A LICENCE FOR A TASMANIAN TEAM?

A Report to the AFL Commission

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Dear Richard and Gillon

This document responds to your invitation to assess whether Tasmania should be offered a licence to participate in the AFL/AFLW Competitions.

The scope of this project has included assessing the well-argued case provided by the Tasmanian Government's Task Force as well as additional research. I have also spoken with political, community and football leaders in Melbourne, Hobart and Launceston as well as the AFL executives who have held responsibilities for Tasmania. I am confident that I have been exposed to a range of views. I also understand that the final decision will be made by the 18 AFL clubs.

This question has been with us for a long time. It is also a long-term decision because we should expect that a new team will be with us in 100 years. Accordingly, it is hard to think of reasons for deferring the decision until something changes. This would be 'kicking the can down the road'.

The case for Tasmania rests on historical fairness and that the finances stack up. The case against argues that the club will be a financial drain and that, in any case, Tasmanians are losing interest.

SUMMARY OF FINDINGS

The case for Tasmania is strong, and the recommendation is that Tasmania should be represented by a team in the AFL/AFLW national competitions - but the best form of that team is less clear-cut. It could take the form of a 19^{th} licence and that case can be made. But re-location of an existing team if a club is keen to take that path, or a joint venture between Tasmanian stakeholders and a Victorian team that secures strong support in two markets from the outset, would arguably produce a more sustainable outcome.

Whatever form a team for Tasmania takes, it will remain dependent on State Government funding until the team achieves a minimum level of financial sustainability and it is important that this funding be secured ahead of any decision. Agreement must also be reached around provision of appropriate stadia and related facilities.

Reaching a 'yes' decision should not be influenced by COVID, but the implementation timetable should. The AFL and the clubs will reasonably minimise new financial risks and the clubs should not be asked for a final decision at a time when AFL industry finances are under stress. In the interim, effort can go into agreeing matters such as the Tasmanian Government contribution as well as the possibility of relocation or joint venture arrangements. We note that the Task Force presented its report in 2019 and proposed the entry of a Tasmanian team six years later in 2025. The AFL can and should take time to get this right.

The AFL's 'purpose' is expressed as: "*Progress the game, so that everyone can share in its heritage and possibilities*". The AFL's vision is to be Australia's national sport and a unifying social force, and presumably this applies to Tasmania which has been part of our heartland since the game's earliest years. But Tasmania is the only state excluded from our national competition, and football's position in that state is under threat.

Tasmanians feel let down by the AFL and lack of *their* team is the obvious sore point. There are obvious problems in Tasmanian football – less growth in participation, the failure of famous clubs, an unsuccessful State League and apparent decline in the number of players drafted. The absence of a player pathway to the top and the absence of their 'own' AFL team don't help.

The case for Tasmania rests on two propositions: that the case is 'deserving' and the financial numbers stack up. That Tasmania 'deserves' an AFL team because of football's history in that state is a widely held view. But the financial case is more complex.

The Task Force's estimates of the new club's revenues and costs were pre-COVID and three numbers in the profit forecast stand out. The club will be profitable if it receives an AFL Distribution of $17 million per year as well as a Tasmanian Government contribution of between $7 and $11 million per year. And no existing AFL club will be worse off because the AFL Distribution will be offset by the increase in media revenues arising from the eleven extra games.

In the past 12 months, AFL industry economics have changed significantly. Costs are scaled back, and AFL Distributions reduced. A pre-COVID Distribution of $17 million will now be closer to $15 million. But the conclusion does not change. An AFL Distribution of that size indicates that the new club will be one of our smaller clubs, in the middle of the bottom third of AFL clubs when it comes to wealth. However, it won't be our smallest team. Tasmania's population of 540,000 can support a team, but one positioned in the middle of the bottom third of the wealth ladder of our industry.

The main difference with the Task Force concerns its view that incremental media revenues will offset the AFL Distribution such that our industry is not worse off. The AFL doesn't accept this although it should be acknowledged that the Task Force and its media advisors have reiterated this position. But taking the more conservative view, the AFL will need to find around $11 million per year – the Distribution of $15 million less a possible media uptake of around $4 million.

Some will take the view that if the new team requires AFL distributions larger than the base Distribution (currently around $10 million), the case should be turned down. They seem to believe it possible to have a competition made up of teams that are all competitive and none requiring extra financial support. But competitions like that don't exist in the real world. Professional sporting competitions such as those in Europe and the USA commonly have large and small revenue teams which co-exist for very long times. The case for Tasmania looks much stronger when viewed from this perspective.

Our AFL strategy is based on '*competitive balance*' or '*equalisation*' principles which, by definition, involves clubs receiving different AFL Distributions. If we approached 'competitive balance' as does the NFL in the US, support for a Tasmanian team becomes more obvious.

The AFL's financial support required for a Tasmanian team will be comparable to that already received by some existing AFL teams. Further, this document also points to several opportunities that could largely close the funding gap. The AFL's 'equalisation' levers can be adjusted and a small contribution from the players – achieved in ways that don't reduce player incomes – can be explored.

To some, if the net cost of $11 million per year persists, the funds are better spent on other priorities such as the AFLW. But to others, this is an obviously good investment. It 'automatically' leads to a further $25 million or so being raised in Tasmania from match attendees, members, sponsors and Government. This will be invested in Tasmania, helping to secure football's future.

A 19th licence is one option and is favoured by most who support the Tasmanian case. But it may not be the best option for Tasmanian football and achieving the required two-thirds support of the 18 AFL clubs may also be a challenge.

Attention has mostly focussed on obtaining a licence and less on the team's longer-term prospects. The new team will be one of our smaller clubs, reliant on substantial Government funding and relatively large AFL Distributions which is never a very comfortable place to be. Furthermore, the new club will face tough early years on-field as have our recent expansion teams and it is not the preferred option to have a new team struggle on field.

In this report, the usual arguments against a Tasmanian team are mostly refuted or the risks mitigated – the poor economy, player dilution, north/south rivalry and player attraction and retention. But 'retention' is hard to ignore. If the club is successful, the 'retention' argument fades because the evidence is that players will stay at a good club. But it becomes an issue if the club has too many poor years after start-up. On a population basis, there will be fewer Tasmanians in the team than there are locals in most AFL teams. This is when the 'go home' problem can arise.

Relocation of a Victorian team – if any team views that as an option - would substantially address start-up challenges and bring a strong membership component. A combined Tasmanian and Victorian support base would position the new club in the middle wealth ranks of AFL clubs, a formidable competitor on and off the field.

Re-location will be difficult to achieve because the decision will be made by club members but the notion of a 'joint venture' has been raised and should be considered. This might involve a Victorian team committing to a 'two market' strategy, playing most of its 'home' games in Tasmania (wearing the Tasmanian jumper) and playing most of its 'away' games in Melbourne where its Melbourne-based members have 'home game' privileges. Ownership would be structured 50/50 between an existing club and Tasmanian interests. The club would have priority for recruiting Tasmanian talent. If done well, this club would immediately sit in the middle ranks of the AFL club wealth ladder. While not their current preference -which reasonably is for a 19th licence – Tasmanian football people should consider this option carefully. A team that is highly reliant on government funding as well as requiring one of the higher AFL Distributions, will be in a more vulnerable place. A joint venture would avoid many of the issues faced by the addition of a new team.

