

Reference: 20200317

4 November 2020

s9(2)(a)

Dear s9(2)(a)

Thank you for your Official Information Act request, received on 1 September 2020, for:

All emails, aide memoirs, advice, reports, correspondence, analysis, recommendations, briefings and documents of any kind and on any platform sent, held or received by Treasury in relation to the \$72.5 million COVID-19 emergency support package for the racing industry announced on May 12, including the \$50 million in funding provided to the TAB.

On 7 September you narrowed the scope of the request:

I am happy to discard the administrative communications and include matters of policy advice, opinion etc – so matters of substance.

As you are aware, on 22 September I extended the timeframe for making a decision on your request by 25 working days.

Information being released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	31 March 2020	Email: RE: Racing package	Release in part
2.	1 April 2020	Email: RE: Racing package	Release in part
3.	2 April 2020	Email: FW: Racing Industry Support – Sensitive	Release in part
4.	2 April 2020	Treasury comments on Draft Cabinet paper: Emergency Support Package to Ensure the Survival of the Racing Industry	Release in full
5.	14 April 2020	Email: FW: Racing Industry Support – Sensitive	Release in part
6.	14 April 2020	Email and attachment: Racing Industry Support – Sensitive	Release in full
7.	21 April 2020	Commissioning Note for Scope of Works to Undertake an Independent Appraisal of The Racing Industry Transition Agency ("RITA")	Release in part

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<https://treasury.govt.nz>

Item	Date	Document Description	Decision
8.	27 April 2020	Submission seeking funding for COVID-19 related costs: All-weather racetracks	Release in full
9.	29 April 2020	Submission seeking funding for COVID-19 related costs: gambling, racing and community funding work programme	Release in part
10.	29 April 2020	Assessment template: all weather racetracks	Release in full
11.	2 May 2020	Email: RE: Racing briefing – Recommended Racing Industry Support Package	Release in part
12.	3 May 2020	Racing Industry Transition Agency – Funding requirements	Release in part
13.	4 May 2020	Treasury comments on Draft Cabinet paper: Emergency Support Package: Racing Industry and Sport	Release in part
14.	4 May 2020	Assessment template: Gambling, Racing and Community Funding Work Programme	Release in full
15.	4 May 2020	Email: RE: Racing Cabinet Paper – Agreement to emergency racing industry support package v3	Release in part
16.	4 May 2020	Email: Re: RITA	Release in part
17.	5 May 2020	Email: RE: Emergency Support Package: Racing Industry and Sport Cabinet paper	Release in part
18.	5 May 2020	Racing Industry Transition Agency – Funding Options memo 5 May 2020	Release in part
19.	5 May 2020	Racing Industry Transition Agency – Funding Options matrix 5 May 2020	Release in part
20.	6 May 2020	Email: Treasury comments on Draft Cabinet paper: Emergency Support Package: Racing Industry and Sport	Release in part
21.	6 May 2020	Treasury comments on Draft Cabinet paper: Emergency Support Package: Racing Industry and Sport	Release in part
22.	6 May 2020	Extract from “Advice on COVID-19 Response and Recovery Fund package for Budget Ministers 6 May”	Release in part
23.	12 May 2020	Email: FW: Racing Industry Support Package: Approval of Financial Recommendations	Release in part
24.	25 May 2020	Aide Memoire: Future intervention in the TAB / RITA: Potential costs and wider policy issues	Release in part
25.	2 June 2020	Racing Industry Support Package: Approval of Conditions of Funding	Release in part

I have decided to release the relevant parts of the documents listed above, and to withhold certain information under one or more of the following sections of the Official Information Act, as applicable:

- personal contact details of officials, under section 9(2)(a) – to protect the privacy of natural persons, including that of deceased natural persons
- contact details of officials, under section 9(2)(g)(ii) – to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment
- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials
- commercially sensitive information, under section 9(2)(b)(ii) – to protect the commercial position of the person who supplied the information, or who is the subject of the information, and
- direct dial phone numbers of officials under section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

Some information has been redacted because it is not covered by the scope of your request. This is because the documents include matters outside your specific request.

Information withheld

I have decided to withhold one email relevant to your request in full under section 9(2)(g)(i) of the Official Information Act – to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any public service agency or organisation in the course of their duty.

Information publicly available

The following information is also covered by your request and is publicly available on the Treasury and/or Unite Against COVID-19 websites. I have therefore refused your request for the documents listed in the table below under section 18(d) of the Official Information Act, as the information requested is or will soon be publicly available.

Item	Date	Document Description	Website Address
1.	15 April 2020	Cabinet Paper - Emergency Support Package for Racing Industry and Sport	https://covid19.govt.nz/assets/resources/proactive-release-2020-july/SE23-Cabinet-paper-Emergency-support-package-racing-industry-and-sport-16....pdf
2.	16 April 2020	Minute - Emergency Support Package: Racing Industry and Sport	https://covid19.govt.nz/assets/resources/proactive-release-2020-july/SE37-Emergency-Support-Package-Racing-Industry-and-Sport.pdf
3.	30 April 2020	Racing Industry Transition Agency – report to the Treasury	https://www.treasury.govt.nz/sites/default/files/2020-09/oia-20200293.pdf

Item	Date	Document Description	Website Address
4.	11 May 2020	Cabinet Minute CAB-20-MIN-0219.14: COVID-19: Response and Recovery Fund Foundation Package: Vote Internal Affairs	https://www.treasury.govt.nz/sites/default/files/2020-06/b20-cab-20-min-0219-14-4289974.pdf
5.	11 May 2020	Cabinet Paper CAB-20-SUB-0219: COVID-19 Response and Recovery Fund Foundational Package	https://www.treasury.govt.nz/sites/default/files/2020-06/b20-cab-20-sub-0219-4283397.pdf
6.	12 May 2020	Department of Internal Affairs Racing Briefing RA20200091: Racing Industry Support Package: Approval of Financial Recommendations	https://treasury.govt.nz/sites/default/files/2020-06/b20-ra20200091-4285392.pdf
7.	12 May 2020	Initiative(s): Vote Internal Affairs COVID-19 Response and Recovery Fund Initiatives	https://treasury.govt.nz/sites/default/files/2020-06/b20-initiatives-ia-4278244.pdf

Some relevant information has been removed from documents listed in the above table under the Official Information Act, on the grounds described in the documents.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Colin Hall
Manager, Justice, Security and Government Services

OIA 20200317

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From: Michael Lonergan [TSY]
Sent: Tuesday, 31 March 2020 10:08 AM
To: Craig Murphy [TSY]
Subject: RE: Racing package

[IN-CONFIDENCE]

Hi Craig

I wanted to ask if this paper is something you want to take the lead in responding on with the COVID response angle, or me from the Vote team?

I also had some initial comments I thought might be useful to share from a Vote team perspective:

- It's quite a vague paper – either a loan or a guarantee are suggested but the final shape isn't clear
- There are likely to be fiscal implications that need charging against Budget allowances/between-Budget contingency/elsewhere due to:
 - o any loan being at a preferential rate, which would also need an appropriation to be established
 - o "repurposing" of the betting levy which is effectively new funding
- The support package for the racing industry needs to be developed alongside the support package SportsNZ is preparing for the sports sector more broadly – we haven't yet seen what they are preparing but a starting point would be to make sure there is a level playing field across these various support packages so that the government is not inadvertently picking 'winners'.
- While the guarantee option recommended in the paper is aligned with the Business Finance Guarantee Scheme announced by the Government – the levels of guarantee are significantly larger for the Racing package (at \$75m). Guaranteed loans under the Business Finance Guarantee Scheme appear to be capped at \$500,000.
- The paper is light on the financials around TAB reducing its costs – paper notes that TAB requires \$45m of the \$75m guarantee for its operations over the next year. There looks to be a gap between the proposal (up to \$75m guarantee and proposed "repurposing" of \$7.5m from the betting levy and Budget 2019 funding), and what the TAB's needs are, but the paper doesn't provide enough information on this.
- a guarantee would require MoF, not Cabinet, approval but Cabinet might need to know given the significance of the issue

cheers
Michael

From: Murray Johnson <Murray.Johnson@dia.govt.nz>
Sent: Monday, 30 March 2020 3:10 pm
To: Craig Murphy [TSY] <Craig.Murphy@treasury.govt.nz>
Cc: Jason Dowse <Jason.Dowse@dia.govt.nz>; Michael Lonergan [TSY] <Michael.Lonergan@treasury.govt.nz>
Subject: RE: Racing package

Hi Craig

Here's the draft paper. As discussed, it's provided to ensure we are as 'joined up' as we can be – so the what we say in here aligns with the approach you are taking.

The draft is still subject to fact checking but the overall approach is as indicated.

Happy to clarify any points required – although once we've got an approach agreed, it would be useful to include the Racing Industry Transition Agency in any detailed discussion.

Kind regards,
Murray

From: Murray Johnson
Sent: Monday, 30 March 2020 1:24 PM
To: 'Craig Murphy [TSY]' <Craig.Murphy@treasury.govt.nz>
Cc: Jason Dowse <Jason.Dowse@dia.govt.nz>; 'Michael Loneragan [TSY]' <Michael.Loneragan@treasury.govt.nz>
Subject: RE: Racing package

Hi Craig

We expect to have the draft paper with you today – if that's ok?

At this stage, we just want to make sure anything we are saying therein is an accurate description of the process.

Kind regards,
Murray

Remainder of this email trail is not relevant to the request

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From: Michael Lonergan [TSY] <Michael.Lonergan@treasury.govt.nz>
Sent: Wednesday, 1 April 2020 10:25 AM
To: Murray Johnson <Murray.Johnson@dia.govt.nz>
Cc: Craig Murphy [TSY] <Craig.Murphy@treasury.govt.nz>; Jason Dowse <Jason.Dowse@dia.govt.nz>
Subject: RE: Racing package

Hi Murray

We've been having a number of discussions here about where this work might fit in with other things underway. Craig's work is focused on "economically significant businesses" with a focus on those with wider economic externalities or network impacts, and we're not quite clear at the moment whether the TAB fits into this category, so any intervention with the TAB might not fit into this category.

Based on the paper sent through yesterday, we weren't clear exactly what problems the TAB is facing beyond a general sense of revenue decline, and therefore we weren't clear on what might be the most appropriate commercial solution. We think more detailed work might need to be done to look into the issues here. The Treasury

is also keen to be involved in the design and execution of any commercial solution once any policy decisions on support have been made – this would be more in Craig's team from a commercial perspective than from my perspective as VA.

Below is a suggested approach on the Cabinet paper that helps get appropriate Cabinet approvals while also allowing detailed consideration of the TAB's position and flexibility in design of any solution:

- We'd suggest you frame this Cabinet paper to focus on the question of "should the government agree to intervene and provide support to the TAB?" It wouldn't agree to any specific type of support but could outline in detail:
 - o What financial difficulties the TAB/RITA is facing
 - o what RITA/TAB is looking for in terms of any assistance
 - o why existing mechanisms (e.g. wage subsidy scheme or finance guarantee) aren't sufficient;
 - o why there is a strong case for bespoke intervention with the TAB
- The paper could also set out some bottom lines/negotiating parameters for the Crown, and specific objectives to be achieved.
- The recommendations in the paper could then:
 - o direct DIA and Treasury to investigate and to better understand the financial situation faced by RITA/TAB, determine appropriate support mechanisms and enter into negotiations on support mechanisms in line with parameters set by Cabinet
 - o authorise MoF and Minister of Racing to take decisions on negotiations and approve any final support package to allow for speed in responding

Appreciate this might be a little late in the piece, but does this sound like a workable approach to you?

Cheers
Michael

From: Murray Johnson <Murray.Johnson@dia.govt.nz>
Sent: Tuesday, 31 March 2020 4:41 pm
To: Michael Lonergan [TSY] <Michael.Lonergan@treasury.govt.nz>; Craig Murphy [TSY] <Craig.Murphy@treasury.govt.nz>
Cc: Jason Dowse <Jason.Dowse@dia.govt.nz>
Subject: RE: Racing package

Hi Michael

Thanks for getting back. We are still getting the information from racing and sport to finalise the paper – so we don't necessarily need Treasury to feed into and comment on this version of the paper. What would be handy is a steer on whether a support package such as this would be routed into the process that Craig and his team have underway – or something else.

We will get you another version of the paper later today or early tomorrow – and are expecting to forward a draft to our Minister for his perusal and feedback on Wednesday. From there (and discussions with MOF's Office) we hope to get an indication as to whether it heads to CBC or CVC. Timing then dependent on that – but for consideration in fairly short order.

Does this help?

Cheers, Murray Remainder of this email trail is not relevant to the request

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From: Michael Lonergan [TSY]
Sent: Thursday, 2 April 2020 5:15 PM
To: Murray Johnson; Jason Dowse
Subject: FW: Racing industry support - Sensitive
Attachments: TAB support package cab paper V10.docx

Hi both – as mentioned in the separate email, below are comments on the paper. Please let me know when you receive them.

Cheers
Michael

From: Michael Lonergan [TSY]
Sent: Thursday, 2 April 2020 1:17 pm
To: 'Jason Dowse' <Jason.Dowse@dia.govt.nz>
Cc: Murray Johnson <Murray.Johnson@dia.govt.nz>; Craig Murphy [TSY] <Craig.Murphy@treasury.govt.nz>
Subject: RE: Racing industry support - Sensitive

Hi Jason

Attached is the paper with some further comments, the main ones being:

- The paper needs to be clearer about the objectives of any support package - the focus should be on:
 - o Entity: The TAB first and foremost – i.e. the response package isn't primarily about the racing industry, so DIA/Tsy shouldn't be tasked to look at ways ensure the survival of the racing industry, but the TAB. Racing / sports impacts are secondary, and the vast majority of the requested package is directly for the TAB and its own finances.
 - o Timing: the immediate needs of the TAB through to end of July
- The parts of the paper discussing the TAB's financial state are still not that clear, and more detailed information on projected revenue, expenditure and impacts of COVID support packages would be useful to include to make the case here. It might also help to use tables to illustrate some of this.
- I've included some text around the long term decline of the racing industry and how the recent reforms aim to address this – it's important to give Ministers the context that the industry has been in decline for some time before COVID. The text inserted is based on the April 2019 overview Cabinet paper.
- Financial implications – it would be good to flesh out in this section the 75m figure a bit more. In relation to the point below, we don't know what the various support options would entail in terms of \$ so the paper should provide as much info as possible about the range of fiscal implications and risks. I've also included a sentence saying funding would likely be charged against the COVID fund established at Budget 2020. Cabinet will take decisions on the Budget package on Monday so you can add in the minute reference to the final version of this paper after that date.
- We've included a Treasury comment

One final thought not in the paper itself: I understand Sport NZ has been tasked creating a support package for the sports sector more broadly. We haven't yet seen what they are preparing. However it does raise the question of whether this support package should involve additional funding to the TAB for sports if there's another wider sports package. It would be good to at the least mention this sports package in the paper, and discuss with Sport NZ.

Please let me know what your timing on this paper is looking like when you get further information.

Cheers
Michael

From: Jason Dowse <Jason.Dowse@dia.govt.nz>
Sent: Thursday, 2 April 2020 11:11 am
To: Michael Loneragan [TSY] <Michael.Loneragan@treasury.govt.nz>
Cc: Murray Johnson <Murray.Johnson@dia.govt.nz>
Subject: RE: Racing industry support - Sensitive

Hi Michael,

Thanks for this. In terms of timing of impact, TAB will need to have received a significant sum before May 11, we don't have an exact number but I'd expect it to be region of \$20m+, on the basis that its operating costs are around \$10m per month and it's got some deferred payments to make and that's before planned distribution of support payments to codes. It could be quite a bit more than \$20m but that is the detail we would work out with them if Cabinet agrees to the recs.

If the support is via a Crown guarantee, would that have a fiscal impact, do you need to reflect the risk?

From: Michael Loneragan [TSY] <Michael.Loneragan@treasury.govt.nz>
Sent: Thursday, 2 April 2020 10:37 AM
To: Jason Dowse <Jason.Dowse@dia.govt.nz>
Cc: Murray Johnson <Murray.Johnson@dia.govt.nz>
Subject: RE: Racing industry support - Sensitive

[IN-CONFIDENCE]

Hi Jason

Thanks for sending this through. I'm looking over at the moment and sent to Craig and others here too, and had an immediate question – if there are significant financial implications, when do you think the expenditure would be incurred by the govt – before 11 May, or after 11 May? We have a COVID-related process for additional expenditure and that's a key consideration in terms of charging the fiscal impacts and processes.

I'll keep going through and aim to send you comments around midday or early afternoon.

Cheers
Michael

From: Jason Dowse <Jason.Dowse@dia.govt.nz>
Sent: Thursday, 2 April 2020 9:27 am
To: Michael Loneragan [TSY] <Michael.Loneragan@treasury.govt.nz>
Cc: Murray Johnson <Murray.Johnson@dia.govt.nz>
Subject: Racing industry support - Sensitive

Hi Michael,

Further to our conversation, we have taken your points on board and revised the cab paper as attached. We appreciate you and your team might be pushed to give this an end to end read so, the punch lines are:

- This is about supporting the industry and RITA and the TAB are vehicles to do that
- TAB is within a couple of weeks of failing
- Because the TAB is the critical revenue generator for the industry if it fails then industry recovery will be long, hard and uncertain and would negate the industry reform programme already started
- We have moved away from specifically recommending a Crown guarantee
- Added in a rec about DIA and Treasury working to confirm what is needed
- Authorising joint ministers to take decisions on what support is provided and the form that takes.

If at all possible we would like to get this signed out to our Minister today so it would be very helpful if you could have a quick look, at least at the recs and advise if you have any further comments before we proceed.

Kind regards

Jason Dowse | Senior Advisor
Policy Group | Toi Hiranga
Department of Internal Affairs | Te Tari Taiwhenua
Mobile: s9(2)(g)(ii)



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DRAFT- NOT GOVERNMENT POLICY**SENSITIVE**

Office of the Minister for Racing

Chair
Cabinet XX Committee**Emergency Support Package to Ensure the Survival of the Racing Industry****Proposal**

1. This paper proposes a support package to ensure the survival of the racing industry and to position it for rapid recovery once COVID-19 has run its course.

Executive summary

2. The TAB, racing industry and National Sporting Organisations (NSOs) that rely on the TAB are under severe pressure as a result of COVID-19. The racing industry is highly cashflow reliant, principally on revenue generated by the TAB.
3. The Racing Industry Transition Agency (RITA) expects the TAB's revenue to drop to close to zero from April 2020, with little prospect of significant revenue recovery before the new racing season starts in August. The racing industry has very limited reserves and cannot survive on its own resources. The direct and indirect employment impact generated by the New Zealand racing industry is over 14,000 fulltime equivalents, with in excess of 58,000 individuals participating in the industry in some shape or form. Many of these jobs are based in regional economies.
4. RITA estimates that the revenue loss to sport and racing will be over \$20 million per month against TAB's operating costs of around \$11 million per month. The significant income and business support packages already announced go some way to mitigate the pandemic impacts on the industry. In addition, RITA has taken urgent action to reduce costs to offset the collapse in revenue but cannot survive without additional assistance. If the TAB ceases trading this will mean that once the COVID-19 crisis has passed the industry may not quickly recover and resume its contribution to New Zealand's economy.
5. RITA has requested a support package of approximately \$75m that would ensure the TAB can continue operations through to 30 July 2020 but with significantly reduced size, costs and revenues. Of the requested support, approximately \$56 million would be used by the TAB to ensure its survival, so it can restore industry revenue as soon as possible once racing and sport events resume. In addition, approximately \$14 million would be passed through to racing codes to support their operations. A further \$5 million would go to NSOs that normally receive TAB funding. The package has approximately \$2 million built-in to support a recovery campaign to help attract the public and owners back to racing and sport events and associated wagering.
6. The racing season is expected to partially resume in August and if revenues resume quickly no further support may be needed. However, if the season has a delayed start or slow recovery then additional support may need to be considered.

Commented [ML1]: This should be clarified to focus on the immediate needs – e.g. survival through to 31 July as mentioned on the phone yesterday

Shouldn't it also be focusing on the survival of the TAB first and foremost? The racing industry and NSOs impacts are a further consequence of that

Commented [ML2]: When were these figures from? State the date as things will have changed

Commented [ML3]: Is this meant to just be "revenue to the TAB" rather than revenue to sports and racing?

DRAFT- NOT GOVERNMENT POLICY**SENSITIVE**

7. This paper recommends that Cabinet direct the Department of Internal Affairs and the Treasury to urgently confirm the nature and scale of support required in line with parameters set by Cabinet. It also recommends that Cabinet authorise the Minister for Racing and the Minister of [Finance](#) to take decisions on negotiations and approve any final support package, [with an upper limit of \\$75 million](#).

Background

8. The TAB, racing industry and NSOs that rely on the TAB are under severe pressure as a result of COVID-19. While some events are still occurring in Australia and e-sports betting is ongoing, almost all significant racing and sport events have been postponed or cancelled. This means there are few racing and sport events available for wagering, no profit distributions to the industry from the TAB, and horse and dog owners cannot win prizes in order to cover their costs including paying trainers and other industry participants. The industry is highly cashflow reliant, principally on revenue generated by the TAB, has very limited reserves and cannot survive on its own resources. Without support there will be significant economic hardship for the sector and those who depend on it.
9. In the longer term, owners will not have the resources to remain in the industry and support its eventual recovery. Sporting codes also depend on revenue TAB generates through wagering on sporting events in New Zealand and overseas. This loss in revenue directly impacts on sporting codes and the participants and communities that benefit from financial support from those codes.
10. As New Zealand's legislated monopoly for wagering products, the TAB is an important part of New Zealand's gambling regulatory framework. While it is not illegal for New Zealanders to access wagering products from online offshore providers, only the TAB can operate terrestrial wagering services and advertise to New Zealanders. The condition of this monopoly is a legal requirement that the TAB fulfil the three core principles of New Zealand's gambling system: being trusted and transparent (by being accountable to Government); providing protections for consumers; and ensuring there are returns to the community (through distributions and payments to racing and sport).
11. Government has announced significant response packages that include: income support for workers; and support for small and medium sized businesses. Those responses will go some way to alleviate the impact on some participants in the racing industry. However, those responses will not ensure the survival of the TAB and the three racing codes (the codes -Thoroughbred, Harness and Greyhound). Only the Thoroughbred code has any reserves to fall back on. The TAB's revenue and distributions to racing codes will not resume until major domestic and international racing and sport events restart in material numbers. RITA, as the operator of the TAB, has approached Government seeking support for the industry to survive this unprecedented crisis.

Commented [ML4]: What % of TAB revenues do these make up? Will e-sports revenue be forecast to increase?

DRAFT- NOT GOVERNMENT POLICY**SENSITIVE****Racing is a major industry and employer**

12. The racing industry is comprised of RITA/TAB (a Statutory Entity governed by the Racing Act 2003), the three racing codes, racing clubs, horse and dog owners, trainers, breeders, jockeys and others. The TAB is one of two primary sources of revenue for the industry - the other being investment from the owners of racing animals. Revenue is distributed by the TAB to the industry, primarily in the form of stake money - the amount of money available to winners and place-getters in a race. The annex includes a flowchart that illustrates the TAB's central role in generating revenue and distributing proceeds to the racing industry and sporting organisations.
13. A 2018 study by the Australian consultancy firm IER, showed that in 2016 the New Zealand Racing Industry was responsible for generating more than \$1.6 billion in value-added contribution to the New Zealand economy. This expenditure was responsible for creating a direct value-added impact (in terms of wages, salaries and profits) of \$611.0 million per annum. The same study showed that the total direct and indirect employment impact generated by the New Zealand racing industry was 14,398 FTE jobs, with in excess of 58,000 individuals participating in the industry in some shape or form. Many of these jobs are based in regional economies.

- 13.14. The racing industry has been in a long term decline. Declining foal crops inhibit future race field sizes, leading to less wagering and less revenue for the racing industry. Prize money is low so returns to owners are low. Betting profit margins have also reduced. The racing industry's economic value was 2016/17 was the same value as in 2010, reflecting a loss in value in real terms. The government has begun a series of major reforms to revitalise the racing industry.

