directors.
- Racing and Wagering divided into six key functional areas.
- Industry Integrity Unit formed to take responsibility for tri-code integrity in addition to JCA responsible for Judicial Committees and Appeals Tribunals.
- Racing Department performs functions of Codes other than integrity and would liaise between industry and the organisation. Remaining duties of Code CEOs encompassed by this unit.

Draft structure of one industry entity



Racing and Wagering New Zealand will incorporate all operational functions including the Industry Integrity Unit, wagering, broadcasting, racing, IT, finance, communications, marketing and publications.

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Pathway to change

The adoption of an industry shared services structure is a logical step, which would provide material savings to the industry.

This structure can be achieved within a short timeframe with the collective will of the three racing Codes and the NZ Racing Board.

A change to one industry governing body as recommended by the Industry Taskforce is a more significant one. While the Taskforce acknowledges that such a future would not be welcomed by all, it trusts that industry participants recognise that there is a compelling need for change if New Zealand's racing industry is to thrive in the face of a continually changing economy and society.

A future governance structure must provide efficient and effective services and leadership, and should not be unduly encumbered by historical relationships and obligations.

This issue, and others that are bound to arise, need to be carefully addressed. Due recognition of participant interests needs to be reflected in the structures and objectives of the new governance or club entities that will facilitate the future prosperity of industry participants.

For all parties to agree to such change, great care would be taken in the consultative and establishment phases.

This investment in planning and integration would assist in providing a clear mandate to the executive and board to be able to best manage the interests of the industry.

These will be necessary, significant, and potentially time consuming tasks, but ones which must be addressed at the earliest opportunity.

The Taskforce therefore challenges the participants of New Zealand's racing industry to either:

- Be active proponents in a positive change for the future benefit of the industry; or to
- Allow perpetuation of current inefficiencies and structures, until fate or government dictates change under a worse set of circumstances.

Appendix A

Prior Reports and Recommendations

1946 Royal Commission (Justice Finlay)

This report was given the widest possible brief on racing and gaming, being asked to “inquire into and report upon the existing law relating to gaming, the present administration and control of practices relating to gaming, and generally all other matters connected with gaming and racing”.

The wide brief meant that the report also considered greyhound racing (no tote allowed at time) and Lotteries. More than 90% of the report focused on the two horse codes.

The Finlay Commission vehemently rejected the licensing of on or off course bookmakers. The report laid the foundations for the formation of the TAB by recommending an off course totalisator scheme.

The report also considered some of the tensions that were generated between the two horse codes in New Zealand and the lack of the general public and industry professionals in the administration of racing. To rectify this it was recommended that a Racing Advisory Board be established to advise the Minister on all topics relating to racing. This recommendation was not implemented, but became a central consideration of the 1970 Royal Commission.

1970 Royal Commission (Sir Thaddeus McCarthy)

The commission met against a background similar to 1946 – the recession of 1967/68 had exerted financial pressures on many clubs and that season saw the first ever decline in annual TAB turnover.

The most important result was the creation of the New Zealand Racing Authority whose object was to present “one comprehensive plan of reform”.

The Authority was created to coordinate direction of the industry and to increase the input of professionals in the running of the industry and to ensure that the industry’s resources were used as efficiently as possible. As the industry already had the two conferences – Racing and Trotting – it now had a third administrative body.

The 1970 Royal Commission also recommended some specific financial relief for the industry, some of which was directed into an increase in stake levels, but also, funds were retained by the TAB for the express purpose of computerisation.

Report of the Ministerial Committee on Race Betting Systems (1991)

The committee was formed against a backdrop of concern in the racing industry over falling racecourse attendances and declining on and off course turnovers.

In its summary the Committee made the following comments:

“The industry has been in decline for over 25 years, but this has been camouflaged by improvements and efficiencies introduced by the TAB at regular intervals over this period”.

“The core of the problem is a lack of customer growth. Steady shrinkage in the customer base has accelerated over the past few years with changing social habits and increased competition from other forms of entertainment, and for the leisure dollar”.

“To avoid continuing decline, racing must attract new customers, entice lapsed customers back and at the same time hold on to existing customers”.

Market research noted that racing – and particularly the TAB, had a poor image.

The Committee recommended that:

- A major promotion be established with the express aim of lifting racing’s image in the minds of ordinary New Zealanders (as distinct from committed racing followers); and
- That the administrative structures of racing be reshaped and renamed. Central to this recommendation was that the New Zealand Racing Authority was renamed the New Zealand Racing Industry Board.

It is worth noting that the TAB doubled its marketing spend in the 1992 season to \$3.4 million and then \$4.1 million in 1993. The Committee report of 1991 recommended that a national spend in the order of \$5 million was necessary, funded by a 0.5% levy on turnover.

Performance and Efficiency Audit of the New Zealand Racing Industry Board (Ernst & Young July 1997)

Quotes from the Executive Summary:

“The current structures and policies of the racing industry are neither efficient nor effective and are not appropriate for the desired future performance of the industry”

“The RIB’s strategy for the industry can only be put in place if the codes and clubs co-operate, because they must implement most changes proposed.”

“The racing industry operates under restrictive legislation which prevents even widely supported changes being implemented quickly because they require amendments to legislation.”

“The RIB’s reluctance to use its powers to change the rules of racing, to review the TAB or undertake the reorganisation of the administration of racing, is mainly because of the potential conflict this will create with codes, clubs or other interests.”

“The industry lacks a central information depository for industry tactical decision making”.

“The codes could if they chose, hide behind their accountability to their clubs rather than co-operate with the RIB.”

“Industry participants frequently confuse their roles with respect to the TAB, the RIB and the Codes, including confusing their roles and interests as service provider, club, venue manager, owner, bettor, etc.”

“The bilateral monopolies that exist in the industry such as the club having to use the TAB as its off-course agent and the TAB being forced to take whatever race programme a club wishes to provide prevents truly commercial outcomes occurring.”

"This leaves both parties dissatisfied with the outcome because they can never know if a more advantageous settlement would have been available from another organisation if such a choice was available."

The report detailed that the racing industry as a whole lost \$9.7 million in 1995/96 (consolidated accounts for RIB, TAB, Codes and Clubs). The net assets were \$261.1 million.

"Racing has been kept alive by running down reserves and selling off assets, a situation which is not sustainable."

"Racing has too many venues and has over invested in trying to attract bettors on-course while under-investing in the development of off-course betting products and the promotion of ownership and sponsorship."

"A club led rationalisation of venues is required to provide the minimum number of racing surfaces to competitively deliver the off-course betting product."

Report for Minister for Racing and the NZRB – "New Zealand Racing and Bloodstock Industry" (PriceWaterhouseCoopers July 2002)

Selected quotes include:

"This is an industry with an infrastructure designed to support the dynamics of an earlier era. Fundamental change has occurred in our society since then and today there is a range of 'modern' pressures affecting demand for the Industry's products, such as increased options for use of free-time, diversity of entertainment and consumerism generally. Despite these pressures, the nature of the racing product and the structure of the industry have remained essentially the same."

"We faced scepticism from a number of parties that our report will be yet another in a line of reports that will sit on the shelf and gather dust".

"...the Industry has adopted an incremental approach to change and avoided taking the hard decisions upon which reform must be based."

"...as a consequence, gradual change has occurred but the fundamentals of investment and return have been eroded – the deck chairs have been moved around quite a bit but the ship hasn't stopped sinking".

"We were also repeatedly told that the racing sector's problems stem from declining returns to owners and that increasing stakes will be the saviour of the industry. Our response to these views are that:

- Declining returns are a symptom of the Industry's problems, not the cause of them.

- Assuming that a source of funds can be found to boost stakes (for example from gaming machines), this will mask the underlying problems for a period, not fix them."

"In our view the key issues stem from governance arrangements and the structure of the racing sector."

"The effect of these factors in combination is that there is insufficient effective external pressure on some sections of the Industry responsible for providing the racing product to innovate, maximise revenue and minimise costs and make the product relevant to consumers and punters."