The risk of starting a new team in Tasmania can be managed regardless of which pathway is chosen. The Tasmanian Government's financial support must be confirmed in advance. The appetite for buying memberships can also be tested in advance. And the problems commonly raised – such as player retention, talent dilution and intrastate rivalries – mostly can be managed. Agreed, a 19- team competition with its odd number of teams is not perfect, but the case for it still stands. That said, a relocation or joint venture which has strong support for the team outside Tasmania would be even better.

Taking the long view, football in Tasmania is now at risk but the costs of securing it are reasonable. We can secure leadership in one of our heartland states and, in so doing, make an appreciable social and economic contribution to Tasmania – which is what AFL clubs are doing in all other states. Creating Tasmania's space in our national competition helps to fulfill the AFL's 'purpose' and vision.

This document sets out the case and for ease of reading, the supporting analyses are referred to in the text but contained at the back of this document.

CONTEXT: 'FAIRNESS' AND UNDER THREAT

There is a widely held view, even on the mainland, that Tasmania "*deserves*" an AFL team. No argument is being made that the ACT, Cairns or Auckland 'deserve' a team. The 'deserve' case is because of Tasmania's long history with our game and the AFL's stated 'purpose' that all football followers be supported. As well, our position in that heartland market is threatened.

A Long History, But Under Threat: Our game has only survived for 150 years because of the commitment of people living in the four southern states of Australia. Three of those four states are represented in our '*national competition*' but Tasmania is not. Our so-called '*national competition*' now includes teams from all states, except Tasmania.

Being excluded is a recent experience for Tasmanians. For most of the 20th Century, the pinnacle of our game was the state team playing interstate competition. Tasmania was always included, but interstate football was replaced in the 1980s by the club-based national competition. Thus, the issue of Tasmanian non-representation has been with us for only the past 35 years.

Tasmania has been an 'Australian-Rules' state since early settlement with the first clubs formed in the 1860s and various leagues soon thereafter. Tasmania's contribution to our game has been substantial with around 400 Tasmanians having played in VFL/AFL teams. Some of our most famous players came from Tasmania: for example, there are 24 player Legends in the AFL Hall of Fame and four are Tasmanians - Darrel Baldock, Royce Hart, Peter Hudson and Ian Stewart. Tasmania has as many Legends as have South Australia and Western Australia combined.

Today, Tasmanians feel neglected by the AFL and the absence of a team is the sore point. With no team, there is less to inspire young people and no talent pathway to keep aspiring young players at home. Parts of the game are challenged – kids are playing other sports and school football is not in good shape. Participation numbers haven't shown the same level of growth achieved in other states (Exhibit 1). The absence of a 'pathway' leads talented players to leave Tasmania to play in the VFL, SANFL or WAFL – there are currently over 20 young players doing this. Famous clubs have closed or struggle to survive. The State League hasn't really worked. The numbers drafted to the AFL have dropped (Exhibit 2). Television brings the national competition to every home and inevitably erodes public interest in the local football leagues.

All of this shows up as declining interest in football although demographic shifts challenge our game everywhere. Separating out what results from not having an AFL team as opposed to these demographic shifts is not clear. However, the Task Force cites Gemba market research showing a decline of around 20 percent in the number of football's 'fanatics' over the past decade and a doubling in the number of Tasmanians without a favourite AFL team.

The AFL's market research also shows the proportion of 'core fans' in Tasmania is now short of that in our other traditional states (Exhibit 3). The Task Force extrapolates these trends and sees football losing its position as Tasmania's favourite sport within a decade.

In recent decades, the AFL strategy has seen Victorian teams playing home games in Tasmania. Fitzroy did so in the early 1990s while St Kilda played games in Launceston between 2003 and 2006. Hawthorn began in 2001, playing four games each year in Launceston, and now has around 6,600 Tasmanian members. North Melbourne has played in Hobart since 2012 and now has around 3,200 local members. However, even where the clubs have done a good job, the 'fly in and fly out' model isn't embraced. Tasmanians don't see these teams as their own.

The decline in attendances at games in Tasmania is cited as evidence of declining interest. However, AFL fixturing mostly sends 'away' teams to Tasmania that draw small crowds in Melbourne, and which have never been supported by Tasmanians (Exhibit 4). That these games draw modest crowds in Tasmania is no surprise.

It seems self-evident that having an AFL team builds interest. The health of football in Perth and Adelaide would diminish without a team. Melbourne Storm strengthens rugby league support in Melbourne. Our teams in NSW and Queensland have increased interest in our game.

The good news is that Tasmania, as a traditional football state, is already converted to our game.

Tasmania's Case Now Seen in Different Light: Since the national competition was formed, there have been two significant changes which change how Tasmania's candidacy can be viewed. The economics of the AFL are much improved, and our competition's 'purpose' has changed.

The VFL competition was in serious financial trouble in the mid 1980s, it being before media revenues began to flow. New clubs were sought in markets that would be financially strong and offered to pay expensive licence fees. Tasmania didn't enter the discussions. There was no Christopher Skase or Geoffrey Edelsten making a pitch for Tasmania.

The other change, barely noticed by fans, is profound. There had never been an effective over-arching body responsible for our game. The states managed their own competitions, often pillaging each other. The national competition was born when state-based agendas dominated, and what took place was a Victorian (VFL) takeover because the states could not agree on how a national competition would be structured. Being 'fair' was not part of the conversation and so where we find ourselves today is neither fair nor strategic. For decades we have supported a tenth team in Victoria but not a first team in Tasmania.

In the early 1990s the AFL accepted that it was '*Keeper of the Code*', taking responsibility for the health of our game. This was a profound governance shift; no longer was football overseen by parochial state-based interests. The case for Tasmania is now seen through different eyes.

Today, the AFL's 'purpose' is: "*Progress the game, so that everyone can share in its heritage and possibilities*". Presumably, this applies to Tasmania. It seems fair to argue that the onus of proof is not on Tasmania to justify its inclusion. It is on those who say it should stay excluded.

The AFL's Purpose is not to maximise shareholder value but rather to maximise enjoyment of our game – something that, of course, requires financial disciplines and avoidance of waste. Defending our traditional heartland is surely a priority so long as the cost is reasonable.

The Tasmanian Government's Task Force is the latest attempt to present Tasmania's case. It argues that first, it is fair and equitable. Tasmania has been football heartland for 150 years and should be in any national competition. And second, the economic case measures up: the new team will be profitable and 'net accretive' to the existing AFL competition, even as a 19th team. No other AFL team will be worse off.