The industry will not survive without support

- 14.15. In the year to 30 July 2019 the TAB's revenue was \$348 million and its expenses totalled \$211 million. After expenses, the TAB distributed \$162 million to the racing industry and a further \$14 million to sporting organisations, paid in monthly increments based on earnings. This left the TAB with a loss of \$29 million. RITA expects the TAB's revenue to drop to close to zero from April 2020 and with little prospect of significant revenue recovery before the new racing season starts in August. The new season is expected to start with a limited number of races and then progressively increase in volume as horses are returned to racing condition.
- 15.16. Over the past three years RITA has invested to bring the TAB's betting infrastructure and customer experience up to international standards. RITA used debt to fund these investments. Debt funding capital projects enabled the TAB to maintain distributions to racing codes. However, it means the TAB now carries \$45 million in term debt. The TAB also has a \$5 million overdraft, and its lenders have indicated further significant debt support is not available without Government support. Lenders are also increasingly concerned that the TAB may not be able to meet its existing commitments, even with recently announced COVID-19 support measures. The existing racing industry reform programme was on track to place the racing industry on a more sustainable footing, but this is now in jeopardy as a result of the pandemic.

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Commented [ML5]: This section could be made a lot clearer through use of a few tables to summarise – it's a little difficult to follow at the moment

Also not clear at the moment what projected revenue and expenditure look like in the next few months

This section is also not clear as to why existing government responses to COVID are not sufficient – e.g. the wage subsidy scheme, finance guarantee scheme, etc

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16.17. RITA estimates that the revenue loss to sport and racing will be over \$20 million per month and that TAB operating costs are around \$11 million per month. RITA has taken urgent action to reduce costs to offset the collapse in revenue. It has frozen recruitment and non-essential expenditure, closed all TAB retail stores and implemented a 3-day work week and sought voluntary leave from staff. The closure of retail stores has stopped gaming operations which fund racing integrity services through the proceeds from Class 4 gambling. RITA is also considering redundancies to further reduce operating costs. However, RITA has significant fixed costs as a result of contractual commitments that it will now not be able to meet and is therefore unable to meet redundancy requirements. RITA has advised that it is only a matter of weeks from directors having to declare that the TAB is not a going concern and cease all operations.

Commented [ML6]: Are these fixed costs?

Is this the current TAB operating cost? Or is this the TAB's estimated operating cost after taking as many measures as possible regarding expenditure.

17.18. Codes are significantly impacted and facing the loss of most or all revenue. Codes have significantly lower fixed costs compared to RITA but very limited reserves. RITA's advice is that the Codes may be able to survive without external support until the start of the racing season if they share resources, which may be difficult to put in place. However, RITA has noted that this would leave the Codes very poorly placed at the resumption of racing in August to support races and pay for stakes, subject to any further COVID-19 related restrictions, which would delay the recovery of the industry.

18.19. Government has previously recognised the importance of the racing industry, committing to initiate a comprehensive set of reforms to ensure its ongoing viability [CAB-19-MIN-0168.02 refers]. The current crisis means that the racing reform programme will fail to secure the future of the industry unless additional support is provided. If the TAB ceases trading this will mean that once the COVID-19 crisis has passed the industry may not quickly recover and resume its contribution to New Zealand's economy.

Commented [ML7]: Some of these reforms have already been implemented – with question as to effectiveness of those reforms?

A support package for the racing industry and sport

19.20. RITA has requested a support package that would ensure the TAB can continue operations but with significantly reduced size, costs and revenues. The package would also support the racing industry and secure its survival until the end of the financial year (30 July). NSOs will also suffer the loss most or all of the \$5-6 million forecast to be paid to NSOs over April to August 2020 and generated by sport betting activities.

20.21. If the COVID-19 crisis extends and prevents racing resuming later in 2020 there ~~will~~ may be a need to consider increasing the support beyond the proposed upper limit. If that appears warranted, proposals will be brought to Cabinet for consideration later in 2020.

21.22. To assist the industry, Government could also agree that the betting levy be repealed a year earlier. This would allow the TAB retain ~~any betting duty (the 'betting levy') savings. The TAB has in its accounts~~ approximately \$4 million of duty in its account which it would normally distribute to codes and Sport NZ. This would have a corresponding impact on the Crown's operating balance. RITA also estimates that approximately \$4.8 million in support can be accessed from existing support packages. RITA does not consider that the existing packages, retention of betting levy or re-purposing change funding will be sufficient to sustain the industry through to August 2020.

Commented [ML8]: Any more specificity available here? Which packages? How much from each package?

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22-23. RITA has requested additional support to the end of the TAB's financial year (30 July 2020) to:

- Ensure the TAB can maintain a baseline functionality and meet essential and unavoidable costs;
- Ensure the Codes can maintain a baseline functionality and meet essential and unavoidable costs;
- Partially offset the loss of distributions to sporting organisations from the TAB;
- Drive a quick and strong recovery of racing via additional marketing, promotion and stakes as soon as racing and sport events can resume.

23-24. Department of Internal Affairs officials have reviewed the information provided by RITA on its financial position and outlook and find it credible. [The Treasury has not reviewed this information.](#) RITA's advice is that the racing industry is expected to require a minimum of an additional \$75 million to carry it through to the end of its financial year. The next racing season commences around August 2020 and at that time revenue flows should progressively start to resume and the need for assistance diminish, assuming the pandemic impacts and restrictions are easing, both in New Zealand and offshore. If normal racing volumes are significantly delayed beyond August, further industry support may need to be considered.

24-25. Of this support, [RITA advises that](#) approximately \$56 million would be used by the TAB to ensure its survival, so it can restore industry revenue as soon as possible. In addition, approximately \$14 million would be passed through to racing codes to support their operations. A further \$5 million would go to national sporting organisations that would ordinarily anticipate payments for content over the period. The package has approximately \$2 million built-in to support a recovery campaign to help attract the public and owners back to racing and sport events and associated wagering.

Options for the type of support provided

25-26. There are a number of ways Government support [can/could](#) be structured. In addition to the betting levy, Government could provide:

25-26.1 Grants;

25-26.2 A Crown loan;

25-26.3 A Crown guarantee for a commercial loan.

26-27. The above items are not mutually exclusive, and a support package could include a combination of the three items in paragraph 25. A grant would have the highest direct cost on the Crown's accounts but would position the industry for rapid recovery. A Crown loan would incur a capital charge but would be a recoverable asset and have limited impact on the Crown's accounts if the loan is repaid and depending on the terms of the loan. A Crown Guarantee of a commercial loan creates commercial incentives on the industry – but could incur a higher cost to the Crown over the long term, if the industry failed to recover sufficiently and repay its debt.

27-28. However, a Crown loan and a Crown guarantee would mean the industry has to make repayments out of future revenue streams and this could slow the sector's recovery and, in the longer-term, its ability to achieve financial sustainability.

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28-29. This paper proposes that any assistance would be targeted to meet unavoidable operating costs. For example, if the support is via a Crown guarantee it would may, with some limits, be appropriate to allow RITA and the codes to determine how they apply the funding to support operating costs, which could include some personnel costs not covered by the support package for wage and salary earners. RITA advises that if it and the codes do not retain a core of the most crucially important personnel this will greatly slow the ability for the industry to recover.

If no support is provided the TAB will have to cease trading

29-30. The requested support package for the TAB would ensure that the TAB has the minimum required to sustain some level of operation and capability, enabling the racing industry to survive. If no support is provided to the TAB, it will have no prospect of meeting its commitments and will have to immediately cease trading. Failure of the TAB would have immediate and large impacts on the racing industry, from codes, to clubs to trainers and breeders and potentially all 14,000 fulltime equivalent jobs directly or indirectly employed in the racing industry. Sporting organisations would also suffer, and via them, the athletes they support.

30-31. If the TAB ceases operations Government and agencies would work with the racing industry to put in place arrangements for one or more replacement operators to enter the New Zealand wagering market. This would require amendments to the Racing and Gambling Acts. This would eventually deliver products, services and revenue streams to replace those provided by the TAB. A change of that magnitude would require legislative support and arrangements could take a year or more to put in place. There is no likelihood that a replacement operator could be in place and fully functional by the start of the spring racing season.

31-32. Liquidation of the TAB would delay the recovery of the racing industry by a minimum of 6-12 months or drive it into a downward spiral from which it might not recover. This would almost certainly lead to further requests for financial support from the industry.

Summary and next steps

32-33. The TAB, racing industry and NSOs that rely on the TAB are under severe pressure as a result of COVID-19. The industry is highly cashflow reliant, principally on revenue generated by the TAB, has very limited reserves and cannot survive on its own resources. Without support there will be significant economic hardship for the sector and those who depend on it.

33-34. There is a strong case for providing assistance and it is recommended that the Treasury and Department of Internal Affairs investigate the financial position of the TAB and provide advice to the Minister of Finance and Minister of Racing on options for appropriate support to ensure the TAB is able to survive until 30 July. To allow for timely decision making, it is recommended that Cabinet authorise joint Ministers ~~to enter into discussions with RITA on the form and take final decisions on scale of~~ any support package. The initial objective would be to ensure the survival of the industry TAB, including the TAB through to the end of its 30 July financial year. A second objective would be to position the industry to successfully resume racing in August. A third objective is to mitigate impacts on sporting organisations as a result of lost betting revenue.

Commented [ML9]: If these are the objectives, shouldn't they be put in the recs?

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OFFICIAL INFORMATION ACT

DRAFT- NOT GOVERNMENT POLICY**SENSITIVE****Consultation*****Racing Industry Transition Agency¹ (RITA) comments on the proposals***

~~34-35.~~ RITA has underlined the seriousness of the impact of COVID-19 on the viability of the TAB and the New Zealand racing industry and sport. The crisis has clearly highlighted that neither the TAB or racing industry has the financial resilience to weather the impact of COVID-19 without external support. This reinforces previous Government decisions with regard to the reform of racing, in particular the need for the TAB to operate on a proper commercial footing. RITA believes consideration needs to be given to the appropriate future cost structure of the TAB but notes that significant reform is not practical while the impacts of COVID-19 are still being felt and that restructuring costs will likely require further Government assistance.

~~35-36.~~ RITA has also identified a number of areas of risk for the TAB. In particular, RITA is concerned at potential numbers of New Zealanders accessing alternative offshore online gambling products (such as virtual racing, novelty betting and online casino games) in the absence of racing and sport wagering products. No New Zealand-based provider is legally able to advertise these products to New Zealanders, but New Zealanders are free to access them online offshore. RITA believes either allowing the TAB to offer a broader range of products (such as virtual racing) and/or putting in place measures to prevent New Zealanders accessing offshore products may stem the leakage of this gambling outside New Zealand's regulatory system.

Commented [ML10]: This is a RITA comment, but it doesn't seem relevant to the current situation. Some of the reforms also address these issues, so it makes me question whether RITA is overly focused on wider reforms

Sport New Zealand comments

~~37.~~ Sport and Recreation NZ has been consulted and considers that the proposed support element targeted to sporting organisations is reasonable in the circumstances. It considers it important that sports betting survives as this is a valuable source of revenue. It is also willing to take a short-term impact in foregoing betting levy held for distribution to sport as an investment in the betting platform. On the other hand, betting revenue is vital for the survival of NSOs – with some, such as basketball and tennis highly reliant on betting revenue.

Treasury comments

~~38.~~ The Treasury has not assessed the information provided by RITA to verify the financial state of the TAB, or determined the specific need for or nature of any financial support. If the government chooses to provide immediate support, the detailed commercial scrutiny may provide an opportunity to consider ways to put the TAB on a more financially sustainable footing in the long term.

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~~36-39.~~

Agency consultation

~~37-40.~~ The Treasury and Sport and Recreation NZ, the Department of Prime Minister and Cabinet (Policy Advisory Group) were consulted.

¹ RITA is the successor Agency to the Ministerial Advisory Committee and the New Zealand Racing Board.

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Financial implications

41. The proposals in this paper have significant financial implications, depending on the final shape of any support package. The impact on Crown accounts ~~can~~ could be reduced by structuring the support for the TAB in the form of a Crown loan or Crown Guarantee. If a loan is provided the terms would need to be determined but possibly at a preferential interest rate and with deferred repayments for up to 5 years (which would have a greater impact on the Crown than if provided at a commercial rate). If a guarantee is provided it would be subject to a range of conditions, including potentially the placement of a Crown monitor. Risks to the Crown will also be mitigated by having lenders take on a portion of the risk, as they have with other assistance packages announced by Government. It is likely that any expenses or capital injection incurred through support for the TAB would be charged against the COVID-19 Response and Recovery Fund established as part of Budget 2020.

Commented [ML11]: This section also needs to outline the 75m figure and why it is seen as reasonable.

38. —

Human rights

39-42. The proposals in this paper have no implications for human rights.

Gender and Disability implications

40-43. The proposals have no gender or disability implications.

Legislative implications

41-44. The proposals in this paper do not require legislation. If Cabinet declines to provide support, then legislation would be required to enable a replacement operator to be recruited to service the New Zealand racing industry.

Impact analysis

42-45. A Regulatory Impact Assessment is not required.

Publicity

43-46. If joint Ministers agree to provide support, the Department and Treasury will coordinate with RITA on the timing and content of public announcements regarding the support package.

Proactive release

44-47. The proposals in this paper will if approved, require sensitive commercial negotiations with RITA and lenders. It is recommended that this paper is not released until negotiations have been concluded.

Recommendations

45-48. The Minister for Racing recommends that the Cabinet XXX Committee:

1. **note** that the racing industry is a major contributor to New Zealand's economy and is at risk of collapse because the COVID-19 pandemic;
2. **note** that the racing industry receives most of its income from the TAB (approximately \$x million annually) and is severely impacted by the loss of almost all revenue;

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3. **note** that national sporting organisations derive funding of \$x million annually from the TAB, which will cease as a result of the suspension of sport events and associated betting;
4. **note** that the significant income and business support packages already announced go some way to mitigate the pandemic impacts on the industry, but the industry has substantial unavoidable ongoing costs that it cannot meet;
5. **direct** the Department of Internal Affairs and the Treasury to investigate the financial position faced by the TAB, and prepare advice for joint Ministers the Minister of Finance and Minister of Racing on what is required appropriate support mechanisms to ensure the survival of the racing industry, the TAB in the immediate future through to 31 July including the TAB and options for achieving that;

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6. **authorise** the Minister for Racing and the Minister of Finance to take [all](#) decisions on a support package for the ~~racine industry~~ TAB with an indicative upper value of \$75 million [\(including any necessary changes to appropriations\)](#).

AGREE / NOT AGREED

Authorised for lodgement

Rt Hon Winston Peters

Minister for Racing

From: Michael Lonergan [TSY]
Sent: Tuesday, 14 April 2020 2:22 PM
To: Murray Johnson
Cc: Jason Dowse; Orsola Del Sante-Bland
Subject: FW: Racing industry support - Sensitive

[IN-CONFIDENCE]

Hi Murray

Thanks for sending this through. I also got your voicemail earlier on and have been following up with MoF's office to clarify that point around the appropriate Ministers/decision making body. I've also copied in Orsola in your finance team.

Some comments on the paper itself (apologies, very quickly put together):

The paper should be focused on emergency support to get the TAB through to 31 July – however in the paper seems to go beyond this. The rec directing DIA and Treasury to do further work on “what is required to ensure the survival of the racing industry, including the TAB” is very broad and seems to stray into territory already covered by the Messara report rather than support to 31 July. This should be tightened up to just focus on the immediate support and given how quickly things are moving here we'd also suggest a tweak so that it's DIA-led with Treasury support: “direct the Department of Internal Affairs, with support from the Treasury, to report to [x Ministers] on an appropriate support package to ensure the survival of the TAB through to the end of its 31 July financial year”

We don't support the inclusion of the racing Budget initiative in a support package for the industry to get it through to 31 July. Funding for the declined initiative was sought for the 2020/21 year and other than the betting levy doesn't seem relevant to the TAB's finances. We'd suggest that this proposal to essentially reconsider the Budget initiative is submitted for inclusion in the “non-urgent” COVID-19 funding process. Orsola in your finance team should be able to advise further, but broadly where funding is required and it can wait until after 11 May for a decision its considered “non-urgent” and there's an omnibus Cabinet process for this.

The Treasury comment in the paper – could you please amend as below:

The Treasury has not assessed the information provided by RITA to verify the financial state of the TAB or determined the specific need for or nature of any financial support. If the Government chooses to provide urgent financial support, the Treasury recommends that it should be focused on dealing with the immediate insolvency needs of the TAB arising directly as a result of COVID-19, and not addressing wider issues with the racing industry. The detailed commercial scrutiny required may provide an opportunity to consider ways to put the TAB on a more financially sustainable footing in the long term.

And in terms of the right Ministers/decision making body that you mentioned in your voicemail – I followed up with MoF's office to clarify his feedback. They advised that MoF wants the Budget Ministers (the PM, DPM, MoF and James Shaw) to see the paper seeking final decisions on assistance, and that it is later considered by Cabinet/CBC as final decision making body. That group of Ministers already looks at papers going to CVD, Cabinet and CBC so doesn't add in extra time to the process. However, we got a very clear steer on the consideration of that next paper – unless it is absolutely necessary to get final decision sooner for the TAB, MoF's view is that the racing and sports assistance packages should be considered together. So you should get in touch with Sports NZ about the timing of their package and work with them to line this all up.

Cheers
Michael

From: Murray Johnson <Murray.Johnson@dia.govt.nz>
Sent: Tuesday, 14 April 2020 8:59 AM
To: Michael Lonergan [TSY]
Cc: Jason Dowse
Subject: RE: Racing industry support - Sensitive
Attachments: 200403 Cabinet Paper TAB support package sensitive V21.docx

Follow Up Flag: Follow up
Flag Status: Completed

Good morning Michael

Here's the latest version of the paper. We would be keen for a further discussion when you are free.

Kind regards,
Murray

From: Murray Johnson <Murray.Johnson@dia.govt.nz>
Sent: Thursday, 9 April 2020 5:04 PM
To: Michael Lonergan [TSY] <Michael.Lonergan@treasury.govt.nz>; Jason Dowse <Jason.Dowse@dia.govt.nz>
Subject: Re: Racing industry support - Sensitive

Hi Michael

The discussion between Ministers has been had - and the early feedback is that we are to work with Treasury to get the paper up to COVID ministers later next week. I'd be really interested in feedback at your end.

It seems more work has to be done on the financing options (grant v's Crown guarantee / loan!) and expanding to be more inclusive of sport.

Obviously need to have further discussion on Tuesday.

Have a great Easter in your bubble.

Cheers,
Murray

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Office of the Minister for Racing

Chair

Cabinet COVID-19 Group of Ministers

Emergency Support Package: Racing Industry and Sport**Proposal**

1. This paper proposes a support package to ensure the survival of the Racing Industry and compensate sport for its loss of betting-related revenue through to 31 July 2020. It will support the TAB as a key element of New Zealand's statutory gambling monopoly and position it to enable the rapid recovery of racing and sport once COVID-19 has run its course.

Executive summary

2. The Racing Industry and National Sporting Organisations (NSOs) are under severe financial pressure as a result of COVID-19. The racing industry is highly cashflow reliant, principally on revenue generated by the TAB. The TAB's role is to market and provide for betting on racing and sport events produced by the respective racing and sports codes. It has statutory protection to provide a domestic betting operation for its customers and generates essential revenue for racing and sport.
3. The Racing Industry Transition Agency (RITA)¹ – governs the TAB – and expects the TAB's revenue to drop to close to zero from April 2020, with little prospect of significant revenue recovery before the new racing season starts in August. The racing industry has very limited reserves and cannot survive on its own resources. A 2018 study commissioned by the New Zealand Racing Board found that the direct and indirect employment impact generated by the New Zealand racing industry is over 14,000 fulltime equivalents, with more than 58,000 individuals participating in the industry in some shape or form. Many of these jobs are based in regional economies.²
4. The mass cancellation of global sports events will result in a significant drop in TAB distributions to NSOs. By mid-March sports betting turnover was already down 80%. In-season codes will feel the most immediate impact. Sports will also suffer major impacts from lost distributions from Class 4 (Pokies) operations, resulting from the COVID-19 lockdown. In 2018, those full year distributions totalled approximately \$170 million.

¹ RITA is the successor Agency to the Ministerial Advisory Committee and the New Zealand Racing Board.

² Size & Scope of the New Zealand Racing Industry, prepared by IER, February 2018.
<https://www.rita.org.nz/sites/default/files/documents/NZ%20Racing%20Size%20and%20Scope%202018%20Full%20Report.pdf>

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5. RITA estimates that the revenue generated by the TAB will decline by approximately \$20 million per month but most of the ongoing operating costs of around \$11 million per month will continue. The significant income and business support packages already announced go some way to mitigate the pandemic's impact on the industry. In addition, RITA has taken urgent action to reduce costs to offset the collapse in revenue but cannot survive without additional assistance. If the TAB ceases trading this will mean that once the COVID-19 crisis has passed the industry may not quickly recover and resume its contribution to New Zealand's economy.
6. RITA has requested a COVID-19 support package worth an indicative \$75 million that would ensure the survival of the industry including the continued operation of the TAB but with significantly reduced size, costs and revenues. Of the requested support, approximately \$56 million would be used by the TAB to ensure its survival, so it can restore revenue for racing and sport as soon as possible once their respective events resume. In addition, approximately \$14 million would be passed through to racing codes to support their operations. The package has approximately \$2 million built-in to support a recovery campaign to help attract the public and owners back to racing and sport events and associated wagering.
7. Government has already announced measures to assist sport, including the roll-over of funding for the current financial year into next year. Government is also considering a sport recovery package. The proposed support package recommended in this paper includes \$5 million that would go to NSOs that normally receive TAB funding. This will complement the other measures taken to support sport and help offset the loss of wagering derived income.
8. The proposed racing and sport support package would also recognise the decisions already taken and investments made by Government to protect and grow the racing industry. The industry is keen to see some racing occur before August, but this would be very limited, dependent on the TAB being able to provide betting and broadcasting support and significant activity is not expected before August. If revenues resume quickly no further support beyond July may be needed. However, if the season has a delayed start or slow recovery then additional support may need to be considered.
9. The Minister for Racing has been considering various initiatives to support the racing industry reform programme and assist the racing industry to recover and become a value-add industry post COVID-19. This includes infrastructure such as all-weather race tracks. The Minister proposes to progress consideration of these in consultation with the Minister of Finance and alongside consideration of the COVID-19 support package.
10. Racing is a value-add industry and it's in the interest of New Zealand to protect and grow it. This paper recommends that Cabinet direct the Department of Internal Affairs and the Treasury to urgently confirm the nature and scale of support required. It also recommends that Cabinet authorise the Minister for Racing and the Minister of Finance to take decisions on negotiations and approve any final support package.

Background

11. The Racing Industry and NSOs are under severe pressure as a result of COVID-19. The racing industry is highly cashflow reliant, principally on revenue generated by the TAB. The TAB's role in the industry is to market and provide for betting on racing and sport products / events produced by the respective racing and sports codes.

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12. A small number of events are still occurring in Australia and e-sports betting is ongoing but only generating a few thousand dollars in gross betting revenue per month. Almost all significant racing and sport events have been postponed or cancelled. While some events could resume in the next few months, no significant volume of racing is expected before August. This means there are few racing and sport events available for wagering, no profit distributions to the industry from the TAB, and horse and dog owners cannot win prizes in order to cover their costs which include paying trainers, jockeys and other industry participants. The industry is highly cashflow reliant, principally on revenue generated by the TAB, has very limited reserves and cannot survive on its own resources. Without support there will be significant economic hardship for the sector and those who depend on it.
13. In the longer term, owners will not have the resources to remain in the industry and support its eventual recovery. Sporting codes also depend on revenue TAB generates through wagering on sporting events in New Zealand and overseas. This loss in revenue directly impacts on sporting codes and the participants and communities that benefit from financial support from those codes.
14. Government has announced significant response packages that include: income support for workers; and support for small and medium sized businesses, along with other fiscal responses. Those responses will go some way to alleviate the impact on some participants in the racing industry. However, those responses will not ensure the survival of the industry including the three racing codes (the codes -Thoroughbred, Harness and Greyhound) and the revenue generating TAB. Only the Thoroughbred code has any reserves to fall back on. The TAB's revenue and distributions to racing codes will not resume until major domestic and international racing and sport events restart in material numbers. RITA, as the operator of the TAB, has approached Government seeking support for the industry to survive this unprecedented crisis, as well as ensure sporting codes continue to receive the distributions they rely on.

