

Review of Certain Aspects of the Irish Horse Racing Industry

Final Report

Report for

**Department of Agriculture, Food
and the Marine**

Prepared by

**Indecon International Economic
Consultants**

Indecon

www.indecon.ie

20th July 2012

Contents

Page

Executive Summary	i
1 Introduction and Background	1
1.1 Introduction	1
1.2 Background to Review	1
1.3 Terms of Reference	1
1.4 Methodology	2
1.5 Report Structure	3
1.6 Acknowledgements and Disclaimer	4
2 Importance and Potential of the Horse Racing Industry	5
2.1 Introduction	5
2.2 Employment in Horse racing	5
2.3 The Regional Spread of Racecourses in Ireland	6
2.4 Thoroughbred Sector	7
2.5 The Betting Industry	9
2.6 Racing Festivals	11
2.7 Economic Potential of Sector	12
2.8 Summary of Key Findings	12
3 Review of Industry Funding Arrangements	14
3.1 Introduction	14
3.2 Scale of Funding Challenges	14
3.3 Importance of Securing Value for Money	18
3.4 Review of Trends in Exchequer Funding	19
3.5 Analysis of Prize Money	21
3.6 International Review of Selected Betting Duty Regimes	27
3.7 Estimates of Potential Impact of Changes in Betting Duty in Ireland	34
3.8 Summary of Key Findings	37
4 Review of HRI Board Structures	38
4.1 Introduction	38
4.2 Overview of Legislation Governing Industry	38
4.3 Review of HRI Board Structure and Appointment	40
4.4 Views on Industry Governance Structures	48
4.5 Summary of Key Findings and Issues for Consideration	49
5 Review of Scope for Streamlining of Functions	50
5.1 Introduction	50
5.2 Description of Functions of HRI and Turf Club	50
5.3 Review of Proposals re Legislative Functions	52
5.4 Review of Existing Cost Structures	52
5.5 Scope for Streamlining	60
5.6 Summary of Key Findings	62
6 Conclusions and Recommendations	63
6.1 Introduction	63
6.2 Board of HRI	68
6.3 Conclusions	78
Annex 1 List of Organisations and Individuals who made Submissions	79

Table 2.1: Irish Stallion, Mare and Foal Sales 2007 - 2011	8
Table 2.2: Exports of Irish Foaled Horses 2011	9
Table 2.3: IBA Estimates for Betting 2010	9
Table 2.4: Bookmakers On-Course Betting 2011	10
Table 2.5: Trends in On Course Betting (€)	10
Table 2.6: Top Seven Festivals By Attendance (2010-2011)	11
Table 2.7: Estimated Aspects of Economic Impact of Selected Racecourses 2011	12
Table 3.1: The Irish Horse Racing and Betting Industries in Numbers (2006-2012)	15
Table 3.2: Irish Betting Tax Rate and Duties Collected (1990-2011)	19
Table 3.3: Shortfall between Betting Duty and Irish Exchequer Funding of Horse & Greyhound Racing Industries (2002-12)	20
Table 3.4: Trend in HRI Share of Funding of Prize Money (2006-2010)	21
Table 3.5: Prize Money Value 2007 – 2011	21
Table 3.6: Number of Races By Prize Money Bands 2007 – 2011	22
Table 3.7: Sources of Prize Money 2007 – 2011	23
Table 3.8: Change in Owners' Net Prize Money in Ireland (2010-2011)	23
Table 3.9: International Comparison of Prize Money 2007 – 2010 (€'000)	24
Table 3.10: Sources of Prize Money: Comparison between Britain and Ireland (2010)	24
Table 3.11: Comparison of Owners' Net Prize Money: Britain v. Ireland (2010)	25
Table 3.12: The Richest 380 Horseraces in the World (2011) by Country Showing Growth in Total Prize money between 2006 and 2011	26
Table 3.13: Irish Horseraces Appearing in the 2011 List of the Richest 380 Horseraces in the World: Prize Money Trend (2006-2011)	26
Table 3.14: Summary Description of Duty Rates and Conditions for Betting in Selected Jurisdictions	27
Table 3.15: Turnover Equivalent Rates of Betting Duty Using 2010 Payout Ratios by Bookmakers in Selected Jurisdictions	28
Table 3.16: Summary Description of Licensing Fees and Rules in Selected Jurisdictions	29
Table 3.17: Betting Duty Rates on Turnover Equivalent to Various Betting Exchange Commission and Duty Combinations	31
Table 3.18: "Level Playing Field" Duty Rates on Betting Exchange Commissions	32
Table 3.19: Estimate of Total Irish Betting Turnover 2011	34
Table 3.20: Scenarios for Estimated Yield from Alternative Approaches to Betting Taxation	36
Table 4.1: Horse Racing Ireland – Summary of Composition of Board	41
Table 4.2: HRI Board – Role and Composition of Board Committees	43
Table 4.3: Horse Racing Ireland – Summary of Appointment and Nomination Process for Board Members	44
Table 4.4: Size and Appointment Process of Non-Commercial State Sponsored Bodies	45
Table 4.5: Size and Appointment Process of Commercial State Sponsored Bodies	46
Table 4.6: Size and Composition / Nomination of European Horse Racing Boards	47
Table 4.7: Size and Composition / Nomination of Non-European Horse Racing Boards	47
Table 5.1: Legislative Functions of Horse Racing Ireland	50
Table 5.2: Legislative Functions of the Racing Regulator (Turf Club/INHSC)	51

Table 5.3: Numbers Employed and Costs by Function for the HRI – Actuals 2011	53
Table 5.4: HRI Costs Associated with Specified Functions Assigned Under Legislation – Actual 2011	54
Table 5.5: Composition and Trend of HRI Expenditures (excluding onward payments of owners' contribution to prize money, foal levy distribution and smaller line items) 2002-2011	55
Table 5.6: HRI Income and Expenditures from Racing: Racecourses, Tote Ireland and Betting (2002-2011)	57
Table 5.7: Numbers Employed and Costs (Integrity Services and Licensing) by Function for the Turf Club / INHSC – Budget 2012	58
Table 5.8: Annual Turf Club / INHSC Costs Associated with Specified Functions Assigned Under Legislation – Budget 2012	59
Table 5.9: Potential Areas for Streamlining	61
Table 6.1: Recommendations on Funding of Irish Horse Racing Sector	64
Table 6.2: Recommendations re Size and Structure of HRI Board	69
Table 6.3: Recommendations re Streamlining of Functions between HRI/Turf Club	73
Table 6.4: Recommendations on Marketing and Competitiveness	75
Table 6.5: Recommendations on Legislation and Governance of Irish Horse Racing Industry	76
Figure 1.1: Description of Methodological Approach to Review	2
Figure 2.1: Direct Employment in the Racing Industry 2002 – 2011	5
Figure 2.2: Racecourses in Ireland By Region	6
Figure 2.3: Livestock Value (Horses €m) 1990 - 2010	7
Figure 2.4: Volume Indices for Input, Output and Income in Agriculture 1990 – 2010	8
Figure 3.1: HRI Contribution to Prize Money (2002-11)	22
Figure 4.1: Summary of Key Features of Legislation Governing Irish Horse racing Industry	39
Figure 4.2: Historical Evolution of Governance Structures for Irish Horse Racing Industry	40
Figure 5.1: Composition and Trend of HRI Expenditures (2002-10)	56

Executive Summary

Introduction, Background and Terms of Reference

This report is submitted to the Department of Agriculture, Food and the Marine by Indecon International Economic Consultants. The report concerns a review of certain aspects of the governance and funding of the Irish horse racing industry.

The background to this review is that Horse Racing Ireland (HRI) is the State body formed under the Horse and Greyhound Racing Act 2001 which is responsible for the overall administration, development and promotion of the Irish horse racing industry. Also relevant is the provision of racing integrity services, which are provided by the Racing Regulatory Body (the Turf Club and Irish National Hunt Steeplechase Committee (INHSC)). To enable HRI to perform its functions under the legislation, funding is provided through the Horse and Greyhound Racing Fund. The Horse and Greyhound Racing Fund is supported through the receipts from duty on betting ('Betting Duty'). Betting Duty receipts have fallen substantially since the early part of the last decade. This has impacted on funding provided to the Horse and Greyhound Racing Fund which as a result has been supported via substantial exchequer subvention.

In addition to examining funding, this review also considers the governance structures for the Irish horse racing industry. Given the increased emphasis on ensuring accountability and value for money in the utilisation of public/taxpayer funds, the review considers whether the existing structures, including the board of HRI and the division of functions between HRI and the Racing Regulatory Body, are appropriate in this context.

The overall objective of this study is to complete a review of certain aspects of the Irish horse racing industry including, the effectiveness and efficiencies of the legislation, governance structures, funding and management of the industry in Ireland. The terms of reference set by the Department of Agriculture, Food and the Marine are as follows:

1. To review the legislation governing the Irish horse racing industry, in particular the Irish Horse racing Industry Act 1994, the Horse and Greyhound Racing (Betting Charges and Levies) Act, 1999, Horse and Greyhound Racing Act 2001 and the Horse Racing Ireland (Membership) Act 2001, and assess whether they provide the most appropriate governance structures for the horse racing industry;
2. To evaluate whether the Horse Racing Ireland Board structure, size and nomination process is appropriate and effective. Make recommendations for change, if necessary;
3. To consider the scope for streamlining all of the functions assigned under the legislation having regard to efficiency, effectiveness, economy and independence of regulatory decisions and make recommendations accordingly;
4. To review the current funding arrangements for the industry having regard to funding systems in place in other major racing competitor countries and to recommend an appropriate funding structure for the long term development of the sector.

Importance and Potential of the Horse racing Industry

In setting a context for the detailed examination of the terms of reference, this review commences by considering the overall importance and potential economic contribution of the horse racing industry in Ireland. The key findings are as follows:

- ☐ Horse racing in Ireland is not only an important employer and exporting sector, but represents a long and distinguished tradition.

- ❑ The horse racing sector impacts significantly on the Irish economy through a number of channels:
 - In 2011, the thoroughbred industry directly employed more than 4,000 people and earlier estimates suggested that if betting and racehorse sectors and other related employment are included horse racing supports over 20,000 employees- Dukes (report update 2010) indicates 17,351 employed;
 - The sector's international reputation has facilitated exports of over €150 million annually;
 - 1.2 million people attend horse racing meetings in Ireland every year;
 - The sector supports sports tourism estimated to be around 80,000 people annually.
- ❑ The impact of the horse racing sector was highlighted by the submission of the Association of Irish Racecourses to this review where they noted that:

"Racing and breeding are an integral part of the agriculture industry and employ thousands of people widely dispersed throughout the country, frequently in areas where there is little alternative employment. It is a strong indigenous industry ideally suited to our environment. The export of horses abroad and the inward investment resulting from foreign owners keeping horses in Ireland for training or breeding purposes contributes significantly to the country's economic wellbeing."
- ❑ The IFA in their submission to this review outlined their view that the tradition of horse breeding on farms in Ireland must be maintained, supported and encouraged. Indecon is in agreement with this and with the importance of developing all aspects of the sector. A wide range of policies are needed to achieve this objective. These include ensuring that the sector is cost competitive and, in addition to wider economic competitiveness, the costs of foal identification, costs of sales and thoroughbred foal and other levies must be competitive. The need for adequate funding for the development, regulation and marketing of the sector is also critical.
- ❑ The industry has shown itself capable, with government support, of adapting in a tough economic environment by establishing links in new emerging markets such as China.
- ❑ Indecon believes that with appropriate policies the sector has an important potential contribution to make to economic and social development in Ireland and to the expansion of employment.

Industry Funding Arrangements

Significant funding challenges must be surmounted to ensure the horse racing industry realises its potential. There are however concerns over the appropriateness and medium term sustainability of funding for the industry unless changes are made.

Our analysis indicates that the main potential source of additional funding is from the betting industry. There is also a need to focus on maximising sponsorship and commercial income.

In reviewing funding arrangements for this sector, Indecon believes it is important to also consider Ireland's competitive position vis-à-vis:

- the ease of mobility of betting operators,
- the price elasticity of demand for betting, and
- betting tax compliance as it concerns remote betting operators.

In addition we believe it is necessary to consider staging of any changes in taxation.

Other funding issues include:

- the appropriateness of the racehorse industry's requirements being exactly aligned with betting duty revenues.

Indecon's assessment indicates that, in terms of funding, it is important that sufficient funding is provided to ensure reasonable prize money and to enhance the reputation of the Irish horse racing sector. Resources are also needed to finance racing integrity services, which are essential to the maintenance of the credibility and reputation of the sector. The development of racecourses and maintaining the disease free status of Irish bloodstock also require appropriate funding. In addition, effective international marketing is an important component in realising the economic potential of this unique sector.

The dependence on very scarce exchequer resources to the extent which currently exists represents a major strategic vulnerability for the sector given the current state of the public finances. Indecon therefore believes new sources of funding are urgently required to support the industry and to reduce the industry's dependence on exchequer funding.

Indecon strongly supports additional and sustainable funding for the development of the sector but this must be accompanied by an equal priority to maximise efficiency, effectiveness and value for money.

Review of HRI Board Structures

This review evaluated whether the Horse Racing Ireland Board structure, size and nomination process is appropriate and effective. The key findings from the assessment of this aspect of the terms of reference were as follows:

- ❑ The Horse and Greyhound Racing Act, 2001, the related Horse Racing Ireland (Membership) Act, 2001, and the previous Irish Horse racing Industry Act, 1994, set out overreaching governance structures for the industry. They establish the industry governing Authority (HRI since 2001, previously the Irish Horse racing Authority), and define the composition, and process of nomination and appointment of board members. They also define the functions of the Authority and of the Racing Regulatory Body (the Turf Club/INHSC) within this context. In relation to funding of the industry, the Horse and Greyhound Racing Act, 2001, also establishes the Horse and Greyhound Racing Fund.
- ❑ HRI was established on 18th December 2001 as a State body under the Horse and Greyhound Racing Act 2001, when it took over the functions of the Irish Horse racing Authority.
- ❑ The legislation demonstrates the multifaceted governance structures in place and this in part reflects the complex nature of the industry, involving a large number of stakeholders. It also reflects the range of functions to support the operation of racing activities including the integrity of racing, and the racing and thoroughbred sectors, among other aspects. Of importance, however, within the context of this review concerns the appropriateness and effectiveness of these structures.
- ❑ In relation to board structures, the size and composition of the board of (HRI) the industry governing body has evolved from an 11-member board under the Racing Board to a 16-member board overseeing the Irish Horse Racing Authority. Since its establishment in 2001, HRI has had a 14-member board. The large size of the HRI board reflects the challenge of representing a diverse range of stakeholder interests across the industry in Ireland.
- ❑ The representative nature of the HRI Board has some strengths given the diversity of interests that are involved in the industry in Ireland. However, the large size of the board may also constitute a weakness from the perspective of efficiency and effectiveness.
- ❑ A particular feature of the operation of the HRI Board is the system of board committees. The HRI Board has large number of board committees. These are important in supporting the work of the main board, particularly given the representative nature of the Board and the number of board members.

- ❑ A key feature of the Board appointments process concerns the extent of accountability of the Government/Minister for Agriculture, Food and the Marine. Under the existing (2001) legislation and agreed process, the Minister only effectively nominates the Chairman without any constraints and other appointments require the choice of candidates to reflect different sectoral interests. Indecon would have significant concerns over the low level of government/ministerial control over the process of decisions on the HRI Board, particularly given the implications of the existing approach in ensuring accountability in the utilisation of taxpayer funds. The approach in relation to board decisions in the case of HRI is also unusual in terms of governance of State bodies more widely. Indecon believes that changes in this area are essential for appropriate governance and accountability.

Scope for Streamlining of Functions

- ❑ In considering potential areas for streamlining it is important to recognize the extremely valuable historical role of the Turf Club/INHSC and the importance of maintaining the integrity of Irish racing. It is also important to ensure HRI can effectively implement its legislative functions concerning the overall administration of Irish racing.
- ❑ Also of key importance is the need to ensure cost efficiencies.
- ❑ Based on a detailed examination of the legislation and of the cost structures within HRI and the Turf Club Indecon believes there are areas where potential savings could potentially be realised.
- ❑ Some of the more important and clear areas of potential streamlining relate to:
 - Integration of office buildings;
 - Access to racing databases;
 - Shared services in payroll, IT, creditor systems and procurement;
 - Single income stream for charges/licensing;
 - Financial transfers by HRI and Turf Club / INHSC; and
 - Pensions' administration.
- ❑ Other areas, which may also merit consideration include:
 - Administration involved in licensing; and
 - Development and maintenance of mobile track equipment.

Recommendations

Based on our analysis Indecon believes that significant changes are needed in the funding arrangements to support the long term development of the horse racing sector in Ireland.

In addition we believe there is a need for significant changes in the legislation covering the governance of the sector. Related to this we strongly recommend changes in the nomination process and composition of the board of HRI to address fundamental issues concerning ministerial/government accountability for the use of taxpayer funds.

Indecon also recommends the streamlining of functions and activities in order to ensure value for money and efficiency of any funding provided. An equal priority must be given to ensure value for money as well as measures to improve the level and sustainability of funding for the sector.

In order to realise the significant economic potential of the sector Indecon has outlined 37 recommendations covering the following areas:

- Funding;
- Board of HRI;
- Streamlining of Functions;
- Marketing and Competitiveness of the Sector; and
- Legislative/Governance Changes.

In the table below our recommendations to secure sustainable funding for the Irish racing sector are presented.

Recommendations on Funding of Irish Horse Racing Sector	
1.	Measures should be introduced to secure a significant increase in taxation from the Betting Sector.
2.	A multi-annual commitment of funds should be considered to support the development of the sector.
3.	Greater funding certainty should be introduced to support medium term planning for the integrity services in Irish racing.
4.	As betting revenues increase there should be potential to significantly reduce general Exchequer expenditure other than funds raised from betting taxation.
5.	The merits of replacing the Horse and Greyhound Racing Fund should be considered.
6.	All betting operators should be required to obtain a Licence.
7.	Taxation should be levied on the same basis on Betting Exchanges and on Remote as well as on Traditional Bookmakers.
8.	Licence Fees for All Offshore and other Bookmakers should be increased.
9.	Taxation on betting should be on place of consumption basis.
10.	Rate of betting duty should initially be set at 1%.
11.	Rate of Duty should be reviewed after one year.
12.	Duty on betting intermediaries should be divided between layers and backers.
13.	Effective compliance measures should be introduced.

In the table below our recommendations on the size and structure for the Horse Racing Ireland Board are presented.

Recommendations re Size and Structure of HRI Board	
1.	Size of HRI Board to be Reduced
2.	Minister to Appoint Chairman of Board
3.	Minister to also Appoint 3 Public Interest Directors to HRI Board
4.	Of the Ministerial Appointments, one to be involved in Horse Racing Sector in Northern Ireland
5.	The Non-Executive Board Members appointed by the Minister should include Individuals with Experience or Expertise in One or More of the following areas: <ul style="list-style-type: none"> — Horse Racing Sector in Ireland or Internationally — Betting Sector — International Marketing — Financial Expertise
6.	The Open Public Process currently in place to advertise vacancies on State Boards be used to secure nominations for possible candidates for the Public Interest members, for consideration by the Minister
7.	The other 8 members of the Board to be appointed as follows: <ul style="list-style-type: none"> — 1 employee representative — 3 members of the Turf Club — 1 racehorse Owner — 1 racehorse Breeder — 1 racehorse Trainer — 1 from authorised Racecourses
8.	HRI Statutory Board sub-Committee to be established to focus on: <ul style="list-style-type: none"> — Involvement of On-Course and Off-Course Bookmakers — Appropriate requirements for Jockeys, Stable Workers and others employed in the industry
9.	Existing Consultative Forum for Racegoers should remain
10.	Changes to Committee Structure of the Board of HRI as follows: <ul style="list-style-type: none"> — Joint HRI/TC/INHSC Integrity Services ICT Committee — Strategic Marketing Sub-Committee

In the table below our recommendations for streamlining of functions between Horse Racing Ireland and the Turf Club are presented.

Recommendations re Streamlining of Functions between HRI/Turf Club	
1.	Head Offices of Turf Club and HRI should be integrated into existing HRI Offices as a Priority.
2.	Direct Access for Turf Club should be provided to racing database.
3.	A greater integration of shared services should be implemented by HRI/Turf Club within 3 months with the objective of targeting a minimum 10% reduction in costs in these areas. This should include shared services in areas of: <ul style="list-style-type: none"> — Payroll systems — IT and creditor systems — Procurement — Other shared services
4.	A Joint HRI/Turf Club Implementation Task Force should be established to integrate a number of functions including: <ul style="list-style-type: none"> — Integration of administration of charges levied by HRI and by the Turf Club including charges on owners, trainers and jockeys — Financial transfers by HRI and Turf Club/INHSC — Pensions administration of two merged Defined Benefit Pensions Schemes <p>This Joint Task Force should subsequently consider other wider potential areas of efficiency savings or integration of functions including:</p> <ul style="list-style-type: none"> — Administrative aspects to support inspection functions — Inspections involved in licensing/authorisation of racecourses — Development and maintenance of mobile track equipment — Other potential areas

In the table below our recommendations on marketing and competitiveness are presented.

Recommendations on Marketing and Competitiveness	
1.	HRI Board to establish a Permanent Strategic Marketing Committee of the Board
2.	The Strategic Marketing Committee for sector to present recommendations within 3 months. This should include the development of plans for an integrated marketing and branding scheme for the sector.
3.	Sector to focus on long term competitiveness

In the table below our recommendations on legislation and governance of the Irish Horse Racing Industry are presented.

Recommendations on Legislation and Governance of Irish Horse Racing Industry	
1.	Legislative changes should be introduced to facilitate greater Government accountability in the decisions on the membership of HRI Board.
2.	Legislative changes to be introduced to reflect proposed changes to size and structure of HRI Board
3.	Comptroller and Auditor General to continue to audit HRI expenditure
4.	Department of Agriculture Food and the Marine to undertake a value for money review of HRI
5.	Framework Agreement to be introduced between Department of Agriculture, Food and the Marine and HRI and to cover integrity functions of Turf Club/INHSC
6.	Legislation to be modified to facilitate the establishment of proposed changes to new statutory Sub-Committees of HRI Board
7.	Issue of Ownership by HRI of Tote/Racecourses to be Reviewed

Indecon believes that the full implementation of the recommendations in this report will provide for a more viable and sustainable horse racing sector. The recommendations will require significant adjustments by the organisations impacted but we believe they are in the overall interest of horse racing.

The sector, in our view, has potential to expand employment and its overall economic contribution. This will, however, require visionary leadership and a non-partisan approach by all involved. The changes will also assist in securing value for money for very scarce public resources and will help to protect taxpayer interests.

1 Introduction and Background

1.1 Introduction

This report is submitted to the Department of Agriculture, Food and the Marine by Indecon International Economic Consultants. The report concerns a review of certain aspects of the governance and funding of the Irish horse racing industry.

1.2 Background to Review

The background to this review is that Horse Racing Ireland (HRI) is the State body formed under the Horse and Greyhound Racing Act 2001 which is responsible for the overall administration, development and promotion of the Irish horse racing industry. Also relevant is the provision of racing integrity services, which are provided by the Racing Regulatory Body (the Turf Club and Irish National Hunt Steeplechase Committee (INHSC)). To enable HRI to perform its functions under the legislation, funding is provided through the Horse and Greyhound Racing Fund. The Horse and Greyhound Racing Fund is supported through the receipts from duty on betting ('Betting Duty'). Betting Duty receipts have fallen substantially since the early part of the last decade, due to a combination of changes in the duty rate, migration of betting activity to non-taxed (remote telephone and online/offshore) channels, and declining consumers expenditure as a result of the economic recession. The decline in receipts from Betting Duty has resulted in substantial Exchequer subvention to cover the costs of services provided through HRI and Bord na gCon (the Greyhound Board).

