Stratecon
Applied Economic Research

Policy Options / Financial Viability of the Horse Racing Sector in the Western Cape

PGWC PT Reference Number: PTR/14/1/7/7 (2015/16)

Final Draft

Prepared for: Western Cape Government Provincial Treasury

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Executive Summary

Horse racing in the Western Cape has a proud history. Stretching back to the first races on Green Point common in the 19th century, this sport has cultural and historic threads that reach throughout the province. Historically owners and punters rubbed shoulders at the stadiums. Money changes hands. Jockeys, breeders and trainers all rely on this process for their livelihoods. So too, to a lesser extent, do veterinarians, farriers and bookmakers, to mention just a few.

This sport does today still make an important economic contribution in the province. In 2015:

- The horse racing industry in the Western Cape had an income of R665m.
- This resulted in a R1.0bn contribution to provincial GGP.
- It sustained 4 213 jobs in the industry itself and with downstream suppliers.

It is also an important source of provincial revenue, having generated R39m for the province in 2015. This is critical given the limited means for the provincial authority to generate its own revenues.

Yet this economic contribution is under threat. In the Western Cape, in South Africa and internationally the sport is in decline. Newer forms of gambling are less cerebral than betting on horses. Horse punters study form. Slot machine players simply watch the spinning wheels. Newer forms of gambling are both more instantly gratifying and give a longer gambling experience for the money spent. Spinning a slot machine gives a nearly instant result. The outcome of a bet on horse must wait until the race is over. Slot machines and other gambling cost less to operate than racing horses. Machine maintenance is cheap compared to horse racing overheads. This means that horse racing odds are less competitive than other gambling. This is felt by the punter as being able to spend less time gambling.

The deteriorating situation, with some exceptions like Australia and South Korea, are seen worldwide and in South Africa. The situation is little different in the Western Cape where between 2008 and 2015 the number of:

- Race horses declined from 1 668 to 1 507. This is a 10% decline which is 1.4% annually.
- Starters declined from 8 438 to 7 071. This is a 16% decline and 2.3% annually.

- The number of breeders fell from 208 to 105. This is a 50% drop which is 7.1% annually.
- Owners reduced from from 927 to 701 by 2015. This is a 24% drop which is 3.5% annually.
- Jockeys declined from 33 to 28.

One of the consequences of these changes is that the provincial totalisator has operated at a loss for some time. It is the totalisator that returns funds to the racing industry. In 2015, Kenilworth Racing, the current incarnation of the provincial totalisator, made a loss of R1.1m.

These changes are important to the provincial authorities. The on-going decline of the industry, if not addressed, would have negative socio economic impacts and could compromise tax revenues for the province. The purpose of the Stratecon assignment was to explore potential policy options that could be used, if possible, to address these changes. It was clearly important not only to consider the policy options but also any unintended consequences of policy choices. This, in turn, had to be done within the context of the realities of the forces bringing about change in the gambling industry.

One approach to assessing policy options is to consider them within the framework of economic efficiency, equity, sustainability and macroeconomic impacts. Economic efficiency is a state in which some people cannot be made better-off by reallocating the resources or goods without making others worse-off. In this context, it means assessing whether provincial subsidies or tax breaks for horse racing result in more or less efficient allocation of public resources. The equity criteria judges policy choices on their degree of fairness. Sustainability is about the long-term financial sustainability of the industry. Any fiscal subsidy to an unsustainable industry cannot be justified unless the sustainability constraints can be addressed. The macroeconomic impact of the provincial horse racing industry is important primarily because of the jobs which are sustained by the industry. It is also important because, compared to other gambling choices, it is labour intensive and many of the jobs are at the lower end of the skill spectrum.

Policy Considerations

Five key issues need to be introduced before policy choices can be discussed. First is the concept of industry life cycle. Second is the extent to which there is potentially unfair competition in the gambling industry. The latter has two dimensions - possible unfair competition between horse racing and other forms of gambling and between bookmakers and the totalisator. Third there is a lack of clarity on the potential consequences of either increasing bookmaker taxes or the sports development levy. Fourth is the contractual arrangement between Phumelela and Kenilworth Racing that needs to be considered in this debate. Fifth is to consider the potential unintended consequences of efforts to level the racing playing field.

One of the well-known cases for government support of an industry is the so-called 'infant industry' argument. A fledgling industry, aimed either at export promotion or import substitution, typically needs support against more established international firms until it has grown sufficiently to be competitive in the international arena. The horse racing industry is not an infant industry. Its South African roots can be traced back as far as the beginning of the 19^{th} century. Internationally it stretches back even further. It is therefore difficult to make a case for government support of an industry which is mature and is challenged by the rise of modern alternatives which are evidently more appealing to the consumer. Such support:

- Would not be equitable. There are many other more deserving infant industries which may offer a greater chance of economic success than a mature industry. It may result in some of this support accruing to Phumelela should Kenilworth Racing become profitable. It is understood that there is a contractual arrangement between Phumelela and Kenilworth Racing on a 50/50 profit share should Kenilworth Racing become profitable. This would then amount to the Province supporting a listed company that appears to be in good financial health.
- Would not be efficient for the same reasons as above. There are potentially better and more efficient returns available from allocating limited provincial funding to other infant industries.
- May not help with the long-term sustainability of industry that shows a decline in the face of changing consumer choices.
- Would have a positive macroeconomic impact in that it would help save existing jobs. This argument does, of course, not consider the potential for greater job potential in other infant industries.

The second key issue is the extent to which there is potential unfair competition in the gambling industry. It can be argued that the playing fields in the overall gambling industry are not level. There are several reasons for this:

- The cost structure of the racing industry is higher than any other form of gambling. The costs of running casinos and LPM establishments are the upkeep of buildings and gambling positions. The cost of sports betting does not include the cost of maintaining the soccer, cricket or rugby industries. This is done by team supporters. Part of the cost of punting on racing is the need to support the industry.
- Changing tastes in the gambling industry. Punting on horses is a cerebral activity. It requires the study of form and a historical memory of past horse performance. Putting money into a slot machine requires none of this effort. There is more instant gratification from slot machines and sports betting than from horse racing.

Level playing fields between racing and other forms of gambling can, realistically, only be achieved by increasing the cost structure of other forms of gambling to match that of the racing industry. This would mean an increase in taxes for casinos, LPMs and sports betting. It would also clearly be problematic. There are likely to be legal challenges which, even if unsuccessful, would impose considerable delay. More damaging would be the impact on investor confidence. The radical, and probably unprecedented, increase in taxes needed to level the playing fields for the racing industry would send a very poor message to potential investors. The message that would be internalized by investors in the fledgling renewable energy, oil and gas, boat repair, fashion and creative industries is that their provincial investments would not necessarily be safe from capricious changes in provincial policy. This would lend itself to negative investor sentiment, lower investment and a reduced potential for future job creation.

It can be argued that the playing fields between bookmakers and the totalisator are not level. While it can be shown that bookmakers have some advantages over the totalisator the opposite can also be shown.

Bookmakers have at least four advantages:

- Punters pay the gambling taxes on their winning bets only. Losing bets, which is income accruing to the bookmaker, are not taxed (by the gambling board).
- Punters pay the sports development levy. This issue is the same as gambling taxes referred to above.

- Bookmakers offer the open bet. The open bet is effectively the same in nature as the bet which is offered by the totalisator except that it does not influence the winning odds.
- Bookmakers do not make any discretionary contribution to racing operations or facility maintenance although they do make a compulsory contribution through the sports development levy. They only need to consider their own betting facilities.

The totalisator has at least three advantages:

- Owner of Tellytrack which gives a live feed of races. It is clearly important for the ambiance of a conducive punter environment to ensure that punters can view races as they occur. As the owner of Tellytrack the totalisator can, and does, charge bookmakers for the use of this service. This clearly gives the totalisator an advantage over bookmakers because their charges for Tellytrack can tilt the playing fields in their advantage.
- The totalisator currently operates in the same domain as bookmakers under the banner of Betting World. The consequence is that if the playing fields are currently tilted in favour of bookmakers this also favours the totalisator.
- Kenilworth Racing, as part of the totalisator, is ‘asset rich’. It owns Kenilworth Race Course, Durbanville race course and assets in both Milnerton and Phillippi, to mention a few. There is clearly potential to leverage income from these assets.

The third key issue is a lack of clarity on the potential uses of higher bookmaker taxes or the sports development levy.

- It is not clear how funds raised through an increase in the sports development levy would be used. The funds would, initially, be received by Kenilworth Racing. It is not clear if they must be remitted back to industry development or if they could accrue to Kenilworth Racing.

- It is not clear what may happen to the totalisator contribution should bookmaker taxes be increased and remitted to the totalisator. The concern is that any increase in bookmaker industry contribution may offset potential totalisator contribution.

- The second, related, area is on the determination of stakes. There does not appear to be any regulatory stipulation on the part of gambling boards. It is understood that these are determined retrospectively based on the financial performance of the totalisator in the previous year. The concern is that any increase in bookmaker contribution may not materialise as an increase in stakes.

- There is little clarity on the contractual arrangement between Phumelela and Kenilworth Racing. The only available public domain information is that Phumelela would share 50/50 in any profits should Kenilworth Racing become profitable.

The fifth key issue is to consider the potential unintended consequences of efforts to level the racing playing field between bookmakers and the totalisator.

Bookmakers may choose to:

- Move their operations out of the Western Cape and locate in another province. This would allow them to take online and telephonic bets from punters in the Western Cape on races in the Western Cape but governed by less onerous regulations than those in the Western Cape.
- No longer offer bets on horse racing and focus on other forms of betting. It is not clear where current punters would place their horse racing bets. Out of province bookmakers would offer such a choice.
- Create and offer a derivative of a horse racing bet (such as currently being offered on lottery numbers). This would then be a bet on racing that is governed by non-horse racing regulations and taxed accordingly.

The totalisator may choose to:

- Use the increased bookmaker racing contribution and reduce their own contribution. This, as mentioned above, is an area where this is a lack of clarity.
- Use bookmaker contribution towards maintaining own assets. There is no clear definition of what ‘contribution to the industry’ entails. Arguably it must include the maintenance of assets like Kenilworth Race course. These are assets which are owned by Kenilworth Racing as part of the totalisator. This would result in bookmakers paying to maintain totalisator assets. This is clearly not the intention of policy which is aimed at levelling the racing playing field.
- Pay dividends. Any increase on the part of bookmakers could, once Kenilworth Racing becomes profitable, be paid into Phumelela shareholder dividends.

Policy Options:

Two mutually supportive lines of analysis were used for this assignment. The first was to use the issues outlined above in a debate over the pros and cons for policy options. This, by its very nature, is broad ranging. The second was to conduct a detailed financial and economic scenario simulation of the policy options. This gives detailed and precise results but within the constraints of the assumptions underlying the defined scenario.

Eight policy options are considered:

Option 1: Do Nothing

The do-nothing option is the simplest option because it leaves the status quo as is and does not introduce any policy based unintended consequences. This do-nothing option includes no change in bookmaker taxes, no changes in the sports development levy and the current prohibition on a single firm owning more that 5% of LPMs in the province.

This option clearly does not address the potential social consequences should the current trends in racing in the province continue. These may result in the closure of Kenilworth Racing and a further decline in the industry, with the concomitant job losses.

The detailed financial/economic simulation analysis supports these conclusions albeit with one surprising results. Two simulation scenarios were run:

Scenario 1 simulates the consequences of a change in punter preferences away from racing towards betting on sports, in casinos and LPMs.

Scenario 2 simulates the consequences of the current change in punter preferences away from totalisator to bookmakers. (The precise simulation was a 10% drop in totalisator GGR which accrues to bookmakers).

The results to both scenarios are:

- These is an increase in provincial gambling taxes.
- The financial viability of the racing industry declines and there are increasing losses for both Kenilworth Racing and race horse owners.
- It has a negligible, albeit slightly positive, macroeconomic impact and some job gains in the province.

These results concur with the general conclusions draw above that this would result in the continued decline in the industry. The increased tax revenues are the result of higher taxes revenues from other forms of gambling relative to those from the totalisator.

The increase in macroeconomic impact and jobs occur outside of the racing industry. They are small. These scenarios did not include possible structural changes or the demise of the racing industry and, as a result, the job changes do not include those potential job losses in the racing part of the industry.

Option 2: Do Nothing (No Tax or Sports Development Levy Changes) with Social Safety Net

This do-nothing option builds on the first do-nothing option by introducing a social safety net should there be job losses in the industry. The introduction of such a social safety net could include:

- Training and/or skills development for vulnerable people in the industry;
- Policies like those used in job resilience for mine closures. These include the promotion of small business and SMMEs in the affected areas and the subsidisation of transport to areas where employment opportunities exist.

There are challenges to such interventions:

- The interventions would need to target specifically those people who are vulnerable because of changes in the racing industry. Often breeding is not the sole occupation on farms that breed horses. There are other forms of agriculture. Costs and income are therefore spread across a range of activities. This often means that it is difficult to disaggregate a loss in breeding income from a loss of other forms of income or cost increases.
- The existence of widespread unemployment, particularly for unskilled and semi-skilled employees largely in the farming sector, would constrain the success of a social safety net that focuses on retraining and job placement.

The detailed financial/economic simulation analysis did not run this scenario because the cost of the social safety net would need further investigation. However, the scenario conclusions to Option 1 were that there would be increases in gaming taxes, which would also be the case for Option 2. The policy option is therefore available to use these tax gains to fund the social safety net.

Option 3: Do Nothing (No Tax or Sports Development Levy Changes) with LPM Deregulation

This do-nothing option is a variation of the pure do-nothing option by allowing firms to have the rights to more than 5% of the total LPMs in the Western Cape. The totalisator argues, correctly, that, being a single firm, they are bound by the 5% regulation. Bookmakers can, at the level of the individual firm, also have 5% of the provincial LPMs. However, because there are a multitude of individual bookmakers they can, collectively, hold substantially more than 5% of provincial LPMs.

The Western Cape Gambling Board has, to date, not issued all potential LPM licenses for all the machines to which it is entitled under national regulations. The potential does exist for this regulation to be amended without major equity impacts.

The detailed financial/economic simulation analysis was based on three constraining assumptions. First, five LPMs were allowed for each outlet run by Kenilworth Racing. Second, any increase in Kenilworth Racing LPM GGR would be at the expense of GGR of other LPMs. Third, employment in LPMs is the consequence of the number of machines in an establishment rather than the GGR accruing to those machines.

The results were that:

- Income at Kenilworth Racing would change from a loss to a profit.
- There would be no changes in the net costs to race horse owners, turnover, GGR, taxes, sports development levy or provincial Gross Geographic Product.

The simulation suggests that allowing LPMs in the outlets run by Kenilworth Racing would solve the financial problems faced by the provincial totalisator and would not have other adverse effects. This is a conclusion that is only valid within the constraints of the assumptions under which the simulation was run. The results would not be the same if, for example:

- Increased LPM GGR was at the expense of horse racing GGR because of the location of the machines at the totalisator. This could still bring about job losses in horse racing.
- The owners of existing LPMs reduced the number of machines on their premises because of falling GGR. This could result in fewer jobs in those establishments.

The overall conclusion is that this do-nothing option may help the provincial totalisator but there may be unintended consequences that are not apparent from the simulation analysis.

Option 4: Do Nothing (No Tax or Sports Development Levy Changes), with Enabling Environment for Redevelopment of Kenilworth Racing

This do-nothing option is a variation of the pure do-nothing option which allows for active facilitation of the redevelopment of assets held by Kenilworth Racing. This option would entail the Western Cape Government addressing existing development constraints. These may include, for example, challenges with zoning, provision for bulk services and general red tape.

The detailed financial/economic simulation analysis did not run this option because the cost and benefits of the enabling environment would need further investigation. So too would the consequences of the redevelopment on horse racing GGR need to be investigated. Details of this development are unknown at this stage.

The redevelopment would maintain the status quo if it supports the industry while maintaining GGR. This would make the industry more sustainable. On the other hand, a sustained industry in the face of lower GGR would face similar consequences as the analysis for Option 1 where it was shown that a drop of racing GGR that accrues to other forms of gambling would increase gambling taxes. The policy option is therefore available to use these tax gains to fund a social safety net.

Option 5: Do Nothing (No Tax or Sports Development Levy Changes) with Enabling Environment for Redevelopment of Kenilworth Racing and LPM Regulatory Changes

This do-nothing option combines Option 3 and Option 4, which are not mutually exclusive. As Kenilworth Racing occupies a unique position in the Western Cape (geographically, historically and within the local gambling sector), there is a strong argument that it should be allowed more LPMs (if this is a policy option that is decided upon).

Option 6: Level Playing Fields - Across all Gambling

One of the policy issues that was discussed is that the long-term decline in the racing industry is partially the result of demographic changes with people moving away from punting on horses, on the one hand, and that returns from betting on horses are lower than from other forms of gambling. The latter is the result of the unavoidable higher cost structure of racing compared to other forms of gambling. The levelling of this playing field would mean lowering the return to other forms of gambling to make such returns comparable to those from gambling on racing. The most obvious way of doing this would be to increase taxes on other forms of gambling.

The constraints and unintended consequences have been outlined above. There may be legal challenges. There would be negative impacts on investor perceptions. The latter would undermine current and future levels of investment in the province. This, in turn, would reduce potential incomes and future job creation.

This option was not modelled in the financial/economic simulation. The ‘unknowns’ were too great for accurate simulation.

Option 7: Level Playing Field – Across Racing Only

This option addresses the potential to level the racing playing field by making changes in taxes and other industry contributions so that the totalisator and bookmakers make the same contribution to the industry.

This option faces various challenges, including the existing advantages to both the totalisator and bookmakers that changing a simple industry contribution would not address, on the one hand, and the potential unintended consequences of such a choice. Thus, this option is unlikely to succeed in a true levelling of the playing fields.

In addition, it would require regulatory control of the use of industry contributions, how the sports development levy is used, the determination of stakes, etc. It will also be appreciated that regulations, with the best will in the world, can, to a larger or lesser extent, be overcome.

This option was simulated in three financial/economic scenarios. The scenarios that were run are:

- The sports development levy on the open bet is increased to 17% and there is a 10% shift in punters from bookmakers to the totalisator (Scenario 4).
- The sports development levy on all bets with bookmakers is increased to 6% (Scenario 6).
- The totalisator and bookmakers contribute the same proportions to gambling taxes and horse racing operations. The totalisator pays 100% of additional sports development levy into stakes (Scenario 8).

The results are summarised in the table below.

Scenario Options to Level Playing Field in between Bookmakers and Totalisators

Change in	Scenario 4 SDL on Open Bet 17% and 10% punter movement	Scenario 6 SDL on all Bets to 6%	Scenario 8 Equal Tote and Bookmaker contribution, all paid to SDL
GGR	Unchanged	Unchanged	Unchanged
Gambling taxes	Reduced	Unchanged	Reduced
Financial viability of Kenilworth Racing	Better	Better	Unchanged
Cost to Owners	Reduced	Reduced	Reduced
Macroeconomic Impact	Negative	Positive	Positive

An interpretation of the scenario results on face value suggests that the most attractive of these narrow policy option would be financial scenario 6 which is to impose a sports development levy on all bets offered by bookmakers. Within the confines of the simulation assumptions this leaves both GGR and gambling taxes unchanged. It improves the financial position of Kenilworth Racing, reduces the cost of owning a race horse and brings about a mild macroeconomic improvement.

It should however also be recognised that this policy option is, in effect, the imposition of a higher tax on bookmakers. It could have many unintended consequences. As outlined above this would increase the cost of gambling with bookmakers. Punters may choose to gamble with the totalisator, which would not undermine the simulation results, or go to casinos which invalidates the results entirely. Bookmakers may move out of the province, no longer offer bets on horse racing or offer a racing derivative, for example. It would probably also need a raft of new regulations to ensure that the proceeds of the sports development levy are used for the betterment of the sport.

Option 8: Full Level Racing Playing Field

This option addresses the potential for a full levelling of the racing playing field. This would include:

- Making changes in taxes and other industry contributions so that the totalisator and bookmakers make the same contribution to the industry.
- Addressing the advantages that both the totalisator and bookmakers have outside of simple tax considerations and other industry contributions.
- This option would require at least two interventions:

- Remove the ownership of both Kenilworth Race Course and Tellytrack from the totalisator. These entities then charge both the bookmaker and the totalisator for access to the track and broadcasting rights.
- Supplement this with necessary changes in taxation and industry contributions.

There are clearly challenges to this option:

- Property rights to Tellytrack are vested with the three totalisators in South Africa (of which Phumelela is the manager). It is not clear whether this issue could be addressed.
- Tellytrack is used nationally so this solution cannot simply be implemented in the Western Cape.
- There are other legal implications. Amending ownership of entities such as Kenilworth Race Course and Tellytrack would require a review of licencing categories, licencing amendments, undoing of contractual relationships and potential legal challenges by affected parties.

Policy Recommendation

Based on the policy issues and policy choices outlined above, policy option 5 is recommended. This option comprises:

- Making no changes to bookmaker or totalisator taxes and industry contributions to the sports development levy.
- Creating an enabling environment for the redevelopment of Kenilworth Racing.
- Make LPM regulatory changes so that either individual firms or just Kenilworth Racing can hold more than 5% of LPM in the province. Equity and ease of regulation would suggest that the former would be preferable.
- Further monitoring of the industry is suggested and the impact of this recommendation noted, as well as the potential impact of the redevelopment of the assets of Kenilworth Racing.

Clearly there are some legal implications. The detail on the legislative implications of this policy cannot be commented on as this review has not included an in-depth investigation of the current affairs of Kenilworth Racing and much depends on the nature of the title deeds of their current properties, the conditions thereof, their current trading licensing conditions, any applicable municipal/council conditions and their contractual/commercial relationships with trading partners and third parties. If prohibitive conditions or commercial arrangements exist that stop Kenilworth Racing expanding or changing their traditional business or racing methods, then "enabling" Kenilworth Racing may be a challenging process.

Putting these potential challenges aside, there may be certain zoning or property-related issues with regards to Kenilworth Racing's ownership of the Kenilworth and Durbanville racetracks (and/or other properties) that may require some amendment by local authorities to enable Kenilworth Racing to redevelop its current assets.

As the current 5% regulation in respect of LPMs is a WCGRB policy decision/board minute, no reason is seen that it could not be easily amended or relaxed for Kenilworth Racing by the WCGRB; this would simply require the WCGRB to sit and decide in the appropriate fashion. In this sense, some basic regulatory changes underpinned by political will – a provincial government that wishes to support the local horseracing industry – could "enable" Kenilworth Racing with minimal legislative changes.

Phumelela Requests

Part of the motivation for this investigation was to consider the merits of requests made by Phumelela to the Provincial Government in a letter dated 19 March 2015. Three requests are made in this letter. These are a request:

- For the imposition of a special tax on the open bet that is offered by bookmakers.
- To amend the regulations governing LPMs so that Kenilworth Racing can hold more than 5% of LPMs in the province and that Kenilworth Racing be given preferential access to additional LPMs, if and when new licences are issued.
- To change the necessary provincial legislative changes to enable the totalisator to offer, at least, Soccer10 and Soccer13 products at all outlets in the province where the National Lottery has been permitted to sell its Sportstake bets.

Imposition of a special tax on the bookmakers open bet

The imposition of a special tax on the open bet was examined as Option 7. The formulation of Option 7 goes beyond the Phumelela request in that seeks to level the racing playing field by making changes in taxes and other industry contributions so that the totalisator and bookmakers make the same contribution to the industry. This is a more equitable approach than simply imposing a special tax on the open bet.

The conclusion was drawn that the option of changes taxes and other contributions to level the racing playing field faced various challenges. These include the existing advantages to both the totalisator and bookmakers that changing a simple industry contribution would not address and the potential unintended consequences of such a choice. Thus, this option would not bring about a true levelling of the playing fields.

In addition, it would require regulatory control of the use of industry contributions, how the sports development levy is used, the determination of stakes, etc. It will also be appreciated that regulations, with the best will in the world, can, to a larger or lesser extent, be overcome.

This option was simulated in the financial/economic analysis where the sports development levy on the open bet was increased to 17%. The difficulty of knowing the consequences of this change is to understand how punters would respond. The change makes betting with bookmakers more expensive. This may or may not result in punters switching away from betting with bookmakers. They may bet with the totalisator, bet on sports or simply go to casinos. As a result, the scenario was run with three variations. The sports development levy on the open bet was increased to 17%. In turn, zero, 10% and 20% of punters switched from bookmakers to the totalisators. The results are summarized in the table below. There is a simple conclusion that is drawn from the table. The only overall positive impact of such a proposed increase on a tax on the open bet is if all punters continue to place these bets with bookmakers even in the face of a higher cost of punting. A 10% reduction in punting on the open bet reduces gambling taxes and has a negative macroeconomic impact. A 20% reduction has the same effect and worsens the financial position of Kenilworth Racing.

Sports Development levy on Open Bet Increased to 17%

	% Punter Switch from Bookmakers		
Change in	**Zero**	**10%**	**20%**
GGR	Unchanged	Unchanged	Unchanged
Gambling taxes	Unchanged	Reduced	Reduced
Financial viability of Kenilworth Racing	Better	Better	Worse
Cost to Owners	Reduced	Reduced	Reduced
Macroeconomic Impact	Positive	Negative	Negative

Allow Kenilworth Racing to Increase LPMs

This request was included in both Option 3 and Option 5. The requested change is supported by the analysis from this assignment as part of those two options.

The financial simulation found that there would be positive impacts on the financial position of Kenilworth Racing without adverse effects on net costs to race horse owners, turnover, GGR, taxes, sports development levy or provincial Gross Geographic Product. As pointed out above, it must be recognised that this result is only true within the constraints of the assumptions underpinning the analysis of this option (see Option 3 discussion above).

Allow Totalisator to Offer Soccer Bets in National Lottery Type Retail Outlets

The third request was not included in the analysis because it is beyond the legislative scope of the Provincial Government and this issue is currently before the courts.

It appears that offering soccer bets in retail outlets falls within the ambit of sports pools which is currently regulated by the National Lotteries Act. The National Gambling Act explicitly applies only to activities that do not fall within the ambit of the National Lotteries Act. The Lotto is authorised to offers soccer bets in retail outlets because the lottery is viewed in a different light to other forms of gambling (with a significant portion of the lottery going to charitable causes). The current regulatory environment allows bookmakers to offer sports betting on a site by site basis, i.e. only in terms of their licence conditions which allows for betting only within their own premises; to offer sports betting in retail spaces by bookmakers would not only be unlikely in terms of current gambling licence conditions, but seems to impose on the jurisdiction of the National Lottery. We are informed that there are legal proceedings in this regard and that until this judgment is delivered, further comment on this option is impractical.

ENDS

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Abbreviations

GDP	Gross Demographic Product
GGP	Gross Geographic Product (Provincial)
GGR	Gross Gaming Revenue
HR	Horse Racing
KWR	Kenilworth Racing
LPM	Limited Pay-out Machine
NGB	National Gambling Board
SDL	Sports Development Levy
WCG PT	Western Cape Government Provincial Treasury
WCGRB	Western Cape Gambling and Racing Board

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Introduction

In many parts of the world, South Africa included, the sport of horse racing has been facing competition from a wide and growing variety of other forms of entertainment and wagering. The consequence of this is that there are less industry participants and less interest from younger people. These trends, from a socio-economic perspective in countries with high levels of unemployment, are unfortunate. In South Africa horse racing is a particularly labour intensive industry compared to other forms of gambling. In many ways these trends in racing and betting are reflected in the Western Cape.

To better understand these changes, their potential consequence and the degree to which regulatory changes may help, the Western Cape Government Provincial Treasury (WCG PT) appointed Stratecon to undertake an assessment of the financial viability of the horse racing industry in the Western Cape.

This document reports on this assessment.

There are five sections:

- Section 1 outlines the project brief and the approach that was used to address this brief;
- Section 2 provides context to the study. It does this by outlining:
    - The industry legislative environment.
    - The structure of the industry including betting types and the potential new markets.
    - Expenditure on gambling nationally and in the Western Cape.
- Section 3 presents relevant information on:
    - The trends and structure of racing in a selection of other countries.
    - The trends in racing in South Africa and the Western Cape.
    - The macroeconomic contribution made by horse racing in the Western Cape.
- Section 4 describes the structure, uses and limitations of the financial simulation model that was used in the first round of the analysis.
- Section 5 introduces policy issues and considerations. The section outlines potential policy choices and makes a policy recommendation.

Section 1: Project Brief and Approach

This section sets out the project brief and approach.

1.1 Project Brief

The project brief was to assist the Western Cape Government, through the Provincial Treasury, to provide research, inclusive of economic analysis, recommendations, and proposed legislative amendments which could assist in ensuring the on-going viability of the horse racing sector within the Western Cape.

The specifics of this project brief, and the agreed approach to each of these components, is given in Table 1. As is shown in the table there are five main sections to the assignment. The table also shows the analysis type and the location of the outcome in the report.

Table 1: Detailed Project Brief

Number	Component	Reported in Section
1	Size and composition of the horse racing gaming sector to the economy of the Western Cape	
1.1	Unpack the economic and socio-economic contribution of the Horse racing sector in the Western Cape and how this compares to the rest of South Africa;	3.3.1
1.2	Map the value chain of the horse racing sector to the economy of the Western Cape;	3.2.2
	Investigate options for expanding the forward and backward linkages of the horse racing sector to both the agricultural and services sectors; and	3.3.2
	Unpack those factors impacting on sustainability of the horse racing gaming sector in the Western Cape.	2
2	Importance of horse racing gaming revenue to the Province	
2.1	Document the importance of horse racing gaming revenue, defined in terms of its relative share of provincial gaming revenue over time.	2.4.3
3	Assess current regulations and their efficacy	
3.1	Assess areas in which legislation and regulations can be improved;	2.1.5
3.2	Areas where legislation and regulations are working well;	2.1.5
3.3	Examine the appropriateness of different category gambling licences, and if there is any inherent bias created in the current licensing structure;	2.1.6
3.4	Areas where legislation and regulations could be tightened up;	2.1.5
3.5	Areas where legislation and regulations could be relaxed; and	2.1.5

3.6	Comparison between regulation in the Western Cape and other Provinces.	2.1.2
4	**Investigate Options/recommendations in support of the horse racing sector**	
4.1	Examine the scope for various options available to promote the sustainability of the sector;	5
4.2	Investigate options for "levelling the playing fields" between the totalisator and other licence holders, (should the research find this to be the case);	5
4.3	Investigate the socio-economic, economic, financial and legislative implications of recommendations;	5
4.4	Investigate whether there are new gambling markets that the industry can expand into; and	2.2.4
4.5	Do an international comparative assessment of the commercial and legislative landscape of two countries (e.g. Hong Kong, United Kingdom, and/or France) where horse-racing and totalisator betting thrives, with clear recommendations that may be included for legislative/policy reform.	3.1.4
	Investigate Legislative environment impacting on the Horse racing gaming Sector	
	Examine the legislative scope available for implementing legislative amendments that would assist in ensuring the sustainability of the horse racing sector; and	2.1.5
	Business audit of the operational management and business practices of the totalisator.	2.2.2

Part of the motivation for this investigation is that it considers the merits of proposals that Phumelela made to the Provincial Government in a letter dated 19 March 2015. A number of requests are made in this letter. These are a request:

- For the imposition of a special tax on the open bet that is offered by bookmakers.
- To amend the regulations governing LPMs so that Kenilworth Racing can hold more than 5% of LPMs in the province and that Kenilworth Racing be given preferential access to additional LPMs, if and when new licences are issued.
- To change the necessary provincial legislative changes to enable the totalisator to offer, at least, Soccer10 and Soccer13 products at all outlets in the province where the National Lottery has been permitted to sell its Sportstake bets.

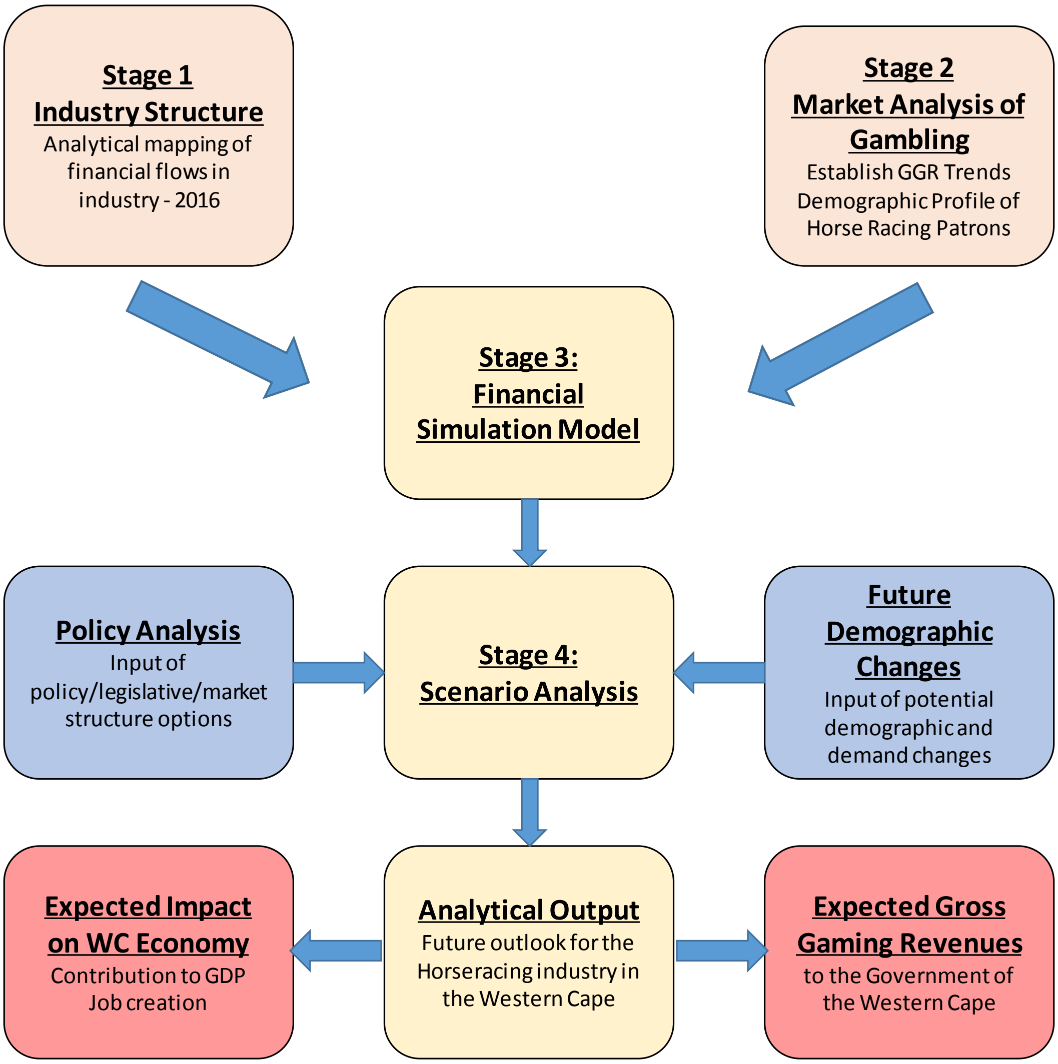
The first two of these requests are included as part of the overall analysis. The third request has not been included because it is beyond the legislative scope of the Provincial Government and this issue is currently before the courts.

An assessment of the Phumelela requests, within the context of this analysis, is given in Section 5.2.7

1.2 Approach

The overall approach to addressing the project brief is illustrated in Figure 1.

Figure 1: Overall Approach



The analysis was done in four stages as illustrated in the diagram:

1.2.1 Stage 1: Establish the Industry Structure including Revenues and Costs

The foundation of the analysis rests on a full understanding of the structure and interlinkages of the horse racing industry in the Western Cape. Stratecon (formally EiS) completed a full economic analysis of the national horse racing industry in 2010 and 2011. This was used to estimate the current structure of the industry in the Western Cape in 2016. Consequently, that estimated industry structure has been updated using, amongst others, established relationships with industry role players.

The cost of operation of each of the different parts of the industry has also been included.

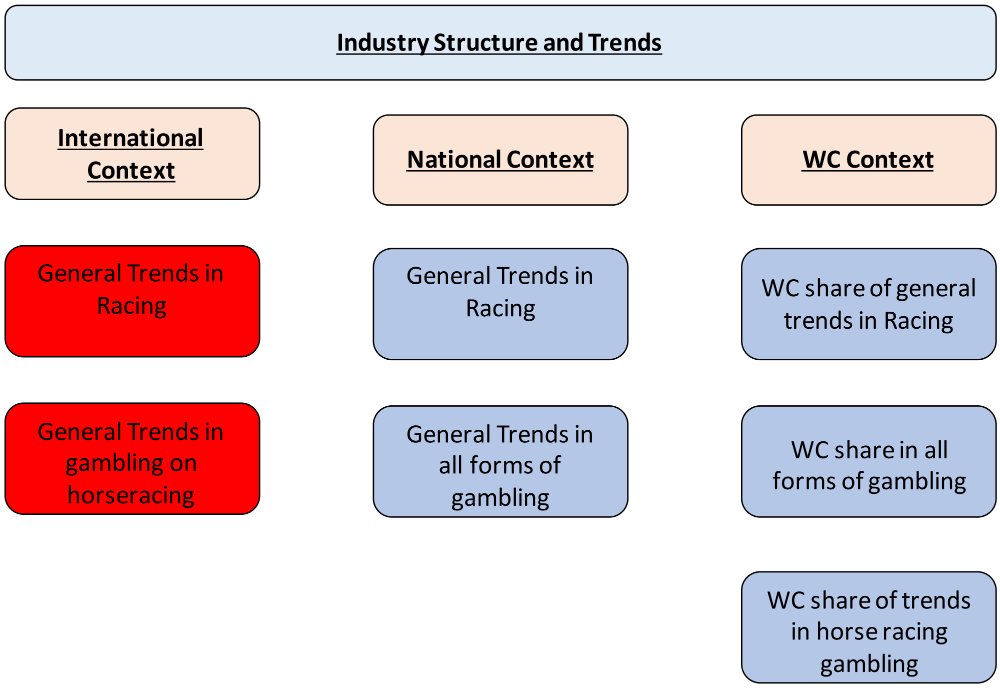
1.2.2 Stage 2: Punter Demographic Changes

One of the dangers posed to the financial viability of the horse racing industry is from the demographic changes in the country and their impacts on the propensity to bet on horse racing.

