

New Zealand Professional Clubs – Summary Report

The following summary is derived from the New Zealand
Professional Clubs Report finalised on 17 April 2020

1. Background

The Covid-19 outbreak and the New Zealand Government's subsequent response is profoundly impacting New Zealand's economy. The closing of international borders, restrictions on public gatherings and the Level 4 Lockdown currently prohibits – explicitly or otherwise – all sport, including all the Professional Leagues and competitions that New Zealand's Professional Clubs (PCs) participate in.

Accordingly, the present environment is deeply affecting both the community and business levels of sport. Virtually all revenue to PCs, leagues, and, in some cases, National Sports Organisations (NSOs), has disappeared or reduced significantly, while many of their costs are locked in, particularly through athlete and other talent contracts. The sustainability of PCs is at immediate and very serious risk.

This report, and its proposed solutions, need to be considered in the context of a wider piece of work being led by Sport New Zealand concerning the recovery of the broader sport, active recreation and play system, as well as the multitude of issues the Government and country face, both in confronting Covid-19 and in mounting New Zealand's recovery.

a. Social & Economic Wellbeing Impact of Professional Sport

Previous Sport New Zealand research states that professional sport delivers a total positive impact to wellbeing equivalent to a \$1,008 increase to annual personal income. The research further explains that the contribution of professional sport to individual wellbeing occurs via two main factors: 1) attendance of a professional event, and 2) the deriving of satisfaction from watching, listening to, discussing and reading about professional sports events.

Considering community sport, the 2016 New Zealand General Social Survey (NZGSS) showed that over 31% of New Zealanders belong to community sports clubs as sites of cultural expression, with 63% of members engaging with their clubs at least once a week. Furthermore, the NZGSS finds that 83% of New Zealanders who engage in cultural or recreational activities report high life satisfaction – an 8% increase in comparison to those who do not engage in such activities.¹

As such, both community and professional sport provides New Zealanders with sites for the improvement of wellbeing through cultural expression and community engagement, with the two inextricably linked. PCs draw upon an originally grassroots player-base to provide status and stature to codes and hosts' regional identities.

Additionally, professional sporting events deliver wider circulatory economic benefits to associated industries such as transport, hospitality, sports-betting, tourism and broadcasting through economic multipliers associated with match-day consumer spending by both local, domestic and international attendees. Live sporting events thus play an important role in stimulating the economy far beyond simply generating ticket revenue for private means.

Live sport also affords New Zealand considerable visibility as a globally successful nation through iconic achievements in professional sport. This visibility forges our symbols of national pride and identity, with the visibility surrounding the hosting of sports events being an excellent

¹ <https://www.stats.govt.nz/reports/kiwis-participation-in-cultural-and-recreational-activities>

conduit for the promotion of New Zealand's tourism sector.

2. Discovery – Current State of Professional Clubs

The following sections detail the current state of each of New Zealand's PCs.²

a. ANZ Premiership Netball Clubs

Netball New Zealand's (NNZ) professional netball League is owned and operated by NNZ. Participation in the League is determined by receipt and acceptance of a license to compete (Team Participation Agreement) and, in 2020, six Teams have a license to compete.

NNZ, its regional zones and the ANZ Premiership itself are in a very tenuous financial position. The majority of costs are sunk costs committed at the start of the season and are not possible to recover without play. NNZ are exploring all options to relaunch the season once restrictions allow.

NNZ, the Premiership teams and zones are taking responsible and severe action to mitigate the situation, with all operations being trimmed to a minimum. Staff salaries have been reduced or are on the Government wage subsidy.³ NNZ has less than three months of operating revenue in reserves, but their modelling shows that their reserves will be exhausted this year and still leave a significant deficit should no netball be played. One zone has already entered voluntary liquidation.

Time is of the essence for NNZ and assistance is urgent. For completeness, there is no prospect of any assistance from the International Netball Federation (INF) as netball is a fund-up model.

b. New Zealand Breakers (Australian National Basketball League)

The Breakers' season was completed before any restrictions applied, thus reducing their exposure to player salary costs, as Breakers' players are contracted for the playing season. The Breakers do however have ongoing operational costs including a substantial community programme. The Breakers are taking sensible measures to minimise these costs during the lockdown, including a 50% pay cut for all permanent employees.

The Breakers are confident that they can get through the crisis and be ready to return to the Australian National Basketball League when it commences, but they are planning for various scenarios depending on travel and border restrictions.