In addition to examining funding, this review also considers the governance structures for the Irish horse racing industry. Given the increased emphasis on ensuring accountability and value for money in the utilisation of public/taxpayer funds, the review considers whether the existing structures, including the board of HRI and the division of functions between HRI and the Racing Regulatory Body are appropriate in this context.

1.3 Terms of Reference

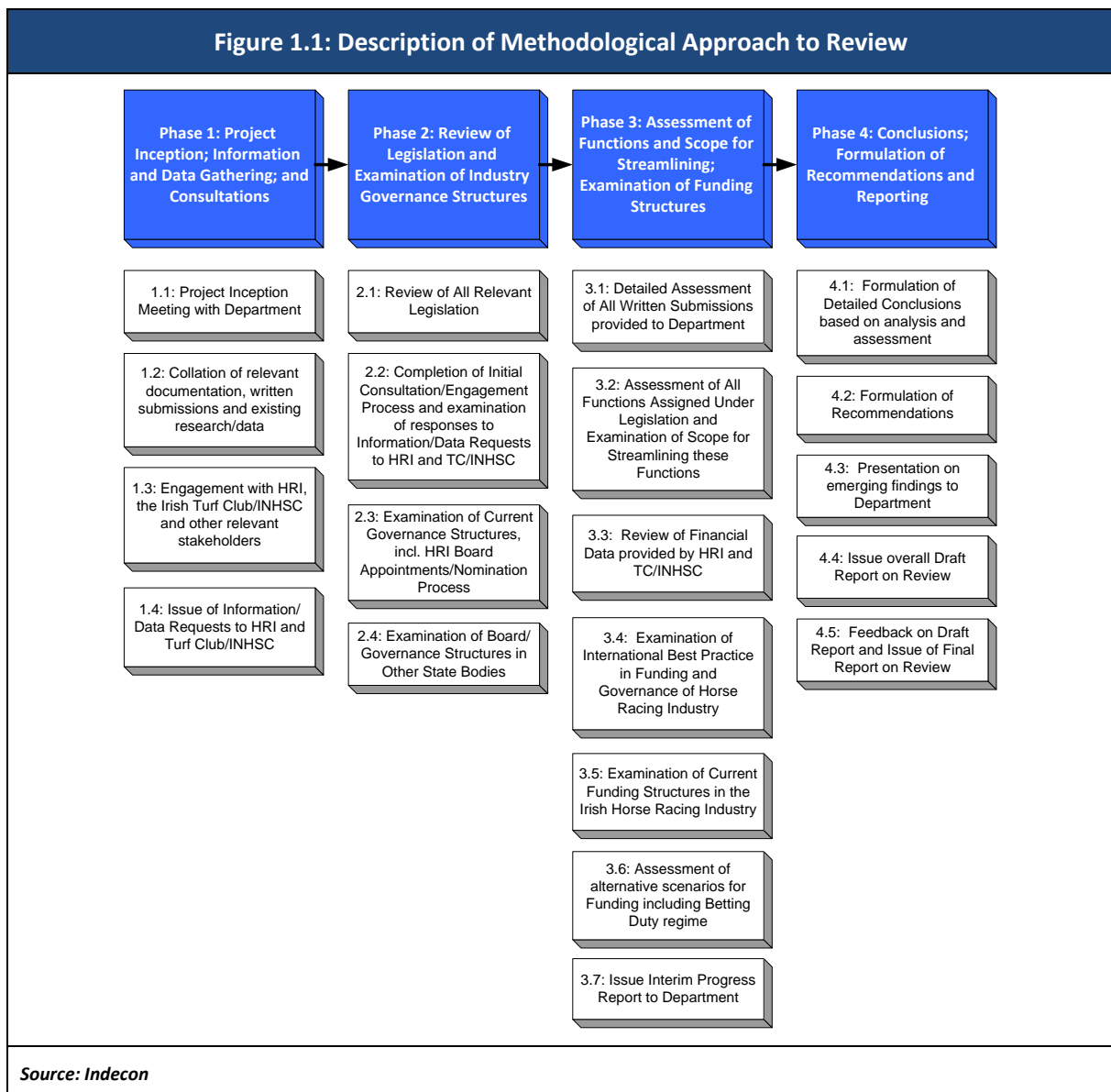
The overall objective of this study is to complete a review of certain aspects of the Irish horse racing industry including the effectiveness and efficiencies of the legislation, governance structures, funding and management of the industry in Ireland. The terms of reference set by the Department of Agriculture, Food and the Marine, are as follows:

1. To review the legislation governing the Irish horse racing industry, in particular the Irish Horse racing Industry Act 1994, the Horse and Greyhound Racing (Betting Charges and Levies) Act, 1999, Horse and Greyhound Racing Act 2001 and the Horse Racing Ireland (Membership) Act 2001, and assess whether they provide the most appropriate governance structures for the horse racing industry;
2. To evaluate whether the Horse Racing Ireland Board structure, size and nomination process is appropriate and effective. Make recommendations for change, if necessary;
3. To consider the scope for streamlining all of the functions assigned under the legislation having regard to efficiency, effectiveness, economy and independence of regulatory decisions and make recommendations accordingly; and

4. To review the current funding arrangements for the industry having regard to funding systems in place in other major racing competitor countries and to recommend an appropriate funding structure for the long term development of the sector.

1.4 Methodology

In addressing the above terms of reference, this review entailed the application of a detailed methodology designed to rigorously examine and evaluate each aspect. A schematic description of the methodological approach applied is presented in the figure below.



1.4.1 Consultations and Review of Submissions

The review has drawn on inputs provided by a number of stakeholders. In particular, this has included:

- ❑ Detailed review of extensive submissions provided to the Department (see Annex 1 for listing of organisations who provided submissions);
- ❑ Meetings held with Minister for Agriculture, Food and the Marine, and senior officials within Department;
- ❑ Meeting with the Ministerial Informal Advisory Group on the Horse racing Industry;
- ❑ Extensive engagement with Horse Racing Ireland and the Turf Club/INHSC, including detailed data/information requests issued to both organisations; and
- ❑ Meetings also held with a limited number of organisations where clarification of issues in submissions was required.

1.5 Report Structure

The remainder of this report is structured as follows:

- ❑ Section 2 sets the context for the examination of the issues in the terms of reference for this review by considering the overall importance and existing and potential economic contribution of the horse racing industry and related activities;
- ❑ Section 3 examines the funding arrangements in place for the industry and assesses the appropriateness of these structures from the perspectives of ensuring sustainable development of the industry and value for money in the utilisation of public funds. The assessment includes examination of the scale of the funding challenges facing the industry. It considers the comparative approaches in competitor countries. Finally, this section addresses the requirements to address the funding challenge, including examination of a number of scenarios for the Betting Duty regime;
- ❑ Section 4 evaluates whether the Horse Racing Ireland Board structure, size and nomination process is appropriate and effective. This includes a review of the background and existing legislative position in relation to the size, composition and process of appointment/nomination of members to the board of HRI, the board committee structure and the key external factors that shape the governance requirements for HRI. The assessment also considers the approaches to governance in other State bodies and in horse racing organisations in other countries;
- ❑ Section 5 examines the scope for streamlining of the functions assigned to HRI and the Turf Club/INHSC under the existing legislation, having regard to efficiency, effectiveness, economy and independence of regulatory decisions. This includes examination of existing cost structures and identification of potential streamlining and efficiency improvements across a range of areas; and
- ❑ Finally, Section 6 integrates the findings from the analysis and assessment undertaken in the preceding sections to formulate specific policy recommendations to address the governance and funding challenges facing the industry.

1.6 Acknowledgements and Disclaimer

Indecon would like to acknowledge the contributions and inputs provided by a number of individuals and organisations to this review. We would particularly like to acknowledge the valuable assistance provided by officials of Department of Agriculture, Food and the Marine, including Emer McGeough, Martin Heraghty and Dermot A. Ryan. Thanks are also due to the Minister and Secretary General, in addition to the Ministerial Informal Advisory Group on the Horse Racing Industry, for meeting with the consultancy team. We would like to thank the Chairman and senior management team within HRI, in addition to senior officials within the Turf Club/INHSC for their cooperation throughout the process.

Most significantly we would like to thank the 44 organisations and individuals who prepared often detailed submissions to the review. These submissions were of invaluable assistance in understanding the perspective of various interests in the sector and all of these were carefully evaluated by Indecon.

Responsibility for the analysis and findings in this independent report is, however, the sole responsibility of Indecon.

2 Importance and Potential of the Horse Racing Industry

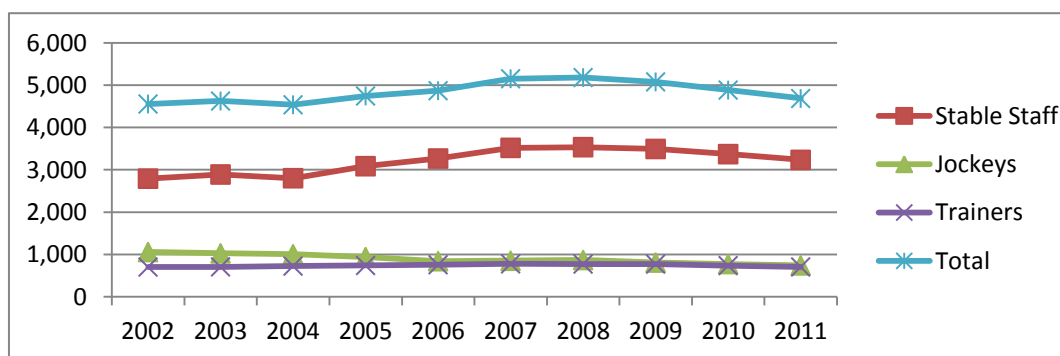
2.1 Introduction

In focusing on specific issues in our terms of reference Indecon believes it is essential to not lose sight of the overall importance and potential of the horse racing sector. This section therefore sets the context for the examination of the issues in the terms of reference for this review by considering the overall importance and potential economic contribution of the horse racing industry and related activities.

2.2 Employment in Horse racing

The Irish horse racing sector is a contributor to the agriculture industry in Ireland. Dukes (2009), using data from HRI and an Irish Thoroughbred Breeders' Association (ITBA) confidential survey, estimated total employment in the sector as of 2008 to be 22,084. Dukes Report Update -2010 gives a figure of 17,351 employed in 2010. These figures include staff directly employed in the thoroughbred sector, employment in the betting sector, the numbers employed in breeding as well as administrative and support staff. Indecon also considered direct employment in the thoroughbred industry using figures provided by the Turf Club and HRI. Direct employment estimates in the narrow racing industry are made up of stable staff, jockeys and training officials. Figure 2.1 provides a breakdown of these figures.

Figure 2.1: Direct Employment in the Racing Industry 2002 – 2011



Source: The Turf Club and HRI

Note: Figures are based on the number of stable staff, all types of jockeys (Flat, National Hunt etc) and trainers (Public Trainers and Restricted Licence holders).

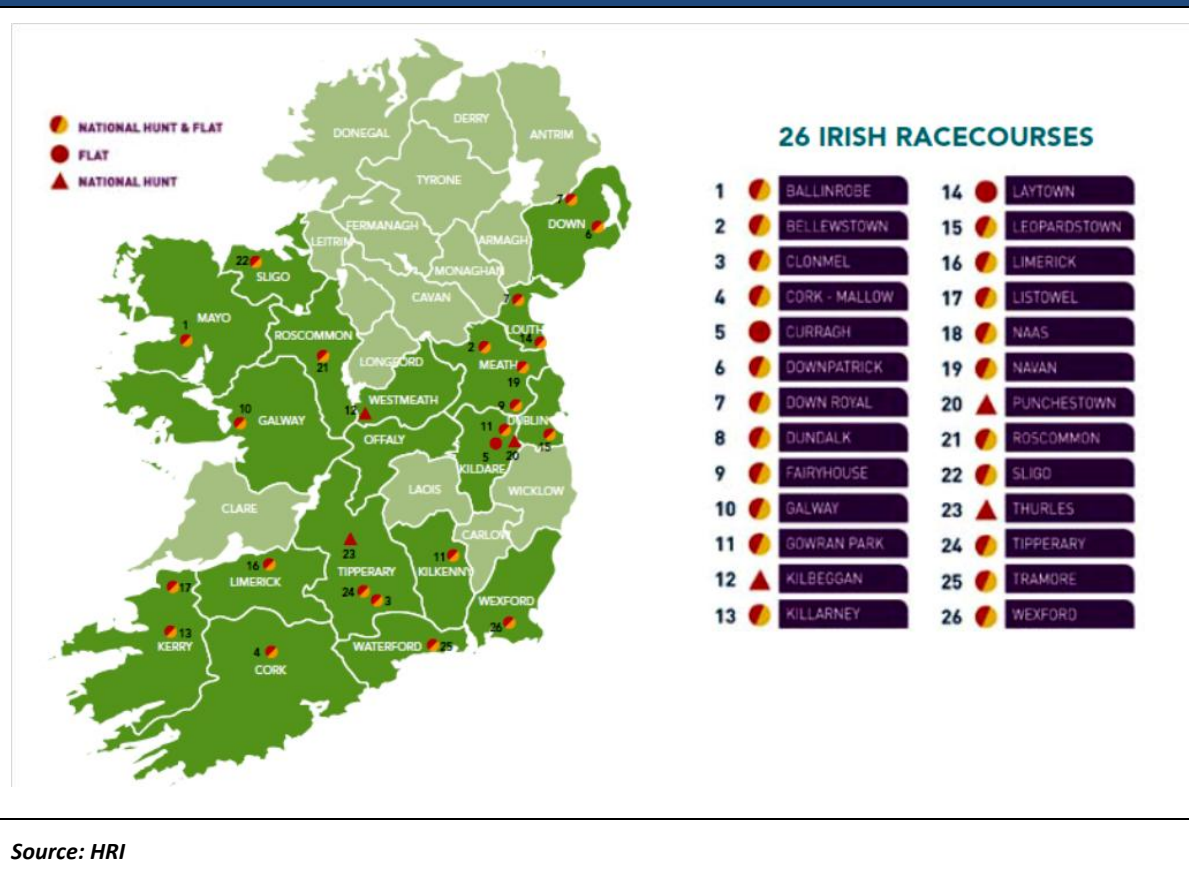
Of those employed directly in the thoroughbred sector some 3,235 people are employed in the stables while jockeys and trainers represent approximately 1,000 employees each. In addition some estimates suggest there are approximately 6,000 employees in the betting industry. With the addition to employment at racecourses and other aspects of the industry it is clear that the sector continues to be an important source of employment in Ireland.

2.3 The Regional Spread of Racecourses in Ireland

What is also significant in the case of the horse racing sector is its regional impact.

This point is reinforced by the fact that racecourses are located in 17 of the 26 counties. Moreover, according the HRI there are breeders located in every single county of Ireland which is especially important for the maintenance of local jobs.

Figure 2.2: Racecourses in Ireland By Region



2.4 Thoroughbred Sector

Horse racing in Ireland is an exporting sector which is built on a long and distinguished tradition.

For example, as noted in a submission by the Irish Racehorse Trainers Association to this review:

“The tradition of racing runs very deep in Ireland. It is here that steeplechasing was born; it is here that many of the most illustrious horses in racing history have been bred over the course of several centuries. In terms of geology and climate, our country is an ideal location for the raising of young horses.”

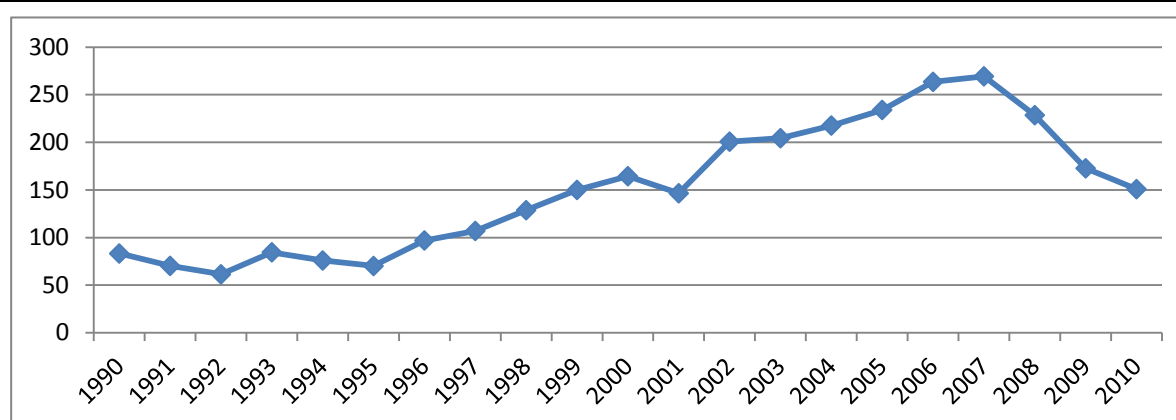
The impact of the horse racing sector was highlighted by the submission by the Association of Irish Racecourses to our review where they noted that:

“Racing and breeding are an integral part of the agriculture industry and employ thousands of people widely dispersed throughout the country, frequently in areas where there is little alternative employment. It is a strong indigenous industry ideally suited to our environment. The export of horses abroad and the inward investment resulting from foreign owners keeping horses in Ireland for training or breeding purposes contributes significantly to the country’s economic wellbeing.”

The IFA in their submission to this review outlined their view that the tradition of horse breeding on farms in Ireland must be maintained, supported and encouraged. Indecon is in agreement with this and with the importance of developing all aspects of the sector.

Figures from the Central Statistics Office outline the growth in the value of horses in Ireland from the early 1990s. The value of Irish horses peaked in 2007 at over €260m, thereafter declining to 2001 levels.

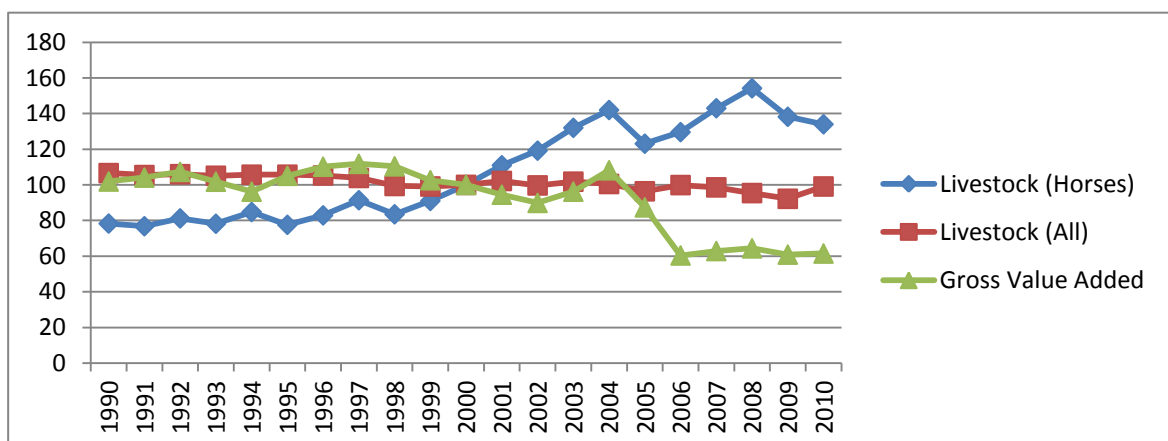
Figure 2.3: Livestock Value (Horses €m) 1990 - 2010



Source: CSO

Indeed while the Gross Value Added (GVA) of Irish agriculture declined from the mid to late 1990s, the value of Irish horses was increasing. Furthermore, in comparison to the value of all livestock in Ireland, the value of Irish horses has exceeded that of cattle, pigs and poultry since 2000.

Figure 2.4: Volume Indices for Input, Output and Income in Agriculture 1990 – 2010



Source: CSO (Base = 100 in 2000)

The performance of Irish stallion, mare and foal sales in Ireland over the period since 2007 is presented in the table below.

Table 2.1: Irish Stallion, Mare and Foal Sales 2007 - 2011

	2007	2008	2009	2010	2011
Catalogued	15,337	13,071	8,204	7,929	7,315
Offered	12,326	10,173	6,867	6,639	6,226
Sold	7,684	5,446	4,172	3,987	4,248
Aggregate (€)	178,738	95,500	67,500	68,025	80,636
Average (€)	23,261	18,270	16,183	17,061	18,982

Source: HRI Fact Book 2011

The figures for sales of stallions, mares and foals since 2007, show that while the volume of sales has fallen, sales are still significant. The quality of Irish stallions is also evident in the maintenance of prices. The average price in 2008 was €18,270 whereas the average price in 2011 was €18,982, an increase of 3.7% on three years ago. Furthermore, the 2011 average price is nearly 15% higher than the average price in 2009.

An illustration of the significance of thoroughbred sector was referred to in a recent address as follows:

"Ireland is the fourth largest breeder of thoroughbreds in the world. In excess of 40% of the EU output of thoroughbreds and 11% of the total worldwide are produced in Ireland. The value of Irish thoroughbred exports was an estimated €157m in 2011 up from €147m in 2010. The Irish horse racing industry continues to enjoy great success in the UK. In 2011 Irish-trained horses had remarkable success in the UK and overseas, with a 53% increase in prize money won abroad totaling €13 million. The World Thoroughbred Rankings show that 6 of the top 10 two-year-olds in the world in 2011 were Irish-trained. Cheltenham 2012 saw five Irish trained winners. In addition to our five winners we had a remarkable 13 second places." (Minister of State Shane McEntee, TD address to the National Hunt Awards)

Table 2.2 presents figures on exports of Irish foaled horses in 2011. Nearly 80% of exports were to Great Britain.

Table 2.2: Exports of Irish Foaled Horses 2011			
Country	Number	Share (%)	Value (€m)
Great Britain	3935	78.9	117.9
France	536	10.7	22.6
Italy	183	3.6	5.0
Other Europe	198	3.9	3.3
Non-Europe	135	2.7	7.5
Total	4987	100	156.3
<i>Source: HRI Fact Book 2011</i>			

2.5 The Betting Industry

This retail betting sector is an integral part of the overall horse racing industry in Ireland.

The Irish Bookmakers association (IBA) has suggested that the betting industry supports over 6,000 jobs through over 1,200 shops nationwide. Table 2.3 below provides IBAs estimates of aspects of the betting industry.

Table 2.3: IBA Estimates for Betting 2010	
	Amount (€)
Total Gross Wage Bill:	130,000,000
Income Tax Paid By Industry	20,000,000
VAT Paid By Industry	5,000,000
Annual Rates Paid By Betting Shops	3,000,000
Betting Tax	31,000,000
<i>Source: Irish Bookmakers Association</i>	

Table 2.4 below outlines the change in on course betting volume from 2010 to 2011. For many of the racecourses there was a decline in on-course betting volume ranging from 3% to 23% with only two recording an increase in betting, namely Punchestown and Leopardstown.