The approach in this section is illustrated in Figure 2. It provides context by:

- Starting with a description of international trends in racing and betting and presented in Section 3.1.
- This is followed with a description of national trends in racing and betting and presented in Section 0 and 3.2.
- This is focused to a description of the trends in racing and betting in the Western Cape. This is discussed further in Section 2.4 and 3.2.
- This includes a mapping of the changing mix of gross gambling revenue (GGR) in the Province.

Figure 2: Providing Context to Racing and Betting



1.2.3 Stage 3: Model Design

The third part of the analysis was the development a financial simulation model.

The model was established on stages one and two described above. Hence:

- The current financial structure of the horse racing industry was used as a base for the model.
- This was supplemented with the current financial and cost flows into and through the industry.
- The model was then adjusted to reflect the current situation in the industry.

1.2.4 Stage 4: Scenario Analysis

It was agreed that scenario analysis would be used to address the objectives of the study. It was agreed in advance with the WCG PT that a maximum of five scenarios would be analysed. In the event seven scenarios were analysed. Scenario 3 has three variations. The scenarios are:

Demographic changes:

1. Demographic changes in the gaming market that result in a 10% drop in horse racing gross gaming revenue (GGR) – both totalisator and bookmaker. This is distributed in a pro-rata fashion to casinos and limited pay-out machines (LPMs).
2. Demographic changes in the gaming market that result in a 10% drop in totalisator horse racing GGR. This all accrues to bookmaker horse racing GGR.

Policy changes:

3. Changes in the sports development levy on the open bet is increased to 17%. This is a proposal made by Phumelela. A range in the possible shift from the bookmaker open bet GGR to totalisator horse racing GGR was modelled to simulate the movement by punters to the totalisator because of the lower open bet returns. The range modelled was:
    a. 0%
    b. 10%
    c. 20%
4. The sports development levy on bets with bookmakers is increased from 3% to 6% and paid to the totalisator.
5. The regulations governing LPMs are amended so that a single firm can hold more than 5% of LPMs in the province. This is a proposal made by Phumelela.
6. The totalisator and bookmakers contribute the same proportions to provincial tax and horse racing operations. The totalisator pays 50% of additional sports development

levy into prize money. This is a scenario that 'levels the playing fields' between the totalisator and bookmakers.

Racing structure changes:

7. Prize money (stakes) are increased so that owners' costs are covered by these stakes. This could only be done for South Africa as a whole.

1.2.5 Model Output

The scenario analysis provides a variety of information. The most important of these are:

- Operator income
- Percentage operator contribution to industry
- Rand contribution to industry
- Percentage coverage of owner costs
- Industry change in:
    - Turnover
    - Gross Gaming Revenue (GGR)
    - Taxes
    - Sports Development Levy (SDL)
- Economy change in:
    - Western Cape Gross Geographic Product (GGP)
    - Jobs

1.3 Policy Options and Choices

The narrative was extended beyond the output of the financial model to include important broader issues that could not be included in the precise financial model. These include such factors as the totalisator ownership of Tellytrack and the bookmaker offering of the open bet which largely replicates the bet offered by the totalisator. The policy options also include a consideration of the potential unintended consequences of policy choices.

The final policy recommendation is based on both the results of the financial simulation and a consideration of the broader issues.

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Section 2: Gambling Market – South Africa and the Western Cape

This section gives context to some of the difficulties faced by the national and provincial racing industries. This context shows the changes in trends in expenditure on the different forms of gambling. The consequence is also that there have been changes in the composition of revenue received by provinces from gambling taxes. Gambling taxes is one of the few sources of revenues that accrue directly to provinces. This does therefore have important policy implications for provinces.

This section has three key areas of description. These are:

- Legislative environment;
- Changes in gambling expenditure and taxes;
- Punting aspects of horse racing.

The main division in this section is between the national and Western Cape composition and trends. Each of these sections shows:

- Gambling turnover – gross gaming turnover is the actual amount gambled by people at gambling outlets[1]. Gambling turnover is typically not important or referred to. In this instance, it is included because it is needed to understand and analyse the call for a 'levelling of the playing fields' between bookmakers and the totalisator.
    - Both nominal and real values. Nominal values are, from an economic perspective, largely irrelevant. They are given here because they are sourced from the National Gambling Board (NGB) and converted to real values. Real values are nominal values adjusted for inflation. The nominal values are reported to be comparable to the NGB data.
    - In Rand values and as a proportion of total. This allows for an absolute and proportionate comparison of values.
    - Gross gaming revenue (GGR) is the gross gaming turnover "less the amount paid out to customers as winnings. GGR provides a true representation of punters' losses and thus the real economic value of the gambling industry in comparison to the rest of the economy"[2].
    - Contribution to gambling taxes.

[1] http://www.ngb.org.za/SiteResources/documents/30_Chapter205.pdf p114
[2] http://www.ngb.org.za/SiteResources/documents/30_Chapter205.pdf p114

2.1 Legislative Environment

The National Gambling Act of 2004 is the overriding legislation governing gambling in South Africa. In practice, the regulation of gambling is delegated to each province with provincial licencing boards and provincial acts and rules. Gambling is therefore a matter of concurrent jurisdiction between national and provincial spheres of government. As the sport of horse racing is self-regulated, it is only the gambling and betting (“wagering”) on horse racing – the totalisators (or totalisator) and bookmakers - that is regulated by national/provincial legislation.

As an example of the relevant provincial regulation, the Western Cape has the following wagering legislation:

- The Western Cape Gambling and Racing Act of 1996;
- Western Cape Gambling and Racing Regulations (in terms of the above Act);
- A Policy Determination Document of 1999;
- Limited Payout Machine (LPM) Rules (published as Western Cape Gambling and Racing Board LPM Rules – last amended 28 April 2009);
- Bookmaker Operational Rules (June 2008);
- Racing and Betting Operational Rules (published by Provincial Gazette 12 Dec. 2014);
- Totalisator Operational Rules (May 2013).

Other legislation has relevance, for example, National Gambling Regulations, Lotteries Act, Public Finance Management Act and Financial Intelligence Centre Act of 2001. The focus has been on the above legislation as it is most directly relevant to horse racing wagering in the Western Cape. There are also Western Cape Gambling and Racing Board (“WCGRB”) policy decisions or minutes that are published as “guidelines”.

What is apparent from the wagering legislation in place is that it is complex and voluminous; this is a highly regulated and technical legislative environment. No other sporting activity, which has gambling, is as regulated as is the case for horse racing. This seems to be underpinned by the principle that the sport of horse racing survives through funds generated from gambling. There is, however, a “cost” associated with doing business in the wagering industry because of meeting and maintaining the standards and requirements set down by legislation. In addition, ensuring cohesive and effective implementation of the legislation requires collaboration between the NGB, provincial licencing authorities and other stakeholders.

The legislation governing bookmakers is relatively uniform across the provinces. A **"bookmaker"** is defined as any person who lays fixed-odds bets or open bet with members of the public or other bookmakers, or takes such bets with other bookmakers or with the holder of a totalisator licence. Legislation allows a bookmaker a **"take back bet"** which is a bet placed by a licensed bookmaker with any other licensed bookmaker or on a totalisator. There is nothing, therefore, that prohibits bookmakers from offering both fixed-odds and open (or totalisator) bets, or from offsetting their risk by placing bets with the totalisator. In fact, the legislation expressly recognises this action despite the long-standing dispute between bookmakers and the totalisator operators in this regard. This dispute has been through several courts to the Constitutional Court, which held in 2006 (Phumelela v Grundlingh and Others), in favour of the bookmaker's (right to offer open/totalisator bets.

Each province runs its own totalisator (and its own totalisator rules). There is effectively a "national" totalisator because Phumelela and Gold Circle (and Kenilworth Racing), the dominant racing and betting operators in South Africa, commingle (combine) all totalisator bets in South Africa into single national pools under the "TAB" banner (which is managed by Phumelela).

Under the Western Cape Gambling and Betting Act, a bookmaker must collect tax from every person who has taken a winning bet, at the percentage which is prescribed from time to time in the regulations (this is 3%). A bookmaker must also collect a betting levy from every person who has taken a winning bet with the holder (this is also 3% as set by regulation) and pay that to the WCGRB. Every such betting levy paid to the WCGRB must be paid over by it to the holder of a totalisator operator licence issued by the WCGRB.

The holder of the totalisator operator licence in the Western Cape must, on a quarterly basis, submit to the WCGRB a return, together with such supporting documentation as may be required by the WCGRB, which conclusively proves that the total amount of the betting levy paid over to it during the preceding quarter was exclusively applied to the development of horse racing and totalisator betting in the Western Cape or retained in a separate account used exclusively for such purpose. The following are deemed to be expenditure incurred for the development of horse racing and totalisator betting in the Western Cape:

- stakes payable in respect of horse racing held in the Western Cape;
- the upgrading of existing or the development of new quarantine facilities for horses in the Western Cape;
- the upgrading of existing or the development of new training centre facilities in the Western Cape for use by the holder of the totalisator operator licence;

- the upgrading of existing racecourse facilities in the Western Cape;
- the upgrading of existing or development of new totalisator Agency Board facilities in the Western Cape, and
- the expansion of technology betting in totalisator Agency Board facilities and on racecourses in the Western Cape.

At least 25% of the total amount paid over to the totalisator in any year may be allocated to stakes payable in respect of horse racing in the Western Cape. No portion of any of this levy paid over to the holder of the totalisator operator licence may be allocated to:

- the payment of costs ordinarily incurred in the day-to-day administration of the totalisator's business;
- the payment of costs incurred by the totalisator in respect of the National Horse Racing Authority;
- the payment of investigation or licensing costs incurred by the totalisator in terms of the Western Cape Gambling and Racing Act, or
- the refinancing of any part of the totalisator's business, the business of its management company or the business of any entity with which it is affiliated.

Non-compliance with any of the above means that the totalisator operator will lose its right to receive the levy.

There is an underlying philosophy in the legislation that gambling facilities ought to be provided within certain parameters. For example, there is specific mention of where ATMs may be placed in relation to casinos, how a LPM machine may be placed within premises and that under-18s may not gamble. But, the "philosophy" is otherwise contained in more general considerations of factors that will influence how many licences in a category are allowed and where the premises for such licenced operator/s may be (proximity to churches, schools, social impact, sale of liquor, type of business conducted on the premises, etc.). In considering the establishment of new bookmaker or totalisator premises, the WCGRB should have specific regard to educational facilities, places of worship, taxi ranks, bus terminuses in lower income or poorer areas, pension payout points including mobile or non-permanent pension payout points and tenants or neighbours within a 100-meter radius of the premises.

While this philosophy seems to be implemented most when it comes to casinos, LPMs, the totalisator and bookmakers, it seems more fluid in the case of the national lottery and betting thereon, bearing in mind that the national lottery is offered in retail stores/shopping centres and includes not only the lotto but soccer bets as well.

The Remote Gambling Bill of 2014 was published in the Government Gazette on 23 April 2014. The intention of the bill is to legalise online gambling. The NGB in conjunction with the Department of Trade and Industry have indicated that online gambling is undesirable and should continue to be illegal in South Africa. This stance has been taken due to the cumbersome mechanisms that are required to ensure that such online activities are monitored, controlled and regulated.

A developing trend is that licence holders no longer confine themselves to one sector or even one group so that, for example, a casino operator becomes involved with the bookmaking business as well as with the LPM industry. Phumelela, as the main totalisator operator, also owns bookmaking businesses and horse racing operators are conducting totalisator or pool betting on sporting activities other than horse racing.

The gambling industry employs more and more sophisticated technologies, specifically the internet and wireless connectivity. More and more gambling is done remotely, i.e. on mobile phones or personal computers, so that, as pointed out above, while on-line gambling is illegal, gambling on-line with a local, licenced operator is not. This creates problems of perception where local gamblers fail to understand the legal parameters between gambling with local licensed operators and off-shore (illegal) operators.

The only legal forms of gambling in South Africa are:

- pari-mutuel wagering on horse races when conducted within a licensed racetrack enclosure;
- on line betting or wagering is permitted but gambling per se in terms of Exchange Control Regulations is illegal;
- bingo conducted by licensed operators within the Republic;
- casino land based gambling conducted by licensed operators within the Republic;
- LPMs conducted by licensed operators.

Therefore, any South Africans placing bets on horse races via the internet or telephone through wagering services licensed in South Africa are not engaging in unlawful betting. However, it is illegal for South African residents to participate in foreign lotteries. The use of credit or debit cards to participate in foreign lotteries, sweepstakes and or betting is in contravention of Exchange Control Regulation.

New forms of gambling that various operators wish to introduce, and attempts to proliferate through the extension of existing games without a national framework to guide implementation, place a burden on gambling authorities, while illegal gambling remains a challenge. Not only does it threaten the current legitimate gambling operations it also impacts the capacity of enforcement agencies that continue with the battle to eradicate it. The fact that operators of illegal gambling modes find it possible to make payments to players continues to give the impression that these modes are legitimate in South Africa

With the coming into effect of the new BBBEE Codes on 1 May 2015, the WCGRB sought to adopt a consultative process to determine the impact of the new Codes on licence holders' current licence conditions. It is unclear whether this consultative process has been concluded, but the WCGRB stipulated at the time that all new bookmaker, totalisator- and bookmaker premises licence applications were to be considered on an invitation basis only. This means that applications for these categories of licences can only be submitted pursuant to a duly advertised Request for Application ("RFA"). An RFA is advertised on the WCGRB's website, in the Government Gazette and newspapers. The intention was to enable a controlled application process, where the WCGRB may determine clear qualifying criteria and objectives for the roll-out of additional premises or the acquisition of new bookmaker licences. The WCGRB, in the initial advertisement when the RFA process was published in the Government Gazette, indicated that the RFA process would be reviewed after an initial period of 12 months. At such review, upon expiry of the stipulated initial period, the WCGRB concluded that there was no influx of applications and that the application numbers remained the same. It, therefore, reverted back to the open application process and notified the public accordingly; the current situation is that anyone may apply to the WCGRB for a bookmaker's licence.

Government wants all forms of gambling operators to comply with the Employment Equity Act, the Labour Relations Act, the Basic Conditions of Employment Act and the BBBEE Act and Codes. It wants a conducive environment for new role players to enter the industry to promote transformation within the gambling industry.

Government has also looked at the introduction of new gambling activities. These include online casino gambling, greyhound and other animal racing. Introduction of online casino gambling requires a policy shift regarding the destination approach to gambling as it proposes bringing gambling activities closer to people. This aspect is considered against the concern regarding problem gambling in South Africa. The possible expansion of animal racing beyond horse racing also poses challenges, including significant animal welfare concerns and proliferation. It was felt that other forms of gambling should remain illegal as the proliferation of gambling, rising levels of problem gambling, employment and inadequate enforcement capacity weigh more against any argument in support of lifting the ban on this activity at this point.

Policy objectives weighed up in reviews of gambling include the minimization of negative social harms, taxes, revenue generation and employment contribution. There are concerns that the growth in the gambling industry has not improved the representations on ownership by previously disadvantaged and female persons.

2.1.1 Competition Law and Recent Court Action

The Grundlingh case referred to above – the totalisator's attempt to stop bookmakers offering open bets – did explore the argument by Phumelela that bookmakers offering an open (or totalisator) bet was tantamount to unlawful competition. The lower court, i.e. the court before the (final) appeal to the Constitutional Court, the Supreme Court of Appeal, accepted that Phumelela "and its predecessors have developed a business system of such reliability and sophistication that it has earned the trust of the betting public", and that the "resulting income potential is part of its goodwill and as such a valuable asset". The majority in the Supreme Court of Appeal held that Phumelela's business system constitutes property and felt that the bookmakers, during their business, "appropriate the results of [Phumelela's] endeavour to calculate pay-out dividends, something that is fundamental to the operation of its totalisator business". However, the Constitutional Court considered whether the behaviour of bookmakers (who offer open bets) constitutes an arbitrary deprivation of Phumelela's property and found this not to be so. Accordingly, the Court held that the behaviour of bookmakers was not anti-competitive.

It is understood that there is ongoing litigation between bookmakers and Phumelela in which the bookmakers seek to stop Phumelela from raising the fees that Phumelela charges them for their right to display the Tellytrack channels in bookmakers' premises. Phumelela wants to charge bookmakers at a rate that the bookmakers believe is unreasonable and has the effect of making Tellytrack unaffordable for them, which they contend is abuse by Phumelela of its dominant position in the market (it co-owns and manages Tellytrack).

2.1.2 Regulation in The Western Cape and Other Provinces

This comparison is made using Gauteng and Kwazulu-Natal as the pertinent provinces.

Each province within South Africa has its own gambling board and legislation. The provincial legislation differs to some degree with Gauteng having approximately only five pieces of legislation relevant to horse racing wagering, whereas Kwazulu-Natal has nearer a dozen pieces of legislation. The Western Cape lies between these two.

Types of licences While there are slight differences in categories of licences, the main categories of licence – casino, bingo, gaming machine, route operator, bookmaker, totalisator and manufacturer's licence – are the same across all provinces. The licencing structure does differ from province to province; some provinces consider bookmaker/totalisator branches and agencies as part of the main bookmaker/totalisator licence, i.e. not requiring a separate premises licence for each bookmaker/totalisator site/agency, while others require a bookmaker/totalisator premises licence for each site of the bookmaker/totalisator branch or agency in addition to the main totalisator licence. This is the case in the Western Cape.

In Gauteng, **applications for licences** are by invitation only; in KZN licences may be applied for; and in the Western Cape, while the Western Cape Board's annual report for 2015 indicates that new bookmaker licences are by invitation, research shows that this principle was subsequently amended to be by application. Licenses for casino, bingo, limited gaming machines and totalisator are now by invitation only in the Western Cape. The fact that bookmaker licences are on application in the Western Cape may mean that a proliferation of these licences could occur. What this also means is that in Gauteng where a limited number bookmaker licences are in issue at any one time, a new entrant must purchase a bookmaker licence from an existing licence-holder. Consequently, bookmaker licences in Gauteng have value. This is not the case in the Western Cape where a potential bookmaker simply can apply for a new licence from the Provincial Licensing Authority.

Many of the provisions of the Gauteng Gambling Act are like the WC Gambling and Racing Act – qualification of applicants for licences, conditions of licences, transfer of licences, financial and controlling interests in licensees, suitability of persons contracting with licensees, restrictions on advertising, extending credit, etc. This applies also to the KZN gaming and Betting Act.

The KZN Bookmaker Rules are almost the same in the Western Cape and Gauteng.

Indications are that there are differences in interpretation of legislation from province to province so that, while the provincial legislation may be similar, its implementation, the provincial processes emanating from the legislation and each provincial board's discretion, differ. Onerous and/or impractical interpretations of legislation can serve to add to difficulties for role players in the wagering sector of horse racing.

KZN has established a **Horse Racing and Betting Transformation Fund** that receives grants from the local (provincial) legislature and any monies in this Fund are ostensibly for creating opportunities for or encouraging previously disadvantaged people in the horse racing and betting industries. Queries in this regard show that this fund has had little influence.

Gauteng charges a **sports development levy** on the totalisator. The bookmaker's levy for the Sports Development Fund is 1%.

Taxes: The following tax rates apply in each of the following provinces, for the following categories of licence:

- **LPMs**: Western Cape – 10-20% based on GGR; KZN – 15%; Gauteng – 15%
- **Bookmakers**: Limpopo - 6% on horse racing and 6.5% on sports bets
    - Western Cape - 6% horse racing and 6.5% sports betting;
    - Gauteng - 6% horse racing and 6.5% sports betting;
    - North West - 6% horse racing and 6% sports betting;
    - Mpumalanga - 6% horse racing and 6.5% sports betting;
    - KZN – 6% on horse racing and 6.5% sports betting;
- Totalisator:
    - Gauteng – 6.5% of GGR
    - Western Cape – 6% of GGR
    - KZN – 1.5% of turnover (equivalent to 6.5% of GGR)

No contribution to the funding of horse racing is made from punters' winnings on horse racing bets with bookmakers in **Limpopo, Mpumalanga and North West** (there is no horse racing in these provinces), while in all other provinces 3% of punters' winnings is deducted and paid over to the horse racing operators to assist with the funding and development of horse racing.

Tax bases: What is important to understand from the above tax rates is the basis on which tax is levied. Some provinces apply tax on turnover, while others apply it on GGR. This is a distinction between the provinces and does have an impact on the betting operators. In the Western Cape, tax on the bookmakers is on 'takeout' (which in practise is on turnover), in Kwazulu-Natal it is also on GGR, but in Gauteng on turnover.

- The following numbers of bookmaker licences have been granted[3]:
  - WC – 42 (with 238 premises licences)
  - Gauteng – 130 (with 130 premises licences)
  - Kwazulu-Natal – 83 bookmaking rights
- The following numbers of totalisator licences have been granted:
  - WC – 1 (with 65 sites)
  - Gauteng – 1 (114 sites)
  - Kwazulu-Natal – 2
- The following numbers of LPM licences have been granted:
  - WC – 2 (with 429 LPM sites)
  - Gauteng – 491 sites
  - Kwazulu-Natal – 4 (with 2 380 machines from a total approved of 4 000, and 557 active sites)

Gaming machines: Gauteng states a maximum of 5 machines on one gaming machine licence, but with any additional gaming machine licence, there may be up to 40 machines on a licensed site. In KZN, type "A" licences allow for a maximum of 5 machines per site, type "B" licences for a maximum of 40. In the Western Cape, the maximum number of gaming machines per site is 5.

No evidence has been found to suggest that a dedicated fund for the benefit of horse racing as a sport is necessarily beneficial to that sport. A fund may simply add an additional layer of administration (and potential loss of revenue to the sport to be benefited) that means that the funds deposited with it lose value as they proceed down the chain from the funder to the ultimate benefiter.

2.1.3 Gambling Tax Regime

The original intention with the gambling legislation was that all gambling taxes would accrue to the provinces in which the gambling took place. Technological and institutional changes have compromised this principle. For example:

[3] The figures are a mixture of 2015 and 2016 figures

Sports bets: A football bet placed with the National Lottery, for example, attracts tax that is payable to the lottery operator, whereas sports bets made with a totalisator/bookmaker attract tax that is payable to the provincial licensing board in which the totalisator/bookmaker is licensed.

Electronic betting: bookmakers who are registered in one province, the Western Cape for example, can take bets on races in Gauteng by punters in KwaZulu-Natal. The gambling tax accrues to the Western Cape.

This has been challenging in this analysis because information is not readily available on this matter.

2.1.4 Totalisator Concerns

The totalisator operators believe they operate within a challenging regulatory environment. They believe this has two adverse impacts on horse racing.

The first is that it compromises its financial integrity. High operating costs mean that less funding can be channelled back into racing with the obvious implications for jobs and incomes. Some of the factors contributing to these higher costs include:

- The regulators are made up of nine Provincial gambling boards and a National Gambling Board.
- These Boards have different standards and there appears to be little cooperation on achieving consistent standards. This increases the costs faced by horse racing and results in inefficiencies. For instance,
    - the Eastern Cape Gambling and Betting Board has recently started charging to conduct audits on the operators, even though the operators pay annual license fees and weekly taxes;
    - the Mpumalanga Gambling Board forced Phumelela to abandon its route operator license in the province when they would not allow Phumelela (as a route operator) to manage its own TAB sites and also placed a limit on the number of LPM sites an operator can own or operate.
- There are regulatory differences between provinces with licensing requirements, conditions of license, license durations, licensing processes, interpretations of rules and standards.

- Some license conditions further increase the cost of operation because they force the continued operation of loss making operations. For example, there are requirements in some provinces to retain certain racetracks (Eastern Cape). There are requirements to stage a minimum number of races each year (Eastern Cape and Gauteng) and to retain a telephone betting Call Centre (Eastern Cape, Gauteng, Free State and Limpopo).
- Gambling taxes, levies and fees are different between different provinces. These are illustrated in Table 2.

Table 2: Totalisator Tax Rate by Province

Totalisator Tax Rate by Province		
Province	**Tax rate on takeout***	**Tax rate on turnover**
Gauteng	6.50%	1.55%
Mpumalanga	10.25%	2.50%
Limpopo	14.32%	3.50%
North West	6.50%	1.58%
Eastern Cape	10.00%	2.40%
Northern Cape	8.00%	1.93%
Free State	12.37%	3.00%
KwaZulu Natal	6.50%	1.50%
Western Cape	6.00%	1.42%

**Equivalent to Gross Gaming Revenue*

The second is that, because both bookmakers and the lottery face a different regulatory environment, this puts the racing industry operators at a disadvantage to bookmakers and the lottery. For example:

- The totalisator is restricted in its expansion plans. TAB has just over 400 outlets nationally, compared to 8 000 for the lottery.
- The totalisator is required to submit rules for approval by the gambling boards prior to introducing any new product or revising existing ones. Bookmakers and the lottery are not subjected to this requirement.

2.1.5 Potential Areas for Change/Recommendations

By way of overview, the gambling sector is segmented into the following regulatory areas: casinos; LPMs; machine operators; gaming equipment manufacturers and distributors; gambling certification and testing laboratories; licensing of employees and key employees in the sector; bingo[4] and betting (including horseracing wagering and lotteries). The growth of on-line betting and sports betting has put "traditional" forms of gambling under pressure. While the NGB in conjunction with the Dept. of Trade and Industry have to date indicated that online gambling is undesirable and illegal in South Africa, this has not stopped its proliferation.

In ensuring that gambling licence holders operate within the parameters of the South African legislative provisions and regulatory requirements, licence conditions are imposed on such licence holders. The current (local) environment in which gambling and betting activities take place, whilst still well regulated and largely compliant by the industry licence holders, has become more litigious (as licence holders challenge licence conditions) and as the wagering space becomes more contested. Licence holders are no longer confined to one sector and seek more and more to expand into more than one licence category.

The sport of horseracing remains self-regulated, i.e. the gambling legislation does not apply to the way horseracing conducts itself and there is no national or provincial regulation of horseracing. Phumelela is the dominant player in the national horseracing gambling sector.

2.1.5.1 Assess Areas in which Legislation can be Improved/Working Well/Tightened Up/Relaxed

In general terms, with some exceptions pointed out below, no significant problems are seen with the applicable legislation.

Legislative changes will also influence gross gaming revenue distribution and the consequent gaming levies and sports development levies. These changes could include increasing taxes on different types of gaming, changing the value of the sports development levy paid from bookmakers to the operators and allowing more LPMs at the TAB outlets. This latter change would affect the operating revenue to Kenilworth Racing and the other operators.

[4] *Bingo is not currently of relevance in the Western Cape*

To the extent that gambling funds horse racing or that wagering may impact on the success or growth of the sport of horse racing, the following issues emerge from the legislative review:

2.1.5.2 Increasing Tax on Bookmakers

There are different tax bases/rates between wagering operators (bookmakers/totalisators). There may be a need to amend these to “level the playing fields”.

If an increased tax is levied on bookmakers, there is a concern that this may be anti-competitive but no overt reason to suggest this can be seen. The Competition Act (No.89 of 1998) refers to “prohibited practices” which may be either “restrictive practices” or “abuse of a dominant position”. Restrictive practices are either horizontal or vertical. Horizontal restrictive practices include relationships between competitors that: prevent/lessen competition; fix prices; divide markets; and/or involve collusive tendering.

Vertical restrictive practices include relationships between a firm and its suppliers, its customers or both that: prevent/lessen competition; and/or set a minimum resale price.

Abuse of a dominant position applies to any firm if:

- it has at least 45% of that market;
- or it has at least 35%, but less than 45%, of that market and it has market power;
- or it has less than 35% of that market, but has market power.

“Market power” means the power of a firm to control prices, to exclude competition or to behave to an appreciable extent independently of its competitors, customers or suppliers. A dominant firm may not charge excessive prices, engage in price discrimination or refuse to give a competitor access to an essential facility (an infrastructure or resource that cannot reasonably be duplicated, and without access to which competitors cannot reasonably provide goods or services to their customers) or engage in exclusionary acts (acts that impede/prevent a firm from entering, or expanding within, a market).

The Competition Act also focuses on **mergers** and their effect on the industry or market that the merging firms inhabit.

The conclusion from the above is that increasing tax on bookmakers does not involve a merger, is not collusive behaviour between competitors or abuse of market power by a dominant firm.

2.1.5.3 Licensing of Bookmakers

Currently, since anyone may apply for a bookmaker's licence, this has arguably led to the granting of many bookmaker licenses in the Western Cape.

It seems preferable that licensing is on a request for application basis, i.e. that the WCGRB should decide on how many bookmaking licences the province can bear (and what criteria it wishes to set for such licences) and then only allow such number of licences in the province at any one time. This means that there is no proliferation of such licences, that the licences will have "value". This value can accrue to either the bookmakers, the Board or both depending on how taxes and licencing charges are structured. The higher the tax/licencing charge the greater the Board benefits and visa-versa. This is important because it will complement any potential proposal of increasing the tax on bookmakers.

2.1.5.4 Sports Bets

To the degree that horse racing operators should be allowed to conduct totalisator or pool betting on sporting activities other than horse racing, the Lotteries Act should be amended. The Lottery is exclusively a national competence and government views sports pools as also constitutionally the sole mandate of the lottery.

There may need to be consideration as to what compensation is reasonable if offering sports pools by horse racing operators is permitted and they are consequently required to pay into the National Lotteries Distribution Trust Fund a percentage of their gross gambling revenue to compensate for the use of the lottery space,

2.1.6 Gambling Licences and Potential Bias

The purpose of this section is to assess appropriateness of different category gambling licences, and if there is any inherent bias created in the current licensing structure. Currently, each category of gambling is separately demarcated by legislation.

There are high entrenched barriers to entry into both the horse racing administration and totalisator-based betting markets. Apart from anything else, the fact that one requires both a race course and a totalisator licence effectively restricts entry. In addition, the race course operator requires critical mass and televised media. Critical mass is required to enter effectively in the form of hosting a large enough totalisator prize pool to attract punters. As Phumelela and Gold Circle currently comingle their totalisators into a national pool, any new entrant in a single province must compete against a national pool.

As indicated above, the current licencing structure is established on the basis of the "traditional" forms of gambling. As these traditional forms of gambling come under pressure from the likes of sports betting and, in particular, the alternatives offered by on-line gambling, it seems that the accepted categories of gambling licence may have to change. If there is an inherent "bias" in the current licensing structure, it is that different gambling activities are licensed as separate (and often mutually exclusive) areas, whereas the modern gambling industry threatens to by-pass such artificial legislative boundaries.

2.2 Betting – Horse Racing

In South Africa, as in a few other countries in the world (see Section 3.1.4), betting on horse racing occurs both with the totalisator and bookmakers. This section outlines the details of structure. This is done by describing the:

- Different types of bets offered by the totalisator and bookmakers, and the different tax structures faced by the two parties.
- Current industry structure;
- Value of wagers being placed with the totalisator and bookmakers. This includes the resultant contribution to the industry;
- Distribution of betting between the two players and the resultant contribution to taxes and the industry.

2.2.1 Bet Types

There are two types of bets which are relevant to this report and understanding the issue of 'levelling the playing field' between bookmakers and the totalisator. These are pool and fixed odds bets, on the one hand, and the open bet.

2.2.1.1 Pool and Fixed Odds Bets

There are two betting models. These are totalisator (pari-mutuel) betting and fixed odds betting with bookmakers. Totalisator, or totalisator-betting, removes betting risk from the operator and provides a guaranteed income based on a fixed percentage pay-out to punters. The pay-out depends on racing's funding needs and the amount of statutory payments levied on the operator. The odds are continually adjusted until the commencement of the race and the resulting distribution of winning and losing bets based on the race outcome.

The difference between the two types of bets is described below. A bet placed with bookmakers is illustrated in Table 3 while one placed with the totalisator is shown in Table 4.

Table 3: Bet Placed with a Bookmaker

		Winner	Loser
Odds		3/1	3/1
Bet		100	100
Winnings		300	0
Provincial Tax	**3%**	9	0
SD Levy	**3%**	9	0
Payout to Punters		**382**	**0**
Bookmaker		**-300**	**100**

A bet placed on a horse with odds of 3 to 1 with a bookmaker:

- For a winning punter:
  - At odds of 3 to 1 the winnings are R300 for a R100 bet.
  - A provincial gaming tax of 3% and the sports development levy (which is returned to the operators of the horse race) are deducted off the winnings of R300. This equates to R9 each for the provincial gaming tax and the sports development levy.
  - The punter is paid the R300 winnings less the R9 provincial gaming tax and the R9 sports development levy plus the original R100 bet on the horse. The total payment to the punter is therefore R382.
  - The bookmaker loses out on the R300 that is paid to the punter.
- For a losing punter:
  - The punter loses the R100 initial bet and the bookmaker gains the R100.
  - No provincial gaming tax or sports development levy is generated on a losing bet.

For a bookmaker to remain in business there need to be more losing punters than wining punters or the bookmaker needs to have off-set large winning bets with other bookmakers or the totalisator at similar odds. In the example shown in Table 3 the amount returned to the industry is R9 through the sports development levy.

Table 4: Bet Placed with the Totalisator

		Winner	Loser	Total
Bet		100	300	**400.00**
Dividend		3.00	1.00	
Punter Earns		300	0.00	**300.00**
Take by Operator / GGR	25%	25.00	75.00	**100.00**
Provincial Tax	6.0%	1.50	4.50	**6.00**
SD Levy	**0%**	0	0	**0.00**
Net to Operator		**23.50**	**70.50**	**94.00**
Amount Returned to Industry			16%	15.04

A bet placed on a horse that pays out dividends of R3.00 by the totalisator:

- When a bet is placed on a specific horse through the totalisator, the money is placed into a collective pool. In the example above, one punter places R100 on the winning horse while three punters each place R100 on a losing horse.
- A total of R400 is therefore placed on the horses through the totalisator.
- The totalisator can take between 20% and 25% out of the pool to cover expenses. In this example it is assumed that 25%, or R100, is taken out of the pool, leaving R300 to cover the winnings.
- The dividend on each horse is calculated as the remaining pool divided by the amount of money placed on each horse. The winning horse dividend is calculated as R300 divided by R100 (3.0) while the losing horse dividend is calculated as R300 divided by R300 (1.0).
- The provincial gaming levy is calculated as 6% of the totalisator operator's Take or GGR. This amounts to R6.00 in this example (6% of R100). Provincial gaming taxes are generated no matter whether the punter wins or loses, which is different to the bookmaker. Although the tax rate paid by the totalisator at 6% appears to be higher than the 3% of the Bookmaker bets, the 6% is applied to the "Take" by the totalisator (which is legislated between 20% and 25% of the bet) so in effect is between 1.2% and 1.5% of the bet amount. This needs to be compared to the 3% of the Bookmaker bet but which is only applied to winnings by the punter.
- No sports development levy is paid because the totalisator operator would use part of net GGR (after taxes) to pay for operations. According to Phumelela approximately 16% of its net GGR is used to cover horse racing operations. In this example the amount returned to cover horse racing operations (and not betting operations) is R15.04.
- The punter who placed R100 on the winning horse is paid R300. This is R82 less than the amount paid to the punter who placed R100 at odds of 3 to 1 on the same horse through the bookmaker.

At no time is the totalisator exposed to any betting risk as the pay-out is a fixed percentage of the betting revenue. Bookmakers on the other hand are exposed to betting risk. They pay out at fixed odds on the outcome of the race. Although bookmakers commonly layoff some of their bets with other agents to manage their exposure they demand higher returns for their higher risk.

A bet placed with a bookmaker has different consequences and pay-outs compared to a bet placed with the totalisator. A bet placed with a bookmaker is attractive for the punter who would like to lock-in the odds of a horse as well as for the punter who would like to bet against the "house", whereas a bet placed with the totalisator is attractive for those punters who prefer to bet against other punters.

2.2.1.2 Open Bet

An open bet is a bet placed by a punter with a bookmaker on a totalisator style bet (i.e. into a collective pool). The difference with an open bet placed with a bookmaker and a bet placed with the totalisator is that the open bet placed with the bookmaker doesn't influence the dividend pay-out with the horse, unless the bookmaker places a similar bet on the totalisator.

2.2.2 Industry Structure

Betting on horse racing is conducted under the auspices of the National Gambling Board.

The commercial parties are:

- Independent bookmakers
- Betting World (Pty) Ltd (owned by Phumelela)
- The totalisator "SAFTOTE" (or "TAB")
- Phumelela Gold Enterprises ("PGE") (a joint venture between Phumelela and Gold Circle)
- Tellytrack (owned by PGE).

Bookmakers are independent operators in the industry. They generally offer fixed odds betting to punters, pay taxes and a 3% levy to the TAB. Some bookmakers have been offering variable odds based on the TAB pay-out in the form of the open bet. Any profits accruing to bookmakers go to the equity owners in the business.

Phumelela, Gold Circle and Kenilworth Racing also offer bookmaker betting under the auspices of Betting World (Pty) Ltd. This operates 28 bookmaking branches across the country and offers fixed odds bets the same as independent bookmakers.

Gold Circle is the KZN based racing operator. It was created by the amalgamation of several racing Clubs and organisations representing thoroughbred breeders, owners and trainers in the two regions of KwaZulu-Natal and the Western Province. During 2013 the two provinces terminated their relationship and now operate independently of each other.

Phumelela was formed in 1997 and was listed on the JSE in June 2002 to facilitate the "corporatisation" of horse racing in Gauteng. Corporatisation came about at the behest of the Gauteng Provincial Government for the sport to remain competitive within a burgeoning gambling market that was about to legalise casinos and a national lottery. A critical element of the restructuring was a commitment to rationalise the horse racing infrastructure to foster inter alia "transformation, transparency, accountability and create a sustainable business model." Horse racing in the Northern Cape, the Free State and Eastern Cape subsequently joined the corporatisation process under the Phumelela umbrella. The totalisator business in the North-West Province was acquired shortly thereafter and Phumelela now manages the totalisator betting in the Western Cape for Kenilworth Racing.

Phumelela and Gold Circle, as the licensed horse racing and totalisator betting operators in South Africa, commingle (combine) all totalisator bets in South Africa into single national pools under the "TAB" banner which is managed by Phumelela.