It is against this background that a Tasmanian team is assessed. The 'fairness' case is strong and so the key question is whether the economics of a Tasmanian team are sustainable.

THE ECONOMICS SAY 'YES' – BUT 'BOTTOM THIRD' AND NOT 'ACCRETIVE'

There are several ways to test the new club's viability. Profit forecasts indicate that the 'business case' is workable provided that substantial Tasmanian State Government support is assured by current and future Tasmanian Governments. Another approach is to assess the population base that sits behind the club because 'size of supporter base' drives club profitability. A market size of 540,000 does 'make the cut' although at the smaller end of our competition.

However, the uplift in media revenues may not offset the AFL Distribution, and it is estimated (using post-COVID figures) that our industry will need to find around $11 million per year, an amount comparable that already received by some other teams in our competition.

Profit Forecasts in 'Bottom Third': The Task Force forecast that the new club will be profitable if it receives an AFL Distribution of $17 million plus Government support of $7.3 million each year.

The AFL Distribution is essentially the amount required to ensure a club's viability and the pre-COVID Distribution of $17 million positioned the new club 15th out of the 19 teams – in the middle of the bottom third of AFL teams. Also, given that the Task Force flagged a Tasmanian Government contribution of up to $11 million, this profit forecast has some room to move.

In the last 12 months, the AFL and the clubs have reduced costs and consequently Distributions have reduced. Adjusting the Task Force numbers to today's finances, the new club will be profitable if it receives an AFL Distribution of around $15 million plus the Government support.

Club profit forecasts are built upon assumptions, and there are specific issues in Tasmania which make revenue estimates difficult to pin down. For example, many Tasmanians already have an AFL team – some are even described as "rusted on". We don't know how many will change teams or buy a second membership and whether that can be sustained over the long term.

The Task Force correctly argued that cost comparisons of AFL clubs are misleading because most now contain varying businesses such as gyms and pokies with differing cost structures. However, the cost of running football operations is well known (salary cap and soft cap) because these costs are regulated by the AFL. The Task Force estimated the total costs of running the football club at around $31 million – before the costs of separate revenue raising businesses are added. This estimate of $31 million was arguably tight before COVID but is now reasonable. Changes since COVID have taken between $3 to $5 million per year out of club cost structures.

The Task Force forecast sponsorship revenues would sit between the middle and bottom thirds of AFL club benchmarks. Re-setting sponsorship to the average of the clubs in the bottom third would reduce sponsorship income by around $1 million.

On club membership, the Task Force estimated membership at 38,000 which is plausible. Of the fourteen AFL clubs in our traditional markets, the lowest membership club now has 39,000 members. Most have more than 50,000 members.

Some 38,000 members represents the same per capita penetration that AFL clubs currently achieve across the traditional southern states (Exhibit 5). However, not all club members in Tasmania will join the new club; some will be members of other AFL clubs. Around 20 percent of AFL club members in all states belong to clubs based in other states. On the other hand, the Tasmanian club will secure members from outside the state. Tasmanians point to the Tasmanian diaspora although it is hard to estimate how large that will be.

Some who see 38,000 members as optimistic doubt that the new club, from a standing start, could do so well. They point to the slow build of memberships in our newest clubs but the evidence from our traditional markets supports the contrary view. Adelaide, the Eagles and Port Adelaide sold more memberships than any of the Victorian clubs in their first years and Fremantle wasn't far behind (only two AFL clubs had higher memberships than Fremantle in that club's first year). Commenting on Adelaide's record membership numbers in that club's first year, the AFL 1991 Annual Report noted that *"after a long wait, the football public of S.A. relished the thought of watching its team play'*. Advocates for Tasmania argue that this will be their experience as well.

Some also suggest that the new club will not sell Eleven Game memberships because the games will be split between Hobart and Launceston. But AFL clubs sell memberships to supporters who attend very few games - it is their donation. Richmond, for example, sells around 22,000 'eleven game general admission' memberships but this cohort only attends around two games each year. St Kilda sells around 7,300 and Geelong around 2,500 of these eleven-game memberships, but at both clubs these members attend, on average, only a little more than two games each year.

Tasmania is also challenged by its spread of population. Less than half of the state's population (47%) lives in Hobart while between 75% and 80% of the populations of Victoria, South Australia and Western Australia live in the capital city. The risk is that some will opt for less expensive membership – such as 'non-access'. Living far away makes this a reasonable thing to do.

The Task Force forecast a yield per member of $128 per member which is a little higher than the AFL club average of $120. Some will see this as a little optimistic.

In summary, the costs look reasonable while the sponsorship, membership numbers and membership yield have more risk to the downside. Reducing the membership to 30,000, assuming an industry average yield and adjusting sponsorships to be equal to the clubs in the bottom third would remove around $2.3 million from the Task Force profit forecast.

Importantly, the numbers still work. Along with an AFL Distribution of $15 million, an increase in the Government support from $7.3 to $9.6 million per year is still inside the range of Government support outlined by the Task Force. And the Distribution positions the new club in the middle of the bottom third of all AFL clubs, but not outside the range nor at the bottom.

A Market of 540,000 Is Enough: As a cross-check on profit forecasts, the population base from which the club draws its support can be assessed. Can a population of 540,000 support a team?

Club wealth is largely determined by the size of a club's supporter base (Exhibit 6) which is built over many decades. Supporters translate into numbers of members, sponsors, match attendees and purchasers of caps and scarves. The relative sizes of club supporter bases are hard to shift over time, in part because kids tend to follow their parents' team.

The potential Tasmanian support base can be compared against other 'traditional' states. Ten clubs share Victoria's population of 6.6 million – an average of 660,000 persons per club.

AFL research data shows that larger Melbourne clubs have more than double the number of fans than do the smaller clubs. Auskick club affiliations are another indicator of market share of support because they point to the parents' choice of team – and larger clubs have more than three times the number of Auskick supporters than do the smallest Victorian clubs (Exhibit 7).

Hence, the support base of the smaller Victorian clubs must be well under the average of 660,000 persons and probably smaller than the Tasmanian population of 540,000.

AFL market research in S.A. puts the Adelaide/Port Adelaide split at 62/38 which would give Port Adelaide a population base of 670,000 (given the State population of 1.77 million). The Auskick affiliation split is 71/29 which would place Port's 'share' of the state at around 515,000 persons.

The point of this is to figure out where a Tasmanian club could potentially fit in the wealth 'ladder' of AFL clubs. Assuming it penetrates its home market of 540,000 in ways comparable to other traditional football states, the new team's profit potential will be at the smaller end of our competition - in the bottom third but not out of the range. This is the conclusion also separately reached by the Task Force and market research carried out by Gemba for the Task Force. It is also implied by the AFL Distribution forecast of around $15 million per year.

The New Team Isn't 'Accretive' – some $11 million short: The other critical number is the Task Force view that the uplift in media revenues will be proportionate to the number of games. The extra eleven games per season will produce an additional $17 million which offsets the (pre-Covid) AFL Distribution of $17 million. Hence, no existing AFL club will be worse off.