Basketball New Zealand (BBNZ) acknowledges the importance of the Breakers to the overall growth and development of community basketball in New Zealand, and to BBNZ's high-performance pathway to the Tall Blacks.

c. Auckland Tuatara (Australian Baseball League)

The Tuatara are in a similar position to the Breakers in that their season was complete before any lockdown restrictions applied and player payroll is a pay-for-play model. The Tuatara are concerned about the longer-term commercial landscape in which the club will have to operate but at this stage are confident of survival and do not think their place in the Australian Baseball League is at risk.

² For the purposes of this report, the Professional Clubs are: New Zealand Warriors (National Rugby League), New Zealand Breakers (Australian National Basketball League), New Zealand Super Rugby teams (Super Rugby Competition), Wellington Phoenix (A-League), Auckland Tuatara (Australian Baseball League), and the New Zealand Professional Netball Clubs (ANZ Premiership). NZ Cricket were involved in the initial stages of the development of this report but subsequently volunteered to withdraw from the process as cricket (at that time) was not as significantly impacted as the other sports.

³ Government funded roles (ie via ACC) are funded at 100% in line with government guidelines.

d. Super Rugby Clubs

The 2020 Super Rugby competition was less than halfway through pool play before its suspension. There is no realistic chance of the league being completed as a cross border competition this year.

New Zealand Rugby is exploring a variety of options to allow some matches to be played within New Zealand and – like many of the professional codes – eagerly awaits any information that might help it better prepare for the circumstances that will prevail at alternative Covid-19 alert levels.

NZR's current focus is on reducing costs and proactively generating revenue to be able to support all parts of the rugby system. NZR has drastically reduced its activity levels and operating costs across the entirety of the rugby system to ensure all aspects of the system contribute to this focus. Staff salaries have been heavily reduced, and NZR is also in negotiations with its players to implement similar reductions in player salary costs. NZR have accessed the Government wage subsidy.

None of the five Super Rugby Clubs has any reserves. All Super Rugby Clubs have made significant cuts to their cost bases, with none of their private investors in a position to contribute significant injections of capital, especially given the uncertainty of the future of Clubs' operational licences.

e. New Zealand Warriors (Australian National Rugby League)

The New Zealand Warriors' (the Warriors) season has been suspended but the National Rugby League (NRL) is actively looking for a way to restart their season. There is a direct flow of revenue from broadcasters through the NRL to the participating clubs; if there is no play then the revenue flow will cease and NRL Clubs will be on their own financially.

The Warriors have modelled a number of scenarios and have plans in place to completely revise their business model that will see significant cost savings but a drastic reduction in all activities below their NRL team.

There is very little prospect of any matches being played in New Zealand, which is likely to have at least a medium-term impact on the Warriors' commercial model and fan base.

The Warriors' ownership remains committed and they believe their future in the competition is secure as long as they remain solvent. However, their owners, Autex Industries are suffering significant disruption to their global business and thus are not in a position to further fund the Club.

New Zealand Rugby League (NZRL) acknowledges the importance of the Warriors to their promotion of the game at a community level, and to NZRL's high-performance pathway to the Kiwis. However, many Kiwis players are currently chosen from Australian-based NRL Clubs.

f. Wellington Phoenix (A-League)

The Wellington Phoenix (the Phoenix) are in a similar situation to the Warriors, although their season is much further advanced. The A-League is planning an Australian-based conclusion to the season as soon as restrictions allow, though this may take place in September 2020. Depending on travel and quarantine restrictions, this conclusion would likely involve the Phoenix being based in Australia with no further New Zealand-based home games.

The Phoenix have modelled a number of scenarios and have initiated major cutbacks to their operations and costs.

New Zealand Football (NZF) acknowledges the role the Phoenix plays in New Zealand's

football ecosystem. The Phoenix are the professional arm of the sport and as such plays an important part in increasing the visibility of the sport. The Phoenix clearly are the main high-performance pathway for football in New Zealand; they are the only professional team, their reserve team plays in the national league, and their academy is one of the largest in the country.

g. The Sports Broadcasting Landscape

Professional sport only exists in New Zealand in its current form due to the revenue generated by selling content to pay-television platforms. Sky Television (Sky) has historically dominated this market and holds the majority of PC/NSO broadcasting agreements in New Zealand, with Spark Sport a recent entrant to the market.

3. Implications

There is no doubt that the professional sport landscape has changed and will continue to change dramatically as a consequence of Covid-19 and the New Zealand and other governments' responses to it. This summary of implications has been written at a point in time, and with the rapidly changing dynamic of this crisis, will be out of date as soon as it is completed. On that basis, Sport New Zealand and the Government need to continue to monitor the situation and adapt accordingly.