Kenilworth Racing (Pty) Ltd owns the Kenilworth race course and is responsible for racing in the Western Cape. In terms of an agreement with Phumelela, Phumelela manages the totalisator at Kenilworth. It differs from Phumelela in that it is a non-profit Section 21 company. Kenilworth Racing (Pty) Ltd was previously operated by Gold Circle Western Cape until 2013.

Figure 3: Phumelela and Kenilworth Racing Ownership Structure

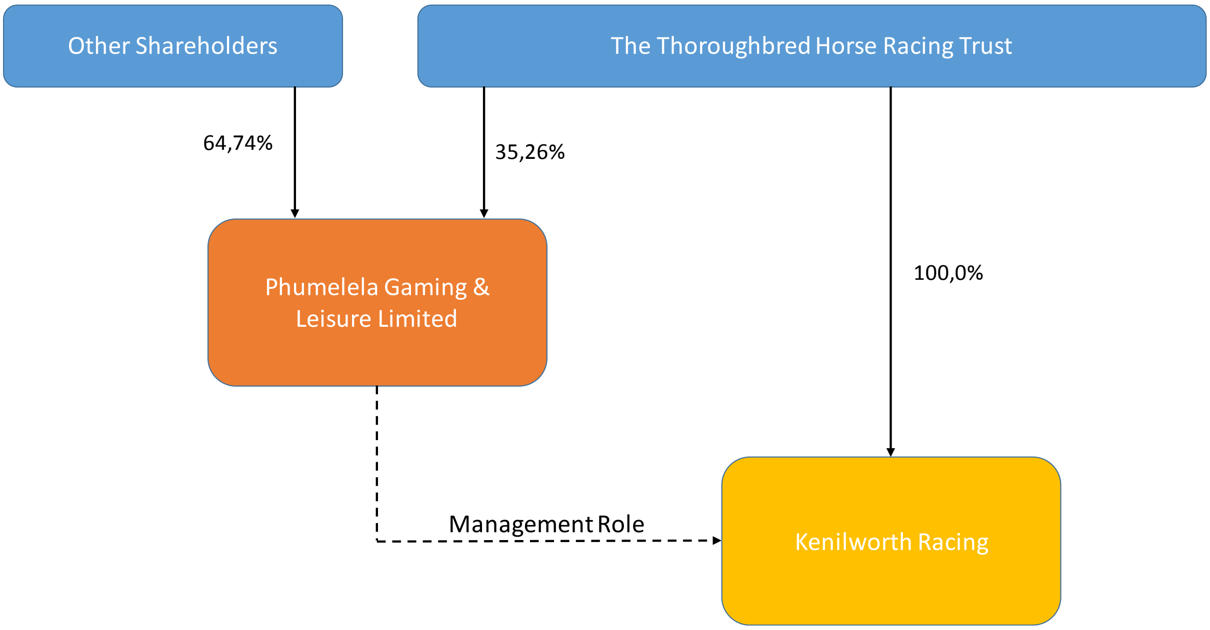


Figure 3 shows the relationship between Phumelela and Kenilworth Racing. Phumelela is a listed company and is owned 35% by The Thoroughbred Horse Racing Trust. The same trust owns 100% of Kenilworth Racing. There is no competition between Phumelela and Kenilworth Racing for over-the-counter bets because the former operates racing in Gauteng, Free State, the Eastern Cape and the Northern Cape while the latter operates racing in the Western Cape. There is competition in online and telephonic bets.

Phumelela assists with managing Kenilworth Racing, for which their personnel are compensated on a salary basis. A management compensation clause is built into the contract: a 50/50 profit share would occur if/when Kenilworth Racing becomes profitable[5].

The Competition Commission sat in 2012 in respect of two transactions involving Kenilworth Racing (Pty) Ltd and the Western Cape business division of Gold Circle (Pty) Ltd ("Gold Circle WC") on the one hand, and the Thoroughbred Horse Racing Trust ("the Trust") and Kenilworth Racing on the other.

The two transactions were interdependent: in the first, Kenilworth Racing was to acquire Gold Circle WC and in the second, the Trust was to acquire the business of Kenilworth Racing. Effectively, the Trust was acquiring control over the ‘new’ Kenilworth Racing (which would have the business of Gold Circle WC). In terms of the rationale for the transactions, the Trust envisaged that Kenilworth Racing, when controlled by the Trust, would be able to reposition and restructure Gold Circle WC, operationally and financially to render Gold Circle WC viable. The transactions were cited as a step to revive the sport of horse racing in the Western Cape. Following these transactions, the proposed next step was to sell the shares held in Kenilworth Racing to a financially strong shareholder capable of taking Kenilworth Racing forward (this is merely a reporting of the Commission’s ruling on the matter; there was no mention in the ruling what a strong shareholder was actually going to do to take Kenilworth Racing forward except a reference to “the necessary strategic re-direction”).

Considering an existing management agreement between Phumelela and Kenilworth Racing, Phumelela was to manage the current totalisator business of Gold Circle WC on behalf of the Trust for a management fee. The Commission noted Phumelela’s dominant position in the local horse racing industry and found that there is a horizontal relationship that arises. There are several factors between Kenilworth Racing, the Trust, and Phumelela, which gives rise to common interests between the three. As such, the Commission's assessment took Phumelela into account even though it was not a party to the proposed transactions.

[5] *Pers. Com Rian du Plessis, CEO of Phumelela gaming, 29 August 2016.*

The Trust is the single largest shareholder of Phumelela and earns its sole source of revenue from the dividends from Phumelela. From the proposed mergers, the Trust will be in sole control of Kenilworth Racing, Phumelela would manage key components of Kenilworth Racing. At that time, at least five of the trustees of the Trust had financial interests in Phumelela with two of those trustees also sitting on the board of Phumelela. Consequently, it was the Commission's view that the interests of the Trust, Phumelela and Kenilworth Racing were aligned.

The Commission saw the market for the administration of the sport of horse racing as inextricably linked with the betting side of the industry and noted that, post mergers, Phumelela would be *the* effective manager of the new Kenilworth entrant. The Commission's view was that the transactions were not intended to introduce more players in the horse racing industry, but to further enhance the position of the leading firm in the industry, namely Phumelela. The proposed transactions would allow Phumelela to further entrench its already strong position so that it could exert market power within the horse racing administration market itself and into adjacent markets.

The Commission also noted that barriers to entry into both the horse racing administration and totalisator-based betting markets are significantly high. The Commission's view was that the proposed transactions resulted in a significant lessening of competition in the affected markets and prohibited the transactions. This meant that KWR could not “acquire” the business of Gold Circle WC and that the Trust could not, subsequent to the first acquisition, “acquire” KWR.

The Competition Tribunal overturned the Commission’s ruling on appeal and approved the transfer of the totalisator licence, subject to certain conditions imposed by the Tribunal. KWR is currently responsible for horseracing in the Western Cape (not Gold Circle WC) and by means of a contractual arrangement between Phumelela (whose single largest shareholder is the Trust) and KWR, Phumelela assists KWR with horseracing in the Western Cape (and runs the Kenilworth totalisator).

PGE is a joint venture between South African horse racing, Phumelela Gaming and Leisure, KWR and Gold Circle. PGE is managed by Phumelela and owns the domestic and international broadcast and information rights to South African horse racing.

Tellytrack, which is owned and managed by PGE, is South Africa’s horse racing channel where all South African and international races on which TAB operates are screened live on pay channel DSTV. Tellytrack is also beamed live into TAB outlets.

2.2.3 Horse Race Betting Distribution 2015

This section describes the distribution of betting on horses and the proportion of this that accrues and taxes and industry returns. This is done by means of:

- A detailed description of these financial flows in 2015;
- Reporting the changes in these flows between 2009 and 2015.

2.2.3.1 Detailed Description 2015

The bulk of wagering is done by off course punters rather than race goers. In 2009, for example, 94% of all wagering was done off course. There is also some flow of funds from race goers and food and beverage concessionaires who operate at the race tracks. Some of the larger races also have sponsors who bring in their own concessionaires.

The first of the outflows from betting is itemized in Table 5. In the 2014/5 financial year, the TAB took in R4 159m in the form of betting turnover and retained R1 087m in the form of gross gaming revenues. Bookmakers took in R6 280m and retained R794m. The TAB is required to pay a 6% tax on GGR which in 2014/15 amounted to R77.7m. Independent bookmakers are required to pay a 3% tax on winning bets, which amounted to R172m. In addition, bookmakers are required to pay the NGB a sports development levy on winning bets, which amounted to R121m. The NGB then pays this levy to the operators (Phumelela, Kenilworth and Gold Circle) to assist in funding the sport of horse racing. Totalisators contributed R631m to fund horse racing operations and while the bookmakers contributed R121m through their sports development levy. The bottom row of Table 5 shows the amount returned to the industry plus the taxes paid to the gaming boards. In 2014/15 this amounted to R708m for the totalisator and R293m for the bookmakers.

Table 5: TAB and Bookmaker Incomes and Contributions (Rm) 2014/5

National	**Totalisators**	**Bookmakers**
Betting Turnover	4 159.2	6 279.9
Gross Gaming Revenue	1 087.3	793.9
Levy to Racing Operators		121.1
Provincial Tax	77.7	171.5
Gross Horseracing Income	**1 009.6**	**793.9**
Racing Operations Contribution	630.7	121.1
Returned to Racing Industry plus Taxes	**708.3**	**292.6**

In 2015 bookmaker turnover was R24.34bn of which R6.28bn, or 25.8%, was wagered on horse racing. Bookmakers retained horse racing gross gaming revenues of R794m and paid out R5 486m in winning bets to punters which amounted to 87.4% of betting turnover. By comparison, totalisator pay-outs to racing punters amounted to 73.9% with a relatively higher percentage of the betting handle available to fund racing and wagering operations. Bookmaker pay-outs to punters were higher across all forms of betting compared to totalisator bets.

2.2.4 Potential New Gambling Markets

One requirement of the terms of reference was to investigate whether there are new gambling markets into which the industry can expand.

The original Stratecon proposal noted that this would be a challenging requirement and needs to be approached with caution. It is tantamount to 'picking winners'. It can be argued that such opportunities would already have been identified by market players.

Discussions were held with role players to identify such opportunities. There was no material outcome from these discussions.

2.3 National Gambling

South Africa has, since the liberalization of gambling in 1996, seen an extraordinary growth in legalized gambling.

2.3.1 Gambling Turnover – National

Gross gambling turnover by different types of gambling for the years 2009 to 2015 is reported in Table 6. This is reported by nominal and real values, year on year changes and as a proportion of total gambling turnover.

Table 6: Gambling Turnover by Type - National

		Year	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
TURNOVER (Rm)	Nominal	Casino	194 935	196 778	209 263	224 563	240 065	251 177	252 416
		LPM	6 255	6 932	8 653	11 953	16 070	20 227	24 530
		BINGO	1 499	1 905	2 426	3 372	5 504	8 746	13 170
		Bookmakers & Totalisators	9 480	10 211	12 829	17 699	20 187	24 490	29 600
		Horse Racing	8 404	8 420	8 777	10 488	10 485	9 998	10 439
		Sports Betting	1 046	1 796	3 932	7 212	9 702	14 492	19 161
	Real	Casino	264 291	255 900	259 206	263 368	266 301	262 626	252 416
		LPM	8 481	9 015	10 718	14 018	17 827	21 149	24 530
		BINGO	2 033	2 477	3 005	3 955	6 105	9 145	13 170
		Bookmakers & Totalisators	12 853	13 279	15 890	20 758	22 393	25 606	29 600
		Horse Racing	11 394	10 950	10 872	12 300	11 631	10 454	10 439
		Sports Betting	1 418	2 336	4 871	8 458	10 763	15 152	19 161
	% Change	Casino		-3%	1%	2%	1%	-1%	-4%
		LPM		6%	19%	31%	27%	19%	16%
		BINGO		22%	21%	32%	54%	50%	44%
		Bookmakers & Totalisators		3%	20%	31%	8%	14%	16%
		Horse Racing		-4%	-1%	13%	-5%	-10%	0%
		Sports Betting		65%	109%	74%	27%	41%	26%
	% Proportion	Casino	92%	91%	90%	87%	85%	82%	79%
		LPM	3%	3%	4%	5%	6%	7%	8%
		BINGO	1%	1%	1%	1%	2%	3%	4%
		Bookmakers & Totalisators	4%	5%	6%	7%	7%	8%	9%
		Horse Racing	4%	4%	4%	4%	4%	3%	3%
		Sports Betting	0%	1%	2%	3%	3%	5%	6%

Source: NGB website

The real value of turnover by the different types of gambling is illustrated in Figure 4. The same data with the exclusion of casinos is illustrated in Figure 5.

The following observations are made:

- Turnover is dominated by casinos. This is well known.
- There has been a substantial increase in turnover of LPMs, sports betting and bingo.
- There has been a fall in turnover on horse racing. This is generally accepted to be the result of the increased competition from LPMs, sports betting and bingo.

Figure 4: Gambling Turnover (Real Values, 2015 Prices)

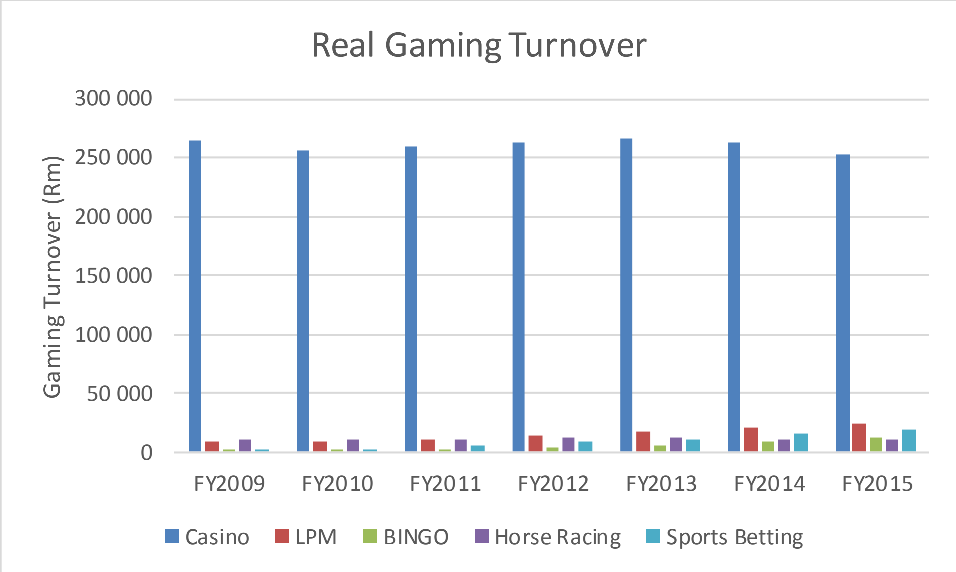
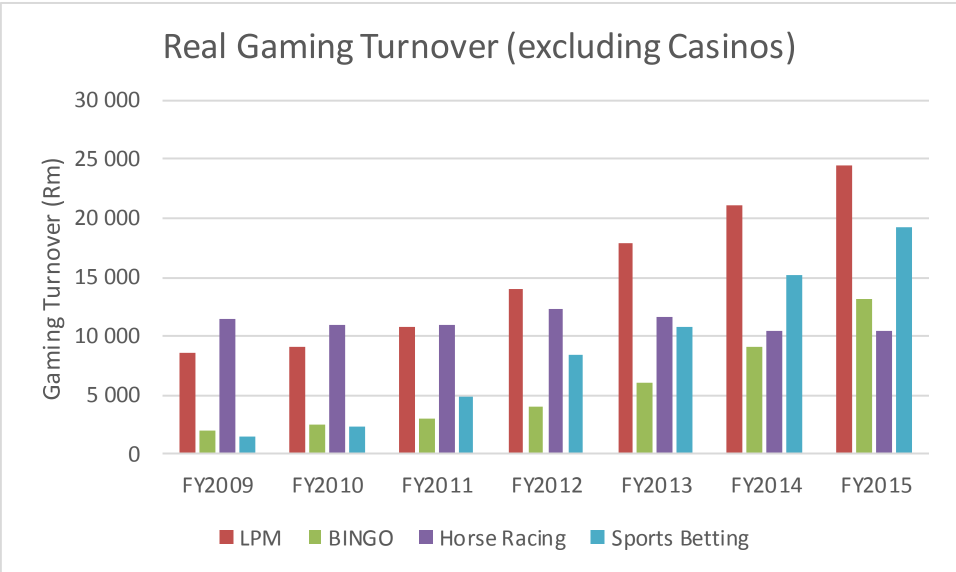


Figure 5: Gambling Turnover, excluding Casinos (Real Values, 2015 Prices)



2.3.2 Gross Gambling Revenue – National

Gross gambling revenue by different types of gambling for the years 2009 to 2015 is reported in Table 7. This is reported by nominal and real values, year on year changes and as a proportion of total gambling turnover.

Table 7: Gross Gambling Revenue by Type - National

		Year	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
GGR (Rm)	Nominal	Casino	13 510	13 726	14 043	14 855	16 411	16 498	17 235
		LPM	664	739	899	1 174	1 476	1 739	2 079
		BINGO	121	197	196	235	437	732	1 117
		Bookmakers & Totalisators	1 636	1 604	2 034	2 153	2 569	2 834	3 463
		Horse Racing	1 507	1 436	1 587	1 675	1 750	1 830	1 881
		Sports Betting	123	197	338	478	819	1 004	1 582
	Real	Casino	18 317	17 850	17 394	17 422	18 205	17 250	17 235
		LPM	900	961	1 114	1 377	1 638	1 818	2 079
		BINGO	164	256	242	276	485	766	1 117
		Bookmakers & Totalisators	2 218	2 086	2 520	2 525	2 850	2 963	3 463
		Horse Racing	2 044	1 868	1 965	1 964	1 942	1 914	1 881
		Sports Betting	166	256	419	560	909	1 050	1 582
	% Change	Casino		-3%	-3%	0%	4%	-5%	0%
		LPM		7%	16%	24%	19%	11%	14%
		BINGO		56%	-5%	14%	76%	58%	46%
		Bookmakers & Totalisators		-6%	21%	0%	13%	4%	17%
		Horse Racing		-9%	5%	0%	-1%	-1%	-2%
		Sports Betting		54%	64%	34%	62%	16%	51%
	% Proportion	Casino	85%	84%	82%	81%	79%	76%	72%
		LPM	4%	5%	5%	6%	7%	8%	9%
		BINGO	1%	1%	1%	1%	2%	3%	5%
		Bookmakers & Totalisators	10%	10%	12%	12%	12%	13%	14%
		Horse Racing	9%	9%	9%	9%	8%	8%	8%
		Sports Betting	1%	1%	2%	3%	4%	5%	7%

Source: NGB website

The real value of gross gaming revenue by the different types of gambling is illustrated in Figure 6. The same data with the exclusion of casinos is illustrated in Figure 7.

The following observations are made:

- GGR is dominated by casinos. Again, this is well known.
- There has been a substantial increase in GGR from LPMs, sports betting and bingo.
- There has been a drop in GGR on horse racing. This is generally accepted to be the result of the increased competition from LPMs, sports betting and bingo.
- Unlike the picture painted by turnover, from a GGR perspective horse racing was, until 2015, the largest non-casino part of the gambling industry.

Figure 6: Gross Gaming Revenue (Real Values, 2015 Prices)

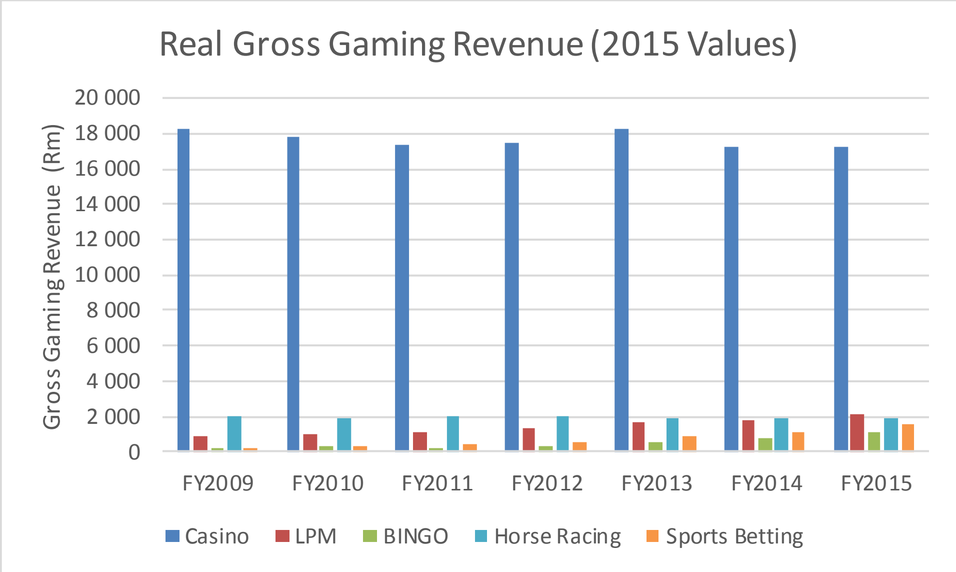
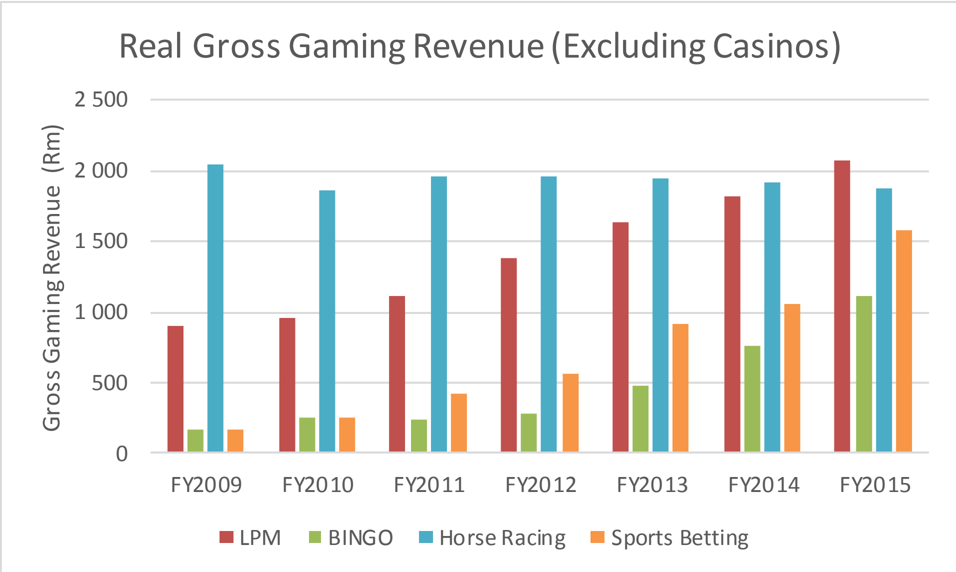


Figure 7: Gross Gaming Revenues, excluding Casinos (Real Values, 2015 Prices)



2.3.3 Taxes - National

The regulation of gambling is a provincial function. The resultant gambling taxes are one of the few sources of funding that accrue directly to provinces. They are clearly important from a provincial perspective.

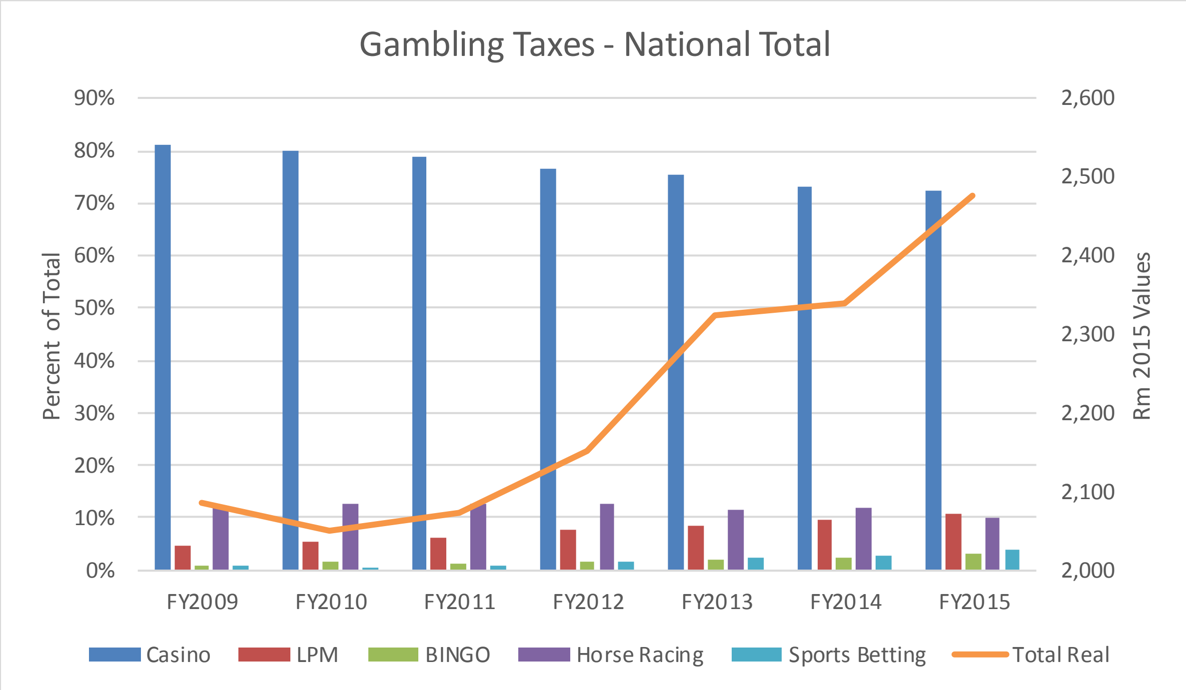
The growth and composition of gambling taxes at a national level are reported in Table 8 and illustrated in Figure 8.

Table 8: National Gambling Taxes

		Year	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
TAXES (Rm)	Nominal	Casino	1 250	1 263	1 318	1 405	1 578	1 640	1 791
		LPM	73	83	105	140	181	214	262
		BINGO	15	22	23	29	45	53	81
		Bookmakers & Totalisators	201	207	225	259	292	330	343
		Horse Racing	188	197	210	233	241	268	249
		Sports Betting	12	10	16	26	50	61	94
	Real	Casino	1 695	1 642	1 633	1 648	1 750	1 715	1 791
		LPM	99	108	130	164	201	224	262
		BINGO	21	29	29	34	50	55	81
		Bookmakers & Totalisators	272	270	278	304	323	345	343
		Horse Racing	255	257	261	273	268	281	249
		Sports Betting	17	13	20	31	56	64	94
	% Change	Casino		-3%	-1%	1%	6%	-2%	4%
		LPM		9%	20%	26%	22%	12%	17%
		BINGO		42%	-1%	17%	46%	11%	47%
		Bookmakers & Totalisators		-1%	3%	9%	6%	7%	-1%
		Horse Racing		0%	2%	5%	-2%	5%	-11%
		Sports Betting		-21%	51%	57%	81%	15%	46%
	% Proportion	Casino	81%	80%	79%	77%	75%	73%	72%
		LPM	5%	5%	6%	8%	9%	10%	11%
		BINGO	1%	1%	1%	2%	2%	2%	3%
		Bookmakers & Totalisators	13%	13%	13%	14%	14%	15%	14%
		Horse Racing	12%	13%	13%	13%	12%	12%	10%
		Sports Betting	1%	1%	1%	1%	2%	3%	4%

The total nominal value of gambling taxes increased from R1.7bn in 2009 to R2.8bn in 2015. In real, 2015 values, this had increased from R2.4bn in 2009 to the R2.8bn in 2015. It can be seen from Figure 8 that the real value of taxes was lower in both 2010 and 2011 than in 2009. This can obviously be ascribed to the recession around that time.

Figure 8: Contribution to Real National Gaming Taxes (2015 Prices)



Between 2009 and 2015 the real growth in taxes from:

- Casinos increased by 6% which reduced its share of total taxes from 81% to 72%;
- LPMs increased by 166% which increased its share of total taxes from 5% to 11%;
- Bingo increased by 292% which increased its share of total taxes from 1% to 3%;
- Horse racing reduced by 3% which reduced its share of total taxes from 12% to 10%; and
- Sports betting increased by 466% which increased its share of total taxes from 1% to 4%.

2.4 Western Cape Gambling

This section reports on gross gambling turnover, GGR and taxes from gambling in the Western Cape.

2.4.1 Gambling Turnover – Western Cape

Gross gambling turnover in the Western Cape by different types of gambling for the years 2009 to 2015 is reported in Table 9. This is reported by nominal and real values, year on year changes and as a proportion of total gambling turnover.

Table 9: Gambling Turnover by Type – Western Cape

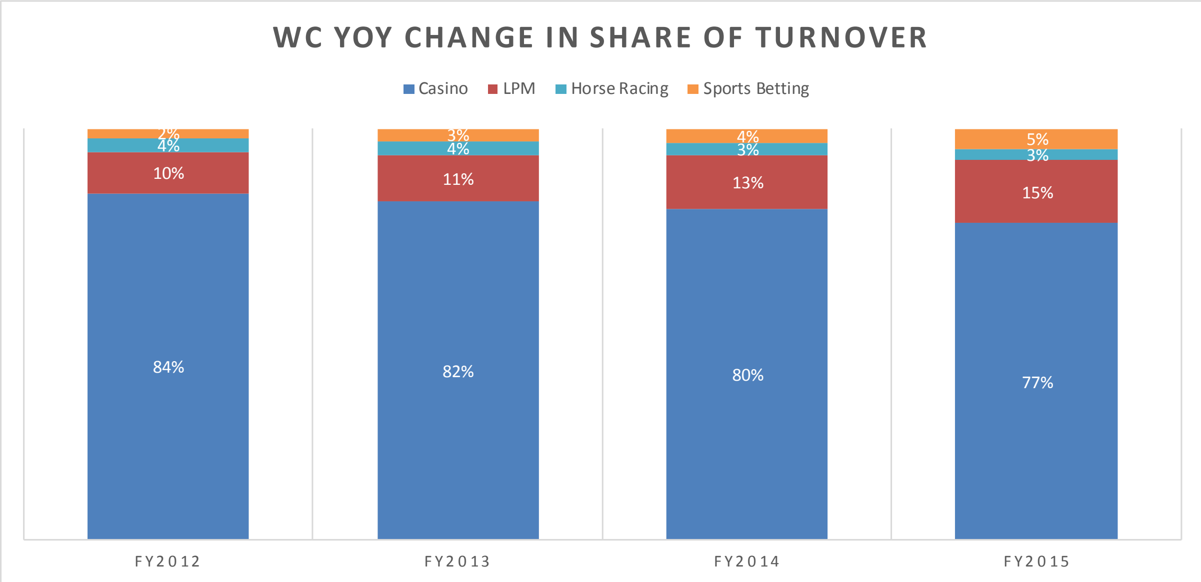
		Year	**FY2009**	**FY2010**	**FY2011**	**FY2012**	**FY2013**	**FY2014**	**FY2015**
TURNOVER	**Nominal**	Casino	34 547	33 231	35 226	37 950	39 864	41 654	39 520
		LPM	3 141	3 177	3 653	4 469	5 524	6 754	7 886
		BINGO	0	0	0	0	0	0	0
		Bookmakers & Totalisators	1 660	1 982	2 303	2 572	3 124	3 352	3 951
		Horse Racing	0	0	0	1 582	1 704	1 525	1 426
		Sports Betting	0	0	0	990	1 420	1 827	2 526
	Real	Casino	46 839	43 215	43 634	44 508	44 221	43 552	39 520
		LPM	4 259	4 131	4 525	5 242	6 128	7 062	7 886
		BINGO	0	0	0	0	0	0	0
		Bookmakers & Totalisators	2 251	2 578	2 853	3 017	3 465	3 505	3 951
		Horse Racing	0	0	0	1 856	1 890	1 594	1 426
		Sports Betting	0	0	0	1 161	1 575	1 911	2 526
	% Change	Casino		-8%	1%	2%	-1%	-2%	-9%
		LPM		-3%	10%	16%	17%	15%	12%
		BINGO							
		Bookmakers & Totalisators		15%	11%	6%	15%	1%	13%
		Horse Racing					2%	-16%	-11%
		Sports Betting					36%	21%	32%
	% Proportion	Casino	88%	87%	86%	84%	82%	80%	77%
		LPM	8%	8%	9%	10%	11%	13%	15%
		BINGO	0%	0%	0%	0%	0%	0%	0%
		Bookmakers & Totalisators	4%	5%	6%	6%	6%	6%	8%
		Horse Racing	0%	0%	0%	4%	4%	3%	3%
		Sports Betting	0%	0%	0%	2%	3%	4%	5%

The relative share of turnover between casinos, LPMs, sports betting and horse racing is illustrated in Figure 9.

The following observations are made:

- Turnover is dominated by casinos. This is, again, well known.
- There has been a substantial increase in the LPM share of turnover.
- There has been a fall in the horse racing share of turnover. This is generally accepted to be the result of the increased competition from LPMs and sports betting.

Figure 9: Percentage Share of Western Cape Gaming Turnover



2.4.2 Gross Gaming Revenue – Western Cape

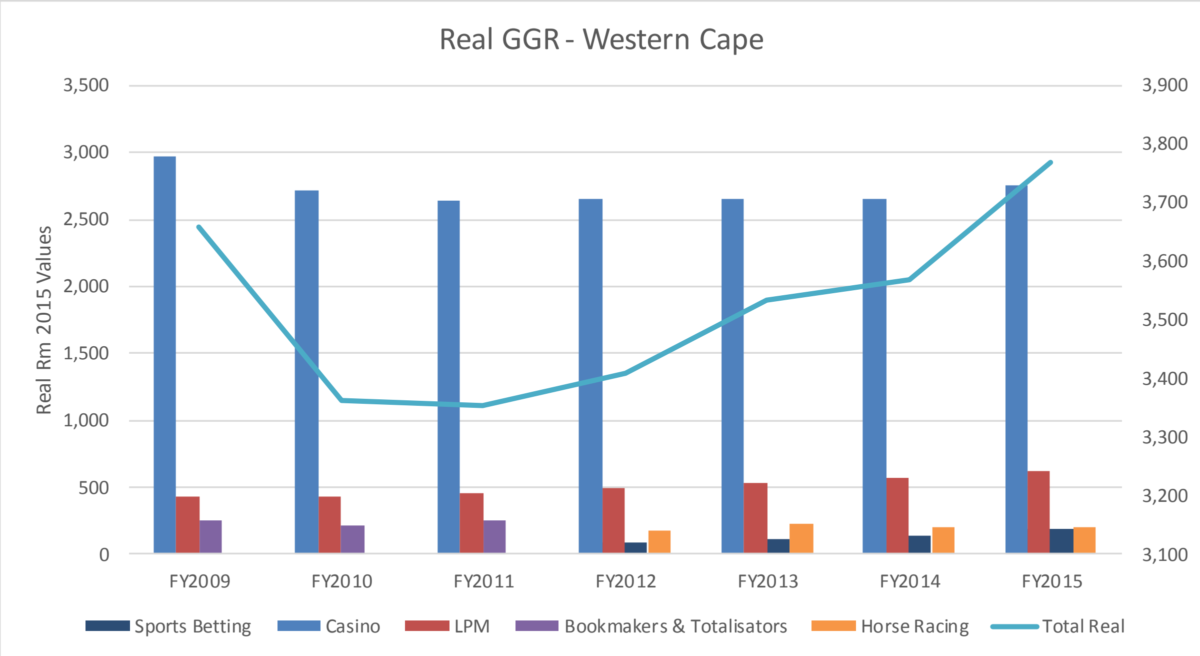
Western Cape gross gambling revenue by different types of gambling for the years 2009 to 2015 is reported in Table 10. This is reported by nominal and real values, year on year changes and as a proportion of total gambling turnover.

Table 10: Gross Gambling Revenue by Type – Western Cape

		Year	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
GGR	Nominal	Casino	2 190	2 091	2 133	2 259	2 394	2 536	2 752
		LPM	317	330	366	424	481	551	626
		BINGO	0	0	0	0	0	0	0
		Bookmakers & Totalisators	191	163	208	225	309	325	392
		Horse Racing	0	0	0	150	203	192	198
		Sports Betting	0	0	0	75	106	133	194
	Real	Casino	2 970	2 720	2 642	2 649	2 656	2 652	2 752
		LPM	430	429	454	497	533	576	626
		BINGO	0	0	0	0	0	0	0
		Bookmakers & Totalisators	259	213	257	264	343	340	392
		Horse Racing				176	225	201	198
		Sports Betting				88	118	139	194
	% Change	Casino		-8%	-3%	0%	0%	0%	4%
		LPM		0%	6%	9%	7%	8%	9%
		BINGO							
		Bookmakers & Totalisators		-18%	21%	3%	30%	-1%	15%
		Horse Racing					28%	-11%	-2%
		Sports Betting					34%	18%	40%
	% Proportion	Casino	81%	81%	79%	78%	75%	74%	73%
		LPM	12%	13%	14%	15%	15%	16%	17%
		BINGO	0%	0%	0%	0%	0%	0%	0%
		Bookmakers & Totalisators	7%	6%	8%	8%	10%	10%	10%
		Horse Racing	0%	0%	0%	5%	6%	6%	5%
		Sports Betting	0%	0%	0%	3%	3%	4%	5%

The relative contribution and total real GGR in the Western Cape between 2009 and 2015 is illustrated in Figure 10.

Figure 10: Contribution to Real Western Cape GGR



The following trends and changes can be noted:

- As with the national situation there was a drop in real GGR from 2009 to 2011. The 2009 GGR levels were only recovered by 2015 Again, this is attributed to the recession that occurred around those years.
- Real GGR has increased since that time albeit with a slight pause in 2014.
- There has been an ongoing growth in the GGR from LPMs. In 2009 LPMs made a 12% contribution towards total GGR. By 2015 this had increased to 17%.