The AFL's position is that this is unlikely because the additional games will be less attractive to networks than the average game. The AFL is reluctant to provide estimates due to commercial considerations, but conversations inside and outside the AFL suggest that the incremental value of the eleven games is likely be a lesser amount, perhaps around $3 to $5 million per year.

It should be noted, however, that the Task Force and its media advisors have reiterated their view that the additional games are plausibly valued at levels that largely offset the AFL Distribution.

Taking the more conservative view, the competition needs to find another (say) $11 million per year – which is the (post-COVID) Distribution of $15 million less a media uplift of around $4m.

To some, this immediately proves the ‘no’ case, reckoning it a mistake to add a club that requires AFL Distributions above the base level. Such clubs are mendicants, and the AFL can better spend its money. But this is not the correct way to view these issues.

There are sources of funds that can offset that Distribution. And every professional sporting competition has large and small teams and so it is a policy issue as to how these are managed. The next sections outline the ways in which this funding requirement should be assessed.

SETTING THE BAR IN THE RIGHT PLACE

Some believe it possible to have competitions made up of teams that are all competitive and none requiring extra financial support. Clubs requiring higher AFL Distributions are often described by some critics as *“on welfare”, “on the drip”* and *“obviously mismanaged”*. The issue is simple: if the new team requires AFL Distributions larger than the base distribution, the case for Tasmania should be rejected.

But sport doesn’t work this way. A football competition is not just an ‘economic’ industry. It is also a ‘social compact’ in which large and small revenue teams co-exist for very long times. The case for Tasmania looks different when viewed from this perspective. Since the mid1980s, our competition has based its strategy on ‘competitive balance’ or ‘equalisation’ principles which mean that, *by definition*, the smaller clubs receive additional support.

Sport - Not Just Another Industry: Outside of sport, every competitive industry has large and small, profitable and unprofitable. In the commercial world, the weak eventually disappear - sold off, merged or closed. And if there are scale economies, the number of competitors dwindles, perhaps to a few. But that doesn’t happen in even the most aggressively professional sports.

The English Premier League, for example, has twenty teams and every team is over 100 years old. There is nothing like this seen in commercial life, nothing even remotely close to it. Commercial businesses that are 100 years old are rarities.

Our AFL competition has a few teams, like the Eagles and the Suns, that are ‘young’. But most are over 125 years old. Some are 150 years old. There is nothing remotely like this in industry.

The English Premier League’s teams are not only very old but also include large and small - and the gap between them is huge. The wealthiest, Manchester United, has more than five times the revenue of the smallest Premier League team (Exhibit 8) and that isn’t counting the many teams in lower divisions trying to get to the Premier League. The combined revenues of the top five Premier League teams exceeds that of the remaining fifteen teams.

And compared to other European football competitions, the EPL is almost a level playing field. Two teams in Scotland - Celtic and Rangers – have combined revenues that exceed the combined total of the other ten Premier league clubs. In Italy, Juventus revenue is around five times that of its smallest competitor in the top division. In Spain, Barcelona's revenue is more than ten times that of its smallest competitor in the first division. In Germany, Bayern Munich's revenue is more than four times that of most of its first division competitors.

In the US, the wealth difference between baseball teams is also large (Exhibit 9). The New York Yankees revenue is more than three times that of the smallest revenue club. Half of the 30 MLB teams have revenues that are less than half those of the richest few clubs.

In sporting competitions, the teams literally stay for 100 years but profound wealth inequalities also exist. There is no such thing as a professional sporting competition where every team makes an equal contribution – much as there is no competitive industry where every competitor is strong. But unlike in the commercial world, the smaller sporting teams survive, and the larger clubs accept that this is so. That is the 'social compact' and this needs to be understood to make sense of what a Tasmanian team means for our competition.

'Equalisation' Is Key to Our Situation: Sporting competitions around the world have different ways of dealing with their financial inequalities. Most accept large inequalities but very few teams win the prizes. The alternative strategy is to substantially reduce the inequalities, and the exemplar here is the National Football League (NFL) in the US.

In European football, the prizes are won by the very few and the concentration of success is astonishing. Just four clubs have won 26 of the 29 League titles in England since the Premier League was established (and Manchester United has won 13 of them). In Scotland, Celtic and Rangers have won every Scottish League title in the last 35 years. In Spain, Real Madrid and Barcelona have won 29 of the last 35 League titles. In Italy, Juventus has won nine of the last ten titles while in Germany, Bayern Munich has also won nine of the last ten. In Holland, two clubs – PSV Eindhoven and Ajax - have won 17 of the last 20 titles.

Not all competitions leave inequalities in place. Over the past decade, most of the European and American competitions have sought to reduce the gaps, but the leader in 'equalisation' has always been the National Football League in the US. The NFL's approaches to draft, salary cap, list sizes and revenue sharing were copied by the AFL when forming our own 'national competition'.

Unlike US baseball and European soccer leagues, the NFL's media revenues are negotiated by the central body and none accrue directly to individual clubs. The NFL also 'taxes' the richest clubs by sharing gate revenues, which includes season's ticketing. Every NFL club then receives an equal share of these pooled revenues. The result is that the revenue differences between NFL clubs are small compared to other codes. The wealthiest club (Dallas) reports revenues a little over double those of the least wealthy club, but the second wealthiest club's revenues are only 60 percent higher than the least wealthy club (Exhibit 10). The revenues of 28 of the NFL's 32 clubs sit at plus or minus 15 percent of the NFL median (21 teams are within plus or minus 10 percent).

Thus, the NFL seeks to level the playing field between large and small clubs because it believes that an even competition *(Any Given Sunday*) increases the value of the whole competition.

The Green Bay Packers, a beneficiary of the NFL's equalisation, played in this year's Super Bowl. The population of Green Bay in Wisconsin is less than half the population of Hobart! And before that comparison is rejected, we note that the whole population of Wisconsin is a smaller percentage of the US population than is Tasmania's share of Australia's population! Green Bay is to the NFL what Tasmania would be to the AFL.

To only accept a Tasmanian team if it can pay its way without competition support is looking at the issue in the wrong way. Furthermore, many of our own AFL teams don't pass that test and will not do so for the next 100 years. Rather, the issue is whether the impact on competition finances is within a range that is affordable.

The AFL is not yet considering smaller markets like Darwin or Broome – or unconverted markets like Cairns, Newcastle or even Auckland. Rather, does Tasmania – a traditional football state - with population of 540,000 make the grade? It does. The level of support required for a Tasmanian team is within the range of supports provided to existing AFL clubs and is also within the range seen in overseas competitions as well.

Taking a Long-Term View: In forming its view, the AFL must take a long-term perspective. As '*Keeper of the Code",* the AFL's objective is not to maximise shareholder value which would inevitably favour shorter term decisions. Using business language, the AFL should assess its long-term competition plans with an exceedingly low discount rate (though to be clear, it should assess non-football plans such as real estate using normal commercial criteria).