Racing is a major industry and employer

15. The racing industry is comprised of RITA which owns and operates the TAB (a Statutory Entity governed by the Racing Act 2003), the three codes, racing clubs, horse and dog owners, trainers, breeders, jockeys and others. The TAB is one of two primary sources of revenue for the industry - the other being investment from the owners of racing animals. Revenue generated by the TAB, after costs, is distributed by RITA to the industry, primarily in the form of stake money - the amount of money available to winners and place-getters in a race.
16. A 2018 study by the Australian consultancy firm IER, showed that in 2016 the New Zealand Racing Industry was responsible for generating more than \$1.6 billion in value-added contribution to the New Zealand economy. This expenditure was responsible for creating a direct value-added impact (in terms of wages, salaries and profits) of \$611.0 million per annum. The same study showed that the total direct and indirect employment impact generated by the New Zealand racing industry was 14,398 FTE jobs, with in excess of 58,000 individuals participating in the industry in some shape or form. Many of these jobs are based in regional economies.

DRAFT- NOT GOVERNMENT POLICY**SENSITIVE****The industry will not survive without support**

17. In the year to 31 July 2019 the TAB's revenue was \$348 million and its expenses totalled \$211 million. After expenses, the TAB distributed \$166 million to the racing industry, paid in monthly increments based on earnings. This left the TAB with a loss of \$29 million as shown below.

Results to 31 July 2019	\$millions
Revenue	348
Expenses ³	211
Gross profit	137
Distributions to Codes	166
Net Profit/Loss	-29

18. RITA's forecast for TAB gross revenue for the year to 31 July 2020 was \$380 million. With the impact of COVID-19 it now only expects to receive \$250 million. The negative impact of COVID-19 is especially apparent when considering the period 1 March 2020 to 31 July 2020. For this period RITA had forecast gross revenue of \$162 million and now it is only expecting \$31 million, with the great majority of that in March and April and little in May through to the end of July. In addition, the TAB had been forecasting a net profit after distributions for the 1 March to 31 July period of \$4 million, the revised forecast for that period is now for a \$55 million loss. The TAB's forecast full-year loss is now \$70 million. The new season is expected to start in August at the earliest. This is dependent on COVID-19 trajectory and recovery, with a limited number of races and a progressive increase in volume as horses are returned to racing condition.
19. Over the past three years RITA has invested to bring the TAB's betting infrastructure and customer experience up to international standards. RITA used debt to fund these investments. Debt funding capital projects enabled the TAB to maintain distributions to racing codes. However, it means the TAB now carries \$45 million in term debt. The TAB also has a \$5 million overdraft, and its lenders have indicated further significant debt support is not available without Government support. Lenders are also increasingly concerned that the TAB may not be able to meet its existing commitments, even with recently announced COVID-19 support measures. The existing racing industry reform programme was on track to place the racing industry on a more sustainable footing, but this is now in jeopardy as a result of the pandemic.

³ This includes \$10 million for distributions to National Sporting Organisations.

DRAFT- NOT GOVERNMENT POLICY**SENSITIVE**

20. RITA has taken urgent action to reduce costs to offset the collapse in revenue. It has frozen recruitment and non-essential expenditure. In line with Government COVID-19 lockdown directions it has closed all TAB retail stores and implemented a 3-day work week and sought voluntary leave from staff. The closure of retail stores has also meant RITA's Class 4 gaming operations have ceased. These operations fund racing integrity services through the proceeds from Class 4 gambling and contribute to community sport.⁴ While the TAB's online operations can continue, the absence of racing and major events on which consumers can wager means the revenue that can be generated is low compared to pre-COVID-19. RITA is also considering redundancies to further reduce operating costs. However, RITA has significant fixed costs as a result of contractual commitments that it will now not be able to meet and is therefore unable to meet redundancy requirements. RITA has advised that it is only a matter of weeks from directors having to declare that the TAB is not a going concern and cease all operations.
21. Codes are significantly impacted and facing the loss of most or all revenue. Codes have significantly lower fixed costs compared to RITA but very limited reserves. RITA's advice is that the codes may be able to survive without external support until the start of the racing season if they share resources, which may be difficult to put in place. RITA has noted lack of external support would leave the codes very poorly placed to support races and pay for stakes on the resumption of racing. The codes also have a major role in coordinating the industry response to the Government COVID-19 lockdown, alongside the Ministry for Primary Industries.
22. TAB's distributions to sporting organisations have doubled over the last six years. Sport New Zealand advises that the mass cancellation of global sports events will result in a significant drop in TAB distribution to NSOs. Sports betting turnover is already down 80%. In-season codes will be impacted more immediately than the likes of cricket or American football (NFL), both of which are at the end of their seasons. Basketball, football, tennis, rugby, baseball and rugby league (depending on the NRL season continuing) will feel the most immediate impact. Sports will also suffer major impacts from lost distributions from Class 4 (Pokies) operations. In 2018, these distributions totalled approximately \$170 million (2019 data is not yet available).
23. Government has previously recognised the importance of the racing industry, committing to initiate a comprehensive set of reforms to ensure its ongoing viability [CAB-19-MIN-0168.02 refers]. However, the reform process is not complete, and the gains anticipated in terms of industry sustainability have not yet been achieved. The current crisis means that the racing reform programme will fail to secure the future of the industry unless additional support is provided. If the TAB ceases trading this will mean that once the COVID-19 crisis has passed the industry may not quickly recover and resume its contribution to New Zealand's economy. In essence, the Government's investment in the reform programme to-date could be a sunk cost – and if a significant industry decline were to eventuate, a substantially different reform package may be needed.

⁴ \$4.1 million was distributed to sporting community organisations in 2019.

DRAFT- NOT GOVERNMENT POLICY**SENSITIVE****A support package for the racing industry and sport**

24. RITA has requested a COVID-19 support package that would ensure the TAB can continue operations but with significantly reduced size, costs and revenues. The package would also support the racing industry and secure its survival until the end of the financial year (31 July). NSOs will also suffer the loss of most or all of the \$5-6 million forecast to be paid to NSOs between April and August 2020 from revenue generated by sport betting activities.
25. If the COVID-19 crisis extends and prevents racing resuming later in 2020 there will be a need to consider increasing the support provided. If that appears warranted, further proposals will be brought to Cabinet for consideration later in 2020.
26. RITA has requested additional support to the end of the TAB's financial year (31 July 2020) to:
 - 26.1 ensure the TAB can maintain a baseline functionality and meet essential and unavoidable costs;
 - 26.2 ensure the codes can maintain a baseline functionality and meet essential and unavoidable costs;
 - 26.3 offset the loss of distributions to sporting organisations from the TAB; and
 - 26.4 drive a quick and strong recovery of racing via additional marketing, promotion and stakes as soon as racing and sport events can resume.
27. Department of Internal Affairs officials have undertaken a preliminary review of the information provided by RITA on its financial position and outlook and it appears credible, but this will need further validation if Cabinet agrees to provide support. RITA's advice is that the racing industry is expected to require a minimum of an additional \$75 million to carry it through to the end of its financial year. The next racing season normally commences around August and at that time revenue flows should progressively start to resume and the need for assistance diminish, assuming the pandemic impacts and restrictions are easing, both in New Zealand and offshore. If normal racing volumes are significantly delayed beyond August, further industry support may need to be considered.
28. Of this support, approximately \$56 million would be used by the TAB to ensure its survival, so it can restore industry revenue as soon as possible. In addition, approximately \$14 million would be passed through to racing codes to support their operations. A further \$5 million would go to NSOs that would ordinarily anticipate payments for content over the period. The package has approximately \$2 million built-in to support a recovery campaign to help attract the public and owners back to racing and sport events and associated wagering.

DRAFT- NOT GOVERNMENT POLICY**SENSITIVE****Options for the type of support provided**

29. To assist the industry, Government could agree that the TAB retain any totalisator duty ('betting levy') savings. The TAB has in its accounts approximately \$4 million of betting levy which it would normally distribute to codes and Sport NZ. RITA also estimates that approximately \$4.8 million in support can be accessed from the COVID-19 income support package. Because of its size, the TAB does not fall within the criteria for the business finance guarantee scheme and the scheme could not offer sufficient support even if the TAB is eligible. RITA therefore does not consider that the existing packages and retention of betting levy (if approved) will be sufficient to sustain the industry through to August 2020.
30. There are a number of ways Government support can be structured. In addition to the betting levy, Government could provide:
- 30.1 grants;
 - 30.2 a Crown loan; and
 - 30.3 a Crown guarantee for a commercial loan.
31. The above items are not mutually exclusive, and a support package could include a combination of the three items in paragraph 30. Whatever form support takes, there are a number of factors Ministers will need to consider. These include; the potential impact on the Crown's accounts; the risks the Crown wishes to take; alignment with other support packages; and, what will best position the industry to survive and rebound.
32. The Minister for Racing has also been considering various further initiatives to support the racing industry reform programme and assist the racing industry to recover and become a value-add industry post COVID-19. These are set out in the table below and include the infrastructure development recommended in the Messara Report. If approved, this expenditure would be in addition to the proposed COVID-19 support package.

Proposed initiative	Rationale	Cost
1. Complete the repeal of the totalisator duty one year early.	To contribute to the racing industry's financial viability, particularly as it undergoes large-scale change from the reform programme.	One-off cost of \$4.660 million in 2020/21
2. Contribution to all-weather race tracks	Co-funding all-weather race tracks to support the industry's viability by enabling more reliable racing conditions and fewer cancellations for weather.	One-off cost of \$15.000 million in 2020/21
3. Extension of Departmental work programme	Funding for additional policy and specialist resources required to: support the implementation phase of the racing reforms - avoiding the need for future reforms of this scale.	\$6.147 million over 4 years (decreases to \$0.814 million in outyears)

33. If Cabinet agrees with the support package recommendations in this paper, the Minister for Racing will also develop these initiatives in consultation with the Minister of Finance.

DRAFT- NOT GOVERNMENT POLICY**SENSITIVE****If no support is provided the TAB will have to cease trading**

34. The requested support package for the TAB would ensure that the TAB has the minimum required to sustain some level of operation and capability, enabling the racing industry to survive. If no support is provided to the TAB, it will have no prospect of meeting its commitments and will have to immediately cease trading. Failure of the TAB would have immediate and large impacts on the racing industry, from codes, to clubs to trainers and breeders and potentially all 14,000 fulltime equivalent jobs directly or indirectly employed in the racing industry. Sporting organisations would also suffer, and via them, the athletes they support with an indicative annual impact of \$10 million and additional lost revenue from Class 4 gambling activities.
35. If the TAB ceases operations, policy consideration would need to be given to either re-establishing a TAB or another replacement operator or operators for the New Zealand industry. This would require amendments to the Racing and Gambling Acts. This would be a significant exercise which would require legislative support and arrangements could take a year or more to put in place. There is no likelihood that a replacement operator could be in place and fully functional by the start of the spring. Liquidation of the TAB would delay the recovery of the racing industry by a minimum of 12-18 months or drive it into a downward spiral from which it might not recover. This would almost certainly lead to further requests for financial support from the industry.

Next steps

36. There is a strong case for providing assistance, and it is recommended Cabinet authorise joint Ministers to enter into discussions with RITA on the form and scale of any support package. This will include considering whether there are any further actions the TAB can take to reduce costs. The initial objective would be to ensure the survival of the industry, including the TAB through to the end of its 31 July financial year. A second objective would be to position the industry to successfully resume racing in August. A third objective is to mitigate impacts on sporting organisations as a result of lost betting revenue.

Consultation***Racing Industry Transition Agency comments on the proposals***

37. RITA has underlined the seriousness of the impact of COVID-19 on the viability of the TAB and the New Zealand racing industry and sport. The crisis has clearly highlighted that neither the TAB or racing industry has the financial resilience to weather the impact of COVID-19 without external support. This reinforces previous Government decisions with regard to the reform of racing, in particular the need for the TAB to operate on a proper commercial footing. RITA believes consideration needs to be given to the appropriate future cost structure of the TAB but notes that significant reform is not practical while the impacts of COVID-19 are still being felt and that restructuring costs will likely require further Government assistance.

DRAFT- NOT GOVERNMENT POLICY**SENSITIVE**

38. RITA has also identified a number of areas of risk for the TAB. In particular, RITA is concerned at potential numbers of New Zealanders accessing alternative offshore online gambling products (such as virtual racing, novelty betting and online casino games) in the absence of racing and sport wagering products. No New Zealand-based provider is legally able to advertise these products to New Zealanders, but New Zealanders are free to access them online offshore. RITA believes either allowing the TAB to offer a broader range of products (such as virtual racing) and/or putting in place measures to prevent New Zealanders accessing offshore products may stem the leakage of this gambling outside New Zealand's regulatory system.

Sport New Zealand comments

39. Sport and Recreation NZ has been consulted and considers that the proposed support element targeted to sporting organisations is reasonable in the circumstances. It considers it important that sports betting survives as this is a valuable source of revenue. It is also willing to take a short-term impact in foregoing betting levy held for distribution to sport as an investment in the betting platform. On the other hand, betting revenue is vital for the survival of NSOs – with some, such as basketball and tennis highly reliant on betting revenue.

Treasury comments

40. The Treasury has not assessed the information provided by RITA to verify the financial state of the TAB or determined the specific need for or nature of any financial support. If the Government chooses to provide immediate support, the detailed commercial scrutiny required may provide an opportunity to consider ways to put the TAB on a more financially sustainable footing in the long term.

Agency consultation

41. The Treasury, Sport and Recreation NZ and the Department of Prime Minister and Cabinet (Policy Advisory Group) were consulted.

Financial implications

42. The proposals in this paper have significant financial implications. Based on current RITA forecasts for revenue and operating costs, RITA has sought a COVID-19 support package worth an indicative \$75 million to carry it through to the end of the July financial year. The impact on Crown accounts can be reduced if the support for the TAB is structured in the form of a Crown loan or Crown Guarantee. If a guarantee is provided it could be subject to a range of conditions, including potentially the placement of a Crown monitor. Risks to the Crown will also be mitigated if lenders take on a portion of the risk, as they have with other assistance packages announced by Government. If a grant is provided this would have a direct impact on the Crown's accounts but provide the strongest support for the industry to ensure its long-term survival and continued contribution to the economy.
43. Other initiatives proposed to support racing industry reform would cost an additional \$26 million and would include Departmental operating expense, non-Departmental capital and a forecast change in Vote: Revenue.

DRAFT- NOT GOVERNMENT POLICY**SENSITIVE****Human rights**

44. The proposals in this paper have no implications for human rights.

Population Implications

45. The Racing Industry makes an important economic impact to rural New Zealand, providing a wide range of employment opportunities complementary to other agriculturally-based occupations. As well as jobs directly related to the preparation and caring for racing horses and greyhounds, such as breeding, owning and training, the associated service industries include veterinary, feed, retail, tourism, accommodation, transport, manufacturing and construction.

Legislative implications

46. The proposals in this paper do not require legislation. If Cabinet declines to provide support, then legislation would be required to enable a replacement operator to be recruited to service the New Zealand racing industry.

Impact analysis

47. A Regulatory Impact Assessment is not required.

Publicity

48. If joint Ministers agree to provide support, the Department of Internal Affairs and Treasury will coordinate with RITA on the timing and content of public announcements regarding the support package.

Proactive release

49. The proposals in this paper will, if approved, require sensitive commercial negotiations with RITA and potentially, lenders. It is recommended that this paper is not released until negotiations have been concluded.

Recommendations

50. The Minister for Racing recommends that the Cabinet COVID-19 Group of Ministers:
1. **note** that the racing industry is a major contributor to New Zealand's economy and is at risk of collapse because of the COVID-19 pandemic;
 2. **note** that the racing industry receives most of its income from the TAB, through revenue generated from wagering and betting on events provided by respective racing and sports codes, and is severely impacted by the loss of almost all revenue;
 3. **note** that national sporting organisations derive significant funding from the TAB's operations, which will cease as a result of the suspension of sport events and associated betting;
 4. **note** that the significant income and business support packages already announced go some way to mitigate the pandemic's impact on the industry and sport, but the racing industry has substantial unavoidable ongoing costs that it cannot meet;

DRAFT- NOT GOVERNMENT POLICY**SENSITIVE**

5. **note** that the objectives of providing a racing industry support package would be to; ensure the survival of the TAB through to the end of its 31 July financial year; position the industry to successfully resume racing in August; and mitigate impacts on sporting organisations as a result of lost betting revenue;
6. **direct** the Department of Internal Affairs and the Treasury to prepare advice for joint Ministers on what is required to ensure the survival of the racing industry, including the TAB and options for achieving that;
7. **authorise** the Minister for Racing and the Minister of Finance to take decisions on a COVID-19 support package for the racing industry, which includes an element for sport; and
8. **note** that subject to the Minister of Finance's agreement, wider racing industry reform budget initiatives may also be progressed in addition to the COVID-19 support package provided to the racing industry.

Authorised for lodgement

Rt Hon Winston Peters

Minister for Racing



Memo

To: David Blue and Craig Murphy, The NZ Treasury
From: John Fisk, David Ulrich and Jeremy Morley
Date: 21 April 2020
Subject: Commissioning Note for Scope of Works to Undertake an Independent Appraisal of The Racing Industry Transition Agency ("RITA")

Dear David and Craig

1.0 Background and Introduction

RITA, as the operator of the TAB, has approached the Crown seeking support to continue operating under its current mandate and statutory obligations. RITA expects the TAB's revenue to drop very significantly from April 2020, with little prospect of major revenue recovery before horse and greyhound racing resume (e.g. in the new racing season starting in August, or earlier). Similarly, the cancellation of global sports events has resulted in a significant drop in the TAB's distributions to national sporting organisations.

RITA/TAB, the racing industry and several national sporting organisations have very limited reserves and cannot survive on their own resources. It is considered critical that a support package from the Crown is made available, given the economic and social significance of the racing industry and these other sporting bodies to New Zealand.

The Department of Internal Affairs ("DIA") has been working with RITA to develop policy options for a response and prepared a Cabinet paper that the Minister for Racing submitted to Cabinet for consideration on 16 April 2020. The Treasury Vote team provided comment on the Cabinet Paper and consulted with its ESBF Team.

COVID-19 Ministers directed DIA, with support from the Treasury, to prepare advice for joint Ministers on what is required to ensure the survival of RITA and the racing industry, including the TAB, and options for achieving that. Decisions on any COVID-19 support package for the TAB, and racing industry, which includes an element for sport, would be made by Cabinet.

Ministers agreed that the objectives of any racing industry support package would be to:

1. ensure the survival of the TAB through to the end of its 31 July 2020 financial year;
2. position the industry to successfully resume racing in August 2020;
3. mitigate impacts on sporting organisations as a result of lost betting revenue;

RITA has initially requested a support package with an indicative value of \$75 million, consisting of \$56 million to directly ensure the survival of the TAB and its operations; \$14 million to pass through to the racing codes; and \$5 million to pass on to sports codes.



Therefore, it is vitally important and urgent that the following key issues are addressed.

- Ensuring the survival of the TAB in the immediate term through to the end of its 31 July 2020 financial year, by determining what its cash flow requirements will be and ensuring any support package meets those requirements and the funding requirements for racing codes.
- Once those immediate requirements have been resolved, positioning the racing industry to successfully resume racing at the earliest opportunity, once it is permitted to do so, with a particular focus on 1 August 2020, being the commencement of the new racing year.
- Once that racing resumes ensuring that the TAB is able to fully support the industry through its normal operations and has the financial resources to do that.
- Determining the impacts on other sporting organisations as a result of lost betting revenue, and what support package might be required for the TAB to pass on to those organisations.
- Ensuring any support packages take into account recent policy, funding and legislative decisions made by the government in relation to the racing industry.
- Aligning any support packages to the longer-term direction for the racing industry, in terms of recommendations that have been made under the Messara Report and through other channels and racing reforms already underway.

2.0 Scope of Works

DIA and Treasury Vote team will continue to work through the policy issues and have asked for support from the Treasury's ESBF Team to understand the financial position of RITA/TAB and the structuring of a commercial support solution (if needed) - within the policy parameters agreed by Cabinet.

The ESBF Team's proposed approach to provide support to DIA and the Treasury Vote team, is to work with PwC to undertake the following work and provide an appropriate report on this work.

Phase One:

- A review of the information provided by RITA/TAB to understand the extent of its financial issues, with a focus on immediate liquidity/cashflow issues over the next three months.
- What plans RITA/TAB is developing (other than seeking Crown support), to manage its financial issues, which will include an analysis of any restructuring plans such as the reduction in staffing numbers and related operations.
- From an analysis of that information and plans, determining the level and timing of any additional support that RITA/TAB requires to meet its operating mandate and its immediate financial obligations including: payment of overdue creditors; ongoing operating costs; payments to racing and sporting codes; and costs to fund any immediate restructuring including redundancies, and the options for doing so.



It is likely Phase One will be an iterative process and we will regularly interact with Treasury, DIA and RITA/TAB to agree if there are any changes required to the scope.

Phase Two:

The second phase will be dependent on the outcome of phase one above and will be agreed upon during phase one, or after it is completed. However, it is likely this second phase will include addressing the following issues.

- What the impacts of any immediate support package provided might mean to the TAB's longer plans, as per recommendations that have been made under the Messara Report et al and which are being considered by RITA.
- What those impacts might in turn mean to the racing industry and other national sporting organisations.
- What additional actions should be taken by the TAB to ensure its longer term sustainability and mitigate those impacts.
- In the event that actions taken by the TAB are not sufficient, whether additional longer-term support packages and options (if any), might be required to mitigate those impacts and ensure the longer term sustainability of the TAB; and to a lesser extent, the racing industry, national sporting bodies, and other stakeholders.

3.0 Deliverables and Timeframe

A draft Independent Appraisal Report under **Phase One** will be provided to The Treasury and DIA and also to RITA for feedback and checking for factual accuracy. Subsequently, the finalised Independent Appraisal Report will be provided. However, given the urgency of the issues, it is likely that our initial report or presentation will be in a short-form, bullet point format, rather than a full report as would be the norm for this sort of work.

The timeframe for Phase One is estimated to commence on 21 April 2020, subject to confirmation of this commissioning note and Treasury confirmation with RITA. We propose we will initially report back by close of business on Tuesday, 28 April 2020. We will immediately inform you if we will require longer to complete Phase One.

The timeframes and deliverables for completion of any subsequent work required under Phase Two will be agreed either during, or once Phase One has been completed.

4.0 Key PwC Personnel Undertaking This Work

The work will be undertaken by a range of PwC personnel as follows, the experience and skills of whom will recognise the importance of this work.

- Lead Partner – **John Fisk**. John heads our NZ-wide Business Recovery Services and has long experience in undertaking work of this nature.
- Second Partner – **David Urlich**. David is a partner in our Auckland office who has wide experience in due diligence and transactional matters of this nature.



- Relationship Partner – **Dan Marshall**. Dan is a partner in our Wellington office, with whom you are familiar, and has been involved in several similar assignments for The Treasury.
- Director – **Jeremy Morley**. Jeremy has over 35 years' experience in business recovery and related matters and has undertaken a wide range of similar work in the private and public sectors, including formal appointments for the Crown.
- Analyst Support and other personnel as Required.

Full CVs of these personnel can be made available, if required.

5.0 Information and Procedures Required to Complete the Assignment

On confirmation of this note we can immediately contact RITA and request any additional information required. So long as this information and key personnel are readily available, we will be able to complete our work within the timeframes outlined earlier. If there are any delays to this, we will advise you immediately.

We would note, however, that given the current restrictions in place as a result of the Covid-19 outbreak, parts of this work, meetings, interviews and information gathering will be carried out remotely using video-conferencing or similar technology.