2.4.3 Taxes – Western Cape

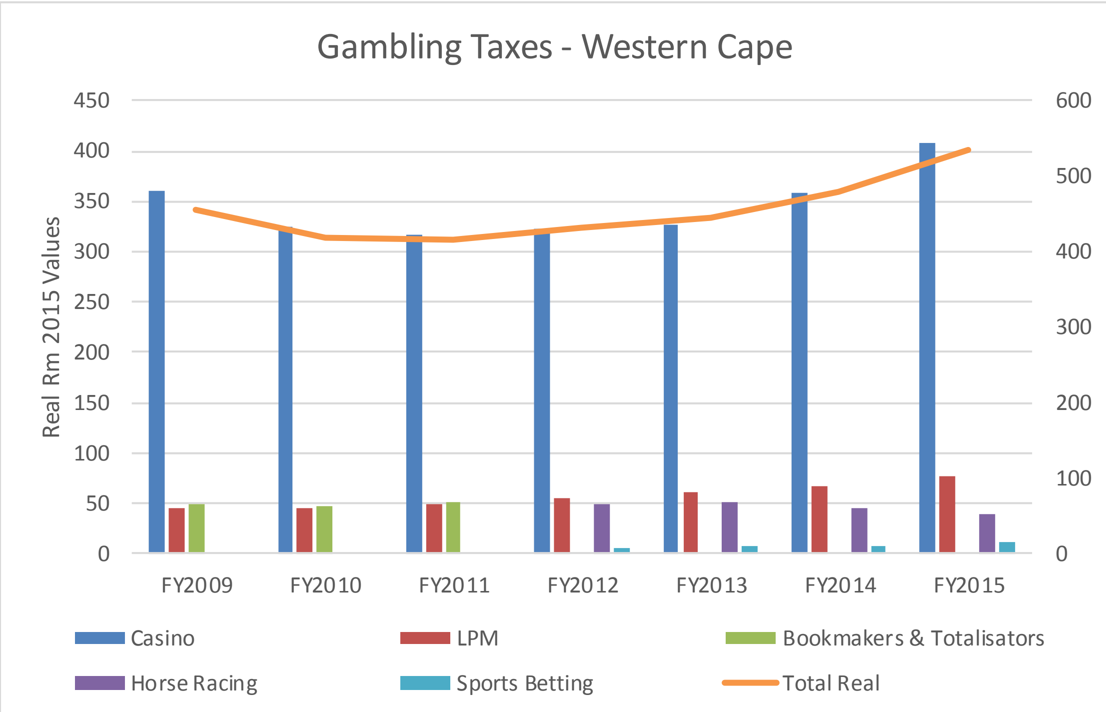
The growth and composition of gambling taxes in the Western Cape are reported in Table 11 and illustrated in Figure 11.

Table 11: Western Cape Gambling Taxes

		Year	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
TAX	Nominal	Casino	266	250	257	275	295	344	409
		LPM	34	35	40	47	55	65	76
		BINGO	0	0	0	0	0	0	0
		Bookmakers & Totalisators	37	37	41	46	52	50	51
		Horse Racing	0	0	0	42	45	42	39
		Sports Betting	0	0	0	4	6	8	12
	Real	Casino	361	325	318	323	328	360	409
		LPM	46	46	49	55	61	68	76
		BINGO	0	0	0	0	0	0	0
		Bookmakers & Totalisators	50	48	50	54	57	53	51
		Horse Racing				49	50	44	39
		Sports Betting				5	7	8	12
	% Change	Casino		-10%	-2%	2%	1%	10%	14%
		LPM		1%	7%	12%	10%	11%	12%
		BINGO							
		Bookmakers & Totalisators		-4%	5%	8%	5%	-8%	-3%
		Horse Racing					2%	-12%	-13%
		Sports Betting					42%	15%	48%
	% Proportion	Casino	79%	78%	76%	75%	74%	75%	76%
		LPM	10%	11%	12%	13%	14%	14%	14%
		BINGO	0%	0%	0%	0%	0%	0%	0%
		Bookmakers & Totalisators	11%	11%	12%	13%	13%	11%	9%
		Horse Racing	0%	0%	0%	11%	11%	9%	7%
		Sports Betting	0%	0%	0%	1%	2%	2%	2%

The total nominal value of gambling taxes increased from R337m in 2009 to R536m in 2015. In real, 2015 values, this had increased from R457m in 2009 to the R536m in 2015. It can be seen from Figure 11 that the real value of taxes was lower in both 2010 and 2011 than in 2009. This can again be ascribed to the recession around that time.

Figure 11: Contribution to Real Western Cape Gaming Taxes (2015 Prices)



Between 2009 and 2015 the real growth in taxes from:

- Casinos increased by 2.1% while its share of total taxes fell from 79% to 76%;
- LPMs increased by 8.9% which increased its share of total taxes from 10% to 14%;

Between 2012 and 2015 the real growth in taxes from:

- Horse racing reduced by -7.8% which reduced its share of total taxes from 11% to 7%; and
- Sports betting increased by 34.1% which increased its share of total taxes from 1% to 2%.

There is merit in noting some differences in changes in taxes in the Western Cape compared to the national situation:

- The declining share of taxes from casinos also occurred nationally. The fall was lower in the Western Cape.
- The increase in taxes from LPMs was lower than what occurred nationally.
- There is currently no electronic bingo in the Western Cape.

Section 3: Racing Structure and Trends

This section provides context by outlining:

- The trends and structure of racing in a selection of other countries. This also explains the process that was followed in selecting two countries for further analysis.
- The trends and structure of racing in South Africa and in the Western Cape.
- The macroeconomic contribution made by horse racing in the Western Cape.

3.1 International Trends

Horse racing is an international sport with events staged in more than fifty countries. There are countries where racing takes place without any betting but these are very limited. While horse racing operates differently in different countries there are always owners, trainers, breeders, jockeys and, usually, punters.

Differences lie in the relative size of horse racing, the degree to which prize money covers the cost of horse ownership, the extent to which governments support horse racing through its tax regime and the different forms of betting. Most countries have a pooled betting system while some, like South Africa and Australia, also have fixed odds bookmakers. Typically, the pooled betting system operators support horse racing in various ways while the support from bookmakers appears to be limited if non-existent. One of the key challenges to horse racing around the world is the growth in on-line betting and, where these sites are not owned by domestic operators, lower revenue to horse racing.

This section focuses on two issues:

- First it reports on the relative size of and changes in horse racing in a selection of countries.
- Second it addresses one of the issues of the terms of reference which is to conduct an international comparative assessment of the commercial and legislative landscape of two countries where there are both bookmakers and the totalisator in horse-racing. The two chosen countries are Australia and the United Kingdom.

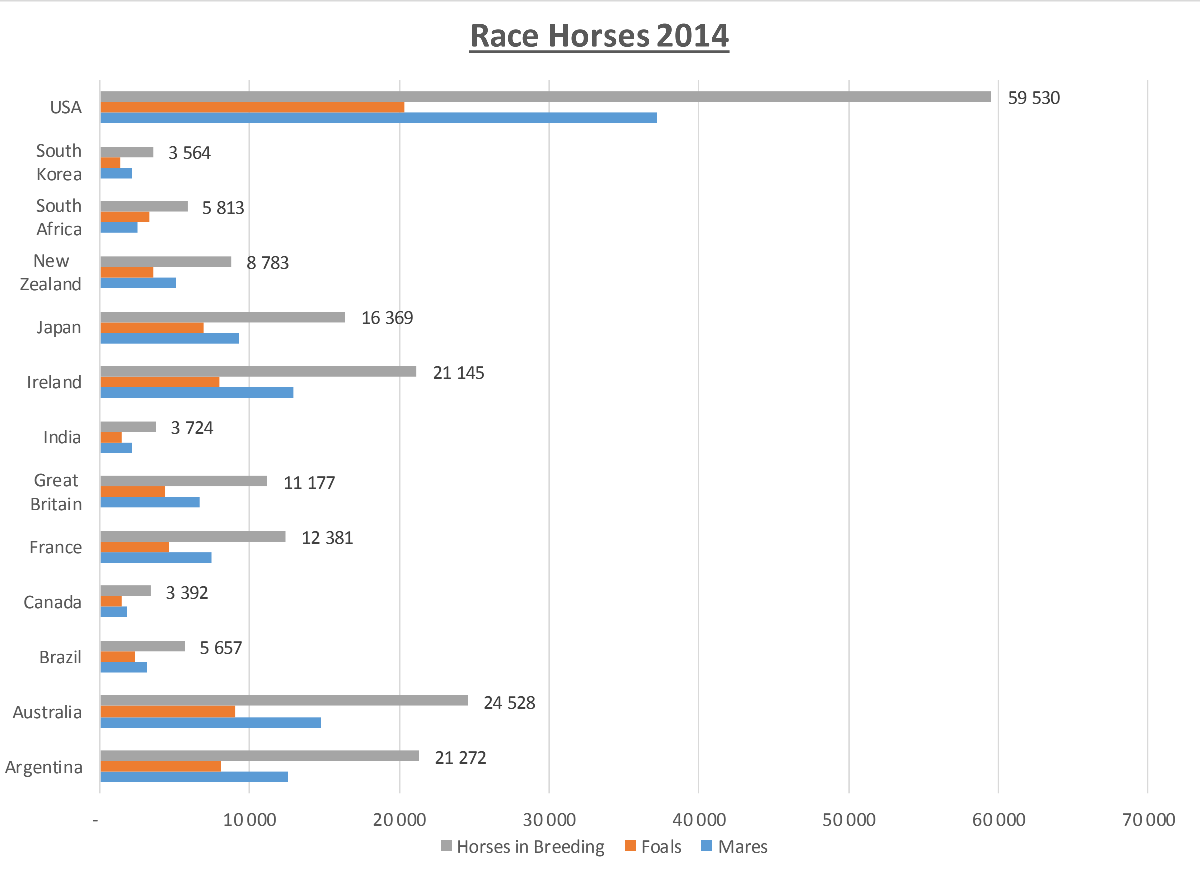
3.1.1 Racing Industry

This section gives some perspective on the relative size of horse racing in different countries. It does this by looking at the total number of race horses in a country and number of races and starters. This is done both on an absolute and a per capita basis.

3.1.1.1 Race Horses

The United States has the largest thoroughbred breeding for horse racing. In 2014, as is illustrated in Figure 12, there were over 59 000 race horses in breeding. This is followed by Australia (24 528), Argentina (21 272), Ireland (21 145) and Japan (16 369). Great Britain had 11 177 race horses in breeding, South Africa 5 813 and South Korea 3 564.

Figure 12: Race Horses 2014 – Country Selection



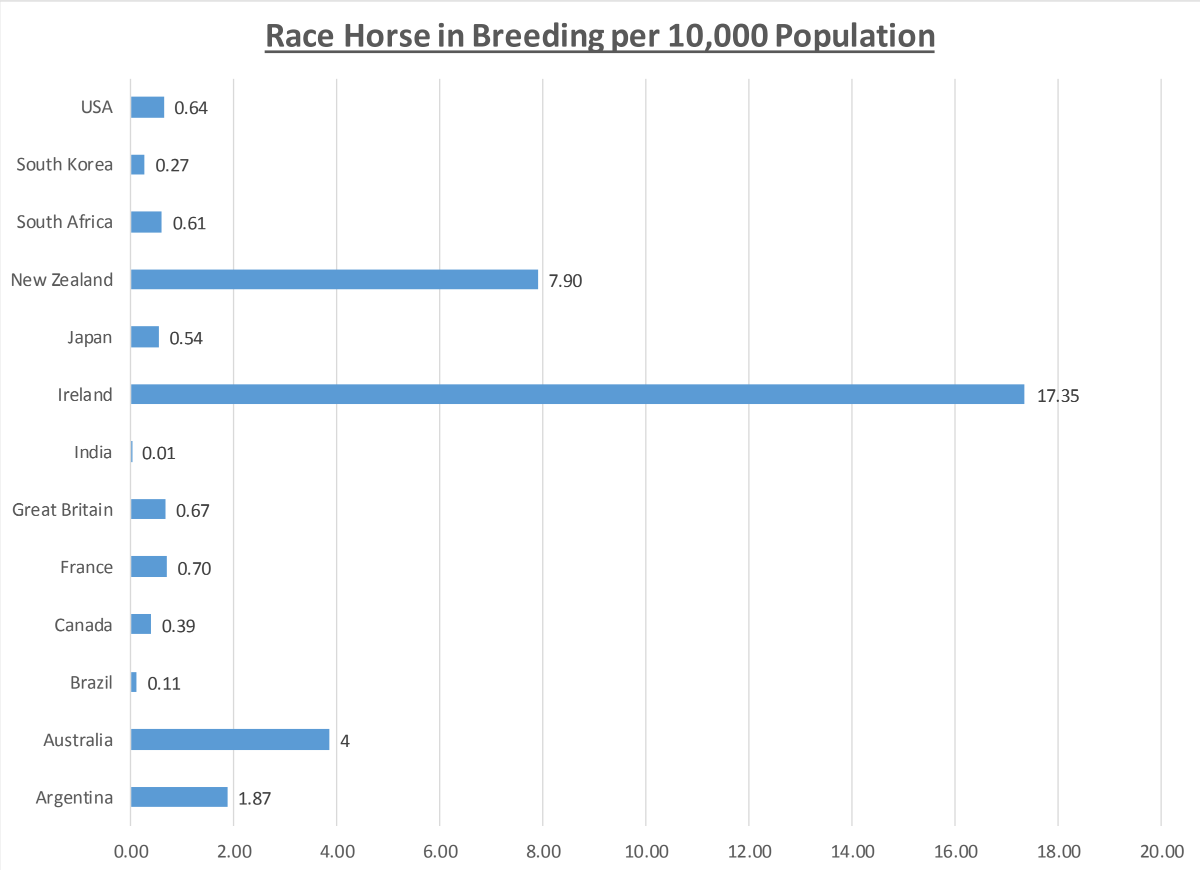
The number of foals is a product of the number of covered mares and the foal survival rate. The average foal survival rate among the 23-leading racing and breeding countries is 63%, which compares favourably with an estimated 60% in South Africa. The result of this is that the number of horses in training is in the region of two to three times the number of live foals born each year.

From a comparative perspective, the relative number of race horses is more useful than the absolute numbers. This comparative perspective of number of race horses in breeding per 10 000 people is shown in Figure 13:

- Ireland, at 17 race horses in training, has the most horses per person;
- This is followed by New Zealand at 7.9, Australia at 4.0 and Argentina at 1.87.

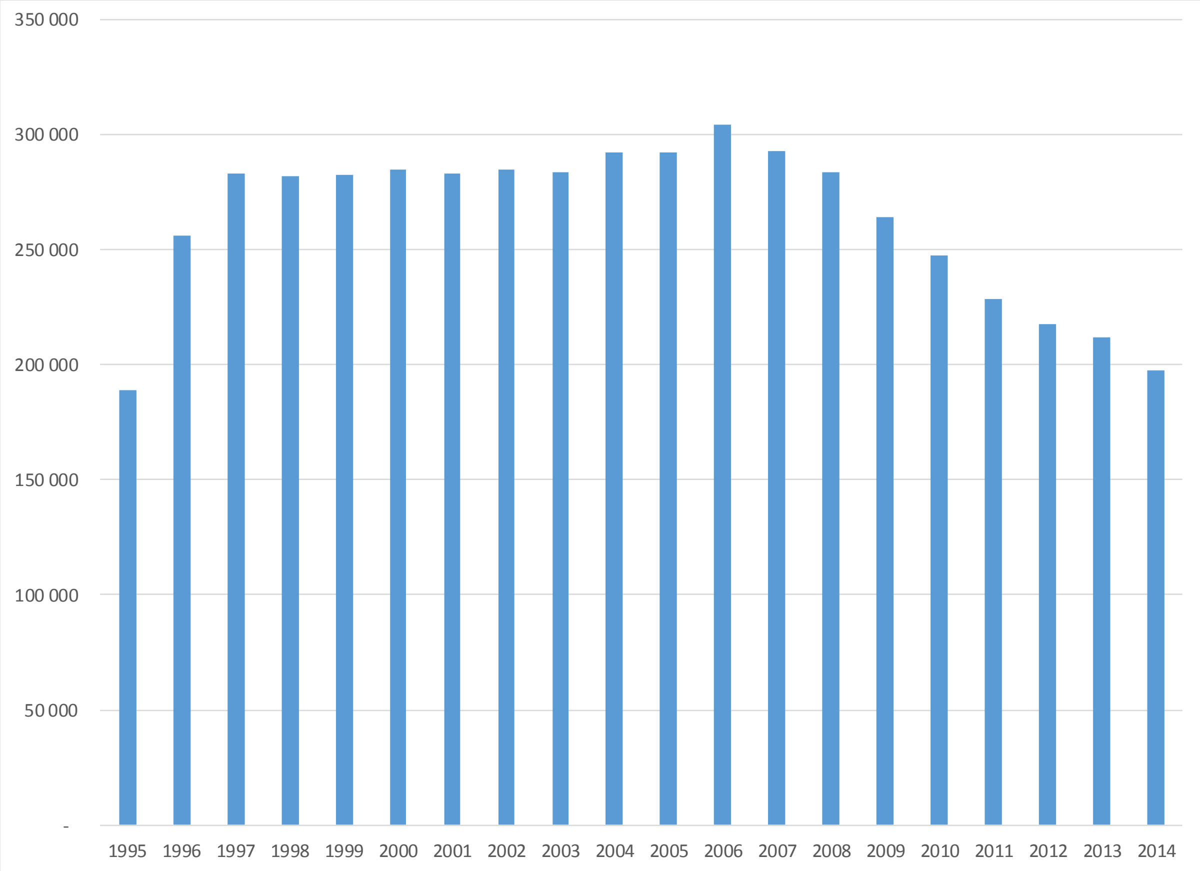
- There are 0.61 in South Africa, 0.67 in Great Britain and 0.27 in South Korea.

Figure 13: Race Horses in Breeding per 10 000 People



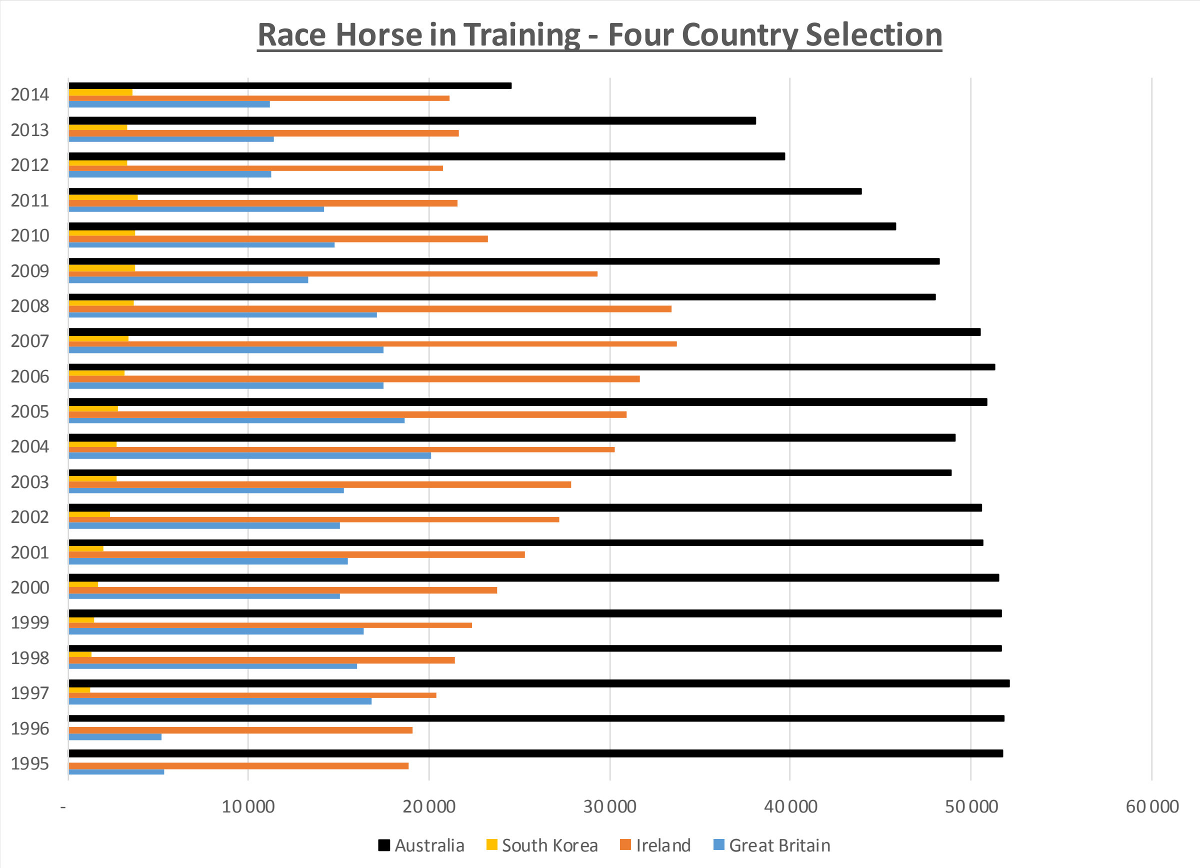
Part of the purpose of this section is to illustrate recent changes in horse racing internationally. This, for number of race horses in breeding, is illustrated in Figure 14. The international trends are clear. The number of horses increased from 189 000 in 1995 to 283 000 in 1998. This remained largely unchanged, with a slight increase until 2007. There has been a decline every year since then and in 2014 there were only 197 000 race horses in breeding.

Figure 14: Horses in Breeding 1995 to 2014 – Total of 15 Countries



The final comparison in this section is between four countries. These are Australia, South Korea, Ireland and Great Britain. This is shown in Figure 15. In three of four cases, there has been a decline in the number of race horses in breeding, with this being slightly less marked in Great Britain. The only exception is South Korea although it is clear the number of horses in breeding are relatively small.

Figure 15: Horse in Breeding 1995 to 2014 –4 Countries Selection



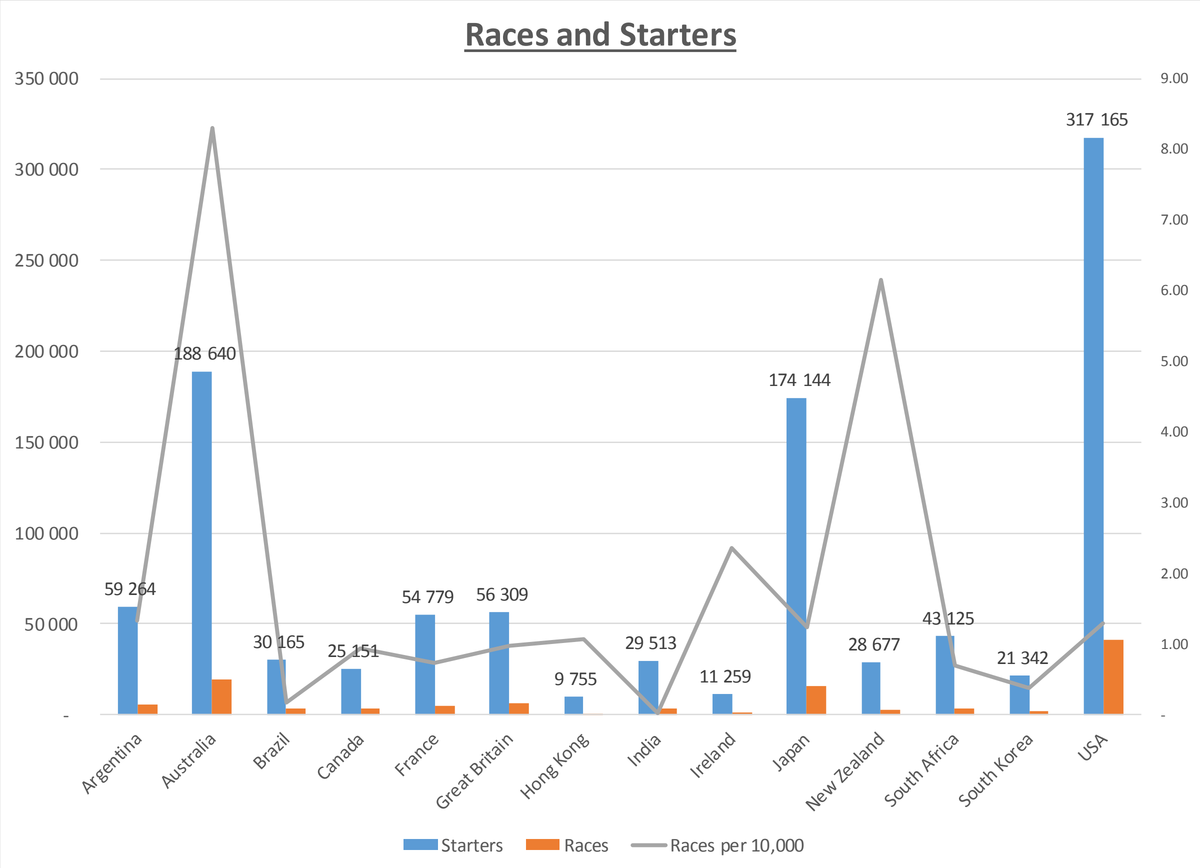
3.1.1.2 Races and Starters

The second of the international comparisons focuses on the number of races run in a selection of countries and the number of individual starters (the latter is the number of individual horses that ran in these races, not the total number of horses). These comparisons are shown in Figure 16.

In 2014 the United States staged more races – over 41 000 (shown by the orange column) and had more individual race horses running than any other country. This is followed by Australia (19 511) and Japan (15 812). South Africa staged 3 717 races in that year.

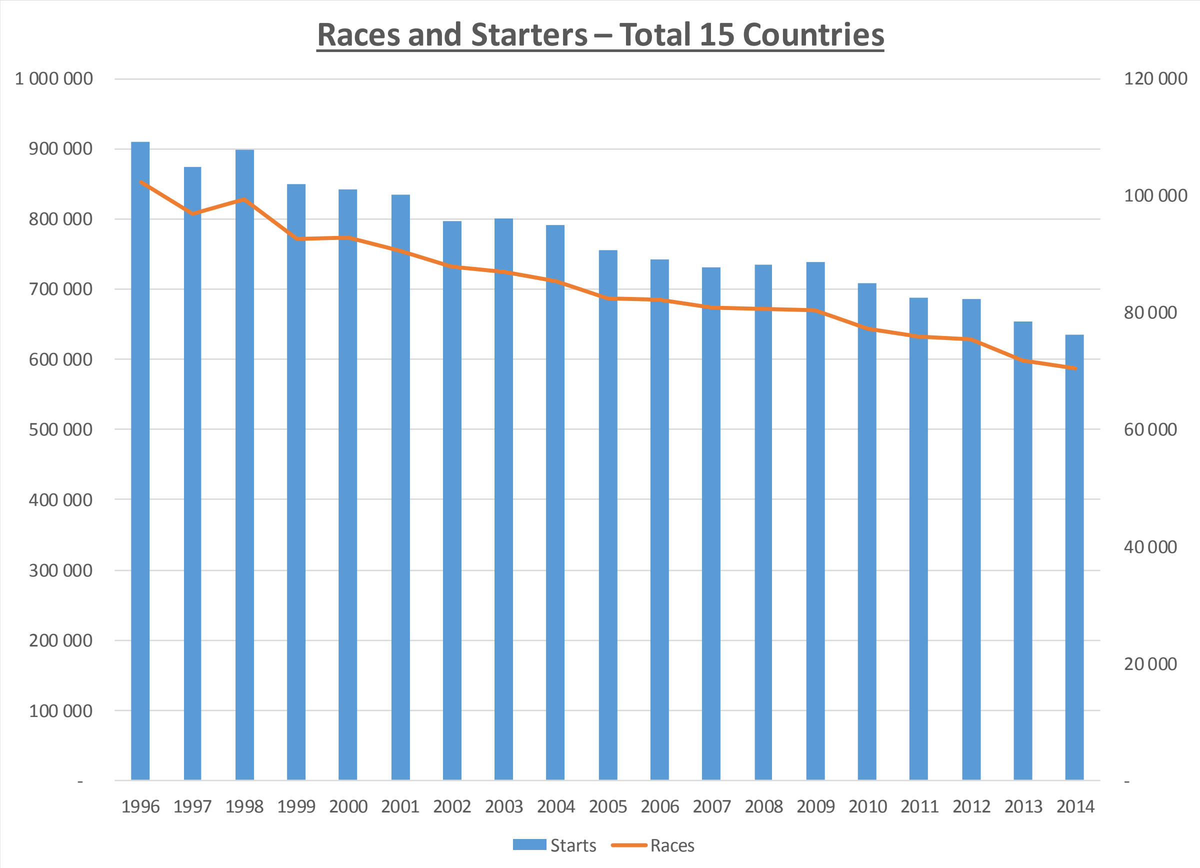
Based on races per capita, Australia is the world leader at 8.31 (per 10 000 people). This is followed by New Zealand at 6.16, Ireland 2.36 and Argentina at 1.33. South Africa staged 0.69.

Figure 16: Races, Starters 2014 – 15 Country Selection



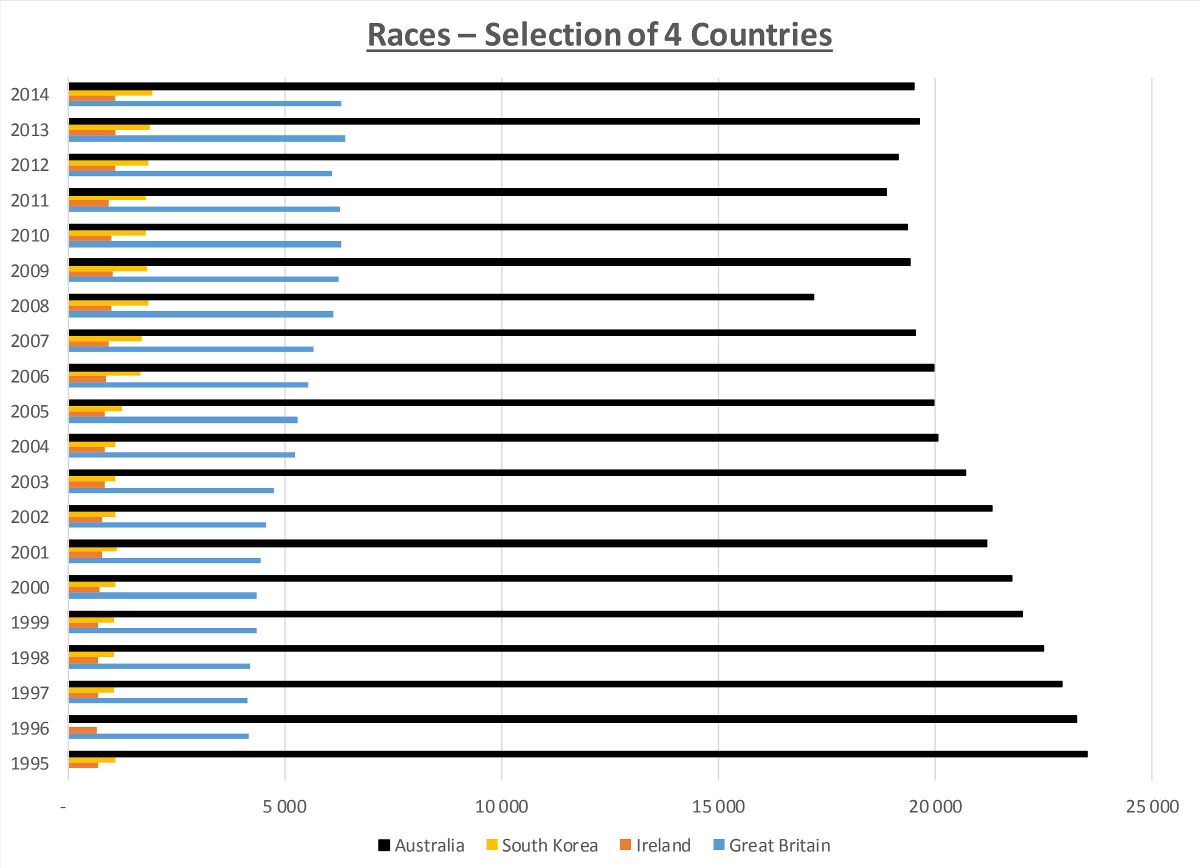
The total number of races staged and individual starters in those races for a selection of fifteen racing countries is shown in Figure 17. The on-going decline in both the number of races and total horses starting each race is clear. In 1996 there were a total of 102 000 races and 909 000 starters. By 2014 this had declined to 70 000 races and 635 000 starters.

Figure 17: Races and Starters 1996 to 2014 – Total of 15 Countries



The final international comparison for international horse races is shown in Figure 18 for the selection of the four countries that are being compared. Here it can be seen that the number of horse races declined in Australia. They have, on the other hand, increased in the other three countries.

Figure 18: Races 1995 to 2014 –4 Country Selection



3.1.2 Betting Industry

Analogues to the changing trends internationally in the racing industry are the changing trends in wagering on horses. The section starts with a cross country comparison before reporting on how the trends have changed over time.

Japan has the highest wagering turnover on horse racing, of €19.8bn, as reported in Table 12. This is, arguably, due to both the large population and the fact that legal gambling is restricted to horse racing. This is followed by Australia at €14.6bn and Great Britain at €14.0bn. South Africa (€712m), India (€456m), New Zealand (€427m) and Argentina (€174m) have some of the lowest wagering turnover on horses.

Table 12: International Stakes 2014

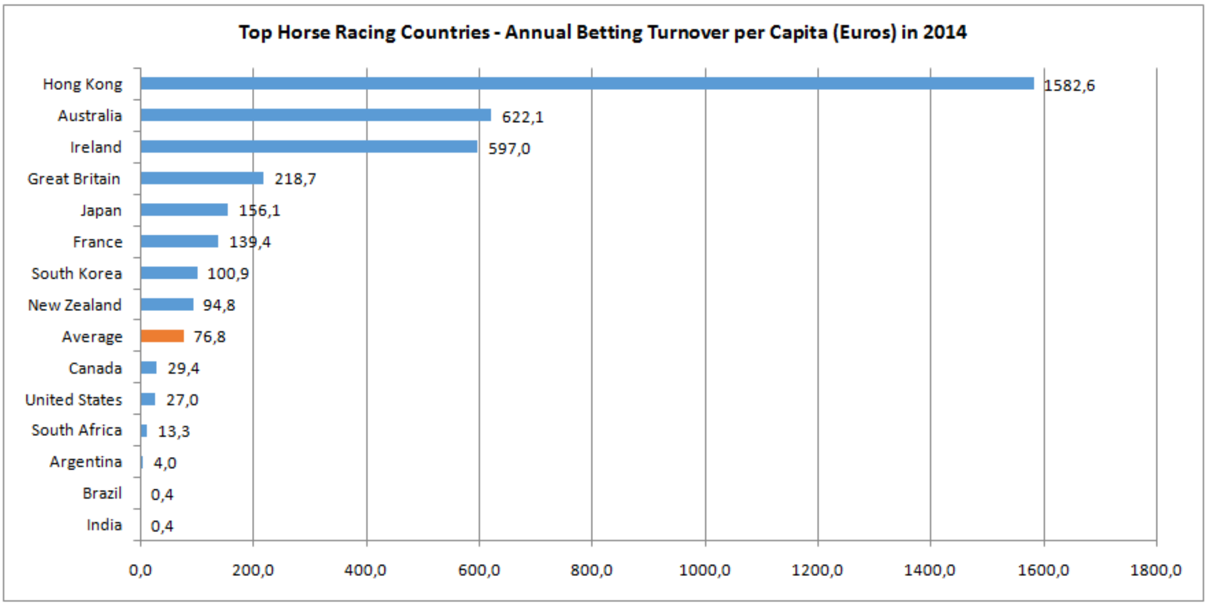
	Betting Turnover (Euros m)	Turnover per capita (Euros)
Argentina	174	4.0
Australia	14,601	622.1
Brazil	86	0.4
Canada	1,032	29.4
France	9,277	139.4
Great Britain	14,018	218.7
Hong Kong	11,461	1,582.6
India	456	0.4
Ireland	2,756	597.0
Japan	19,808	156.1
New Zealand	427	94.8
South Africa	712	13.3
South Korea	4,954	100.9
United States	8,691	27.0

Source: The Jockey Club (US) www.equinelonline.com

The profile is rather different when horse wagering is viewed on a per capita basis. This is also reported in the table and illustrated in Figure 19. In this case Hong Kong is well ahead of all other countries, wagering on average €1 582 annually. This is followed by Australia at €622 and Ireland at €597.

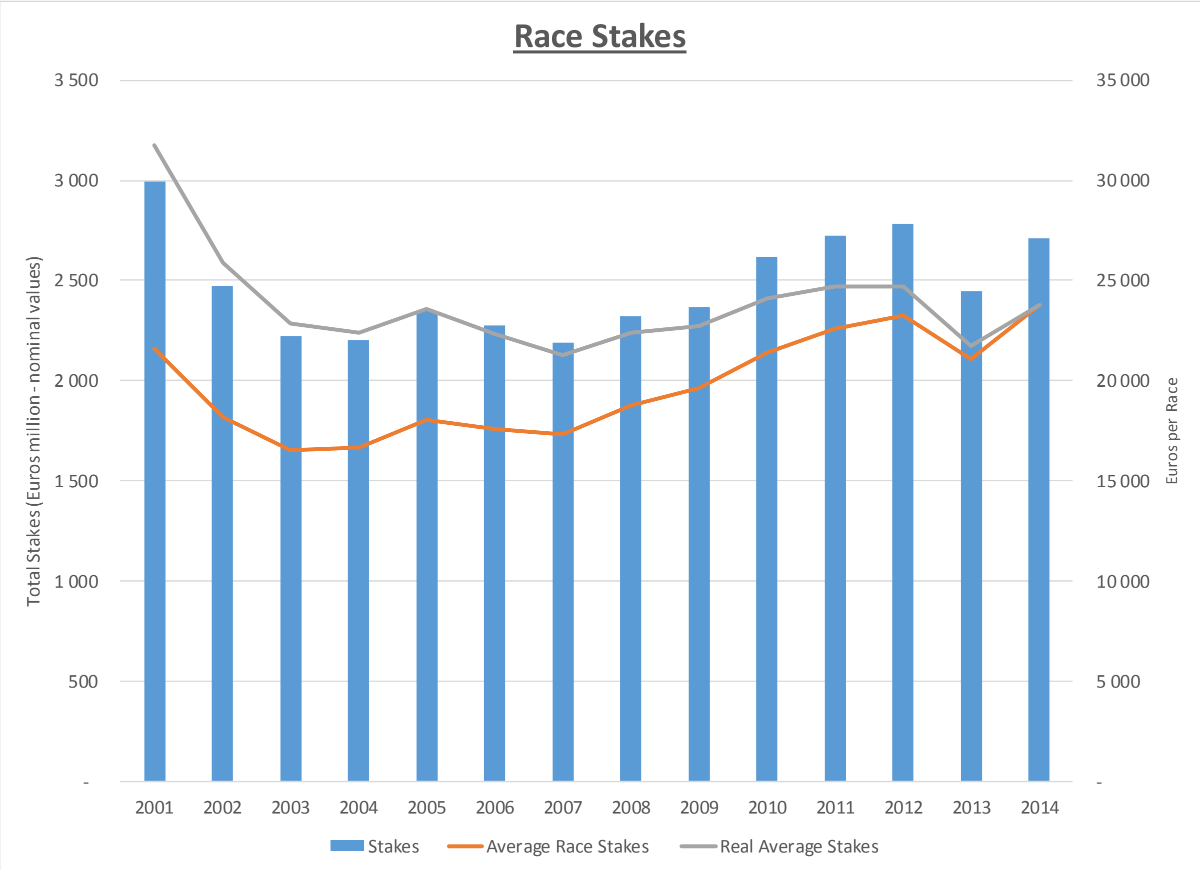
Per capita wagering in the other selection of countries is much smaller in comparison. Great Britain is €218 and Japan €156. South Africa at €13, Argentina (€4) and Brazil and India (both €0.4) have the lowest per capita wagering.