To take two examples: The AFL Commission was under pressure in the early 1990s to close the Sydney Swans. That club was a drain on competition finances and interest rates were high. After ten years in Sydney, the club still had less than 3,000 members. The AFL's continued investment would have failed any 'net present value' test but closing the club down and exiting Sydney would have been a huge setback for our code.

An older example involves Hawthorn which joined the VFL in 1925 and finished 'bottom four' in 28 of its first 30 seasons. In that time, it 'won' twelve 'wooden spoons' and in no year finished higher than eighth in the 12-team competition. The club wouldn't have survived today's commercial assessments but since then has become the most successful club of the modern era.

The question with Tasmania is not whether its team can thrive without some additional financial support but rather whether that support is within an affordable range for our industry. The financial support required for a Tasmanian team – an AFL Distribution (less incremental media) of around $11 million per year - is affordable and can be funded.

The AFL 'equalises', or redistributes, some revenue between clubs to create a competition where more than one or two clubs win all the time. Our strategy assumes unequal AFL Distributions but yes, the scale of the redistribution is important. Of course, this begs the question of what minimum level of economic performance should be required of our clubs, and our competition has not yet tackled that issue. In the US, NFL teams occasionally relocate in the search for better revenues. The NBA appears to have an interesting approach; each team is expected to earn revenues of at least 70 percent of the NBA team average.

A Tasmanian side will need support but only at levels comparable to that received by several other clubs. And at $15 million pa (using post-COVID numbers), the Distribution would only be around $5 to $6 million more than the Base Distribution that even the wealthiest clubs receive. If we were talking about a much larger numbers, it would be a different conversation.

FUNDING THE DISTRIBUTION

The annual 'investment' required by our industry will, on the assumptions made, be a net $11 million per year (the club's Distribution of $15m less the media uptake). That is the amount to which the new team may be 'non accretive'.

A further issue is that North Melbourne and Hawthorn may no longer receive Tasmanian government support and both clubs will need to find significant replacement revenue streams. However, any increase in their funding requirements should not be added to the funding requirement for a new licence in Tasmania because the government has indicted that this support may end even if no licence is issued. As well, it appears that Hawthorn's improved match returns at the MCG mean that it won't be materially worse off.

To some, the additional net $11 million per year to fund the Tasmanian licence already looks like a good investment. The direct 'investment' of the $15 million Distribution into Tasmania leads to a further $25 million per year being raised locally through sponsorships, memberships, government support and attendances. The result is that around $40 million would be spent supporting football each year in that state. The AFL will have secured Tasmania as a core piece of its heartland while creating an organisation with around 100 or so jobs for players, former players and other officers. It will revitalise our code in Tasmania. It will provide a pathway for local talent. All of that for the net $11 million per year sounds, at least to some, like a good deal. And presumably the cost is less than $11 million if relocation or a joint venture materialises.

And there are ways to close the funding gap.

'Tweak' The Equalisation Formula: The AFL can adjust its 'equalisation' policy, its approach currently being less 'equalising' than is, for example, the NFL's.

Even if we accept that the wealth of our large clubs is enhanced by good management, it isn't hard to see that they benefit from competition decisions. Large clubs are large because of support bases built 50 to 100 years ago and today they routinely receive advantageous fixtures which deliver large gains.

As well, stadium capacities, which are competition decisions in our industry, work against the economics of smaller clubs through no fault of their own. And some non-Victorian clubs were given monopoly positions in their markets, inheriting much of the existing 'franchise' for interstate football. (The recommendation in the 1985 report that led to the national competition was that two clubs in each of Perth and Adelaide should start at the same time to prevent the first club in that city receiving a huge advantage that would last forever. Football politics scuttled this and so one club in each city has been dealt a winning hand).

A question for the AFL industry is whether these and other accrued advantages should, to some extent, be shared across the competition?

This is where the 'social compact' that binds a sporting league together comes into play. There are precedents in other competitions. In the US, baseball (MLB) imposes a tax that increases to 50 percent on high-spending club payrolls. Both the NBA and MLB, like the NFL, share some local revenues which we do not. In Holland, the three wealthiest clubs have recently agreed to share some of their UEFA winnings with the other clubs.

Here is a challenging thought for our industry. Some 72 percent of all revenues accruing to the NFL and its 32 clubs are pooled and shared equally. The comparable figure for our industry is less than 50 percent. If the AFL moved further in the NFL direction, the $11m recedes as an issue.

Tasmanian Government Support: The Task Force report assumes continuing State Government support of between $7 and $11 million per year, depending on what is required. We have worked with around $10 million pa. What this means is that the viability of the Tasmanian club, at least for the foreseeable future, is substantially dependent on Government support.

The Task Force described the new club as sustainable *"but requires both the AFL and Government to 'co-invest' in an AFL 19th Tasmanian-based team for the long term".* That government support can last for decades may be viewed with scepticism, but the three main political parties assured their strong support. The Premier has outlined ways in which the financial commitment could be made to stick for the long term, and this is clearly a threshold issue. The Government will need to commit to current and future Governments being a long-term investor, along with the AFL.

A State Government commitment substantially de-risks the project. And $10 million is a huge number for a football club. To find an opportunity with annual profit of $10 million would mean searching for businesses with turnover of $100 million or more. Or put another way, $10m equates to 78,000 members at an average AFL industry yield of $128 per person. It is a massive amount. As such, a continuing government commitment is a very important part of the case, and reasonably a licence could be made contingent on Tasmanian government funding until the Tasmanian team reaches a minimum hurdle of financial sustainability.

The reasons for the Government engagement are clear. In addition to intangibles, there is clear evidence of the economic benefit of playing AFL games. Data shows how many interstate visitors come for each Hawthorn and North Melbourne game as well as length of stay.

However, there are challenges inherent in the Government funding. While the genuine commitment of Tasmania's political leadership is not in doubt, sceptics will reasonably ask what happens in a decade or more? Taxpayer support may wane, and governments have various ways to re-balance the ledger – through rental and leasing charges, security and public transport charges and the like. Any football club dependent on taxpayer funding rather than the revenue that flows from its rock-solid supporter base is more vulnerable.

The Players Might Contribute: The players have already helped secure the industry post COVID, but a case can be made for some contribution. A further 45 player positions are created as well as roles for former players, such as coaches. Some of the $11 million might reasonably come from the players in their next agreement, and this could be achieved 'painlessly' by agreeing the much-talked-about reduction in list sizes. A reduction of two players from AFL lists would be more than offset by positions at the new club and would contribute at least $3.5 million per year.

Other options have been considered. '***Managing Down Industry Costs'*** was assessed because a long-term view of the AFL industry's economics shows that most of the revenue growth finishes up in the industry's cost structures. What the AFL could do over the next five years, as a new team is planned, is to keep a squeeze on industry costs such that the $11 million is not completely consumed by rising costs. However, given that the AFL has already squeezed industry costs in its response to COVID, it appears that squeezing further may be a step too far.