While there are some significant differences – particularly driven by the timing of seasons, the structure of ownership models and the underlying financial health of the organisations – there are common features in the implications between codes and PCs. The impact of not playing and thus not generating content for television broadcast is the most critical element. All professional sport generates a significant proportion of its revenue through partnering with a subscription-based television partner. New Zealand PCs most commonly partner with Sky, but also with platforms based in Australia such as Foxtel, and in particular for rugby, Super Sport in South Africa, Sky in the UK, and various other international platforms.

The majority of the PCs are facing immediate and severe financial implications. Those that were in-season when the Covid-19 restrictions were put in place have seen the majority of their revenue dry up overnight.

While all PCs have put in place mitigations in response to this reduction in revenue and have generated some savings as a result (in addition to the savings generated by not having to participate in and organise competitions), most PCs are still forecasting significant financial losses as a direct result of Covid-19.

In considering the implications for individual codes and PCs, it is worth noting that there were pre-existing challenges being faced that have simply been exacerbated. This is an issue that Sport New Zealand needs to consider as it contemplates any recommendations to the Minister for Sport and Recreation.

There is also the very real threat that many of the investments planned for the development of a women's component of these professional sports will be at the least suspended for a significant period. In addition, cuts being made at the professional level could have a long-term detrimental effect on athlete development and the high performance pathway for both teams and individuals.

There is also a general risk that if New Zealand teams drop out of Australian Leagues because of the Covid-19 crisis, then reinstating New Zealand teams in those Leagues will be very challenging, if not impossible in the short to medium term future.

Appendix 1 – Terms of Reference

TERMS OF REFERENCE: FUTURE OF NEW ZEALAND'S PROFESSIONAL SPORTING CLUBS

Background

The outbreak of Covid-19 has had a significant impact on the sport, active recreation and play system. With the vast majority of professional sports leagues and competitions around the world now suspended, cancelled or postponed, there has been a significant commercial impact on professional sports teams, with revenue from broadcasting, sponsorship, sports betting and match-day takings disappearing in a very short space of time with little warning.

New Zealand's professional sporting clubs (the Professional Clubs) have been particularly hard hit with high player and support salary costs to cover with little or no revenue flowing in. This has put the sustainability of the Professional Clubs at immediate and very serious risk.

The Professional Clubs have collectively reached out to the Minister for Sport and Recreation, Hon Grant Robertson, seeking financial support from the Government to ensure they remain viable and can continue to compete once their respective competitions recommence.

Purpose

The purpose of this project is to explore the impact Covid-19 has had on the Professional Clubs and identify the short-term and long-term implications for both the Professional Clubs themselves and the wider implications for New Zealand's sporting landscape, economy and well-being.

The project will also develop potential solutions to the issues identified and determine what support the New Zealand Government could provide to the Professional Clubs or their NSO.

Sport NZ will provide advice to the Minister for Sport and Recreation with a recommended course of action in relation to the Professional Clubs.

Scope

Specifically, this project will be comprised of three components:

1. **Discovery** - detail the current state of the Clubs and the impact Covid-19 has had on them; this includes (but is not limited to) the impact on broadcast and sponsorship revenue, match-day takings and other revenue and their ongoing cost structures including player, coach and other personnel contracts and salaries;
2. **Implications** - identify the implications, both immediate and long-term, for the Clubs, based on a range of scenarios and assumptions around the length and severity of the Covid-19 restrictions, and to the wider sporting landscape and economic and social well-being of New Zealand; and
3. **Solutions** - develop potential solutions, both short, medium and long-term, designed to address the issues identified. This includes possible solutions that do not involve Government support and alternative approaches to status quo competition structures.

Recommendations – this project will develop a set of recommendations for the Sport NZ Board to consider, based on what actions (or not) the Government could take in relation to the

Professional Clubs and in the best interests of the wider sporting sector. While the Minister for Sport and Recreation will receive the project report, the Sport NZ Board will determine the final recommendations to be presented to the Minister.

The Professional Clubs to be included are as follows:

- New Zealand Super Rugby Clubs (Super Rugby Competition)
- Professional Netball Clubs (ANZ Premiership)
- Wellington Phoenix (A-League)
- New Zealand Warriors (National Rugby League)
- New Zealand Breakers (Australian National Basketball League)
- New Zealand domestic cricket teams (men's and women's)
- Auckland Tuatara (Australian Baseball League)

National teams (eg, All Blacks, Silver Ferns) are out of scope for the purposes of this project, as are semi-professional or amateur representative teams (eg, Mitre 10 Cup and ISPS Handa Premiership football teams).