6.0 Other Matters to Note

As advised to you we have undertaken conflict checking and risk management processes for this proposed assignment.

These processes show that we are the Statutory Auditors of RITA. We have cleared with our own internal risk management team that we are able to undertake this assignment and will always maintain ethical walls with regard to this assignment, which will include separation of personnel undertaking the work with all members of our audit team.

We have advised this to you, and you have confirmed you are comfortable with those arrangements.

7.0 Engagement Terms and Estimated Cost

The terms of engagement and our costs are covered by our existing AoG Consultancy Services Order with The Treasury, under which we report to you on our time and costs for each workstream on a weekly basis. However, we estimate our costs (excl. GST) will be as follows, based on the work required to complete the Phase One scope given the analysis required of the information we are receiving from RITA/TAB. Please note we have used the base hourly rates set out in the CSO and the rates may decrease depending upon overall billing for the month.



s9(2)(b)(ii)

Please don't hesitate to contact me if you need anything further.

Yours sincerely

John Fisk
john.fisk@pwc.com

s9(2)(a)

Submission Seeking Funding for COVID-19 Related Costs – All-weather tracks

Funding sought

Operating funding Sought (\$m)	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears	Total
Vote Internal Affairs:	-	20.000	-	-	-	20.000
Total	-	20.000	-	-	-	20.000

Capital funding Sought (\$m)	2019/20	2020/21	2021/22	2022/23	2023/24	
Vote X:						
Vote Y:						
Total						
	2024/25	2025/26	2026/27	2027/28	2028/29	Total
Vote X:						
Vote Y:						
Total						

Funding sought to be reprioritised

Operating funding (\$m)	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears	Total
Vote X:						
Vote Y:						
Total						

Capital funding (\$m)	2019/20		2020/21		2021/22		2022/23		2023/24		
Vote X:											
Vote Y:											
Total											
	2024/25		2025/26		2026/27		2027/28		2028/29		Total
Vote X:											
Vote Y:											
Total											

Overview of COVID-19 pandemic related funding or initiative

Key Question	Answer
Title of initiative	Co-funding all-weather race tracks to support regional economic recovery
Portfolio of lead Minister	Minister for Racing
Portfolio(s) of other Ministers involved	N/A
Impacted Votes	Internal Affairs
What will this initiative do?	<ul style="list-style-type: none"> • <i>More racing and more economic activity.</i> This initiative will co-fund two all-weather racing tracks to support and consolidate racing activities, generate more economic activity and more revenue flows to the racing industry and regional communities. This initiative will help drive the recovery of the racing industry which has been severely impacted by COVID-19. It will support regional economic recovery by increasing economic activity associated with racing. • Race meetings need good racing surfaces to run and ensure the safety of horses and jockeys. In addition, poor quality racing surfaces introduce variability in racing conditions that deter seasoned gamblers from placing bets. • Race abandonments due to weather and track conditions mean lower betting revenue, lower prizes and stake flows to the industry participants and lower economic activity arising from hospitality and other trackside business. On-shore economic activity can be lost as gamblers who are unable to bet on New Zealand races migrate to gambling opportunities offshore. • In 2018 32 races were abandoned resulting in an estimated loss in profit to the industry of \$2.5 million from no betting being able to take place. • A 2016/17 study by the consultancy firm IER found that the industry's economic contribution is around \$1.6 billion per year. On a pro-rata basis this means each race meeting generates around \$1.7 million in economic activity. If each all-weather track supports an additional 10 races, the additional annual economic contribution generated by this initiative will be in the order of \$30 million and provide for a 1-2 year pay-back. • <i>Improved racing infrastructure:</i> All-weather tracks support the racing industry through attracting breeders and owners to the industry, particularly through having good quality race tracks and training infrastructure. Having a more consistent racing surface provides trainers with more confidence in running their horses. It provides bettors with confidence to place bets. It enables winter race meetings to be held. It protects grass tracks at other venues by giving those tracks time to recover and be maintained appropriately to ensure quality turf racing surfaces for the more profitable summer racing season. It will have a positive impact on the horse supply chain because trainers are able to get horses fit for trialling and training on synthetic tracks. • Consolidation of racetracks has been proposed in racing industry reviews since the 1960s. The importance of all-weather tracks was highlighted by the independent review of the racing

Key Question	Answer
	<p>industry and endorsed by the Ministerial Advisory Committee for racing as one measure for improving racing infrastructure. This investment would enable the industry to host more races on fewer tracks while improving the betting experience for consumers.</p> <ul style="list-style-type: none"> • Government has already taken decisions to implement the key recommendations of that review to ensure the sustainability of the industry. The proposed investment would therefore be consistent with decisions already taken as well as support COVID-19 recovery. • This work will be complemented by the Gambling, Racing and Community Funding work programme, which will aim to address the impacts of COVID-19 on the community, sporting and racing sectors, as a result of severely reduced gambling revenue, alongside a focus on addressing increasing risks of harm from gambling. • This is a new investment and comes under the economic response phase 'wave 2 – position for recovery'.
<p>How does the initiative relate to the COVID-19 Pandemic response and recovery?</p>	<p>Information on how the initiative is a direct response to the COVID-19 pandemic, in particular covering the following criteria:</p> <ul style="list-style-type: none"> • <i>Funding is needed as a direct result of COVID-19</i> • <i>Funding is urgently needed to respond to COVID-19</i> • <i>The additional costs cannot be managed from existing baselines</i> • <i>There are specific risks of not funding it in light of the COVID-19 response and recovery</i> <p>The Racing Industry and National Sporting Organisations (NSOs) are under severe financial pressure as a result of COVID-19. The racing industry is highly cashflow reliant, principally on revenue generated by the TAB. With racing and almost all sports halted, virtually no revenue is able to be generated at this time. COVID-19 Ministers have agreed to consider a support package for the racing industry with the objectives of: ensuring the survival of the TAB through to the end of its 31 July financial year; positioning the industry to successfully resume racing in August; and mitigating impacts on sporting organisations as a result of lost betting revenue. Once races and sports resume, the Racing Industry can be a driver of economic recovery regionally and the all-weather tracks will directly support that by enabling more racing to occur. The impacts of COVID-19 have depleted industry reserves and its ability to take on new debt. The racing industry does not have the resources available to construct the all-weather tracks without co-funding.</p> <p>It is in the interests of supporting economic recovery to co-fund the proposed tracks. The tracks will allow more races to be run and critically, support racing through the normally inactive winter months. Overall racing activity will increase, which will support continued investment from owners and this will have flow through positive impacts to regional and national economies, including the supplier network (trainers, breeders, feed suppliers, catering etc).</p>

Key Question	Answer
Please provide a breakdown of the costs of this initiative	<ul style="list-style-type: none"> • The operating funding being sought would represent government investment of two-thirds of the cost of two all-weather tracks (at a total cost to Government of \$20 million), with the other third of investment (\$10 million) to be funded by the racing industry. • The cost of these tracks is estimated at approximately \$15 million each. The ongoing maintenance costs of the tracks would be the responsibility of the racing industry. There is precedent for this model, with Government having co-funded an all-weather track in Cambridge through the Provincial Growth Fund. • The estimated economic flow on benefits may be less than anticipated. The construction time for the tracks means that the full benefits will not be received for several years.
How will this initiative be implemented?	<ul style="list-style-type: none"> • The Racing Industry Transition Agency (RITA) is leading an Industry Future Venue Plan group. Its purpose is to optimise use of industry infrastructure to maximise industry revenue and includes identifying the locations for the all-weather tracks. • There are always uncertainties in this type of project. However, these are mitigated somewhat as the industry already has experience of this process, with construction currently underway of an all-weather track in Cambridge.
Why is funding urgently required for this initiative?	<ul style="list-style-type: none"> • The racing industry's revenue sources have been depleted by the COVID-19 crisis. The industry relies on investors (investing in breeding, training, jockeys etc) to enable racing. If confidence is low, investment will reduce, and this will compromise the industry's ability to recover. A commitment to invest in racing infrastructure provides a strong signal to investors that the recovery of the racing industry is supported, and that continued investment will be viable. • The time required for construction means an early decision will produce the expected benefits as quickly as possible and assist with the recovery from the economic damage caused by COVID-19.
Are there any other options to fund this initiative?	<p>The Department of Internal Affairs has sought to utilise its baseline budget as much as possible to meet the costs of new or changed activity arising because of COVID-19. The Department is absorbing a considerable amount of immediate expenditure from within baseline including costs arising from having 90% of staff working from home, re-allocation of staff to urgent COVID-19 work and to re-deployment to other agencies to assist with their immediate and urgent work. Specific budget re-allocations include:</p> <ul style="list-style-type: none"> • Digital Services awareness campaign (phase 2): \$0.600m reprioritised in 2019/20 out of forecast underspend in MCA 7 (Crown portion) • CLGP core funding: \$1.2-1.4m of Iwi/Maori LG relationship funding from 2019/20 to 2020/21 to partially offset some of the funding sought in 2020/21 <p>The Department is not confident it can meet the costs of the proposed initiatives from within baselines because a large proportion of the cost structure is non-discretionary, i.e. property and ICT costs, delivery of essential services. In addition it is facing a considerable but hard to</p>

Key Question	Answer
	<p>accurately estimate reduction in third party revenue as demand for services such as passport renewals and gambling licencing is reduced (but fixed costs for these services are not able to be quickly reduced).</p> <p>The Department will continue to look for every opportunity to utilise its appropriate structure flexibly to fund as much activity from within baseline. If this results in funding being able to be returned to the CRRF this will be pursued but the Department believes that the proposed initiatives cannot at this stage be funded within baseline.</p>
Does the initiative result in new FTEs or contractors?	No
Does this initiative overlap with the work of any other departments? If so, how have you worked with those departments to avoid duplication?	No

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BUDGET-SENSITIVE

Submission Seeking Funding for COVID-19 Related Costs: Gambling, Racing and Community Funding Work Programme**Funding sought**

Operating funding Sought (\$m)	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears	Total
Vote Internal Affairs: Policy Advice MCA	0.200	2.300	-	-	-	2.500
Total	0.200	2.300	-	-	-	2.500

Capital funding Sought (\$m)	2019/20	2020/21	2021/22	2022/23	2023/24	
Vote X:						
Vote Y:						
Total						
	2024/25	2025/26	2026/27	2027/28	2028/29	Total
Vote X:						
Vote Y:						
Total						

Funding sought to be reprioritised

Operating funding (\$m)	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears	Total
Vote X:						
Vote Y:						
Total						

Capital funding (\$m)	2019/20		2020/21		2021/22		2022/23		2023/24		
Vote X:											
Vote Y:											
Total											
	2024/25		2025/26		2026/27		2027/28		2028/29		Total
Vote X:											
Vote Y:											
Total											

BUDGET-SENSITIVE

Overview of COVID-19 pandemic related funding or initiative

Key Question	Answer
Title of initiative	Gambling, Racing and Community Funding Work Programme
Portfolio of lead Minister	Minister of Internal Affairs
Portfolio(s) of other Ministers involved	Minister for Racing Minister for the Community and Voluntary Sector
Impacted Votes	Vote Internal Affairs
What will this initiative do?	<ul style="list-style-type: none"> • New Zealand's community and voluntary sector has a critical role in increasing social inclusion, wellbeing and community resilience. The role of this sector is all the more important during a crisis and will have a critical role in supporting a successful recovery from COVID-19's impacts. • New Zealand's racing industry adds around \$1.6 billion in value to the New Zealand economy, and is particularly important to those regional economies where racing has a significant presence and as a funder of New Zealand's national sporting organisations. • New Zealand's community and voluntary organisations, sporting organisations and the racing industry rely on proceeds of gambling for survival. COVID-19, and measures in place to combat it, have significantly impacted these revenue streams. It has reduced class 4 and TAB revenue to almost nil with no likelihood of BAU resuming in the immediate future and contributed to decreasing lotteries sales. • To mitigate these issues the Minister of Internal Affairs, alongside the Ministers for Racing and the Community and Voluntary Sector, have directed the Department of Internal Affairs (the Department) to deliver a significant multi-faceted programme of work under an accelerated timeline – including the delivery of complex regulatory reform to introduce a managed online gambling market by the end of this Parliamentary term. • This work is being progressed at a rapid pace and involves: accelerating work on online gambling regulation (previously anticipated to be delivered in 2022); making changes to the regulatory settings for Class 3 lotteries; a review of funding arrangements for the Lottery Grants Board; continuing components of the work on the reform of the racing industry (which includes an urgent focus on supporting its recovery from the impacts of COVID-19 on its wagering business); and consideration of broader funding for communities to address the impacts that they will face as a result of severe shortfalls in funding due to COVID-19. This initiative is seeking the additional FTE resource for 2020/21 required to achieve this ambitious work programme. Further resource is likely to be required in 2021/22 but this will be assessed through future BAU budget processes. • The Department's broader policy work programme has been reprioritised to enable additional existing resources to be

BUDGET-SENSITIVE

Key Question	Answer
	<p>allocated to this work programme and the gambling policy components of this work are covered through reprioritised resource. However, the available programme resource needs to be supplemented with senior policy and programme personnel, and subject matter experts necessary to ensure the delivery of a complex and interconnected programme of work in a challenging timeframe. Further funding is unable to be reprioritised internally, as the Department is already providing support to the COVID-19 response outside of the Internal Affairs portfolio, including: the COVID-19 Local Government response unit; the Government Chief Digital Officer's COVID-19 responses; and supporting the broader government COVID-19 response.</p> <p><i>Background</i></p> <ul style="list-style-type: none"> • Providing community benefits from the profits of gambling is one of the pillars that underpins New Zealand's gambling regulatory system and is a critical source of financial support for many of New Zealand's community, sporting and racing organisations. For example, proceeds from class 4 gaming machines provided \$333 million of funding to communities in 2017. Wagering revenue enabled the TAB to provide distributions of around \$160 million to racing codes in 2019 and \$10 million to sporting codes. • However, as a result of COVID-19 and measures in place to combat it, these critical returns to community and voluntary organisations, racing and sporting organisations have been severely affected, and without intervention, will likely mean many organisations which support New Zealanders' wellbeing and social networks, and provide employment, will fold. • New Zealanders can, and do, gamble online at overseas sites. These sites make no return to New Zealand's communities, do not contribute to problem gambling services and most pay little or no tax to New Zealand. Work has been underway in the Department to respond to the growth of online gambling in New Zealand and understand how New Zealand can best position itself to benefit. This is critical as there is evidence that online gambling is likely to accelerate as a result of COVID-19. Sources indicate that in Australia, for the weeks 30 March – 5 April¹ and 6 – 13 April², online gambling had increased respectively by 68% and 38% compared to a normal week. Accelerating this work is one avenue to address some of the COVID-19-related issues. • Minimising harm from gambling is another pillar of New Zealand's gambling regulatory system. The online gambling review is providing an opportunity to consider comprehensive, innovative and effective measures to minimise harm to support a safer gambling experience than existing online and terrestrial

¹ Julian Hoskins *Australia sees big surge in online gambling* Published 19 April <https://www.linkedin.com/pulse/covid-19-causing-surge-online-gambling-australia-julian-hoskins> Accessed 22 April 2020

² COVID 19 Economic Impact – Real time tracking – Week of 6 – 13 April <https://www.alphabeta.com/illiontracking> Accessed 22 April 2020

BUDGET-SENSITIVE

Key Question	Answer
	gambling products provide. Cessation of racing, physical sports and associated gambling opportunities also increases the risk that more New Zealanders will turn to offshore gambling providers and increases the risk of gambling harm.
How does the initiative relate to the COVID-19 Pandemic response and recovery?	<p>COVID-19 and the measures in place as a result of alert Level 4 have reduced revenue from class 4 and class 3 gambling, and revenue from racing, to almost nil. Revenue from these sources will remain nil at alert level 3 and continue to be constrained at alert level 2, due to distancing requirements and contract tracing. The Lotteries Commission has experienced a reduction in sales, which further reduces funding available to communities. The result has already had a negative impact on the amount of funding available to community, sporting and racing organisations and presents immediate viability challenges, but the full impact has not yet hit, and without intervention, is likely to be catastrophic for many of the organisations reliant on this funding. This will have a negative domino effect on those New Zealanders that rely on these community and sporting organisations to support their social networks, personal wellbeing and more broadly, community resilience.</p> <p>COVID-19 impacts have the potential to increase New Zealanders' use of offshore gambling providers and increase risk of gambling harm, as well as reduce amounts available for distribution to community, sporting and racing organisations at a time where the need for such organisations is at its greatest.</p> <p>An expanded and accelerated work programme has been developed to address these COVID-19 related issues and involves work on online gambling regulation, Class 3 lotteries, the review of funding arrangements for the Lottery Grants Board, the support package and recovery planning for racing and sport, and broader funding for communities to determine shortfalls due to COVID-19.</p>
How does this initiative contribute to the Government's plan to respond and recover from COVID-19?	<p>This initiative supports Wave 2: Positioning for recovery through a work programme of legislative and policy and operational change that will identify and address adverse financial impacts on the community and voluntary sector, sporting organisations and the racing industry. This will create a gambling framework that supports better returns for New Zealand while strengthening measures in place to address gambling harm, enable critical services delivered through New Zealand's community and voluntary sector to continue, and support the revitalisation of New Zealand's racing industry, which in turn supports regional economic activity and provide important financial support to sporting organisations.</p>
Please provide a breakdown of the costs of this initiative	<p>Through reprioritisation of the policy work programme, the Department has been able to commit a number of policy resources to the programme. Operating funding is being sought to cover short-term roles for two policy programme managers and up to four principal and senior policy analysts as well as to engage expert consultancies for financial modelling and to undertake independent expert assessments of organisation capability and verification of cost estimates. The total cost, including corporate support costs is estimated at \$2.495 million. These positions will support the Department's resource that is already working on the work programme, and which are covered by existing baselines.</p>

BUDGET-SENSITIVE

Key Question	Answer
	Key assumptions are that the required resource and expertise is not available within existing Departmental baselines, that the resource will be required for a short time only (as the work programme is time bound), and that, given the current changes in the employment markets, that individuals with the required skillset will be able to be found quickly. There is potential that components of the work programme will expand outside of 12 months, but if required, further resources will be requested through normal budget processes.
How will this initiative be implemented?	<p>A detailed work programme has been developed to identify key streams, deliverables and timeframes. The Department has recently worked through a truncated process for racing legislation with learnings from this process to be drawn on to support successful delivery of the legislative component of this work programme.</p> <p>The work programme is addressing a complex policy area. There are key interdependencies to be considered between gambling, racing and the community and voluntary sectors, alongside broader considerations such as the health and welfare of New Zealanders and international trade obligations. There are a broad range of key stakeholders in the gambling, racing and community sectors, with a diverse range of views. Key to the success of this programme will be working closely with these stakeholders. However, this risk is mitigated somewhat by policy work that has taken place by the Department over the last year in the Gambling and Racing policy areas which provides a foundation of information and sector engagement on which to build. A provision is also made for retaining expert consultants to be able to understand the complexities of New Zealand's trade agreements, undertake financial modelling and to undertake independent expert assessments of organisation capability and verification of cost estimates. This expertise will be required to ensure the timeframes for the programme are able to be met.</p>
Why is funding urgently required for this initiative?	The Minister of Internal Affairs, alongside the Ministers for Racing and the Community and Voluntary sectors, have directed the Department to urgently reprioritise its work programme as a way of addressing issues that have been created or exacerbated as a result of the COVID-19 pandemic. Work is underway and cannot be delayed until Budget 2021, as many of the outcomes being sought will need to be completed in 2020/21.
Are there any other options to fund this initiative?	<p>The Department of Internal Affairs has sought to utilise its baseline budget as much as possible to meet the costs of new or changed activity arising because of COVID-19. The Department is absorbing a considerable amount of immediate expenditure from within baseline including costs arising from having 90% of staff working from home, re-allocation of staff to urgent COVID-19 work and to re-deployment to other agencies to assist with their immediate and urgent work. Specific budget re-allocations include:</p> <ul style="list-style-type: none"> • Digital Services awareness campaign (phase 2): \$0.600m reprioritised in 2019/20 out of forecast underspend in MCA 7 (Crown portion) • CLGP core funding: \$1.2-1.4m of Iwi/Maori LG relationship funding from 2019/20 to 2020/21 to partially offset some of the funding sought in 2020/21

BUDGET-SENSITIVE

Key Question	Answer
	<p>The Department is not confident it can meet the costs of the proposed initiatives from within baselines because a large proportion of the cost structure is non-discretionary, i.e. property and ICT costs, delivery of essential services. In addition, it is facing a considerable but hard to accurately estimate reduction in third party revenue as demand for services such as passport renewals and gambling licencing is reduced (but fixed costs for these services are not able to be quickly reduced).</p> <p>The Department will continue to look for every opportunity to utilise its appropriate structure flexibly to fund as much activity from within baseline. If this results in funding being able to be returned to the CRRF this will be pursued but the Department believes that the proposed initiatives cannot at this stage be funded within baseline.</p>
Does the initiative result in new FTEs or contractors?	Yes, there will be up to six short-term FTEs brought on to support the delivery of this work programme.
Does this initiative overlap with the work of any other departments? If so, how have you worked with those departments to avoid duplication?	No.

Assessment template: COVID-19 related expenditure

Instructions:

- The below assessment should be completed, reviewed and saved into the following imange folder [BM-2-4-2020-13-02].
- In addition to completing the assessment template there are some fields in CFISnet that will need to be completed, these are:
 - Comments – this should reflect the key points from the assessment summary.
 - Assessment on meeting criteria – this is a drop down with the following choices (mostly, partly or minimally). This is to see how well align the initiative is to the assessment criteria.
 - Recommendation – this is a drop down with the following choices (support, not support or defer).
 - Specifically targets Maori and/or Pacific peoples – this is a drop down with the following choices (yes or no). This is to support further analysis on initiatives.
 - Complete the funding supported table.

Initiative summary

Title of initiative	Co-funding all-weather race tracks to support regional economic recovery
Portfolio of lead Minister	Minister for Racing
Portfolio(s) of other Ministers involved	N/A
Impacted Votes	Internal Affairs
Wave	N/A
VA Assessment on meeting criteria	Minimally
Recommendation	Do not support

Initial Assessment for near term (11 May 2020) process

Criteria	Response – Yes or no
Does this initiative directly relate to Wave 1 or 2 of the COVID-19 response and recovery?	No No link at all to COVID, this is a declined Budget 2020 initiative
Is the initiative investment ready?	No Unclear which racetracks would be invested in or why
Has the agency demonstrated that this initiative cannot be funded from within baselines?	Yes
Is there another reason why this initiative should be considered? Please specify	
Will this initiative be assessed for funding? [assessment is only necessary if you answered yes to the first three questions or yes to question 4]	No

Assessment

Criteria	Response (RAG)
Link to COVID-19: Has the agency demonstrated a clear link to the Government's plan to respond to and recover from COVID-19?	Declined Budget bid, no link at all to COVID.
Outcomes: Is the agency clear on what wellbeing outcomes this initiative seeks to achieve?	
Government objectives for the economy: Does the initiative contribute to a productive, sustainable and inclusive economy?	
Options analysis: Has the agency completed genuine options analysis? Is there a clear case for investing in the preferred option?	No options analysis on policy. Not mentioned are the significant property law reforms being progressed through Parliament that are intended to provide significant capital to the industry to drive its own revitalisation.
Costings: Has the agency presented a clear cost breakdown? Are scaling options included? Can this initiative be scaled to improve alignment with the other assessment criteria?	Not clear.
Timing: Does spending on the initiative need to start immediately?	
Implementation readiness and evaluation: Is this initiative implementation ready (i.e., is there a supporting business case)? Has the agency identified risks to implementation? If new FTE or contractors are required, is this feasible?	Not clear where investment would be used
Implication if funding is not approved: What are the consequences if the funding is not approved?	
Cross agency implications: Has the agency ensured that the initiative does not overlap with similar initiatives from other agencies? Has the initiative been developed with other agencies/stakeholders?	
Consideration of Māori and Pacific peoples: Is this proposal sufficiently tailored and targeted to meet the needs of Māori and Pacific communities? (Refer to the Māori and Pacific policy tool for more information)	

Assessment Summary

Recommendation:

This initiative does not meet the criteria for assessment. This initiative has no clear link to COVID-19 and is the subject of a declined Budget 2020 non-priority aligning initiative. It is also not clear why existing sources of

funding such as the Provincial Growth Fund cannot be used if this initiative is intended to encourage regional growth.