Figure 19: International Comparison of Betting Turnover per Capita 2014 (€)



Clearly one of the drivers of the viability of the racing side of the horse racing industry is the stakes that are paid out (and by inference the degree to which they cover the cost of owning a race horse). The change in these stakes is illustrated in Figure 20 for a fourteen-country sample. This is shown as total nominal stakes and average nominal and real stakes per race.

Figure 20: Average Race Stakes – 13 Countries[6]



While the trend in nominal average race stakes (the orange line) has shown a slight increase between 2001 and 2014, the average real stake per race showed a general decline. This decline was most marked between 2001 and 2004. In real terms the average stakes per race then remained relatively constant until 2009 and then showed a slight increase to 2012. They fell sharply in 2013 before recovering somewhat in 2014. In real terms the 2014 average stakes per race matched the 2005 values but is approximately 31% less than in 2001.

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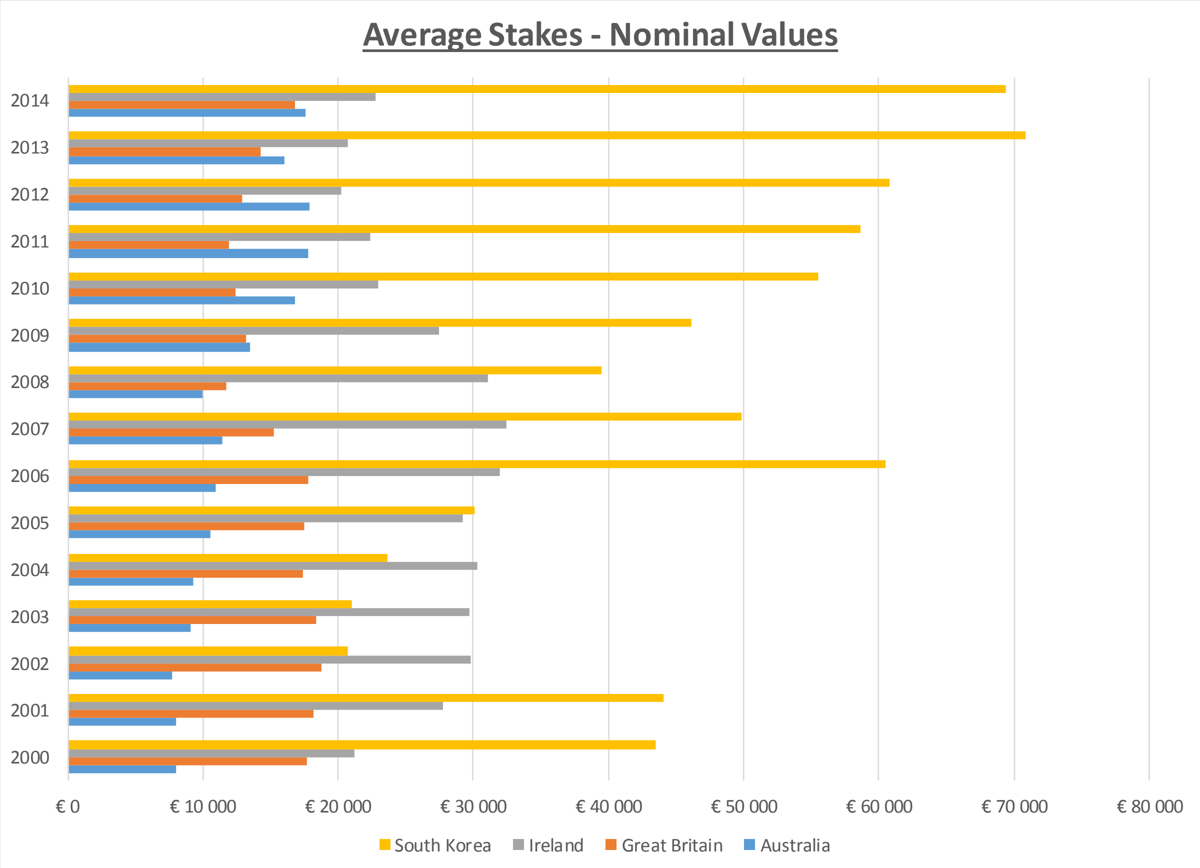
[6] *An assumption of 3% inflation was used to convert from nominal to real values.*

Figure 21: Average Race Stakes – Four Countries



The fluctuations in average nominal race stakes for the four-country comparison is illustrated in Figure 21:

- The immediate impression is just how much higher average races stakes in South Korea are than in the other three countries in the comparison. They have also increased in nominal terms, substantially so, since 2008.
- Average stakes in Ireland have declined overall since reaching a high in 2007. This high and subsequent decline can be expected to be tied to the calamitous economic fortunes of Ireland over that time.
- On the whole stakes in the UK declined over the period. This was particularly marked over the period of the global financial crisis. They have recovered marginally since that time.
- Average stakes in Australia have increased consistently in nominal terms over the period.

3.1.3 Stakes and Costs

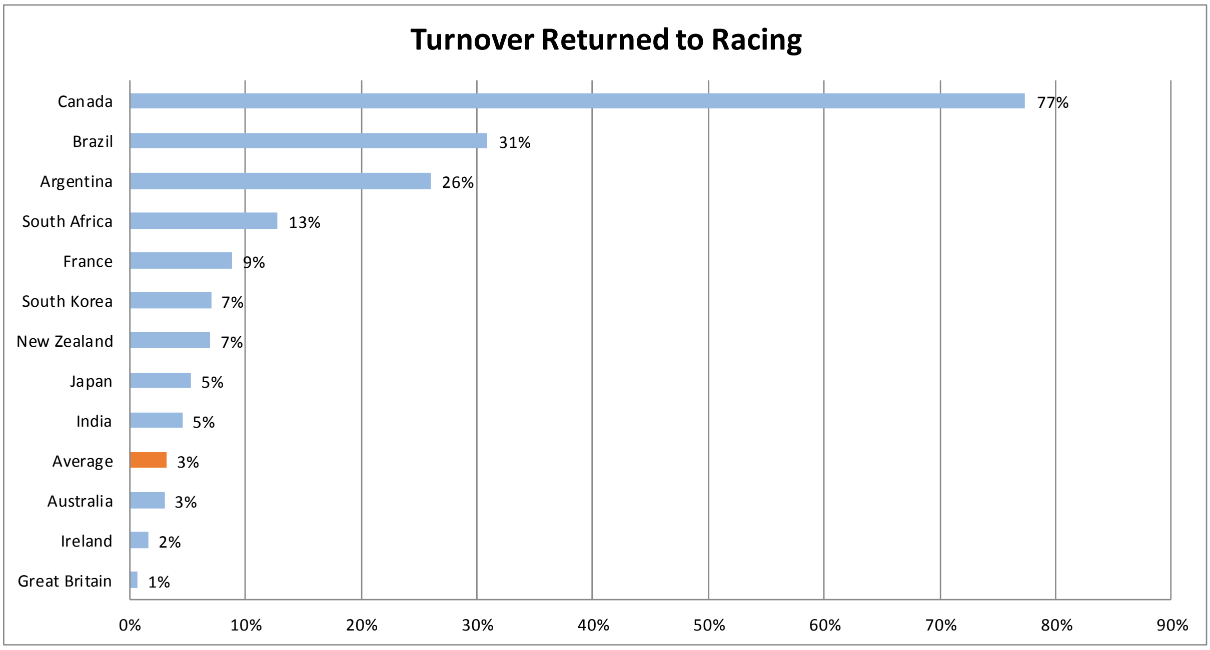
Clearly one of the key features of the on-going viability of horse racing is the extent to which funds are returned from betting to the industry. This can be both in the form of stakes and general contributions to the industry. This section focuses on the contribution to stakes.

This is done by doing a country comparison of two variables. The first is the proportion of betting turnover that is returned to racing. The second is the degree to which stakes cover the cost of horse ownership. The information on which this discussion is based is sourced from the International Racing Federation.

The proportion of turnover on betting that is returned to the industry is illustrated in Figure 22:

- Here Canada is the leader, returning 77.4% of betting turnover to the industry;
- This is followed by Brazil at 30.9% and Argentina at 26.0%;
- South Africa, at 12.8%, is fourth on the list and returns four times the global average;
- Australia, Ireland and Great Britain are the bottom ranked three countries and return less than 3.0% to the industry.

Figure 22: Betting Turnover Returned to Racing

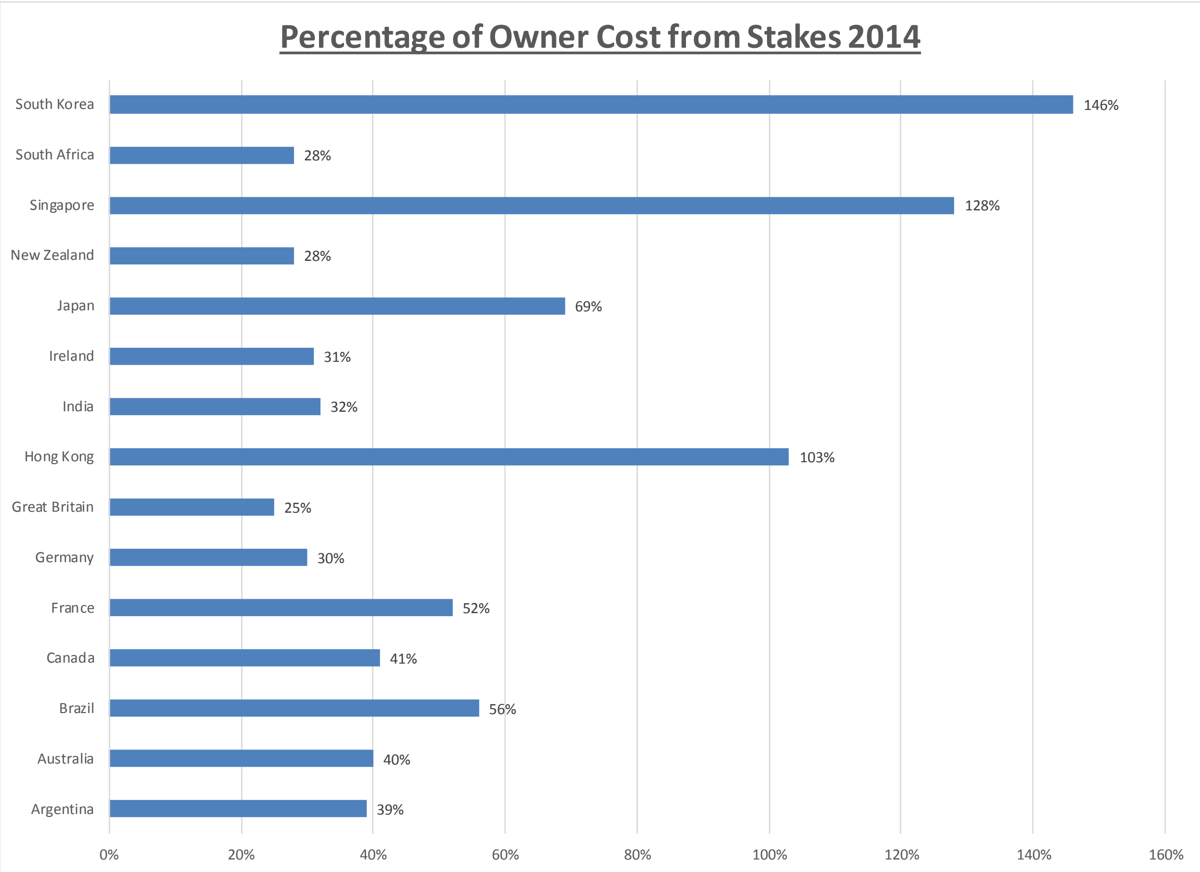


Source: http://www.horse racingintfed.com/home.asp

The degree to which stakes compensate, on average, for the cost of owning a race horse in a selection of countries is illustrated in Figure 23:

- Three countries have stakes that are more than the cost of ownership. These are South Korea where stakes were 146% the cost of ownership in 2014; Singapore at 128% and Hong Kong at 103%.
- There are three countries in the selection where stakes cover more than half the cost of ownership. These are Japan at 69%, Brazil at 56% and France at 52%.
- The countries which have the lowest stakes relative to ownership costs are Great Britain at 25%, South Africa and New Zealand at 28%, and Germany at 30%.

Figure 23: Proportion of Stakes to Owner Cost



Source: International Horse Racing Federation 2014:48

3.1.4 Totalisator and Bookmakers – International Lessons

There are two horse racing betting models. These are totalisator (pari-mutuel) betting and fixed odds betting with bookmakers. There are different arrangements in different countries on the existence of bookmakers within the racing framework. There is also the potential for different outcomes. This section considers three aspects:

- It starts with a simple comparison of the mix of bookmakers and totalisators in a selection of different countries and the degree to which the costs of race horse owners are covered by stakes.
- This is followed by an econometric analysis to determine whether the degree of the dominance of one totalisator over bookmaker (or visa verse) impacts on the observed growth or decline of the horse racing in individual countries.
- The final part of this section compares the totalisator and bookmaker legal and regulatory structure in Australia and the United Kingdom.

3.1.4.1 Country Comparison

The mix of totalisator betting and bookmakers in a selection of countries is reported in Table 21. The table also reports the percentage of owner cost that are covered by stakes. The information is based on a submission made by the Australian Racing Board to the Australian Productivity Commission 2008 investigation into gambling in that country. Therefore, the information relates to 2008:

- At the time of reporting six of the countries that were selected by the Australian Racing Board had industry returns to owners that covered between 45% and more than 100% of owner costs. In those countries, apart from South Africa, there was only totalisator wagering on horses.
- The three countries which had a bookmaker dominance saw owners recover less than 30% of their costs from stakes.

Table 13: Totalisator, Bookmakers and Return to Owners[7]

COUNTRY	Returns to owners	Wagering Model
Hong Kong	**100% +**	Totalisator only
Singapore		Totalisator only
Japan	**60%-100%**	Totalisator only
France	**45% - 60%**	Totalisator only
USA		Totalisator only
Australia		Totalisator dominant
South Africa		**Tote/bookmaker mix**
Ireland	**<30%**	Bookmaker dominant
Germany		Bookmaker dominant
Britain		Bookmaker dominant
Source: Australian Racing Board, Gambling Productivity Commission Inquiry 2008: 26		

3.1.4.2 Country Analysis - Totalisator and Bookmakers

Part of the terms of reference was to do an international comparative assessment of the commercial and legislative landscape of two countries where horse racing and totalisator betting thrives, with clear recommendations that may be included for legislative/policy reform.

This is the overall purpose of this section. The section starts with a country comparison with the focus on the operations of totalisators and bookmakers. This is followed by an analysis of the two countries agreed to with the Provincial Treasury: Australia and the United Kingdom.

3.1.4.3 Country Overview

Two assessments were done, on a country overview basis. The purpose was to identify whether there was a disenable difference in the horse racing industries of countries with totalisators, bookmakers and a combination of the two. The first assessment was based on descriptive statistics. The second on a regression analysis.

The challenge, in this instance, was to define what is meant in the terms of reference by ‘countries in which betting thrives’. The position was taken that this is meant to indicate the health of the racing industry. In this case the variable that was used was the per capita

[7] http://www.racingaustralia.horse/uploadimg/ProductivityCom.pdf

growth in the number of race horses. The descriptive statistics, using this as the dependent variable, are shown in Table 14 for a selection of countries.

- The first two columns show the rate of change in the number of race horses per capita over the last 10 and 20 years respectively. In the colour coding dark green is used where growth has been more than 2.0% annually; light green more than 1%; pink indicates negative growth from -2% to -5% and red more than negative 5%.
- The third column shows the percentage of the total horse racing betting that accrues to the totalisator.
- The final column indicates whether there are other forms of legal gambling.

A few observations can be made:

- The following countries have had a per capita growth in race horses either over the last ten or twenty years: Argentina; Australia; France; India, New Zealand and South Korea.
- The following countries have had a drop in the per capita number of race horses of more than 2% (either over the last 10 or 20 years): Canada; Ireland; South Africa; the UK and USA.
- In most of the countries in the table betting on horse racing is almost entirely with the totalisator. There are only three countries in the table where the totalisator is not dominant – Ireland, the UK and South Africa.
- There does not appear to be much relationship between a successful horse racing industry and the existence of other forms of gambling.
- There appears to be a clear relationship between the existence of a successful horse racing industry and the degree to which the totalisator is the dominant conduit for gambling on horses.

Table 14: Growth in Race Horses per Capita – Descriptive Statistics

Rate of Change in Horses per Capita	10 Yrs	20 Yrs	% Tote (Ave)	Other Gaming?
Argentina	2.0%	0.3%	1.00	Yes
Australia	4.3%	2.4%	0.76	Yes
Brazil	0.1%	-0.8%	1.00	Restricted
Canada	-10.6%	-5.3%	1.00	Yes
France	-1.5%	2.1%	1.00	Yes
Hong Kong	0.4%	0.0%	1.00	Restricted
India	8.8%	2.8%	0.83	Yes / Restr
Ireland	-3.2%	-2.7%	0.06	Yes
Japan	-0.1%	-1.8%	1.00	Restricted
New Zealand	0.2%	0.9%	0.87	Yes
South Africa	-2.0%	0.1%	0.55	Yes
South Korea	1.3%	6.6%	1.00	Restricted
United Kingdom	-3.0%	0.2%	0.04	Yes
United States	-6.1%	-4.3%	1.00	Yes

The results of a regression analysis with the same dependent variable – per capita growth in race horses – as above are presented in Table 15. The table presents the results of three regression runs – twenty years with ten variables; twenty years with six variables and ten years with six variables. The following observations are made:

- All three runs are a reasonably good fit, with adjusted R^2 values above 50% and f statistics of 0.0%.
- The p-test, which requires a value of less than 5.0% to indicate a robust independent variable shows that the following factors are important for a successful race horse industry:
  - Per capita GDP – a short term income variable;
  - Stock market valuation – a measure of the wealth effect;
  - The value of racing stakes (prize money to owners);
  - The dominance of the totalisator.

Table 15: Growth in Race Horses per Capita – Hedonic Regression ANOVA

Dependent Variable: Race Horses per Capita	Num Data Pts	Adjust R^2	ANOVA F (Sig)	Significance of Contributing Variables (p-test)							
				GDP per capita	Stock Market	Hh Consump	Internet Usage	Prize / Race	Prize / Starter	Return to Gov	% Tab
20 Years, 10 Variables	161	74.4%	0.0%	0.0%	0.0%	44.3%	33.5%	0.0%	0.0%	0.1%	0.0%
20 Years, 6 Variables	191	50.3%	0.0%	0.0%	0.0%	4.7%	7.6%	0.0%			0.0%
10 years, 6 Variables	104	56.3%	0.0%	0.0%	0.0%	31.0%	8.4%	0.0%			0.0%

3.1.4.4 Regulatory Environment: Australia and the UK

The study terms of reference asked for an assessment of the regulatory environment of two countries that have both bookmakers and the totalisator. The two selected countries are Australia and the UK. The country choice indicates that while both countries have a bookmaker and totalisator mix, Australia appears to have a racing industry which is in far better health than in the UK.

3.1.4.4.1 Australia

From a regulatory perspective, Australia has a similar legislative landscape to South African horse racing. It has a self-regulating body for horse racing, Racing Australia, which is the overall horse racing authority (responsible for national racing standards) and under this national body, state/territory (equivalent to provinces) bodies responsible for specific geographic areas. Racing Australia (whose shareholders are the state based racing bodies) provides products and services to the racing industry and commercialises the industry's racing materials on a national basis.

The state/territory bodies, Principal Racing Authorities, are each responsible for racing in their state/territory, including registering and supervising race clubs; licensing trainers, jockeys, bookmakers, bookmakers' clerks and other industry participants; handicapping; industry marketing and industry publications; and administration of industry funding. In this sense, Australia differs from South Africa in that each Australian state has its own racing body or commission that not only regulates racing, but also wagering and licences in that state.

Each state/territory has its own gambling legislation, which, in general terms, applies to any gambling operator that seeks to provide and/or promote services to residents of that jurisdiction. Under the gambling laws of each state/territory, it is an offence to provide a wagering service (such as the offering or acceptance of a bet) to a person without a wagering licence. Under Australian constitutional law, to the extent that a gambling service is provided legally under a licence granted by another Australian state/territory, it will be recognised as a legal service under the laws of every other state/territory. This does not mean that certain prohibitions in the laws of another state and territory do not apply: they must be applied in a non-discriminatory manner.

With approximately 370 horse racing clubs, horse racing clubs in Australia are strong and vibrant, attracting large crowds of racegoers and punters. What is clear is that Australia has a strong culture of horse racing and it is a popular sport in the country. Racing has a cultural significance in Australia that poker machines and casinos cannot imitate. A significant portion of the population participates in racing, directly by producing and delivering the "racing product" or indirectly by attending race meetings and wagering.

There are eight totalisators operating, essentially one per state, some of which are privatised and others government owned. There is also one betting exchange (in Tasmania). This is similar to a stock exchange, where odds are set in the same way as share prices with the exchange offering fixed-odds bets on events by matching up people who wish to back a horse to win against others who bet against that horse. The exchange is not a party to the bet but simply a facilitator. It assumes no risk. Its income is from acting as an intermediary based on a percentage of the punter's winnings.

Due to a long history of lawful gambling on horse racing and the associated regulatory structures, racing and the wagering thereon are closely linked. Most funding for racing comes from the wagering operators. Each state traditionally sourced its principal funding from the off-course totalisator in its state and from bookmakers licensed in that state. Until "race fields" legislation (this compels a wagering operator to obtain approval from a racing operator to publish race fields and so enable the racing authority to commercially exploit such approval) was introduced, a state did not receive any fees from wagering operators outside that state. In all states/territories (except Northern Territory and Norfolk Island), it is an offence to use "race fields information" (generally information relating to racing events held in that jurisdiction) without having an approval granted by the relevant racing controlling body in that state/territory. For example, if a wagering operator wishes to take bets on the Melbourne Cup, they must have an approval from Racing Victoria. Under the conditions of this approval, the wagering operator must pay a product fee to Racing Victoria (being a percentage of the wagering operator's turnover on races supervised by Racing Victoria) and meet certain integrity obligations. Under Victorian law, an operator must not take bets on a sporting event in Victoria unless they have a product fee and integrity agreement in place with the relevant sports controlling body.

In 2014, similar legislation was introduced into New South Wales. In general terms, all Australian licensed betting operators have agreements with the major Australian sporting bodies. Under these agreements, each wagering operator is required to pay a product fee to the relevant sporting body, which, unlike the product fee levied by most racing bodies, is based on "gross revenue" (turnover minus winnings paid to customers). Under each agreement relating to the use of race fields or sporting information, wagering operators are required to comply with numerous obligations relating to integrity. For example, they must report suspicious transactions to the relevant racing/sports controlling body and provide that body with information relating to customers and transactions upon request.

Each state/territory has its own licensing framework under which wagering operators can obtain a licence. However, the framework of most states/territories contemplates only the grant of licences to that jurisdiction's totalisator (in most cases a monopoly licence) and on-course bookmakers.

Wagering operators must comply with restrictions that originate from a few different sources in respect of the advertising of their services. These sources include: gambling legislation of each state/territory; advertising codes that apply to a medium, for example, TV; Association of Australian National Advertisers (AANA) Code which applies to all advertising; and the Australian Consumer Law.

On-course bookmaking has declined steadily over the last 30 years but there has been strong growth in corporate bookmakers as the growth in internet and telephone wagering has steadily eroded the exclusive access that a licenced state wagering operator has over punters in that state. Traditionally, licensed bookmakers only offered fixed odds; this has been relaxed in some states and it seems that this remains an issue of dispute between bookmakers and totalisator operators.

The Interactive Gambling Act ("IGA") prohibits the provision and promotion of online gambling services to Australian residents. Online wagering services (except online in-play betting on sports) and online lotteries are exempt from this prohibition. In other words, the IGA permits the conduct of online wagering to the extent that it does not include online in-play betting on sports events. Operators providing sports betting products to Australian customers must comply with both the IGA and applicable state/territory laws.

3.1.4.4.2 United Kingdom

Horse racing in the United Kingdom is self-regulated with the overall body in charge being the British Horse Racing Authority, which runs racing and promotes the sport of horse racing. Horse racing is one of the biggest spectator sport in the UK after football. It is the most televised live sport on TV. The economic impact of the sport is considerable.

Gambling in the United Kingdom is regulated by the Gambling Commission on behalf of the government's Department for Culture, Media and Sport under the Gambling Act 2005 (the "Gambling Act"). This Act of Parliament significantly updated the UK's gambling laws. The Gambling Act introduced a unified regulator for gambling in Great Britain, the Gambling

Commission ("the Commission"), and a new licensing regime for commercial gambling (to be conducted by the Commission or by licensing authorities, depending on the matter to be licensed). The Gambling Act also requires regulation of remote (on-line) gambling. The Commission does not regulate spread betting, which is the preserve of the Financial Services Authority or the National Lottery, which is regulated by the National Lottery Commission. Those aside, the Commission regulates all commercial gambling in Great Britain.

The Commission is responsible for granting operating and personal licences for commercial gambling operators and personnel working in the industry. It also regulates certain lottery managers and promoters. The Gambling Act sets out different types of operating licences that cover the full spectrum of commercial gambling activities conducted in Great Britain. In England and Wales local authorities are given these responsibilities. In Scotland, they are given to licensing boards.

Regulation of gambling is achieved through a variety of measures established under the Gambling Act, including secondary legislation, conditions on licences and codes of practice. Under the Gambling Act the Commission regulates arcades, betting, bingo, casinos, gaming machine suppliers and manufacturers, gambling software, lotteries and remote (online) gambling operators. Licensing authorities are required to submit notice of any permits issued to the Gambling Commission through licensing authority returns.

There are ten different kinds of operating licence including for casinos, bingo, general betting, pool betting, a betting intermediary, various gaming machine licences, and a lottery licence. While there is a distinction between remote and non-remote operating licences, meaning that they cannot be combined in one licence, the Commission can issue operating licences, which cover more than one of the ten kinds of licence, provided they are all either remote, or non-remote.

Betting was not legalised until 1960 at which time many of the famous British betting shop chains were legally and widely established. Betting is taxed under the authority of various acts of Parliament. A gross profit tax is levied on all UK based bookmakers which is payable to the exchequer, and a separate sum – known as the Levy - is agreed and collected by the Horserace Betting Levy Board, a non-departmental public body of the Department for Culture, Media and Sport, who use the funds for the benefit of horse racing.

The Levy makes up most the funding of horse racing and around 90% of it goes towards improving the sport, with much of the Levy directed principally to prize money. The Levy is renegotiated annually. There is talk of this changing and there have been legislative efforts to do so, but they have come to naught so the Levy remains in operation. As the Levy does not apply to overseas betting operators, legislation has been brought in so that all remote gambling operators are required to obtain a licence to enable them to transact with British customers and to advertise in Britain, so that overseas operators would be liable to pay the Levy.

In 2001, the Government abolished the turnover-based tax on betting, which had been 9% of the stake or the winnings, and the tax, now based on gross profit (over the last few years, levied at around 10%), is effectively indirectly levied on the punters, the cost being absorbed in the odds that bookmakers offer.

Only the totalisator may offer pool betting (under an exclusive licence until mid-2018). In 2011 the national totalisator was sold to a private company. It currently contributes at the same level as bookmakers do (under the current Levy, 10.75% of gross revenue on British horse racing business).

On 3 March 2016, the Government announced new funding arrangements for British racing to create a level playing field for British based and offshore gambling operators, and to ensure a fair return from all gambling operators to racing. Racing will be responsible for making decisions on spending the new fund which is intended to be in place by April 2017. The new scheme will apply to all classes of operators who take bets on British racing. All operators, no matter where they are based, that benefit from British racing will be required to contribute to the industry. However, the exact nature of this new funding still must be finalised and any replacement of the Levy requires a change to legislation.

3.2 South Africa and the Western Cape

This section follows the structure established in the discussion of trends in international in horse racing. The differences are:

- The betting component has already been discussed in Section 2 and is not repeated here.
- There is a focus on the value chain within the discussion of the various components of the industry. The emphasis is on the Western Cape.
- This section is enriched with the proceedings from interviews with owners, breeders and trainers in the Western Cape.
- The section includes the macroeconomic contribution of the provincial industry as well as the backward and forward industry linkages within the province and the rest of the country.

For the purposes of brevity this section simultaneously presents the national and provincial industries. One of the limitations faced by the study was that not all information, particularly on the betting side, could be sourced to a provincial level.

This section starts by describing the changes in the numbers of horses, races and starters over the last few years. This is followed by a description of the value chain and changes in the number of role players in that chain.

3.2.1 Horses, Races and Starters

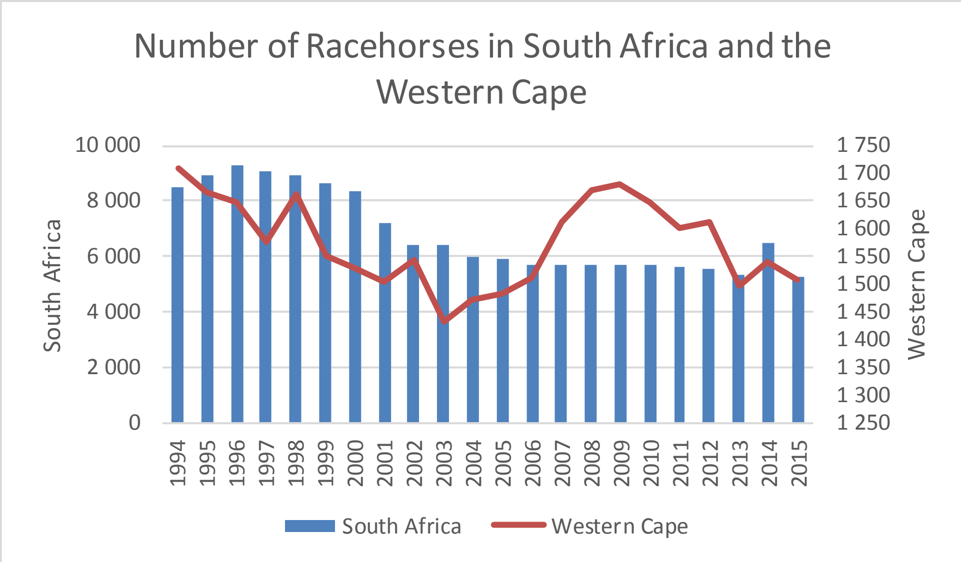
The numbers of race horses, races and starters (the number of horses that started a race) in both the country and the Western Cape are illustrated in Figure 24, Figure 25 and Figure 26 respectively.

From a national perspective, all three of these diagrams paint a picture which illustrates a general decline. Between 1994 and 2015 the number of:

- Race horses declined from 8 462 to 5 218. This is a 38% decline which is 2.3% annually.
- Races declined from 4 224 to 3 855. This is a 9% decline which is 0.5% annually
- Starters declined from 46 697 to 42 467. The percentage decline is the same as the number of races.

There is obviously some variation in this general downward trend and is certainly the case with horses. There have been somewhat more races since 2013 and the number of starters increased between 2007 and 2012 before declining again.

Figure 24: Races Horses: South Africa and Western Cape



Source: Phumelela

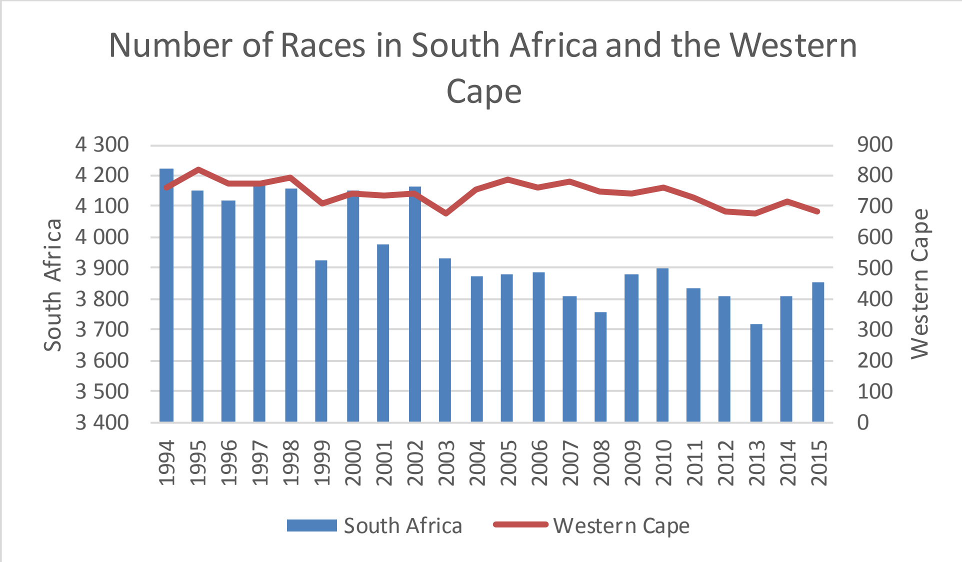
The situation is little different in the Western Cape. Between 1994 and 2015 the number of:

- Race horses declined from 1 709 to 1 507. This is a 12% decline which is 0.6% annually.
- Races declined from 762 to 681. This is an 11% decline which is 0.5% annually
- Starters declined from 9 333 to 7 071. This is a 24% decline which is 1.3% annually

There is little difference in the overall trend between the Western Cape and the country with the number of races and starters. There is a significant difference with the number of horses. Here it can be seen that there is a general decline from 1994 to about 2003. There is then a substantial increase until 2008 before a general decline is again evident.

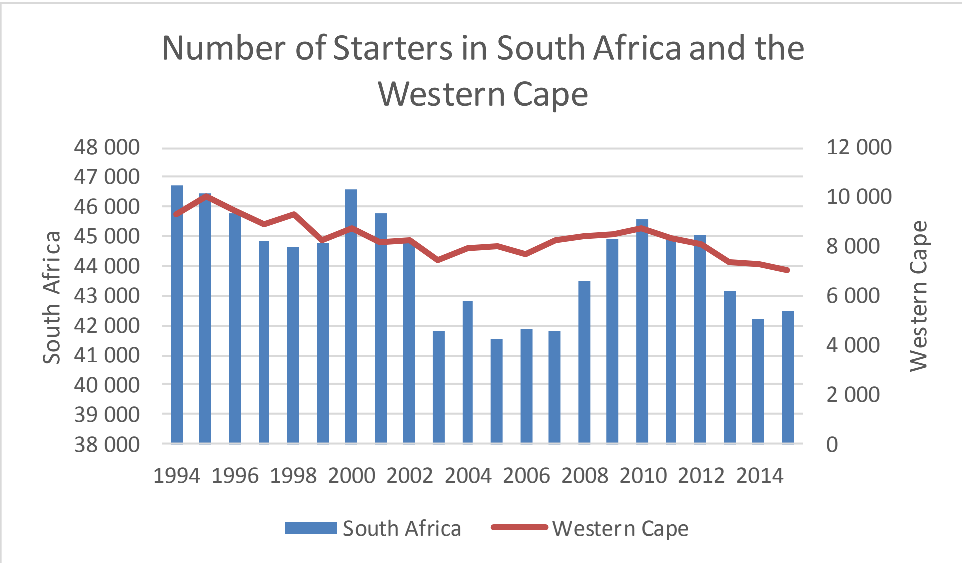
This variation is evident not only in the number of horses but also in the number of breeders, trainers and jockeys. A short discussion about these variations is given in Section 3.2.3.

Figure 25: Races: South Africa and Western Cape



Source: Phumelela

Figure 26: Starters: South Africa and Western Cape



Source: Phumelela

3.2.2 Value Chain: Breeders, Owners, Trainers and Jockeys

The purpose of this section is to document the value chain, in the Western Cape, of the racing component of the industry. The main role players are breeders, owners and trainers.

3.2.2.1 Breeders

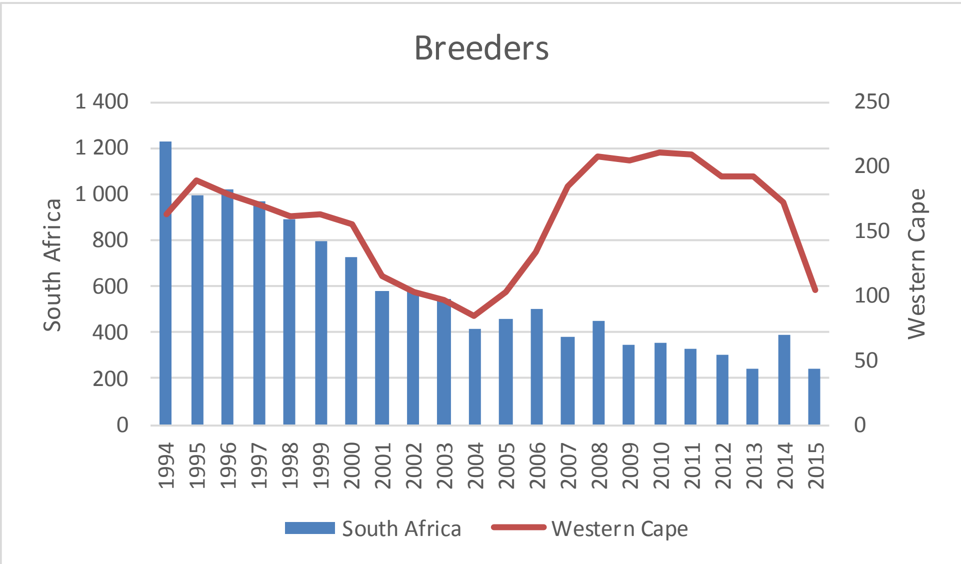
This section starts by reporting the number of breeders nationally and provincially. This is followed by the value chain analysis.