Personnel and responsibilities

Sport NZ have contracted Steve Tew to act as Sport NZ's main contact point for the Professional Clubs. Steve will be responsible for contacting the Professional Clubs and other relevant bodies in order to gather the necessary information.

Steve will provide regular progress updates to Sport NZ and may be required to present his work to the Sport NZ Board. Steve will also be responsible for escalating emerging issues to Sport NZ as appropriate.

Steve may interview any individual or party he deems appropriate and useful to this work, including, but not limited to:

- The organisations listed above
- Individual athletes of those organisations
- Other relevant NSOs
- Professional Players Association
- League/competition representatives
- Media Broadcasters
- Commercial sponsors
- International partners and rights holders
- Other marketplace experts.

Introductions can be provided to Steve should that be necessary to facilitate these conversations.

Steve may not speak directly to the media on any aspect for this project.

Steve will liaise with Simon Dunkerley of Sport NZ in the first instance. Simon will be supported by Rodney Martin. Sport NZ will be responsible for analysing the information presented by Steve and producing advice for the Minister for Sport and Recreation detailing the recommended course of action. Steve will provide support where necessary in the development of this advice.

Sport NZ will provide additional advice and support related to the impact of Professional sports and clubs on the wider well-being of New Zealanders and will provide any other research or marketplace insights required.

Sport NZ have separately commissioned KPMG to assess the financial impact of Covid-19 on the New Zealand play, active recreation and sport system. As part of this work, KPMG are gathering information from some of the Professional Clubs listed above. Sport NZ will ensure all information provided by KPMG relating to the Professional Clubs in scope of this project will be provided to Steve and will put Steve in direct contact with KPMG so he can follow up directly with any questions or clarifications.

Timing

The first key milestone is providing a paper to the Sport NZ Board for consideration on Thursday 16 April. This paper will need to be reviewed by Sport NZ's Senior Leadership Team ahead of this date. Sport NZ will then provide its advice to the Minister for Sport and Recreation on Friday 17 April so that the recommendations can be considered and included in the wider sport recovery package being developed for Budget 2020, where appropriate. The final date for submission of Budget proposals to Treasury is Friday 24 April.

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Appendix 2 – Professional Sports Leagues

a. ANZ Premiership Netball:

The ANZ Premiership Netball is fully owned by NNZ and was founded in 2017 when the previous trans-Tasman league (the ANZ Championship) was disbanded. The ANZ Premiership's financial viability is directly linked to NNZ (as owners of the League) and the Zones (as owners of Teams), with broadcasting, other commercial and match-day revenues generated to cover League and Team operating costs. NNZ pays grants to each of the Teams. Prior to Covid-19, NNZ underwrote one of the ANZ Premiership teams, however due to Covid-19 and the liquidation of Netball Mainland, one further team has come under NNZ's structure.

b. The Australian Baseball League

The Australian Baseball League is owned and governed by the Australian Baseball Federation. There is a proposal to move to a new Club-owned ownership partnership model. The Tuatara is the only team based outside Australia. Korea has a team playing in the ABL based in Geelong.

c. HYUNDAI A-League:

The Hyundai A-League is currently owned by the Football Federation Australia (FFA) but the relationship between the A-League, Federation and Clubs is currently being negotiated with a club-owned model the proposed model. Under the proposed changes, the Phoenix would be one of the 12 owners of the League, securing professional men's and woman's football teams for New Zealand.

d. Australian National Basketball League

The Australian National Basketball League (ANBL) is privately owned by Larry Kestelman and is the professional Basketball League in Oceania.

e. National Rugby League (NRL):

The NRL runs the NRL Telstra Premiership which the Warriors participate in. The NRL is in turn governed by the Australian Rugby League Commission which oversees all Rugby League in Australia. The Commission is owned by the 16 NRL Clubs, New South Wales (NSW) and Queensland State Rugby League originations and the players.

The NRL is a well-funded organisation but relies heavily on broadcasting revenue. The NRL supports its Clubs by way of grants based on passing on a proportion of the broadcasting revenue.

f. SANZAAR – Super Rugby and Rugby Championship:

SANZAAR is a Sydney-based joint venture between the Rugby Unions of South Africa, New Zealand, Australia and Argentina. SANZAAR oversees the Super Rugby and Rugby Championship Leagues. Super Rugby spans five countries – the above SANZAAR Member Union nations plus Japan.

SANZAAR manages the logistics of both Leagues and assists the Member Unions negotiate their various content broadcasting contracts, however SANZAAR does not hold a balance sheet or directly fund the national unions. SANZAAR is unable to assist the Member Unions nor their participating clubs.

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