"The status quo is not an option if the Industry wants to prosper and create a base from which development opportunities can be leveraged."

Report of the Racing Industry Working Group (Bill Falconer, Chairman – Nov 2002)

This report was prepared pursuant to the recommendations contained in the PricewaterhouseCoopers Report to the Minister for Racing and the Board, on the New Zealand Racing and Bloodstock Industry. Main conclusions were:

- A commercial “rules based model” for the allocation of race days and setting stakes was proposed, whereby clubs bid for race days in terms of the fields and wagering support they are able to attract and the event characteristics they are able to offer.
- A single independent governing body or Board representative of all industry organisations should be established.
- A single executive organisation accountable to and subject to the oversight of the new Board should be established to undertake the present functions of the RIB, TAB and the Codes, and to form a new partnership with the Clubs.
- A single five-year strategic plan for the industry is required.

Appendix B

Basis of activity analysis

These savings targets are derived from analysis of the core activities undertaken by each entity.

The following table summarises the Profit & Loss statements on an activity basis for these organisations for the financial year to July 2008.

Profit and Loss Statements - Industry Bodies

Year to July 2008 (\$'000's)	NZ Racing Board Out of Scope	NZ Racing Board In Scope	NZTR	NZGRA	HRNZ	Total NZRB & Codes
Total Revenue and Other Income	271,497	-	77,124	15,011	45,226	408,858
Activities:						
Wagering Activities	104,144	-	-	-	-	104,144
Racing Administration	-	827	1,194	99	723	2,843
Integrity & Racecourse Operations	3,532	871	2,500	539	1,418	8,860
Marketing & Publications	10,327	-	404	210	1,699	12,640
Corporate Services & IT	8,620	13,843	1,708	361	945	25,477
Administration and Governance	-	3,019	1,431	559	470	5,479
Grants and Funding	-	3,785	588	348	376	5,097
Extraordinary Expense Items	-	-	-	-	640	640
Capitalised Labour Costs	(2,102)	-	-	-	-	(2,102)
Total Operating Expenses	124,521	22,345	7,825	2,116	6,271	163,078
Net Operating Income	146,976	(22,345)	69,299	12,895	38,955	245,780
Total Code Distributions	125,400	-	-	-	-	125,400
Total Club Payments and Subsidies	-	-	72,453	12,050	41,403	125,906
Transfer to (from) reserves	21,576	(22,345)	(3,154)	845	(2,448)	(5,526)

Note: NZRB 'Out of Scope' expenses are those for which there are no equivalent activity within the racing codes. These include: Retail costs, Broadcasting, Wagering Marketing, Wagering Operations, Wagering IT

Categorisation of activity costs

The previous table shows the 2007/08 operating expenses (the most recent set of final accounts available at the time of writing the report) for each industry body presented on an activity cost basis. While this differs to the traditional accounting presentation where, by way of example, all salary and wages are shown as a total for the organisation, the activity costs in aggregate, reconcile to the expenses in the published accounts for each industry body.

The categorisation of accounting line items to fit the 13 general industry activity areas was undertaken across all three Codes and was made in consultation with the management teams of each industry body.

This process by its nature involves an estimation of costs assigned to each activity area and, inevitably, the treatment of some costs in the report may differ depending on the manner in which they are initially dealt with in the accounts of each organisation.

Staff positions were those as relevant at time of writing the report. Although some staff costs have been allocated across more than one category, generally positions were placed against the category where the majority of their costs/activities sit.

In aggregate, operating expenses of the industry bodies were \$163.1 million.

Totalling \$146.9 million, the majority of these costs are incurred by the New Zealand Racing Board, though as the table above describes, \$124.5 million of these costs have been identified as directly relating to wagering activities, and are defined as 'out of scope' when estimating the possible efficiencies of an amalgamated entity.

With the exclusion of wagering expenses and industry grants, total "In Scope" Operating Expenses are defined as totalling \$32.8 million.

The table following highlights these functional areas and the total expenses within scope:

Integration Taskforce - Activity Cost Analysis - In Scope Expenses

Year to July 2008 (\$000's)	NZ Racing				Total NZRB & Codes
	Board	NZTR	NZGRA	HRNZ	
Activities:					
Racing Administration	827	1,194	99	723	2,843
Integrity & Racecourse Operations	871	2,500	539	1,418	5,328
Marketing & Publications	-	404	210	1,699	2,313
Corporate Services & IT	13,843	1,708	361	945	16,857
Administration and Governance	3,019	1,431	559	470	5,479
Total Operating Expenses (In Scope)	18,560	7,237	1,768	5,255	32,820

This table comprises the activities that are within the scope of a likely shared services function. Our analysis therefore focuses on identifying the cost savings that would be derived from integration synergies.

While each administrative body of the racing industry is conscious of and continually challenges its own costs of operations, preliminary analysis indicates that rationalisation of

administrative structures along with increased use of bureaux or shared services would provide material savings to the industry.

Analysis of savings is logically applied to those functions that are conducted in common across the four bodies. Targeted efficiencies have been estimated over a range of administrative functions; these are detailed in **Appendix D**, along with possible savings that would accrue.

As a means of highlighting the materiality of savings outlined in **Appendix D** (and accepting the use of different reporting periods), the 'In Scope' operating expenses of each code is compared with projected stakes payments for the current season:

	NZTR	NZGRA	HRNZ
Total Operating Expenses (In Scope)	7,237	1,768	5,255
Forecast 2009/10 Stakes Payments	49,500	7,500	32,600

Out of Scope Expenses

As the table on the previous page describes, a total of \$124.5 million of New Zealand Racing Board operating expenses are described as 'Out of Scope'.

These costs detailed in the table below, relate to activities that have no equivalent within the three racing codes, and therefore would not benefit greatly from a shared services approach.

While not considered in this analysis, these activities are included in current rationalisation exercises which will deliver a \$10 million per annum reduction in total New Zealand Racing Board operating costs.

Integration Taskforce - NZ Racing Board: Out of Scope Expenses

Year to July 2008 (\$000's)	NZ Racing Board Out of Scope
Broadcasting	22,631
Content Payments (Sports & International Racin	17,969
Phonebet & Automated Channels	11,439
Racing Operations	697
Retail, Skybet & Internet Fees	27,635
TAB Retail Distribution Costs	19,652
Wagering Management and FOB	4,121
Venue Services - Net of Recharges	3,532
On-Course Marketing Initiatives	2,018
Communications, Marketing & Publications	8,309
IT - Management , Software & Website	5,960
IT - Retail Systems Engineering	1,809
Problem Gambling Charter	158
Strategy & Project Management (Wagering)	693
Less: Capitalised Labour Costs	<u>(2,102)</u>
Total NZRB Out of Scope Expenses	124,521

Appendix C

NZRB and NZTR management forums

As mentioned in the “Full shared services model” section on page 28 of this report, a short series of forums were held with respective New Zealand Thoroughbred Racing and New Zealand Racing Board managers to estimate savings that would derive from the provision of services on a shared basis.

These forums took place in the following context.

New Zealand Thoroughbred Racing and the New Zealand Racing Board have been co-located for more than four years, providing existing savings in terms of property costs.

In addition, the two organisations have, over time, consolidated minor administrative functions such as reception and telephony systems and for a time shared Finance, HR and IT services.

While the two organisations have different objectives and business functions, there are administrative functions that are carried out by each entity which, if combined, would provide some opportunity for cost savings.

The business areas identified for analysis were:

- Finance including Accounts Payable, Accounts Receivable, and Race-day Settlements
- Information Technology
- Human Resources
- Marketing & Publications

Discussions were held with managers from New Zealand Thoroughbred Racing and the New Zealand Racing Board to better understand the responsibilities and undertakings of the respective bodies.

While these forums identified minor operational savings (circa \$0.1 million), they were consistent with expectations as the forums were focussed on identifying immediate opportunities for cost savings from a shared services approach to business operations and procurement.

