

Funding



This think piece considers current funding sources, identifies those most at risk and underdeveloped, and the possible implications of changes to funding to the play, active recreation and sport sector.

Funding is required to fuel the play, active recreation and sport system. Class 4 gaming is the source most immediately at risk. Its decline could have significant implications.

Summary implications

Ability of participants to pay	Rising levels of personal debt means increasing numbers of people are susceptible to an economic downturn which may compromise their discretionary spend on sport and recreation.
Declining live audience	Differing priorities among younger fans, high ticket prices, poor in-venue experience, changing viewing habits/media consumption all contribute to declining revenues from ticketing and merchandising from live events.
Rise of virtual reality audiences	5G-enabled virtual reality devices will also allow fans to experience live games from virtually anywhere and with friends across the globe.
Changing local and national government priorities	Responding to climate change and an aging population may result in spending on play, active recreation and sport becoming more discretionary.
Decline in Class 4	Political changes, a continued negative image with local government, the rise of alternative gambling options and decreased accessibility point to a decline in critical funds from Class 4 for community initiatives.
Rise of online gambling	New Zealanders are expected to increase their gambling with offshore online agencies, spending over \$500m per annum. This will impact spend on NZ gambling products that return funds to play, active recreation and sport.
Rise of social enterprise	This may result in a shift from traditional businesses using sponsorships as their means of delivering social good to societal outcomes being embedded in businesses mission and practice.

This resource is part of a series which considers the changes and trends most likely to impact the future of the play, active recreation and sport sector and what we can do to best prepare for change.

Background

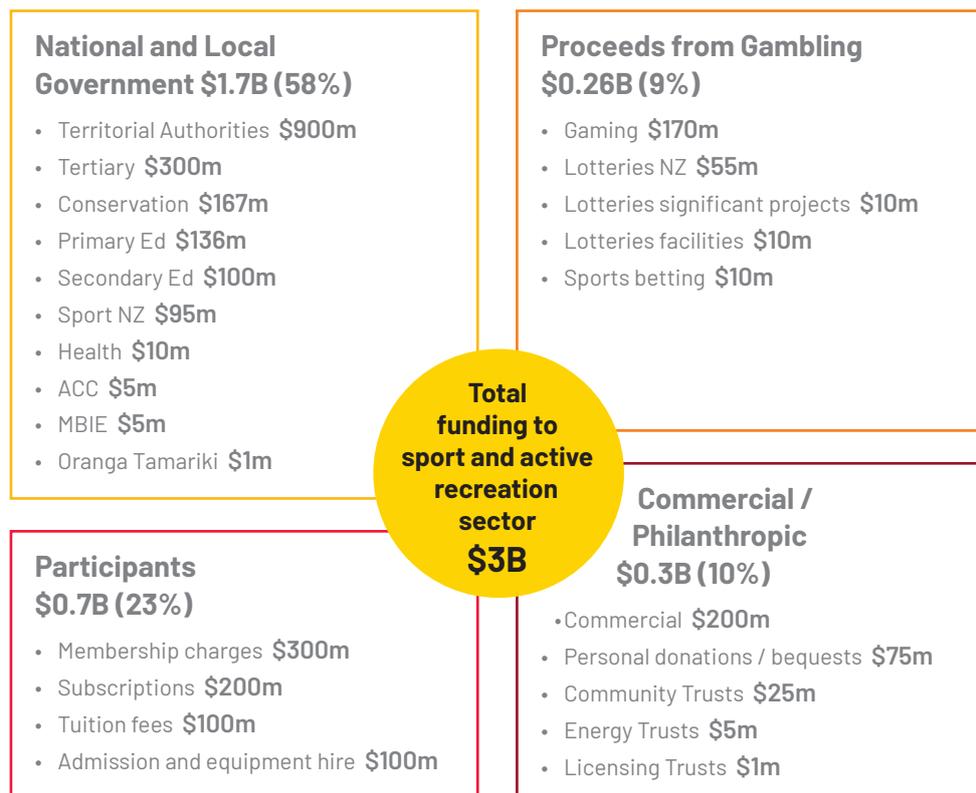
Importance of sustaining funding to our system

Some sources of funding are at risk. We need to understand these risks and mitigate them where we can, ensuring our system is fit for purpose over time. A key mitigation is to protect & grow current sources of funding and introduce new sources.

Funding sources for our system

To understand the emerging funding context, it's important to understand the sources that fuel our system – illustrated in Figure 1.

FIGURE 1



National and Local Government

- Much of the funding from national and local government is in the form of fixed assets – the spaces and places that play, active recreation & sport occur (e.g. recreation centres, school gyms, parks, playing fields).
- In addition, local and national government allocate funds to play, active recreation and sport programmes such as teaching of sport skills, learn to swim, holiday programmes, etc.

Participants

- Participants directly pay for play, active recreation and sport services – grouped into membership charges (e.g. netball club), subscriptions (e.g. gym membership), tuition fees (e.g. golf coaching), admission and equipment hire (e.g. attending rugby match or hiring skis).
- Increasing participant user charges is a potential means for increasing the flow of funding, but always needs to be weighed against cost being a barrier to participation.

Commercial/Philanthropic

- The philanthropic sector in New Zealand is relatively small when compared globally¹. This belies the generous nature of New Zealanders. Personal giving totals about \$1.5b principally comprising donations (\$1.4b).
- The play, active recreation and sport system receives a modest 6% from philanthropy marking it as a funding source that could be grown.
- Commercial funding can be difficult to source and is often tied to higher profile sports and events. However, association with the wellbeing agenda makes play, active recreation and sport an attractive proposition.