Table 2.4: Bookmakers On-Course Betting 2011			
	Total On-Course Betting (ex Tote)	Change from 2010	% Change from 2010
Galway	14,697,083	-2,112,543	-12.5%
Punchestown	12,769,177	40,412	0.3%
Listowel	5,768,934	-1,746,821	-23.2%
Leopardstown	14,150,144	38,106	0.2%
Curragh	8,684,309	-1,461,366	-14.4%
Fairyhouse	6,018,167	-222,964	-3.5%
Limerick	3,393,351	-100,618	-2.8%
Source: HRI Fact Book 2011			

Table 2.5 illustrates the breakdown of betting trends over the last four years. As we can see, the declines have been quite severe in 2008 and 2009 but thereafter the declines seem to be moderating somewhat with a 6.7% decline recorded in 2011. It is important to note that the figures exclude 'online' and remote betting.

Table 2.5: Trends in On Course Betting (€)					
Year	Bookmakers	SP Shop	Tote	Total	% Change
2007	205,216,730	15,813,794	61,320,216	282,350,740	7.6%
2008	167,242,302	14,894,295	55,104,022	237,195,619	-16.0%
2009	121,898,025	12,116,577	47,770,974	181,785,576	-23.0%
2010	107,437,349	10,313,005	45,895,409	163,645,762	-10.0%
2011	97,522,138	9,885,098	45,329,552	152,736,788	-6.7%
Source: HRI Fact Book 2011					

2.6 Racing Festivals

Despite continuing economic difficulties in Ireland, over 1.2m people attended racing festivals in 2011, an increase of 3% on 2010.

Table 2.6: Top Seven Festivals By Attendance (2010-2011)					
Festival	No of Days	2010	2011	Variance	% Change
Galway	7	166,067	161,838	-4,229	-3%
Punchestown	5	93,467	95,066	1,559	2%
Listowel	7	95,447	82,024	-13,423	-14%
Leopardstown (Christmas)	4	30,172	54,517	24,345	81%
Curragh (Derby Meeting)	3	38,457	33,092	-5,365	-14%
Fairyhouse (Easter)	3	24,159	27,083	2,924	12%
Limerick (Christmas)	4	14,350	24,633	10,283	72%
Total	33	462,119	478,253	16,134	3%
Total Overall in Ireland	336	1,197,904	1,237,677	39,773	3%
<i>Source: HRI Fact Book 2011</i>					

Table 2.6 presents the attendances at Ireland's top seven racing festivals in 2010 and 2011. The Galway races held every July is the largest racing festival in Ireland. The figures outlined in Table 2.7 are limited to admissions and betting expenditure but exclude other forms of consumption. It is not suggested this measures the full economic impact as, for example, according to ITBA estimates the Galway festival generates €60m for the local economy.

Table 2.7: Estimated Aspects of Economic Impact of Selected Racecourses 2011

Racecourse	Attendance	Admission Fee of €15 (No of Meetings)	Betting Expenditure (€m)	Avg Expenditure/Person on Betting (+ admission) (€)	Total Expenditure (€m)
Galway	172,220	15 (12)	20.1	116 (206)	35.5
Punchestown	120,957	15 (18)	18.8	155 (290)	35.0
Leopardstown	144,464	15 (23)	22.0	152 (317)	45.8
Curragh	98,079	15 (18)	13.6	139 (274)	26.9
Listowel	85,508	15 (9)	7.2	84 (144)	12.3
Total for all Racecourses	1,237,677	15 (336)¹	151.7	123 (240)²	297

Source: Indecon Analysis

Notes: Attendance and Betting Expenditure (relating to on-course betting through bookmakers and the Tote only) figures relate to HRI Fact Book 2011. Expenditure per person and total expenditure are estimated by the author while the admission fee is estimated based on various fees quoted on racecourse websites. Expenditure per person is calculated by dividing betting expenditure by attendance and adding admissions fees. The total cost of admission is based on the assumption that people attended half of all meetings that were held. Total expenditure is calculated by multiplying the average expenditure and the total attendance. The figures we have estimated should only be read as indicative.

¹336 represents the total number of meetings for all racecourses in Ireland in 2011. ²€240 represents average expenditure per person on betting and admissions.

Previous studies including Indecon (2005) and Walsh and O' Leary (2002) provided estimates of the multiplier effects of such expenditure. In Indecon's 2005 report, which assesses the economic contribution of the thoroughbred breeding and horse racing industry in Ireland, a multiplier of 1.43 was estimated.

2.7 Economic Potential of Sector

The Irish horse racing sector operates on a global scale. The sector has a reputation for the highest standards and quality internationally. There is potential to build on the inherent strengths to sector to expand in Ireland. An example of positive new markets is the recent announcement concerning the Chinese market. In April 2012, it was announced that Ireland has been chosen to be involved in the first national equine centre in China. Following on from this, it was also announced that Irish firm Connolly's Redmills from Kilkenny will become the first foreign horse feed manufacturer to gain access to the Chinese market. These first steps into the Chinese market have the potential to expand the Irish horse racing sector.

Indecon believes that a competitive horse racing sector in Ireland which is effectively developed and marketed internationally has positive potential for increased employment and economic activity in Ireland.

2.8 Summary of Key Findings

This section sets the scene for the detailed examination of the terms of reference by considering the overall importance and existing and potential economic contribution of the horse racing industry in Ireland. The key findings were as follows:

- ❑ Horse racing in Ireland is not only an important employer and exporting sector but represents a long and distinguished tradition.
- ❑ The horse racing sector impacts significantly on the Irish economy through a number of channels:
 - In 2011, the thoroughbred industry directly employed more than 4,000 people and earlier estimates suggested that if betting and racecourse sectors and other related employment is included, horse racing supports over 20,000 employees Dukes Report Update -2010- suggests 17,351 employed;
 - Its international reputation fosters exports globally to the value of over €150m annually;
 - 1.2 million attendees participate in horserace meetings in Ireland every year; and
 - The sector supports sports tourism estimated to be around 80,000 people annually.
 - This is also an economic impact of race meetings.
- ❑ The industry has shown itself capable with government support of adapting in a tough economic environment by establishing links in new emerging markets such as China.
- ❑ Indecon believes that with appropriate policies the sector has an important potential contribution to make to economic and social development in Ireland and the expansion of employment.

3 Review of Industry Funding Arrangements

3.1 Introduction

Significant funding challenges exist to ensure the horse racing industry realises its potential. There are however concerns over the appropriateness and medium term sustainability of funding for the industry unless changes are made.

Our analysis indicates that the main potential source of additional funding is from the betting industry. There is also a need to continue to focus on maximising income from sponsorship.

In reviewing funding arrangements for this sector and the impact of betting revenues Indecon believes it is important to consider Ireland's competitive position vis-à-vis:

- the ease of mobility of betting operators,
- the price elasticity of demand for betting, and
- betting tax compliance as it concerns remote betting operators.

In addition we believe it is necessary to consider staging of any changes in taxation.

Other funding issues include the appropriateness of the racehorse industry's requirements being exactly aligned with betting duty revenues.

3.2 Scale of Funding Challenges

The following overview of some of the key figures for the Irish horse racing and betting industries for 2006 to 2011 gives a sense of the trends in the funding for the horse racing industry in Ireland. The figures show that most of the indicators have declined significantly from their peaks. Only the numbers of fixtures and races have been maintained at roughly their peak levels. Despite this, the total number of race entries has dropped precipitously by 38%.

Racecourse attendance is down 15% from 2007, and on-course betting turnover has plummeted 46% in the same time period. Therefore by calculation average on-course betting turnover per racecourse attendee has declined 54%. Off-course betting (excluding online and telephone betting) has fallen less but has also declined (26%) as a result; on-course betting represents a shrinking share of the total market.

With taxed off-course betting down, HRI's 80% share of betting duties collected by the Exchequer has fallen 43% from €43.4m to €21.6m between 2006 and 2011 (corresponding to an overall drop in the Horse and Greyhound Racing Fund from €54.1m to €27.1m including the Bord na gCon 20%). The rate of betting duty was reduced from 2% to 1% on July 1, 2006. Also of significance is the growth in remote betting and the emergence of betting exchanges.

Table 3.1: The Irish Horse Racing and Betting Industries in Numbers (2006-2012)									
		2006	2007	2008	2009	2010	2011	2012	% change from peak to 2011
Betting and Exchequer Funding									
Total Betting	€ m.	3,667	3,926	3,903	3,281	3,257	2,858		-27%
Total On-Course Betting	€ m.	262	282	237	182	164	153		-46%
Total Off-Course Betting	€ m.	3,405	3,644	3,666	3,099	3,093	2,705		-26%
Previous Year's Betting Duty (HRI 80%)	€ m.	36.7	43.4	29.1	29.3	24.8	24.7	21.6	-43%
Further Government Funding of HRI	€ m.	19.4	15.1	31.9	25.2	22.6	21.1	23.4	-34%
Total Government Funding of HRI	€ m.	56.0	58.5	61.0	54.5	47.4	45.8	45.0	-25%
Prize Money									
Total Irish Horse racing Prize Money	€ m.	55.1	59.6	60.4	52.9	46.0	44.4		-26%
HRI Funding of Prize Money	€ m.	30.6	32.3	34.0	30.3	28.3	28.1		-18%
Commercial and Other Funding of Prize Money	€ m.	8.6	9.6	9.2	7.9	5.4	5.2		-54%
Owners' Funding of Prize Money	€ m.	15.9	17.7	17.2	14.7	12.3	11.1		-37%
Attendance, Fixtures, Races and Entries									
Total Racecourse Attendance	'000	1,447	1,461	1,392	1,237	1,198	1,238		-15%
No. of Fixtures		319	333	342	345	334	336		-3%
No. of Races		2,268	2,397	2,454	2,444	2,381	2,397		-2%
No. of Race Entries	'000	87.4	105.4	96.5	94.7	72.5	65.9		-38%
Racehorse Numbers and Sales									
No. of Stallions, Mares and Foals in Ireland	'000	31.7	33.7	32.8	29.3	23.2	21.5		-36%
of which Foals Born	'000	12.0	12.6	12.4	10.2	7.6	7.6		-40%
No. of Irish Foaled Horses Exported		n/a	n/a	5,016	5,315	5,181	4,987		-6%
Aggregate Value of Horses Sold in Irish Sales	€ m.	192	179	100	68	68	81		-58%
No. of Horses in Training		6,585	6,742	6,817	6,483	5,769	5,030		-26%
Owners									
No. of Racehorse Owners		5,207	5,588	5,641	5,107	4,667	4,278		-24%
Source: HRI									
Notes: Betting figures here do not include exchange betting.									

The total funding provided by Government to HRI which reached a peak of €61m in 2008 has decreased to €45 million in 2012. In years between 2006 and 2012, betting duties have been insufficient to provide this funding and the Exchequer has provided further funding. The peak year for that funding was 2008 at €31.9m. In the current year 2012 it will be €23.4m.

Commercial and other funding of horse racing prize money represented €8.6 million out of €55.1 million in 2006. In 2011 this declined to only €5.2 million (a drop of 54%) out of €44.4 million. Over the period HRI has contributed an increasing share of prize money to support the competitive position of Irish racing in terms of prizes. Nonetheless their contribution declined 18% since 2008. Owners' contribution to prize money also fell by 37% since 2007.

There have also been steep falls in the number of stallions, mares and foals in Ireland (36% since 2007). The annual aggregate value of horses sold in Irish sales is down from €192 million in 2006 to €81 million in 2011, a 58% drop. The number of horses in training is down 26% since 2008. The number of racehorse owners is down by about the same percentage, by 24% since 2008.

At present, the sector is significantly dependent on support from general Exchequer sources, the tax revenue from betting duty and funding provided by owners, racecourses and to a less extent from commercial sponsorship.

The funding challenge facing the sector was a central theme in many of the submissions made to this review. For example:

- ❑ The Association of Irish Racehorse Owners pointed out that:
"Ireland is a world class racing country and it is critical that proper financial structures are put in place to retain the reputation that has been built up over many years."
- ❑ Irish Racehorse Trainers' Association argued that:
"The continuing success of the Irish Racing Industry is in jeopardy because of the absence of a mechanism for ensuring secure long-term funding which would provide for appropriate strategic planning."
- ❑ One of Ireland's leading trainers suggested that:
"A sustainable and long-term funding structure is essential if Irish racing is to continue to contribute to the economy in the way that it has done in the past."
- ❑ Goff's submission suggested that:
"The secure funding of Irish racing and breeding is singularly the most important issue."
- ❑ Irish Thoroughbred Breeders' Association recommended that:
"... a levy in betting is introduced which is sufficient to secure the future growth and expansion of the industry."

The funding challenge extends to the requirement to provide funding for:

- Internationally competitive prize money;
- Integrity services of the highest standards;
- Maintenance of the disease-free status of Irish bloodstock;
- Upgrading of facilities for jockeys as elite sportspersons and for others working in the industry;
- Investment to develop and upgrade key racecourses;
- International marketing, including:
 - of Ireland as a destination for racegoers, and
 - of the Irish thoroughbred racehorse
- Education and training; and
- Ambulance and welfare and health and safety standards.

There is also a need to consider the funding of the sport horse industry and indeed of other sports. As indicated in the submission to our review by Horse Sport Ireland, there is a need for additional resources for the sport horse sector and, in particular, to support prize money, marketing and training and education.

Indecon's assessment indicates that, in terms of funding, it is important that sufficient funding is provided to ensure reasonable prize money and to enhance the reputation of the Irish race horse sector. Resources are also needed to finance racing integrity services, which are essential to the maintenance of the credibility and reputation of the sector. The development of racecourses and maintaining the disease free status of Irish bloodstock also require appropriate funding. In addition, effective international marketing is an important component in realising the economic potential of this unique sector.

The dependence on very scarce exchequer resources to the extent which currently exists represents a major strategic vulnerability for the sector given the current state of the public finances. Indecon therefore believes new sources of funding are urgently required to support the industry and to wean the industry off its dependence on Exchequer funding.

3.3 Importance of Securing Value for Money

Given the scale of the funding challenge and the severe constraints on public expenditure there is an onus on the sector and its constituent organisations and on government to ensure cost efficiency and effectiveness of organisations in receipt of public funds. There is also a need for improved accountability for the use of money coming from the Irish tax payer. This has implications for HRI board representation, for ongoing governance and for the pursuit of any streamlining of functions that will maximise cost efficiency and effectiveness and secure value for money.

The following representative sample of views in the submissions to this Review highlight the recognition within the sector of the need to secure and demonstrate value for money:

- ☐ **“The administration of Irish racing could be more streamlined resulting in considerable savings and a much more effective management structure with faster decision making and implementation.”**
- ☐ **“If racing is to justify the funding that it receives through legislation – money that is ultimately derived from the tax payer – we must do everything possible to ensure that money and resources are not wasted.”**
- ☐ **“We have two bodies administering racing from two different locations.”**
- ☐ **“A streamlining process is needed so that the industry uses it’s resources with maximum efficiency and without unnecessary duplication.”**

Indecon supports additional and sustainable funding for the development of the sector but this must be accompanied by an equal priority to maximise efficiency, effectiveness and value for money.

3.4 Review of Trends in Exchequer Funding

Betting duty collected by the Irish exchequer increased significantly since 1990 in the years to 2001. Following its peak in 2001 betting duties have declined in recent years and in 2011 fell to €27.1m.

Table 3.2: Irish Betting Tax Rate and Duties Collected (1990-2011)					
Year	Betting Duty Collected (€m.)	Rate (%)	Year	Betting Duty Collected (€m.)	Rate (%)
1990	37.2	10%	2001	68.1	5%
1991	38.5	10%	2002	48.0	2% (from May 1 st)
1992	41.1	10%	2003	38.4	2%
1993	43.6	10%	2004	45.6	2%
1994	45.8	10%	2005	45.8	2%
1995	48.5	10%	2006	54.3	1% (from July 1 st)
1996	51.6	10%	2007	36.4	1%
1997	57.8	10%	2008	36.7	1%
1998	66.2	10%	2009	31.0	1%
1999	67.8	5% (from July 1 st)	2010	30.9	1%
2000	58.8	5%	2011	27.1	1%
Source: HRI					

The reduction in betting duties collected since 2001 has increased the requirement on the Exchequer to provide additional funding to HRI.

As can be seen from the following table, this further subvention of HRI has declined somewhat since 2009 as HRI and the Turf Club/INHSC, for their part, have curtailed spending, particularly in the areas of capital expenditure.

Table 3.3: Shortfall between Betting Duty and Irish Exchequer Funding of Horse & Greyhound Racing Industries (2002-12)												
€ millions	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Funding provided to HRI and Bord na gCon	68.0	64.2	66.9	68.4	70.1	73.1	76.3	68.1	59.3	57.3	56.3	727.9
Betting duty (from previous year)	68.1	48.0	38.4	45.6	45.8	54.3	36.4	36.7	31.0	30.9	27.1	462.3
Shortfall made up by further Government subvention	-0.1	16.2	28.5	22.8	24.2	18.8	39.8	31.5	28.3	26.4	29.2	265.6
<i>Source: HRI</i>												

The Government has invested €727.9 million into the racing sector since 2002. Betting duties contributed €462.3 million and further Exchequer subvention amounted to €265.6 million.

By legislation, the Horse and Greyhound Racing Fund is shared between HRI and Bord na gCon on an 80:20 basis. HRI's 80% share of the €727.9 million of total funding over the 11 year period has been €582.3 million, equivalent to an average of approximately €53 million per annum.

This government support has resulted in the development of a significant sector as can be gleaned from the following figures:

- ❑ The number of Irish racecourse attendees was 1.238 million.
- ❑ 4,987 horses were exported from Ireland.
- ❑ The value of all horses sold in Irish sales in 2011 was €81 million.

A detailed value-for-money assessment of government support is beyond the scope of this Review but Indecon believe such a review would be desirable.

3.5 Analysis of Prize Money

3.5.1 Prize Money in Ireland

Prize money is a factor driving the international competitiveness of the Irish horse industry. As such the overall decline of 26% in prize money between 2007/2008 and 2011 is a serious concern. The following table shows the year-on-year changes.

Table 3.4: Trend in HRI Share of Funding of Prize Money (2006-2010)				
	Total Irish Prize Money (excluding Point-to-Points)	Change from Previous Year	HRI Share	
	€ million	%	€ million	%
2006	55.061		30.595	55.6
2007	59.607	+ 8.3	32.269	54.1
2008	60.401	+1.3	34.009	56.3
2009	52.888	-12.4	30.277	57.3
2010	46.013	-13.0	28.327	61.6
2011	44.396	-3.5	28.057	63.2
Source: HRI Fact Book Various Years				

An analysis of prize money between Flat and National Hunt is presented below.

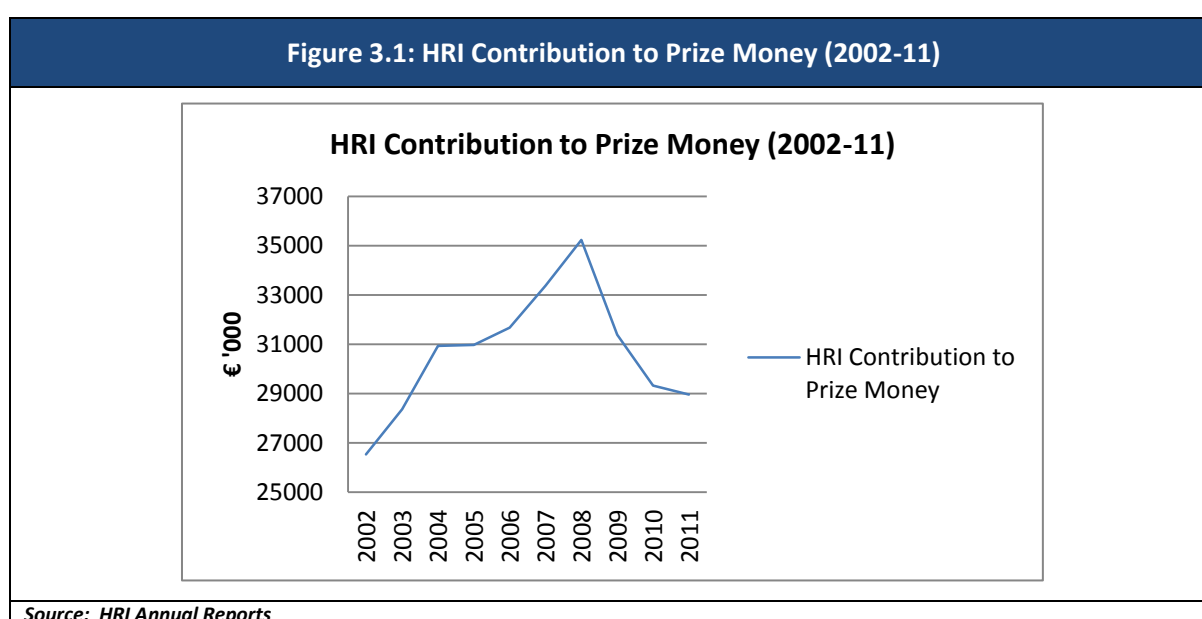
Table 3.5: Prize Money Value 2007 – 2011				
	Flat	National Hunt	Total	% Change
Year	€'000	€'000	€'000	
2007	31,094	28,513	59,607	8.3%
2008	31,723	28,678	60,401	1.3%
2009	28,315	24,573	52,888	-12.4%
2010	22,835	23,178	46,013	-13.0%
2011	21,263	23,133	44,396	-3.5%
Source: HRI Fact Book Various Years				

A feature of Irish horse racing in recent years has been the growing number of lower value races in terms of prize money. In 2007, there were 1,926 races with prize money of less than €25,000 and five races for more than half a million euro. The latest figures in Table 3.6 for 2011 show that there were 2,063 races where prize money was less than €25,000 and there were only two races with prize money in excess of €500,000.

An analysis of how the trend in prize money by size has changed between 2007 and 2011 is presented in the table below.

Table 3.6: Number of Races By Prize Money Bands 2007 – 2011					
(€)	2007	2008	2009	2010	2011
<25,000	1,926	1,971	2,089	2,042	2,063
25,000 – 49,999	232	238	190	184	188
50,000 – 99,999	155	160	116	114	114
100,000 – 249,999	67	68	33	34	25
250,000 – 499,999	12	12	11	5	5
500,000+	5	5	5	2	2
Total	2,397	2,454	2,444	2,381	2,397
<i>Source: HRI Fact Book 2011</i>					

In examining who has provided the funding for prize money, it is clear that HRI has increased its share of the funding of prize money from 54% to 63%. Total Irish prize money fell €16 million over the same period from €60.4 million to €44.4 million. Of this €16 million decline there was a decline in prize money in flat racing (€10.5 million) and national hunt also saw a reduction (€5.5 million). The following figure shows the longer-term picture of HRI's contribution to prize money since 2002 including point-to-points.



It is instructive to consider the trends in sources of prize money in some more detail. While HRI expenditure on prize money has declined from 2008 peak, HRI expenditure is still the largest contributor to prize money. HRI and owners contribution make up more than 88% of all prize money from Irish horse races. The rest of the prize money comes from the European Breeders' Fund, Northern Ireland funding and commercial sponsorship. Overall since 2007, funding has decreased significantly across nearly all funding sources except the European Breeders' Fund who have increased funding by 3.4%. The largest decrease is evident in commercial sponsorship which has declined by 61% since 2007.

