



## Code Allocation Model Consultation Paper #1

The purpose of this paper is to request submissions into the structure of the Code Allocation Model for FY15 and beyond.

### BACKGROUND

On 1 July 2011, after analysis and consultation, Tasracing introduced a new code funding model. This model was introduced to deliver appropriate and equitable funding to the industry with recognition of performance for each of the three codes.

The funding model has been operational for the past three years and has distributed, as a minimum, CPI increases to the *total* code allocation in each year. The model is now scheduled for review and revision prior to the 2014-15 code allocations. As part of this review process, Tasracing are asking for feedback from industry participants on any changes to be made to the model for the 2014-15 (and beyond) allocations.

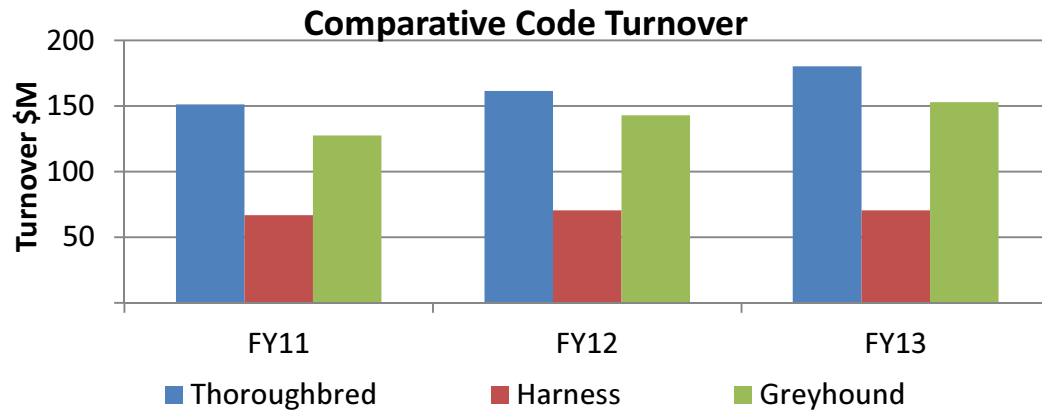
### COMMENT

The Code allocation model is aimed at distributing the total Code Allocation of some \$22M across the three codes of racing. The annual CPI increase amounts to around \$500-600k per annum depending on the actual CPI change for the year. This annual allocation is clearly an item of high interest to all industry participants and as such, Tasracing are asking for input from industry participants to help guide and revisions that will be made to the model for FY15.

In providing input, Tasracing suggests that a number of issues should be considered when reviewing the code allocation model.

As has been mentioned in numerous communications over the past couple of years, the sustainability of the Tasmanian racing industry remains the primary issue facing the industry today. While Tasracing was able to significantly improve the financial performance of the company during FY13, continuing losses are not sustainable. This background of austerity makes it unlikely that Code allocations above CPI will be available in the short to medium term.

Racefield Fees are now a significant part of the Tasmanian Racing industry funding base. In 2012/13 this income totalled \$5.1m, the equivalent of 17.5% of the Government grant received under the Funding Deed. This revenue source is a critical component towards improving the sustainability of the Tasmanian racing industry. In FY13 turnover (the primary driver for racefield fees) on Thoroughbred racing represented 44.6% of the total amount wagered on Tasmanian racing. Harness was 17.5% and Greyhound was 37.9%.



Turnover growth is dependent on complex mix of factors. These include the vision and broadcasting coverage, pricing within the national racefield fee market place, support and promotion by wagering operators and the volume of racing available. It is generally recognised that many of these factors are either outside the influence of Code representative bodies or their influence is limited.

Code funding certainty and stability is also considered very important in that it provides confidence for participants and encourages longer term financial commitments in the areas of ownership, training facilities, breeding stock and other items.

The recently completed Size and Scope Review of the Tasmanian Racing industry highlighted the economic value of racing to the Tasmanian economy of over \$103m per annum. 52% of this comes from Thoroughbred racing, 33% from Harness and 15% from Greyhounds. In terms of direct employment, Thoroughbred provides 60%, Harness 22% and Greyhounds 6%. The economic factors are the primary support for the annual funding received under the Funding Deed (\$29M in FY13).

In providing input to the code allocation model review, Tasracing asks that the following questions be considered:

***What performance measures should be used?***

The current allocation model uses two performance measures:

- 15% of the allocation is based on a 3 year weighted average turnover for each code
- 35% of the allocation is based on average Sky meeting turnover

While turnover is the primary driver for Racefield fee income, it can be significantly impacted by issues outside the control of the industry. A wide range of potential other factors could be taken into account including (but not limited to):

- |                       |                         |
|-----------------------|-------------------------|
| • Average field sizes | • Sky positioning       |
| • Races per meeting   | • Economic impact       |
| • Runners per meeting | • Employment generated  |
| • Races per annum     | • Cost of participation |
| • Promotional spend   |                         |

What performance measures would be appropriate in incentivising codes to present the highest wagering appeal possible and how should these be measured?

### ***How much of the existing allocation should be fixed?***

Under the current model, 50% of the existing allocation is fixed with the remainder open to reallocation based on performance measures. The higher the level of the fixed component, the more certainty industry participants have. On the other hand the higher the fixed component the less incentive there is for Individual codes to present the highest wagering appeal possible. Failure to present high wagering appeal product will reduce racefield fees and jeopardises the sustainability of the industry as a whole.

### ***Should individual code allocations be allowed to reduce?***

If the fixed component is low enough and the performance measures of an individual code fall (or increase less than the other codes), it is possible for specific codes to lose funding. This would likely result in either reduced stakes levels or reduced volume of racing for that code. Is this an acceptable consequence of any model or should the previous year's allocation be fixed as a minimum?

Tasracing welcomes industry input into this process and requests that any submissions be made in writing prior to 28<sup>th</sup> March 2014. It is Tasracing's intention that, after consideration of all submissions, a draft model will be developed and distributed for review in April.

## **Appendix One: 2011 Code Funding model Fact Sheet**

### **RECOMMENDATION**

Written submissions are encouraged for Tasracing's review of the Code Allocation Model by 28<sup>th</sup> March 2014. Interested parties are asked to consider three major questions in their submissions:

- What performance measures should be used?
- How much of the existing allocation should be fixed?
- Should individual code allocations be allowed to reduce?