It's also important to note that the savings are modest because there is little duplication of resources across the two entities of New Zealand Thoroughbred Racing and the New Zealand Racing Board.

It is more relevant to consider that the forums had a focus on doing the tasks and functions that are currently undertaken by the two entities, and those involved were not tasked with optimising business processes. There was also an element of concern expressed about the previous attempts to share services in HR, IT and Finance.

Given the low level of savings identified, a further process was mandated to incorporate these savings, but with a wider brief to include the business activities of Harness Racing New Zealand and New Zealand Greyhound Racing Association, since the greatest synergies would be achieved only with the full inclusion of the four administrative bodies of the racing industry.

This more holistic approach arrived at higher cost savings by estimating savings derived from new, more efficient methods of operation.

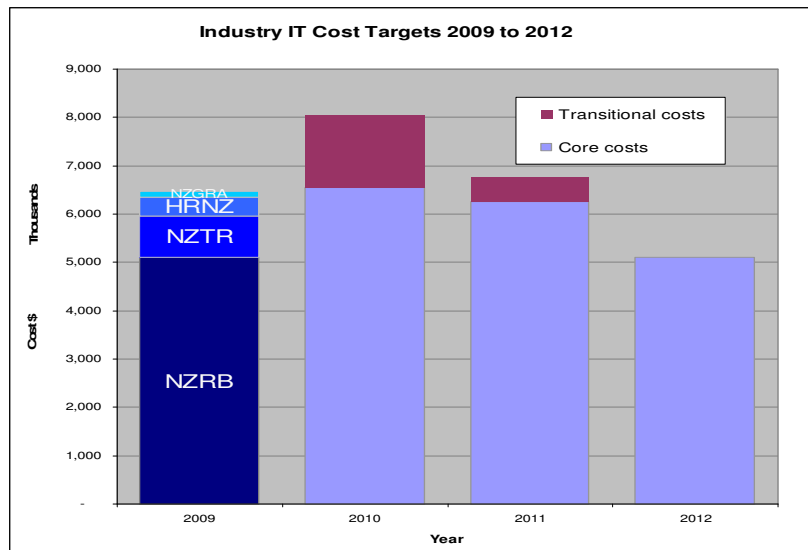
Appendix D

The following pages detail the savings that should be able to be achieved under a shared services environment. Details of staff numbers and salaries for each organisation have been kept confidential for privacy reasons, but the total staff numbers and salary costs are shown.

Total savings are summarised at the end of this appendix.

1 Information technology

Targeted annual savings of \$1.36 million (\$6.5 million to \$5.1 million) by 2012, including headcount reduction of nine. Significant transitional costs of \$2.0 million estimated over same period. This largely represents the cost of development of a single racing database across all four organisations, with a direct link to the betting engine.



The above IT savings are based on the following assumptions:

PRESENT DAY - 2009			
Staff	Positions	Org	Activity Costs Organisation
	Business Analysts	NZTR	
	Systems Support	NZTR	
	Website Administrator	NZTR	
	Information Systems Manager	HRNZ	
	Systems Support	HRNZ	
	Analyst Programmer	HRNZ	
	Business Support Manager	NZGRA	
	Website Co-ordinator	NZGRA	
	Networks and Comms	NZRB	
	Computer Ops, System Engineers, Desktop Technology Management	NZRB	
34	All Staff		6,463,000 Total Industry IT Costs

ONE YEAR - 2010			
Staff	Positions	Org	Activity Costs
5	IT Management	All	6,550,000 Core Costs
28	IT Staff	All	1,500,000 Transition Costs
33	All Staff		8,050,000 Total Industry IT Costs

THREE YEARS - 2012			
Staff	Positions	Org	Activity Costs
5	IT Management	All	5,107,000 Core Costs
20	IT Staff	All	- Transition Costs
25	All Staff		5,107,000 Total Industry IT Costs

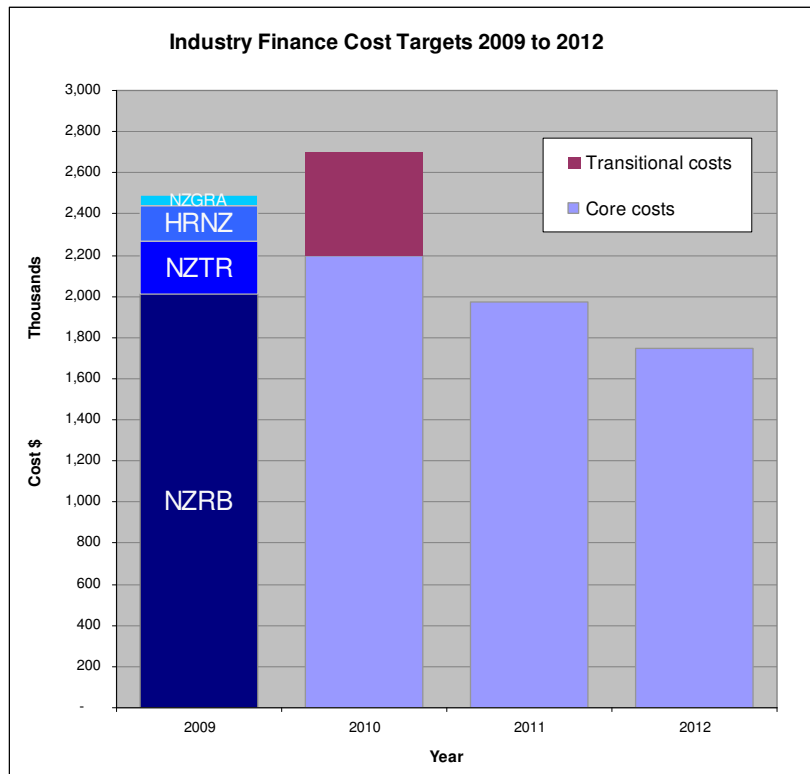
79% Costs 2012 versus 2009

1,356,000 Savings 2012 versus 2009

2 Finance

Targeted annual savings in Finance and Settlements of \$740,000 (from \$2.5 million to \$1.8 million) by 2012, including headcount reduction of 6.6.

The savings outlined will rely on considerable automation, process re-engineering and reduction of inefficiencies, including the current money-go-round of race-day funding to and from clubs.



The above Finance savings are based on the following assumptions:

PRESENT DAY - 2009			
Staff Positions	Org	Activity Costs	Organisation
GM Finance and Operations	NZTR		
Management Accountant	NZTR		
Account Assistants	NZTR		
Accountant	HRNZ		
Accounts Administrators	HRNZ		
Accountant	NZGRA		
Accounts Staff	NZRB		
26.6 All Staff		2,490,000	Total Finance Costs

ONE YEAR - 2010			
Staff Positions	Org	Activity Costs	
1 CFO	All	2,200,000	Core Costs
23 Accounts Staff	All	500,000	Transition Costs
24 All Staff		2,700,000	Total Finance Costs

THREE YEARS - 2012			
Staff Positions	Org	Activity Costs	
1 CFO	All	1,750,000	Core Costs
19 Accounts Staff	All	-	Transition Costs
20 All Staff		1,750,000	Total Finance Costs