Table 3.7: Sources of Prize Money 2007 – 2011

Year	Owners	Commercial	NI Funding	EBF	HRI	Total
2007	17,651	7,306	454	1,928	32,269	59,607
2008	17,224	6,824	456	1,888	34,009	60,401
2009	14,664	5,603	376	1,969	30,277	52,889
2010	12,321	3,024	399	1,942	28,327	46,013
2011	11,128	2,813	403	1,995	28,057	44,396

Source: HRI Fact Book Various Years

In Ireland, net owners' prize money fell another 1.3% in 2011 and on a per race basis the decline was about the same, 1.9%, as shown below. However, because of the continuing fall in the number of individual runners and the total number of horses in training, the net prize money per individual runner and per horse in training was up by 3.9% and 10.5%, respectively, in 2011.

Table 3.8: Change in Owners' Net Prize Money in Ireland (2010-2011)

	Total Prize Money (excl. Point-to-Points)	Owners' Contribution to Prize Money	Net Owners Prize Money	No. of Races	Net Prize Money per Race	No. of Indiv. Runners	Net Prize Money per Indiv. Runner	No. of Horses in Training		Net Prize Money per Horse in Training (€)	
	€ m.	€ m.	€ m.		€		€	Avg	Total	Avg	Total
Ireland 2010	46.013	12.321	33.692	2,381	14,150	8,027	4,197	5,769	11,136	5,840	3,025
Ireland 2011	44.396	11.128	33.268	2,397	13,879	7,630	4,360	5,030	9,832	6,614	3,383
Ireland % Change 2010-11	-3.5%	-9.7%	-1.3%	+0.7%	-1.9%	-4.9%	+3.9%	-12.8%	-11.7%	+13.3%	+10.5%

Sources: Indecon Analysis of HRI Data

The total figures for the number of horses in training counts each individual horse that was returned in training during the calendar year.

3.5.2 International Comparisons of Prize Money

International comparisons of prize money show that in certain jurisdictions there have been sizable increases in prize money in the last few years. In Australia, for example, there has been more than a 40% increase in prize money from 2007 to 2010. Over the same period in Ireland, prize money has fallen by 25%. Decreases in prize money have also been evident in the UK.

Table 3.9: International Comparison of Prize Money 2007 – 2010 (€'000)				
	2007	2008	2009	2010
Ireland	59,600	60,400	52,880	46,010
France	365,050	383,660	393,830	398,100
United Kingdom	134,500	111,460	124,620	114,960
Hong Kong	-	70,690	70,170	76,230
Australia	277,560	216,710	324,940	402,330
Italy	-	143,650	142,450	161,970
<i>Source: International Federation of Horseracing Associations</i>				

An important prize money comparison is between Britain and Ireland. There are some significant differences in terms of who provides the funding as illustrated in the following table.

Table 3.10: Sources of Prize Money: Comparison between Britain and Ireland (2010)				
	BHA, Levy Board and Div. Fund	Commercial	Owners	Total
Britain (£ million)	53.040	30.350	15.570	98.960
Britain (€ million) ¹	65.112	37.258	19.114	121.483
% of funding (Britain)	53.6%	30.1%	15.7%	100%
	Horse Racing Ireland	Commercial, EBF and NI Funding	Owners	Total
Ireland (€ million)	28.327	5.365	12.321	46.013
% of funding (Ireland)	61.6%	11.7%	26.8%	100%
<i>Sources: British Horseracing Authority / HRI</i>				
Notes: ¹ The amounts in £ Sterling have been converted to € at an exchange rate of 0.8146, BHA and Levy Board includes divided funding. The 'Commercial' column in the case of Ireland includes the European Breeders' Fund and NI Funding.				

In Britain, the Levy Board, the British Horseracing Authority and the divided fund contributed 53.6% of prize money in 2010. By contrast HRI provided 61.6%. The high share of prize money by HRI reflects the relatively low levels of commercial sponsorship in Ireland. In Ireland, commercial sponsorship, along with EBF and NI funding, amounted to only 11.7%.

From a racehorse owner's perspective, what is important is "net" prize money i.e. net of their own contribution towards prize funds. To make a comparison between Ireland and Britain, the average net prize money per race, per individual runner and per horse in training are calculated in the following table.

Table 3.11: Comparison of Owners' Net Prize Money: Britain v. Ireland (2010)									
	Total Prize Money (excl. Point-to-Points)	Owners' Contribution to Prize Money	Net Owners Prize Money	No. of Races	Net Prize Money per Race	No. of Indiv. Runners	Net Prize Money per Indiv. Runner	No. of Horses in Training	Net Prize Money per Horse in Training (€)
	€ m.	€ m.	€ m.		€		€	Total	Total
Britain 2010	121.483	19.114	102.369	9,566	10,701	19,242	5,320	29,015	3,528
Ireland 2010	46.013	12.321	33.692	2,381	14,150	8,027	4,197	11,136	3,025
% Diff.					+32.2%		-21.1%	-61.6%	-14.2%
<i>Sources: BHA, Weatherbys, HRI, Indecon Analysis</i>									

Whereas Ireland lags behind in terms of both net prize money per individual runner (by 21.1%) and net prize money per horse in training (by 14.2%), the net prize money per race in Ireland was 32.2% higher than in Britain in 2010. In Ireland there were 2,381 races in 2010 (2% below its 2008 peak of 2,454 races). In contrast, according to the British Horseracing Authority, in Britain the number of races has increased by 8% from 8,877 in 2007 to 9,566 in 2010.

3.5.3 Prize Money Comparison: The Richest Races in the World (2011)

It is also instructive to look at the richest 380 horse races in the world in 2011 to get another perspective on Ireland's situation.

The increase in prize monies for the world's big races demonstrates the level of competition. In the period 2006-2011, five races in Ireland saw their prize money grow by 4% in nominal terms. This compares with the 82% increase worldwide over the same period.

Apart from the UAE, Hong Kong or Singapore, the comparison with Britain and France is interesting. Britain increased its funding of its 29 races in the list by 59% and France its 21 races by 116% between 2006 and 2011. Britain still lies behind Ireland in average prize money per race (€601,000 v. €651,000).

Table 3.12: The Richest 380 Horseraces in the World (2011) by Country Showing Growth in Total Prize money between 2006 and 2011

Country	Total Prize Money 2011	Increase in Total Annual Prize Money of Listed Races from 2006 to 2011		No. of Races in List	Average Prize Money per race in the list 2011
		€	%		€
Australia	40,646,025	25,021,979	160%	46	883,609
Canada	3,561,170	609,881	21%	5	712,234
France	14,657,080	7,884,135	116%	21	697,956
GB	17,425,810	6,449,402	59%	29	600,890
Germany	952,445	372,513	64%	2	476,223
HK	16,320,644	3,500,514	27%	15	1,088,043
India	351,093	351,093	N/A	1	351,093
Ireland	3,254,187	121,700	4%	5	650,837
Italy	1,838,087	1,037,120	129%	3	612,696
Japan	160,372,936	80,134,558	100%	163	983,883
NZ	3,175,869	3,175,869	N/A	4	793,967
Singapore	4,009,737	2,717,531	210%	4	1,002,434
Turkey	809,579	809,579	N/A	2	404,789
UAE	20,459,941	5,471,845	37%	7	2,922,849
USA	52,704,100	15,710,652	42%	73	721,974
Total	340,538,705	153,368,371	82%	380	896,154

Source: Indecon analysis based on data from International Federation of Horseracing Authorities (IFHA)

The top five Irish races from the list of 380 are detailed in the following table. Ireland has only two races with prizes in excess of €500,000 with one of these races namely Irish Derby having prize money in excess of €1m. Given a total prize fund of €40m in Australia, around €52 in US and nearly €415m in France, the scale of the competition is evident.

Table 3.13: Irish Horseraces Appearing in the 2011 List of the Richest 380 Horseraces in the World: Prize Money Trend (2006-2011)

	Prize Money 2006(€)	Prize Money 2007(€)	Prize Money 2008(€)	Prize Money 2009(€)	Prize Money 2010(€)	Prize Money 2011(€)	Rank in 380 Richest Races in 2011
Irish Derby	1,269,928	1,244,185	1,353,966	1,787,762	1,344,381	1,322,841	52
Irish Champion Stakes	846,618	829,457	902,644	1,191,841	814,777	793,705	141
Irish Oaks	338,647	414,729	451,322	595,921	461,706	449,766	286
Irish One Thousand Guineas	338,647	331,782	361,058	476,736	353,070	343,938	357
Irish Two Thousand Guineas	338,647	331,782	361,058	476,736	353,070	343,938	358
Total:	3,132,487	3,151,935	3,430,048	4,528,996	3,327,004	3,254,188	

Source: IFHA

3.6 International Review of Selected Betting Duty Regimes

Before looking in detail at possible scenarios for betting duty in Ireland, it is important to understand the international context.

3.6.1 International Betting Duty Rates and Conditions

The following table summarises the betting duty rates and conditions in a sample of relevant jurisdictions. Of these, Gibraltar, Isle of Man and Malta are included because they are considered attractive to online/off-shore betting operators and betting exchanges. France and the UK are direct competitors to Ireland in horse racing.

Table 3.14: Summary Description of Duty Rates and Conditions for Betting in Selected Jurisdictions				
Country	Duty Rate	Base	Application	Liability at Place of Consumption
Australia (NSW)	1.5%	Turnover	On-, Off-Course and Online	Yes
France	15% - 16.5% (7.5% to Exchequer; 7.5% - 9% to Racing Industry)	Turnover	On-, Off-Course and Online	Yes
Gibraltar	1%	Turnover	Online	
Hong Kong	72.5% – 75%	Gross Profit	On- and Off-Course	Yes
Ireland	1%	Turnover	Off-Course	
Isle of Man	1.5%	Gross Profit	On-, Off-Course and Online	
Malta	0.5%	Remote Betting Operations – Gross amount of bets accepted; Betting Exchanges - Net winnings per player per betting market; Pool Betting – Aggregate of stakes paid	Online	
United Kingdom	25% (15% to Exchequer; 10% to Racing Industry)	Gross Profit	On- and Off-Course, Online (based in Britain)	
Sources: McCarthy (2010), Betfair.com, Knowledge@wharton, Deloitte (2009), Barcaroli (2010), Lotteries and Gaming Authorities (2004), Hong Kong Jockey Club, Davy Stockbrokers, Horserace Betting Levy Board, Remote Gaming Regulations (Malta) 2004				

The figures show a wide variety of betting duties which are levied in a number of different countries. It is clear that Irish rates are low compared to many of these jurisdictions but are higher than Malta. The other striking factor is the exclusion of online betting from the Irish tax.

Betting duties in different countries are levied either on wagering turnover, on winnings, or on the gross profits of the betting operators (equated to commissions on winnings by betting exchanges). A tax on winnings is similar to a tax on wagering turnover, but these two bases are very different from a tax on gross profits. There are economic and compliance arguments in support of each. Both systems are in widespread use.

Where the betting market is closed or virtually closed to outside competition, the duty rate can be relatively high as in Hong Kong and France whether on a turnover or gross profits basis. In these countries, betting duties contribute significantly to the Exchequer even after making substantial contributions to the racing industry.

Open betting markets are in competition for the tax revenues of betting operators who are mobile internationally which tends to drive down the rates of duty. The growth of online/off-shore betting has been facilitated by betting duty historically being levied based on the physical location of the betting operator's assets. As governments have seen betting moving off-shore to countries such as Gibraltar, Isle of Man and Malta with relatively low rates of duty, there is a move to levy betting duty on remote betting on a "place of consumption" basis, essentially in the jurisdiction where the backer is located when (s)he places a bet. Australia (NSW), France and Hong Kong already work on a place of consumption basis.

3.6.2 Comparisons of Betting Duty Rates

To compare different rates of duty on a comparable basis it is useful to convert all to turnover-based duty equivalent rates. The following table shows Irish rates are low but more significantly the exclusion of online / telephone betting and betting exchanges means that most of the sector is not currently taxed via duties.

Table 3.15: Turnover Equivalent Rates of Betting Duty Using 2010 Payout Ratios by Bookmakers in Selected Jurisdictions				
Country	Payout Ratio	Betting Tax Basis	Betting Duty Rate Applied	Turnover Duty Equivalent Rate
Ireland	88.0%	Turnover	1.0%	1.0%
UK	88.0%	Gross profits	25.0%	3.0%
France	75.0%	Turnover	15.0-16.5%	15.0-16.5%
Australia	90.0%	Turnover	1.5%	1.5%
Hong Kong	84.0%	Gross Profits	72.5-75.0%	11.6-12.0%
Sources: McCarthy (2010), Betfair.com, Knowledge@wharton, Deloitte (2009), Barcaroli (2010), Lotteries and Gaming Authorities (2004), Hong Kong Jockey Club, Davy Stockbrokers, Horserace Betting Levy Board.				

3.6.3 Betting Licence Fees

The cost of betting licences varies widely between countries. Indecon believes that there is merit in such licences covering the cost of regulation of the sector and the administration involved. Again the figures show a wide diversity of licence fees for betting operations. Another potential source of income is betting licence fees. The following table illustrates the range.

Table 3.16: Summary Description of Licensing Fees and Rules in Selected Jurisdictions			
Country	License Fees	Term	Basis of Application
Australia (NSW)	€313; €94; €74; €40	Annual	Per Outlet; Per Bookmakers Clerk For 1 st Year; Every Subsequent Year; Shareholder License
France	€20,000; €30,000; €40,000	Annual	Per Operator for 1 License, 2 Licenses and 3 Licenses (Licenses valid for a maximum of 5 Years)
Gibraltar	€2450	Annual	License Fee Per Company
Hong Kong	€1.16m - €1.46m	Annual	Hong Kong Jockey Club
Ireland	€250; €380	Annual; initial registration	Per Operator and Per Premises
Isle of Man	€6,100; (€43,000)	Initial (Once Off) and Annual	License Fee Per Company
Malta	€2,330; €1,770; (€8,500); (€1,500); €1,500; €70; €2,750	Initial (Once Off) and Annual	Application Fee For New License; System Audit; License Fee; Application Fee For License Renewal; Approval For Transfer or Assignment of License; Approval of Share Transfer; Approval of Simple Contractual Commercial Arrangements; Compliance Audit
United Kingdom	€1,200 - €49,000; €3,600 - €78,000; €220 - €1,200; €820 - €5,990; €7,780 - €31,125	Annual	Standard Application Fee dependant on Number of Shops; Remote Betting Application Fee dependant on Gross Gaming Yield; For Operating at a Track dependant No of Track Days; Pool Betting License dependant on Gross Gambling Yield; Remote Betting Intermediary dependant on Gross Gambling Yield
Sources: McCarthy (2010), Betfair.com, Knowledge@whaton, Deloitte (2009), Barcaroli (2010), Lotteries and Gaming Authorities (2004), Hong Kong Jockey Club, Davy Stockbrokers, Horserace Betting Levy Board, Remote Gaming Regulations (Malta) 2004			

Of the listed countries, Australia (NSW) and Ireland have the lowest licence fees. The Irish Finance Act 2011 introduces licensing and fees of between €5,000 and €100,000 for remote bookmakers and remote betting exchanges (calculated on turnover and calculated on commission earnings respectively) if and when commenced by Ministerial order. Indecon believes there may be potential to further increase these fees.

3.6.4 Place of Consumption Basis and Tax Compliance

There is merit in moving to a place of consumption basis of taxation to successfully bring remote betting into the tax net. Competitive low rates of duty or switching to a gross profits basis of taxation may slow the process of migration of betting to remote platforms but do not prevent it.

We understand that Ladbrokes and William Hill moved their online operations from the UK to Gibraltar in 2009 because they were at a competitive disadvantage vis-à-vis other off-shore betting operators. The online sports betting turnover by UK licensed operators fell by a compounded rate of 15% per annum between 2008 and 2010.

It should be noted that HM Treasury has issued a detailed consultation paper on policy design “Taxing Remote Gambling on a Place of Consumption Basis” in April 2012 following the Chancellor of the Exchequer’s announcement in Budget 2012 that the British Government would move to taxing remote gambling on a place of consumption basis.

Indecon considers that the Irish legislation may need to be amended to improve compliance under a place of consumption regime and in the context of the proposed updating of the Betting Act.

Off-shore compliance will be a significant challenge for the Revenue Commissioners whichever basis of taxation is chosen.

3.6.5 Creating a Level Playing Field between Betting Operators

A contentious issue is how to create a level betting-duty playing-field between retail and remote off-course bookmakers and betting exchanges that have a different model of betting.

In Ireland, the proposals enacted in the Finance Act 2011 (pending commencement by Ministerial order) are to extend the current 1% duty on turnover of off-course bookmakers to remote bookmakers (i.e. online and telephone betting), to levy a 15% duty on the gross profits of betting intermediaries (a.k.a. betting exchanges), and to leave duty on bets placed with on-course bookmakers and the Irish Tote at 0%.

Indecon believes that while the issue is not as clear cut as some interests would argue, nonetheless the proposed 15% duty on the gross profits of betting exchanges could give an unfair advantage to exchanges if their average commission is about 3%. According to the following table, the combination of a 3% commission earned by an exchange and a 15% duty on that commission is equivalent to levying a 0.45% tax on turnover ($0.03 * 0.15 = 0.45$), less than what the bookmakers would pay.

Table 3.17: Betting Duty Rates on Turnover Equivalent to Various Betting Exchange Commission and Duty Combinations						
	Duty on Betting Exchange Commissions					
	10%	15%	20%	25%	30%	35%
Exchange commission earned on turnover						
1%	0.10%	0.15%	0.20%	0.25%	0.30%	0.35%
3%	0.30%	0.45%	0.60%	0.75%	0.90%	1.05%
5%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
7%	0.70%	1.05%	1.40%	1.75%	2.10%	2.45%
10%	1.00%	1.50%	2.00%	2.50%	3.00%	3.50%
12%	1.20%	1.80%	2.40%	3.00%	3.60%	4.20%
<p>Source: Indecon Analysis</p> <p>Example: If a betting exchange earns a 5% commission on wagers and the duty on that commission is 15%, the equivalent rate of duty on wagers (turnover) is 0.75%.</p>						

If the exchange's commission is an average of nearly 7% on turnover this would suggest that a 15% duty on their gross profits equate to 1.0% of turnover. If the exchange's commission is anything less than about 7% on turnover, this would give them an advantage over bookmakers paying 1% on turnover.

As some bets, for example multiple bets, can be commission-free, it is extremely difficult to determine what the average commission is earned by a betting exchange.

If the Irish Government were to decide to order the commencement of the legislation as now stands, the following table shows what the duty rate on betting exchange commissions (gross profits) should be, assuming particular rates of betting exchange commission, to achieve a level playing field.

Table 3.18: "Level Playing Field" Duty Rates on Betting Exchange Commissions					
	Betting Exchange Commission Earned on Wagers				
	3.0%	5.0%	7.0%	10.0%	12.0%
Betting Turnover Tax Rates on Off-Course Bookmakers					
1.00%	33.3%	20.0%	14.3%	10.0%	8.3%
1.25%	41.7%	25.0%	17.9%	12.5%	10.4%
1.35%	45.0%	27.0%	19.3%	13.5%	11.3%
1.50%	50.0%	30.0%	21.4%	15.0%	12.5%
1.57%	52.3%	31.4%	22.4%	15.7%	13.1%
1.80%	60.0%	36.0%	25.7%	18.0%	15.0%
1.90%	63.3%	38.0%	27.1%	19.0%	15.8%
2.00%	66.7%	40.0%	28.6%	20.0%	16.7%
2.25%	75.0%	45.0%	32.1%	22.5%	18.8%
Source: Indecon Analysis					

Indecon believes in the principle of a level playing field for all off-course and remote betting operators in the Irish market. The simplest and most effective way to achieve this would be to apply the same duty rate on the same turnover basis to all off-course and remote betting in our judgment.

It is notable that in its decision to dismiss an appeal against the application of a turnover tax in New South Wales, the High Court of Australia¹ held the betting exchange “had not demonstrated that the fee conditions imposed a discriminatory burden of a protectionist kind upon interstate trade” nor “that the likely practical effect of the imposition of the fees would be loss to it of market share or profit, or to impede it from increasing that share or profit.”

Indecon considers that the advantages outlined and other factors above outweigh the arguments that are put forward in favour of a gross profits tax over a turnover tax including the suggestion that a gross profits tax could lead to stronger market growth as operators pursue a low margin high turnover strategy.

¹ *Betfair Pty Limited v Racing New South Wales & Ors* (2012) HCA 12

3.6.6 Lay Bets and Back Bets

The betting exchange model essentially involves punters betting against each other and the exchange taking a commission from the winning punter. In a simplified way, a punter or punters bet that an event will happen and another punter or punters bet that the same event will not happen. The exchange thereby avoids exposure to risk and gets its commission on the winnings. (In some instances, the exchange can carry risk.) So there are two “sides” to every event: punters can be backers or layers. The sums bet by backers and layers are equal.

To achieve a level playing field between traditional bookmakers and betting exchanges, a system of betting duty on betting exchange turnover could in principle be designed so that either all the betting duty at the chosen rate on turnover (say for example 1%) is levied on the sums bet by backers (i.e. all on one “side” of the betting event, the NSW approach*) or that the betting duty is levied at half the chosen rate (in this example 0.5%) on all sums bet by backers and layers. As long as the sums bet by backers and layers are equal, both methods will deliver the same betting duty revenue.

* The High Court of Australia in the above mentioned Betfair case accepted the principle that Betfair’s “wagering turnover” is defined to mean “the total amount of wagers made on the backers side of wagering transactions made in connection with that race or class of race”.

The question arises as to whether either of the above methods reconciles properly with a place of consumption basis of betting duty. It would not seem possible to determine *ex ante* what proportions of backers or of layers would have the Republic of Ireland (RoI) as their place of consumption. Theoretically in the extreme all the backers on an exchange could have the RoI as their place of consumption and all the layers elsewhere (or vice versa). Once again theoretically, if the betting duty were to be levied only on backers (or layers) on a place of consumption basis and all those backers (or layers) were outside the RoI, the betting duty revenue would be zero. One way to properly capture betting duty on all bets placed on an exchange by those with the RoI as their place of consumption would *prima facie* be to levy the duty on the basis of the following approach:

- ☐ Where both backer and layer have RoI as place of consumption: levy 0.5% duty on the sum of both back bets and lay bets.
- ☐ Where only backer has RoI as place of consumption: levy 1.0% duty on sum of those back bets.
- ☐ Where only layer has RoI as place of consumption: levy 1.0% duty on sum of those lay bets.

This solution raises the further issue of whether or not there should be a tax credit allowed to betting exchanges in those instances where only the backer (or the layer) has RoI as place of consumption, in other words that the other “side” of the betting event takes place outside the RoI and may be taxable there. In the current example, a tax credit could be limited to no more than half of the percentage applied to the RoI “side” of the betting event.

Indecon recognises that this issue is outside the scope of the current assignment but will need to be addressed by the Revenue Commissioners in the context of whatever particular method of levying betting duty is chosen and of international tax treaties.

3.6.7 What Constitutes a Taxable “Bet” or “Event”

In the design of any betting tax regime, what is a taxable bet or event should be carefully defined in law to avoid the risk of any grouping of such events in a way that could allow netting of winnings and losses on different runners in different races at different fixtures by any individual or group of individuals, the consequence of which would be to reduce Government betting duty revenues.

Equally, the definition of what constitutes a bet under Irish law should be clear to betting operators who must provide detail of betting transactions on an appropriately disaggregated basis.

3.7 Estimates of Potential Impact of Changes in Betting Duty in Ireland

3.7.1 Estimated Betting Turnover in Ireland in 2011

Currently, only off-course retail betting is taxed in Ireland and remote betting whether online or telephone betting with bookmakers or with betting exchanges remains untaxed. On-course betting and Tote betting are subject to 0% tax.