Finally, it should be noted that the Task Force and its media advisors have reiterated their position that the additional games should result in an increase in media income that largely offsets the AFL Distribution. However, this assessment takes a more conservative position. But even a portion of this possibility plus a 'tweak' of the equalisation formula and a contribution from the players would largely address the $11m funding requirement.

THE 'PROBLEMS' CAN BE MANAGED

Several arguments against awarding a 19th Licence to a Tasmanian team have been raised and - as stated earlier – a relocation or joint venture would arguably produce a more sustainable outcome.

But none of the arguments warrant rejection of the Tasmanian case.

Fixture Complications are Difficult: If it is a 19th team option instead of relocation or joint venture with an existing team, it introduces challenges with stadium availability because of the additional week required to complete 22 games for all 19 clubs. A bye must be scheduled each week. Clubs with a bye in the last week of the Season will be disadvantaged if playing finals, because there is already the end-of–season bye.

The extra week will be problematic due to stadium commitments. But stadiums have few substantial revenue opportunities in late March and so it is hard to see solutions not reached.

A bye in the final round and then facing another bye before Finals is easily fixed. In the past 20 years, there have only been three instances where teams finishing the season in bottom or second bottom ladder position have made the Finals in the following year - that is 3 times out of a possible 40. The AFL can fixture the teams that occupy the bottom two spots on the ladder to have the byes in the final two weeks of the following season.

And byes, while not ideal, are no longer viewed with complete disfavour. "*We are now well accustomed to byes*" is a common response. The AFL has also operated with an unequal number of teams in the past and the Canadian Football League has operated with an uneven number of teams for decades. But a 19-team competition is clearly a less satisfactory aspect of the case.

Player Talent Will be Diluted: Talent dilution is not an issue because of population growth and lengthening player careers. One more team adds five percent to the player pool required but population growth has exceeded this. From 2011 to 2020, population growth in Victoria has been 21 percent, 13 percent in WA, 8 percent in SA and 6 percent in Tasmania.

And the length of player careers has increased substantially. For nearly 100 years, the average VFL/AFL player played fewer than 60 games. In 1990, the average player played in 62 games and this increased to 90 games by 2000. Today, the average player reaches around 125 career games which means that the average playing career has doubled in the past 30 years (Exhibit 11). This is a substantial increase in the availability of players and so 'talent dilution' is not an issue.

Player Attraction and Retention will Struggle: Some argue that Tasmania will be an unattractive destination for players and staff because Hobart is small and cold! However, the evidence in other codes as well as our own is that well-functioning clubs will attract and retain athletes regardless of the climate or how small is the town. And ironically, retention issues in the AFL have been most pressing in locations where climate and lifestyle are said to be attractive.

But there is an issue here. Player and staff attraction/retention must be an important part of the new club's strategy because most of the playing list will come from outside Tasmania. Experience suggests that if the club is not very successful, or if the prospects of success are poor, the 'go home' threat becomes real. This will be a particular challenge in the first five or more years of the new club's existence as it builds from the ground up, as have our most recent expansion teams.

A survey of AFL players found nearly half believe that Tasmania should have a team. Some will not wish to go to Tasmania while others will because Hobart offers an attractive lifestyle. And the evidence is that if a club is well managed and successful, players will want to be there. But if the club is unsuccessful on the field, that will change.

We can be encouraged by what we see elsewhere. The most successful rugby club in the southern hemisphere is the Crusaders, based in Christchurch, a city slightly further south than Hobart. The Green Bay Packers is one of the NFL's most successful teams and yet the town and climate of Green Bay scarcely rate against other NFL locations. Only one of the 80 players on Green Bay's list did his college studies in Wisconsin. Aspiring soccer players leave Sydney to play in Europe where winters are far worse than in Tasmania. The top Premier League teams this year are Manchester City and Manchester United, but Manchester is not a top 'lifestyle' destination!

Intrastate Rivalries Will Undermine: The north-south rivalry is real but won't necessarily undermine support for a team. Tasmania supports its Sheffield Shield and Big Bash cricket teams. The early signs are that it will support its basketball team in the NBL.

The rivalry in football is long justified given that football for 100 years was north against south. And intrastate competition has been commonplace in other Australian states. Townsville and Cairns are rivals but support for Townsville's Cowboys is strong in Cairns. North Queenslanders are competitors to south-east Queensland but unite for State of Origin. Fierce club loyalties in the old WA and SA were put aside when the state team played Victoria. And state loyalties, while strong, are always shelved when Australia's national team is playing.

Football leaders in the north and south of Tasmania express commitment to a team based in Hobart but sharing games with Launceston. Half the state's population lives in Hobart which has good lifestyle, services and airport connectivity, university access, jobs for partners and spouses. And, compared to the mainland, it has modest housing prices and relatively lower cost of living.

Tasmania is a 'basket case': The Tasmanian economy, aging population and higher levels of welfare dependency are often offered as reasons why a team in Tasmania is ill advised.

There are issues but none that should influence the decision on a team. Many of the indicators are now pointing in the right direction. For example, over the past 5 years, Tasmania's economy has grown at an average annual rate in line with the national average. Over the same five period, Tasmania's *per capita* economic growth has grown at more than double the national average.

Over the past five years, Tasmania's population has grown at around half the rate of the national average, but slightly faster than that of SA and WA. This has been a considerable improvement over the preceding twenty years when the Tasmanian population was in decline. In recent years, net migration has turned positive after being negative for many years. Climate change, the opportunities to work from home or remotely, and lower costs of real estate are starting to have an impact on the attractiveness of Tasmania as a place to live and work.

Tasmania's unemployment is still above the national average, but the gap is closing. The population is marginally older than on the mainland – which will not help 'participation' but will not hurt 'membership'. And the gap in the number of young people is partly due to the lack of pathways that keep young people at home – of which the AFL system is an example. There are around 20 young Tasmanians playing in the VFL, SANFL and WAFL because there is no talent pathway at home.

The point here is not to engage in a deep analysis of the Tasmanian economy but rather to point out that many important indicators now point in the right direction. There is no reason to believe that the state's circumstances will deteriorate such that any current assessment is unsustainable.

Why Tasmania and Not Elsewhere? One unusual view offered was that simply because Tasmania is a *state* doesn't make the case any more logical. Why not Gippsland or Canberra, for example?

Any significant population centre is worth consideration. But few regions in Australia without AFL teams have population numbers as large as Tasmania's. And while Newcastle and Canberra are of interest, they have smaller populations than Tasmania and a large portion of those populations do not have football backgrounds. Their residents must be converted.

And state boundaries do matter – enormously. They are the basis for long-standing rivalries in most sports - from cricket to rowing to hockey to football. The first new AFL clubs in Perth and Adelaide – the Eagles and Crows – immediately 'inherited' over 100 years of state parochialism.