[In your assessment, outline whether this funding is urgently required with regards to Waves 1 or 2. Are there significant risks in not funding at this time? Briefly provide an assessment to whether the proposal is 'investment-ready', or requires additional work on costings, implementation planning etc. Highlight any significant implementation requirements, such as new FTE growth or cross-agency implications, which would need to be explored further.]

New funding supported

Operating funding supported (\$m)	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears	Total
Vote X:						
Vote Y:						
Total						
Capital funding supported (\$m)	2019/20	2020/21	2021/22	2022/23	2023/24	
Vote X:						
Vote Y:						
Total						
	2024/25	2025/26	2026/27	2027/28	2028/29	Total
Vote X:						
Vote Y:						
Total						

From: Craig Murphy [TSY]
Sent: Saturday, 2 May 2020 4:35 PM
To: Jason Dowse
Cc: Murray Johnson; Michael Lonergan [TSY]
Subject: RE: Racing briefing - Recommended Racing Industry Support Package

[IN-CONFIDENCE]

Kia ora

With the \$26 million, I was making the point being RITA came to us pre-impaired – it borrowed to get through the previous year.

I'm keen for Michael's input, subject to that, I'm happy for the recommendation that we use a grant. On the recapitalisation, let's discuss as I feel there are other options and what to understand the "Treasury view".

Ngā mihi



**TE TAI ŌHANGA
THE TREASURY**

Craig Murphy | Te Tai Ōhanga – The Treasury

s9(2)(k)

s9(2)(g)(ii)

Email: craig.murphy@treasury.govt.nz

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From: Jason Dowse <Jason.Dowse@dia.govt.nz>
Sent: Saturday, 2 May 2020 3:51 PM
To: Craig Murphy [TSY] <Craig.Murphy@treasury.govt.nz>
Cc: Murray Johnson <Murray.Johnson@dia.govt.nz>; Michael Lonergan [TSY] <Michael.Lonergan@treasury.govt.nz>
Subject: RE: Racing briefing - Recommended Racing Industry Support Package

Thank you Craig,

With respect to the \$26m creditors, I think the situation may be a little different than perhaps the text implies. PWC found that as at 22 April \$16.3 million was more than 30 days old. I don't have any additional information but expect that the 30 days plus creditors at 22 April also reflects COVID impacts and prior to COVID the 30 day+ situation was not that severe. We could ask John to confirm?

Can we also say that the Department and the Treasury recommend...? -last two bullets.

Regards

Jason Dowse | Senior Advisor
Policy Group | Toi Hiranga
Department of Internal Affairs | Te Tari Taiwhenua
Mobile: s9(2)(k)



From: Craig Murphy [TSY] <Craig.Murphy@treasury.govt.nz>
Sent: Saturday, 2 May 2020 2:55 PM
To: Jason Dowse <Jason.Dowse@dia.govt.nz>
Cc: Murray Johnson <Murray.Johnson@dia.govt.nz>; Michael Loneran [TSY] <Michael.Loneran@treasury.govt.nz>
Subject: RE: Racing briefing - Recommended Racing Industry Support Package

[IN-CONFIDENCE]

Kia ora Jason

I have marked up your paper and sent my comments on to Michael the VA for his review.

Subject to Michael's review, my variation on your executive summary is:

- Changes as a result of the 2018 Messara Report are progressing in a measured way. However, these changes are placing increased financial pressure on the Racing Industry Transition Agency (RITA).
- RITA was under significant pressure pre COVID-19, with \$26 million of overdue creditors.
- On 3 April we advised that the racing industry was under severe pressure as a result of COVID-19 and that the impacts of COVID-19 place the TAB is at imminent risk of failure.
- On [date] RITA advised that it required approximately \$75 million to support the racing industry and sport.
- On [date] Cabinet has agreed that a package should be considered. Its objectives were;
 - ensure the survival of the TAB through to the end of its 31 July financial year;
 - position the industry to successfully resume racing in August; and
 - mitigate impacts on sporting organisations as a result of lost betting revenue;
- The Treasury, working with the Department of Internal Affairs (the Department), commissioned PWC to undertake due diligence to understand the extent of the support required through to the end of its 31 July financial year.
- PwC have advised that the TAB has been able to retain some revenue, largely due to continued racing in Australia, however \$41 million is required no later than 20 May to stabilise RITA and meet the Government's objective of RITA trading through to the end of its 31 July financial year.
- We need to move at pace to provide the required funding. RITA is unable to take on additional debt, s9(2)(f)(iv) therefore a grant is recommended.
- The Department recommends that Government provide a grant to RITA of \$41 million, subject to conditions including the appointment of an investigative accountant to ensure the provision of independent timely accurate information to the Department.
- Additional investment is also required to recapitalise the TAB. The Department recommends that Government undertake further work to develop options for the recapitalisation of RITA. Decisions on that are less urgent, but need to progress at pace and could be taken over the next 3 months.

Ngā mihi



TE TAI ŌHANGA
THE TREASURY

Craig Murphy | Te Tai Ōhanga – The Treasury

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From: Jason Dowse <Jason.Dowse@dia.govt.nz>
Sent: Saturday, 2 May 2020 11:11 AM
To: Craig Murphy [TSY] <Craig.Murphy@treasury.govt.nz>
Cc: Murray Johnson <Murray.Johnson@dia.govt.nz>
Subject: Racing briefing - Recommended Racing Industry Support Package

Hi Craig,

Please find attached for your review the draft briefing. Although this is addressed to Min Racing we think it will probably be recast as a briefing to joint Ministers with Treasury comments worked into it. Let us know if that approach is what you have in mind.

Also, once I have your comments on the questions I have separately sent to you (and also the one to John Fisk) I will work those into the next version.

Kind regards

Jason Dowse | Senior Advisor
Policy Group | Toi Hiranga
Department of Internal Affairs | Te Tari Taiwhenua
Mobile: s9(2)(g)(ii)



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Memo

To: David Blue and Craig Murphy – The Treasury
Jason Dowse – Department of Internal Affairs
From: John Fisk and Jeremy Morley
Date: 3 May 2020
Subject: Racing Industry Transition Agency – Funding Requirements

Dear David, Craig and Jason

1.0 Background and Introduction

We refer to our draft report on the Racing Industry Transition Agency (“RITA”) dated 28 April 2020 and our recent discussion and exchange of correspondence.

In order to finalise your paper to Ministers and Cabinet regarding RITA’s funding support package, you have asked for additional information as to what funding may be required in the longer term, additional to the funding for immediate liquidity issues (~\$41m under Scenario E as per our draft report of 28 April 2020). As we have noted to you, it was intended this analysis would form Phase Two of our work, but we can provide some indicative, high-level funding requirements and other key related factors, following discussions we have had with the RITA Board and management, including our conference call of this morning.

2.0 Key Related Factors

Any additional funding will be underpinned by the wider legislative and other changes proposed under the Racing Industry Bill *et al* and the timing of that legislation, including *inter alia*:

- The successful enactment of that Bill (currently expected June 2020).
- The formation of Racing NZ to govern the operations of the three industry codes on a shared services model.
- A clear vision and strategy for the future, driven by a suitable programme of change (likely to take between one and three years to implement), that will resolve all the issues including any legal, financial and/or operational challenges to the new structure of the TAB and Racing NZ.
- Ability under that change programme to realise and rationalise significant property assets of existing racing clubs and establish an appropriate capital investment fund (“CIF”) to consolidate and benefit the wider industry.

- This change programme eventually being self-funding except for some initial “seed/working capital” to make the changes happen. s9(2)(f)(iv)
- The longer-term ability of the racing codes to establish alternative and sustainable sources of revenue in addition to distributions from the TAB.
- The “future TAB” becoming more of a standalone commercial entity, which can make distributions to the codes on a more commercial rather than “entitlement” basis, whilst at the same time being able to retain profits to sustain and grow its own business, make appropriate levels of capital expenditure to remain competitive, and pay a commercial dividend to its owners.
- A recapitalisation of the TAB and acknowledgement that s9(2)(f)(iv)
- Any such recapitalisation potentially being resolved through the appropriate and favorable recognition of s9(2)(f)(iv)
- A future review of s9(2)(f)(iv)

There are other potential legislative changes which could be made, such as the introduction of an Interactive Gambling Act (“IGA”); changes to duties, taxes and levies; and the restoration and enforcement of the monopoly where overseas operators are forbidden from offering online betting and gaming to New Zealanders. This would also involve allowing TAB and Lotto to offer online gambling products in line with overseas competitors. We are advised that if this can be achieved, the funding requirements for achieving the changes required could be materially reduced.

The criteria set out above are important considerations in determining the long-term funding options available. Whilst the long-term options are being considered, it is also critical for the directors of RITA to have certainty on the short-term funding needs of the business addressed in our phase one report, to ensure they meet their director duties, particularly regarding not trading whilst insolvent.

3.0 Potential Ranges of Funding

In the table below we outline estimates of additional funding which may be required over the next three years. We would hasten to add that these numbers are high-level estimates only, and ideally should be analysed in more detail under our Phase Two work, if required. This would include working with RITA and the Codes (including any Racing Clubs, as appropriate) to investigate the programme plan and establish suitably integrated forecasts for the next 5-10 years that would support the estimates.

Details	Assumptions	Estimated Funding
Additional funds for sustainable distributions to the Codes whilst the legislative and industry change programme is implemented	Due to the likely decline in TAB revenue over the next 1-3 years there is an expected gap in the funding required	Year 1: s9(2)(f)(iv) Year 2: s9(2)(f)(iv) Year 3: s9(2)(f)(iv) TOTAL: s9(2)(f)(iv)
TAB Change programme costs	There has already been \$3.5m allocated for the TAB change programme last budget. Just prior to moving to Alert Level 4, an estimated cost to complete this work was budgeted at s9(2)(f)(iv) or FY21. This would enable TAB to be established as a 100% commercial entity	s9(2)(f)(iv)
Capital Investment Fund establishment	Seed capital required to oversee Racing NZ change programme including rationalise property holdings and building a long-term, sustainable industry.	s9(2)(f)(iv)
Retirement of current bank funding	s9(2)(b)(ii) and s9(2)(f)(iv)	s9(2)(f)(iv)
TOTAL		s9(2)(f)(iv)

As we have noted, in the longer term it is possible that the TAB and Racing NZ could become largely self-funding through changes in legislation; the release of capital from property and others assets; and their ability to generate other sources of revenue other than solely from the TAB.

We reiterate, these are initial estimates and further refinement of the restructuring programme required and costs together with benefits need to be assessed.

Yours sincerely
John Fisk and Jeremy Morley

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Office of the Minister for Racing

Office of the Minister of Finance

Chair

Cabinet Business Committee

Emergency Support Package: Racing Industry and Sport**Purpose**

1. This paper proposes a support package to ensure the survival of the Racing Industry through to 31 July 2020 and to position it for rapid recovery as COVID-19 Alert levels reduce.

Executive Summary

2. The racing industry and National Sporting Organisations (NSOs) are under severe financial pressure as a result of COVID-19. The racing industry is a major employer and contributor to the New Zealand economy. A 2018 study found that the racing industry was responsible for generating more than \$1.6 billion in value-added contribution to the New Zealand economy. The same study showed that the total direct and indirect employment impact generated by the New Zealand racing industry was 14,398 FTE jobs, with in excess of 58,000 individuals participating in the industry in some shape or form. Many of these jobs are based in regional economies.
3. The racing industry is highly cashflow reliant, principally on revenue generated by the TAB. To come The Racing Industry Transition Agency (RITA)¹ governs the TAB and has requested urgent support to ensure that the monopoly betting operator can survive the pandemic. RITA is carrying \$47 million in term debt and has outstanding supplier payments of more than 26 million. RITA's lenders advise they can extend no more credit and RITA is fast approaching the point at which it will not be able to meet its commitments.
4. Cabinet first considered this matter on 16 April [CAB Min XXX refers] and directed the Department of Internal Affairs to work with the Treasury and urgently confirm the nature and scale of support required and report to Joint Ministers. The objectives of any support package would be to:
 - 4.1. ensure the survival of the TAB through to the end of its 31 July 2020 financial year;
 - 4.2. position the industry to successfully resume racing in August 2020;
 - 4.3. mitigate impacts on sporting organisations as a result of lost betting revenue;
5. -PWC was commissioned to review RITA's financial position and outlook. PWC confirms that urgent support is required to ensure the TAB can survive to the beginning of the main racing season (August 2020). PWC's analysis found that \$41 million is needed and

Commented [M11]: The original COVID ministers agreement was that Minister of Racing takes this to Cabinet. DO you know if MoF explicitly agreed to co-author the paper? We're also following up with MoF's office.

I **noted** that, subject to the agreement of Budget Ministers, the Minister for Racing will bring the proposed support package to Cabinet for final decisions."

Formatted: CabStandard

¹ RITA is the successor Agency to the Ministerial Advisory Committee and the New Zealand Racing Board.

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the majority or all of this should be provided no later than 20 May 2020. Joint Ministers have considered this and presented the case to Budget Ministers and recommended that the support package as detailed in this paper be provided, with appropriate protections and conditions. Budget Ministers agree that support should be considered.

6. Joint Ministers propose that if Cabinet supports providing a \$41 million support package that this be provided in grant form. It is not feasible to provide a loan on commercial terms, reflecting that as RITA's balance sheet would not enable it to take on further debt.
7. PWC's analysis has also underlined that RITA has a very weak equity position arising pre-COVID-19 and that close consideration should be given to recapitalising RITA/TAB. There is less urgency with recapitalisation and work on analysing that can proceed over a 2-3 month period. If Joint Ministers reach the view that capitalisation should be considered, they will bring this to Cabinet for consideration.

Racing is an economically significant industry and has requested support

3.8. A 2018 study by the Australian consultancy firm IER, showed that in 2016 the New Zealand racing industry was responsible for generating more than \$1.6 billion in value-added contribution to the New Zealand economy. This expenditure was responsible for creating a direct value-added impact (in terms of wages, salaries and profits) of \$611.0 million per annum. The same study showed that the total direct and indirect employment impact generated by the New Zealand racing industry was 14,398 FTE jobs, with in excess of 58,000 individuals participating in the industry in some shape or form. Many of these jobs are based in regional economies.²

4.9. The racing industry and National Sporting Organisations (NSOs) are under severe financial pressure as a result of COVID-19. The racing industry is highly cashflow reliant, principally on revenue generated by the TAB³. A number of NSOs are also reliant on betting revenue to fund their delivery of sport in New Zealand at both the high performance and community level. The TAB's role in the industry is to market and provide for betting on racing and sport events produced by the respective racing and sports codes. The Racing Industry Transition Agency (RITA)⁴ governs the TAB and has requested urgent support to ensure that the monopoly betting operator can survive the pandemic. RITA advised that it was seeking a support package to:

- 4.1-9.1. Ensure the TAB can maintain a baseline functionality and meet essential and unavoidable costs;
- 4.2-9.2. Ensure the Codes can maintain a baseline functionality and meet essential and unavoidable costs;
- 4.3-9.3. Offset the loss of distributions to sporting organisations from the TAB; and
- 4.4-9.4. Drive a quick and strong recovery of racing via additional marketing, promotion and stakes as soon as racing and sport events can resume.

² Size & Scope of the New Zealand Racing Industry, prepared by IER, February 2018.
<https://www.rita.org.nz/sites/default/files/documents/NZ%20Racing%20Size%20and%20Scope%202018%20Full%20Report.pdf>

³ The TAB was once an entity in its own right (Totalisator Agency Board) but is now an operational arm of RITA.

⁴ RITA is the successor Agency to the Ministerial Advisory Committee and the New Zealand Racing Board.

5-10. RITA had expected the TAB's revenue to drop to close to zero from April 2020, with little prospect of significant revenue recovery before the new racing season starts in August. However, limited racing in Australia has continued and some sporting events overseas have been taking place. This has meant that the TAB's revenue from wagering has not completely collapsed. The TAB's current turnover is around \$22 million per week compared to the 2019 weekly turnover of around \$53 million.

6-11. Although the TAB has been able to retain some revenue it is not enough to sustain it to the start of New Zealand's racing season in August. RITA has also taken and continues to take measures aimed at reducing its costs. The RITA Board has agreed a change proposal that will be put to its staff this week and could potentially affect 30% of its people. Despite this, RITA's ability to weather significant and sustained revenue decline is very limited by its existing \$47 million term debt and lack of assets to back further commercial debt. Our investigations indicate that RITA was under significant pressure pre COVID-19, with \$26 million of overdue creditors.

7-12. RITA advises it needs assurance of Crown support as soon as possible to avoid failure. Racing codes and clubs and National Sporting Organisations (NSOs) are also heavily impacted as a result of lost betting revenue.

13. The Minister for Racing brought this matter to COVID Ministers on 16 April for initial consideration. They agreed that the objectives of any support package would be to:

13.1. ensure the survival of the TAB through to the end of its 31 July 2020 financial year;

13.2. position the industry to successfully resume racing in August 2020;

13.3. mitigate impacts on sporting organisations as a result of lost betting revenue;

14. COVID-19 Ministers directed the Department of Internal Affairs, with support from the Treasury, to urgently confirm the nature and scale of support required and report to Joint Ministers [Cab Min XXX refers].

7. The Minister for Racing brought this matter to Cabinet on 16 April for initial consideration. Cabinet directed the Department of Internal Affairs, with support from the Treasury, to urgently confirm the nature and scale of support required and report to Joint Ministers [CAB Min XXX refers].

Significant support is indicated

8-15. The Treasury engaged PricewaterhouseCoopers to confirm the extent of the issues. In early April RITA had sized the level of support required as approximately \$75 million. However, with the retention of some racing and sporting activity overseas, the level of immediate support needed is somewhat lower, but still significant. PWC confirms that immediate support is required. The table below lists the components of this.

Item	Amount
To repay overdue creditors	\$26.5 million
For working capital incl. code distributions	\$3.9 million net
Funding for restructuring and employee entitlements	\$3.5 million to \$4.5 million
Additional funding for operating and/or idling	\$2.5 million
Contingency at 10%	\$3.64 million to \$3.74 million
Total	\$40.04 million to \$41.14 million

Commented [ML[2]: Outline further

Commented [ML[3]: Explain further

~~9-16.~~ The largest single element is to repay overdue creditors. During this crisis RITA is managing creditors by deferring payments or making part payments. It is also using cash held for the betting levy and GST to help cover outgoings. This is not sustainable and there is a risk that suppliers will be damaged, and RITA could lose the goodwill of its supply chain. RITA is also investing significant effort in managing its cashflow and creditors, which is impeding its ability to focus on recovery.

~~10-17.~~ The other elements of support required are smaller but in each case important to ensure the TAB can survive to the end of its July financial year and enable the restart of racing, subject to compliance with relevant COVID-19 Alert Level requirements. This includes funding for codes and sporting bodies as well as to enable the TAB to undertake internal restructuring to reduce its costs.

~~11-18.~~ With all elements, PWC estimates that a support package of around \$40-41 million is required at this time. This is less than indicated in previous advice to Cabinet [CAB Min XXX refers]. This reflects TAB's ability to generate some revenue at this time. However, the lower figure of \$40-41 million is contingent on Australian racing and other events continuing. If for any reason those were to cease, then \$41 million would likely be insufficient.

A grant would position the industry to recover

~~12-19.~~ In principle, there are options for how a support package could be structured. It could take the form of a:

~~12-1-19.1.~~ grant; or

~~12-2-19.2.~~ Crown loan; or

~~12-3-19.3.~~ Crown guarantee for a commercial loan.

~~20.~~ Generally, we would prefer any support package involve assistance on commercial terms. However due to unusual circumstance - the TAB's precarious financial situation, s9(2)(f)(iv) the need for rapid assistance – the Crown has very limited options for structuring any support package.

~~13-21.~~ The above items are not mutually exclusive, and a support package could include a combination of the three. A grant would be fast to implement and position the industry for rapid recovery. However, it would have the highest direct cost on the Crown's accounts. There is a variation to this option which would see the grant replaced with an injection in exchange for an equity interest. PWC recommended that the bulk of the funding should be provided as either a grant or as equity.

~~14-22.~~ Provision of equity might have some long-term advantages in terms of recognising the direct Government investment in the Racing Industry (inclusive of the TAB) and to protect the policy direction set for the industry through the current reform programme.

~~15-23.~~ s9(2)(f)(iv)
s9(2)(f)(iv)

s9(2)(f)(iv) and Addressing this issue now would complicate the current requirement for support, which is needed by 20 May at the latest. However, s9(2)(f)(iv) s9(2)(f)(iv) and this could be

explored in relation to the further work needed on the recapitalisation of the industry which is discussed later in this paper.

~~16.24.~~ A Crown loan would incur a capital charge but would be a recoverable asset and have limited impact on the Crown's accounts if the loan is repaid and depending on the terms of the loan. A Crown Guarantee of a commercial loan creates commercial incentives on RITA, and allows general taxpayer money used to support a specific sector to be repaid over time, providing greater public benefit. ~~—but~~ However it could incur a higher cost to the Crown over the long term, if the industry failed to recover sufficiently to allow RITA to repay its debt. Negotiating and agreeing a loan arrangement would also take additional time when we need to move quickly.

Commented [ML4]: Are you sure? Capital charge is on departmental assets and this would presumably be non-dept

~~17.25.~~ However, a Crown loan and a Crown guarantee would mean RITA has to make repayments out of future revenue streams and this could slow the sector's recovery and, in the longer-term, its ability to achieve financial sustainability. On balance, the Minister for Racing and the Minister of Finance consider that the support package should be structured as a Crown grant, subject to specific conditions.

~~18.26.~~ As part of the support package, Government could agree that the Betting Levy is abolished now rather than on 30 July 2021. Government could also agree that the TAB retain any betting duty (the 'betting levy') already collected and held and not prescribe that it be distributed to racing codes and sport. The TAB has in its accounts approximately \$4 million of duty which has been supporting its cash position.

Conditions of support

~~19.27.~~ PWC's advice emphasised that the Crown should obtain assurance that RITA has undertaken every possible initiative to manage and mitigate costs during the lockdown period and to the end of July 2020, and then has sustainable plans beyond that period.

~~20.28.~~ Both the Department and Treasury advise that this can occur once the support package is in place, subject to RITA's acceptance of Crown monitoring and funding conditions. We recommend that the details of a monitoring role and conditions be agreed by Joint Ministers, subject to Cabinet's agreement to the proposed support package.

The TAB requires recapitalisation

~~21.29.~~ PWC's analysis has also underlined that RITA has a very weak equity position and that close consideration should be given to recapitalising RITA/TAB. The Racing Industry Bill provides for a new betting operator (TAB NZ) to take over the ongoing wagering function of RITA. The Bill is currently being considered by the Transport and Infrastructure Committee and will complete the legislative reform for the TAB. The racing industry reforms propose that a new betting operator (TAB NZ) will take over the ongoing wagering function of RITA. This Bill is due to be reported back from select committee on 1 June 2020 and if passed, this would mean that any recapitalisation of the industry would be via TAB NZ and not RITA.