HRI have estimated the extent of untaxed (remote) betting by punters in Ireland in 2011 according to the following table.

Table 3.19: Estimate of Total Irish Betting Turnover 2011				
	2011 taxed betting	HRI estimate of 2011 untaxed betting	HRI estimate of 2011 total betting	Actual 2011 betting tax revenue
	€ m.	€ m.	€ m.	€ m.
Retail	2705		2705	27.1
Telephone/Online		1210	1210	
Betting Exchanges		450	450	
Total	2705	1660	4365	27.1
Sources: HRI Notes: Indecon understands that turnover from betting exchanges may be higher than the €450m outlined in the table (potentially in the region of €600m) but we are not in a position to confirm this figure. If a higher turnover figure is indeed more accurate, then this suggests that income from a betting tax could potentially be higher than that estimated here.				

Added to the €2.7 billion of bets that were taxed in 2011 and generated €27.1 million of betting duties (at 1% of turnover), their estimate of total betting in 2011 is €4.365 billion.

3.7.2 Estimated Tax Yield from Alternative Approaches to Taxation of Betting

Based on HRI estimates of betting volumes and gross profits (Irish retail and off-shore bookmakers) and commissions (betting exchanges), nine scenarios have been mapped for the possible outcomes in terms of estimated betting tax revenue in the table overleaf.

The base case is taken as the straightforward application of a 1% betting duty to all betting turnover including that of remote operators as estimated by HRI (€4.365 billion) to give tax revenue of €43.6 million to the Irish Exchequer.

The 8 other scenarios look at a range of rates of duty applied to turnover, winnings, gross profits and one mixed combination thereof. Indecon have used the 11% gross profit margin and 89% payout ratio assumed by HRI and all scenarios are converted to turnover equivalent duty rates for ease of comparison.

As economic modelling of the price elasticity of demand is beyond the scope of this review, we have, however, projected betting turnover to fall in response to increased rates of duty by either 0%, 10% or 15% in scenarios 2 – 9.

Table 3.20: Scenarios for Estimated Yield from Alternative Approaches to Betting Taxation

€ million	Bet Type			Total	Turnover Equivalent Rate (89% payout ratio)
	Irish Retail	Off-shore	Betting Exchanges ¹		
HRI Estimate of Betting Turnover	2,705	1,210	450	4,365	
HRI Estimate of Winnings (89% payout ratio for retail and offshore)	2,408	1,077	450		
HRI Estimate of Gross Profits	297	133			
HRI Estimate of Exchange Commissions (3%)			13.5		
Scenario 1: 1% turnover tax (base case)					
Betting tax revenue	27.0	12.1	4.5	43.6	1.00%
Scenario 2: 1.25% turnover tax					
Betting tax revenue (no churn)	33.8	15.1	5.6	54.5	1.25%
Betting tax revenue (10% fall in turnover)	30.4	13.6	5.0	49.1	1.25%
Betting tax revenue (15% fall in turnover)	28.7	12.8	4.8	46.3	1.25%
Scenario 3: 1.5% turnover tax					
Betting tax revenue (no churn)	40.5	18.2	6.7	65.4	1.50%
Betting tax revenue (10% fall in turnover)	36.5	16.4	6.0	58.9	1.50%
Betting tax revenue (15% fall in turnover)	34.4	15.5	5.7	55.6	1.50%
Scenario 4: 2.0% turnover tax					
Betting tax revenue (no churn)	54.0	24.2	9.0	87.2	2.00%
Betting tax revenue (10% fall in turnover)	48.6	21.8	8.1	78.5	2.00%
Betting tax revenue (15% fall in turnover)	45.9	20.6	7.7	74.1	2.00%
Scenario 5: 15.0% gross profits tax					
Betting tax revenue (no churn)	44.6	20.0	2.0	68.6	1.57%
Betting tax revenue (10% fall in turnover)	40.1	18.0	1.8	59.9	1.57%
Betting tax revenue (15% fall in turnover)	37.9	17.0	1.7	56.6	1.57%
Scenario 6: 1.5% tax on winnings					
Betting tax revenue (no churn)	36.1	16.2	6.8	59.1	1.35%
Betting tax revenue (10% fall in turnover)	32.5	14.5	6.1	53.1	1.35%
Betting tax revenue (15% fall in turnover)	30.7	13.7	5.7	50.1	1.35%
Scenario 7: 2.0% tax on winnings					
Betting tax revenue (no churn)	48.2	21.5	9.0	78.7	1.80%
Betting tax revenue (10% fall in turnover)	43.3	19.4	8.1	70.8	1.80%
Betting tax revenue (15% fall in turnover)	40.9	18.3	7.7	66.9	1.80%
Scenario 8: 2.5% tax on winnings					
Betting tax revenue (no churn)	60.2	26.9	11.3	98.4	2.25%
Betting tax revenue (10% fall in turnover)	54.2	24.2	10.1	86.7	2.25%
Betting tax revenue (15% fall in turnover)	51.2	22.9	9.6	83.7	2.25%
Scenario 9: 1.0% tax on winnings + 1.0% tax on turnover					
Betting tax revenue (no churn)	51.1	22.9	9.0	83.0	1.90%
Betting tax revenue (10% fall in turnover)	46.0	20.6	8.1	74.7	1.90%
Betting tax revenue (15% fall in turnover)	43.5	19.5	7.7	70.7	1.90%

Source: HRI, Indecon Analysis

Notes: ¹ Betting exchanges equate “turnover” with their commissions.

Indecon understands that turnover from betting exchanges may be higher than the €450m outlined in the table (potentially in the region of €600m) but we are not in a position to confirm this figure. If a higher turnover figure is indeed more accurate, then this suggests that income from a betting tax could potentially be higher than that estimated here.

It must be stressed by Indecon that the above are indicative estimates and that there are significant uncertainties re future revenue. Indecon therefore considers that whatever betting duty regime is implemented, it should be reviewed after one year.

3.8 Summary of Key Findings

Significant funding challenges exist to ensure the horse racing industry realises its potential. There are however concerns over the appropriateness and medium term sustainability of funding for the industry unless changes are made.

Our analysis indicates that the main potential source of additional funding is from the betting industry. There is also a need to focus on maximising sponsorship and commercial income.

In reviewing funding arrangements for this sector Indecon believes it is important to also consider Ireland's competitive position vis-à-vis:

- the ease of mobility of betting operators,
- the ease of mobility of racehorses and breeding operations,
- the price elasticity of demand for betting, and
- betting tax compliance as it concerns remote betting operators.

In addition we believe it is necessary to consider staging of any changes in taxation.

Other funding issues include:

- the appropriateness of the racehorse industry's requirements being exactly aligned with betting duty revenues.

Indecon's assessment indicates that, in terms of funding, it is important that sufficient funding is provided to ensure reasonable prize money and to enhance the reputation of the Irish horse racing sector. Resources are also needed to finance racing integrity services, which are essential to the maintenance of the credibility and reputation of the sector. The development of racecourses and maintaining the disease free status of Irish bloodstock also require appropriate funding. In addition, effective international marketing is an important component in realising the economic potential of this unique sector.

The dependence on very scarce exchequer resources to the extent which currently exists represents a major strategic vulnerability for the sector given the current state of the public finances. Indecon therefore believes new sources of funding are urgently required to support the industry and to wean the industry off its dependence on Exchequer funding.

Indecon strongly supports additional and sustainable funding for the development of the sector but this must be accompanied by an equal priority to maximise efficiency, effectiveness and value for money.

4 Review of HRI Board Structures

4.1 Introduction

This section evaluates whether the Horse Racing Ireland Board structure, size and nomination process is appropriate and effective. The assessment commences by presenting an overview of the key aspects of the legislation governing the industry. It then examines the background and existing legislative position in relation to the size, composition and process of appointment/nomination of members to the board of HRI, the board committee structure and the key external factors which shape the governance requirements for HRI. The assessment also considers the approaches to governance in other State bodies and in horse racing organisations in other countries.

4.2 Overview of Legislation Governing Industry

Before examining the specific issue of the board of HRI, it is instructive to briefly set out the main bodies of legislation that relate to the governance of the Irish horse racing industry and which impact on the funding arrangements for the industry.

The schematic overleaf identifies the key legislative Acts governing the Irish horse racing industry and identifies the main features of these Acts.

The Horse and Greyhound Racing Act, 2001, and related Horse Racing Ireland (Membership) Act, 2001, and the previous Irish Horseracing Industry Act, 1994, represent the key governance structures for the industry. They establish the industry governing Authority (HRI since 2001, previously the Irish Horseracing Authority), and define the composition of, and process of nomination and appointment of Board members. They also define the functions of the Authority and of the Racing Regulatory Body (the Turf Club/INHSC) within this context. In relation to funding of the industry, the Horse and Greyhound Racing Act, 2001, also establishes the Horse and Greyhound Racing Fund.

The Horse and Greyhound Racing (Betting Charges and Levies) Act, 1999: this Act sets out a number of important provisions in relation to charges and levies on bookmakers and on betting, which also have implications for the funding arrangements for industry.

Figure 4.1: Summary of Key Features of Legislation Governing Irish Horse racing Industry

Legislation	Key Features
Irish Horseracing Industry Act, 1994	<p>Act <i>inter alia</i>:</p> <ul style="list-style-type: none"> (a) Establishes Irish Horseracing Authority (b) Defines composition of, and process of nomination and appointment to, Board of IHA (c) Identifies Functions of IHA and role of Racing Regulatory Body in this context
Horse and Greyhound Racing Act, 2001	<p>Act <i>inter alia</i>:</p> <ul style="list-style-type: none"> (a) Establishes Horse Racing Ireland (to replace Irish Horseracing Authority) (b) Identifies General Functions of HRI and role of Racing Regulatory Body (Turf Club/INHSC) in this context (c) Establishes Racegoers Consultative Forum and Media Rights Committee (d) Establishes Horse and Greyhound Racing Fund
Horse Racing Ireland (Membership) Act, 2001	<p>Act amends Horseracing Industry Act, 1994 and supercedes Horse and Greyhound Racing Act, 2001, to make provision in respect of membership of Board of HRI, <i>inter alia</i>:</p> <ul style="list-style-type: none"> (a) Defines composition of, and process of nomination and appointment to, Board of HRI (except for Chairman, which is defined under 1994 Act) (b) Defines terms of office of Chairman and Members of Board of HRI
Horse and Greyhound Racing (Betting Charges and Levies) Act, 1999	<p>Act amends Horseracing Industry Act, 1994, and Section 8 of Betting Act, 1931, and <i>inter alia</i>:</p> <ul style="list-style-type: none"> (a) Provides for turnover charge on authorised bookmakers on course bets payable to HRI (b) Provides for levy by HRI of flat charges on authorised bookmakers (c) Provides for annual charges on registered premises (d) Provide for zero rate of duty on bookmakers for on-course bets (e) Provides for Thoroughbred Foal Levy

Source: Horse Racing Ireland (Membership) Act, 2001; Horse and Greyhound Racing Act, 2001; Irish Horseracing Industry Act, 1994, Horse Racing Ireland.

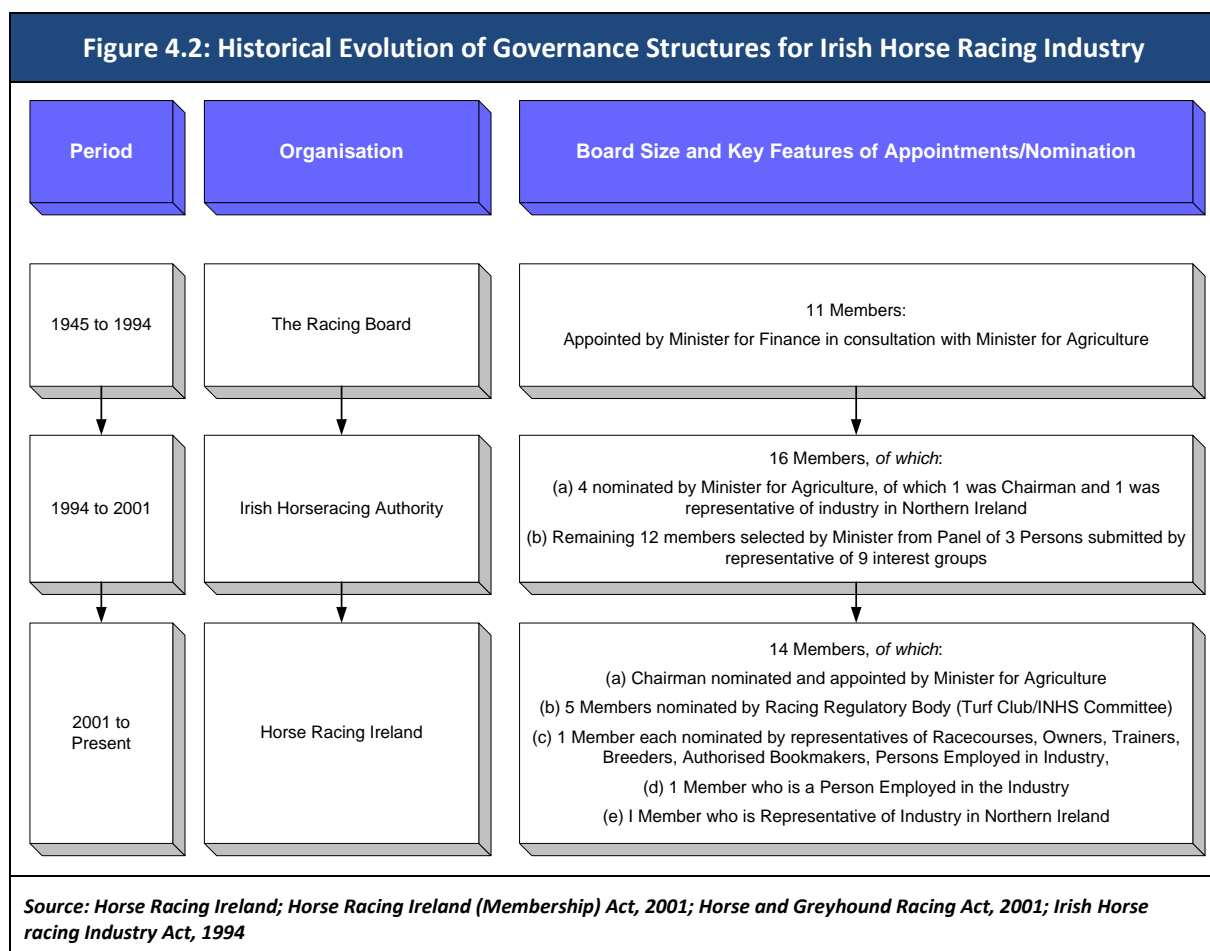
The legislation demonstrates the multifaceted governance structures in place and this in part reflects the complex nature of the industry, involving a large number of stakeholders. It also reflects the range of functions to *inter alia* support the operation of racing activities, ensure the integrity of racing, and develop the racing and thoroughbred sectors, among other aspects. Of importance, however, within the context of this review are the appropriateness and effectiveness of these structures.

4.3 Review of HRI Board Structure and Appointment

This section focuses on the issue of the appropriateness and effectiveness of the HRI board structure, and the process of nomination and appointment of board members. This reflects the importance of this aspect of the governance of the industry. In reviewing this it is useful to consider this from the perspective of ensuring representation of stakeholder interests and the need to ensure accountability in the utilisation of public funds provided to the industry bodies.

4.3.1 Historical background

The figure below describes the historical background to the current governance structures for the industry as they pertain to industry body, focussing on the size, composition and process of nomination/appointment of board members. HRI was established on 18th December 2001 as a State body under the Horse and Greyhound Racing Act 2001, when it took over the functions of the Irish Horseracing Authority, which operated between 1994 and 2001. Prior to 1994, the industry was governed by the Racing Board (between 1945 and 1994). In relation to board structures, the size and composition of the board of the industry governing body has evolved from an 11-member board under the Racing Board to a 16-member board overseeing the Irish Horseracing Authority. Since its establishment in 2001, HRI has had a 14-member board.



4.3.2 Composition of HRI Board

The table below provides a summary description of the composition of the HRI Board. The board is a very large 14-person board primarily comprised of representatives of interests in the sector.

Table 4.1: Horse Racing Ireland – Summary of Composition of Board	
No. of Members	Role
1	Chairperson
5	Racing Regulatory Body*
1	Representative of Racehorse Owners
1	Representative of Racehorse Trainers
1	Representative of Racehorse Breeders
1	Representative of Authorised Racecourses
1	Representative of Authorised On-course Bookmakers
1	Representative of Persons Employed in the Horse racing Industry
1	Person Employed Directly in the Horse racing Industry
1	Representative of Horse racing Industry in Northern Ireland
<p><i>Source: Horse Racing Ireland (Membership) Act, 2001, Horse and Greyhound Racing Act, 2001, and Irish Horseracing Industry Act, 1994</i></p> <p>* The Turf Club/Irish National Hunt Steeplechase Committee</p>	

The 14-member Board reflects the challenge of representing a diverse range of stakeholder interests across the industry in Ireland. This is made clear in the legislation:

“HRI shall consist of a chairman and 13 ordinary members who shall be appointed by the Minister, in accordance with paragraph 7, having regard to creating a balance among the different interests in the horse racing industry” (Horse Racing Ireland (Membership) Act, 2001)

In addition to the Chairperson, the Board is comprised of five members representing the Racing Regulatory Body (the Turf Club/INHSC), one member each representing racehorse owners, racehorse breeders, authorised racecourses and authorised on-course bookmakers. In addition, the Board includes one person who represents persons employed in the horse racing industry as well as one person directly employed in the industry, while there is also a representative of the industry in Northern Ireland.

The representative nature of the HRI Board has some strengths given the diversity of interests that are involved in the industry in Ireland. However, the large size of the Board may also constitute a weakness from the perspective of efficiency and effectiveness. The OECD, for example, has pointed out in the organisation's Review of Public Service in Ireland that there are growing tensions between the representative roles played by stakeholder appointees and their fiduciary, legal and other representatives as board members. In addition, some international suggestions on best practice suggest smaller boards are more effective. For example, the Australian Review quoted in IPA study recommended an optimum board size of between six and nine.²

4.3.3 Board Committees

A particular feature of the operation of the HRI Board is the system of board Committees. The table below lists the committees in place, in addition to their status. The HRI Board has large number of committees. These are important in supporting the work of the main Board, particularly given the representative nature of the Board and the number of board numbers. The fixtures committee, media rights committee, programme committee and audit committee are statutory board sub-committees. Others are advisory committees or representative separate organisations.

The Audit, Fixtures, Media Rights and Programmes Committees are either referred to in legislation or in the Code of Practice for Governance of State Bodies.

The Appointments and Remuneration, Bookmakers and Finance Committees have been established by the Board to improve the effectiveness of its operation. In some cases the Committees are empowered to make decisions on behalf of the Board and in others they assist in having a more in depth analysis of the matters involved.

The Bookmakers Committee is involved in the licensing and regulation of authorised bookmakers.

Tote Ireland and ITM are separate wholly owned legal subsidiaries of HRI whose directors are the Chairman, Chief Executive and Company Secretary of HRI. Strategic guidance and assistance to the board is provided by their respective advisory committees which comprise a combination of HRI Board members and other non HRI Board members with relevant expertise.

The Racegoers Consultative Forum is a requirement of the 2001 legislation (Section 9). The Strategic Marketing Review Group was set up for a specific purpose and disbanded once its report was completed.

The foal levy is an advisory committee and has extensive non-HRI Board Members on this. Because of the significance of its role in allocating funding this is a committee of importance.

Leopardstown, Fairyhouse, Navan and Tipperary Racecourses are separate wholly owned legal subsidiaries of HRI and their structure is the same as the Tote and ITM. The Directors are the Chairman, Chief Executive and Company Secretary of HRI with each course having an advisory committee comprising both HRI Board members and other members with specific relevant expertise.

The other entities, with the exception of the Pension Fund Trustees, are all separate organisations to which HRI has been granted the right to nominate directors due to funding arrangements.

There is also the Bookmakers Appeal Committee established under Section 56 of the Irish Horseracing Industry Act, 1994.

² MacCartaigh. M. IPA Research Paper No. 1, June 2010

Table 4.2: HRI Board – Role and Composition of Board Committees

	Role/Function	Appointment/Nomination of Committee Members
1	Audit Committee	Statutory
2	Fixtures Committee	Statutory
3	Media Rights Committee	Statutory
4	Programmes Committee	Statutory
5	Appointments & Remuneration	Board Sub-Committee
6	Bookmakers	Board Sub-Committee
7	Finance	Board Sub-Committee
8	Foal Levy	Advisory Committee
9	Irish Thoroughbred Marketing	Advisory Committee
10	Racegoers Consultative Forum	Advisory Committee established under statute
11	Strategic Marketing Review Group	Advisory Committee
12	Tote Ireland Committee	Advisory Committee
13	HRI Racecourses Board	Racecourses Board/Committees
14	Leopardstown	Racecourses Board/Committees
15	Fairyhouse	Racecourses Board/Committees
16	Navan	Racecourses Board/Committees
17	Tipperary	Racecourses Board/Committees
18	Cork Racecourse	HRI Nomination/Appointment
19	Dundalk Racecourse	HRI Nomination/Appointment
20	Gowran Park Racecourse	HRI Nomination/Appointment
21	Limerick Racecourse	HRI Nomination/Appointment
22	Punchestown Racecourse	HRI Nomination/Appointment
23	Irish Equine Centre	HRI Nomination/Appointment
24	Race	HRI Nomination/Appointment
25	HRI Pension Trustees	HRI Nomination/Appointment
26	Bookmakers Appeals Committee	Independently Appointed by Minister established under statute
Source: Horse Racing Ireland		

This includes wholly owned HRI subsidiary companies, private charities, statutory committees etc.

4.3.4 Board Appointments Process

A particular feature of the HRI Board concerns the process of nomination and appointment of members to the Board. The table below presents a summary of the current process as set out in the legislation.

Table 4.3: Horse Racing Ireland – Summary of Appointment and Nomination Process for Board Members			
No. of Members	Role	Appointed By:	Nominated By:
1	Chairperson	Minister	Minister
5	Racing Regulatory Body*	Minister	Racing Regulatory Body*
1	Representative of Racehorse Owners	Minister	Persons representative of interest group
1	Representative of Racehorse Trainers	Minister	Persons representative of interest group
1	Representative of Racehorse Breeders	Minister	Persons representative of interest group
1	Representative of Authorised Racecourses	Minister	Persons representative of interest group
1	Representative of Authorised On-course Bookmakers	Minister	Persons representative of interest group
1	Representative of Persons Employed in the Horse racing Industry	Minister	Persons representative of interest group
1	Person Employed Directly in the Horse racing Industry	Minister	Appointed, as the Minister decides, from persons employed directly in the horse racing industry
1	Representative of Horse racing Industry in Northern Ireland	Minister	Appointed, as the Minister decides, from persons or representatives of persons in the horse racing industry in Northern Ireland, after consultation with such persons as the Minister considers appropriate
Source: Horse Racing Ireland (Membership) Act, 2001, Horse and Greyhound Racing Act, 2001, and Irish Horse racing Industry Act, 1994 * The Turf Club/Irish National Hunt Steeplechase Committee			

A key feature of the Board appointments process concerns the extent of accountability and direct involvement of the Government/Minister for Agriculture, Food and the Marine in decisions on individuals appointed. As it stands, under the existing (2001) legislation, while the Minister officially appoints the entire Board, he/she only effectively nominates the Chairman in terms of freedom to appoint individuals other than individuals representing in some way specified interests. The legislation does not prescribe what organisations (other than the regulatory body) should be deemed as representing any of the interest groups or what role any representative organisations would play in any decisions on such individuals. However with the exception of a representative of horse racing in Northern Ireland a situation has arisen whereby specific organisations decide on the nominees which are then appointed by the Minister. Whether this has arisen as a result of history, practice or formal agreement is not clear.