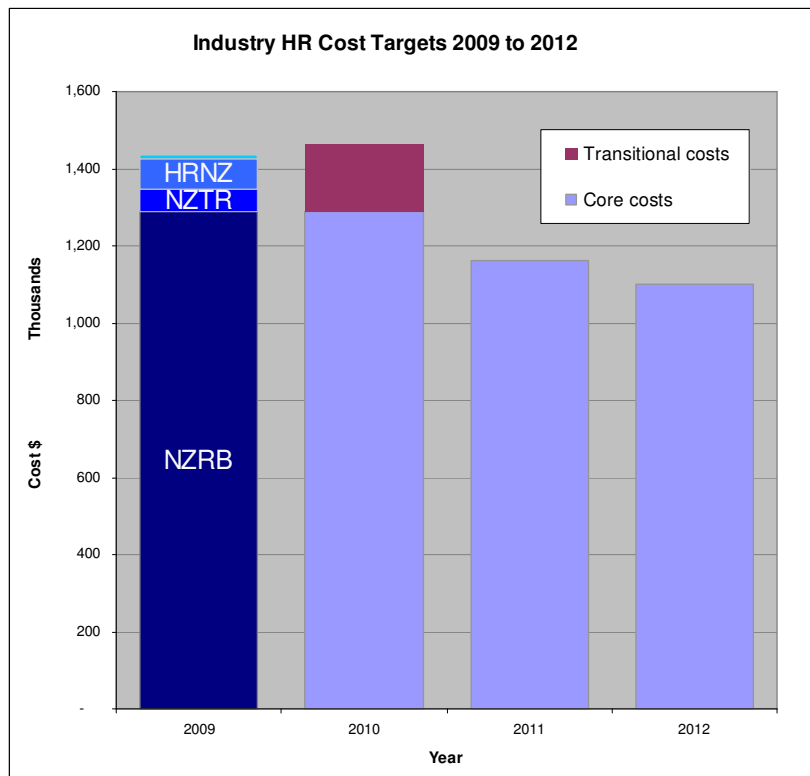
70% Costs 2012 versus 2009

740,000 Savings 2012 versus 2009

3 Human resources

Targeted annual savings of \$336,000 (\$1.4 million to \$1.1 million) by 2012, including headcount reduction of four.

Savings represented by improvement in recruitment right across the industry (including downstream savings in quality of personnel), sharing advice, templates, less reliance of costly outside recruitment providers, and a single payroll system.



The above Human Resources savings are based on the following assumptions:

PRESENT DAY - 2009			
Staff Positions	Org	Activity Costs	Organisation
Human Resources Manager	NZTR		
Cadet Trainers	HRNZ		
Training and Development Manager	NZGRA		
HR staff	NZRB		
15.8 All Staff		1,436,000	Total Industry HR Costs

ONE YEAR - 2010			
Staff Positions	Org	Activity Costs	
14 HR staff	All	1,288,000	Core Costs
	All	175,000	Transition Costs
14 All Staff		1,463,000	Total Industry HR Costs

THREE YEARS - 2012			
Staff Positions	Org	Activity Costs	
12 HR staff	All	1,100,000	Core Costs
	All	-	Transition Costs
12 All Staff		1,100,000	Total Industry HR Costs

77% Costs 2012 versus 2009

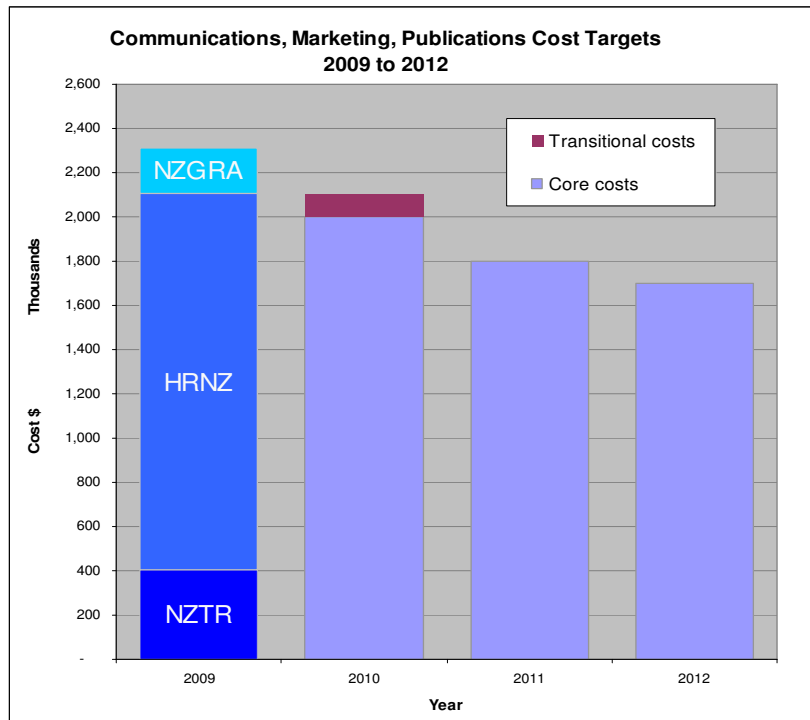
336,000 Savings 2012 versus 2009

4 Communications and marketing

Targeted annual savings of \$613,000 by 2012, including staff reduction of 1.5.

Majority of cost savings are based on a change in timing of publications, movement to electronic mediums, increased ability around price negotiation, and incentives for stakeholders to subscribe to electronic rather than printed publications.

Whilst undertaking these changes, the Industry would need to be conscious of retaining code specific publications as well as not reducing other marketing spending.



The above Communications and Marketing savings are based on the following assumptions:

PRESENT DAY - 2009			
Staff Positions	Org	Activity Costs	Organisation
GM Communications	NZTR		
Marketing Manager	NZTR		
Racing Publications Co-ordinator	NZTR		
Marketing Manager	HRNZ		
Marketing Assistant	HRNZ		
HR Weekly	HRNZ		
Magazine Editor	NZGRA		
Not "in-scope"	NZRB		
10.5 All Staff		2,313,000	Total Comms Markting Costs

ONE YEAR - 2010			
Staff Positions	Org	Activity Costs	
6 Publications	All	2,000,000	Core Costs
4 Marketing Staff	All	100,000	Transition Costs
10 All Staff		2,100,000	Total Comms Markting Costs

THREE YEARS - 2012			
Staff Positions	Org	Activity Costs	
5 Publications	All	1,700,000	Core Costs
4 Marketing Staff	All	-	Transition Costs
9 All Staff		1,700,000	Total Comms Markting Costs

73% Costs 2012 versus 2009

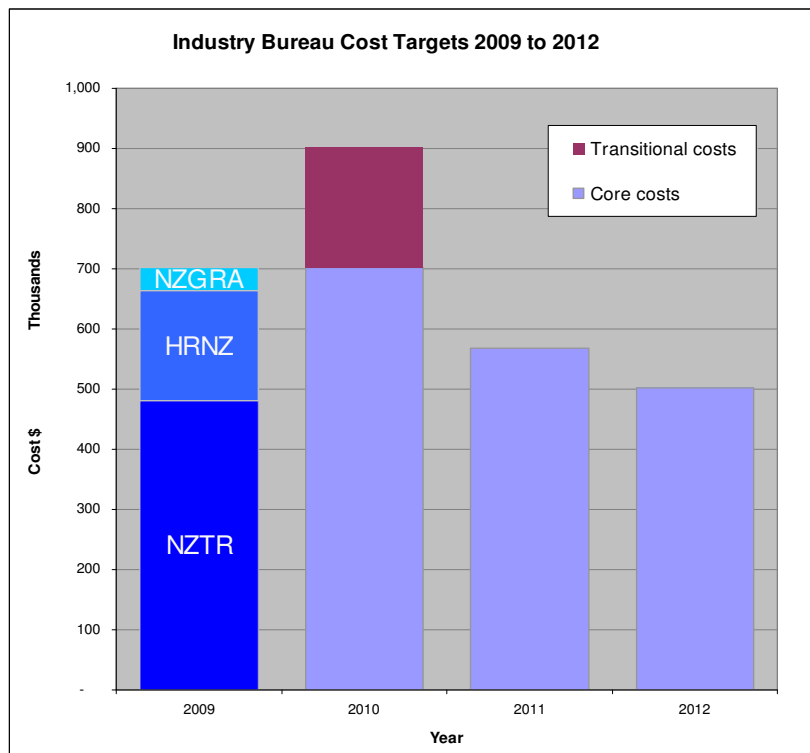
613,000 Savings 2012 versus 2009

5 Racing bureau

Targeted annual savings of \$200,000 by 2012 for Bureau (compilation of race fields) and Handicapping.

Bureau staff numbers to increase marginally whilst increasing coverage to three Codes. Stakeholders pushed to online access points to reduce time spent by Bureau staff manually entering data .