Commented [RK5]: We should refer to the Bill here and getting this through the house to complete the legislative reform for the TAB

Commented [RK6]: We should refer to the Bill here and getting this through the house to complete the legislative reform for the TAB

~~22.30.~~ Joint Ministers agree that recapitalisation needs to be considered.

s9(2)(f)(iv)

Commented [ML7]: By who?

s9(2)(f)(iv)

There is less urgency with recapitalisation and decisions on that can proceed over a 2-3 month period before being brought back to Cabinet for further consideration. That would allow time to work

through how much funding is required. It would also allow time to consider such issues as whether the Crown s9(2)(f)(iv)
s9(2)(f)(iv)

Risks

~~23.31.~~ The intention is to put in place a granting funding agreement to protect the Crown's interest via various conditions, including the acceptance of full access to information and monitoring. However, s9(2)(f)(iv)

s9(2)(f)(iv)

s9(2)(f)(iv)

~~24.32.~~ Joint Ministers consider that this may need to be resolved, particularly if s9(2)(f)(iv)
s9(2)(f)(iv). Ministers will take further advice on this point and report on this to Cabinet if they propose recapitalisation.
s9(2)(b)(ii)

Commented [ML]8 s9(2)(f)(iv)
s9(2)(f)(iv)

33. PWC also advise that before the RITA Board accepts any funding, its directors should seek legal advice as to their obligations under the Companies Act 1993 and any other relevant legislation, to ensure they are not potentially breaching these, especially in terms of major transactions and solvency of the Group, and the need to act in good faith, including pursuant to the recently introduced "Safe Harbour" provisions.

34. Even with restoration of the TAB to a sound financial footing, the gambling market has taken a significant hit and will take several years to return to the level of pre-Covid-19 returns and distributions to racing, sport and community organisations. In supporting the TAB, the Government is making substantial investment in New Zealand's monopoly gambling arrangements.

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~~25.35.~~ It will need to consider urgently how to protect that investment from being eroded by consumer drift to other off shore online better operators, while ensuring that essential revenue for racing, sport and community organisations are restored. The Department's cross-portfolio Gambling, Racing and Community funding – Covid-19 response and recovery programme of work addresses this risk; however it could be further mitigated by fast-tracking the online gambling review being undertaken by the Minister of Internal Affairs.

Consultation

~~26.~~ The Treasury has reviewed and commented on the advice to Cabinet and agrees that Cabinet should consider providing urgent support to RITA comment to come to prevent its failure.

36. Due to the urgency of this matter, consultation has been limited to the Department the Treasury and RITA. Sport NZ and the Department of Prime Minister and Cabinet (Policy Advisory Group) were consulted during the preparation of the initial round of advice to Cabinet.

37. [Treasury comment](#)

38. The Government has pursued significant policy reforms to revitalise the racing industry during this parliamentary term. This commercial scrutiny of the TAB has identified a number of fundamental issues regarding the TAB even prior to COVID-19. For example, new gambling products and declining races, declining revenues, s9(2)(f)(iv) and a deteriorating balance sheet. s9(2)(f)(iv) reforms s9(2)(f)(iv) the TAB is unlikely to be commercially viable in the long term.

39. If Ministers choose to intervene and provide support to allow the TAB/RITA to operate through to 31 July, a grant is likely the only feasible option. A loan may be most appropriate when considered against wider COVID-19 business support measures, and would provide a "least regrets" option for the taxpayer. However such commercial tools are not available in this situation. s9(2)(f)(iv) and its current financial situations suggests a loan would not be able to be repaid, even taking into account the significant policy reforms the government has recently pursued to assist in revitalising the racing industry. Any grant will require careful work and conditions to ensure it provides assistance as intended.

40. Ministers should also be aware that the TAB will require additional s9(2)(f)(iv) s9(2)(f)(iv) though the nature of that is not yet clear. Depending on the outcome of the work on future recapitalisation of RITA, this may also raise fiscal implications for the Government.

27.

Financial implications

28.41. The proposals in this paper have significant financial implications. Based on current RITA forecasts for revenue and operating costs, Joint Ministers are recommending a support package of \$41 million as a first tranche. In addition, there will be a cost to implement the package and put in place intensive monitoring arrangements.

29.42. Joint Ministers are also considering a s9(2)(f)(iv) to recapitalise the TAB, s9(2)(f)(iv). This would position the industry not just to survive COVID-19 but to grow and increase its contribution to New Zealand's economy. If joint Ministers are satisfied that such an investment should be progressed they will bring proposal to Cabinet for consideration.

30.43. It is expected that aspects of the monitoring function noted above will need to be outsourced to a firm that can bring legal, management and financial expertise to the role. The Department of Internal Affairs has an existing bid for COVID-19 related costs that include some elements of this support package, within a cross-portfolio Gambling, Racing and Community funding – Covid-19 response and recovery programme of work.

31.44. Following advice on likely costs from Treasury, approval is sought to increase this bid by \$2.5 million. This would cover the work required to negotiate the first tranche of funding, meet the implementation and monitoring costs for the racing industry support package, and engage the specialist financial and legal expertise required to work through the complex set of issues involved s9(2)(f)(iv). Joint Ministers support that request.

Human rights

32.45. The proposals in this paper have no implications for human rights.

Commented [ML9]: The financial implications require significant work:
 -41m grant should be reflected in appropriations and proper financial recs
 -The money for policy and monitoring needs to be further outlined:
 oWhy is 2.5m needed? What does this buy? There isn't sufficient info to justify it
 oIf the funding is needed, seek Cabinet approval for it now – don't add it into a funding request.

Population Implications

~~33-46.~~ The Racing Industry makes an important economic impact to rural New Zealand, providing a wide range of employment opportunities complementary to other agriculturally-based occupations. As well as jobs directly related to the preparation and caring for racing horses and greyhounds, such as breeding, owning and training, the associated service industries include veterinary, feed, retail, tourism, accommodation, transport, manufacturing and construction.

Legislative implications

~~34-47.~~ The proposals in this paper do not require fresh legislation, as amendments can be made to the Racing Industry Bill when reported back to the House. If Cabinet does not agree that a support package should be developed and the TAB fails, legislation would be required to enable a replacement operator to be recruited to service the New Zealand racing industry.

~~35-48.~~ The Racing Reform Act 2019 introduced Ministerial powers to enable the Minister for Racing to more closely direct the actions of RITA over the transition period⁵. These provisions enable the Minister to provide a letter of expectations and give written directions to the agency to manage risks to its financial position and require the agency to report to the Minister, at the intervals and in the manner required by the Minister, in relation to the performance of its functions under the Racing Act 2003 (the Act).

~~36-49.~~ Subject to Cabinet agreement the Department will prepare a draft funding agreement, to articulate the Minister's expectations in respect of a grant. This draws upon the above powers, setting out requirements in detail.

~~37-50.~~ Schedule 1AA (Clause 3) provides the Minister with these additional powers for the transition period. The transition period ends with the close of 30 June 2020, or any later date specified by Order in Council (OIC).⁶ With the COVID-19 related delay in the consideration of the Racing Industry Bill, the Department is preparing an OIC to extend the transition for a further period, through to enactment of the Racing Industry Bill.

~~38-51.~~ Should Government agree to the emergency support package, the additional powers afforded the Minister for the transition period would be appropriate to retain in place once TAB NZ is established. These could be extinguished through OIC once Ministers are satisfied they are no longer required. Subject to Cabinet agreement, the Department will instruct Parliamentary Counsel Office to draft a Supplementary Order Paper to be lodged once the Bill is reported back from select committee on 1 June 2020 to give effect to the above.

Impact analysis

~~39-52.~~ A Regulatory Impact Assessment is not required.

Commented [ML10]: Why?

Publicity

~~40-53.~~ If a support package is agreed, the Department of Internal Affairs ~~and Treasury~~ will coordinate with RITA on the timing and content of public announcements regarding the support package.

⁵ Schedule 1AA (Transitional, savings and related provisions) of the Racing Act 2003 refers.

⁶ Section 5 of the Racing Act 2003 refers.

Proactive release

41-54. If Cabinet agrees to provide a support package it is recommended that this paper is released immediately a fund agreement has been executed with RITA.

Recommendations

The Minister for Racing and the Minister of Finance recommends that Cabinet:

1. **note** that the racing industry is a major contributor to New Zealand's economy and is at risk of collapse because of the COVID-19 pandemic;
2. **note** that the racing industry receives most of its income from the TAB, through revenue generated **from** wagering and betting on events provided by respective racing and sports codes, and is severely impacted by the loss of almost all revenue;
3. **note** that national sporting organisations derive significant funding from the TAB's operations, which will cease as a result of the suspension of sport events and associated betting;
- 4.
- 3-5.
6. **note** that the significant income and business support packages already announced go some way to mitigate the pandemic's impact on the industry and sport, but the racing industry has substantial unavoidable ongoing costs that it cannot meet;
7. **note that COVID Ministers agreed that the objectives of any support package would be to:**
 - 7.1. ensure the survival of the TAB through to the end of its 31 July 2020 financial year;
 - 7.2. position the industry to successfully resume racing in August 2020;
 - 4-7.3. mitigate impacts on sporting organisations as a result of lost betting revenue;
- 5-8. **note** that due diligence investigations confirm RITA needs \$40-\$41 million in immediate support;
- 6-9. **note** that **provision** of this as a grant is appropriate the only feasible option because RITA has no capacity to carry additional debt, and s9(2)(f)(iv)
s9(2)(f)(iv) equity options are not feasible;
- 7-10. **agree** that the Crown should immediately provide a \$41 million grant to RITA subject to **appropriate** protections and conditions, as determined by Joint Ministers;
11. **note** that due diligence on RITA has also confirmed that there were significant issues prior to COVID-19 and that the long term commercial viability of RITA may be in question, unless significant reforms are made
- 8-12. **note** that recapitalisation of RITA may also be required, and joint Ministers will be investigating this and will report back to Cabinet;

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~~9-13.~~ **note** that the Department of Internal Affairs submitted a Budget Bid for \$2.5m, to cover the COVID-19 related costs for its cross-portfolio Gambling, Racing and **Community** funding – Covid-19 response and recovery programme of work;

Commented [RK11]: Do these need to be proper financial recs?? I suspect so

~~10-14.~~ **agree** that this bid be increased by a further \$2.5 million to enable the Department to put the racing industry package in place and monitor its implementation;

~~11-15.~~ **agree** that the totalisator duty ('Betting Levy') which is being progressively repealed over 3 years cease one year early on 30 June 2020;

~~12-16.~~ **agree** that **regulations** not be made for the distribution of totalisator duty ('Betting Levy') savings retained by RITA to racing codes and sport for the financial year ended 2020.

Authorised for lodgement
Rt Hon Winston Peters
Minister for Racing

Assessment template: COVID-19 related expenditure

Initiative summary

Title of initiative	Gambling, Racing and Community Funding Work Programme
Portfolio of lead Minister	Minister of Internal Affairs
Portfolio(s) of other Ministers involved	Minister for Racing Minister for the Community and Voluntary Sector
Impacted Votes	Vote Internal Affairs
Wave	Wave 2
VA Assessment on meeting criteria	Does not meet criteria.
Recommendation	Defer

Initial Assessment for near term (11 May 2020) process

Criteria	Response – Yes or no
Does this initiative directly relate to Wave 1 or 2 of the COVID-19 response and recovery?	Yes. It appears that this initiative leverages economic symptoms of the COVID-19 situation to justify the programme of work. There are bigger policy questions around the inefficient methodology of distributing resource to these sectors via gambling proceeds.
Is the initiative investment ready?	Yes.
Has the agency demonstrated that this initiative cannot be funded from within baselines?	Yes.
Is there another reason why this initiative should be considered? Please specify	
Will this initiative be assessed for funding? [assessment is only necessary if you answered yes to the first three questions or yes to question 4]	No.

Assessment

Criteria	Response (RAG)
Link to COVID-19: Has the agency demonstrated a clear link to the Government's plan to respond to and recover from COVID-19?	N/A
Outcomes: Is the agency clear on what wellbeing outcomes this initiative seeks to achieve?	
Government objectives for the economy: Does the initiative contribute to a productive, sustainable and inclusive economy?	
Options analysis: Has the agency completed genuine options analysis? Is there a clear case for investing in the preferred option?	
Costings: Has the agency presented a clear cost breakdown? Are scaling options included? Can this initiative be scaled to improve alignment with the other assessment criteria?	
Timing: Does spending on the initiative need to start immediately?	
Implementation readiness and evaluation: Is this initiative implementation ready (i.e., is there a supporting business case)? Has the agency identified risks to implementation? If new FTE or contractors are required, is this feasible?	
Implication if funding is not approved: What are the consequences if the funding is not approved?	
Cross agency implications: Has the agency ensured that the initiative does not overlap with similar initiatives from other agencies? Has the initiative been developed with other agencies/stakeholders?	
Consideration of Māori and Pacific peoples: Is this proposal sufficiently tailored and targeted to meet the needs of Māori and Pacific communities? (Refer to the Māori and Pacific policy tool for more information)	

Assessment Summary

Recommendation:

Defer. This initiative seeks to expedite gambling, racing and community funding policy reforms, including the establishment of a managed online gambling market by the end of 2020, with the primary driver being declining revenue for community organisations, the racing industry and sports organisations as a result of COVID-19. While we support the need for policy reform, Ministers have an opportunity to explore more fundamental issues regarding the use of gambling proceeds as the primary revenue stream for community organisations. We have a number of policy concerns with the current approach including gambling harms, fairness of distributional impacts across communities, and the volatility of gaming revenue.

New funding supported

Operating funding supported (\$m)	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears	Total
Vote X:						
Vote Y:						
Total						
Capital funding supported (\$m)	2019/20	2020/21	2021/22	2022/23	2023/24	
Vote X:						

Vote Y:						
Total						
	2024/25	2025/26	2026/27	2027/28	2028/29	Total
Vote X:						
Vote Y:						
Total						

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

From: Murray Johnson <Murray.Johnson@dia.govt.nz>
Sent: Monday, 4 May 2020 9:59 AM
To: Michael Lonergan [TSY]
Cc: Jason Dowse
Subject: RE: Racing Cabinet Paper - Agreement to emergency racing industry support package v3

Hi Michael

In response to your queries:

1. Offshore betting charges – there are transitional arrangements in place that allow RITA to gain revenue from betting use information charges (however these need events to trigger a payment liability. The Racing Industry Bill currently before the house makes changes to the offshore charges regime – to change the basis of the BUIC to commercial arrangement (much like the transitional arrangements currently in place) and to position the POC more clearly as a tax or duty. Most of the BIUC income is already covered by the transitional arrangements and most POC revenue will be gathered on betting on sports events offshore. The arrangements will be put in place on passage of the Bill.
2. The property proposals to vest surplus racing venues in the codes will assist the codes to reinvest in racing venues that are retained for racing. Potentially, this might lower the distribution demands on the TAB (to the extent that the codes invest in the upkeep and improvement of racing facilities from this source).

Cheers, Murray

From: Jason Dowse <Jason.Dowse@dia.govt.nz>
Sent: Monday, 4 May 2020 9:31 AM
To: Murray Johnson <Murray.Johnson@dia.govt.nz>
Subject: FW: Racing Cabinet Paper - Agreement to emergency racing industry support package v3

Would you like to respond to this?

From: Michael Lonergan [TSY] <Michael.Lonergan@treasury.govt.nz>
Sent: Monday, 4 May 2020 9:30 AM
To: Jason Dowse <Jason.Dowse@dia.govt.nz>; Craig Murphy [TSY] <Craig.Murphy@treasury.govt.nz>
Cc: Murray Johnson <Murray.Johnson@dia.govt.nz>
Subject: RE: Racing Cabinet Paper - Agreement to emergency racing industry support package v3

[IN-CONFIDENCE]

Hi Jason

Thanks for our chat earlier. I'm looking over the papers now, and had a question – I just tried to call to discuss.

The government has agreed to put in place offshore betting charges, and legislation is progressing through the house which will provide quite extraordinary powers for the racing industry to acquire racecourses. Both of these seem to be obvious future sources of revenue for the industry, have they been taken into account?

Cheers
Michael

The rest of this email chain is not relevant to the request

From: Jeremy Morley (NZ) <jeremy.morley@pwc.com>
Sent: Monday, 4 May 2020 4:09 PM
To: Craig Murphy [TSY]; David Blue [TSY]
Subject: Re: RITA

Hi Craig and David

Further to John's email which he and I have discussed, it is worth noting also that racing in NZ is due to recommence tomorrow, with Greyhound Racing scheduled for Whanganui and Addington.

We will monitor this closely with the TAB team to see what impact this resumption has on revenue as compared to forecast, and let you know any issues arising.

Regards

Jeremy

On Mon, May 4, 2020 at 3:53 PM John Fisk (NZ) <john.fisk@pwc.com> wrote:

Hi Craig

As I have noted, it would be good if we could perhaps have a call with you and your legal advisors to canvas the issues.

We don't disagree with any of your bullet points. However, whether the advance is treated as a loan, grant or some form of equity, the important issue we feel is ultimately what the initial funding enables RITA to achieve in the long run. This needs to be aligned to the future direction, structure and operations of the organisation s9(2)(f)(iv)

s9(2)(f)(iv) better commercialisation of the business, and a sustainable business model that works with Racing NZ). Getting what may well be the first set of funding right will mean you don't need to make subsequent changes.

The timing issue is very much one relating to the urgency as to when these things need to be sorted. Continuing to manage what are significantly overdue creditors and tax is not a good position to be in financially, legally and reputationally, so the sooner it is sorted the better. Management can then get on to running the business as "normal" and making the long term changes. The business could struggle on for the rest of the month, possibly longer, managing and juggling creditors, but if anything adverse happened or a creditor said we have had enough, then it all comes to a head and that should be avoided.

The balance sheet issue is somewhat subjective. Ultimately a big chunk of the funding, if provided as a loan, merely replaces one liability (creditors) with another and doesn't affect the overall equity, so could be structured in that way. Anything else provided as a loan gets disbursed in distributions or employee payments and operating expenses, until it is replaced by retained future earnings etc. So it does affect net equity and potential balance sheet solvency.

s9(2)(b)(ii)

The directors we have spoken with share our views about setting the TAB (and the industry) on the path to sustainability, and hence have not formally advised they would not accept the funds as a loan. We would need to seek a greater level of feedback on that issue.

Hope this helps.

Regards
John

John H Fisk

PwC | Partner

Office: s9(2)(a)

Email: john.fisk@pwc.com

PricewaterhouseCoopers New Zealand

PwC Tower, Level 22, 188 Quay Street, Private Bag 92162, Auckland 1010

pwc.co.nz

Alternative contact: Nita Pinto s9(2)(a) email: nita.v.pinto@pwc.com

Be green. Print less.

On Mon, May 4, 2020 at 1:12 PM Craig Murphy [TSY] <Craig.Murphy@treasury.govt.nz> wrote:

[IN-CONFIDENCE]

Kia ora

I've been asked why we can't do a loan for the \$41 million capital injection required by RITA.

My response has been that:

- The balance sheet will not allow lending of that scale
- Lending at that scale is unlikely to be agreed by the directors
- Lending will require a deed to be entered with the incumbent bank – to see it subordinated and postponed
- Lending if fair value would be valued a \$0, or close to it
- If lending was to be done, it will take significant time – which I understand is not available

Have I framed this correctly – anything missing?

Ngā mihi



**TE TAI ŌHANGA
THE TREASURY**

Craig Murphy | Te Tai Ōhanga – The Treasury

Tel: s9(2)(k) | Mobile: s9(2)(g)(ii) | Email: craig.murphy@treasury.govt.nz

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From: Murray Johnson <Murray.Johnson@dia.govt.nz>
Sent: Tuesday, 5 May 2020 2:41 PM
To: Michael Lonergan [TSY]; Misty Parbhu
Cc: Jason Dowse; Orsola Del Sante-Bland; Georgia Banks; Craig Murphy [TSY]
Subject: RE: Emergency Support Package: Racing Industry and Sport Cabinet paper [budget sensitive]

Hi Michael

Well spotted! The additional \$9m was requested by the Minister for Racing as he thought we were being over optimistic in regard to the timeframe for the second tranche of work, and that it would be prudent to allow for additional costs before we get to a decision on that next phase. PwC are clear that there will be further funding to be considered.

As you noted earlier, the figures still move around somewhat and as the punters say "all bets are off" if Australian racing, Belarusian soccer or Russian table tennis are unable to continue before our domestic racing and sport are safely underway.

We are aware that there may be alternative ways of structuring the package. We are awaiting advice from PwC on that point.

Cheers,
Murray

From: Michael Lonergan [TSY] <Michael.Lonergan@treasury.govt.nz>
Sent: Tuesday, 5 May 2020 2:16 PM
To: Misty Parbhu <Misty.Parbhu@dia.govt.nz>
Cc: Murray Johnson <Murray.Johnson@dia.govt.nz>; Jason Dowse <Jason.Dowse@dia.govt.nz>; Orsola Del Sante-Bland <Orsola.DelSante-Bland@dia.govt.nz>; Georgia Banks <Georgia.Banks@dia.govt.nz>; Craig Murphy [TSY] <Craig.Murphy@treasury.govt.nz>
Subject: RE: Emergency Support Package: Racing Industry and Sport Cabinet paper [budget sensitive]

[IN-CONFIDENCE]

Thanks Misty.

I'll look over and aim to get you comments by tomorrow morning. I've also forwarded on to Craig for comments.

I just quickly opened up the paper and noticed that the amount sought for the industry has gone up, an extra \$9m beyond what was set out in the PwC report. I'm assuming this is at the request of Minister of Racing, however unless its been recommended by PwC I'm not sure we can support this amount.

I provided some comments yesterday on the paper outlining that our options for support to get the TAB through to 31 July to are limited, leaving a grant the only feasible option. The Treasury comment noted that a loan is preferable but may not be feasible given the state of the TAB/RITA. That comment was based on a 100% loan of the funding required. However if it was possible structure the support so it was a mixture of grant and loan that would be preferable to providing all of this support in the form of a grant. At least that way, we have a possibility of recouping taxpayer money.

Cheers
Michael

From: Misty Parbhu <Misty.Parbhu@dia.govt.nz>

Sent: Tuesday, 5 May 2020 1:32 pm

To: Michael Lonergan [TSY] <Michael.Lonergan@treasury.govt.nz>

Cc: Murray Johnson <Murray.Johnson@dia.govt.nz>; Jason Dowse <Jason.Dowse@dia.govt.nz>; Orsola Del Sante-Bland <Orsola.DelSante-Bland@dia.govt.nz>; Georgia Banks <Georgia.Banks@dia.govt.nz>

Subject: Emergency Support Package: Racing Industry and Sport Cabinet paper [budget sensitive]

Kia ora Michael

Please find attached the latest draft of the **Emergency Support Package: Racing Industry and Sport** Cabinet paper.

This draft will be provided to the Minister for Racing's office. If you have any feedback that you want incorporated in to the final version (likely to be lodged in the next couple of days), can you please provide to Jason and Murray by tomorrow morning.

Nga mihi

Misty

Misty Parbhu | Policy, Regulation and Communities | Policy Group

Department of Internal Affairs Te Tari Taiwhenua

Mobile: s9(2)(k) | Hours: 6am - 3.30pm Mon to Fri

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Te Tari Taiwhenua
Internal Affairs

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**Memo**

To: David Blue and Craig Murphy – The Treasury
Murray Johnson and Jason Dowse – Department of Internal Affairs

From: John Fisk and Jeremy Morley

Date: 5 May 2020

Subject: Racing Industry Transition Agency – Funding Options

Dear David, Craig, Murray and Jason

Further to our conference call of 1pm today, we attach a spreadsheet showing the various options for funding, along with our initial and high-level assessment of pros and cons. We confirm that we have worked on this with s9(2)(a) at Chapman Tripp.