3.2.2.1.1 Number of Breeders

In 1994, as illustrated in Figure 27, there were 1 226 breeders in South Africa. By 2015 this had declined to 240. This is an 80% drop which is nearly 8% annually.

In 1994, in the Western Cape, there were 163 breeders. By 2015 this had declined to 105. This is a 36% drop which is 2.1% annually. There is a clear break in the downward trend between 2004 and 2008. Between these years, the number of breeders increased from 85 to 208 before beginning a gentle decline. The decline has accelerated since 2013.

Figure 27: Breeders: South Africa and Western Cape



Source: Phumelela

3.2.2.1.2 Breeder Costs and Value Chain

This section estimates the cost of breeding a race horse and the distribution through the value chain. This requires three steps. These are to establish the:

- Number of horses in the breeding industry.
- Breeders revenue. The auction prices of races horses were used.
- Breeders costs. These are made up of:

- Breeding and keep cost (and the distribution of this cost).
- Breeders overheads and profit.

3.2.2.1.2.1 Horses in Breeding

An estimate of the number of horses in breeding is different to the number of race horses as reported in Section 3.2.1. This is made up of horse that are ready for sale, brood mares, stallions and foal crop horses. The costing needs to include foal mortality.

The estimated number of horses in breeding are given in Table 16. In 2015 the number of:

- Foals (including mortality) was 3 113 nationally and 1 362 in the Western Cape;
- Horses for sale was 2 907 nationally and 1 272 in the Western Cape;
- Mares was 3 708 nationally and 1 622 in the Western Cape;
- Stallions was 101 nationally and 44 in the Western Cape;

This gives a national total of 9 829 horses in breeding and 4 300 in the Western Cape.

Table 16: Horse Numbers in Breeding 2015

Number of horses	RSA	WC
Foal Crop	3,113	1,362
Horses for Sale *	2,907	1,272
Mares	3,708	1,622
Stallions	101	44
Total Horses	**9,829**	**4,300**

Source: NHRA Stats Card 24th Feb 2016

** Calculated from horses sold at auction in SA*

3.2.2.1.2.2 Breeder's Revenue

The revenue to breeders was estimated using the sales price of race horses. This, in turn, was based on prices fetched at horse auctions of Cape Thoroughbred Sales, The Thoroughbred Breeders' Association and Michael Holmes Bloodstock in 2015. These are reported in Table 17. There are a limited number of horses sold directly to owners which could not be included.

Table 17: 2015 Thoroughbred Auction Sales

Auction Name	Auctioneer	Horses Sold	Avg Price	Auction Total
Val de vie yearling sale	TBA	82	192,439	15,780,000
National yearling sale	TBA	357	358,060	127,827,500
Cape mare & weanling sale	TBA	166	50,446	8,374,000
Suncoast KZN yearling sale	TBA	204	102,157	20,840,000
National two year old sale	TBA	256	89,344	22,872,000
Horses in training sale	TBA	28	71,321	1,997,000
Cape Premier Yearling Sale, CTICC	CTS	187	644,117	120,450,000
March Yearling Sale, Durbanville	CTS	239	118,138	28,235,000
Emperors Palace Select Yearling Sale	CTS	107	415,420	44,450,000
CTS August Two-Year-Old Sale Cape	CTS	72	59,513	4,285,000
CTS Johannesburg Ready To Run Sal	CTS	160	225,406	36,065,000
CTS Ready To Run Sale presented by	CTS	171	229,122	39,180,000
Summerveld January Sale	MHB	4	125,000	500,000
Vaal February Sale	MHB	19	54,895	1,043,000
E.P. Ready To Run Sale	MHB	57	51,368	2,928,000
Shongweni H.I.T Sale	MHB	135	36,970	4,991,000
Randjiesfontein April Sale	MHB	38	80,684	3,066,000
Scott Bros Farm Sale	MHB	48	11,042	530,000
Super Sale	MHB	39	49,462	1,929,000
Sugar Hill Stables Sale	MHB	7	22,857	160,000
Yellow Star Stud Farm Sale	MHB	50	7,280	364,000
Randjiesfontein October Sale	MHB	26	49,308	1,282,000
Summerveld November Sale	MHB	19	48,053	913,000
Total		**2,471**	**197,516**	**488,061,500**

In 2015 there were 2 471 horse sold at auction. This raised a total of R488m which is an average price of R197 517.

3.2.2.1.2.3 Breeder's Costs

Breeders costs are made up of the cost of breeding costs, keep costs and overheads. The first two were sourced using interviews with breeders. Overheads, together with profit, were estimated as the difference between sales revenue and breeding and keep costs.

Breeding and Keep Costs

The value and distribution of the cost of breeding and keeping a horse is based on interviews with Western Cape breeders and reported in Table 18.

The average annual cost breeding and keep costs is R38 500. Of this:

- Feed accounts for 62%;
- Salaries and wages 13%;
- Veterinarian bills 10%;
- Farrier fees 7%,
- Transport 5%, and
- 3% other direct expenses.

Table 18: Annual Breeding and Keep Costs

Annual Costs	Per Horse (R)	SA (Rm)	WC (Rm)
Feed	24,000	235.9	103.2
Salaries and Wages	5,000	49.1	21.5
Veterinary Services	4,000	39.3	17.2
Farrier	2,500	24.6	10.8
Transport	2,000	19.7	8.6
Other	1,000	9.8	4.3
Total annual cost	**38,500**	**378.4**	**165.6**

Source: 2016 interview with breeders

The annual breeding and keep costs need to be increased to reflect the total breeding cost of a horse from birth to auction. These are reflected in Table 19.

- The annual breeding and keep cost is R38 500.
- The average age of a horse on auction is 18 months. This increases the cost to R57 750.
- Only 60% of mares produce foals for auction. This adds a further R64 167.
- There are stud fees which breeders estimated to be R36 667.
- This gives a total breeding cost of a horse at auction of R158 584.
- The difference between this breeding cost and average auction price is R38 932. This residual is overheads and profit.

Table 19: Cost to Auction

	Rands in 2015
Annual Horse Cost	38,500
Increased to 18 Months at Sale	57,750
Mare costs at 60% birth rate	64,167
Stud fees	36,667
Cost to Auction	**158,584**
Average Auction Price	197,516
Overheads and Profit	**38,932**

Profits and Overheads

Profits and overheads are the difference between sales revenues and breeding and keep costs. The average auction price in 2015 was R197 516 as reported in Table 17. The cost of bringing a horse to auction is R158 584. This leaves R38 932 to cover profit and overheads.

3.2.2.1.3 Interviews with Breeders

This section reports on interviews with three breeders who own stud farms. There are many breeders who keep their mares on stud farms owned by other breeders.

Stud Farm 1:

The general description of the breeding industry is "nerve-wracking". The Western Cape breeding thoroughbred sales are struggling on the lower end, but there is stable to strong demand in the middle to upper end of the market. Owners are buying fewer, but more expensive horses; instead of having 5 to 6 horses in training previously, they are now focusing on 2 to 3 horses.

It is hoped that the decline in the number of sales to will be made up by an increase in the average value per horse fuelled by "old money" and by an expected rise in exports to Asia. The Western Cape has an advantage because it has "old money" which is less affected by increases in costs and more driven by a passion for the sport. This is a stabilizing influence which compensates for the lack of "die-hard punters" which are more prevalent in Gauteng. The Western Cape also has fewer people on course than in Durban and Johannesburg.

There is talk about the export quarantine being lifted soon, which will boost demand for South African race horses abroad as they represent very good value for money. Although the Western Cape does not have the highest number of breeders, most of the horses – over two-thirds - are bred here on big stud farms. Therefore, the province will be the main beneficiary of a growth in exports. The Western Cape breeding industry is also driven by its strength in producing superior stallions which is a major factor in producing high quality foal crops by providing better access to stud services.

Although most of the horses are bred in the Western Cape, most of the horses are sold in Gauteng (50%) followed by the Western Cape (35%) and KwaZulu-Natal (15%). The number of entries for sale has remained stable, although the number of horses registered has declined.

Stud Farm 2

Stud Farm 2 is situated near Robertson. The owner is managing the downturn by reducing foal crops as well growing its own feed, the major cost in breeding, and spreading risk by diversifying into other products. It is a relatively small farm with 55 horses (20 broodmares plus yearlings and foals) with six full time staff. Unlike most breeders, they grow their own lucerne, in addition to wine grapes, peaches, apricots and lemons.

Breeding costs have escalated over the last five years especially feed, labour and electricity. Both lucerne and oats have doubled in price over the last eighteen months. Lucerne is being "ploughed out" in many parts of the country, especially near the Orange River, in favour of maize and wheat – as bread prices have spiked in recent years – as well as, for example, lemons. Drought has also played a role in limiting supply. However, they have kept costs at between R75k and R80k per horse – half the industry average – because they grow their own lucerne at half the cost of market prices (R40/bail as opposed to R80/bail).

The top end of the yearling market is "through the roof", while the middle and lower tiers are languishing with fewer buyers and lower prices. As recently as five years ago, syndicates of four to five buyers would come together to buy a horse at auction for an average of between R100k-150k. With average prize money down, these small investors have chosen to take that money and put it into their mortgages or buy shares instead. Prize money has not kept pace with the rise in training fees and ownership costs.

Reflecting the declining number and prices at yearling auctions at the lower and medium end of the yearling auctions, they are only servicing 15 of their 20 broodmares this year. This is a 25% reduction. The top end of the market has held up over the years and in fact become *stronger. Exports are likely to boost the middle and lower end (R100k – 150k) as well, with South African horses having done well in overseas races in recent years.*

Stud Farm 3

This stud farm is a large breeder in Port Elizabeth registered under the Western Cape based, Cape Breeders Association, with 80 mares, 55 foals and 50 yearlings and employs 18 full time staff (15 grooms, a foreman, secretary and the owner/manager).

Breeding costs in the Eastern Cape are between R80 000 and R100 000 per horse excluding stud fees of R20 000 and lower than in the Western Cape because of the former's more fertile soil needing less irrigation. (He feeds his horses not only lucerne and oats, but also grass for roughage). Feed makes up half of breeding costs, followed by labour (15%), electricity/water (10%); transport/diesel (10%), veterinarian (10%) and farrier (5%).

Feed costs – lucerne and oats – have doubled in the last 3 to 4 years. Supply has tightened with the drought forcing farmers to keep feed and roughage for their animals and others – especially in citrus growing regions – to switch to citrus and other produce. Labour prices have risen following the introduction three years ago of minimum wages for farm workers, although this had no impact on him as farm wages and salaries on the farm were already in line with the new rates. They sell horses at all the major auctions and to owners around the country.

3.2.2.2 Owners

Owners are clearly one of the pivotal players in the sport. In the absence of owners there would be no race horses and therefore horse racing would not exist.

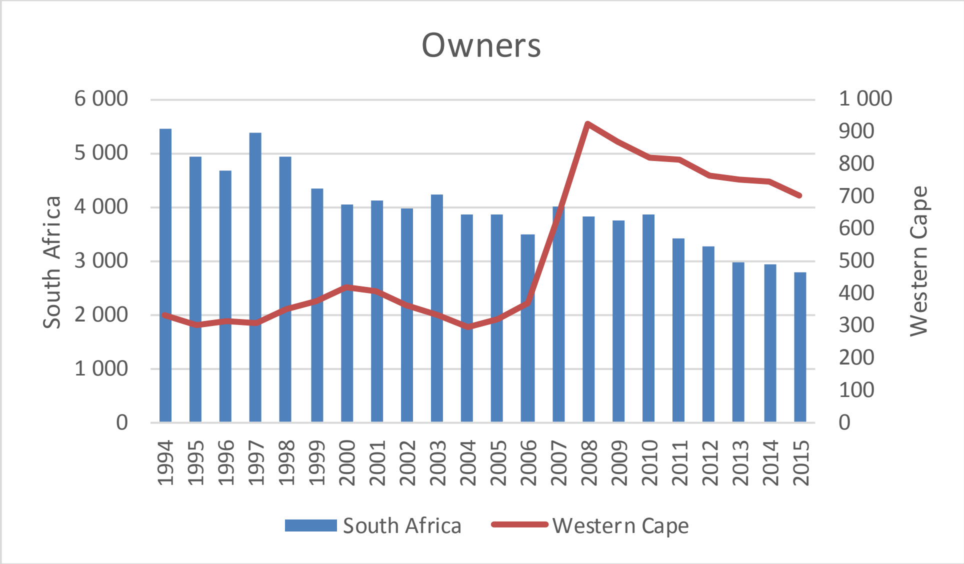
Three pieces of information are presented in this section:

- The first is the trend in the number of owners in the country and the Western Cape.
- The second is the distribution in the cost of ownership. This is used to establish the links in the value chain and is used in estimating the macroeconomic contribution of the provincial industry.
- The third is degree to which stakes cover the cost of ownership. This gives a measure of the net cost of ownership.

3.2.2.2.1 Number

The number of owners in both the country and the Western Cape are illustrated in Figure 28.

Figure 28: Owners: South Africa and Western Cape



Source: Phumelela

The national picture shows a general reduction in numbers. Between 1994 and 2015 the number of owners declined from 5 452 to 2 794. This is a 49% decline which is 3.1% annually.

In the Western Cape the number of owners increased from 328 in 1994 to 701 by 2015. This is a 114% increase which is 3.7% annually. This overall trend does mask some other important changes:

- There was little change in the number of owners between 1994 and 2006.
- There was a dramatic increase between 2006 and 2008, from 368 to 927.
- There was then a gradual decline to the 701 owners in 2015.

3.2.2.2.2 Owner Training Costs

The cost of owning a race horse are the purchase price and the keep cost. Monthly keep costs are reported in Table 20

- Training fees of R7 400 are the major expense. These includes feed and stabling.
- Next are veterinarian services. These average R1 500 a month.
- Farriers cost of R538.
- Transport between the training yard and racecourse is provided by the racing operators.
- The annual registration fees of R2 500 is R208 a month.

- Annual Race entry/nomination fees of R1 058 per year are R88.

Table 20: Owner Costs – Keep and Training

Owner Costs - Per Horse

	Monthly	Annual
Training fees (Inc stabeling & feed)	7,400	88,800
Farrier	538	6,456
Veterinary Services	1,500	18,000
Transportation (operators pay)	0	0
Registration fees	208	2,500
Race entry/nomination fees	88	1,058
Total	**9,735**	**116,814**

Source: 2016 interview with trainers

This gives a monthly keep and training cost of R9 735 and R116 814 annually.

3.2.2.2.3 Owner Net Costs

The net cost of owning a race horse is the difference between stakes and training costs.

The regulatory division of stakes is given in Table 21. It is based on the allocation between owners and trainers, jockeys and grooms. The total stakes paid out by horse racing in the 2015/16 season was R355m[8] nationally and R62m for the Western Cape. Of these stakes:

- 7% (R24.9m) was paid to trainers. This was R4.4m in the Western Cape.
- 10% (R35.5m) was paid to jockeys. This was R6.2 m in the Western Cape.
- 1% (R3.6m) was paid to grooms. This was R0.6m in the Western Cape.
- The remaining 82% accrues to owners. This amounted to R291m in the country and R51m in the Western Cape.

This total, divided by the number of horses in racing means that average annual stakes per active race horse were R55 837 nationally and R33 894 in the Western Cape.

[8] *Source: Phumelela, Kenilworth and Gold Circle FY2015 AFS*

Table 21: Race Stakes

Stakes 2015/16

	Allocation	SA	WC
Stakes (Rm)		355.3	62.3
Trainers	7%	24.9	4.4
Jockeys	10%	35.5	6.2
Grooms	1%	3.6	0.6
Net Stakes to Owners (Rm)	82%	291.4	51.1
Number Racehorses		5,218	1,507
Stakes per Racehorse (Rands)		55,837	33,894

A final adjustment is needed to spread the auction cost to an owner over the racing life of a horse. This is shown Table 22. It has been assumed that race horses run effectively for a little over two years. This means that the auction cost of a horse, spread over that time is R93 550.

The adjusted annual auction cost plus the keep cost means that the cost of owning a race horse is R210 348. These costs can be offset should the owner have a horse which actually wins or is placed in a race. On average these stakes – spread across all active racing horses – are R55 837 nationally and R33 984 in the Western Cape.

This gives an average net cost of ownership of R154 511 nationally and R176 455 in the Western Cape. It will be appreciated that this is an average net cost which will differ to the extent to which an owner has a horse that wins, is placed or runs last in a race.

Finally, and on average, 27% of the cost of owning a race horse are covered nationally by race stakes and 16% in the Western Cape.

Table 22: Owner Costs and Stakes

Owner Horse Cost - 2016

	SA	WC
Auction Cost	197,516	197,516
Average racing life	2.1	2.1
Amortised cost of a race horse	**93,534**	**93,534**
Keep costs	116,814	116,814
Annual Owner Cost	**210,348**	**210,348**
Stakes to Owners	55,837	33,894
Annual Cost net of Stakes	**154,511**	**176,455**
Costs covered by Stakes	27%	16%

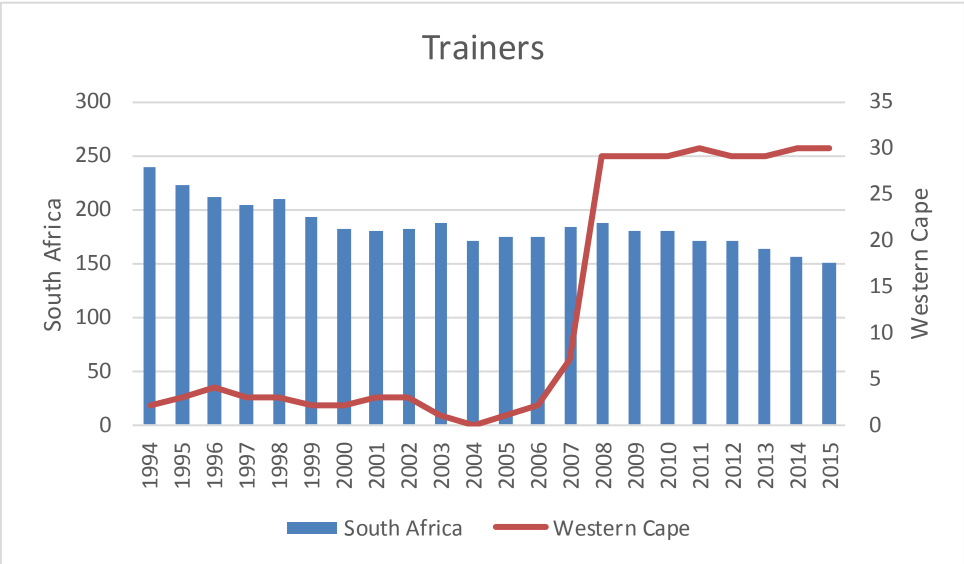
Source: Tote Operators and 2016 interview with trainers

3.2.2.3 Trainers

The numbers of trainers in both the country and the Western Cape are illustrated in Figure 29.

The national picture shows a general reduction in numbers. Between 1994 and 2015 the number of trainers declined from 240 to 150. This is a 38% decline which is 2.2% annually.

Figure 29: Trainers: South Africa and Western Cape



Source: Phumelela

In the Western Cape the number of trainers increased from two in 1994 to 30 by 2015. This is a 1 400% increase which is 14% annually. This overall trend does mask some other important changes:

- There was little change in the number of trainers between 1994 and 2006.
- There was a substantial increase between 2006 from two to 29 in 2008.
- This has remained constant having increased to 30 by 2015.

3.2.2.3.1 Interviews with Trainers

This section reports on interviews with three trainers. The costs estimates are used in the calculation of owner costs, on the one hand, and to establish the relevant provincial value chain from training.

Trainer 1:

This trainer started his own training business ten years ago, after working for an owner.

Although the number of trainers has declined over the years and many have given up, his business is thriving with 120 horses in training, double the number only three years ago. He employs 57 full time staff (53 grooms, 2 assistant trainers, 1 secretary and 1 IT technician). He estimates that around a fifth of South Africa's race horses - between 1 200 and 1 400 – are trained in the Western Cape. The Western Cape has the advantage of "horse-friendly" training and racing facilities and climate. He has a large client base ranging from individuals owning several horses to syndicates of 20 people owning one horse. He believes that although the weak economy is partly to blame, the number of buyers has dropped mainly because average prize money per race has not kept pace with the rise in ownership costs, especially feed and labour.

Monthly costs to owners break down as follows: Training: R7 700k; farrier (shoeing) fees R575; Vet bills R1 000 (low figure); Race and nomination fees R65 each; Transportation is provided free of charge by the racing clubs.

They train horses for owners located in the Western Cape (50 - 60%), Durban, Johannesburg, as well as Britain, Australia and other countries.

Horses race from one to six years of age with an average age of 4.5 years. After a horse is past its prime the trainer will often move the horse to a less competitive area such as Port Elizabeth where it is more likely to win and earn its keep and handover to another trainer.

The calibre and number of jockeys is on the decline. The average jockey now is in his late forties or early fifties.

There are some positive trends. The J&B Met has a new sponsor in Sun International which has doubled the stakes for that race to R5m.

Trainer 2

This trainer began training horses only a few years ago and runs a small yard with 29 horses and 11 full time staff (all grooms, no assistant trainer) near Cape Town. His training fees are R7 100 per month, plus farrier fees of around R500, nomination and race day fees of R65. He estimates monthly costs of R10 000 per horse for training and keep. The cost of feed – lucerne and oats – has increased "astronomically" in recent years, as have wages.

The average owner is middle-aged, male and a Western Cape resident (80%). Racing in Johannesburg and Durban is expensive because horses need to acclimatise, therefore Port Elizabeth is a better option. Smaller training yards are at a disadvantage because the high calibre horses are mostly with the larger established trainers.

Trainer 3

Trainer 3 has been a trainer since the early 1980s with 30 horses in training and 18 full-time staff (mostly grooms). His training and keep costs are between R7 000 and R8 000 all-inclusive which he says is less than most trainers charge.

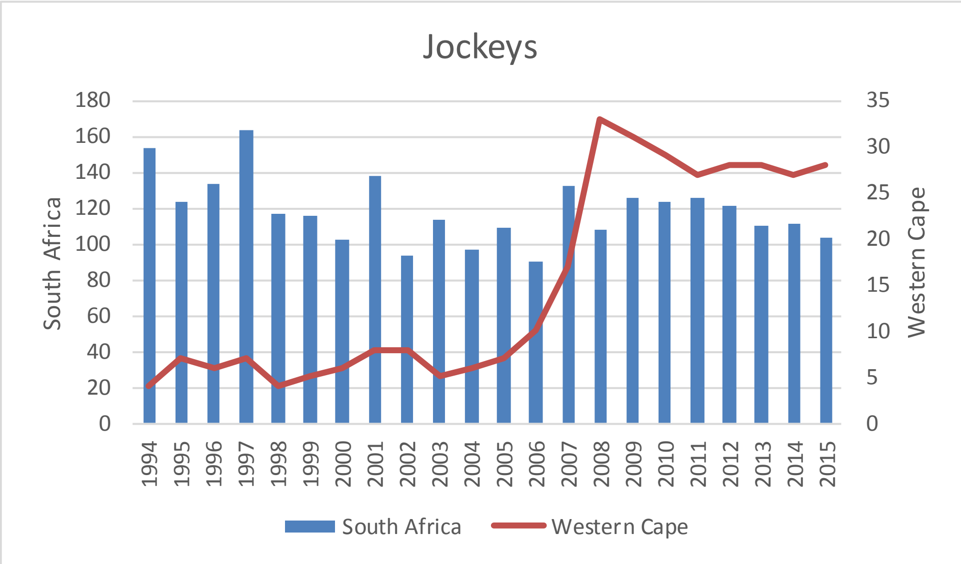
At the top end, race horses have become very expensive with well-heeled "old money" buyers outbidding each other, while the lower and middle tier is languishing. Breeders are reorienting their lines towards quality, spending more money on stud fees and better broodmares.

Prize money has not kept up with costs and only 3% of horses win any prize money at all. The typical owner is middle-aged, male and lives in the Western Cape. Western Cape has fewer races and less prize money than Johannesburg and Durban. Jockeys have fewer financial incentives in the Western Cape with only 1 to 2 races per week and less prize money, compared to an average of 3 races per week in Johannesburg and possibly another fourth race in Kimberley. With many of the older, experienced jockeys retiring the sport is in trouble.

3.2.2.4 Jockeys

The numbers of jockeys in both the country and the Western Cape are illustrated in Figure 29.

Figure 30: Jockeys: South Africa and Western Cape



Source: Phumelela

The national picture shows a general reduction in numbers. Between 1994 and 2015 the number of jockeys declined from 154 to 104. This is a 32% decline which is 1.9% annually.

In the Western Cape the number of jockeys increased from four in 1994 to 28 by 2015. This is a 600% increase which is 9.7% annually. This overall trend does mask some other important changes:

- There was little change in the number of jockeys between 1994 and 2005.
- There was a substantial increase between 2005 from seven to 33 in 2008.
- There was then a gradual decline to the 28 jockeys in 2015.

3.2.3 Contrasting Trends – National and Western Cape

It is clear from the preceding sections that there are clear contrasting trends between the number of owners, breeders, trainers and jockeys at a national level and that in the Western Cape. Overall the key issue is the jump in the information between 2005 and 2008. No explanation can be offered for this jump.

It is, arguably, a moot point because the tends since 2008, both provincially and nationally are largely the same. In both cases the information since 2008 shows an industry in decline.

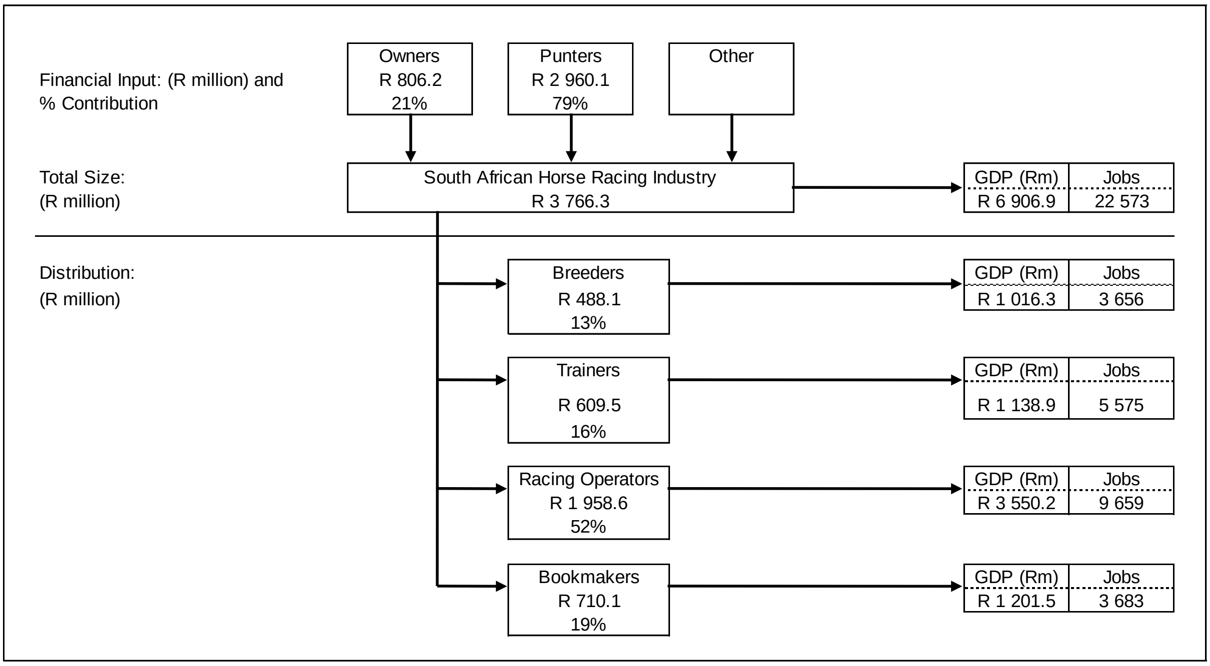
3.3 Macroeconomic Contribution of Horse Racing

This section reports on the macroeconomic contribution made by horse racing both nationally and in the Western Cape. It also summarises value chain that was reported in depth in Section 3.2.2

3.3.1 Macroeconomic Contribution and Value Chain

The macroeconomic contribution of horse racing nationally and the relevant value chain in 2015 is reported and illustrated in Figure 31

Figure 31: Horse Racing Macroeconomic Contribution 2015 and Value Chain – South Africa

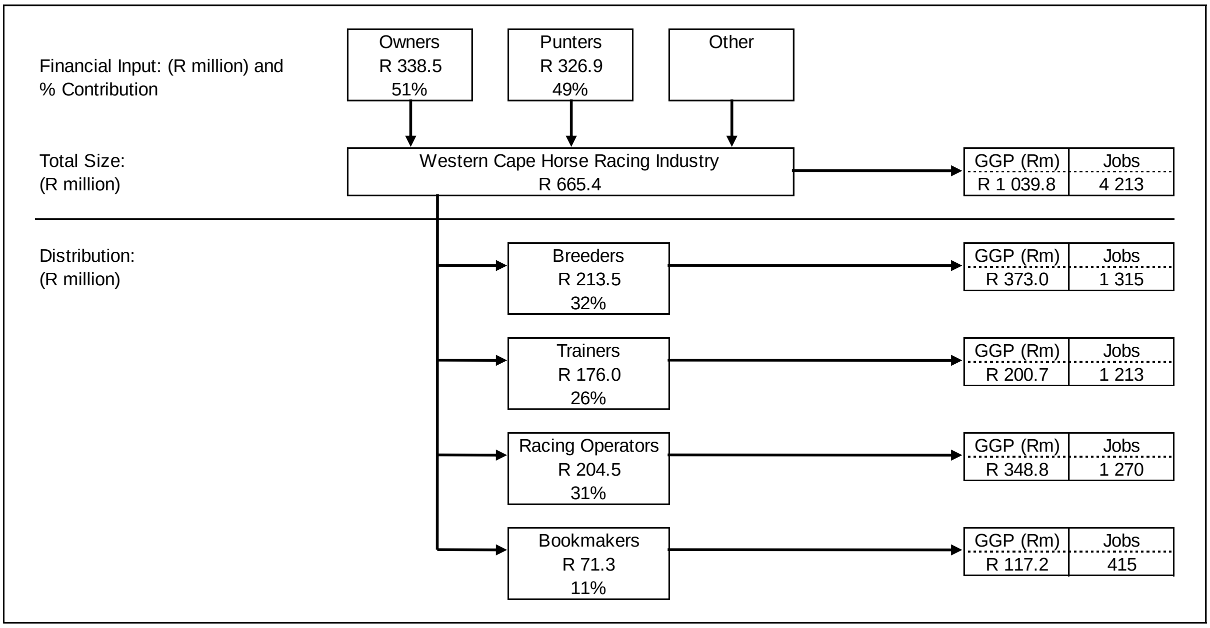


In 2015 the horse racing industry in South Africa had an income of R3.77bn. This resulted in a R6.9bn contribution to GDP and 22 573 total jobs. The jobs are total jobs which consist of both direct jobs in the industry and indirect jobs because of the multiplier effect from expenditure by the industry.

At a national level breeders contributed 13% to the value chain; trainers (and owners) 16%; the totalisator (as the racing operator) 52% and bookmakers 19%. The contribution of the totalisator includes the sports development levy which is paid by the bookmaker to the totalisator.

The macroeconomic contribution of horse racing in the Western Cape and relevant value chain in 2015 is reported and illustrated in Figure 32.

Figure 32: Horse Racing Macroeconomic Contribution 2015 and Value Chain – Western Cape



In 2015 the horse racing industry in the Western Cape had an income of R665m. This resulted in a R1.0bn contribution to provincial GGP and 4 213 total jobs. The jobs are total jobs which consist of both direct jobs in the industry and indirect jobs because of the multiplier effect from expenditure by the industry.

At a provincial level breeders contributed 32% to the value chain; trainers (and owners) 26%; the totalisator (as the racing operator) 31% and bookmakers 11%. The contribution of the totalisator includes the sports development levy which is paid by the bookmaker to the totalisator.

3.3.2 Provincial Economic Linkages

The terms of reference called for some input into expanding the forward and backward linages of the industry to the agricultural and services sector. It was suggested that this would updated through discussions with industry role players and through analysis of the Western Cape and South African SAMs.

The first step in the process is to report on the economic linkages based on the Western Cape SAM. The value and proportions of the economic linkages between the provincial racing industry and provincial economy are given in Table 23.

Three categorisations are made:

- Clear economic sectors like veterinary services;

- An aggregated economic sector where it was not possible to disaggregate – the spending of wages is the most important example;
- Spending on areas which are not defined economic sectors. These are taxes, savings and licence fees

Table 23: Provincial Economic Linkages

	Percentage of Category				Total	
Economic Category	**Breeders**	**Owners**	**Race Operators**	**Bookmakers**	**Rm**	**Percentage**
Business services	20%	2%	59%	19%	**244.0**	37%
All Categories/Cannot Disaggregate	6%	76%	18%	0%	**188.3**	28%
Agriculture	99%	0%	0%	0%	**104.9**	16%
Veterinary services	50%	47%	1%	3%	**26.2**	4%
Transport and storage	97%	2%	0%	1%	**9.5**	1%
Financial institutions and insurance services	136%	35%	-224%	153%	**1.0**	0%
Motor vehicles	35%	25%	12%	28%	**3.4**	1%
Taxes	9%	2%	78%	10%	**20.0**	3%
License Fees	0%	0%	44%	56%	**18.1**	3%
Savings	38%	10%	16%	37%	**6.0**	1%
Other/Remaining Backward Linkages	48%	28%	8%	17%	**44.0**	7%
Grand Total					**665.4**	100%

The most important economic linkages are:

- Business services which constitute 37% of all linkages. The most important value chain contributor to this expenditure is the totalisator;
- Sectors that cannot be disaggregated constitute 28% of expenditure;
- Agriculture at 16%;
- Veterinary services at 4%;
- Taxes at 3%;
- And licence fees (3%) and savings (1%).

Discussions with role players did not yield any useful information. Breeders, owners and trainers all indicated that they are already in agriculture or the services sector. There was no indication that there could be any further expansion into these areas.

Section 4: Model Description

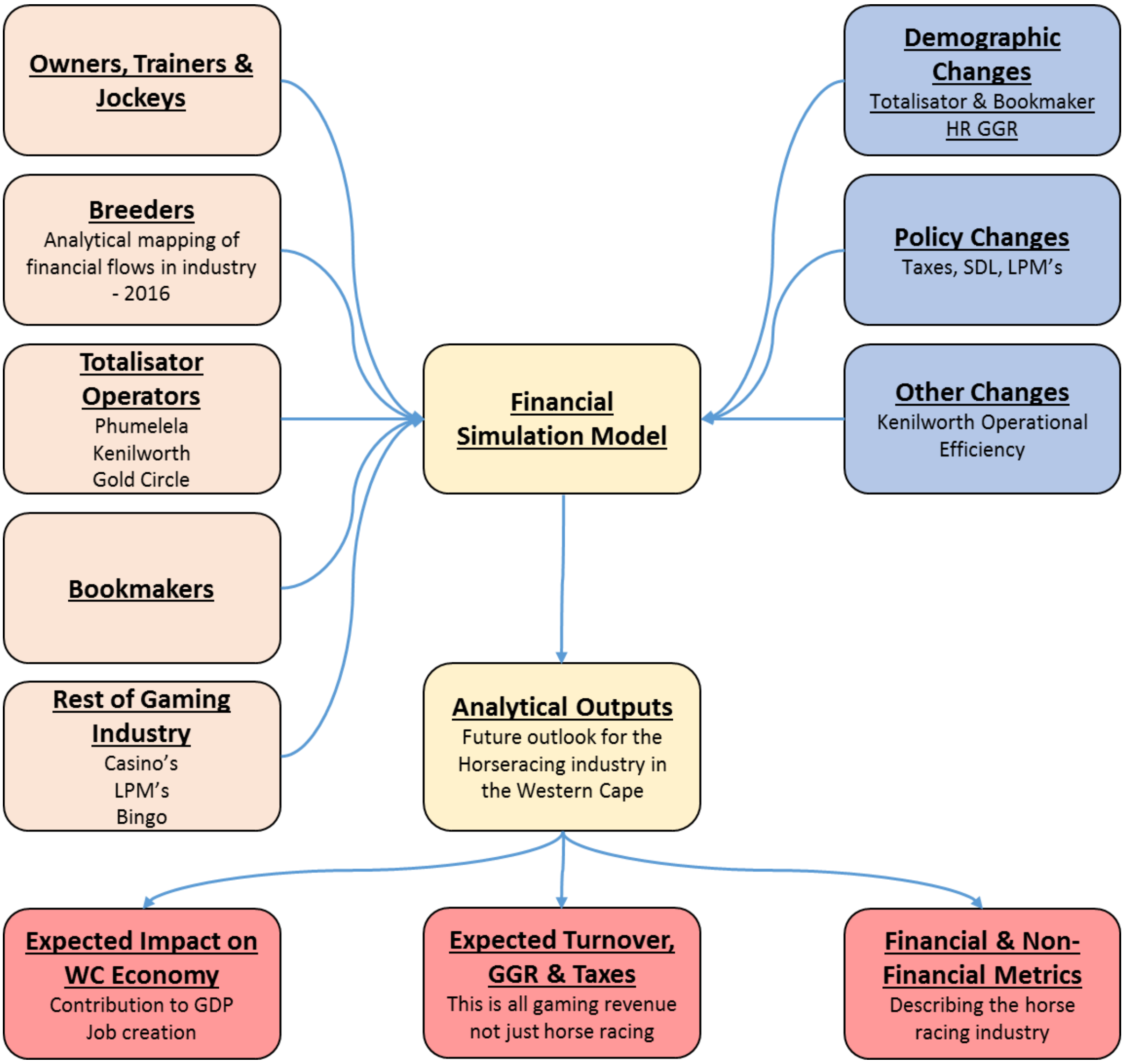
This section describes the structure and use of the simulation model.