A net 2.4 FTE reduction across the industry (including harness clubs) is anticipated.



The above Racing Bureau savings are based on the following assumptions:

PRESENT DAY - 2009			
Staff Positions	Org	Activity Costs	Organisation
Racing Bureau	NZTR		
Handicappers	NZTR		
Handicappers	HRNZ		
Club Racing Managers (not included)	HRNZ		
Racing Admin	NZGRA		
No Bureau	NZRB		
10.4 All Staff		702,000	Total Industry Bureau Costs

ONE YEAR - 2010			
Staff Positions	Org	Activity Costs	
8 Racing Bureau/Admin	All	702,000	Core Costs
4 Handicappers	All	200,000	Transition Costs
12 All Staff		902,000	Total Industry Bureau Costs

THREE YEARS - 2012			
Staff Positions	Org	Activity Costs	
8 Racing Bureau/Admin	All	702,000	Core Costs
4 Handicappers	All	-	Transition Costs
(4) Savings at Harness Club Level	All	(200,000)	
8 All Staff		502,000	Total Industry Bureau Costs

72% Costs 2012 versus 2009

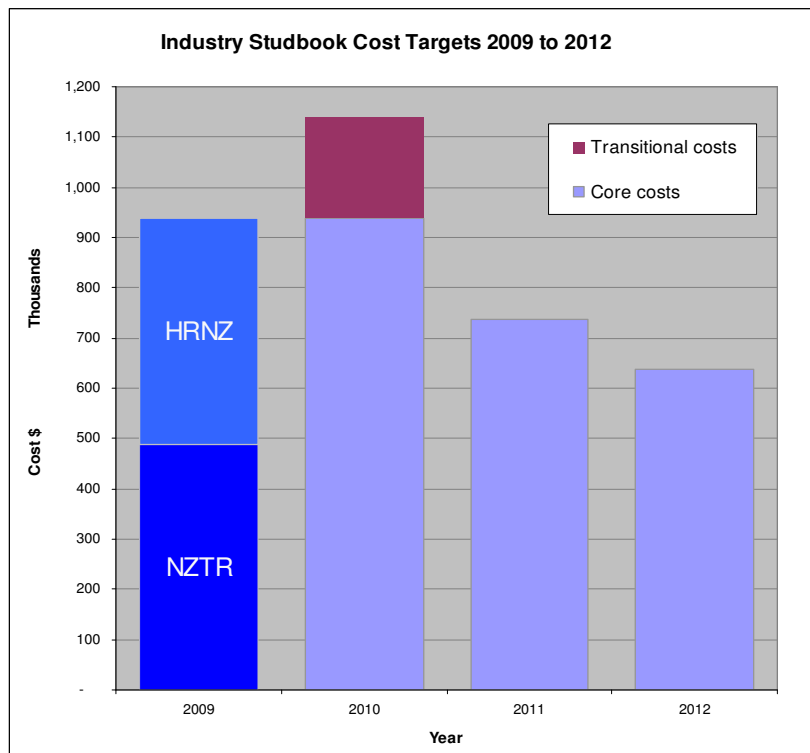
200,000 Savings 2012 versus 2009

6 Studbook and registrations

Targeted annual savings of \$300,000 by 2012, including staff reduction of three.

Savings to occur across all three Codes as one Registration/ DNA/Studbook database created and then utilised in time (whilst maintaining separation on breeds). Transitional costs included are those anticipated to implement one system.

Again, stakeholders would be encouraged to utilise online access points.



The above Studbook and Registration savings are based on the following assumptions:

PRESENT DAY - 2009			
Staff Positions	Org	Activity Costs	Organisation
Operations Manager	NZTR		
Operations Team	NZTR		
Keeper of Studbook	HRNZ		
Studbook Staff	HRNZ		
Registrar	NZGRA		
	NZRB		
10 All Staff		939,000	Total Studbook Costs

ONE YEAR - 2010			
Staff Positions	Org	Activity Costs	
1 Manager	All	939,000	Core Costs
9 Staff	All	200,000	Transition Costs
10 All Staff		1,139,000	Total Studbook Costs

THREE YEARS - 2012			
Staff Positions	Org	Activity Costs	
1 Manager	All	639,000	Core Costs
6 Staff	All	-	Transition Costs
7 All Staff		639,000	Total Studbook Costs

68% Costs 2012 versus 2009

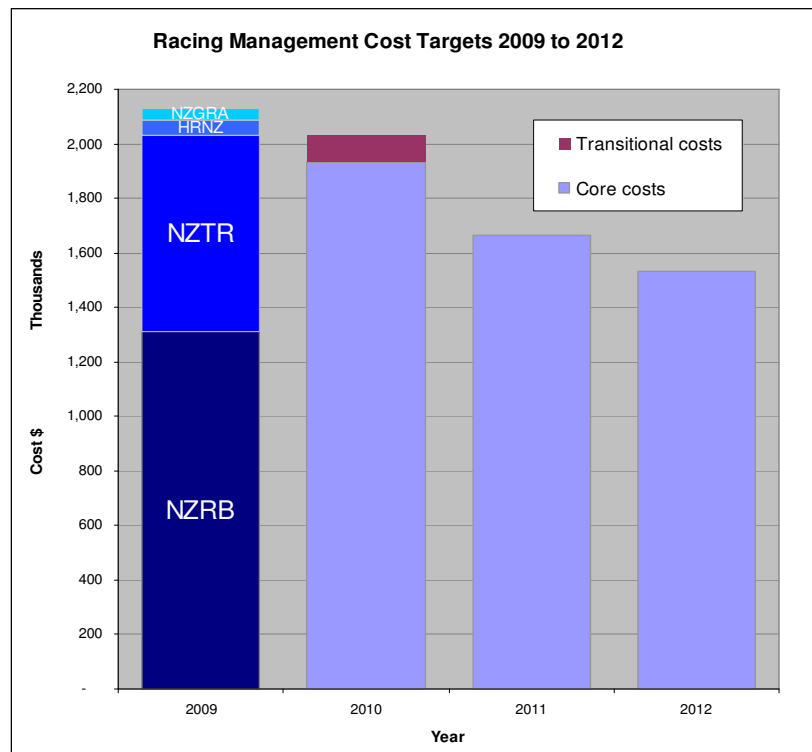
300,000 Savings 2012 versus 2009

7 Racing management

Targeted annual savings of \$600,000 by 2012, including 5 less FTEs.

Includes Business Development, Racing Co-ordinators for Codes and Form Production and Strategy team for NZRB. Department will liaise with industry participants, taking workload previously done by code CEOs.

Assumes a reduction in project work. Some redundancies at key milestones.



The above Management savings are based on the following assumptions:

PRESENT DAY - 2009			
Staff Positions	Org	Activity Costs	Organisation
Racing Co-ordinator	NZTR		
Venue Inspector	NZTR		
Planning and Operations Manager	HRNZ		
Racing Manager	NZGRA		
Business Development Manager	NZGRA		
Strategy and Project staff	NZRB		
15 All Staff		2,131,000	Total Other Racing Costs

ONE YEAR - 2010			
Staff Positions	Org	Activity Costs	
12 Racing/Planning/Strategy staff	All	1,931,000	Core Costs
	All	100,000	Transition Costs
12 All Staff		2,031,000	Total Other Racing Costs

THREE YEARS - 2012			
Staff Positions	Org	Activity Costs	
10 Racing/Planning/Strategy staff	All	1,531,000	Core Costs
	All	-	Transition Costs
10 All Staff		1,531,000	Total Other Racing Costs