Ultimately any of the options, other than equity funding are immediately workable in the next 2-4 weeks, insofar as they would achieve the objective of resolving RITA's short-term funding needs and setting it on the path to longer term sustainability. However, from a practical and timing perspective the grant, or a combination of a grant and a loan, are more favourable. A full loan is likely to take a longer time to implement and could see protracted and complex negotiations s9(2)(b)(ii)

The hybrid option of a grant to meet overdue creditors, and a loan/credit facility for other costs including restructuring, allows the Crown a level of flexibility to control both the final amount of funding and the terms of that funding. It also increases the level of accountability on the RITA governing body and management to perform and meet any covenants the Crown may impose, including mitigating and monitoring the need, amounts and timing of any loan amounts.

s9(2)(f)(iv)

We would be happy to discuss this further with you once you have had the opportunity to review the options. As we also noted on our call, we are available to facilitate or join in any conversations s9(2)(b)(ii) to resolve any issues around the Crown's potential funding and

s9(2)(b)(ii)

Yours sincerely
John Fisk and Jeremy Morley

FUNDING OPTIONS FOR RITA - Draft for Discussion - Commercial in Confidence

OPTION	AMOUNT	LIKELY TIMING	PRO ONE	PRO TWO	PRO THREE	PRO FOUR	PRO FIVE	PRO SIX	PRO SEVEN	CON ONE	CON TWO	CON THREE	CON FOUR	CON FIVE
1. Full grant	Up to \$41m	Immediate	Easy to facilitate	Immediate payment can be made	s9(2)(f)(iv)	Resolves the overdue creditor problem if	Starts the process of setting the TAB on the road to sustainability	n/a	n/a	s9(2)(f)(iv)	Some political risk that Crown is supporting gambling and racing industries	Amount provided may not be fully required, meaning if full funding paid then recovery becomes harder	Does not necessarily place any pressure, effective covenants or onus on RITA Board and management to perform	s9(2)(b)(ii)
2. Partial grant in conjunction with loan	Up to \$30m	Immediate	Same as above	Same as above	Same as above	Same as above	Same as above	Mitigates risk of overpayment of amount by restricting to overdue creditor levels and restructuring costs	Places covenants and pressures on Board and management to perform and manage the business more effectively than if grant is for full amount	Same as above	Same as above	n/a	n/a	Same as above
3. Partial loan in conjunction with grant	Up to \$15m	1-2 weeks	Allows Crown to monitor actual need for additional funding	Allows for better recovery of any amount provided	s9(2)(b)(ii)	Full amount may not be required if TAB can successfully manage its business and mitigate need	Same as above	Same as above. If provided as a hybrid with a partial grant	Same as above	s9(2)(b)(ii)	Same as above	n/a	n/a	Same as above
4. Full loan	\$41m	2-3 weeks possibly longer	Same as above	Same as above	Same as above	Same as above, if loan is provided on a drawdown basis	Same as above	n/a	Same as above	Same as above	Same as above	Could take some time to resolve issues and make payment	n/a	Same as above
5. Equity	\$41m	Uncertain	n/a	n/a	n/a	Same as Option 1	Same as above	n/a	n/a	s9(2)(f)(iv) s9(2)(f)(iv) meaning that there are complex issues to resolve to protect Crown interests – would most likely involve t s9(2)(f)(iv)	Same as above	Same as Option 1	Same as Option 1	Same as above

From: Michael Lonergan [TSY]
Sent: Wednesday, 6 May 2020 9:24 AM
To: Misty Parbhu; Murray Johnson; Jason Dowse; Orsola Del Sante-Bland
Cc: Craig Murphy [TSY]; Simon Duncan [TSY]
Subject: Racing Cabinet Paper - Agreement to emergency racing industry support package v3 May 2020.docx
Attachments: Racing Cabinet Paper - Agreement to emergency racing industry support package v3 May 2020.docx

[IN-CONFIDENCE]

Hi all

Attached is the paper from yesterday with some further comments.

One of the key things here is that we think the paper should make it clearer to Ministers that they do have options from a policy perspective – e.g. they don't just have to do this emergency support package then commit to further lengthy, costly and intensive intervention, but they could be thinking about s9(2)(f)(iv)

s9(2)(f)(iv)

I also had a number of comments about the financial implications/recs, including:

- Unclear why an extra \$9m contingency is needed
- The betting levy repeal doesn't seem necessary or suggested by PwC – and also has its own issues with financial recs
- Further clarity on the \$2.5m departmental funding needed
- Scope statement questions

In terms of the grant v loan issue, I understand things are moving quickly with PwC and Chapman Tripp regarding the appropriate mix of a grant and loan. A grant is relatively straightforward in terms of both appropriation treatment and Ministerial process. However loans are a little more tricky – the Minister of Finance must make a decision in line with the Public Finance Act s 65L on whether to make a loan (this is not a Cabinet decision) and depending on the terms of the loan the appropriation impacts will differ. To manage this but allow Cabinet decisions quickly, we've got a suggest approach as set out below that would be good to reflect in the recs:

- Seek Cabinet approval to a support package with an upper limit of \$50m
- Charge the full \$50 million against the CRRF
- Note that discussions are still underway as to the split of thing support between loan and grant, and that MoF approval of any lending would be required in line with PFA requirements
- Note that the TAB needs support quickly
- Delegate authority to Minister of Finance and Minister of Racing to make final decisions on this split, and make further changes to appropriations within that upper limit above

I haven't included this in the paper as it we've only just this morning worked on this proposal, and the paper needs quite a bit of work to tease out the loan v grant issue so making the above changes may be messy – and I thought it best to get the attached comments to you early.

PS I also got confirmation from MoF's office last night that he does want to remain co-author of this paper.

Cheers
Michael

Michael Lonergan (he/him) | Analyst, Justice, Security and Government Services | Te Tai Ōhanga – The Treasury
Tel: s9(2)(k) | Email: Michael.Lonergan@treasury.govt.nz

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Curious about why I say “he/him” on my email signature? [This article](#) explains.

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Emergency Support Package: Racing Industry and Sport**Purpose**

1. This paper proposes a support package to ensure the survival of the Racing Industry through to 31 July 2020 and to position it for rapid recovery as COVID-19 Alert Levels reduce.

Executive Summary

2. The racing industry and National Sporting Organisations (NSOs) are under severe financial pressure as a result of COVID-19. The racing industry is a major employer and contributor to the New Zealand economy. A 2018 study found that the racing industry was responsible for generating more than \$1.6 billion in value-added contribution to the New Zealand economy. The same study showed that the total direct and indirect employment impact generated by the New Zealand racing industry was 14,398 FTE jobs, with in excess of 58,000 individuals participating in the industry in some shape or form. Many of these jobs are based in regional economies.
3. The racing industry is highly cashflow reliant, principally on revenue generated by the TAB. The Racing Industry Transition Agency (RITA)¹ governs the TAB and has requested urgent support to ensure that the monopoly betting operator can survive the pandemic. RITA is carrying \$47 million in term debt and has outstanding supplier payments of more than \$26 million. RITA's lenders advise they can extend no more credit and RITA is fast approaching the point at which it will not be able to meet its commitments.
4. COVID Ministers first considered this matter on 16 April [CAB-20-MIN-0130 refers] and directed the Department of Internal Affairs (the Department) to work with the Treasury and urgently confirm the nature and scale of support required and report to Joint Ministers. The objectives of any support package would be to:
 - 4.1. ensure the survival of the TAB through to the end of its 31 July 2020 financial year;
 - 4.2. position the industry to successfully resume racing in August 2020;
 - 4.3. mitigate impacts on sporting organisations as a result of lost betting revenue;
- 4-5. Pricewaterhouse Coopers (PwC) was commissioned to review RITA's financial position and outlook. A copy of the report is attached to this paper. PwC confirms that urgent support is required to ensure the TAB can survive to the beginning of the main racing season (August 2020). PwC's analysis found that \$41 million is needed and the majority or all of this should be provided no later than 20 May 2020. Joint Ministers have considered this and added a further \$9 million as a contingency. Joint Ministers

Commented [ML1]: You should provide the report to Cabinet so they see the underpinning analysis

¹ RITA is the successor Agency to the Ministerial Advisory Committee and the New Zealand Racing Board.

SENSITIVE

presented the case to Budget Ministers and recommended that the support package as detailed in this paper be provided, with appropriate protections and conditions. Budget Ministers agree that support should be considered.

5-6. Joint Ministers propose that if Cabinet supports providing a \$50 million support package that this be provided in grant form, as RITA's balance sheet does not enable it to take on further debt from commercial lenders.

6-7. However PwC's analysis has also underlined that RITA has a number of more fundamental issues driving ~~has~~ a very weak equity position, that existing prior to the impacts of COVID-19. ~~and PwC noted~~ that close consideration should be given to recapitalising RITA/TAB. There is less urgency with recapitalisation and work on analysing that can proceed over a 2-3 month period. If Joint Ministers reach the view that capitalisation should be considered, they will bring this to Cabinet for consideration.

Racing is an economically significant industry and has requested support

7-8. A 2018 study by the Australian consultancy firm IER, showed that in 2016 the New Zealand racing industry was responsible for generating more than \$1.6 billion in value-added contribution to the New Zealand economy. This expenditure was responsible for creating a direct value-added impact (in terms of wages, salaries and profits) of \$611.0 million per annum. The same study showed that the total direct and indirect employment impact generated by the New Zealand racing industry was 14,398 FTE jobs, with in excess of 58,000 individuals participating in the industry in some shape or form. Many of these jobs are based in regional economies.²

8-9. The racing industry and NSOs are under severe financial pressure as a result of COVID-19. The racing industry is highly cashflow reliant, principally on revenue generated by the TAB³. A number of NSOs are also reliant on betting revenue to fund their delivery of sport in New Zealand at both the high performance and community level. The TAB's role in the industry is to market and provide for betting on racing and sport events produced by the respective racing and sports codes. RITA governs the TAB and has requested urgent support to ensure that the monopoly betting operator can survive the pandemic. RITA advised that it was seeking a support package to:

8-1-9.1. ensure the TAB can maintain a baseline functionality and meet essential and unavoidable costs;

8-2-9.2. ensure the codes can maintain a baseline functionality and meet essential and unavoidable costs;

8-3-9.3. offset the loss of distributions to sporting organisations from the TAB; and

8-4-9.4. drive a quick and strong recovery of racing via additional marketing, promotion and stakes as soon as racing and sport events can resume.

9-10. RITA had expected the TAB's revenue to drop to close to zero from April 2020, with little prospect of significant revenue recovery before the new racing season starts in August. However, limited racing in Australia has continued and some sporting events overseas have been taking place. This has meant that the TAB's revenue from wagering

² Size & Scope of the New Zealand Racing Industry, prepared by IER, February 2018.
<https://www.rita.org.nz/sites/default/files/documents/NZ%20Racing%20Size%20and%20Scope%202018%20Full%20Report.pdf>

³ The TAB was once an entity in its own right (Totalisator Agency Board) but is now an operational arm of RITA.

has not completely collapsed. The TAB's current turnover is around \$22 million per week compared to the 2019 weekly turnover of around \$53 million.

~~10.11.~~ Although the TAB has been able to retain some revenue it is not enough to sustain it to the start of New Zealand's racing season in August. RITA has also taken and continues to take measures aimed at reducing its costs, such as xxx. The RITA Board has agreed a change proposal that will be put to its staff this week and could potentially affect 30% of its people. Despite this, RITA's ability to weather significant and sustained revenue decline is very limited by its existing \$47 million term debt and lack of assets to back further commercial debt. Our investigations indicate that RITA was already experiencing some difficulties paying all creditors on time pre-COVID-19.

~~11.12.~~ RITA advises it needs assurance of Crown support as soon as possible to avoid failure. Racing codes and clubs and NSOs are also heavily impacted as a result of lost betting revenue.

Commented [ML2]: What does it mean?
Liquidation/insolvency etc?

~~12.13.~~ The Minister for Racing brought this matter to COVID Ministers on 16 April for initial consideration. They agreed that the objectives of any support package would be to:

~~12.1.13.1.~~ ensure the survival of the TAB through to the end of its 31 July 2020 financial year;

~~12.2.13.2.~~ position the industry to successfully resume racing in August 2020; and

~~12.3.13.3.~~ mitigate impacts on sporting organisations as a result of lost revenue.

~~13.14.~~ COVID-19 Ministers directed the Department, with support from the Treasury, to urgently confirm the nature and scale of support required and report to Joint Ministers [CAB-20-MIN-0130 refers].

Significant support is indicated, both immediately and in the medium to long term

~~15.~~ The Treasury engaged PwC to confirm the extent of the issues. The focus of PwC's work has initially been to identify the support needed in the short term. However it has also identified some key issues that existed pre-COVID. A copy of the PwC report is attached.

~~14.16.~~ In early April RITA had sized the level of support required as approximately \$75 million. However, with the retention of some racing and sporting activity overseas, the level of immediate support needed is somewhat lower, but still significant. PwC confirms that immediate support is required. The table below lists the components of this support.

Item	Amount
To repay overdue creditors	\$26.5 million
For working capital incl. code distributions	\$3.9 million net
Funding for restructuring and employee entitlements	\$3.5 million to \$4.5 million
Additional funding for operating and/or idling	\$2.5 million
Contingency at 10%	\$3.64 million to \$3.74 million
Total	\$40.04 million to \$41.14 million

~~15.17.~~ The largest single element is to repay overdue creditors. During this crisis RITA is managing creditors by deferring payments or making part payments. It is also using cash held for the Totalisator Duty (Betting Levy) and GST to help cover outgoings. This is not sustainable and there is a risk that suppliers will be damaged and RITA could lose the

goodwill of its supply chain. RITA is also investing significant effort in managing its cashflow and creditors, which is impeding its ability to focus on recovery.

16-18. The other elements of support required are smaller but in each case important to ensure the TAB can survive to the end of its July financial year and enable the restart of racing, subject to compliance with relevant COVID-19 Alert Level requirements. This includes funding for codes and sporting bodies as well as to enable the TAB to undertake internal restructuring to reduce its costs.

17-19. With all elements, PwC estimates that a support package of around \$40-41 million is required at this time. The figure of \$40-41 million is contingent on Australian racing and other events continuing. If for any reason those were to cease, then \$41 million would likely be insufficient.

18-20. Because the cost estimate is somewhat volatile and subject to change, particularly if a return to racing and sport takes longer than planned, Joint Ministers have agreed that making provision for up to \$50 million would be prudent.

A grant would position the industry to recover

19-21. There are options for how a support package could be structured. It could take the form of a:

19-1-21.1. grant; or

19-2-21.2. Crown loan; or

19-3-21.3. Crown guarantee for a commercial loan.

20-22. Generally, we would prefer any support package involve assistance on commercial terms and that the Crown would only provide support as a 'last resort'. However, due to unusual pressing circumstances – the TAB's precarious financial situation, questions regarding s9(2)(f)(iv) and the need for rapid assistance – the Crown has very limited options for structuring any support package.

21-23. The above items are not mutually exclusive, and a support package could include a combination of the three. A grant would be fast to implement and position the industry for rapid recovery. However, it would have the highest direct cost on the Crown's accounts. There is a variation to this option which would see the grant replaced with an injection in exchange for an equity interest. PwC recommended that the bulk of the funding should be provided as either a grant or as equity.

Commented [ML3]: Update to reflect latest discussions

22-24. Provision of equity might have some long-term advantages in terms of

s9(2)(f)(iv)

23-25. s9(2)(f)(iv)

s9(2)(f)(iv)

s9(2)(f)(iv)

the current reform process). Addressing this issue now would complicate the current requirement for support, which is needed by 20 May at the latest. However,

s9(2)(f)(iv)

s9(2)(f)(iv) could be

explored in relation to the further work needed on the recapitalisation of the industry which is discussed later in this paper.

24-26. A Crown loan would be a recoverable asset and have limited impact on the Crown's accounts if the loan is repaid and depending on the terms of the loan. A Crown guarantee of a commercial loan creates commercial incentives on RITA. It would allow taxpayer money used to support a specific sector to be repaid over time, providing greater public benefit. However, it could incur a higher cost to the Crown over the long term, if the industry failed to recover sufficiently to allow RITA to repay its debt. Negotiating and agreeing a loan arrangement would may also take additional time when we need to move quickly.

Commented [ML4]: What option are we talking about here? Guarantee or loan or both? I'm not convinced that a loan or guarantee would incur a higher cost to the Crown than a grant – that's the "highest" cost option. So I don't think this is correct

25-27. However, a Crown loan and a Crown guarantee would mean RITA has to make repayments out of future revenue streams and this could slow the sector's recovery and, in the longer-term, its ability to achieve financial sustainability. On balance, the Minister for Racing and the Minister of Finance consider that the support package should be structured as a Crown grant, subject to specific conditions.

26-28. As part of the support package, Government could agree that the Betting Levy is abolished now rather than on 30 July 2021. This would require legislative change. Government could also agree that the TAB retain any Betting Levy already collected and held and not prescribe that it be distributed to racing codes and sport. The TAB has in its accounts approximately \$4 million of levy which has been supporting its cash position.

Conditions of support

27-29. PwC's advice emphasised that the Crown should obtain assurance that RITA has undertaken every possible initiative to manage and mitigate costs during the lockdown period and to the end of July 2020, and then has sustainable plans beyond that period.

Commented [ML5]: Can we include more specificity as to what it has done to reduce costs?

28-30. Both the Department and Treasury advise that this assurance can be obtained once the support package is in place, subject to RITA's acceptance of Crown monitoring and funding conditions. We recommend that the details of a monitoring role and conditions be agreed by Joint Ministers, subject to Cabinet's agreement to the proposed support package.

The TAB requires recapitalisation significant further reform to ensure it becomes commercially viable in the long term

31. PwC's analysis has also underlined that the TAB has a number of longer term funding needs. PwC considered further work would inevitably involve recapitalisation of RITA (discussed further below), but also implementation of some of the Messara report recommendations, changes to duties, levies and taxes, and changes to the way in which sporting and racing codes are structured and funded.

Commented [ML6]: It would be good to widen this out to cover other issues, beyond just the capitalisation issue, so Ministers have a clearer sense that what's needed is some pretty fundamental reform and a significant amount of government intervention.

My reading of the PwC report was that the key longer term issues that need to be addressed include:

- Capitalisation
- Implementation of further Messara report recommendations
- Changes to duties, levies and taxes
- Changes to the way in racing and sporting codes are structured and funded

29-32. PwC's analysis showed that RITA has a very weak equity position and that close consideration should be given to recapitalising RITA/TAB. The Racing Industry Bill (the Bill) provides for a new betting operator (TAB NZ) to take over the ongoing wagering function of RITA. The Bill is currently being considered by the Transport and Infrastructure Committee and will complete the legislative reform for the TAB. The Bill is due to be reported back from Select Committee on 1 June 2020 and if passed, this would mean that any recapitalisation of the industry would be via TAB NZ and not RITA.

Commented [ML7]: Is this meant to be recapitalisation of the TAB as opposed to the industry?

30-33. Recapitalisation by the Crown? Others? s9(2)(f)(iv)

s9(2)(f)(iv)

s9(2)(f)(iv)

There is less urgency with recapitalisation and decisions on that

can proceed over a 2-3 month period before being brought back to Cabinet for further consideration. That would allow time to work through how much funding is required. It would also allow time to consider such issues as whether the Crown could/should in effect s9(2)(f)(iv)

Risks

Immediate risks

31-34. The intention is to put in place a grant funding agreement to protect the Crown's interest via various conditions, including the acceptance of full access to information and monitoring. s9(2)(f)(iv)

s9(2)(f)(iv)

32-35. Joint Ministers consider that this may need to be resolved, s9(2)(f)(iv). Ministers will take further advice on this point and report on this to Cabinet if they propose recapitalisation. s9(2)(b)(ii)

36. PwC also advise that before the RITA Board accepts any funding, its directors should seek legal advice as to their obligations under the Companies Act 1993 and any other relevant legislation. This is to ensure they are not potentially breaching these, especially in terms of major transactions and solvency of RITA and any related entities, and the need to act in good faith, including pursuant to the recently introduced "Safe Harbour" provisions.

33. longer term risks

34-37. Even with restoration of the TAB to a sound financial footing, the gambling market has taken a significant hit and will take several years to return to the level of pre-COVID-19 returns and distributions to racing, sport and community organisations. In supporting the TAB, the Government is making substantial investment in New Zealand's monopoly gambling arrangements.

35-38. As a result, the government will need to consider urgently how to protect that investment from being eroded by consumer drift to other offshore online betting operators, while ensuring that essential revenue for racing, sport and community organisations are restored. The Department's cross-portfolio Gambling, Racing and Community funding – COVID-19 response and recovery programme of work seeks to address this risk. The programme includes the proposal to fast-track the online gambling review being undertaken by the Minister of Internal Affairs.

Consultation

36-39. Due to the urgency of this matter, consultation has been limited to the Department, the Treasury and RITA. Sport NZ and the Department of Prime Minister and Cabinet (Policy Advisory Group) were consulted during the preparation of the initial round of advice to Cabinet.

Commented [ML8]: Paper may benefit from an options section.

Ministers do have other choices, including do nothing (could instead provide direct contributions to sports/racing; develop a replacement for TAB; look for other commercial operators to take over TAB? Wind down of the TAB

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Treasury comment

37.40. The Government has pursued significant policy reforms to revitalise the racing industry during this parliamentary term. ~~This PwC's~~ commercial scrutiny of the TAB has identified a number of fundamental issues regarding the TAB which existed even prior to COVID-19. For example, new gambling products and declining races has led to declining revenues, poor financial management decisions including borrowing funds to provide distributions to sports codes, and ~~s9(2)(f)(iv)~~. These issues, combined with the impact of COVID-19 have led to, and a significantly deteriorating balance sheet. Without ~~s9(2)(f)(iv)~~ reforms in addition to those already agreed by the Government, the TAB is unlikely to be commercially viable in the long term.

38.41. If Ministers choose to intervene and provide funding to support to allow the TAB/RITA to operate through to 31 July, ~~s9(2)(f)(iv)~~ grant is likely the only feasible option. ~~s9(2)(f)(iv)~~ Support in the form of a grant, or a combination of a loan and a grant, may be the only feasible option. Support in the form of a grant, or some combination of a loan and a grant, may be the only feasible short-term support option. In general, support measures in the form of a loan are preferable to a grant as there is some ability for the Crown to be repaid, and it better aligns with the wider COVID-19 business support measures already provided. However, the financial position of the TAB/RITA suggests a loan is unlikely to be repaid and would worsen its balance sheet position, even taking into account the significant policy reforms the Government has recently pursued to assist in revitalising the racing industry. A loan would also take longer to implement. Any grant will require careful work around the appropriate conditions to ensure it provides assistance as intended. A loan may be most appropriate when considered against wider COVID-19 business support measures and would provide a "least regrets" option for the taxpayer. However, such commercial tools are not available in this situation. ~~s9(2)(f)(iv)~~ s9(2)(f)(iv) ~~s9(2)(f)(iv)~~ and its current financial situation suggests a loan would not be able to be repaid, even taking into account the significant policy reforms the government has recently pursued to assist in revitalising the racing industry. Any grant will require careful work and conditions to ensure it provides assistance as intended.

42. Ministers should also be aware that the TAB will require additional ~~s9(2)(f)(iv)~~ although the nature of that is not yet clear. Depending on the outcome of the work on future recapitalisation of RITA the TAB, this may also raise ~~s9(2)(f)(iv)~~ considerations and further fiscal-financial implications for the Government.

39.43. Ministers may also have a range of further options. For example

Financial implications

44. The proposals in this paper have significant financial implications.

Support to allow the TAB to operate until 31 July

40.45. Based on current RITA forecasts for revenue and operating costs, Joint Ministers are recommending a support package of \$50 million in 2019/20 as a first tranche. As explained in paragraphs ~~15.14~~ to ~~20.18~~, the level of immediate support has been estimated by PwC at \$41 million under the assumption that Australian racing and other

Commented [ML9]: I understand there are discussions around support being a mix of loan and grant, so this comment will likely need to be amended in the final version.

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events continue. Given this assumption and that the financial estimates are subject to change, particularly if return to racing and sport takes longer than planned, Joint Ministers have agreed that making provision for up to \$50 million would be prudent.

46. In addition, there will be a cost to implement the package and put in place intensive monitoring arrangements.

41. Further funding to recapitalise the TAB

47. Joint Ministers are also considering s9(2)(f)(iv) to recapitalise the TAB,

s9(2)(f)(iv)

This would position the industry not just to survive COVID-19 but to grow and increase its contribution to New Zealand's economy. If Joint Ministers are satisfied that such an investment should be progressed, they will bring a proposal to Cabinet for consideration.

42. Departmental funding

43-48. It is expected that aspects of the monitoring function noted above will need to be outsourced to a firm that can bring legal, management and financial expertise to the role. The Department has submitted a COVID-19 related expenditure initiative seeking \$2.5 million funding for a cross-portfolio Gambling, Racing, and Community COVID-19 response and recovery programme that includes some elements of this support package.