Indecon would have significant concerns over the low level of government/ministerial control over the process of decisions on membership appointment of the HRI Board, particularly given the implications of the existing approach in ensuring accountability in the utilisation of taxpayer funds.

The approach in relation to Board selection in the case of HRI is also unusual in terms of governance of State bodies more widely. We examine the approaches applied in other State bodies below.

4.3.5 Review of Approaches in Other State Bodies

State bodies in Ireland

In considering governance of HRI it is useful to examine the position in other semi-state bodies. For the purposes of this review, Indecon have undertaken a detailed examination of both commercial and non-commercial state bodies to identify the size of boards and the process of nomination and appointment of board members. To ensure comparability with HRI, the analysis excludes regulators with no boards and we also exclude advisory committees.

Table 4.4 summarises the findings from Indecon's analysis of State boards in Ireland based on a sample of 30 non-commercial bodies. In some cases where the Minister makes the decision on the board members the legislation may guide the Minister in appointing individuals from among relevant interest groups. However, a key feature is that in over 86% of cases the Minister appoints all or a majority of the board. Only in four of the 30 organisations examined is the Minister confined to a decision on a minority of board members.

Table 4.4: Size and Appointment Process of Non-Commercial State Sponsored Bodies		
	Number of Board Members	Percentage
Size		
Number of Bodies in Sample	30	
Average Number of Board Members	13	
Maximum Number of Board Members	24	
Minimum Number of Board Members	5	
Median Number of Board Members	12	
Appointment/Nomination Process		
All Members Appointed and Nominated by Minister/Government	10	33.3%
Majority Appointed and Nominated by Minister/Government	16	53.3%
Minority Appointed and Nominated by Minister/Government	4	13.3%
Source: Indecon Analysis Note: Among those bodies whose board members are all appointed and nominated by the Minister/Government is the National Standards Authority. In this case, board members are appointed by the Minister from among those interests involved in the process of standardisation and certification of commodities, processes and practices, without any single interest predominating, taking into account guidelines issued from time to time by the Government and, in particular, providing for staff-representation on the board.		

The following features are noteworthy in relation to board size and appointment of board members within non-commercial State bodies:

- ❑ The median size of boards among the non-commercial State boards within the sample is 12 but the minimum size is five;
- ❑ In one-third of the boards examined, the Minister/Government has direct control over the nomination and appointment of all members of each board, while in over 53% of cases the Minister/Government nominates and appoints a majority of board members.

In addition to considering 30 non-commercial development type state boards we also examined 32 commercial semi state bodies.

The table below summarises the findings from Indecon's research among a sample of 32 commercial State bodies in Ireland. The HRI is classified as a commercial state sponsored board although it clearly also has non-commercial development type functions.

Table 4.5: Size and Appointment Process of Commercial State Sponsored Bodies		
	Number of Board Members	Percentage
Size		
Number of Bodies in Sample	32	
Average Number of Board Members	10	
Maximum Number of Board Members	14	
Median Number of Board Members	9	
Appointment/Nomination Process		
All Members Appointed and Nominated by Minister/Government	20	63%
Majority Appointed and Nominated by Minister/Government	11	34%
Minority Appointed and Nominated by Minister/Government	1	3%
<i>Source: Indecon Analysis</i>		

Among the sample of commercial boards, it is notable that:

- ❑ The median size of the board is nine members;
- ❑ In 63% of cases, the Minister/Government has full control over the decisions on all members of these boards, while in over one-third (34%) of boards, the Minister/Government has direct control over the nomination and appointment of a majority of board members.

Board Structures of Horse Racing Organisations in Other Countries

It is also instructive to compare the approach applied in the case of HRI with the structures and process pertaining to horse racing organisations in other countries. This is undertaken in the table below by reference to HRI in addition to France Galop, the British Horseracing Authority, the British Equestrian Federation, the British Horse Society, and the Board of Thoroughbred Breeding and Racing in Germany. The analysis looks at the size of boards and process of nomination/appointment of board members.

It is not suggested that these organisations have the same functions as HRI or that the models used in other countries are directly comparable.

Table 4.6: Size and Composition / Nomination of European Horse Racing Boards		
Horse Racing Boards	Size	Nomination
Horse Racing Ireland	14	Only chairman nominated by Government/Minister.
Galop - France	12	Members chosen by the Galop committee.
British Horse Racing Authority	9	Chairman, Chief Executive, 2 Independent Regulatory Directors, 3 Independent Directors and 2 Member Nominee Directors, 1 nominated by the Racecourse Association, other by the Racehorse Owners Association, Thoroughbred Breeders' Association and Licensed Personnel.
Board of Thoroughbred Breeding and Racing Germany (Direcktorium fur Vollblutzucht und Rennen)	-	Members from the owner/breeder association, the racecourse, the German trainer, the jockey association and the association of German amateur riders.
Source: Indecon Analysis		

An analysis is undertaken in relation to the boards of a range of other organisations related to horse racing in non-European countries in the table below.

Table 4.7: Size and Composition / Nomination of Non-European Horse Racing Boards		
Horse Racing Boards	Size	Nomination/Composition
The Australian Racing Board	17	Board members are the Principal Racing Authorities (PRAs) that supervise and control thoroughbred racing in each State and Territory
Racing New South Wales (Australia)	8	Appointed by the Minister for Racing.
Horse Racing Victoria (Australia)	11	Members elected through a voting process of Horse Racing Victoria's member organisations.
National Thoroughbred Racing Association (USA)	5	NTRA CEO and representatives for racetracks and for horsemen, owners and breeders.
New York Racing Association	25	14 appointed by NYRA and 11 state-appointed members.
Kentucky Racing Commission	18	15 appointed by governor and 3 who serve by virtue of being cabinet secretariats.
California Horse Racing Board	7	Members appointed by the governor.
Canadian Thoroughbred Horse Society	11	Elected by Members.
Japan Racing Association	8	6, council members appointed by the minister and the President and CEO of the Japan Racing Association.
New Zealand Thoroughbred Racing	6	Thoroughbred racing clubs throughout the country support the selection process. A members' council is responsible for all aspects of appointing directors to the board.
Source: Indecon Analysis		

4.3.6 Racegoers Consultative Forum

An interesting feature of HRI governance structure and one which may have wider potential use is the existence of a Racegoers Consultative Forum.

The 2001 legislation states:

“HRI shall establish a forum to be known as the Racegoers Consultative Forum (“Forum”) for the purposes of consultations relating to the operations of HRI in the context of developments or desired developments in the horse racing industry generally as they affect the racegoer or service or facility user.” (Section 9 (1))

“The Forum shall consist of so many members as may be decided, from time to time, by HRI and shall include representatives of horse racegoers clubs, racecourse supporters clubs and other organisations operating in the interests of racegoers or other interest groups affected by the decisions of HRI or who use the various facilities and services provided by HRI.” (Section 9 (2))

Indecon is of the view that finding ways to ensure inputs from racegoers is important for the future of the sector.

4.4 Views on Industry Governance Structures

A number of organisations support the representative nature of the HRI Board. An example is the extract from the submission by the Turf Club/INHSC, the views of which are summarised below.

“The board of *HRI* is currently constituted to comprise of representatives of all stakeholders in the industry. We believe that this is an appropriate structure.”

“The *Regulator’s* nominees to the Board act as a truly independent voice of racing, providing members who are deeply passionate about, and knowledgeable of, the industry but not representative of any vested interest.”

“The current structure ensures that all appointees to the Board are knowledgeable and have a direct involvement in the industry. The *Regulator* would have no objection were the Minister to seek an involvement in the selection of nominees from the various representative bodies.”

However Indecon has concerns about the size of the board and significantly the role of the Minister in terms of appointments. We believe that changes are required to be aligned with appropriate accountability and governance.

4.5 Summary of Key Findings and Issues for Consideration

This section evaluated whether the Horse Racing Ireland Board structure, size and nomination process is appropriate and effective. The key findings from the assessment were as follows:

- ❑ The Horse and Greyhound Racing Act, 2001, and related Horse Racing Ireland (Membership) Act, 2001, and the previous Irish Horseracing Industry Act, 1994, represent the key governance structures for the industry. They establish the industry governing Authority (HRI since 2001, previously the Irish Horseracing Authority), and define the composition of, and process of nomination and appointment of Board members. They also define the functions of the Authority and of the Racing Regulatory Body (the Turf Club/INHSC) within this context. In relation to funding of the industry, the Horse and Greyhound Racing Act, 2001, also establishes the Horse and Greyhound Fund.
- ❑ HRI was established on 18th December 2001 as a State body under the Horse and Greyhound Racing Act 2001, when it took over the functions of the Irish Horseracing Authority.
- ❑ The legislation demonstrates the multifaceted governance structures in place and this in part reflects the complex nature of the industry, involving a large number of stakeholders. It also reflects the range of functions to support the operation of racing activities, including the integrity of racing, and the development of the racing and thoroughbred breeding sectors, among other aspects. Of importance, however, within the context of this review are the appropriateness and effectiveness of these structures.
- ❑ In relation to board structures, the size and composition of the (HRI) board of the industry governing body has evolved from an 11-member board under the Racing Board to a 16-member board overseeing the Irish Horseracing Authority. Since its establishment in 2001, HRI has had a 14-member board. The large size of the HRI reflects the challenge of representing a diverse range of stakeholder interests across the industry in Ireland.
- ❑ The representative nature of the HRI Board has some strengths given the diversity of interests that are involved in the industry in Ireland. However, the large size of the Board may also constitute a weakness from the perspective of efficiency and effectiveness.
- ❑ A particular feature of the operation of the HRI Board is the system of board Committees. The HRI Board has a large number of board committees. These are important in supporting the work of the main Board, particularly given the representative nature of the Board and the number of board numbers.
- ❑ A key feature of the Board appointments process concerns the extent of accountability of the Government/Minister for Agriculture, Food and the Marine. Under the existing (2001) legislation and agreed process, the Minister only effectively nominates the Chairman without any constraints and other appointments require the choice of candidates to reflect different sectoral interests. Indecon would have significant concerns over the low level of government/ministerial control over the process of decisions on the HRI Board. The approach in relation to nomination and appointment to the Board of HRI is also unusual in terms of governance of State bodies more widely.

5 Review of Scope for Streamlining of Functions

5.1 Introduction

Given the challenging position faced by the sector and the severe constraints on public finances, ensuring that industry governing bodies operate to maximum efficiency is a key priority. This section examines the scope for streamlining of the functions assigned to HRI and the Turf Club/INHSC under the existing legislation, having regard to efficiency, effectiveness, economy and independence of regulatory decisions. This includes examination of existing cost structures and identification of potential streamlining and efficiency improvements across a range of areas.

5.2 Description of Functions of HRI and Turf Club

Before considering the scope for streamlining it is important to firstly identify the existing position in relation to the nature of functions undertaken by racing governance and regulatory bodies. The table below indicates the functions assigned under the relevant legislation in respect of HRI.

Table 5.1: Legislative Functions of Horse Racing Ireland

- The overall administration of Irish horse racing other than services operated by the Racing Regulatory Body
- Registry Office functions, that is to say—
 1. Naming of horses, horse racing passports and identification,
 2. Horserace entries and declarations,
 3. Racing calendar publication,
 4. Stakeholding of race entry funds and prize money for horseraces,
 5. Registration of racehorse owners, in accordance with the Rules of Racing.
- The provision and maintenance of mobile track equipment, including starting stalls, photo finish and camera patrol equipment and any other such equipment agreed from time to time between HRI and the Racing Regulatory Body and to provide the Racing Regulatory Body with the photographs, films, sound recordings and other connected materials or data generated by this equipment as required by the Racing Regulatory Body for their examination and use in the enforcement of the Rules of Racing and all such equipment shall be required to be maintained to a specification agreed with the Racing Regulatory Body,
- The development and promotion of the Irish horse racing industry (including the development of authorised racecourses, the guaranteeing of prize money at race-fixtures and the costs of integrity services),
- The control of the operations of authorised bookmakers,
- The allocation of race-fixtures and the setting of race-programmes,
- The operation of racecourses which are owned or leased by the Authority,
- The promotion of the Irish thoroughbred horse,
- The making of grants, loans or other disbursements to authorised racecourses and to any subsidiary of the Authority.
- Representing Irish horse racing internationally in respect of its functions,
- Negotiating all income from media rights (Section 10 of Act),
- The provision of any financial and other support it deems appropriate to—
 - maintain and improve the health and welfare status of the thoroughbred horse, and
 - assist educational and other institutions and organisations in providing improved training and education facilities and courses for the thoroughbred horse industry to satisfy the training and educational needs of that industry at all levels

Source: Horse and Greyhound Racing Act, 2001, and Irish Horseracing Industry Act, 1994

The description indicates the diverse range of functions undertaken by HRI, including in relation to the organisation of racing, supporting the Racing Regulatory Body (Turf Club/INHSC) in exercising its functions, the development and promotion of the Irish horse racing industry, the control of the operations of authorised bookmakers, the operation of certain racecourses, and the promotion of the Irish thoroughbred horse. All of these, and other, functions have associated cost structures, with implications for efficiency and cost-effectiveness.

Of note in relation to the overall role of HRI is that the legislation states that HRI is responsible for the “overall administration of Irish horse racing other than services operated by the Racing Regulatory Body.” The legislation also allocates responsibility to HRI for a diverse range of functions including the provision and maintenance of mobile track equipment, as well as the provision of data/information collected, to enable the Racing Regulatory Body to exercise its functions in respect of enforcement of the Rules of Racing. This is an area where the functions of HRI and of the Turf Club/INHSC, as the Racing Regulatory Body, interact. The functions of the Turf Club/INHSC are outlined in the table below. This highlights the key role of the Racing Regulator in the making and enforcing of the Rules of Racing and in integrity services. The Turf Club / INHSC has played a long, distinguished and effective role in these core areas.

Table 5.2: Legislative Functions of the Racing Regulator (Turf Club/INHSC)

- To be solely and independently responsible for the making and enforcing of the Rules of Racing and ensuring the particular rules governing the functions referred to in paragraphs (a) and (b) of section 8 (1) of the Horse and Greyhound Racing Act, 2001, are complied with,
- To provide adequate on-course integrity services for horse racing by employing, licensing, monitoring and controlling the activities of horse racing officials including the following—
 - inspector of courses,
 - clerks of courses,
 - clerks of scales,
 - handicappers,
 - starters,
 - judges,
 - veterinary officers,
 - veterinary assistants,
 - medical officers,
 - stewards secretaries, and
 - security officers.
- To license racecourses under the Rules of Racing and all participants in racing including all classes of trainers, jockeys, jockeys' valets, jockeys' agents and stablestaff,
- To make all decisions relating to doping control, forensics and handicapping in respect of horse racing, and
- To be responsible for the representation of Irish horse racing internationally in respect of its functions under this Act

Source: Horse and Greyhound Racing Act, 2001

5.3 Review of Proposals re Legislative Functions

In considering the functions of HRI and the Turf Club/INHSC, a number of proposals in relation to the existing functions assigned under the legislation were provided to Indecon within the context of this review. These proposals were very carefully examined by Indecon as well as other areas which we identified by considering the legislative findings and also the operational activities of the respective organisations.

Indecon believe that a number of key factors are important in considering the potential scope of any integration or reallocation of functions. Among the principles which have guided our analysis are as follows:

- ☐ The need to ensure that the racing integrity functions currently undertaken by the Turf Club/INHSC are not in any way undermined and that independence is maintained.
- ☐ The need to ensure that the overall administration of Irish racing functions currently undertaken by the HRI is not in any way undermined.
- ☐ The need to ensure that all options to enhance efficiency and minimise costs are pursued.
- ☐ Need to consider any streamlining which would improve effectiveness.
- ☐ The need to enhance communications and minimise bureaucracy on the sector.

5.4 Review of Existing Cost Structures

In considering the scope for the streamlining of functions, it is necessary to examine the existing cost structures by function within the HRI and the Turf Club/INHSC. For the purposes of this review, Indecon requested detailed data from both bodies concerning the costs associated with undertaking the functions assigned to the bodies. Confidential information was sought³ from HRI and the Turf Club/INHSC under the following headings:

- ☐ Number of voluntary, non-paid staff, if any, by function;
- ☐ Number of full-time equivalent staff, including casual staff, by function;
- ☐ Staff costs, by function;
- ☐ Other Staff Costs including Allocated overhead costs, by function;
- ☐ Sub contract or bought in services and any other costs, by function; and,
- ☐ Total costs, by function under legislation.

³ Some of the information presented is deemed by organisations as commercially sensitive

5.4.1 HRI Costs

The numbers employed, salary costs and non-salary costs for the key functions of HRI are presented in Table 5.3 below. These are based on HRI estimates and certain assumptions were required by HRI in categorising costs on this basis and in allocating central overheads. An audit of these estimates was outside the scope of this current exercise. However the figure gives an indication of where the money is being spent.

Table 5.3: Numbers Employed and Costs by Function for the HRI – Actuals 2011				
Main Functions	Full Time Equivalent Numbers Employed	Salary Costs including Pensions PRSI etc.	Non-Salary Costs including All Other Costs e.g. Office Overhead, Bought in Services etc.	Relevant HRI Corporate Entity involved
Overall Administration of Irish Racing	27	1,800,718	893,776	HRI
Development and Promotion of the Irish Racing Industry	5.5	390,980	1,316,978	HRI
The Development of Racecourses	0	CEO Responsibility/Strategic Decisions		HRI
The Guaranteeing of Prize Money	0	CEO Responsibility		HRI
The Cost of Integrity Services	N/A	N/A	5,625,402	HRI
The Control of the Operation of On-Course Bookmakers and point to points	5.5	366,866	34,058	HRI
The Allocation of Race Fixtures and the Setting of Race Programmes	2	98,613	0	HRI
Negotiating Income from Media Rights	0	CEO Responsibility		HRI
The Operation of Race Courses	0	Operated under subsidiary companies		HRI Racecourses Ltd.
The Promotion of The Irish Thoroughbred	6	305,978	1,077,116	ITM
The Making of Grants or Loans to Racecourses	0.5	42,026	99,994	HRI
The Naming of Horses, Issuing of Racing Passports and Identification Documents and The Registration of Racehorse Owners	5	210,521	399,302	HRI
The Taking of Entries and Declarations for Race Meeting	4	252,554	6,500	HRI
Publication of the Weekly Racing Calendar	4	201,117	320,587	HRI
Stakeholding (Banking) of Race Entry Funds and Prize money	4	241,045	0	HRI
The Provision of On Track Equipment including Cameras, Starting Stalls and Photo Finish	13	707,296	1,740,674	HRI
Providing Support to Maintain and Improve the Health and Welfare Status of the Thoroughbred	0	0	2,276,684	HRI
Providing Support to Assist and Improving Training and Education Facilities	0	0	553,883	HRI
Representation of Irish Racing Internationally	0	0	25,505	HRI
Source: HRI				
Include Grants paid to Bodies such as RACE, Equine Centre – out of HRI and Foal levy funds				

The HRI costs associated with a number of specific functions are considered in more detail below. These relate to a number of areas where we considered the potential for streamlining of functions.

Table 5.4: HRI Costs Associated with Specified Functions Assigned Under Legislation – Actual 2011					
Functions	Number of Voluntary non-paid Staff, if any	Number of full time equivalent Staff including casual staff	Staff costs including PRSI and Pensions - € '000	Other Staff Costs including Allocated overhead costs - € '000	Sub-contract or bought in services and any other costs - € '000
Development, Maintenance and Operation of Starting Stalls	0	8	448,758	91,471	44,249
Provision of Race Course Camera and Photo Finish Services	0	5	258,538	43,142	1,561,812
Development and Operation of Data Bases	N/A	N/A	N/A	N/A	N/A
Stewarding	N/A	N/A	N/A	N/A	N/A
Supervision/Auditing of Admin Functions Transferred to HRI	N/A	N/A	N/A	N/A	N/A
Licensing of Specified Horse racing Officials	N/A	N/A	N/A	N/A	N/A
Administration of Operating of all Charges Levied	Covered under Table 4.4				
Leasing/Maintenance/Operation of Office Buildings/Admin Premises (note i)	0	3	109,716	2,484	183,680
Operation and Admin of Payroll System and pensions admin	0	1.4	90,113	0	5,000
Appeals	N/A	N/A	N/A	N/A	N/A
<p>Source: HRI</p> <p>Footnotes:</p> <p>N/A = Not Applicable</p> <p>Note i – The staff and pay costs include the administration of the front office i.e. reception etc. for the building as a whole which covers subsidiary companies as well as HRI.</p> <p>Note ii – All figures are based on 2011 actual costs.</p>					

In considering areas of potential streamlining in addition to existing HRI costs by function it is useful to examine the trends in the costs over recent years.

In recent years, as shown in the following table, in addition to the previously mentioned fall in HRI's contribution to prize monies for flat and national hunt races, there have been reductions in a number of other cost categories as follows:

- ☐ Integrity and racecourse services including funding of Turf Club/INHSC integrity services.
- ☐ HRI administrative costs.
- ☐ Marketing spending.

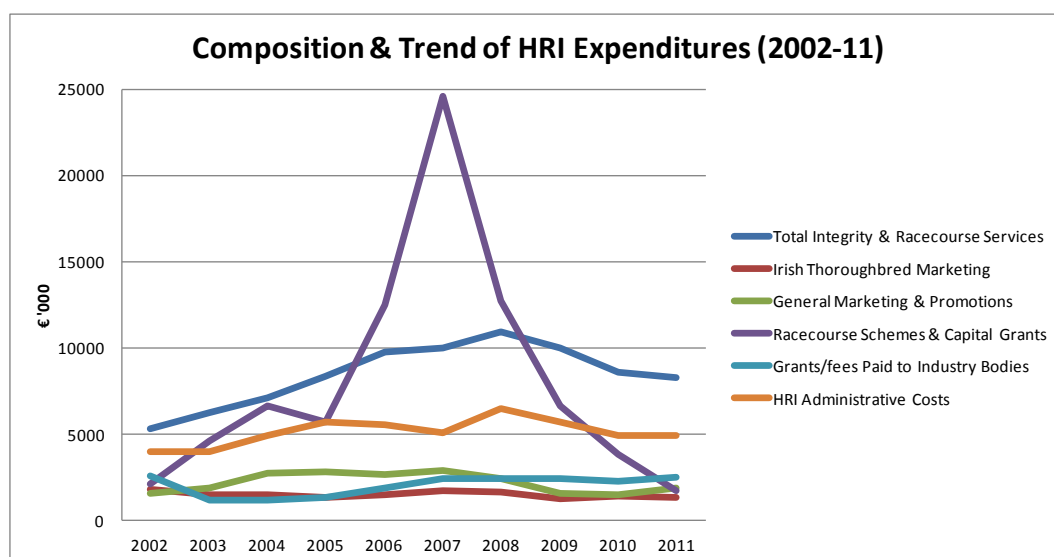
The most significant decline in expenditure however was evident in funding for racecourse schemes and grants which declined from €24.544m in 2007 to €12.761m in 2008 to less than €2m in 2011.