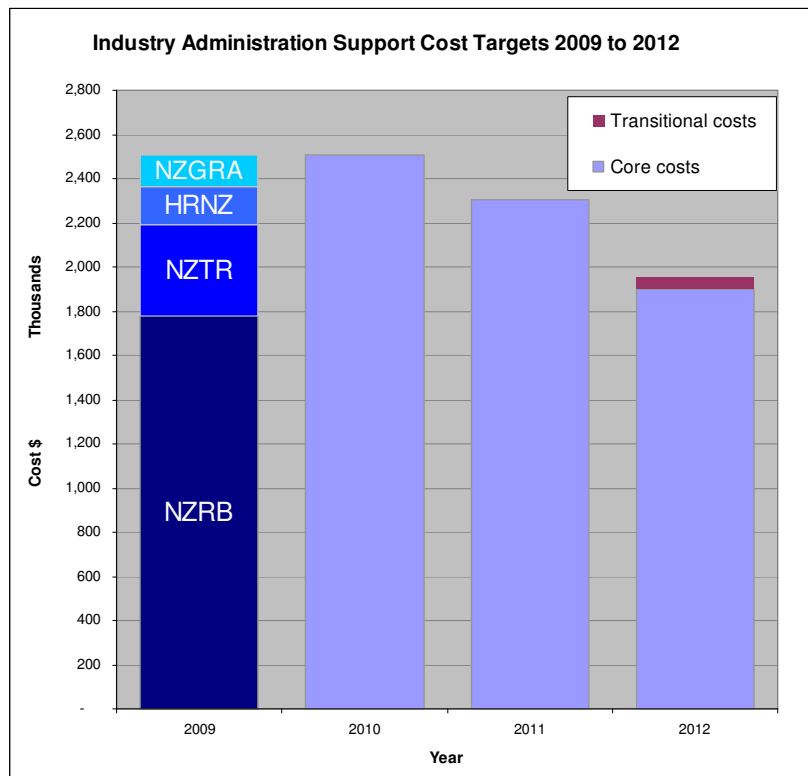
72% Costs 2012 versus 2009

600,000 Savings 2012 versus 2009

8 Administration support

Targeted annual savings of \$605,000 by 2012. Staff reduction of 2.5.

Reduction in costs relating to stationery, printing, postage, phones by 2012 as workload of three Code Governing Bodies is fully absorbed by Industry Shared Services or Integrity Units.



The above Administration Support savings are based on the following assumptions:

PRESENT DAY - 2009			
Staff Positions	Org	Activity Costs	Organisation
Executive Assistant	NZTR		
Executive Assistant	HRNZ		
Receptionist	HRNZ		
Office Assistant	NZGRA		
Executive Assistant	NZRB		
Receptionists	NZRB		
7.5 All Staff		2,505,000	Total Admin Support Costs

ONE YEAR - 2010			
Staff Positions	Org	Activity Costs	
3 Executive Assistants	All	2,505,000	Core Costs
1 Office Assistant	All	-	Transition Costs
3.5 Receptionists	All		
7.5 All Staff		2,505,000	Total Admin Support Costs

THREE YEARS - 2012			
Staff Positions	Org	Activity Costs	
1 Executive Assistant	All	1,900,000	Core Costs
1 Office Assistant	All	50,000	Transition Costs
3 Receptionists	All		
5 All Staff		1,950,000	Total Admin Support Costs

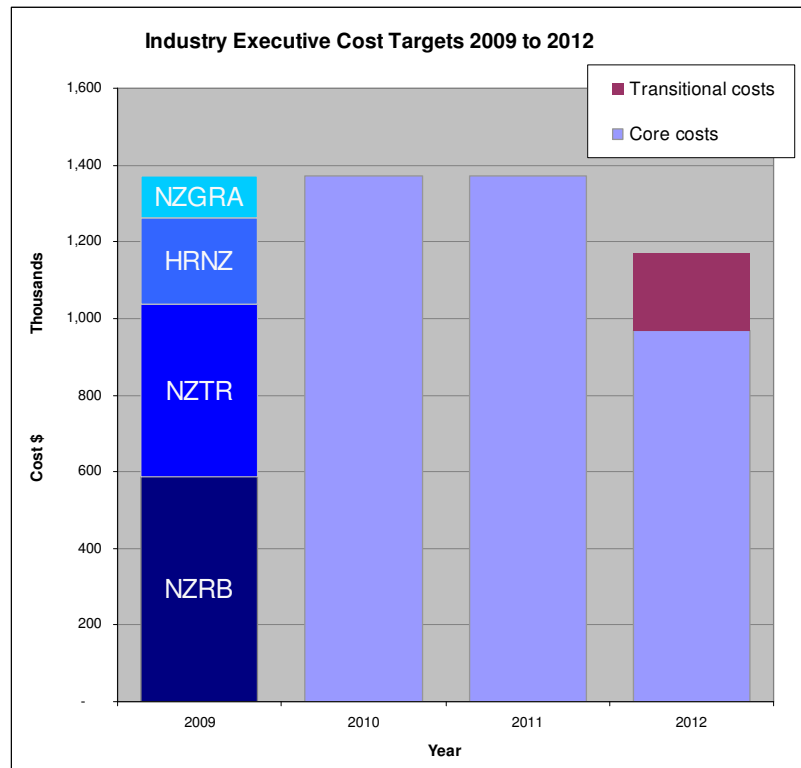
76% Costs 2012 versus 2009

605,000 Savings 2012 versus 2009

9 Executive

Targeted annual savings of \$400,000 by 2012. With the absorption of key responsibilities by the Racing Council, Shared Services and Integrity Units, the need for four CEOs at their current level of seniority would be substantially reduced.

The \$200,000 transitional costs at 2012 largely represent an estimate on redundancy for two out of three Code CEOs (NZTR CEO being a contracted position).



The above Executive savings are based on the following assumptions:

PRESENT DAY - 2009			
Staff Positions	Org	Activity Costs	Organisation
CEO	NZTR		
GM	HRNZ		
CEO	NZGRA		
CEO	NZRB		
4	All Staff	1,370,000	Total Executive Costs

ONE YEAR - 2010			
Staff Positions	Org	Activity Costs	
4 CEOs	All	1,370,000	Core Costs
	All	-	Transition Costs
4	All Staff	1,370,000	Total Executive Costs

THREE YEARS - 2012			
Staff Positions	Org	Activity Costs	
1 CEO	All	970,000	Core Costs
	All	200,000	Transition Costs
1	All Staff	1,170,000	Total Executive Costs

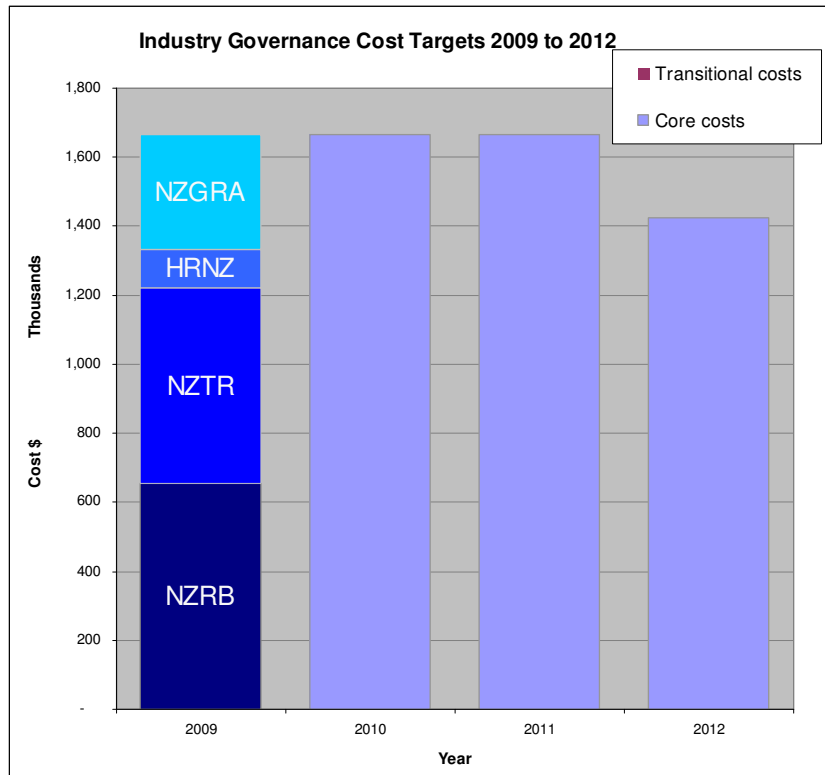
71% Costs 2012 versus 2009

400,000 Savings 2012 versus 2009

10 Governance

Targeted annual savings of \$242,000 by 2012, with significant reduction in the responsibilities of the three Code Boards, and consequently their costs. Formation of Racing Council as proposed would negate some, but not all savings, as will ongoing requirements of Code Governing Bodies under the Racing Act 2003.