44-49. Following advice on likely costs from Treasury, an additional \$2.5 million of funding is required to cover the work required to negotiate the first tranche of funding, meet the implementation and monitoring costs for the racing industry support package, and engage the specialist financial and legal expertise required to work through the complex set of issues involved in s9(2)(f)(iv) Joint Ministers support that request.

45-50. We therefore seek approval for a \$52.5 million increase to the Vote Internal Affairs appropriations to cover:

45-1-50.1. the immediate support package to RITA: up to \$50 million; and

45-2-50.2. the negotiation of the first tranche of funding, support package implementation and monitoring costs, s9(2)(f)(iv) \$2.5 million.

46-51. As there is no non-departmental expense appropriation in Vote Internal Affairs for the proposed \$50 million support package to RITA, we propose to establish the following new appropriation:

Vote	Appropriation Minister	Title	Type	Scope
Internal Affairs	Minister for Racing	Support for the New Zealand Racing Industry	Non-Departmental Other Expense	This appropriation is limited to supporting the governing agency for the New Zealand racing industry and the TAB.

52. The \$52.5 million would be charged against the COVID-19 Response and Recovery Fund, established through Budget 2020.

Commented [ML10]: Why 9m? what is the basis for the extra funding?

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Commented [ML11]: What is your best estimate of the cost of recapitalisation? Even put in a range if that's all you have now

Commented [ML12]: Do you also envisage further funding being needed, beyond the initial funding to get to 31 July, and the recapitalisation? If so, outline here

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Commented [ML13]: What is this covering? Possibly delete?

Commented [ML14]: What advice was this?

Commented [ML15]: You should be outlining what this \$2.5m is actually purchasing.

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Human rights

47-53. The proposals in this paper have no implications for human rights.

Population Implications

48-54. The Racing Industry makes an important economic contribution to rural New Zealand, providing a wide range of employment opportunities complementary to other agriculturally-based occupations. As well as jobs directly related to the preparation and caring for racing horses and greyhounds, such as breeding, owning and training, the associated service industries include veterinary, feed, retail, tourism, accommodation, transport, manufacturing and construction.

Legislative implications

49-55. The proposals in this paper do not require fresh legislation, as amendments can be made to the Racing Industry Bill when it is reported back to the House. If Cabinet does not agree that a support package should be developed and the TAB fails, legislation would be required to enable a replacement operator to be recruited to service the New Zealand racing industry.

50-56. The Racing Reform Act 2019 introduced Ministerial powers to enable the Minister for Racing to more closely direct the actions of RITA over the transition period⁴. These provisions enable the Minister to provide a letter of expectations and give written directions to the agency to manage risks to its financial position and require the agency to report to the Minister, at the intervals and in the manner required by the Minister, in relation to the performance of its functions under the Racing Act 2003 (the Act).

51-57. Subject to Cabinet agreement the Department will prepare a draft funding agreement, to articulate the Minister's expectations in respect of a grant. This draws upon the above powers, setting out requirements in detail.

52-58. Schedule 1AA (Section 3) of the Act provides the Minister with these additional powers for the transition period. The transition period ends with the close of 30 June 2020, or any later date specified by Order in Council (OIC).⁵ With the COVID-19 related delay in the consideration of the Racing Industry Bill, the Department is preparing an OIC to extend the transition for a further period, with the intention of this being through to enactment of the Bill.

53-59. Should Government agree to the emergency support package, the additional powers afforded to the Minister for the transition period would be appropriate to retain in place once TAB NZ is established. These could be extinguished through an OIC once Ministers are satisfied they are no longer required. On a related note, the Minister is also seeking to ensure the current RITA Board remain in place as the initial interim TAB NZ Board, until such a time as appointments can be made through the new appointment process as specified in the Bill. Subject to Cabinet agreement, the Department will instruct Parliamentary Counsel Office to draft a Supplementary Order Paper to be lodged once the Bill is reported back from Select Committee on 1 June 2020 to give effect to the above.

⁴ Schedule 1AA (Transitional, savings and related provisions) of the Racing Act 2003 refers.

⁵ Section 5 of the Racing Act 2003 refers.

Impact analysis

~~54-60.~~ A Regulatory Impact Assessment is not required.

Publicity

~~55-61.~~ If a support package is agreed, the Department will coordinate with RITA on the timing and content of public announcements regarding the support package.

Proactive release

~~56-62.~~ If Cabinet agrees to provide a support package, it is recommended that this paper is released immediately after a fund agreement has been executed with RITA.

Recommendations

The Minister for Racing and the Minister of Finance recommend that Cabinet:

1. **note** that the racing industry is a major contributor to New Zealand's economy and is at risk of collapse because of the COVID-19 pandemic;
2. **note** that the racing industry receives most of its income from the TAB, through revenue generated from wagering and betting on events provided by respective racing and sports codes, and is severely impacted by the loss of almost all revenue;
3. **note** that national sporting organisations derive significant funding from the TAB's operations, which will cease as a result of the suspension of sport events and associated betting;
4. **note** that the significant income and business support packages already announced go some way to mitigate the pandemic's impact on the industry and sport, but the racing industry has substantial unavoidable ongoing costs that it cannot meet;
5. **note** that COVID Ministers agreed that the objectives of any support package would be to:
 - 5.1. ensure the survival of the TAB through to the end of its 31 July 2020 financial year;
 - 5.2. position the industry to successfully resume racing in August 2020; and
 - 5.3. mitigate impacts on sporting organisations as a result of lost betting revenue;
6. **note** that due diligence investigations confirm RITA needs \$40-\$41 million in immediate support in order to survive to the end of its 31 July financial year;
- ~~6-7.~~ **note** that due diligence investigations also confirm that RITA has a number of significant underlying issues that pre-date the impacts of COVID-19, and call into question its commercial viability in the medium to long term without significant additional government intervention;
- ~~7-8.~~ **note** that the estimate of support needed to survive until 31 July estimate is somewhat volatile and subject to change, particularly if return to racing and sport takes longer than planned, so making provision for up to \$50 million would be prudent, with \$9 million held as a contingency;

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8-9. note that provision of this as a grant is the only feasible option because RITA has no capacity to carry additional debt, and because questions s9(2)(f)(iv)

s9(2)(f)(iv)

meaning equity options are not feasible;

Commented [ML16]: Amend to reflect latest discussions on grant v loan

9-10. note that the Department of Internal Affairs has sought \$2.5 million funding for COVID-19 related expenditure for its Gambling, Racing and Community Funding Work Programme – of which a component relates to the policy work required to deliver the emergency support package;

Commented [ML17]: Surely this isn't the support package, as costs already incurred. Also confuses with the next recommendation, make clearer they are separate

10-11. note that additional funding of \$2.5 million is required to enable the negotiation of the first tranche of funding, the implementation of the support package s9(2)(f)(iv) and associated monitoring activities;

11-12. agree to increase funding in Vote Internal Affairs by \$52.5 million to:

11-1.12.1. immediately provide for a grant of up to \$50 million to RITA subject to appropriate protections and conditions, as determined by Joint Ministers; and

Commented [ML18]: I understand there are discussions around support being a mix of loan and grant, so this will need to be amended in the final version.

11-2.12.2. enable the Department to put the racing industry support package in place and monitor its implementation;

12-13. agree to establish the following new appropriation:

Commented [ML19]: Are you sure the existing appropriation can't be used here?

Vote	Appropriation Minister	Title	Type	Scope
Internal Affairs	Minister for Racing	Support for the New Zealand Racing Industry	Non-Departmental Other Expense	This appropriation is limited to supporting the governing agency for the New Zealand racing industry and the TAB.

"New Zealand Racing Industry Reform (M55)
This appropriation is limited to assisting the implementation of the Government's decisions on the reform of the New Zealand racing industry."

If this appropriation is required, are you sure the scope is sufficient to allow grants? Suggested amendment also included

~~13-14.~~ **approve** the following changes to appropriations to provide immediate support to RITA and enable the implementation and monitoring of the racing industry support package, with a corresponding impact on the operating balance and net core Crown debt:

Vote Internal Affairs	Smillion – increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Minister for Racing					
Non-Departmental Other Expense:					
Support for the New Zealand Racing Industry	41.000	9.000	-	-	-
Minister of Internal Affairs					
Multi-Category Expenses and Capital Expenditure:					
Policy Advice MCA					
Departmental Output Expense:					
Policy Advice - Racing (funded by revenue Crown)	0.200	-	-	-	-
Multi-Category Expenses and Capital Expenditure:					
Policy and Related Services MCA					
Departmental Output Expense:					
Policy and Related Services – Racing (funded by revenue Crown)	-	2.300	-	-	-
Total Operating	41.200	11.300	-	-	-

Commented [ML[20]]: I understand there are discussions around support being a mix of loan and grant, so this will need to be amended in the final version.

~~14-15.~~ **agree** that the proposed changes to appropriations for 2019/20 above be included in the [Additional 2019/20 Supplementary Estimates, and the proposed changes to appropriations for 2020/21 be included in the 2020/21 Supplementary Estimates, 2019/20 Supplementary Estimates](#), and that, in the interim, the increase be met from Imprest Supply;

~~15-16.~~ **agree** that the expenses incurred under recommendation ~~1413~~ above be charged against the COVID-19 Response Recovery Fund established as part of Budget 2020;

~~16-17.~~ **note** that recapitalisation of RITA may also be required, and joint Ministers will be investigating this and will report back to Cabinet;

~~17.~~ **note** that due diligence on RITA has also confirmed that there were significant issues prior to COVID-19 and that the long-term commercial viability of RITA may be in question, unless significant reforms are made;

Commented [ML[21]]: I've put some wording earlier on covering this

18. **agree** that the totalisator duty ('Betting Levy') which is being progressively repealed over 3 years cease one year early on 30 June 2020;
19. **agree** that regulations not be made for the distribution of totalisator duty ('Betting Levy') savings retained by RITA to racing codes and sport for the financial year ended 2020;
20. **note** that with the COVID-19 related delay in the consideration of the Racing Industry Bill, the Department is preparing an OIC to extend the transition for a further period, with the intention of this begin through to enactment of the Bill;
21. **note** that should Government agree to the emergency support package, it would be appropriate for the additional powers afforded to the Minister during the current transition period to stay in place once TAB NZ is established and extinguished through an Order in Council once they are no longer required;
22. **note** that it would be appropriate for the current RITA Board to remain in place as the initial interim TAB NZ Board, until such a time as appointments can be made through the new appointment process as specified in the Bill; and
23. **agree** that Parliamentary Counsel Office be issued instructions to draft a Supplementary Order Paper to give effect to recommendations 21 and 22 above which will be lodged once the Bill after reported back from select committee on 1 June 2020.

Authorised for lodgement
Rt Hon Winston Peters
Minister for Racing

Commented [ML22]: This has a financial impact on the crown and needs to be reflected somewhere. Refer to the Budget 2019 minute:

Vote: Revenue (IRD-Crown)
Title: Phased Repeal of Totalisator Duty Industry
Description: Led by the Minister for Racing
This initiative reflects the foregoing duty, paid by the New Zealand Racing Industry for three years. The repeal of this duty is intended to assist in revitalising the industry.

	2018/19
Operating Balance Impact	
Debt Impact	
No Impact	
Total	

	2018/19
Tax Revenue:	
Gaming Duties	
Total Operating	

- 15 **noted** the revenue impacts from this initiative in the *Racing Industry* initiative in Vote Internal Revenue
- 16 **noted** the estimated decrease in forecast tax revenue

However I'm not quite sure whether it needs to be done in addition to everything else PwC identified?

COVID-19 Response and Recovery Fund Package for Budget
Ministers 6 May 2020

[illegible]

From: Michael Lonergan [TSY]
Sent: Tuesday, 12 May 2020 5:12 PM
To: ^Parliament: Talei Pasikale
Cc: Simon Duncan [TSY]
Subject: FW: Racing Industry Support Package: Approval of financial recommendations
Attachments: 12052020152933-0001.pdf

[IN-CONFIDENCE]

Kia ora Talei

Michael in the health team forwarded this on to me.

This briefing is referring to the same initiative as in annex, which has been renamed and assigned a different CFISnet number to reflect what was agreed by Ministers. This appears fine for MoF to sign – did you receive a copy of the financial recommendations and initiative document attached to the briefing as well?

Cheers
Michael

From: Talei Pasikale <Talei.Pasikale@parliament.govt.nz>
Sent: Tuesday, 12 May 2020 4:51 PM
To: Michael Thomson [TSY] <Michael.Thomson@treasury.govt.nz>
Cc: Simon Duncan [TSY] <Simon.Duncan@treasury.govt.nz>
Subject: Racing Industry Support Package: Approval of financial recommendations

Kia ora Michael

As discussed, please confirm the initiative referred to in the attached joint report is the same one referred to in Annex 3 (outstanding financial recs to be agreed by delegated Ministers) as follows:

Racing | Supporting New Zealand Racing Industry and the Racing Industry Transition Agency (I

Also, please let me know if this is fine for the MoF to sign.

Thanks, Talei

Talei Pasikale, Economic Advisor | **Office of Hon Grant Robertson** s9(2)(k)
[SEEMAIL][SENSITIVE]

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COMMERCIAL-SENSITIVE



Reference: T2020/1628 SH-15-1-0

Date: 25 May 2020

To: Minister of Finance (Hon Grant Robertson)

Aide Memoire: Future intervention in the TAB / RITA: Potential costs and wider policy issues

You have received a briefing from the Department of Internal Affairs (DIA) seeking agreement from the Minister of Finance and the Minister for Racing to finalise the \$50 million support package for the Racing Industry Transition Agency (RITA).

We have no major concerns with that briefing. The Treasury has provided assistance to DIA in its development of the support package, including engaging PwC to provide detailed analysis of RITA's financial situation to inform this work. This aide memoire provides further context on wider issues regarding RITA and the racing industry, and the potential scale of future government intervention required.

Bespoke intervention to support RITA through to 31 July 2020

Supporting RITA with a grant of \$50 million is not fully consistent with other industry support measures. For example, the Economically Significant Firms work led by Treasury is based on a premise that the government intervenes in businesses that are commercially viable in the long term. The racing industry has been in decline for several decades, despite previous government intervention. The financial issues facing RITA and the industry existed prior to COVID-19 and we have doubts about whether RITA will continue to be commercially viable in its current form.

Other firm support advice has been based on a further principle that government should only be lender of last resort. Any support provided should be on commercial or near-commercial terms, utilising where possible commercial oversight and incentives. Providing support in the form of a grant (as is the case for RITA) is generally not consistent with that approach, although this grant agreement does include specific conditions that RITA must meet. Given the heavy reliance by the racing industry on RITA, the support package can be viewed as a mix of industry and firm support.

Significant additional intervention is likely, but we don't yet know the details

The \$50 million support package assists RITA to continue operating through to 31 July 2020, as directed by Ministers. Based on our current understanding of the TAB, significant additional intervention is likely to be required in order for RITA to put the TAB on a stable footing s9(2)(b)(ii) and s9(2)(f)(iv) However, at this stage it is difficult to say with certainty what further government intervention may be required because:

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- The impact of the COVID-19 pandemic on the racing and sporting sectors has changed during the course of investigations (eg, race meetings resumed more quickly than originally anticipated), and the frequency events over the coming months is not yet clear.
- While our knowledge of RITA's commercial operations and financial situation has grown, this has highlighted further issues. Although PwC's detailed financial analysis confirmed the need for immediate support, it also identified some previously unaddressed issues, such as the s9(2)(f)(iv) RITA and the TAB, and its very weak balance sheet position. Some information only gradually came to light during further PwC investigations and this information raises concerns over RITA's commercial management and oversight, for example:
 - s9(2)(b)(ii)
 - RITA's cashflow forecasts did not fully capture short-term needs, and required a number of revisions which suggests RITA may not understand its medium-long term funding needs
 - it was revealed that RITA borrowed money in order to allocate distributions to sports and racing codes in the 2019 financial year, and
 - RITA appears to be s9(2)(b)(ii)
- The impacts of racing policy and legislative reforms are unknown. The Government has enacted the Racing Reform Act 2019, and the Racing Industry Bill is currently progressing through the House. These reforms include the creation of new offshore charges, proposals for the compulsory acquisition of unused racetracks, and the proposal to restructure the TAB into a new entity TAB NZ. While the reforms are intended to revitalise the industry, it appears the initial tranche of reforms has resulted in significant transitional costs to RITA.

Drawing on the PwC analysis, our current estimates (as at 25 May 2020) of further government intervention are outlined below:

	Potential cost
Recapitalisation of RITA: s9(2)(f)(iv)	s9(2)(f)(iv)
s9(2)(f)(iv)	
s9(2)(b)(ii) and s9(2)(f)(iv)	s9(2)(b)(ii) and s9(2)(f)(iv)

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	Potential cost
Sustainable distributions to sports and racing codes, due to a likely decline in TAB revenue over the next three years: This is likely to be mitigated somewhat by the wider Sports Recovery Package, which took into account lower distributions to sport codes.	s9(2)(f)(iv)
Seed capital for the racing industry-led programme to rationalise racing property	s9(2)(f)(iv)
TAB change programme costs	s9(2)(f)(iv)
Clarifying s9(2)(f)(iv) and any further legislative amendments	Unclear, but may be met through DIA policy resourcing.

Wider policy issues

There is a risk the government continues to provide financial and legislative support measures to RITA and the racing industry, without longer term policy issues being addressed. These include:

- What is the appropriate ongoing role for the government in relation to the racing industry? Should the government continue to play such a hands-on role in the racing industry, or should it receive similar treatment as other sports or other sectors of the New Zealand economy?
- s9(2)(f)(iv)
- How would any increased revenue for the TAB and the wider racing industry be balanced with the increase potential for gambling harms? We see similar risks arising with other DIA-led COVID-19 policy response work currently underway to increase gambling revenues to fund community organisations.

The Treasury will continue to work with DIA on these issues and any future government interventions that may be required. While our Economically Significant Firms team has assisted DIA in developing the \$50 million support package, their involvement will cease once the support package is in place. DIA will therefore need to ensure it has the appropriate commercial expertise engaged to support future work on RITA.

Michael Lonergan, Analyst, Justice, Security & Government Services, s9(2)(k)
Simon Duncan, Team Leader, Justice, Security & Government Services, s9(2)(k)

Priority: Urgent
Te Tari Taiwhenua
Internal Affairs

Racing briefing

Hon Grant Robertson
Minister of Finance
Rt Hon Winston Peters
Minister for Racing
Title: Racing Industry Support Package: Approval of Conditions of Funding
Date: 21 May 2020

Key issues

On 11 May 2020, Cabinet agreed that a \$50 million support package for the racing industry should be provided. Cabinet noted *that the Department of Internal Affairs will report to the Minister of Finance and Minister for Racing to seek approval of any conditions associated with the grant to RITA and to any next steps.*

The key funding conditions under negotiation with RITA include:

- RITA must accept a Crown monitor;
- RITA will only be able to access the Crown grant for permitted purposes;
- RITA will be obligated to:
 - use the financial support to strengthen its position;
 - act in a financially responsible manner;
 - take all necessary actions to recover from COVID-19 and achieve sustainability;
 - accept any directions from the Minister for Racing in accordance with section 3 of Part 1 of Schedule 1AA of the Racing Act 2003; and
 - s9(2)(b)(ii) and s9(2)(f)(iv)

Action sought

Agree that the Department of Internal Affairs finalise the funding agreement once negotiations have concluded with RITA.

Timeframe

By 26 May 2020

Contact for telephone discussions (if required)

Name	Position	Direct phone line	After hours phone	Suggested 1 st contact
Raj Krishnan	General Manager Policy	s9(2)(g)(ii)	s9(2)(a)	✓
Murray Johnson	Programme Policy Manager	s9(2)(g)(ii)	s9(2)(a)	

Return to	Jason Dowse, Level 9, 45 Pipitea Street
Cohesion reference	FZVS55NRNZNU-1830033946-718
Ministerial database reference	RA202000113

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Purpose

1. This paper recommends Ministers note the key conditions of funding under negotiation with the Racing Industry Transition Agency (RITA). It seeks your agreement that the Department of Internal Affairs (Department) finalise funding agreement negotiations.

Cabinet has agreed that a support package should be provided to the racing industry

2. On 11 May 2020, Cabinet agreed to a package of initiatives to be charged against the CRRF [COVID-19 Response and Recovery Fund Foundational Package refers]. However, at the time, some financial recommendations were outstanding. At that meeting, Cabinet authorised the Minister of Finance and relevant Appropriation Ministers to approve jointly any changes to appropriations and capital injections, and the establishment of new appropriation where necessary to give effect to the list of initiatives for which financial recommendations were still outstanding. Ministers subsequently approved the recommendations required to establish the new appropriations (RA202000091 refers). That approval included the following noting recommendation:

***note** that the Department of Internal Affairs will report to the Minister of Finance and Minister for Racing to seek approval of any conditions associated with the grant to RITA and to any next steps.*

Key funding conditions are under negotiation with RITA

3. The Department, with the support of the Treasury has been working to develop a funding agreement to underpin the provision of the support package to RITA. The draft agreement is under active discussion with RITA with the intention of finalising it as soon as possible. This reflects the urgency of RITA's financial position and the need to have it in place before any funding can be released to RITA. The current draft agreement is attached for your reference and the following summarises the key conditions of funding the Department is discussing with RITA:
 - 3.1 RITA must accept a Crown monitor which will have full access to all information, personnel and board members to verify that RITA is acting in accordance with the conditions of funding;
 - 3.2 RITA will only be able to access the Crown grant for permitted purposes and will have to validate each funding request with evidence and the Monitor will be charged with verifying that each funding request is valid. The Department will assess each funding request and release funds if it is satisfied conditions have been met;
 - 3.3 RITA will be obligated to:
 - 3.3.1 use the financial support to strengthen its position;
 - 3.3.2 act in a financially responsible manner;
 - 3.3.3 take all necessary actions to recover from COVID-19 and achieve sustainability; and
 - 3.3.4 accept any directions from the Minister for Racing in accordance with section 3 of Part 1 of Schedule 1AA of the Racing Act 2003.

Te Tari Taiwhenua
Department of Internal Affairs

3.4 s9(2)(f)(iv)

4. s9(2)(b)(ii)

5. The support package includes up to \$9 million for contingencies and this will be released in part or in whole only with the explicit approval of the Minister for Racing. This contingency could be used for further support for RITA or for other elements of the racing industry such as codes.

Further advice

6. The Department will inform Ministers once negotiations have been concluded and the first tranche of the support package grant has been paid to RITA as well as report on developments via the Department's weekly report to the Minister for Racing. The Department will also provide advice on what the next steps are to consider RITA's recapitalisation needs to position it to drive the sector's recovery beyond July 2020.

Consultation

7. The Department has consulted with the Treasury on the development of this briefing.

Recommendations

8. The Department of Internal Affairs recommends that the Minister for Racing and the Minister of Finance:
- a) **note** that on 11 May 2020, Cabinet [COVID-19 Response and Recovery Fund Foundational Package refers] approved a package of initiatives to be charged against the COVID-19 Response and Recovery Fund;
 - b) **note** that Cabinet noted that the Department of Internal Affairs will report to the Minister of Finance and Minister for Racing to seek approval of any conditions associated with the grant to RITA and to any next steps;

Te Tari Taiwhenua
Department of Internal Affairs

- c) **agree** subject to final negotiations, that the key funding conditions under negotiation with RITA should include that; ☒ **Yes** ☐ **No**
- RITA must accept a Crown monitor;
 - RITA will only be able to access the Crown grant for permitted purposes;
 - RITA will be obligated to:
 - use the financial support to strengthen its position;
 - act in a financially responsible manner;
 - take all necessary actions to recover from COVID-19 and achieve sustainability;
 - accept any directions from the Minister for Racing in accordance with section 3 of Part 1 of Schedule 1AA of the Racing Act 2003; and
 - s9(2)(b)(ii) and s9(2)(f)(iv)
- d) **agree** that the Department finalise the funding agreement once negotiations have concluded with RITA. ☒ **Yes** ☐ **No**

Raj Krishnan
General Manager PolicyRt Hon Winston Peters
Minister for RacingHon Grant Robertson
Minister of Finance

____/____/____

____ 2 / 6 / 2020