Table 5.5: Composition and Trend of HRI Expenditures (excluding onward payments of owners' contribution to prize money, foal levy distribution and smaller line items) 2002-2011

€ '000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Turf Club/INHSC Integrity Services (including employer pension contribution from 2007)								7022	5770	n/a
HRI Racecourse Services								2977	2795	n/a
Total Integrity & Racecourse Services ¹	5332	6270	7126	8391	9785	9980	10920	9999	8565	8303
Irish Thoroughbred Marketing	1800	1525	1458	1359	1516	1687	1673	1280	1373	1367
General Marketing & Promotions	1550	1896	2731	2820	2683	2886	2396	1562	1527	1865
Racecourse Schemes & Capital Grants	2083	4578	6677	5691	12457	24544	12761	6638	3861	1708
Grants/fees Paid to Industry Bodies	2596	1144	1194	1366	1911	2441	2401	2418	2259	2525
HRI Contribution to Prize Money (including Point-to-Points)	26528	28357	30933	30974	31666	33372	35232	31388	29319	28957
HRI Administrative Costs	4016	3997	4920	5692	5518	5095	6469	5708	4890	4906
Total of Above Selected Expenditures	43905	47767	55039	56293	65536	80005	71852	71001	62369	49631
Source: HRI Annual Reports										
Notes: ¹ Until 2008, the cost of Regulatory Body integrity services and HRI racecourse services were combined.										

Graphically, the longer-term trend and composition of the same categories of HRI expenditures between 2002 and 2010 is as follows:

Figure 5.1: Composition and Trend of HRI Expenditures (2002-10)



Source: HRI Annual Reports

It should be noted that income from and direct expenditure on certain aspects of racing is not included in the above analysis. In the HRI Group Income and Expenditure Account, the turnover for the following activities is shown separately:

- ☐ Tote Ireland
- ☐ Betting and exchange income
- ☐ Racecourse income

The following direct costs associated with these activities are also reported separately:

- ☐ Winnings paid on bets
- ☐ Operating costs

The net income (deficit) from racing since 2002 can be broken down as calculated in the following table:

Table 5.6: HRI Income and Expenditures from Racing: Racecourses, Tote Ireland and Betting (2002-2011)										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	€ m.	€ m.	€ m.	€ m.	€ m.	€ m.	€ m.	€ m.	€ m.	€ m.
HRI Racecourses										
<i>Gross profit/(loss)</i>	0.222	0.036	2.624	(0.575)	(0.208)	(2.539)	(1.931)	(1.351)	6.329	2.987
Tote Ireland										
Betting turnover	41.504	44.278	47.445	49.282	49.661	61.320	49.236	41.795	40.314	45.820
Winnings paid out	32.438	35.368	38.251	39.720	40.050	50.741	40.191	34.922	33.784	39.589
<i>Tote commission</i>	9.066	8.910	9.194	9.562	9.611	10.579	9.045	6.873	6.530	6.231
Operating costs	7.138	6.778	7.655	7.854	8.768	8.932	9.109	7.107	5.698	5.077
<i>Gross profit/(loss)</i>	1.928	2.132	1.539	1.708	0.843	1.647	(0.064)	(0.234)	0.832	1.154
Betting & Exchanges										
Income (net)	1.153	0.886	1.185	1.258	3.516	2.804	2.707	1.112	1.043	1.158
Betting collection costs	0.332	0.342	0.357	0.451	0.547	0.491	0.465	0.339	0.411	0.405
<i>Gross profit/(loss)</i>	0.821	0.544	0.828	0.807	2.969	2.313	2.242	0.773	0.632	0.753
Combined Total										
<i>Income / (deficit) on racing</i>	2.971	2.712	4.991	1.940	3.604	1.421	0.247	(0.812)	7.793	4.894
Source: HRI Group Annual Reports										
Notes: Certain costs in the 2004 accounts were restated in 2005 so that all years from 2004 to 2010 are consistent with each other. 2002 and 2003 costs are not restated but the amounts of the restatements of costs was deemed insignificant for the purposes of this Review.										
In relation to the betting and exchanges figures, a proportion of that revenue is collected by the HRI and distributed back to the racecourses.										

Disaggregated into its component parts, the figures indicate that HRI racecourses were loss-making over the period 2005 to 2009, while the Tote was loss-making in 2008 and in 2009. Both the racecourses and the Tote have returned to profitability since 2010, although Indecon understands that in the case of the racecourses some exceptional items have contributed to this turnaround and that some courses remain under pressure. Betting & Exchange activity has remained profitable.

While Indecon considers that due recognition should be afforded to HRI and the Racing Regulatory Body for the extent of the cut-backs implemented since 2008, this does not diminish the work that remains to be done to put the industry back on a sustainable long-term footing with a proper balance between expenditures and the appropriate mix of sources of income.

5.4.2 Turf Club/INHSC costs⁴

Table 5.7 presents an analysis of the detailed data supplied by the Turf Club/INHSC in relation to the costs associated with specified functions assigned under the legislation. The costs are based on Turf Club / INHS estimates and as with HRI estimates a number of assumptions were needed to categories estimates on this basis. These were not independently audited as part of this exercise.

Table 5.7: Numbers Employed and Costs (Integrity Services and Licensing) by Function for the Turf Club / INHSC – Budget 2012					
Main Functions	Full Time Equivalent Numbers Employed	Salary Cost including Pensions and PRSI etc. – € '000	Direct non-salary costs e.g. travel, bought-in services – € '000	Other allocated central admin costs – € '000 ¹	Total cost – € '000
Column					5
1. Drawing up of the Rules of Racing (after deduction of income from sales of Rule Book ²)					114
2. Enforcement of the Rules of Racing	Mainly included in Function 3				
(a) Licensing/Examination/ Inspection of Racecourses					
(b) Other Enforcement Activities					
3. Licensing Authority for Trainers, Jockeys, Stable Staff (excl support supplied by HRI)					1,136
4. Appeals Process ⁵					57
5. Forensics					1,086
6. Handicapping					503
7. On Course Integrity Activities (excl handicapping, appeals, drawing up rules of racing & international representation)					4,142
8. International Representation relating to the Above					57
Total:					7,095
of which FTE employees in integrity admin have been allocated to on-course integrity activities					
Source: Turf Club /INHSC					
<p>Notes: ¹Central admin costs () (column 4) have been allocated by the Regulatory Body between Integrity Services () and Licensing (). A further allocation of that has been made between the various integrity service functions for the purposes of this table. This was calculated based on the respective shares of the total of salary costs (column 2) and direct non-salary costs (column 3) of the different non-licensing functions. ²Income from the sale of the Rule Book () is deducted from direct non-salary costs of preparing the Rule Book (column 3). ³ is the total integrity admin headcount of less allocated to drawing up of rules of racing and allocated to appeals. The FTEs have been allocated to their on-course integrity activities. ⁴This figure is net of income from fines (treatment consistent with treatment of income from sale of rule book) ⁵See also Table 1.</p>					

⁴ Various information provided to Indecon is commercially sensitive and has thus been redacted.

In the table below Turf Club / INHS costs for certain functions are presented.

Table 5.8: Annual Turf Club / INHSC Costs Associated with Specified Functions Assigned Under Legislation – Budget 2012					
Functions	Number of Voluntary non-paid staff if any	Number of full time equivalent Staff including casual staff	Staff costs including PRSI and Pensions – € '000	Other Staff Costs including Allocated overhead costs - € '000	Sub contract or bought in services and any other costs - € '000
Development and Maintenance of Starting Stalls	n/a		n/a	n/a	n/a
Operation of Starting stalls	n/a		n/a	n/a	n/a
Provision of Race Course Camera and Photo Finish Services	n/a		n/a	n/a	n/a
Development and Operation of Data Bases	n/a		n/a	n/a	n/a
Stewarding	127 Turf Club, IHNSC and qualified non-members voluntarily perform approx. 1,300 stewarding duties p.a. supported by full time employees.				
Supervision/Auditing of Admin Functions Transferred to HRI	0		0	insignificant	0
Licensing of Specified Horse racing Officials	0		0	insignificant	0
Administration/Operating of all Charges Levied ¹	0		635	501	0
Leasing/ Maintenance / Operation of Office Buildings/ Admin Premises	0		0	341 ²	0
Operation and Admin of Payroll System	0		16 ³	0	0
Appeals	See note 4 below		29	3	25
Source: Turf Club /INHSC					
Notes: ¹ This corresponds to Function 3 in Table 2 and refers to licensing other than licensing of specified horse racing officials. ² Of the office building cost of €341k, the 2012 depreciation expense is €258k, leaving a cash expense cost of €83k. ³ No other central admin overhead has been included in this cost item as it will be an insignificant sum. ⁴ 19 Turf Club and INHSC members, and two independent members, voluntarily acted at 61 hearings heard on 23 days in 2011.					

5.5 Scope for Streamlining

A range of potential areas for streamlining of functions have been considered. These include:

- (i) **Integration of two Head Office Buildings.**
- (ii) **Utilisation of and Access to Databases.**
- (iii) **Range of other Potential Areas.**

Indecon also considered the merits of a complete integration of the two organisations. However a number of organizations who provided input to our review highlighted that the role played by the Turf Club/INHSC has been central to the history of Irish racing. For example, one organization indicated that:

“As an independent body the Turf Club provides an assurance of integrity that is absolutely vital if Irish racing is to maintain its international image.”

Given the unique history and contribution of the Turf Club/INHSC Indecon believe that there is merit in maintaining the independence of the integrity function of the Turf Club/INHSC as the Racing Regulatory Body.

(i) Integration of Two Head Office Buildings

One area where Indecon believes it is important to take immediate action is the integration of the two head office buildings.

In a submission by an important organisation in the sector, the anomaly of having separate offices for HRI and Turf Club was raised and it was noted that:

“Horse Racing Ireland is based at Ballymany near the Curragh Racecourse while the Turf Club head office is based beside the Curragh Racecourse.”

The cost implications and the symbolic impacts of having two separate head offices were noted in a number of other submissions to our review. For example, one owner raised the question:

“Is it necessary to have two bodies operating from different buildings?”

Another organisation argued that:

“There seems little sense in having two fully staffed buildings less than a mile apart governing racing.”

While some arguments have been made in favour of having the integrity functions kept separate from the racing industry, this argument is weak in relation to accommodation for two state-funded organizations. The separation of office buildings has implications for cost efficiency and for communications effectiveness. It also has symbolic implications for the sector in which all interest groups are facing severe funding challenges. Based on the submissions we have received it appears that within the sector there is support for re-integration of the two head office buildings.

(ii) Utilisation of and Access to Databases

At present Turf Club/INHSC are not permitted because of Data Protection issues to directly input and take information from certain HRI databases. This has implications for the cost efficiency and effectiveness of Turf Club/INHSC integrity functions. Under Section 8(1) (a) of the 2001 Act responsibility for the Racing Database is allocated to HRI. Indecon believes that HRI should retain responsibility for the racing database but we believe that the Regulator should have direct access to this database in order to fulfil regulatory functions effectively in the most cost effective way. We therefore believe that legislative changes are required to overcome barriers to enable the Turf Club/INHSC to share the racing databases. However, this should be organised in a way which does not result in duplication of work or increased costs.

We believe that joint development and use of the databases and racing reporting systems would be in the best interests of the administration and regulation of racing and ultimately of the whole sector.

(iii) Range of Other Potential Areas for Streamlining

In addition to the issues of duplication of head offices and direct access to databases we considered a wide range of other potential areas for streamlining. Among the areas considered we list in the table below the areas that we believed merited further consideration.

Table 5.9: Potential Areas for Streamlining	
1.	Integration of office buildings
2.	Direct Access to of Racing Database
3.	Shared Services: Payroll systems, IT and Creditor System, Procurement, Other
4.	Single Income Stream for Charges/Licensing
5.	Pensions Administration of Two Merged Defined Benefit Pension Schemes
6.	Administration of Racecourse Licensing
7.	Financial Transfers by HRI and Turf Club/INHSC
8.	Administrative aspects to support inspection functions.
9.	Inspections involved in licensing / authorisation of racecourses.
10.	Development and maintenance of mobile track equipment.

As part of our review we considered whether a decision should be recommended on streamlining of specific activities and could be implemented in a straightforward manner or whether a joint implementation task force would be the fastest way to proceed. We also considered whether some of the areas require more detailed agreement between the two organisations and our recommendations on this are presented in Section 6.

5.6 Summary of Key Findings

- ❑ In considering potential areas for streamlining it is important to recognize the extremely valuable historical role of the Turf Club/INHS and the importance of maintaining the integrity of Irish racing. It is also important to ensure HRI can effectively implement its legislative functions concerning the overall administration of Irish Racing.
- ❑ Also of key importance is to ensure cost efficiencies.
- ❑ Based on a detailed examination of the legislation and of the cost structures within HRI and the Turf Club Indecon believe there are areas of potential savings.
- ❑ Some of the more important and clear areas of potential streamlining relate to:
 - Integration of office buildings;
 - Utilisation of, access to and further development of racing database;
 - Shared services in payroll, IT and creditor systems and procurement;
 - Single income stream for charges/licencing;
 - Pensions Administration;
 - Financial transfers by HRI and Turf Club/INHSC.
- ❑ Other areas which may also merit consideration include:
 - Administration of aspects to support inspection functions including inspections involved in licensing/authorisation of racehorses;
 - Financial transfers by HRI and Turf Club / INHSC;
 - Development and maintenance of mobile track equipment.

6 Conclusions and Recommendations

6.1 Introduction

Based on our analysis, Indecon believes that significant changes are needed in the funding arrangements to support the long term development of the horse racing sector in Ireland.

In addition we believe there is a need for significant changes in the legislation covering the governance of the sector. Related to this, we strongly recommend changes in the nomination process and composition of the board of HRI to address fundamental issues concerning ministerial/government accountability for the use of taxpayer funds.

Indecon also recommends the streamlining of functions and activities in order to ensure value for money and efficiency of any funding provided. An equal priority must be given to ensure value for money as well as measures to improve the level and sustainability of funding for the sector.

In order to realise the significant economic potential of the sector Indecon has outlined 37 recommendations covering the following areas:

- Funding;
- Board of HRI;
- Streamlining of Functions;
- Marketing and Competitiveness of the Sector;
- Legislative/Governance Changes.

Funding

In Table 6.1 our recommendations on the funding of the sector are presented. These have regard to funding systems in place in other major horse racing countries and are designed to ensure an appropriate funding structure for the long term development of the sector. The recommendations recognise that the horse racing sector is an important indigenous industry sector which has potential to increase Ireland's export earnings and employment. The economic and social impact of the sector is significant and these wider societal benefits would be threatened without an adequate and sustainable funding system for the sector.

At present, the Irish Exchequer allocates approximately €30 million per annum in subsidies to the sector, in addition to receipts from Betting Duty. Despite the economic contribution of the sector, Indecon does not believe that this level of general exchequer funding is sustainable over time given the pressures on exchequer resources.

A fundamental shift to financing provided by a revised betting levy, and from increased licence fees and increased sponsorship income is included our recommendations on funding. This is in addition to the very significant funding provided by owners to their own businesses and to payment of existing levies and fees. The recommendations on funding also have regard to the fact that elements of the betting industry are an important internationally-traded business and that there are benefits for Ireland in remaining competitive for this sector as well as for wider horse racing sector.

Our recommendations on funding are summarised in Table 6.1 below and are outlined in more detail in subsequent paragraphs.

Table 6.1: Recommendations on Funding of Irish Horse Racing Sector

1. Measures should be introduced to secure a significant increase in taxation from the Betting Sector.
2. A multi-annual commitment of funds should be considered to support the development of the sector.
3. Greater funding certainty should be introduced to support medium term planning for the integrity services in Irish racing.
4. As betting revenues increase there should be potential to significantly reduce general Exchequer expenditure other than funds raised from betting taxation.
5. The merits of replacing the Horse and Greyhound Racing Fund should be considered.
6. All betting operators should be required to obtain a Licence.
7. Taxation should be levied on the same basis on Betting Exchanges and on Remote as well as on Traditional Bookmakers.
8. Licence Fees for All Offshore and other Bookmakers should be increased.
9. Taxation on betting should be on a place of consumption basis.
10. Rate of betting duty should initially be set at 1%.
11. Rate of Duty should be reviewed after one year.
12. Duty on betting intermediaries should be divided between layers and backers.
13. Effective compliance measures should be introduced based on a careful definition of what is a betting “event”.

1. Measures should be Introduced to Secure a Significant Increase on Taxation from the Betting Sector

At present key elements of the betting sector are not liable for any betting taxes, notably remote (online and telephone bookmakers) and betting exchanges. These sub-sectors are of growing importance. This, combined with the recession and the reduction in the rate of betting duties in recent years, has seen a significant reduction in betting duties. For example, revenue for the sector from betting duties declined from €68 million in 2002 to €27 million in 2011. We therefore recommend that legislation is introduced to secure a significant increase in taxation from the betting sector.

2. A multi-annual commitment of funds should be considered to support the development of the sector

The horse racing sector is a sector with potential for international expansion with associated benefits for the Irish economy. In order to effectively plan for the sector there is a need for greater certainty on funding available for the development of the sector. While multi-annual funding would be desirable for most areas, we believe there is a particular need for a three- to five- year funding commitment to be made at this stage in the development of the sector.

3. Greater funding certainty should be introduced to support medium term planning for the integrity services in Irish racing

At present, we understand that the Turf Club submits a budget for integrity services to HRI on an annual basis. In order to further underline the independence of the racing integrity regulatory services we believe there is merit in providing greater funding certainty for these services to support effective medium-term planning. This is not to minimise the need for a focus on ongoing efficiencies in integrity services (as well as for functions undertaken by HRI). However, greater certainty on the majority of funding for these services should be considered.

4. As betting revenues increase it should be possible to significantly reduce General Exchequer Expenditure other than Funds Raised from betting taxation

The Irish exchequer, in addition to permitting betting duties to be allocated to the Horse and Greyhound Racing Fund, has contributed directly to subsidise the horse racing sector. Government subvention has increased from zero in 2002 to €17 million in 2003 rising to a peak of €38 million in 2010. The 2011 level amounted to €30 million. Indecon believes that given the current state of the public finances providing this level of funding from general exchequer resources for the sector is not sustainable over the medium term. We therefore recommend a significant reduction of general exchequer funding (other than from the Betting Duty) as betting revenues increase. This is not to suggest an exact alignment with revenue from betting and with the funding needs of this sector. This is discussed below.

5. The Merits of Replacing the Horse and Greyhound Racing Fund should be Considered

At present all revenues from Betting Duty are allocated to a dedicated fund known as the Horse and Greyhound Racing Fund and 80% of that Fund is allocated to HRI.

More fundamentally, Indecon does not in general believe that it is appropriate that specific taxes be ring-fenced to specific functions. There is therefore merit in treating this as general tax revenue and making expenditure decisions on standard criteria.

Linking the funding of any sector to any particular tax could mean that long term under-investment arises because the level of revenue from the specific tax may not be sufficient. Similarly, if revenue from any tax expanded dramatically it could result in overspending compared to relative economic returns. In other sectors (for example tourism, general sport, industrial development etc.), the funding levels are not linked directly to the revenue which happens to be derived from any specific tax.

We therefore recommend that the Government consider the merits of replacing the Horse and Greyhound Racing Fund.

6. All Betting Operators should be Required to Obtain a Licence

Indecon believes there should be an obligation on all betting operators who offer betting to Irish consumers and who do business in the Irish market to obtain a betting licence. This should include all remote (online and telephone operators) as well as traditional bookmakers.

7. Taxation should be Levied on the same basis on Betting Exchanges and on remote as well as on Traditional Bookmakers

Excluding the Betting Duty from betting exchanges and from remote bookmakers has meant an implicit loss in revenue from these fast-growing sectors. It also, in our opinion, provides an unfair competitive advantage vis-à-vis traditional bookmakers. The latter are employment intensive.

We therefore recommend that taxation should be levied on the same basis on betting exchanges and on remote as well as on traditional bookmakers.

8. Licence Fees for All Offshore and other Bookmakers should be Increased

The low existing level of licence fees levied on bookmakers is likely to fund only a small proportion of the wider regulatory costs in the sector. We therefore recommend an increase in licence fees for all offshore and other bookmakers. These licence fees should provide differential fees for bookmakers depending on the size of their turnover in Ireland in order to facilitate smaller operators and new entrants. We believe indicative fees in the range of €20,000 - €150,000 may be appropriate.

9. Taxation on Betting should be on a Place of Consumption Basis

In order to ensure that all bets placed by persons in Ireland are captured by taxation we believe a “place of consumption basis” should be introduced for all betting duties. This approach is also being approved in the UK.

10. Rate of Duty should Initially be Set at 1% of Turnover

In deciding on the taxation of the betting sector, it is necessary to consider the following:

- ☐ On which parts of sector should duty apply?
- ☐ Should tax apply to turnover, winnings or gross profits/commissions?
- ☐ Rate of duty?

In terms of coverage of the duty, we recommend that Betting Duty should apply equally to:

- ☐ Traditional off-course bookmakers;
- ☐ Online bookmakers;
- ☐ Telephone bookmakers; and
- ☐ Betting intermediaries/exchanges.

We also considered whether it should apply in full or partially to on-course bookmakers but in order to continue to encourage attendance at racecourses we believe maintaining a zero tax for on-course operators is appropriate at this time.

Indecon also recommends that the Betting Duty should apply to turnover. While there are arguments in favour of applying it to winnings or other variables such as gross profits/commissions we recommend a simple tax on betting turnover.

In the case of betting intermediaries/exchanges while arguments have been made to support a gross profit tax on this sub-sector due to suggested difference in activities, we believe that an equal tax on turnover for betting exchanges is appropriate. However, we also believe that the rate of duty should be distributed between layers and backers as otherwise betting exchanges would unfairly pay a higher rate of tax.

Properly reconciling this with the place of consumption basis can lead to complexity depending on where the backers and layers consume. Indecon have suggested one way that betting duties could *prima facie* be properly captured.

On the difficult question of the rate of duty, there is a need to have regard to a wide range of factors including:

- ☐ Funding needs of the horse racing sector and the level of public finance deficits;
- ☐ The comparative levels of taxation on betting in other countries;
- ☐ The price elasticity of demand;
- ☐ The fact that currently betting exchanges and online and telephone bookmakers are paying zero Betting Duty.

Arguments were made to Indecon by some in the sector as part of this review suggesting the need to increase Betting Duty to 2% or higher. However, taking all of the above factors into account we believe the rate of duty should be set at 1% of turnover.

11. Rate of Duty should be Reviewed After One Year

Indecon recommends that a review of the rate of Betting Duty should be undertaken after one year. The review should assess the levels of funding needed to develop the horse racing sector and the competitiveness of Irish prize monies. In addition, an examination should be completed of what additional revenues have been generated as a result of widening the coverage of the betting tax to betting exchanges and to remote bookmakers. It should also examine the success in generating increased sponsorship and commercial licences. The review should also consider the progress achieved in streamlining of the sector and in securing efficiencies.

12. Duty on Betting Intermediaries should be Divided between Layers and Betters

Any duty on betting intermediaries/betting exchanges should be divided between layers and betters. Otherwise, such operators would face an unfair competitive disadvantage compared to online bookies or other players in the market.

The duty on betting intermediaries should apply to all bets i.e. to all individual transactions and to all betting events.