Cost of separate code audits and annual reports reduced.



The above Governance savings are based on the following assumptions:

PRESENT DAY - 2009			
Staff Positions	Org	Activity Costs	Organisation
	NZTR		
	HRNZ		
	NZGRA		
	NZRB		
0	All Staff	1,667,000	Total Governance Costs

ONE YEAR - 2010			
Staff Positions	Org	Activity Costs	
	All	1,667,000	Core Costs
	All	-	Transition Costs
0	All Staff	1,667,000	Total Governance Costs

THREE YEARS - 2012			
Staff Positions	Org	Activity Costs	
	All	1,425,000	Core Costs
	All	-	Transition Costs
0	All Staff	1,425,000	Total Governance Costs

85% Costs 2012 versus 2009

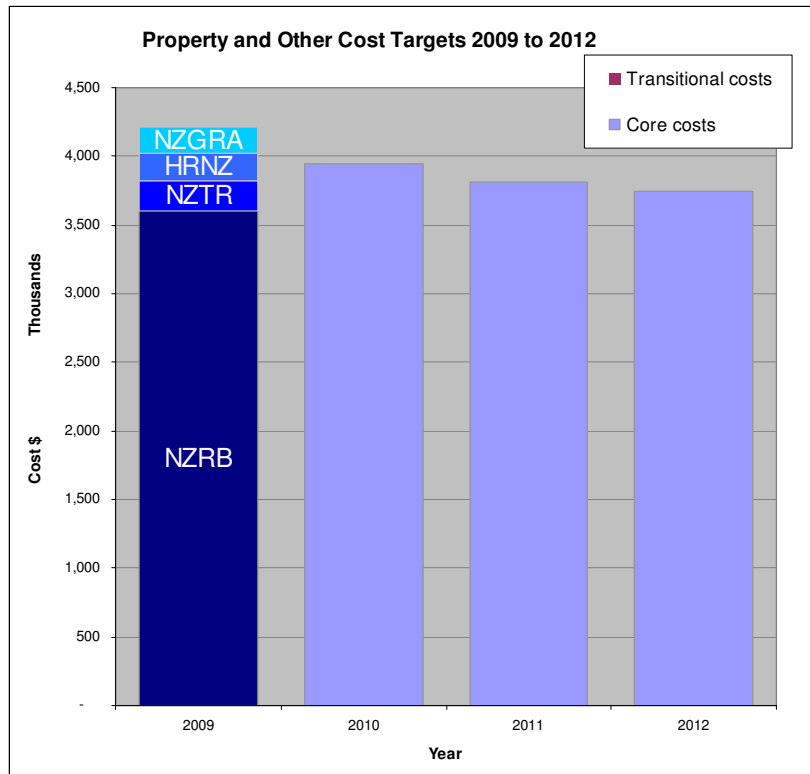
242,000 Savings 2012 versus 2009

Note: The 'Core Costs' of \$1.425m is envisaged under the Shared Services structure.
Further savings in Governance of \$0.600m is targeted should one governing body be established.

11 Property & other

Smaller proportion of savings \$467,000 (11%) given a number of costs that would remain.

Some savings achievable via use of buildings at regional office and Code level. More efficient use of other office space would be expected. General costs such as insurance, utilities etc. negotiated by one finance team on behalf of all Industry administration.



The above Property savings are based on the following assumptions:

PRESENT DAY - 2009			
Staff Positions	Org	Activity Costs	Organisation
	NZTR		
	HRNZ		
	NZGRA		
	NZRB		
0	All Staff	4,209,000	Total Executive Costs

ONE YEAR - 2010			
Staff Positions	Org	Activity Costs	
	All	3,942,000	Core Costs
	All	-	Transition Costs
0	All Staff	3,942,000	Total Executive Costs

THREE YEARS - 2012			
Staff Positions	Org	Activity Costs	
	All	3,742,000	Core Costs
	All	-	Transition Costs
0	All Staff	3,742,000	Total Executive Costs

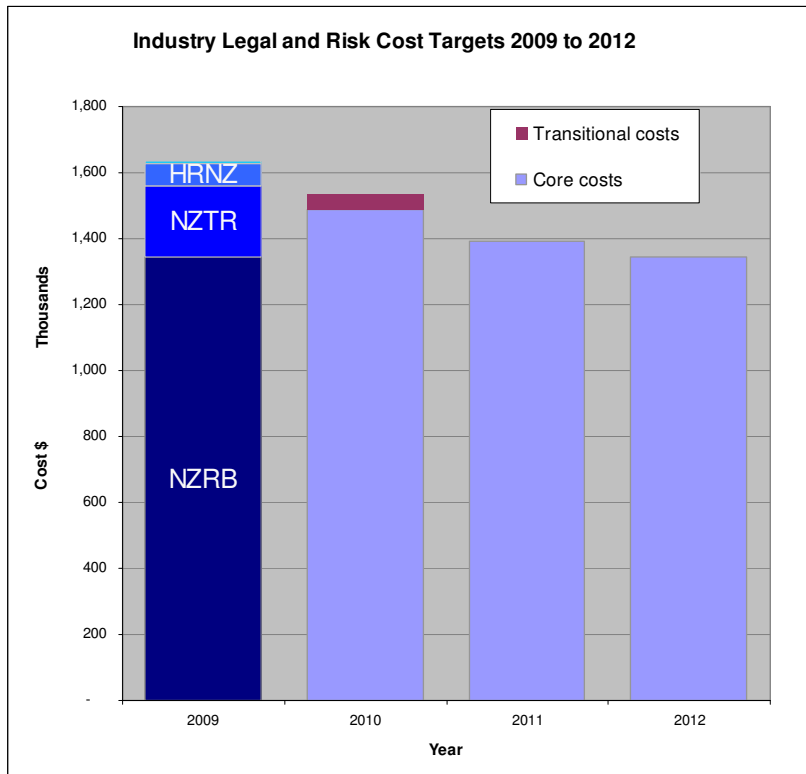
89% Costs 2012 versus 2009

467,000 Savings 2012 versus 2009

12 Legal

Targeted annual savings of \$292,000 as legal costs eventually diminish due to an eventual reduction in Code and NZRB constitutional and territory issues.

The core of legal costs will remain with Rules of Racing interpretations and New Zealand Racing Board commercial functions.