Tasmanians have a sense of identity that has been further fuelled by feelings of being put down and ignored – much as has fed passions in WA and SA when playing against Victoria. State rivalry is an important asset for a Tasmanian team, an asset not available to other regions around our country. Little of that nature exists, for example, in Gippsland.

CONTRIBUTION TO THE STATE WILL BE SIGNIFICANT

The AFL competition is a 'social compact' as well as an industry. Sport receives substantial government support, funded by taxes. "Doing good' in the community is part of the deal. The AFL's engagement with Indigenous issues and now with women's sport have helped it build its reputation beyond football.

An AFL team can contribute to social and economic change in Tasmania. While this will not be the AFL's primary motivation, it should not be discounted either. The AFL is a community organisation and the recent Super League uproar in Europe underscores this.

The AFL's purpose and vision include being Australia's national sport and a unifying social force. Living in Melbourne with its nine teams makes it hard to see how one team can make much difference. However, residents of Geelong and Townsville understand the impact of a national team. Tasmanians taste it when teams visit; businesses speak of the impact of visitors that come to AFL games.

The Cats and the Cowboys have noticeable impact on their regions, contributing to economic life through creating high value-adding jobs, attracting tourists and forging research partnerships with local universities. They contribute to community morale, a sense of identity and to community health by engaging in a wide range of programs that typically focus on the weak and vulnerable.

All 18 clubs do this – such as Collingwood's work with the homeless, Richmond's with Indigenous youth, Geelong's with school children on cyber-bullying and North Melbourne's with African communities in the northern and western suburbs. But Tasmania misses out and leaders lament the lack of sporting role models who can influence young people.

The influence of an iconic institution can be seen with MONA which has changed mainland perceptions of Hobart and Tasmania – and even Tasmanians' views of themselves. A successful sporting team in a national competition can also impact confidence and self-esteem. One AFL club leader described the possible impact of a team in Tasmania as *'amplifying the institutional power, influence and contribution of the AFL".*

An AFL team will also encourage higher levels of participation in local football. Football participation has increased markedly in areas around the Suns. Tasmanians lament the lack of a pathway which can inspire young people to aim high at home.

While none of this, taken alone, will justify a team, the social contribution that the AFL can make to one of its heartland states should be a factor in the decision.

OTHER OPTIONS SHOULD BE EXPLORED

The case for a 19^{th} Licence can be made. But that said, a conversation should take place about the long-term interests of football in Tasmania. A stand-alone team, formed from start-up, may not be the best option. Relocation or creative joint venture arrangements should be explored.

Stand-alone Start-up Faces Challenges: Discussions mostly focus on 'deservedness' and financial sustainability but rarely address prospects on the field. A new team may face a long, tough period. Tasmania is not like the Eagles and Crows who were soon competitive with mature, high quality players drawn from their domestic competitions. Also, some have a romantic view about the number of Tasmanians in the team. On a proportionate population basis, Tasmania will do well to have two draftees each year. Its players will mostly come from other states.

A Tasmanian team will be built from the ground up, as were Gold Coast and GWS, and more than a few years of being well-beaten on the field awaits. After ten years, Gold Coast is yet to make the Finals. GWS has been more successful but took six years to play its first finals series. And it won only three games in its first two seasons. Retaining players will become a challenge if on-field results are poor. The 'go home' factor will loom large.

As well, even though the AFL pursues its 'equalisation' strategies, the four smallest Melbourne clubs have between them won only one AFL Men's premiership in the last 20 years and only three in the last 40 years.

Is this what Tasmania wants? It is more fun to follow a team that is financially strong, a formidable competitor and has success on the field. Is a team, destined to be in the least wealthy-third of the competition and substantially reliant on government funding, the best prospect?

Re-location and Other Options Should be Considered: The scope of this work included assessing alternative models such as 'relocation'. This is a path worth considering. The size and accessibility of the Tasmanian market is a given, but can a Tasmanian team also grasp a portion of the Melbourne market – such that it achieves a set of economics that place it solidly in the middle ranks of AFL teams, positioning itself as a more formidable competitor?

Geelong is a successful AFL competitor and, as a regional team, is seen by some in Tasmania as an example of what Tasmania can achieve. Geelong sits in the 'middle wealth' rank of AFL clubs, but this is based on much more than capturing the Geelong region. Nearly 30 percent of Geelong's membership comes from Melbourne postcodes.

Geelong also plays several home games in Melbourne and other clubs seek new markets as well. Hawthorn and North Melbourne head to Tasmania. GWS is building support in the ACT. Other clubs play games in the Northern Territory and Cairns and even as far away as Shanghai.

If Tasmania, with its small population, wants to have a successful AFL team, it makes sense to explore options hitherto deemed unattractive. Re-location of a Melbourne team is viewed by many as unattractive, but this may be short-sighted. South Melbourne moved to Sydney and has re-positioned itself from 'basket case' to genuine 'middle power' in the AFL's league wealth tables. Sydney's supporters no longer fret about where their team came from. Taking the long-term view – and these issues should be considered in a 100-year context - the initial angst of Sydney fans lasted for about five minutes.

Relocation of a Melbourne team to Tasmania, with the expected AFL draft and financial concessions, would give a Tasmanian team a strong local position plus a valuable slice of the Melbourne market. Securing 40,000 members, or more, in Melbourne plus building an equivalent Tasmanian membership would make the team a formidable competitor.

The AFL Constitution reserves the right of the existing clubs to approve or reject the addition or deletion of a club and a two-thirds majority is required. A relocation would be attractive to 17 AFL clubs and their approval for such a deal would be a formality. It would keep the competition to 18 teams, it would address the financial issues for one of the existing clubs, and it would not necessitate draft disruption on the scale required with a 19th Licence.

Victorian clubs that struggle to keep up should look at this seriously. There is nothing to justify any belief that their circumstances can change, even through hard work. For example, over the past 35 years since the national competition was agreed, all clubs have been hugely successful in building their membership numbers. The largest four Victorian clubs have increased their membership across that period by an average of 6.4 times while the smallest clubs have increased theirs by 6.7 times. The relative wealth positions have not changed.

We know of only two instances where clubs have materially changed their competitive position in the past 50 years. One was Hawthorn which, in the 1970s and 1980s before the player draft, won eight premierships and played twelve grand finals over a twenty-year period. During that period of prolonged success, Hawthorn picked up a steady trickle of young supporters who adopt successful teams. Hawthorn dominated the 'market for kids' for two decades and that growth now resides among the club's middle-aged supporters. Because of the player draft, no club can do that again.

The other example is Sydney. South Melbourne relocated to Sydney in the early 1980s. Today, nearly 20 percent of its members live in Melbourne and the club has built its market in NSW. It is a middle-ranking club on the competition's wealth ladder – only possible because it relocated to new markets while keeping a foothold in Melbourne.

That is the opportunity available now. But it will not exist when a 19th Licence is issued. When that happens, the chance for a Victorian club to 'embrace' the Tasmanian market has gone.