13. Effective Compliance Measures should be Introduced

Indecon believes that effective compliance measures must be introduced to ensure all sectors within betting pay an equivalent level of taxation.

This may require new measures in addition to IP controls, and may also require seizing of bank accounts and other changes. The Government should consider applying all of the powers under VAT legislation (or additional legislation, if needed) to the collection of betting duties and compliance. The Revenue Commissioners should monitor this and advise the Government on any new legislative or other measures needed to ensure compliance.

6.2 Board of HRI

One of the elements in the terms of reference for this review was to evaluate whether the Horse Racing Ireland Board structure, size and nomination process is appropriate and effective and to make recommendations for change, if necessary.

In considering the Board of HRI, we reviewed the existing legislation and history of the board. We also examined the Code of Practice for the Governance of State Bodies as well as the position with other semi-state organisations in Ireland and with a range of horse racing bodies internationally.

HRI currently has a very large board comprising 14 members, in addition to having a large number of board committees, which are important to the operation of the organisation. The board is largely a representative board.

A very unusual feature of HRI board is the nomination process and that the fact that the Government/Minister only nominates the Chairperson and for every other member the Minister is obliged to appoint categories of individuals who are prescribed in the legislation. In most cases this involves appointing individuals nominated by representative organisations.

Indecon has significant concerns over the low levels of government accountability in the nominations to the HRI board given the use of taxpayer funds. This situation is very unusual in terms of governance of State bodies.

The size of the HRI board is also an issue and some international suggestions on best practice would indicate smaller boards may be more effective. For example, an Australian review quoted in an IPA study recommended boards of between six and nine. While Indecon believes that somewhat larger boards can still be effective, the size of HRI board remains an issue. This, however, needs to be balanced against the benefits of ensuring that the industry is involved and is committed in an integrated way to the development of the sector.

The OECD has also pointed out in its general review of public service that there are growing tensions between representative roles played by stakeholder appointees and their fiduciary, legal and other responsibilities as board members.

While the above analysis would suggest a much smaller HRI board, with all of the members nominated and appointed by the Minister, we do not believe this would be appropriate for HRI at this time.

In formulating our recommendations we also recognised that under the current experienced Chairman ways have been found to effectively manage a large representative board and that there has been effective use of sub-committees. We were also influenced by the value of ensuring all sectors within the horse racing industry work together in an integrated way. As a result we believe there are some advantages of having a fairly large and representative group, although a reduction in the size of the board is recommended.

The very large number of representatives of the Turf Club/INHSC (5) was also considered and while one might conclude that one representative from the Turf Club/INHSC would be appropriate, we believe that more than one representative would be desirable given the importance of ensuring regulatory integrity in the sector and the long, distinguished and effective contribution of the Turf Club/INHSC to Irish horse racing. Some of the existing HRI board members other than those appointed by the Turf Club/INHSC are also members of the Turf Club and in fact the Chairman and a total of 7 members of the HRI board share common membership of the Turf Club.

Accepting all of the above points Indecon believes that there is a need to reduce the size of the HRI board and to significantly increase government accountability for the board, given the level of taxpayer funds involved.

Indecon recommendations regarding the size and structure of the HRI board are presented below.

Table 6.2: Recommendations re Size and Structure of HRI Board

1. Size of HRI Board to be Reduced
2. Minister to Appoint Chairman of Board
3. Minister to also Appoint 3 Public Interest Directors to HRI Board
4. Of the Ministerial Appointments, one to be involved in Horse racing Sector in Northern Ireland
5. The Non-Executive Board Members appointed by the Minister should include Individuals with Experience or Expertise in One or More of the following areas:
 - Horse Racing Sector in Ireland or Internationally
 - Betting Sector
 - International Marketing
 - Financial Expertise
6. The Open Public Process currently in place should be used to put secure nominations for possible candidates for the Public Interest members, for consideration by the Minister
7. The other 8 members of the Board to be appointed as follows:
 - 1 employee representative
 - 3 members of the Turf Club
 - 1 racehorse Owner
 - 1 racehorse Breeder
 - 1 racehorse Trainer
 - 1 from authorised Racecourses
8. HRI Board Statutory Sub Committees to be established to focus on:
 - Involvement of On-Course and Off-Course Bookmakers
 - Appropriate requirements for Jockeys, Stable Workers and others employed in the industry
9. Existing Consultative Forum for Racegoers should remain
10. Changes to Committee Structure of the Board of HRI as follows:
 - Joint HRI/TC/INHSC Integrity Services ICT Committee
 - Strategic Marketing Sub-Committee

1. Size of HRI Board should be Reduced

Indecon accepts that the size of HRI board should not necessarily be reduced to any arbitrary level of perhaps six - nine, but believes there is merit in reducing the overall number of members on the board. In a 2000 joint draft proposal by the Turf Club and the Association of Irish Racecourses, it was recommended that there should be a smaller effective board and it was proposed that the memberships should include two representatives of the Turf Club.

Indecon has carefully considered all of the issues involved including the views outlined in submissions, and taking all factors into account, we believe the HRI board should be reduced to a maximum of the Chairman and 11 ordinary members.

2. Minister to Appoint Chairman of Board

Indecon support maintenance of the existing system whereby the Minister decides on the Chairman of the HRI Board.

3. Minister to Also Appoint 3 Public Interest Directors to HRI Board

Indecon recommends that in addition to appointment of the Chairman, the Minister also should appoint three public interest directors to HRI Board. We believe these are the minimum numbers necessary to ensure accountability for the use of public funds.

4. Of the Ministerial Appointments, One to be Involved in Horse Racing Sector in Northern Ireland

Indecon believes that having a board member of HRI who has an involvement or knowledge of horse racing sector in Northern Ireland is appropriate. This was recognised in the existing legislation and Indecon supports retaining, as one of the Minister's nominees, an individual with knowledge of the sector in Northern Ireland.

5. The Non-Executive Board Members appointed by the Minister should include individuals with experience or expertise in one or more of the following areas:

- a. Horse Racing Sector in Ireland or Internationally**
- b. Betting Sector**
- c. International Marketing**
- d. Financial Expertise**

While experience in the horse racing sector in Ireland would be an obvious area of benefit to HRI, as we are recommending continuation of extensive representation from the sector this is not essential. The merits of including an individual with expertise in the sector internationally could also have value.

The betting sector is also of importance to the horse racing industry and Indecon believes more needs to be done to ensure both the betting sector and the horse racing sector work together. All of the components of the betting sector have a contribution to make. The on-course bookies are directly involved with racecourses while traditional bookmakers and the remote betting sector are central to supporting future Betting Duty revenues.

As well as sectoral expertise and experience, there is an advantage in having public interest directors who can bring experiences from other sectors to the board of HRI. In terms of functional specialisation international marketing and financial expertise would be of particular value.

6. An Open Public Process to be introduced to secure nominations for possible candidates for the public interest members, for consideration by the Minister

In line with government policies, widening the potential list of candidates for board appointment has value in considering appointments to semi-state boards. However, Indecon do not believe the Minister should be confined to those individuals offering their services on this basis.

7. The Other 8 Members of the Board should be Appointed as follows:

- a. 1 Employee Representative
- b. 3 Members of the Turf Club
- c. 1 Racehorse Owner
- d. 1 Racehorse Breeder
- e. 1 Racehorse Trainer
- f. 1 from Authorised Racecourses

Indecon believes that this would provide a wide representation from many (albeit not all) parts of the sector.

8. HRI Statutory Board Sub-Committees to be established to:

- **Focus on Appropriate Requirements of Jockeys, Stable Workers and Others employed in the Industry**
- **Involve On-course and Off-course Bookmakers**

Indecon believes that HRI Board Sub-Committees or sub-boards should be established to focus on the requirements of particular groups involved in the racing industry. This could enable very detailed, specific issues to be addressed comprehensively. Specifically, we recommend the establishment of two HRI statutory board sub-committees; one for the betting sector and one for appropriate employee requirements.

In the case of jockeys, stable workers and others employed in the industry, there is a need to ensure that a wide range of supports are developed which recognise their contribution to the sector. (For example, in the case of jockeys, there is a need to ensure standards and facilities at racecourses for jockeys and others reflect their position as elite sportspersons in line with standards in other sports.)

In relation to bookmakers, there is a need for a mutual understanding between bookmakers and other parts of the horse racing sector and Indecon believes a statutory board sub-committee would be appropriate. At present, there is a HRI bookmakers' sub-committee but this has not been established on the basis of statutory requirements and we believe this is essential given the significance of the betting sector in funding the industry. The existing committee also has a more limited role and is focused on the licensing and regulation of bookmakers, which we believe may be more appropriate as an executive function. The proposed bookmakers committee is designed to secure wider involvement of bookmakers in the development of the sector.

Indecon recommends that the legislation should require that the chairman of each of these sub-committees/sub-boards to be a member of the HRI board.

In the case of jockeys, stable workers and others employed in the industry, we recommend that the legislation should require at least one member to be a representative of jockeys and one of stable workers.

In the case of the bookmakers, we recommend that at least three members are representatives of bookmakers. This sub-committee/sub-board should replace existing non-statutory board of the HRI.

Indecon believes the chair and up to two members of these two sub-committees should be appointed by the board of the HRI from within members of the HRI Authority. The Minister for Agriculture should directly appoint up to four members to each of these statutory sub-committees.

9. Existing racegoers consultative forum should remain

The existing consultative forum for racegoers should continue and be developed to ensure effective inputs. Racegoers as consumers are of critical importance to maintaining the viability of Irish horse racing and their view must be given sufficient recognition.

10. Two Advisory Committees of the Board of HRI should be established as follows:

- a. Joint HRI/TC/INHSC Integrity Services ICT Committee**
- b. Strategic Marketing Sub-Committee**

Indecon believes that an integrity services ICT Advisory Committee should be established, given the need to ensure effective integration of racing databases to enhance efficiency and develop and support the integrity functions of the Turf Club. This Committee should approve an implementation plan for this area and this committee should be discontinued when this task is completed.

A Strategic Marketing Sub-Committee is also recommended, reflecting Indecon's view of the importance of investment in marketing for the development of the sector. This should replace the HRI strategic marketing review group committee, which we understand has been disbanded once its report was completed.

Streamlining of Functions

In a resource-constrained environment there can be no tolerance for any resistance to the streamlining of state-funded functions for an industry sector if these contribute to efficiency and assuming there are no unintended consequences. Indecon believes there is potential for greater efficiencies which would reduce costs, improve effectiveness and enhance communications. Such measures must be given equal priority to any initiatives to increase the coverage of betting taxes and to create a sustainable funding framework for the sector.

Table 6.3: Recommendations re Streamlining of Functions between HRI/Turf Club

1. Head Offices of Turf Club and HRI should be integrated into existing HRI Offices as a Priority.
2. Direct Access for Turf Club should be provided to racing database.
3. A greater integration of shared services should be implemented by HRI/Turf Club within three months with the objective of targeting a minimum 10% reduction in costs in these areas. This should include shared services in areas of:
 - Payroll systems
 - IT and creditor systems
 - Procurement
 - Other shared services
4. A Joint HRI/Turf Club Implementation Task Force should be established to integrate a number of functions with regard to IT interfaces to clients including:
 - Integration of administration of charges levied by HRI and by the Turf Club including charges on owners, trainers and jockeys
 - Financial transfers by HRI and Turf Club/INHSC
 - Pensions administration of two merged Defined Benefit Pensions Schemes
 This Task Force should subsequently consider other wider potential areas of efficiency savings or integration of functions including:
 - Administrative aspects to support inspection functions including inspections involved in licensing/authorisation of racecourses
 - Development and maintenance of mobile track equipment
 - Other potential areas

1. Head Offices of Turf Club and HRI should be integrated into existing HRI Offices as a Priority

The fact that two state-funded organisations dealing with the same sector have separate adjacent head offices is not the most cost-efficient use of funds. The symbolic impact of this was also noted in a number of submissions by the industry. We therefore recommend that immediate steps are undertaken to integrate the two head offices. HRI numbers have declined and so we see no reason why relevant Turf Club employees could not be accommodated in the one building. We believe this would also help communications and the identification of other potential cost savings. (In the 2000 joint draft proposal by the Turf Club a single headquarters location was proposed.)

2. Direct Access for Turf Club should be Provided to Racing Database

In relation to the integrated racing databases we recommend that Section 8(1) (a) of 2001 Act be amended to enable both HRI and the Racing Regulator to share a common racing database. A single user interface of this database should be developed. This must not however lead to any additional costs or duplications of functions.

3. A greater integration of shared services should be implemented by HRI/Turf Club within three months. This should include shared services in areas of:

- Payroll systems
- IT and creditor systems
- Procurement
- Other shared services

The use of shared services is one of the important efficiency measures being applied throughout the state sector. Given the complementarity of functions undertaken by HRI/Turf Club, there is obvious potential to secure economies of scale by integration of shared services. We recommend that a target for securing a minimum 10% reduction in the costs of these services be set.

4. A Joint HRI/Turf Club Implementation Task Force should be established to integrate a number of functions including:

- Integration of administration of charges levied by HRI and by the Turf Club including charges on owners, trainers and jockeys
- Financial transfers by HRI and Turf Club/INHSC
- Pensions administration of two merged Defined Benefit Pensions Schemes
- Integrated racing database

In addition to shared services, there are a range of other functions which we believe should be streamlined. These proposals will not compromise the integrity functions of the Turf Club or the functions of HRI. Ensuring that this streamlining is effective and secures efficiencies will require a co-operative approach by HRI and the Turf Club/INHSC. We therefore recommend the establishment of a joint Turf Club/INHSC/HRI Implementation Task Force to oversee this integration. This group should also oversee the integration of the racing database.

There is also potential to rationalise the administration of direct financial transfers between the agencies. Also, the two separate pension funds have been merged but administration remains separate. This is not in our view cost effective.

Each of Horse Racing Ireland, the Turf Club and the INHS Committee separately levy charges on clients, including owners, trainers and riders. Some of these are collected directly and some are collected by one body and remitted to the other body. In a 2000 joint draft proposal by the Turf Club and the Association of Irish Racecourses it was recommended that “All racing administration assets should be merged leading to a single financial stream for the industry.” In addition to the specific areas identified, we believe there may be other areas where the integration of functions could be undertaken without imposing on the integrity functions of the Turf Club.

Potential wider areas of efficiency savings or integration of functions include:

- Administrative aspects to support inspection functions including inspections involved in licensing/authorisation of racecourses
- Development and maintenance of mobile track equipment
- Other potential areas

These areas, however, require further testing and we recommend that the Task Force consider these wider potential areas of efficiency savings or integration of functions.

This joint task force could also consider the merits of any other legislative changes which might facilitate more effective implementation of functions undertaken by either HRI or the Turf Club/INHSC even where do not cover areas of potential streamlining or cost savings. For example possible changes to Equine Welfare (Section 8(1) e (i)) of Act or changes in relation to Arbitration (section 42(2) of the Irish Horse Racing Act 1994) as amended by the 2001 Act or changes regarding the appointment of authorised officers (section 49 of Irish Horse Racing Industry Act 1994) may be considered.

Marketing and Competitiveness

Our terms of reference do not require an examination of wider strategy and initiatives for the sector. However, from our research we believe there are two other key issues which are of strategic importance for the sector, namely marketing and competitiveness. These combined with securing sustainable funding are of paramount importance.

The marketing of the horse racing sector, both in Ireland and internationally has the potential to transform the viability and success of the industry and in marketing leading racecourses. While effective marketing has been undertaken, for example in the marketing the Irish thoroughbred, we believe overall marketing requires new focus and priority, most particularly in marketing of Ireland as a destination for racegoers. The potential impact of the recent announcement by the Minister in relation to the involvement of China is an example of the scale of potential in this area.

It is also important to recognise that all marketing must be effective and that increased marketing of certain events may not be justified.

In addition to marketing, ways of improving the cost competitiveness of the sector are an aspect which can be lost in institutional considerations. This has implications for the cost base within breeding and training. It also has implications for the need for competitive fees and charges which highlight the necessity to ensure efficiency in HRI/Turf Club/INHSC.

Table 6.4: Recommendations on Marketing and Competitiveness

1. HRI Board to establish a permanent Strategic Marketing Sub-Committee of the Board
2. The Strategic Marketing Sub Committee to present recommendations within three months. This should include the development of the plans for an integrated marketing and branding scheme for the sector.
3. Sector to focus on long term competitiveness

1. HRI Board to establish a Strategic Marketing Committee of the Board

We believe that given the importance of marketing for the sector that HRI should establish a permanent Strategic Marketing Sub-Committee of the HRI board. This would ensure that marketing continues to be given a high priority within HRI.

2. The Strategic Marketing Sub Committee to present recommendations within three months

The Strategic Marketing Sub-Committee should have representatives from Bord Bia, HRI, ITM and Fáilte Ireland.

This should build on the work undertaken by the previous Strategic Marketing Review Group. This work should include the development of a plan for an integrated marketing and branding scheme. This should capitalise on Bord Bía international branding and work being undertaken by Fáilte Ireland.

3. Sector to focus on long term competitiveness

The fundamental need for every element in the horse racing chain to be cost competitive is in Indecon's view fundamental to securing the success of the sector. There is also a need for ongoing attention to other aspects of competitiveness, including skill development. Without such foundations no government support or initiatives can guarantee the long term success of the sector.

Legislation and Governance

In order to give effect to the recommendations on funding, HRI Board, Streamlining of Functions and other recommended strategic directions for the sector there is a need for a number of legislative and other changes. These are presented in the recommendations below.

Table 6.5: Recommendations on Legislation and Governance of Irish Horse Racing Industry

1. Legislative changes should be introduced to facilitate greater Government accountability in the decisions on the membership of HRI Board.
2. Legislative changes to be introduced to reflect proposed changes to size and structure of HRI Board.
3. Comptroller and Auditor General to continue to audit expenditure on HRI.
4. Department of Agriculture, Food and the Marine, to undertake a value for money review of HRI.
5. Framework Agreement to be introduced between Department of Agriculture, Food and the Marine and HRI and to cover integrity functions of Turf Club/INHSC.
6. Legislation to be modified to facilitate the establishment of proposed changes to new Statutory Sub-Committees of HRI Board.
7. Issue of Ownership by HRI of Tote/Racecourses to be reviewed.

1. Legislative changes should be introduced to facilitate greater Government accountability in the decisions on the membership of HRI Board

The existing Act will require amendments to facilitate greater Government accountability in the decisions on the membership of HRI Board. Changes will also be required in a number of related aspects of the legislation to implement the other recommendations outlined in this report.

2. Legislative changes to be introduced to reflect proposed changes to size and structure of HRI Board

Legislative changes should be introduced to reflect proposed changes to size and structure of HRI Board. This will require amendment to various sections of the Act.

3. Comptroller and Auditor General, to audit expenditure on HRI

Indecon believes it is important that the Comptroller and Auditor General continue to audit the expenditure on HRI. This should include an audit of any public funds spent by HRI on the integrity functions of the Turf Club.

4. Department of Agriculture, Food and the Marine to undertake a value for money review of HRI

Best practice requires that occasional formal value for money reviews are undertaken of all government expenditures. We understand that HRI has not to date been subject to such a review. In order to give assurance that public funds are used effectively, we recommend that the Department of Agriculture, Food and the Marine undertakes a value for money review of HRI within the next 18 months.

Indecon notes however that as part of the general Comptroller and Auditor General Audit consideration is given to value for money but a specific VFM Review has not been undertaken. There was a review undertaken of the Horse and Greyhound Racing Fund in 2009 by FGS⁵ but this did not represent a detailed VFM examination and focused on the importance of the sector and of the Horse and Greyhound Racing Fund.

5. Framework Agreement to be introduced between Department of Agriculture, Food and the Marine and HRI and to cover integrity functions of Turf Club/INHSC

Indecon understands that regular meetings are held by the Department with HRI concerning its expenditure and functions. However, no formal framework agreement is in place. In line with the requirements of the Code of Practice on Governance of Semi-State Bodies, such an agreement should urgently be put in place. This should cover the integrity functions of the Turf Club/INHSC. This agreement should outline output targets.

⁵ FGS Consulting (2009) 'Review of the Horse and Greyhound Racing Fund', Department of Arts, Sport and Tourism, May 2009.

6. Legislation to be modified to facilitate the establishment of two new Statutory Sub-Committees of HRI Board as follows:

- **On-Course and Off-Course Bookmakers**
- **Jockeys/stable workers and other employees**

The legislation should also be amended to permit direct Ministerial appointments to the Board's statutory sub committees. In addition to the statutory committees, in view of the importance of an integrated racing database, we also recommend that an integrity services ICT Committee of HRI Board is established. This need not be a permanent committee and once issues are addressed the committee could stand down. We also believe that a Permanent Strategic Marketing Committee of the HRI Board is established to strengthen HRI's role in marketing horse racing in Ireland, marketing Ireland abroad as a destination for racegoers, and marketing of the Irish thoroughbred racehorse. These latter two committees do not, however, require any legislative changes.

7. Issue of Ownership by HRI of Tote/Racecourses to be Reviewed

The ownership of HRI of Tote/Racecourses is an issue which was highlighted in submissions to our review. In terms of best practice, we have concerns about a development agency involved in the disbursement of state funded grants and in the licensing of competitors being involved in ownership of racecourses. We accept that a number of these racecourses are strategic assets and ensuring that they continue to be developed is of importance. The ownership of the Tote also has implications for HRI's role in advising on aspects that impact on the betting sector. However, we are aware of the historical involvement of HRI in these areas and there may be benefits of such involvement in terms of knowledge of the sector and in generating resources which can be used for the wider benefit of the sector.

The balancing of these conflicting issues is fundamentally a matter for the Government but we believe that decisions should be made on these ownership issues.

6.3 Conclusions

Indecon believes that the full implementation of the recommendations in this report will provide for a more viable and sustainable horse racing sector. The recommendations will require significant adjustments by the organisations impacted, but we believe they are in the overall interest of horse racing.

The sector, in our view, has potential to expand employment and its overall economic contribution. This will, however, require visionary leadership and a non-partisan approach by all involved. The changes will also assist in securing value for money for very scarce public resources and will help to protect taxpayer interests.

Annex 1 List of Organisations and Individuals who made Submissions

No.	Organisation or Individual
1	Irish Blue Cross
2	Television Mobiles Ltd (TVM)
3	Horse Sport Ireland
4	Betfair Ltd
5	Irish Thoroughbred Breeders' Association
6	HRI Staff
7	Irish Jockeys Association Ltd
8	Turf Club Officials Association
9	Federation of Irish Sports
10	Irish Farriery Authority
11	Veterinary Ireland
12	Paddy Power plc
13	Goffs Bloodstock Sales Ltd
14	AIRCVS
15	NI Horse Racing Group
16	Dundalk Stadium
17	R.A.C.E.
18	Irish Farmers Association
19	Tattersalls Ireland
20	Irish Independent Betting Offices Association
21	Highflyer Ltd
22	Association of Irish Racecourses
23	Irish National Bookmakers Association
24	Irish Point to Point Services
25	Association of Irish Racehorse Owners
26	Irish Stablestaff Association
27	Brightwells Limited
28	Turf Club & INHS
29	James Gough
30	Peter Downes
31	Felim Mac Eoin
32	John Ross
33	Peter Savage
34	Declan McCormack
35	Sally Cox
36	Liam Casey
37	David Rouse
38	D K Weld
39	Padraic Carty
40	Senator Ted Brennan
41	Irish Equine Centre
42	Irish Racehorse Trainers Association
43	Tony Keenan
44	Jim Desmond