4.1 Overview

The structure of the model is illustrated in Figure 33 and outlined below. The model replicates (and simulates changes to) the various financial and non-financial components of the South African and Western Cape horse racing industry. The components include totalisator; bookmakers, breeders, owners, trainers and jockeys.

- Calculates the 2015 economic contribution and financial metrics of the industry;
- Simulates the 2015 economic contribution and financial metrics of the industry for different scenarios;
- Calculates relevant macroeconomic changes to casinos and LPMs from changes in the horse racing industry.

Figure 33: Model Structure



4.2 Assumptions

The model is based on the following assumptions:

Prize Money:

The National Horse Racing Authority determines prize money based on GGR in the previous year. To simulate this relationship, prize money is directly tied to the financial year 2015/6 (FY2015) which was latest financial year available for the analysis. All simulations are modelled on that year.

The following assumptions are made:

- Increases in the percentage of the sports development levy the winnings of bets with bookmakers results in an increase in the sports development levy paid to totalisator operators.
- 50% of an increase in the SDL is paid as increased prize money and 50% is assumed used by the totalisator on other horse racing operations.
- The full increase in the sports development levy is allocated to prize money in the scenarios in which the totalisator and bookmakers contribute the same proportions to provincial tax and horse racing operations and prize money is increased to cover owner costs)

Bookmaker Open Bet:

The bookmaker open bet is assumed to constitute 20% of the bookmaker horse racing bets. This is used to calculate the sports development levy for the open bet policy option.

Additional LPMs:

One analysed policy option is to allow firms to hold more than 5% of all LPMs in the province. This analysis is based on the following assumptions:

- There would be no increase total LPM GGR. Existing GGR would be spread between evenly between existing and new machines.
- There would be a division of GGR between Kenilworth Racing (40%) as the site operator and the route operators (60%).
- Kenilworth Racing would be allocated an addition 50 LPMs.
- The number of jobs per LPM are a function of the number of machines not the GGR per machine. So, more machines mean more jobs even if GGR remains unchanged.

The resultant financial changes of these assumptions on Kenilworth Racing are given in Table 24.

Table 24: Financial Returns to Kenilworth Racing from 5 LPMs

Financials per 5 LPMs	Rands
Gross Gaming Revenue	
GGR	1,976,864
Taxes & Levies	
VAT	-243,154
Gaming Levies	-244,711
Other	-203,844
Net Income (After Gaming Levies, Before Opex)	
For Five LPMs	1,285,155
To Kenilworth Racing as Site Operator	514,062
Operating Costs payable by Kenilworth Racing	
Operating Costs	-227,303
Profit / Loss	
To Kenilworth Racing	286,760

4.3 Capabilities

The model can be used for the following types of analysis:

Demographic Changes:

The model can simulate changes between totalisator and bookmaker betting on horse racing and sports. Therefore, changes in this betting can be modelled between:

- Horse racing and sports betting;
- The totalisator and bookmaker; and
- Other forms of gambling.

Policy Changes:

The model can simulate four policy options.

- The open bet is prohibited. The model simulates the resulting shift of punters within bookmakers as well as from bookmakers and totalisators.
- The introduction of a sports development levy on the open bet.
- A change in the sports development levy on all horse racing bets by bookmakers.
- A policy change to allow firms in the Western Cape to hold more than 5% of LPMs.

4.4 Data Issues

There are a number of data issues:

- The Phumelela information on GGR, turnover, taxes and the sports development levy was used rather than that from the National Gambling Board (NGB). This was done because the audited financials are those of Phumelela and the study is focused on Kenilworth's performance rather than the whole gaming industry.
- Provincial taxes vary for each gaming type. The calculation of national taxes for, as based on NGB data are weighted averages.
- Estimated bookmaker turnover may become inaccurate for large changes in taxes and the sports development levy. This is because bookmaker tax and sports development levy are levied off winnings. Changes in bookmaker tax and sports development levy would bring about a change the ratio of turnover to GGR because of less winnings being distributed back to punters.
- The structure of bookmaker income is based on Betting World.

Section 5: Analysis and Policy Choices

This section brings together the preceding sections and presents the analysis of the policy options.

This analysis is taken further and is broadened into a debate that includes issues that cannot be included in a financial simulation. The results of this analysis and debate are brought together to present seven alternative policy options. The section concludes with the recommended policy option.

5.1 Simulation Analysis

One of the key objectives of this section is to determine the extent to which the financial viability of the horse racing industry is affected by a series of possible demographic or policy changes. To give context to that discussion there is merit in recording the contribution of the industry in the Western Cape. This section is a simple summary of some of the material that was presented in Sections 2 and 3.

This information is presented in Table 25 for 2014 and 2015.

Table 25: Western Cape Horse Racing: Income, Taxes and Macroeconomic Contribution

Rand Millions - Western Cape	2014	2015	% of 2015
Turnover			
Casino	41 654	39 520	81%
LPM	6 754	7 886	16%
Bookmakers: Horseracing	978	1 015	2.1%
Totalisators: Horseracing	466	410	0.8%
GGR			
Casino	2 536	2 752	77%
LPM	551	626	18%
Bookmakers: Horseracing	77	99	2.8%
Totalisators: Horseracing	111	98	2.8%
TAX			
Casino	344	409	81%
LPM	65	76	15%
Bookmakers: Horseracing	18	16	3.2%
Totalisators: Horseracing	7	6	1.2%
Contribution to Horse Racing			
Bookmakers: Horseracing	17	17	
Totalisators: Horseracing	86	89	
Owner Costs and Winnings			
Total Owner Costs	-	390	
Net Winnings	-	51	
Net Owner Costs	-	338	
Owner Contribution	-	87%	
Contribution to GGP			
Casino	2 207	2 394	68%
LPM	581	660	19%
Bookmakers: Horseracing	-	117	3.3%
Totalisators: Horseracing	-	349	9.9%
Contribution to Direct Jobs			
Casino		3 084	34%
LPM		383	4%
Bookmakers: Horseracing		296	3.3%
Totalisators: Horseracing		618	6.9%
Contribution to Total Jobs			
Casino	6 163	6 687	75%
LPM	862	599	7%
Bookmakers: Horseracing	-	415	4.6%
Totalisators: Horseracing	-	1 270	14.2%

The original proposal with Provincial Treasury was that the Simulation Model would be used for conducting five sets of simulation around the impact of changes on the financial viability of the industry. These are:

- Alternative policy options – two different policy options.
- Demographic changes in the gambling market – two changes (one short term and one long term).
- Changes in the use of race venues – one option for Kenilworth Race Course.

In the event a total of six simulations were conducted with some variations in two of the simulations. These are:

1. Demographic changes in the gaming market:
    a. That result in a 10% drop in horse racing (totalisator and bookmaker) GGR. This accrues pro-rata to casinos and LPMs.
    b. That result in a 10% drop in totalisator GGR which accrues to bookmakers.
2. The sports development levy on the open bet is increased to 17% and there is a:
    a. 0% shift of the bookmaker open bet GGR to totalisator horse racing GGR;
    b. 10% shift of the bookmaker open bet GGR to totalisator horse racing GGR;
    c. 20% shift of the bookmaker open bet GGR to totalisator horse racing GGR;
3. The sports development levy (on all bets with bookmakers – not just the open bet) is increased to 6%;
4. Kenilworth Racing is allowed more than 5% of LPMs;
5. The totalisator and bookmakers contribute the same proportions to gambling taxes and horse racing operations. The totalisator pays 100% of additional sports development levy into stakes.
6. Stakes cover the full cost of owning a race horse. The totalisator pays 100% of additional sports development levy into stakes.

5.1.1 Demographic Changes

Demographic changes have resulted in long term changes in punting on horse racing. Demographic changes influence the proportion of gaming revenue amongst the various forms of gambling. Younger people, for example, may be drawn towards sports betting rather than horse racing. Potentially better odds may attract punters to place bets with the totalisator or bookmakers, depending on the attractiveness of the odds.

Two demographic trends were simulated. These are:

- A shift away from punting on horse racing. This results in a 10% drop in horse racing (totalisator and bookmaker) GGR which accrues pro-rata to casinos, LPMs and bingo.
- A shift away from the totalisator to bookmakers. This results in a 10% drop in totalisator GGR which accrues to bookmakers.

5.1.1.1 Reduced Punting on Racing (Scenario 1)

This change, called scenario 1 for brevity, simulates what would probably be a long-term demographic change. There are fewer younger people punting on horses. These punters are betting on sports or in casinos or LPMs. While this is a long-term trend, the effect does not need to be simulated over the long term. The effect would remain largely the same whether simulated over a long period or at a point in time. The simulation model used the latter approach.

The effect of a 10% reduction in betting on horse racing where this accrues on a pro-rata basis to casinos and LPMs is shown in Table 26 to Table 30.

Table 26: Scenario 1: Operating Income

Western Cape Operators & Bookmakers	Operating Income (Rm)		
	Before	After	Change
Kenilworth	-1	-5	-4
All Bookmakers	38	33	-5

The consequence of scenario 1 is that the operating income of:

- Kenilworth Racing would incur a further loss from a current loss of R1m to R5m. This is an increase of R4m which is a change of 400%.
- Bookmakers would fall from R38m to R33m. This is a drop of R5m which is a 14% fall.

Table 27: Scenario 1: Operator Contribution to Industry

Western Cape Contribution to Horse Racing Operations	% Contribution Before	 After	 Change
Kenilworth Racing	84.0%	84.5%	0.5%
All Bookmakers	16.0%	15.5%	-0.5%

There would be a small change in the proportion to which Kenilworth Racing would have to contribute to the industry because bookmakers would pay less SDL to Kenilworth Racing. The relative contribution to the industry would:

- Increase from 84.0% to 84.5% for Kenilworth Racing.
- Decrease from 16.0% to 15.5% for bookmakers.

Table 28: Scenario 1: Owner Contribution

Western Cape Owners Contrib to Horse Racing	Before	After	Change
Total Owner Costs (Rm)	317.0	317.0	0.0
Net Winnings (after statutory deductions,Rm)	51.1	46.0	-5.1
Net Owner Costs (Rm)	265.9	271.0	5.1
% Owner Contribution	84%	85%	1.6%

There would be a small increase in net costs to race horse owners.

- Overall owner costs clearly are not affected.
- Total net winnings (stakes) would reduce from R51.1m to R46.0m.
- Owner costs net of stakes would increase by R5.1m, from R265.9m to R271m.
- This increases the proportion of owner costs that are not recovered from prize money from 84% to 85%.

Table 29: Scenario 1: GGR, Taxes and Sports Development Levy

Western Cape Gaming Statistics (Rm)	Δ in Turnover	Δ in GGR	Δ in Tax	Δ in SD Levy
Casino	213.9	14.9	2.2	
LPM	42.7	3.4	0.4	
BINGO	0.0	0.0	0.0	
Bookmakers: Horseracing	-62.6	-6.1	-1.0	-1.7
Bookmakers: Sports betting	0.0	0.0	0.0	
Totalisators: Horseracing	-51.0	-12.2	-0.7	
Totalisators: Sports betting	0.0	0.0	0.0	
Total	**143.1**	**0.0**	**0.9**	**-1.7**

There are changes in turnover, GGR and taxes:

- Total gambling turnover would increase by R143m although GGR would remain unchanged. The reason turnover changes and not GGR is that the different forms of gambling have different degrees of hold.
- Gambling taxes would increase in total by R0.9m. Bookmaker tax contribution would reduce by R1.0m and that of the totalisator by R0.7m. Casino tax contribution would increase by R2.2m and that of LPMs by R0.4m.
- Bookmaker contribution to the industry in the form of the sports development levy would reduce by R1.7m.

Table 30: Scenario 1: Changes in Contribution to Gross Geographic Product

GGP Contribution (Rm) - Western Cape	Before	After	Change
Casino	2 394.1	2 407.1	13.0
LPM	660.1	663.7	3.6
Bookmakers: Horseracing	117.2	105.5	-11.7
Totalisators: Horseracing	348.8	344.5	-4.4
Total	**3 520.3**	**3 520.8**	**0.5**

There would be a small increase in contribution to provincial Gross Geographic Product (GGP):

- In total, GGP would increase marginally from R3 520m to R3 521m. This increase, in the face of unchanged GGR, is because of the relative differences in the size of the provincial macroeconomic multipliers of horse racing compared to casinos and LPMs.
- The contribution from casinos and LPMs would increase by R13.0m and R3.6m respectively.
- The contribution from bookmakers and the totalisator would fall by R11.7m and R4.4m respectively.

Table 31: Scenario 1: Changes in Total Jobs

Total Jobs - Western Cape	Before	After	Change
Casino	6,687	6,723	36
LPM	599	599	0
Bookmakers: Horseracing	415	374	-41
Totalisators: Horseracing	1,270	1,213	-56
Total	**8,971**	**8,910**	**-61**

There would be a loss of 61 jobs in the province.

- Total jobs in the province would fall from 8 971 to 8 910. This fall, in the face of unchanged GGR, is because of the relative differences in the labour intensity of horse racing compared to casinos.
- The contribution from casinos would increase by 36.
- LPM's would remain unchanged as it is assumed there will be no additional machines, only an increase in gaming on existing machines.
- The contribution from bookmakers and the totalisator would fall by 41 and 56 jobs respectively.

In summary, a punter switch away from betting on horses towards casinos and LPMs would:

- Have a positive result of increasing provincial gambling taxes.
- Further reduce the financial viability of the racing industry by increasing the current losses of Kenilworth Racing and the owners of race horses.
- Have a negligible, albeit slightly positive, macroeconomic impact.
- Result in job gains in the province.

5.1.1.2 Punters Shift from Totalisator to Bookmakers (Scenario 2)

This change - scenario 2 - simulates a possible demographic change. The returns to punters from betting with a bookmaker are generally higher than betting with the totalisator. Thus, more punters move from the totalisator to bookmakers resulting in a 10% drop in totalisator GGR which accrues to bookmakers.

The results are shown in Table 37 to Table 37.

Table 32: Scenario 2: Operating Income

Western Cape	Operating Income (Rm)		
Operators & Bookmakers	Before	After	Change
Kenilworth Racing	-1	-2	-1
All Bookmakers	38	49	11

The consequence of scenario 2 is that the operating income of:

- Kenilworth Racing would incur a further loss from a current loss of R1m to R2m. This is an increase in loss of R1m.
- Bookmakers would increase from R38m to R49m. This is an increase of R11m, which represents a 28% increase.

Table 33: Scenario 2: Operator Contribution to Industry

Western Cape	% Contribution		
Contribution to Horse Racing Operations	Before	After	Change
Kenilworth Racing	84.0%	79.7%	-4.3%
All Bookmakers	16.0%	20.3%	4.3%

There would be a change in the proportion to which Kenilworth Racing and the bookmakers would have to contribute to the industry. The relative contribution to the industry would:

- Decrease from 84.0% to 79.7% for Kenilworth Racing.
- Increase from 16.0% to 20.3% for bookmakers.

Table 34: Scenario 2: Owner Contribution

Western Cape Owners Contrib to Horse Racing	Before	After	Change
Total Owner Costs (Rm)	317.0	317.0	0.0
Net Winnings (after statutory deductions,Rm)	51.1	47.4	-3.7
Net Owner Costs (Rm)	265.9	269.6	3.7
% Owner Contribution	84%	85%	1.2%

There would be a small increase in net costs to race horse owners.

- Total net winnings (stakes) would reduce from R51.1m to R47.4m.
- Owner costs net of stakes would increase by R3.7m, from R265.9m to R269.6m.
- This results in a 1% increase in the proportion of owner costs that are not recovered from prize money.

Table 35: Scenario 2: GGR, Taxes and Sports Development Levy

Western Cape Gaming Statistics (Rm)	Δ in Turnover	Δ in GGR	Δ in Tax	Δ in SD Levy
Casino	0.0	0.0	0.0	
LPM	0.0	0.0	0.0	
BINGO	0.0	0.0	0.0	
Bookmakers: Horseracing	124.3	12.2	2.0	3.4
Bookmakers: Sports betting	0.0	0.0	0.0	
Totalisators: Horseracing	-51.0	-12.2	-0.7	
Totalisators: Sports betting	0.0	0.0	0.0	
Total	**73.4**	**0.0**	**1.3**	**3.4**

There are changes in turnover, taxes and skills development levy:

- Total gambling turnover would increase by R73m.
- GGR would remain unchanged.
- Gambling taxes would increase in total by R1.3m. Bookmaker tax contribution would increase by R2m and that of the totalisator would decrease by R0.7m.
- Bookmaker contribution to the industry in the form of the sports development levy would increase by R3.4m.

Table 36: Scenario 2: Changes in Contribution to Gross Geographic Product

GGP Contribution (Rm) - Western Cape	Before	After	Change
Casino	2 394.1	2 394.1	0.0
LPM	660.1	660.1	0.0
Bookmakers: Horseracing	117.2	140.5	23.3
Totalisators: Horseracing	348.8	344.9	-3.9
Total	**3 520.3**	**3 539.7**	**19.4**

There would be a R19m increase in contribution to provincial Gross Geographic Product (GGP):

- In total, GGP would increase from R3.52bn to R3.54bn. This is due to the assumption that the totalisators would continue to maintain their racing and betting expenditure after their 10% decrease in GGR, while bookmaker's expenditure increases because of higher GGR.

- The contribution from casinos and LPMs would be unchanged
- The contribution from bookmakers would increase by R23.3m and that from the totalisator would fall by R3.9m

Table 37: Scenario 2: Changes in Total Jobs

Total Jobs - Western Cape	Before	After	Change
Casino	6,687	6,687	0
LPM	599	599	0
Bookmakers: Horseracing	415	498	83
Totalisators: Horseracing	1,270	1,214	-56
Total	**8,971**	**8,998**	**27**

There would be a gain of 27 jobs in the province.

- Total jobs in the province would increase from 8 971 to 8 998.
- The contribution from casinos and LPMs is unchanged.
- The contribution from bookmakers would increase by 83 and the totalisator would fall by 56.

In summary, a punter switch away from betting on horses with the totalisator to bookmakers would:

- Have a positive result of increasing provincial gambling taxes.
- Further reduce the financial viability of the industry by increasing the current losses of Kenilworth Racing and marginally increasing the contribution by owners of race horses.
- Have an overall positive macroeconomic impact.
- Increase the number of jobs in the gambling industry in the province.

5.1.2 Sports Development Levy on Open Bet Increased to 17%

This change simulates a potential policy change. The sports development levy that is paid by bookmakers on their open bet is increased to 17%. Three resultant effects are simulated. These are that there is no movement of punters from bookmakers to the totalisator, 10% of punters move to the totalisator and 20% make the move. Each of these effects is reported as a separate scenario.

5.1.2.1 No Punter Movement from Bookmaker to Totalisator (Scenario 3)

This change - scenario 3 - simulates a 17% increase of the sports development levy that is paid by bookmakers on their open bet. The scenario includes the assumption that there is no shift of punters from bookmakers to the totalisator.

The results are shown in Table 38 to Table 43

Table 38: Scenario 3: Operating Income

Western Cape	Operating Income (Rm)		
Operators & Bookmakers	Before	After	Change
Kenilworth Racing	-1	7	8
All Bookmakers	38	38	0

The consequence of scenario 3 is that the operating income of:

- Kenilworth Racing would increase from a current loss of R1m to a positive R7m. This is an increase of R8m. This increase is the result of the payment of the sports development levy and not because of any impact on Kenilworth Racing itself.
- Bookmakers would remain unchanged at R38m. The reason for this is that SDL is paid by the punter and not by the bookmaker.

Table 39: Scenario 3: Operator Contribution to Industry

Western Cape	% Contribution		
Contribution to Horse Racing Operations	Before	After	Change
Kenilworth Racing	84.0%	71.2%	-12.8%
All Bookmakers	16.0%	28.8%	12.8%

There would be a change in the proportion to which Kenilworth Racing would contribute to the industry. The relative contribution to the industry would:

- Decrease from 84.0% to 71.2% for Kenilworth Racing.
- Increase from 16.0% to 28.8% for bookmakers.

- This change assumes that 50% of the SDL is paid out as additional prize money by Kenilworth Racing. Therefore, the total contribution to horse racing operations increases by 50% of the increase in SDL.

Table 40: Scenario 3: Owner Contribution

Western Cape Owners Contrib to Horse Racing	Before	After	Change
Total Owner Costs (Rm)	317.0	317.0	0.0
Net Winnings (after statutory deductions,Rm)	51.1	57.6	6.5
Net Owner Costs (Rm)	265.9	259.4	-6.5
% Owner Contribution	84%	82%	-2.0%

There would be a decrease in net costs to race horse owners.

- Total net winnings (stakes) would increase from R51.1m to R57.6m.
- Owner costs net of stakes would decrease by R6.5m, from R265.9m to R259.4m.
- This decreases the proportion of owner costs that are not recovered by prize money from 84% to 82%.

Table 41: Scenario 3: GGR, Taxes and Sports Development Levy

Western Cape Gaming Statistics (Rm)	Δ in Turnover	Δ in GGR	Δ in Tax	Δ in SD Levy
Casino	0.0	0.0	0.0	
LPM	0.0	0.0	0.0	
BINGO	0.0	0.0	0.0	
Bookmakers: Horseracing	0.0	0.0	0.0	15.8
Bookmakers: Sports betting	0.0	0.0	0.0	
Totalisators: Horseracing	0.0	0.0	0.0	
Totalisators: Sports betting	0.0	0.0	0.0	
Total	**0.0**	**0.0**	**0.0**	**15.8**

There are no changes in turnover, GGR and taxes. Bookmaker contribution to the industry in the form of the sports development levy would increase by R15.8m.

Table 42: Scenario 3: Changes in Contribution to Gross Geographic Product

GGP Contribution (Rm) - Western Cape	Before	After	Change
Casino	2 394.1	2 394.1	0.0
LPM	660.1	660.1	0.0
Bookmakers: Horseracing	117.2	117.2	0.0
Totalisators: Horseracing	348.8	356.8	8.0
Total	**3 520.3**	**3 528.3**	**8.0**

There would be an R8m increase in contribution to provincial Gross Geographic Product (GGP):

- In total, GGP would increase from R3.52bn to R3.53bn. This increase, in the face of unchanged GGR, is due to the punter (rather than the bookmaker) paying the SDL from their winnings.
- The contribution from casinos and LPMs would remain unchanged.
- The contribution from bookmakers would remain unchanged.
- The contribution from the totalisator would increase by R8m.

Table 43: Scenario 3: Changes in Total Jobs

Total Jobs - Western Cape	Before	After	Change
Casino	6,687	6,687	0
LPM	599	599	0
Bookmakers: Horseracing	415	415	0
Totalisators: Horseracing	1,270	1,279	10
Total	**8,971**	**8,981**	**10**

There would be 10 more jobs in the province.

- Total jobs in the province would increase from 8 971 to 8 981. This increase is from the additional funds (in the form of increased SDL paid by punters) going to the industry.
- The contribution from casinos, LPMs and bookmakers would remain unchanged.
- The contribution from the totalisator would increase by 10.

In summary, an increase in the SDL on the bookmaker open bet, in the absence of any punter movement to the totalisator, would:

- Have no effect on GGR, taxes or gaming turnover.
- Increase the financial viability of both Kenilworth Racing and the owners of race horses.
- Have an overall positive macroeconomic impact.

5.1.2.2 SDL on Open Bet Increased to 17% and 10% of Punters Move from Bookmaker to Totalisator (Scenario 4)

This change - scenario 4 - simulates a 17% increase of the sports development levy that is paid by bookmakers on their open bet. The scenario includes the assumption that 10% of punters would switch from bookmakers to the totalisator.

The results are shown in Table 44 to Table 49.

Table 44: Scenario 4: Operating Income

Western Cape Operators & Bookmakers	Operating Income (Rm)		
	Before	After	Change
Kenilworth Racing	-1	3	4
All Bookmakers	38	33	-5

The consequence of scenario 4 is that the operating income of:

- Kenilworth Racing would increase from a current loss of R1m to a positive R3m. This is an increase of R4m.
- Bookmakers would fall from R38m to R33m. This is a drop of R5m, which is a 14% fall.

Table 45: Scenario 4: Operator Contribution to Industry

Western Cape Contribution to Horse Racing Operations	% Contribution		
	Before	After	Change
Kenilworth Racing	84.0%	79.5%	-4.5%
All Bookmakers	16.0%	20.5%	4.5%

There would be a reduced proportion to which Kenilworth Racing would have to contribute to the industry. The relative contribution to the industry would:

- Decrease from 84.0% to 79.5% for Kenilworth Racing.
- Increase from 16.0% to 20.5% for bookmakers.

Table 46: Scenario 4: Owner Contribution

Western Cape Owners Contrib to Horse Racing	Before	After	Change
Total Owner Costs (Rm)	317.0	317.0	0.0
Net Winnings (after statutory deductions,Rm)	51.1	56.2	5.1
Net Owner Costs (Rm)	265.9	260.8	-5.1
% Owner Contribution	84%	82%	-1.6%

There would be a small decrease in net costs to race horse owners.

- Total net winnings (stakes) would increase from R51.1m to R56.2m.
- Owner costs net of stakes would reduce by R5.1m, from R265.9m to R260.8m.
- This reduces the proportion of owner costs that are not covered by prize money from 84% to 82%.

Table 47: Scenario 4: GGR, Taxes and Sports Development Levy

Western Cape Gaming Statistics (Rm)	Δ in Turnover	Δ in GGR	Δ in Tax	Δ in SD Levy
Casino	0.0	0.0	0.0	
LPM	0.0	0.0	0.0	
BINGO	0.0	0.0	0.0	
Bookmakers: Horseracing	-62.6	-6.1	-1.0	6.2
Bookmakers: Sports betting	0.0	0.0	0.0	
Totalisators: Horseracing	25.6	6.1	0.4	
Totalisators: Sports betting	0.0	0.0	0.0	
Total	**-36.9**	**0.0**	**-0.6**	**6.2**

There are changes in turnover and taxes but none in GGR:

- Total gambling turnover would decrease by R37m and GGR would remain unchanged.
- Gambling taxes would decrease in total by R0.6m. Bookmaker tax contribution would reduce by R1m. The contribution from the totalisator would increase by R0.4m. Casino and LPM tax contribution does not change.
- Bookmaker contribution to the industry in the form of the sports development levy would increase by R6.2m.

Table 48: Scenario 4: Changes in Contribution to Gross Geographic Product

GGP Contribution (Rm) - Western Cape	Before	After	Change
Casino	2 394.1	2 394.1	0.0
LPM	660.1	660.1	0.0
Bookmakers: Horseracing	117.2	105.5	-11.7
Totalisators: Horseracing	348.8	354.1	5.3
Total	**3 520.3**	**3 513.9**	**-6.4**

There would be a R6.4m drop in contribution to provincial Gross Geographic Product (GGP):

- In total, GGP would fall from R3.52bn to R3.51bn. This fall, in the face of unchanged GGR, is because the reduction in the bookmaker contribution is not countered by the increase from the totalisator.
- The contribution from casinos and LPMs is unchanged.
- The contribution from bookmakers would fall by R11.7m and that of the totalisator would increase by R5.3m.

Table 49: Scenario 4: Changes in Total Jobs

Total Jobs - Western Cape	Before	After	Change
Casino	6,687	6,687	0
LPM	599	599	0
Bookmakers: Horseracing	415	374	-41
Totalisators: Horseracing	1,270	1,302	32
Total	**8,971**	**8,962**	**-9**

There would be a loss of nine jobs in the province.

- Total jobs in the province would fall from 8 971 to 8 962.
- The contribution from casinos and LPMs remains unchanged.
- The reduced contribution from bookmakers is not completely offset by increases from the totalisator.

In summary, an increase in the SDL on the bookmaker open bet and a 10% punter movement to the totalisator would:

- Reduce turnover and provincial gambling taxes.
- Improve the financial viability of the industry. Income to Kenilworth Racing would be positive and there is a reduced financial burden on the owners of race horses.
- Have an overall negative macroeconomic impact.

5.1.2.3 SDL on Open Bet Increased to 17% and 20% of Punters Move from Bookmaker to Totalisator (Scenario 5)

This change - scenario 5 - simulates a 17% increase of the sports development levy that is paid by bookmakers on their open bet. The scenario includes the assumption that 20% of punters would switch from bookmakers to the totalisator.

The results are shown in Table 50 to Table 55.

Table 50: Scenario 5: Operating Income

Western Cape Operators & Bookmakers	Operating Income (Rm)		
	Before	After	Change
Kenilworth Racing	-1	-2	-1
All Bookmakers	38	28	-11

The consequence of scenario 5 is that the operating income of:

- Kenilworth Racing would reduce further, from a current loss of R1m to a loss of R2m. This is a decrease of R1m.
- Bookmakers would fall from R38m to R28m. This is a drop of R11m

Table 51: Scenario 5: Operator Contribution to Industry

Western Cape Contribution to Horse Racing Operations	% Contribution		
	Before	After	Change
Kenilworth Racing	84.0%	88.0%	4.0%
All Bookmakers	16.0%	12.0%	-4.0%

The would be a change in the proportion to which Kenilworth Racing would have to contribute to the industry. The relative contribution to the industry would:

- Increase from 84.0% to 88% for Kenilworth Racing.
- Decrease from 16.0% to 12% for bookmakers.

Table 52: Scenario 5: Owner Contribution

Western Cape Owners Contrib to Horse Racing	Before	After	Change
Total Owner Costs (Rm)	317.0	317.0	0.0
Net Winnings (after statutory deductions,Rm)	51.1	56.3	5.1
Net Owner Costs (Rm)	265.9	260.7	-5.1
% Owner Contribution	84%	82%	-1.6%

There would be a small decrease in net costs to race horse owners.

- Total net winnings (stakes) would increase from R51.1m to R56.3m.
- Owner costs net of stakes would decrease by R5.1m, from R265.9m to R260.7m.
- This decreases the proportion of owner costs that are not recovered from prize money from 84% to 82%.

Table 53: Scenario 5: GGR, Taxes and Sports Development Levy

Western Cape Gaming Statistics (Rm)	Δ in Turnover	Δ in GGR	Δ in Tax	Δ in SD Levy
Casino	0.0	0.0	0.0	
LPM	0.0	0.0	0.0	
BINGO	0.0	0.0	0.0	
Bookmakers: Horseracing	-125.2	-12.2	-2.0	-3.4
Bookmakers: Sports betting	0.0	0.0	0.0	
Totalisators: Horseracing	51.3	12.2	0.7	
Totalisators: Sports betting	0.0	0.0	0.0	
Total	**-73.9**	**0.0**	**-1.3**	**-3.4**

There are changes in turnover and taxes but none in GGR:

- Total gambling turnover would decrease by R73.9m.
- GGR would remain unchanged.
- Gambling taxes would decrease in total by R1.3m.
  - Bookmaker tax contribution would reduce by R2.0m.
  - Totalisator tax contribution would increase by R0.7m.
- Bookmaker contribution to the industry in the form of the sports development levy would reduce by R3.4m.

Table 54: Scenario 5: Changes in Contribution to Gross Geographic Product

GGP Contribution (Rm) - Western Cape	Before	After	Change
Casino	2 394.1	2 394.1	0.0
LPM	660.1	660.1	0.0
Bookmakers: Horseracing	117.2	93.8	-23.4
Totalisators: Horseracing	348.8	353.2	4.4
Total	**3 520.3**	**3 501.3**	**-19.1**

There would be a R19m drop in contribution to provincial Gross Geographic Product (GGP):

- In total, GGP would fall from R3.52bn to R3.50bn.
- The contribution from casinos and LPMs would remain unchanged.
- The contribution from bookmakers would fall by R23.4m.

- The contribution from the totalisator would increase by R4.4m.

Table 55: Scenario 5: Changes in Total Jobs

Total Jobs - Western Cape	Before	After	Change
Casino	6,687	6,687	0
LPM	599	599	0
Bookmakers: Horseracing	415	331	-84
Totalisators: Horseracing	1,270	1,326	56
Total	**8,971**	**8,944**	**-27**

There would be a loss of 27 jobs in the province.

- Total jobs in the province would fall from 8 971 to 8 944.
- The contribution from casinos and LPMs would be unchanged.
- The contribution from bookmakers would reduce by 84.
- The contribution from the totalisator would increase by 56.

In summary, an increase in the SDL on the bookmaker open bet and a 20% punter movement to the totalisator would:

- Have a negative effect on provincial gambling taxes.
- There would be a reduction in total sports development levy collected from the bookmakers because of the lower number of punters placing bets with them.
- Have a mixed impact on the financial viability of the industry. Operating income of Kenilworth Racing would be worse off and there would be reduction in the contribution to industry funding. However, there is a reduced financial burden on the owners of race horses.
- Have an overall negative macroeconomic impact.

5.1.3 Bookmaker SDL Increased to 6% (Scenario 6)

This change - scenario 6 - simulates a potential policy change. The sports development levy that is paid by bookmakers on all bets is increased to 6%. In this scenario, it is assumed that there is no movement by the punter away from bookmakers to the totalisator. The results are shown in Table 56 to Table 61.

Table 56: Scenario 6: Operating Income

Western Cape Operators & Bookmakers	Operating Income (Rm)		
	Before	After	Change
Kenilworth Racing	-1	7	8
All Bookmakers	38	38	0

The consequence of scenario 6 is that the operating income of:

- Kenilworth Racing would change from the current loss of R1m to a positive R7m. This is an increase of R8m.
- Bookmakers would remain unchanged at R38m. The reason is that the sports development levy is paid by the punter and not the bookmaker.

Table 57: Scenario 6: Operator Contribution to Industry

Western Cape Contribution to Horse Racing Operations	% Contribution		
	Before	After	Change
Kenilworth Racing	84.0%	70.4%	-13.6%
All Bookmakers	16.0%	29.6%	13.6%

The would be a significant drop in the proportion to which Kenilworth Racing would have to contribute to the industry. The relative contribution to the industry would:

- Decrease from 84.0% to 70.4% for Kenilworth Racing.
- Increase from 16.0% to 29.6% for bookmakers.

Table 58: Scenario 6: Owner Contribution

Western Cape Owners Contrib to Horse Racing	Before	After	Change
Total Owner Costs (Rm)	317.0	317.0	0.0
Net Winnings (after statutory deductions,Rm)	51.1	58.0	6.9
Net Owner Costs (Rm)	265.9	258.9	-6.9
% Owner Contribution	84%	82%	-2.2%

There would be a small decrease in net costs to race horse owners. Total net winnings (stakes) would increase from R51.1m to R58m.

- Owner costs net of stakes would decrease by R6.9m from R265.9m to R258.9m.
- This reduces the proportion of owner costs that are not recovered from prize money from 84% to 82%.

Table 59: Scenario 6: GGR, Taxes and Sports Development Levy

Western Cape Gaming Statistics (Rm)	Δ in Turnover	Δ in GGR	Δ in Tax	Δ in SD Levy
Casino	0.0	0.0	0.0	
LPM	0.0	0.0	0.0	
BINGO	0.0	0.0	0.0	
Bookmakers: Horseracing	0.0	0.0	0.0	16.9
Bookmakers: Sports betting	0.0	0.0	0.0	
Totalisators: Horseracing	0.0	0.0	0.0	
Totalisators: Sports betting	0.0	0.0	0.0	
Total	**0.0**	**0.0**	**0.0**	**16.9**

There are no changes in turnover, GGR and taxes. Bookmaker contribution to the industry in the form of the sports development levy would increase by R16.9m.

Table 60: Scenario 6: Changes in Contribution to Gross Geographic Product

GGP Contribution (Rm) - Western Cape	Before	After	Change
Casino	2 394.1	2 394.1	0.0
LPM	660.1	660.1	0.0
Bookmakers: Horseracing	117.2	117.2	0.0
Totalisators: Horseracing	348.8	357.5	8.7
Total	**3 520.3**	**3 529.0**	**8.7**

There would be a R8.7m increase in contribution to provincial Gross Geographic Product (GGP). All of this would emanate from the totalisator because the increased sports development levy would be paid by bookmakers to the totalisator. This would, in turn, accrue to the industry.

Table 61: Scenario 6: Changes in Total Jobs

Total Jobs - Western Cape	Before	After	Change
Casino	6,687	6,687	0
LPM	599	599	0
Bookmakers: Horseracing	415	415	0
Totalisators: Horseracing	1,270	1,280	10
Total	**8,971**	**8,982**	**10**

There would be an increase of 10 jobs in the province. All of this would emanate from the totalisator because the increased sports development levy would be paid by bookmakers to the totalisator. This would, in turn, accrue to the industry.

In summary, increasing the sports development levy that is paid by bookmakers on all bets to 6% would:

- Have no effect on provincial gambling taxes.
- Improve the financial viability of the industry by:
    - Turning the current losses of Kenilworth racing into profits;
    - Reducing the financial burden on the owners of race horses.
- Have an overall positive macroeconomic impact.

5.1.4 Kenilworth Racing Outlets – More than 5% of LPMs (Scenario 7)

This change - scenario 7 - simulates a potential policy change. A regulatory change is needed to allow Kenilworth Racing to have more than the legislated five percent of the LPMs in the province, so they can have LPMs in each of their outlets. The results are shown in Table 62 to Table 67.

Table 62: Scenario 7: Operating Income

Western Cape	Operating Income (Rm)		
Operators & Bookmakers	Before	After	Change
Kenilworth Racing	-1	2	3
All Bookmakers	38	38	0

The consequence of scenario 7 is that the operating income of:

- Kenilworth Racing would change from a loss of R1m to a profit of R2m because of a R3m increase in income.
- Bookmakers remains unchanged.

Table 63: Scenario 7: Operator Contribution to Industry

Western Cape	% Contribution		
Contribution to Horse Racing Operations	Before	After	Change
Kenilworth Racing	84.0%	84.0%	0.0%
All Bookmakers	16.0%	16.0%	0.0%

The would be no change in operator contribution to the industry.