The above Legal savings are based on the following assumptions:

PRESENT DAY - 2009			
Staff Positions	Org	Activity Costs	Organisation
	NZTR		
	HRNZ		
	NZGRA		
In-house solicitor	NZRB		
1 All Staff		1,637,000	Total Legal Costs

ONE YEAR - 2010			
Staff Positions	Org	Activity Costs	
1 In-house solicitor	All	1,487,000	Core Costs
0	All	50,000	Transition Costs
1 All Staff		1,537,000	Total Legal Costs

THREE YEARS - 2012			
Staff Positions	Org	Activity Costs	
1 In-house solicitor	All	1,345,000	Core Costs
0	All	-	Transition Costs
1 All Staff		1,345,000	Total Legal Costs

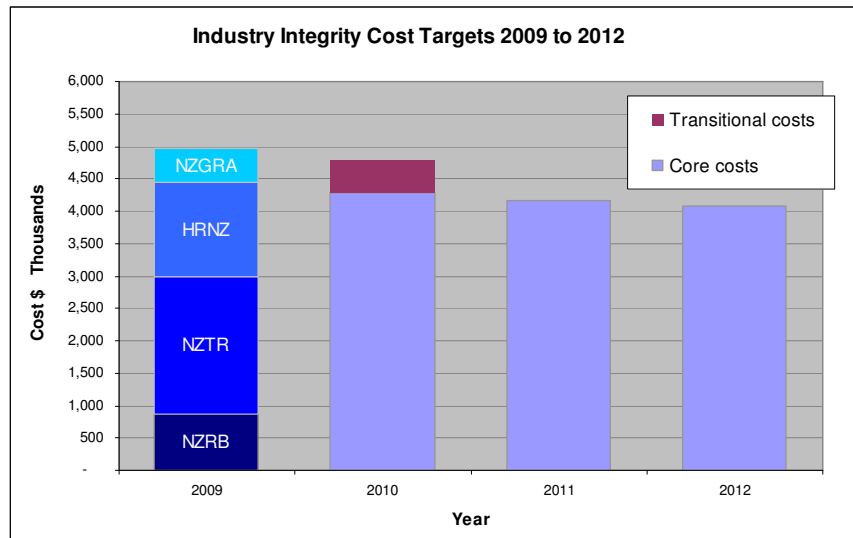
82%	Costs 2012 versus 2009
292,000	Savings 2012 versus 2009

13 Industry Integrity Unit

There is currently a commitment across the racing Codes for the establishment and management of a tri-code Industry Integrity Unit. The principal reason is that the operational mandate of such a unit would be more easily defined, since the over-riding objective would be the fair and proper conduct of racing, in accordance with the Rules established by the respective racing codes. Also, an independent integrity unit would operate at arms length from the executive of racing codes other than in the review of the Rules of Racing.

Conceptual savings that may be derived from the integration of the three existing teams of Stipendiary Stewards and Racecourse Inspectors have been calculated. The savings would accrue through a reduced need for travel between regions to sufficiently staff race meetings and through optimisation of staffing levels.

This graph shows the current cost structure and the effect of targeted savings. New Zealand Racing Board integrity costs represent drug testing payments made on behalf of the racing Codes.



The conceptual savings total \$0.88 million and are calculated as:

- Travel savings of \$0.25 million per annum, being a 50% reduction in existing travel costs.
- Net salary savings of \$0.63 million per annum, derived from a theoretical reduction in total Stipendiary Steward and Racecourse Inspector headcount from 37 to 27 staff, and with the necessary addition of an appropriately skilled Chief Steward and a compliance manager. (Note: an additional three licensing staff are included in the current and proposed structures).

The above Integrity unit savings are based on the following assumptions:

PRESENT DAY - 2009			
Staff Positions	Org	Activity Costs	Organisation
Chief Stipendiary Steward	NZTR		
Stipendiary Stewards	NZTR		
Racecourse Inspectors	NZTR		
Licensing staff	NZTR		
Chief Stipendiary Steward	HRNZ		
Stipendiary Stewards	HRNZ		
Racecourse Inspectors	HRNZ		
Licensing staff	HRNZ		
Chief Stipendiary Steward	NZGRA		
Stipendiary Stewards	NZGRA		
Racecourse Inspectors	NZGRA		
None	NZRB		
40 All Staff		4,958,000	Total Industry Integrity Costs

ONE YEAR - 2010			
Staff Positions	Org	Activity Costs	
GM Integrity	All	4,278,000	Core Costs
Industry Compliance Manager	All	500,000	Transition Costs
Chief Stipendiary Steward	All		
Senior Code Stewards	All		
Stipendiary Stewards	All		
Investigators	All		
Licensing Staff	All		
34 All Staff		4,778,000	Total Industry Integrity Costs

THREE YEARS - 2012			
Staff Positions	Org	Activity Costs	
GM Integrity	All	4,078,000	Core Costs
Industry Compliance Manager	All	-	Transition Costs
Chief Stipendiary Steward	All		
Senior Code Stewards	All		
Stipendiary Stewards	All		
Investigators	All		
Licensing Staff	All		
31 All Staff		4,078,000	Total Industry Integrity Costs

14 Capital expenditure

In addition to the more efficient structure and the operating savings that the move to one governing body would yield, it is likely that investment decisions of the industry would be assessed in a more consistent manner. The New Zealand Racing Board since inception has had a bias for investment in broadcasting, wagering systems and the retail network as part of meeting its obligations to the Codes.

This priority may have led to an imbalance across the industry between wagering and broadcasting related facilities, technology and equipment, as compared to those available to the core racing product.

With an integrated management structure, the range of investment decisions available would be assessed on a consistent framework, ensuring optimum returns to the industry. Additionally, Racing and Wagering New Zealand would be required to consider investment allocations beyond its current time horizon.

15 Club administrative savings

A review of the current administrative structure of the industry at NZRB and Code level also raises the question of whether such examination should be extended further. The above sections have suggested savings and efficiencies are available to the industry by merging the responsibilities of the Industry administrative structures.

Club operating expenses collated from 2007/2008 club financial statements totalled \$44 million (including depreciation) across all three Codes, as summarised below:

The Taskforce is satisfied that an estimated savings of at least \$4.0 million per annum could be achieved by more innovatively approaching the administration of product delivery.

	All Clubs
Bank fees & Charges	1,167,573
Electricity	586,905
Equipment Rentals	50,818
General Expenses	6,578,455
Health & Safety Compliance	60,963
Insurance	1,029,406
Interest	581,348
Legal & Other Professional Fees	689,519
Code Annual Levy	2,585,527
Postage, Printing & Stationery	359,520
Promotions	251,227
Rates	790,830
Rent	705,566
Repairs & Maintenance	6,012,642
Salaries & Wages	11,573,091
Subscriptions & Donations	106,962
Sundry	4,852,617
Telephone & Tolls	252,579
Track & Training Costs (Net)	1,305,950
Interdominion Contribution	165,000
Travel & Meeting Costs	814,372
Club Administrative Expenditure	40,520,867
Depreciation	3,491,119
Total Club 'Non Race' Expenditure	44,011,986

16 Transitional costs

To achieve the levels of targeted savings outlined, it is estimated that transitional costs of around \$4.1 million would be required, to facilitate the industry governance targeted savings. Some transitional costs are similarly likely at a club level, but these have not been estimated.

Investment in improved business systems and processes would likely require \$2.0 million to \$2.5 million. Severance pay and outplacement costs for the estimated 43 staff that would not be required once processes are rationalised may cost \$1.0 million to \$1.5 million. Necessary changes to the Rules of Racing and to legislation are difficult to estimate but an allowance of up to \$0.6 million should suffice.

The following table summarises the transitional cost estimates.

	Estimated Transition Costs
Investment in improved business systems	\$2.0m to \$2.5m
Staff restructuring costs	\$1.0m to \$1.5m
Cost of changes to Rules of Racing and Legislation	\$0.3m to \$0.6m
Total Operational Savings	\$4.1m (estimated)

Most of these costs would be incurred if a full shared services model was to be adopted.

The costs of changes to Rules of Racing and to Legislation are only required if the four governing bodies were devolved into a new entity.

17 Summary of analysis

The total targeted industry savings are summarised:

	Timeframe	Incremental Saving
Full Shared Services model	1-3 years	\$7.031m
Single Governing Body	3 years	\$0.600m
Club Administrative Savings	1-3 years	\$4.000m
Total Operational Savings		\$11.631m

As stated previously, these cost savings are estimates based on the savings that might be derived through an integrated management of existing processes. A challenge of additional savings would be provided to an integrated management team, through detailed re-engineering of business processes.

Transitional costs of around \$4.1 million have been estimated to facilitate the restructuring at industry governance level.

If the industry was able to restructure itself to the extent proposed, the reward of \$11.6 million would be available to fund industry investment, or to provide improved stakes payments. Set against 2009/10 industry stakes payments of \$90 million, this is a material sum.

These savings are significant and warrant change. The Taskforce urges those acting as trustees for the industry to move to realise the savings and thereby maximise returns to the industry.