Proceeds from gambling

- Proceeds from the four forms of gambling in NZ total \$0.75b from total expenditure of \$2.38b. The play, active recreation and sport system does well from gaming, receiving \$170m of the total \$340m proceeds in 2018.
- Gambling is a valuable funding source. In 2018, the 35 gaming societies provided 28,000 grants to 11,800 recipients for community-related initiatives.

What's changing?

Government - a reliable source of funding

- Government funding to play, active recreation and sport is predominantly directed via Sport NZ, which has as one of its functions to allocate funds.
- Since the inception of Sport NZ (formerly Sparc), the Government has been a reliable source of funds. Government funding has now grown to \$95m per annum.
- In seeking additional Government funding, Sport NZ needs to reflect on the Government's broader aspirations - currently wellbeing. Need to demonstrate how funding improves the wellbeing of identifiable individuals and groups.
- The pressure of an aging population on government finances will likely have the effect of challenging future expenditure budgets.
- Government funding can also be influenced by left-field issues. COVID-19 is one example, plus events such as the Christchurch earthquake and the changing climate.

Local funding

- Local Councils spent \$914m (8.9%) of their total operating expenditure on sport and recreation in the year to 30 June 2018 - compared to \$847m in the previous year.
- Urban councils generally spend a higher proportion of their operating expenditure on sport and recreation than their rural counterparts.
- Funding for play, active recreation and sport will compete with rising priorities connected to climate change, aging infrastructure, etc. The sector's challenge is to demonstrate its importance to the wellbeing of local citizens.

¹ Level in individual philanthropy in US is almost double that of NZ (relative to GDP)

- Activities that negatively impact emerging priorities will be at risk e.g. outdoor facilities requiring extensive water..

Participants ability to pay

- A future economic downturn could see significant sectors of society become far more price-sensitive to recreation and sport engagement. This implies less commitment to ongoing gym/club memberships and shift to more pay-as-you-go arrangements.

Declining live attendance

- Attendance at live sporting events in decline for several years. Ticket sales are down and sports properties are struggling. Causes include: differing priorities among younger fans, high ticket prices, poor in-venue experience, changing viewing habits/media consumption.
- Introduction of 5G technology may improve in-stadium experiences as mobile devices provide instant replays, live-TV graphics, faster connectivity, and quicker food and beverage orders. 5G-enabled VR devices will allow fans to experience live games from virtually anywhere and with friends across the globe.

Commercial opportunities

- Technology that allows fans to watch any game at anytime from anywhere, combined with a growing world population, suggests a positive commercial future. Codes are becoming concerned with slowing revenue growth though, as attention spans shrink. Annual declines of 3% in the number of minutes watched per game per sport per year. Sports (such as cricket) selling rights to highlight clips rather than whole matches. Increasingly intense competition between sports for fans' money and attention.
- This 'attention-deficit' challenge, however, makes it easier for online pirates to profit from sports coverage. Digital piracy is a genuine threat to the economics of global sport, estimated to be worth \$90 billion annually.

Class 4 Gaming

- Gaming proceeds have been in decline since the industry was regulated in 2003, with reducing venues and machines. One third of all local councils have sinking lid policies² in place. Decline has been masked through population & economic growth, but industry remains highly susceptible to further decline and possible collapse.
- The sustainability of Class 4 funding to play, active recreation and sport is at risk due to:
 - Potential political changes
 - Negative image with local government, which has responsibility for gambling policy
 - Decreasing accessibility with continued venue closures
 - Changes to consumer preferences – esp competition from online gambling
 - Complexity and costs associated with the regulatory model
 - Demographic changes in the gambling population
 - Exposure to economic downturns – revenue fell 20% during GFC
 - Increased proactivity from other sectors.

- Should Class 4 funding no longer be available, the impact would be immediate and significant. No precedent for the loss of funding of this magnitude exists.
- Given the local designation of gaming funding, pressure for replacement funding would likely fall on local government. It's unlikely ratepayers would welcome this.

Lotto funding

- Sport NZ receives \$55m in funding from the Lottery Grants Board (LGB) to fund community initiatives. The sector receives a further \$20m through LGB Committees for facilities and significant projects.
- Funding to Sport NZ has fluctuated but profits have been tracking upward. The 20% share of net profit to sport and recreation, agreed at outset of Lotto, looks increasingly like an inspired deal.
- Lotto was introduced in 1987 to fund sport and recreation; equated to \$30m. Sport NZ (\$30m) and HPSNZ (\$65m) now attract significant Vote funding in addition to lotto funding.
- Sport NZ should be mindful that any review of Lotto may factor in our increased Vote funding when considering whether a fixed 20% of profits remains appropriate.

Sports betting

- Increased from 10% of NZ Racing Board's total turnover in 2003/04 to 27% in 2018. NZ TAB commission payments to national sports organisations increased to \$10.2m in 2018. But threatened by increasing New Zealanders betting online with offshore agencies - expected to double in the next couple of years.
- The sport sector has been strongly engaged with the review of racing and associated legislation. Through this, it seeks to support the global competitiveness of the NZ TAB.

Philanthropy - a largely untapped source of growth

- Crowdfunding increasingly popular - e.g. the purchase of Awaroa Beach in 2016 by 40,000 New Zealanders. In 2015, over \$60b was raised worldwide through crowdfunding.

Social enterprise - a new form of fundraising

- A social enterprise's main purpose is to promote, encourage and make social change. It's typically created to further a social purpose in a financially sustainable way. Social enterprises appear to be an increasingly important model for societies.
- More New Zealanders are willing to pay for ethical products than ever before, and want to work for companies thinking about their social and environmental impact.
- As more consumers, employees and investors expect businesses to play a greater role in society, likely the rise of social enterprise and corporations as a force for good will continue.
- Possibly see a shift from traditional businesses using sponsorships as their means of delivering social good, to societal outcomes being embedded in businesses mission and practice.