Table 64: Scenario 7: Owner Contribution

Western Cape Owners Contrib to Horse Racing	Before	After	Change
Total Owner Costs (Rm)	317.0	317.0	0.0
Net Winnings (after statutory deductions,Rm)	51.1	51.1	0.0
Net Owner Costs (Rm)	265.9	265.9	0.0
% Owner Contribution	84%	84%	0.0%

There would be no changes in the net costs to race horse owners.

Table 65: Scenario 7: GGR, Taxes and Sports Development Levy

Western Cape Gaming Statistics (Rm)	Δ in Turnover	Δ in GGR	Δ in Tax	Δ in SD Levy
Casino	0.0	0.0	0.0	
LPM	0.0	0.0	0.0	
BINGO	0.0	0.0	0.0	
Bookmakers: Horseracing	0.0	0.0	0.0	0.0
Bookmakers: Sports betting	0.0	0.0	0.0	
Totalisators: Horseracing	0.0	0.0	0.0	
Totalisators: Sports betting	0.0	0.0	0.0	
Total	**0.0**	**0.0**	**0.0**	**0.0**

There would be no changes in turnover, GGR, taxes or sports development levy.

Table 66: Scenario 7: Changes in Contribution to Gross Geographic Product

GGP Contribution (Rm) - Western Cape	Before	After	Change
Casino	2 394.1	2 394.1	0.0
LPM	660.1	660.1	0.0
Bookmakers: Horseracing	117.2	117.2	0.0
Totalisators: Horseracing	348.8	348.8	0.0
Total	**3 520.3**	**3 520.3**	**0.0**

There are no changes in the contribution to provincial Gross Geographic Product. This is the result of the assumption noted in Section 4.2 that any increase in GGR at Kenilworth would be at the expense of GGR at other LPMs.

Table 67: Scenario 7: Changes in Total Jobs

Total Jobs - Western Cape	Before	After	Change
Casino	6,687	6,687	0
LPM	599	615	16
Bookmakers: Horseracing	415	415	0
Totalisators: Horseracing	1,270	1,270	0
Total	**8,971**	**8,987**	**16**

There is an increase of jobs. This is the result of the reasonable assumption noted in Section 4.2 that LPM jobs are function of the number of machines rather than LPM GGR.

In summary, a legislative change to allow Kenilworth Racing to have more than the legislated 5% of LPMs would increase the operating income of Kenilworth Racing. It would have no GGP impact, however it would create 16 jobs in the Western Cape.

5.1.5 Equal Totalisator and Bookmakers Contributions (Scenario 8)

This change - scenario 8 - simulates a potential policy change. Legislation is changed so that the totalisator and bookmakers contribute the same proportions to gambling taxes and horse racing operations. The totalisator pays 100% of the additional sports development levy into stakes.

It was noted in Section 4.2 changes in gambling taxes and sports development levies would not result in a shift of punters from bookmakers to other gambling outlets.

The results are shown in Table 68 to Table 73.

Table 68: Scenario 8: Operating Income

Western Cape Operators & Bookmakers	Operating Income (Rm)		
	Before	After	Change
Kenilworth Racing	-1	-1	0
All Bookmakers	38	38	0

The consequence of scenario 8 is that the operating income of:

- Kenilworth Racing remains unchanged at a loss of R1m as all of the additional sports development levy is paid out as prize money.
- Bookmaker's income remains unchanged at R38m because the changes in provincial tax and sports development levy impact the punter, not the bookmaker.

Table 69: Scenario 8: Operator Contribution to Industry

Western Cape Contribution to Horse Racing Operations	% Contribution		
	Before	After	Change
Kenilworth Racing	84.0%	53.8%	-30.2%
All Bookmakers	16.0%	46.2%	30.2%

The would be a significant drop in the proportion to which Kenilworth Racing would have to contribute to the industry. The relative contribution to the industry would:

- Decrease from 84.0% to 53.8% for Kenilworth Racing.
- Increase from 16.0% to 46.2% for bookmakers.

Table 70: Scenario 8: Owner Contribution

Western Cape Owners Contrib to Horse Racing	Before	After	Change
Total Owner Costs (Rm)	317.0	317.0	0.0
Net Winnings (after statutory deductions,Rm)	51.1	99.6	48.5
Net Owner Costs (Rm)	265.9	217.4	-48.5
% Owner Contribution	84%	69%	-15.3%

There would be a decrease in net costs to race horse owners.

- Total net winnings (stakes) would increase from R51.1m to R99.6m.
- Owner costs net of stakes would decrease by R48.5m, from R265.9m to R217.4m.
- This decreases the proportion of owner costs that are not recovered from prize money from 84% to 69%.

Table 71: Scenario 8: GGR, Taxes and Sports Development Levy

Western Cape Gaming Statistics (Rm)	Δ in Turnover	Δ in GGR	Δ in Tax	Δ in SD Levy
Casino	0.0	0.0	0.0	
LPM	0.0	0.0	0.0	
BINGO	0.0	0.0	0.0	
Bookmakers: Horseracing	0.0	0.0	-5.4	59.3
Bookmakers: Sports betting	0.0	0.0	0.0	
Totalisators: Horseracing	0.0	0.0	0.0	
Totalisators: Sports betting	0.0	0.0	0.0	
Total	**0.0**	**0.0**	**-5.4**	**59.3**

There are no changes in turnover or GGR.

- Gambling taxes from bookmakers would decrease by R5.4m.
- Bookmaker contribution to the industry in the form of the sports development levy would increase by R59.3m.

Table 72: Scenario 8: Changes in Contribution to Gross Geographic Product

GGP Contribution (Rm) - Western Cape	Before	After	Change
Casino	2 394.1	2 394.1	0.0
LPM	660.1	660.1	0.0
Bookmakers: Horseracing	117.2	117.2	0.0
Totalisators: Horseracing	348.8	365.5	16.6
Total	**3 520.3**	**3 537.0**	**16.6**

There would be a R16.6m increase in contribution to provincial Gross Geographic Product (GGP):

- In total, GGP would increase from R3.52bn to R3.54bn. There would be no change in the bookmaker's contribution to GGP as the bookmaker punters bear the impact of the tax and sports development levy changes. Furthermore, the scenario makes the assumption that there is no movement of punters between bookmakers and the totalisator as a result of the playing field being levelled.

Table 73: Scenario 8: Changes in Total Jobs

Total Jobs - Western Cape	Before	After	Change
Casino	6,687	6,687	0
LPM	599	599	0
Bookmakers: Horseracing	415	415	0
Totalisators: Horseracing	1,270	1,288	18
Total	**8,971**	**8,989**	**18**

There would be 18 more jobs in the province. Total jobs in the province would increase from 8 971 to 8 989. This all accrues to the totalisator due to the increase in the sports development levy. There is no change in the bookmaker jobs because their punters bear the impact of the changes in tax and the sports development levy.

In summary, this scenario models a legislative change that ensures that:

- The totalisator and bookmakers contribute the same proportions to gambling taxes and horse racing operations.
- The totalisator pays 100% of additional sports development levy into stakes.

This scenario has the following results:

- It reduces provincial gambling taxes.
- It increases the sports development levy substantially.
- The operating income of Kenilworth Racing remains unaffected.
- It reduces the financial burden of race horse owners significantly.
- Has an overall positive macroeconomic impact.

This scenario is based on the assumption, as noted in Section 4.2 that there would be no reduction in horse racing GGR. This could have the consequence of driving punters away from bookmakers or even horse racing should this assumption prove incorrect.

5.1.6 Stakes Cover Horse Cost (Scenario 9)

This change - scenario 9 - simulates a potential policy change. Legislation is changed so that stakes cover the full cost of owning a race horse. The challenge with this policy option is that it requires a policy change at a national level. In other words, it requires that national stakes cover owner costs nationally. The reason for this is that there are owners in the Western Cape who race their horses in other provinces and owners in other provinces who race in Cape Town. Therefore, the results for owners are shown from a national perspective while all other results are given from a Western Cape perspective.

The results are shown in Table 74 to Table 79.

Table 74: Scenario 9: Operating Income

Western Cape Operators & Bookmakers	Operating Income (Rm)		
	Before	After	Change
Kenilworth Racing	-1	-1	0
All Bookmakers	38	38	0

The consequence of scenario 9 is that there would be no change in operating income.

Table 75: Scenario 9: Operator Contribution to Industry

Western Cape Contribution to Horse Racing Operations	% Contribution		
	Before	After	Change
Kenilworth Racing	84.0%	36.5%	-47.5%
All Bookmakers	16.0%	63.5%	47.5%

The would be a significant drop in the proportion to which Kenilworth Racing would contribute to the industry. The relative contribution to the industry would:

- Decrease from 84.0% to 36.5% for Kenilworth Racing.
- Increase from 16.0% to 63.5% for bookmakers.

Table 76: Scenario 9: Owner Contribution

National Owners Contrib to Horse Racing	Before	After	Change
Total Owner Costs (Rm)	1,097.6	1,097.6	0.0
Net Winnings (after statutory deductions,Rm)	291.4	1,097.6	806.2
Net Owner Costs (Rm)	806.2	0.0	-806.2
% Owner Contribution	73%	0%	-73.5%

This policy simulation is designed to ensure all owner costs are covered by stakes nationally. This is shown in the table.

Table 77: Scenario 9: GGR, Taxes and Sports Development Levy

Western Cape Gaming Statistics (Rm)	Δ in Turnover	Δ in GGR	Δ in Tax	Δ in SD Levy
Casino	0.0	0.0	0.0	
LPM	0.0	0.0	0.0	
BINGO	0.0	0.0	0.0	
Bookmakers: Horseracing	0.0	0.0	0.0	137.6
Bookmakers: Sports betting	0.0	0.0	0.0	
Totalisators: Horseracing	0.0	0.0	0.0	
Totalisators: Sports betting	0.0	0.0	0.0	
Total	**0.0**	**0.0**	**0.0**	**137.6**

There are no changes in turnover, GGR and taxes. The sports development levy would increase by R137.6m.

Table 78: Scenario 9: Changes in Contribution to Gross Geographic Product

GGP Contribution (Rm) - Western Cape	Before	After	Change
Casino	2 394.1	2 394.1	0.0
LPM	660.1	660.1	0.0
Bookmakers: Horseracing	117.2	117.2	0.0
Totalisators: Horseracing	348.8	387.5	38.6
Total	**3 520.3**	**3 559.0**	**38.6**

There would be a R38.6m increase in contribution to provincial Gross Geographic Product (GGP). This would be due solely to the increased sports development levy being channelled through the totalisator to horse owners.

Table 79: Scenario 9: Changes in Total Jobs

Total Jobs - Western Cape	Before	After	Change
Casino	6,687	6,687	0
LPM	599	599	0
Bookmakers: Horseracing	415	415	0
Totalisators: Horseracing	1,270	1,312	42
Total	**8,971**	**9,014**	**42**

There would be an increase of 42 jobs in the province. This increase is through a change in indirect jobs. Again, this is due solely to the increased sports development levy being channelled through the totalisator to horse owners.

In summary, a national policy change that results in stakes covering the full cost of horse ownership would have to be done through an increase in the sports development levy. This would, in turn, be channelled through the totalisator to owners. It would increase both provincial GGP and jobs.

This policy choice could result in a movement of punters away from bookmakers or even from horse racing.

5.1.7 Simulation Summary

A full comparative summary of all the simulation is provided for convenience. The discussion from above is not repeated here. The results are given in Table 80. The first column of data in the table gives the actual situation for each variable in 2015. The subsequent columns report the results for each of the scenarios.

The results are colour coded. Numbers in:

- Blue indicate an improvement in that variable.
- Red a deterioration.
- Black indicate no change.

Table 80: Full Financial Simulation Results

							Scenario				
		Current 2015	1	2	3	4	5	6	7	8	9
Description			10% drop HR GGR accrues to:		Open Bet SDL to 17%: % Bookmaker GGR to Tote:			SDL to 6%	KWR holds > 5% LPMs	Equal Tote and Bookmaker	Stakes cover Cost
			Casinos & LPMs	Bookmakers	0%	10%	20%				
Operating Income (Rm)	Kenilworth	-1.1	-5.4	-2.0	6.8	3.4	-1.8	7.4	9.8	-1.1	-1.1
	Bookmakers	38.3	33.0	48.9	38.3	33.0	27.6	38.3	38.3	38.3	38.3
Industry Contribution (%)	Kenilworth	84.0%	84.5%	79.7%	71.2%	79.5%	88.0%	70.4%	84.0%	53.8%	36.5%
	Bookmakers	16.0%	15.5%	20.3%	28.8%	20.5%	12.0%	29.6%	16.0%	46.2%	63.5%
Industry Funding (Rm)		665.4	653.4	675.3	672.7	663.4	655.5	673.3	665.4	670.8	690.4
% Owner Contribution		83.9%	85.5%	85.1%	81.8%	82.3%	82.3%	81.7%	83.9%	68.6%	48.4%
Casino, LPM & HR Financials (Rm)	Turnover	48 541	48 684	48 615	48 541	48 504	48 467	48 541	48 541	48 541	48 541
	GGR	3 561	3 561	3 561	3 561	3 561	3 561	3 561	3 561	3 561	3 561
	Gambling Taxes	502	503	504	502	502	501	502	502	497	502
	SDL	16.9	15.2	20.3	32.7	23.1	13.5	33.9	16.9	76.2	154.5
Change (%)	Turnover		0.3%	0.2%	0.0%	-0.1%	-0.2%	0.0%	0.0%	0.0%	0.0%
	GGR		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Gambling Taxes		0.2%	0.3%	0.0%	-0.1%	-0.3%	0.0%	0.0%	-1.1%	0.0%
	SDL		-10.0%	19.9%	93.3%	36.7%	-20.0%	100.0%	0.0%	350.0%	812.2%
Contribution:	GGP (Rm)	3 520	3 521	3 540	3 528	3 514	3 501	3 529	3 520	3 537	3 559
	Total Jobs	8 971	8 910	8 998	8 981	8 962	8 944	8 982	8 987	8 989	9 014

5.2 Assessing Policy Options

This section broadens the discussion on policy options beyond the detailed approach used in the model simulation. There are issues that need to be included in a broader discussion of policy options which cannot be simulated in a technical model. This section expands the debate by:

- Outlining a framework for policy assessment;
- Summarizing the key characteristics that are needed for a broad assessment of issues;
- Discussing the general approach that would be needed to level the playing fields for horse racing;
- Outlining the comparative advantages that both bookmakers and the totalisator currently have in the horse racing gambling sector;
- Listing the possible unintended consequences of attempting to level the playing fields in the horse racing sector;
- Itemising the potential policy choices;
- Recommending a policy choice.

5.2.1 Framework for Policy Assessment

One approach that is often used in policy analysis is to allow for debate within a multicriteria approach. The same approach is followed here. The typical multicriteria approach includes three measures – efficiency, equity and sustainability. A fourth has been added in this case because if its importance – macroeconomic impacts.

5.2.1.1 Efficiency

Economic (allocative) efficiency is a state in which production is aligned with consumer preferences. At this point some people cannot be made better-off by reallocating the resources or goods, without making others worse-off. It is what is called a Pareto optimum situation. As a normative principle, for the maximization of aggregate welfare, efficiency favours the allocation of scarce resources to their highest value uses.

In this context efficiency relates to the use of public sector funding – assessing the case for provincial subsidies or tax breaks for the horse racing industry. The question that is faced is whether the choices in policy options result in a greater or lesser efficient allocation of public resources.

5.2.1.2 Equity

Equity – fairness - is both an established goal of tax policy and a principal objective of public policy. In the context of paying for a service, the equity principle is normally evaluated on two criteria:

- Benefit-received principle is applied to taxes/user fees to examine the extent to which users of publicly provided goods or services pay in proportion to the amounts used and to the cost these users impose on the system.
- Ability-to-pay criteria focuses on the burden on people in different income groups to pay for a good or service. This is also known as horizontal and vertical equity.

5.2.1.3 Sustainability

Sustainability clearly implies the long-term sustainability of, in this case, an industry.

Arguably, from a sustainability perspective, any subsidy from fiscus to an unsustainable industry, is not justifiable. Such a subsidy can only be viewed as justified if the sustainability issues are temporary or can be correct by other interventions – legislative changes, for example.

5.2.1.4 Macroeconomic Impact

The macroeconomic impact of the provincial horse racing industry is important primarily because of the jobs which are sustained by the industry. It is also important because, compared to other gambling choices, it is labour intensive and many of the jobs are at the lower end of the skill spectrum.

In this context, the two key macroeconomic impacts that were included in the scenario analysis are contribution to provincial GGP and sustaining jobs in the industry.

5.2.2 Policy Relevant Industry Characteristics

This section outlines the key industry characteristic that need to be considered in the context of a broader policy debate.

5.2.2.1 Horse Racing - Mature Industry

One of the well-known cases for government support of an industry is the so-called ‘infant industry’ argument. A fledgling industry, aimed either at export promotion or import substitution, typically needs support against more established international firms until it has grown sufficiently to be competitive in the international arena. Historically this support has taken the form of implicit or explicit subsidies of various forms. Today, in the context of agreements under the World Trade Organisation, such subsidies are more difficult and are challenged. Import tariffs are now the policy instrument of choice.

The horse racing industry is not an infant industry. Its South African roots can be traced back as far as the beginning of the 19th century. Internationally it stretches back even further.

It was shown in Section 3 that horse racing is being challenged internationally and locally by other forms of gambling. This suggests that punters are, for many reasons, choosing other forms of gambling. There is little justification, from an efficiency perspective, for government support of an industry which is in long term decline. This would simply be an inefficient allocation of resources. Arguments can, possibly, be made in this regard from either a macroeconomic or equity perspective. These are discussed below.

5.2.2.2 Industry in Decline

It was shown in Section 3 that, by and large, the horse racing industry is in decline. This was shown internationally, nationally and provincially. The reasons would appear to be manifold. They probably lie with changing fashion and competition for other forms of gambling. The role of bookmakers in this decline is not fully conclusive.

5.2.2.3 Little Case for Provincial Support

The conclusion that must be drawn is that it would be difficult to make a case for government financial support for the industry in the Western Cape. The financial support would be either direct subsidies or indirect subsidies in the form of tax concessions.

Such support:

- Would not be equitable:
    - For a mature industry when there are many other more deserving infant industries which may offer a greater chance of economic success. This would lead to enhanced chances of increases in income and sustainable job creation.
    - Because some of the support could accrue to Phumelela should Kenilworth Racing become profitable. This would then amount to the Province supporting a listed company that is currently in robust financial health.
- Would not be efficient for the same reasons as above. The case can be made that there is more potential for better returns and, consequently, a more efficient

allocation of resources for allocating the available and limited provincial funding to other infant industries.

- May not be sustainable. A case may be made that the industry could continue to exist over the long term. The case would not necessarily be made convincingly. Consequently, a case cannot be made for the allocation of funding to an industry which is in long term decline.
- Would have a positive macroeconomic impact in that it would help save existing jobs, particularly because it is a labour intensive industry. This argument does, of course, ignore the potential for greater job potential in other infant industries.

5.2.3 Level Playing Fields – an Assessment

An assessment of potential policy choices needs to include an assessment of the factors that may result in a playing field which is not level. Arguably this needs to be done at the level of the overall gambling industry, in the first instance, and then for the horse racing industry. This assessment also needs to include an assessment of the potential unintended consequences of attempting to level these playing fields.

5.2.3.1 Overall Gambling Industry

A general observation can be made that, from a racing perspective at least, the playing fields in the overall gambling industry are not level. There are several reasons for this:

- The cost structure of the racing industry is higher than any other form of gambling. The costs of running casinos and LPM establishments are limited to the upkeep of buildings and gambling positions. The cost of sports betting does not include the cost of maintaining the soccer, cricket or rugby industries. This is done by team supporters. Part of the cost of punting on racing is the need to support the industry.
- Changing tastes in the gambling industry. Punting on horses is a cerebral activity. It requires the study of form and a historical memory of past horse performance. Putting money into a slot machine requires none of this effort. There is more instant gratification from slot machines and sports betting than from horse racing.

A level of the playing fields between racing and other forms of gambling can, realistically, only be achieved by increasing the cost structure of other forms of gambling to match that of the racing industry. This would mean an increase in taxes for casinos, LPMs and sports betting. Such a policy choice is likely to face many challenges. These would include:

- Legal challenges. While increasing taxes do not itself ordinarily create grounds for a legal challenge, the effect thereof – for example, of increasing the cost of doing business for a casino – may lead to litigation where a large “player” in the gambling sector (like a casino or an association of bookmakers) decides to take legal action on any number of (valid or arbitrary) grounds. These may include tackling the basis on which a regulatory change is made (a sort of administrative review of the regulatory decision-making), alleging unfair competition, or a contravention by the legislature of its own gambling regulatory/contractual foundations. Given the likely monetary effect of legislative change (in order to level the playing fields) that causes any severe financial disruption, those disrupted are likely to move to protect themselves with whatever means available and legal challenge is usually the weapon of first resort. In addition, given that this particular policy option involves a levelling of all playing fields in the gambling sector, it would also mean that more legislative changes and/or regulatory tweaking would be required and, possibly, at both a national and provincial level (or across all provinces); this would be more onerous than reviewing/amending Western Cape provincial legislation only.
- Impact on investor confidence. The radical and, probably unprecedented, increase in taxes needed to level the playing fields for the racing industry would send a very poor message to potential investors. The message that would be internalized by investors in the fledgling renewable energy, oil and gas, boat repairs, fashion and creative industries is that their provincial investments would not necessarily be safe from capricious changes in provincial policy. This would lend itself to negative investor sentiment, lower investment and a reduced potential for future job creation.

5.2.3.2 Racing Industry

At the narrower focus of the level playing fields between bookmakers and the totalisator within the racing industry itself there are a multitude of issues to consider. These are arranged below along the lines of the current advantages of bookmakers and totalisator respectively

Bookmakers have at least four advantages in the ‘level playing field’ debate:

- Punters pay the gambling taxes on their winning bets only. Losing bets, which is income accruing to the bookmaker, are not taxed.
- Punters pay the sports development levy. This issue is the same as gambling taxes referred to above.

- Bookmakers offer the open bet. The open bet is effectively the same in nature as the bet which is offered by the totalisator except that it does not influence the winning odds.
- Bookmakers do not make any discretionary contribution to racing operations or facility maintenance. They only need to consider their own betting facilities. They make a compulsory contribution through the sports development levy.

The totalisator has at least three advantages in the 'level playing field' debate:

- Owner of Tellytrack. Property rights to Tellytrack are vested with the three totalisators in South Africa (of which Phumelela is the manager). It is not clear whether this issue could be addressed. This is discussed further in Section 2. Tellytrack gives a live feed of races. It is clearly important for the ambiance of a conducive punter environment to ensure that punters can view races as they occur. As the owner of Tellytrack the totalisator can, and does, charge bookmakers for the use of this services. This clearly gives the totalisator an advantage over bookmakers because their charges for Tellytrack can tilt the playing fields in their advantage.
- Offer bookmaker bets – Betting World. This was discussed in Section 2. The totalisator currently operates in the same domain as bookmakers as Betting World. It is also understood that Phumelela has, and is in the process of, acquiring additional assets in the bookmaker arena. The consequence is that if the playing fields are currently tilted in favour of bookmakers this also favours the totalisator.
- Kenilworth Racing, as part of the totalisator, is 'asset rich'. It owns Kenilworth Race Course, Durbanville race course and assets in both Milnerton and Phillippi, to mention a few. There is clearly potential to leverage income from these assets. Stratecon has been informed, and the Provincial Treasury is aware of, that there are currently plans for a major redevelopment of these assets with the view to generating a significant cash flow.

In addition to these clear totalisator advantages in the racing field there are at least two further factors that need to be considered:

- First is the lack of clarity on three issues which have the potential to advantage the totalisator should there be any attempts to level the racing playing field by either increasing bookmaker taxes or the sports development levy.
    - The first is that it is not clear what would occur to the finances raised through an increase in the sports development levy. The funds would, in the first instance, be

received by Kenilworth Racing. It is not clear if they must be remitted back to industry development or if they could accrue to Kenilworth Racing.

- Further there is no clarity on what may happen to the totalisator contribution should bookmaker taxes be increased and remitted to the totalisator. The concern is that any increase in bookmaker industry contribution may offset potential totalisator contribution.
- Further there is no clarity on what may happen to the totalisator contribution should bookmaker taxes be increased and remitted to the totalisator. The concern is that any increase in bookmaker industry contribution may offset potential totalisator contribution.
- The second, related, area is on the determination of stakes. Again, there does not appear to be any regulatory stipulation on the part of gambling boards. It is understood that these are determined retrospectively based on the financial performance of the totalisator in the previous year. The concern is that any increase in bookmaker contribution may not materialise as an increase in stakes.
- Finally, there is little clarity on the contractual arrangement between Phumelela and Kenilworth Racing. Available information was presented in Section 2. The agreement between Stratecon and the Provincial Treasury was that this examination would be confined to publicly available information. In this regard the only clear information is that Phumelela would share 50/50 in any profits should Kenilworth Racing become profitable.

- Second is the contractual arrangement between Phumelela and Kenilworth Racing about the 50/50 profit share. This could result in the situation where policy decisions by the Western Cape Government result in increased profits to a listed company. This is clearly not the intention of policy aimed at levelling the racing playing fields but could be an unintended consequence.

5.2.4 Potential Unintended Consequences

As with all policy intervention there is always the possibility of unintended consequences. This section lists some potential unintended consequences should policies be introduced that would tilt the racing playing fields against bookmakers to favour the totalisator.

Bookmakers may choose to:

- Move their operations out of the Western Cape and locate in another province. This would allow them to still receive online and telephonic bets from punters in the

Western Cape on races in the Western Cape but governed by less onerous regulations than those in the Western Cape.

- No longer offer bets on horse racing and focus on other forms of betting. It is not clear where current punters would place their horse racing bets but out of province bookmakers would offer such a choice.
- Create and offer a bet which is, in effect, a derivative of a horse racing bet (such as currently being offered on lottery numbers). This would then be a bet on racing that is governed by non-horse racing regulations and taxed accordingly.

The totalisator may choose to:

- Use the increased bookmaker racing contribution and reduce their own contribution. This, as mentioned above, is an area where this is a lack of clarity.
- Use bookmaker contribution towards maintaining own assets. There is no clear definition of what 'contribution to the industry' entails. Arguably it must include the maintenance of assets like Kenilworth Race course. These are assets which are owned by Kenilworth Racing as part of the totalisator. This would result in bookmakers paying to maintain totalisator assets. This is clearly not the intention of policy which is aimed at levelling the racing playing field.
- Pay dividends. Any increase on the part of bookmakers could, once Kenilworth Racing becomes profitable, be paid into Phumelela shareholder dividends.

5.2.5 Policy Choices

The purpose of this section is to bring together the issues laid out above to explore potential policy choices. There would appear to be eight potential policy options:

5.2.5.1 Option 1: Do Nothing (No Tax/SDL/LPM Changes)

The do-nothing option is the simplest option because it leaves the status quo as is and does not introduce any policy based unintended consequences.

This do-nothing option includes that there is no change in bookmaker taxes, no changes in the sports development levy and the current prohibition on a single firm owning more that 5% of LPMs in the province.

This option clearly does not address the potential social consequences should the current trends in racing in the province continue. These may result in the closure of Kenilworth Racing and a further decline in the industry, with the concomitant job losses.

5.2.5.2 Option 2: Do Nothing (No Tax/SDL/LPM Changes) with Social Safety Net

This do-nothing option builds on the first do-nothing option by introducing a social safety net should there be job losses in the industry.

The introduction of such a social safety net could include:

- Training and/or skills development for vulnerable people in the industry;
- Policies like those used in job resilience for mine closures. These include the promotion of small business and SMMEs in the affected areas and the subsidisation of transport to areas where employment opportunities exist.

There are challenges to such interventions:

- The interventions would need to target specifically those people who are vulnerable because of changes in the racing industry. Often, on farms that breed horses, breeding is not the sole occupation. There are other forms of agriculture. Costs and income are therefore spread across a range of activities. This often means that on such farms it is difficult to disaggregate a loss in breeding income from a loss of other forms of income or cost increases.
- The existence of widespread unemployment, particularly for unskilled and semi-skilled, largely in the farming sector, would constrain the success of a social safety net that focuses on retraining and job placement.

5.2.5.3 Option 3: Do Nothing (No Tax/SDL Changes) with LPM Deregulation

This do-nothing option is a variation of the pure do-nothing option by allowing firms to have the rights to more than 5% of the total LPMs in the Western Cape.

The totalisator argues, correctly, that, being a single firm, they are bound by the 5% regulation. Bookmakers can, at the level of the individual firm, also have 5% of the provincial LPMs. However, because there are a multitude of individual bookmakers they can, collectively, hold substantially more than 5% of provincial LPMs.

The Western Cape Gambling Board has, to date, not issued LPM licenses for all the machines to which it is entitled under national regulations. The potential does exist for this regulation to be amended without major equity impacts.

5.2.5.4 Option 4: Do Nothing (No Tax/SDL/LPM Changes) Enabling Environment for KWR Redevelopment

This do-nothing option is a variation of the pure do-nothing option which allows for active facilitation of the redevelopment of assets held by Kenilworth Racing. As mentioned above, Provincial Treasury is aware that Kenilworth Racing is in the process of planning and implementing such redevelopment.

This option would entail the Western Cape Government addressing existing constraints. These may include, for example, challenges with zoning, provision for bulk services and general red tape.

5.2.5.5 Option 5: Do Nothing (No Tax/SDL Changes) with Enabling Environment for KWR Redevelopment and LPM Regulatory Changes

This do-nothing option combines Option 3 and Option 4 which are not mutually exclusive. As Kenilworth Racing occupies a unique position in the Western Cape (geographically, historically and within the local gambling sector), there is a strong argument that it should be allowed more LPMs (if this is a policy option that is decided upon).

5.2.5.6 Option 6: Level Playing Fields - Across ALL Gambling

One of the policy issues that was discussed is that the long-term decline in the racing industry is partially the result of demographic changes with people moving away from punting on horses, on the one hand, and that returns from betting on horses are lower than from other forms of gambling. The latter is the result of the unavoidable higher cost structure of racing compared to other forms of gambling.

The levelling of this playing field would mean lowering the return to other forms of gambling to make such returns comparable to those from gambling on racing. The most obvious way of doing this would be to increase taxes on other forms of gambling.

There are clearly constraints to this option and the potential for unintended consequences.

- The constraints include potential legal agreements – explicit or implicit – that would prevent such an option. It would also require a review of national and/or provincial gambling legislation/regulations across all provinces so as to enable uniform and potentially widespread regulatory change.
- The unintended consequence, as mentioned above, would be the impact on investor confidence. This would undermine current and future levels of investment in the province. This, in turn, would reduce potential incomes and future job creation.

5.2.5.7 Option 7: Simple Level Racing Playing Field

This option addresses the potential to level the racing playing field by making changes in taxes and other industry contributions so that the totalisator and bookmakers make the same contribution to the industry.

This option faces the challenges mentioned in Section 5.2.3. These include the existing advantages to both the totalisator and bookmakers that a simple industry contribution would not address, on the one hand, and the potential unintended consequences of such changes in contribution. Thus, this option would not succeed in a true levelling of the playing fields.

In addition, it would require regulatory control of the use of industry contributions, how the sports development levy is used, the determination of stakes, etc. It will also be appreciated that regulations, with the best will in the world, can, to a larger or lesser extent, be overcome.

5.2.5.8 Option 8: Full Level Racing Playing Field

This option addresses the potential for a full levelling of the racing playing field. This would include:

- Making changes in taxes and other industry contributions so that the totalisator and bookmakers make the same contribution to the industry.
- Addressing the advantages that both the totalisator and bookmakers have outside of simple tax considerations and other industry contributions.

This option would require at least two interventions:

- Remove the ownership of both Kenilworth Race Course and Tellytrack from the totalisator. These entities then charge both the bookmaker and the totalisator for access to the track and broadcasting rights.
- Supplement this with necessary changes in taxation and industry contributions.

There are clearly challenges to this option:

- Property rights to Tellytrack are vested with Phumelela. It is not clear whether this issue could be addressed.
- Tellytrack is used nationally so this solution cannot simply be implemented in the Western Cape.
- There are other legal implications. Amending ownership of entities such as Kenilworth Race Course and Tellytrack would require a review of licencing

categories, licencing amendments, undoing of contractual relationships and potential legal challenges by those parties affected.

5.2.6 Policy Recommendation

Based on the policy issues and policy choices outlined above, policy option 5 is recommended. This option comprises:

- Make no changes to bookmaker or totalisator taxes and industry contributions of the sports development levy.
- Create an enabling environment for KWR asset redevelopment.
- Enact LPM regulatory changes so that either individual firms or just Kenilworth Racing can hold more than 5% of LPM in the province. Equity and ease of regulation would suggest that the former would be preferable.

Further monitoring of the industry is suggested and the impact of this recommendation noted, as well as the potential impact of the redevelopment of the assets of Kenilworth Racing.

The detail on the legislative implications of this policy cannot be commented on as this review has not included an in-depth investigation of the current affairs of Kenilworth Racing and much depends on the nature of the title deeds of their current properties, the conditions thereof, their current trading licensing conditions, any applicable municipal/council conditions and their contractual/commercial relationships with trading partners and third parties. If prohibitive conditions or commercial arrangements exist that stop Kenilworth Racing expanding or changing their traditional business or racing methods, then “enabling” Kenilworth Racing may be a challenging process.

Putting these potential challenges aside, there may be certain zoning or property-related issues with regards to Kenilworth Racing’s ownership of the Kenilworth and Durbanville racetracks (and/or other properties) that may require some amendment by local authorities so as to enable Kenilworth Racing to redevelop its current assets.

As the current 5% regulation in respect of LPMs is a WCGRB policy decision/board minute, no reason is seen that it could not be easily amended or relaxed for Kenilworth Racing by the WCGRB; this would simply require the WCGRB to sit and decide in the appropriate fashion. In this sense, some basic regulatory changes underpinned by political will – a provincial government that wishes to support the local horseracing industry – could “enable” Kenilworth Racing with minimal legislative changes.

5.2.7 Assessment of Phumelela Requests

It was noted in the beginning of this report that part of the motivation for this investigation is that it considers the merits of proposals that Phumelela made to the Provincial Government in a letter dated 19 March 2015. A number of requests are made in this letter. These are a request:

- For the imposition of a special tax on the open bet that is offered by bookmakers.
- To amend the regulations governing LPMs so that Kenilworth Racing can hold more than 5% of LPMs in the province and that Kenilworth Racing be given preferential access to additional LPMs, if and when new licences are issued.
- To change the necessary provincial legislative changes to enable the totalisator to offer, at least, Soccer10 and Soccer13 products at all outlets in the province where the National Lottery has been permitted to sell its Sportstake bets.

Each of these is discussed:

5.2.7.1 Special Tax on Open Bet

The imposition of a special tax on the open bet was examined as Option 7. The formulation of Option 7 goes beyond the Phumelela request in that seeks to level the racing playing field by making changes in taxes and other industry contributions so that the totalisator and bookmakers make the same contribution to the industry. This is a more equitable approach than simply imposing a special tax on the open bet.

The conclusion was drawn that the option of changes taxes and other contributions to level the racing playing field faced various challenges. These include the existing advantages to both the totalisator and bookmakers that changing a simple industry contribution would not address, on the one hand, and the potential unintended consequences of such a choice. Thus, this option would not succeed in a true levelling of the playing fields.

In addition, it would require regulatory control of the use of industry contributions, how the sports development levy is used, the determination of stakes, etc. It will also be appreciated that regulations, with the best will in the world, can, to a larger or lesser extent, be overcome.

This option was simulated in the financial/economic analysis the sports development levy on the open bet was increased to 17%. The difficulty of knowing the consequences of this change is to understand how punters would respond. The change makes betting with bookmakers more expensive. This may or may not result in punters switching away from betting with bookmakers. They may bet with the totalisator, bet on sports or simply go to casinos. As a result, the scenario was run with three variations. The sports development levy on the open bet was increased to 17% and zero, 10% and 20% of punters switched from bookmakers to the totalisators. The results are summarized in the table below. There is a simple conclusion that is drawn from the table. The only overall positive impact of such a proposed increase on a tax on the open bet is if all punters continue to place these bets with bookmakers even in the face of a higher cost of punting. A 10% reduction in punting on the open bet reduces gambling taxes and has a negative macroeconomic impact. A 20% reduction has the same effect and worsens the financial position of Kenilworth Racing.

Table 81: Impact of SDL on Bookmaker Open Bet

Sports Development levy on Open Bet Increased to 17%

	% Punter Switch to Bookmakers		
Change in	**Zero**	**10%**	**20%**
GGR	Unchanged	Unchanged	Unchanged
Gambling taxes	Unchanged	Reduced	Reduced
Financial viability of Kenilworth Racing	Better	Better	Worse
Cost to Owners	Reduced	Reduced	Reduced
Macroeconomic Impact	Positive	Negative	Negative

5.2.7.2 Allow Kenilworth Racing to Hold More that 5% of LPMs

This request was included in both Option 3 and Option 5. The request change is supported by the analysis from this assignment as part of those two options.

The financial simulation found that there would be positive impacts on the financial position of Kenilworth Racing without adverse effects on net costs to race horse owners, turnover, GGR, taxes, sports development levy or provincial Gross Geographic Product. As pointed out above, it must be recognised that this result is only true within the constraints of the assumptions underpinning the analysis of this option (see Option 3 discussion above).

5.2.7.3 Allow Totalisator to Offer Soccer Bets in National Lottery Type Retail Outlets

The third request was not included in the analysis because it is beyond the legislative scope of the Provincial Government and this issue is currently before the courts.

It appears that offering soccer bets in retail outlets falls within the ambit of sports pools which is currently regulated by the National Lotteries Act. The National Gambling Act explicitly applies only to activities that do not fall within the ambit of the National Lotteries Act. The

Lotto is authorised to offers soccer bets in retail outlets because the lottery is viewed in a different light to other forms of gambling (with a significant portion of the lottery going to charitable causes). The current regulatory environment allows bookmakers to offer sports betting on a site by site basis, i.e. only in terms of their licence conditions which allows for betting only within their own premises; to offer sports betting in retail spaces by bookmakers would not only be unlikely in terms of current gambling licence conditions, but seems to impose on the jurisdiction of the National Lottery. We are informed that there are legal proceedings in this regard and that until this judgment is delivered, further comment on this option is impractical.