The Terms of Reference for this assignment requested comment on competition structure, including relocation. It has not been appropriate to engage with clubs on this and, in any case, any incentives that the AFL might make should be made available to all clubs, by tender.

A commonly held view is that a 'relocation' is unlikely because club members will have the final vote. But other possibilities have been floated– such as a 20th team from northern Australia or forming a Tasmanian team through a joint venture between Tasmanian interests and a Victorian club – '*One Club, Two Cities'.* This arrangement would take football into new territory.

It might look something like this. The club board is shared 50/50 between the existing Victorian club and Tasmanian interests chosen by the Tasmanian Government (which has committed serious funds). Most of the team's home games are played in Tasmania while most of its 'away' games are played in Melbourne at which Melbourne-based fans have 'home' game entitlements.

The Tasmanian jumper is worn at all games in Tasmania. The other jumper is worn at 'away' games in Melbourne. The club, sited in Melbourne, commits to substantial time and effort in Tasmania including at least four days in Tasmania around each game in that state. Pre-season camps and pre-season games will be in Tasmania. The club commits to meaningful community programs in Tasmania. The team has the right to take players from Tasmania for the next ten years. At the end of (say) ten years, an appropriately chosen panel will assess where the bulk of the club's support sits – in Melbourne or Tasmania – and that will define the future residency of the club.

An option like this, or a variation of it, might be explored and the lens through which this should be viewed is to ask what will make most sense in, say, 2050? The connection between a team and its local geography, once very strong, gets weaker by the year. In our competition, suburban rivalries were once important but now mean little. Overseas, the top sporting clubs are now global brands and most supporters only see their team on television rather than at the ground. That is the path we are also on and it will be even more the case in 2050. The positioning of a formidable Tasmanian team as an 'Australian' brand makes sense.

WHAT COMES NEXT – A PATHWAY FORWARD

The recommendation is that Tasmania should be represented by a team in the AFL/AFLW national competitions. But the best form of that team is less clear-cut. It could take the form of a 19th licence, the re-location of an existing team, or a joint venture between Tasmanian stakeholders and a Victorian team that secures strong support in two markets.

Clearly the first step is to explore whether the relocation or joint venture options are realistic options. These discussions will be with Victorian clubs, the Tasmanian Government and Tasmanian football interests. As well – and in no particular order:

Timing: Reaching a 'yes' decision should not be influenced by COVID, but the implementation timetable should. The AFL and the clubs will reasonably minimise new financial risks at this point and the clubs should not be asked to make a final decision while industry finances are under COVID stress. In the interim, effort can go into agreeing matters such as the Tasmanian Government contribution as well as the possibility of relocation or joint venture.

Stadiums: A 'stadium strategy' will be needed. This report hasn't addressed stadium detail because it is reasonable to assume that the Tasmanian government will address stadium requirements as governments have done so well in every other state. Significant investment will be required, and the Government's Task Force included financial estimates for stadium and player facilities.

The Task Force correctly argued that a 'clean' stadium is important and that the stadiums in Hobart and Launceston should not be too large because that will undermine the new club's economics. Reserved seat sales will be critical to the club's business model and success will depend on getting the supply/demand balance right. Federal and State Government support will be required for modern, fully equipped player facilities appropriate to Hobart and Launceston.

The Draft: The AFL has added seven new teams in the past thirty or so years and its accumulated experience should enable it to handle this appropriately. But the different experiences of Port Adelaide, Fremantle, Gold Coast and GWS are instructive. Port Adelaide was almost immediately competitive. There are lessons here to be learned and applied.

State Structure and The Pathway: An early step must be to resolve the future structure of senior football in Tasmania. Decisions are needed on whether a 'state league' makes sense or whether the effort should go into revitalising the district leagues. Figuring out what sits between the AFL/AFLW teams playing in national competitions and that level below will be critical to providing the player 'pathway'. It will need investment. Presumably, this will involve teams from Tasmania playing in the VFL and VFLW competitions.

The Players: Discussions should take place with the AFLPA about the player requirements to be provided for the team as well as a possible financial contribution to be made by players. This issue might be addressed through reducing list sizes for all teams.

'Equalisation': The current 'equalisation' scheme needs adjustment. And unlike the US competitions where the private owners are around for decades, our club leaders change regularly and need to be informed about the 'competitive balance' principles that are central to AFL strategy. Insight into how overseas competitions handle the gaps between large and small teams is a pre-requisite to a sensible discussion about Tasmania.

Hawthorn and North Melbourne: A Tasmanian licence will end the agreements whereby Hawthorn and North Melbourne play games in Tasmania. These clubs should be treated respectfully as they withdraw. Both clubs will need new revenue sources although the impact on Hawthorn may be minimal because returns from games moved back to the MCG have improved.

Northern Markets: Discussion of Tasmania often elicits comments about the AFL's expansion teams. Can the AFL afford to do both? Should the Gold Coast be closed and moved to Tasmania?

The Gold Coast and Western Sydney were 'generational' investments in markets that have 55 percent of Australia's population but had only two of our 16 teams. Success will be determined in 50 years rather than in five because football's supporter bases are built over generations. The growth in participation in NSW and Queensland show encouraging progress (Exhibit 12) and any commitment to Tasmania must not undermine the AFL's intentions in these 'new' markets.

The AFL might also encourage a more sensible narrative about what is being spent because the narrative will be the same for Tasmania. Too often the public hears about "spending $100 million" on the Gold Coast – which is the multi- year total AFL Distribution but also an incomprehensible number that sounds like a huge waste. Using those same metrics, we are spending $100 million in each of Adelaide and Perth and $550 million in Victoria. The numbers are meaningless but play to a narrative that unfairly attacks newer clubs.

A more meaningful number for discussion is what do the two new clubs in expansion markets receive compared to the two most supported Victorian teams (who have been with us for over 125 years)? The answer is about $5 million per club per year which is a modest amount when tackling a large new consumer market.

Reducing the Risks: The AFL and Club leadership will necessarily focus on 'risks' and so a couple of points are worth noting.

- First, the Task Force refers to the AFL and Government '*co-investing'* in the team. Reaching early agreement about the level of support will be important. The Task Force speaks of between $7 and $11 million per year, presumably inflation adjusted, and this is an extremely important part of the new club's 'business case'. The support of the political parties in Tasmania appears firm, and it also appears that this support could be made solid by use of an Act of Parliament. The licence should be made contingent on Government funding until the team meets a minimum level of financial sustainability. It is also assumed that the level of Government support will depend on which of the 19th licence, relocation or joint venture options materialises.

- Second, some interviewees in Tasmania suggested that the AFL can reduce its risk by offering a 'Ten Year Licence' which would be formally assessed (Continue or Cease) after ten years. This may be important to some clubs who worry about the future.

- Third, the AFL and Government can test the market in advance. The Hobart newspaper poll in which 60,000 said that they would buy a membership is often quoted but no-one has yet been asked to put their hands in their pockets. A 'Foundation Member' category could be established requiring at least 35,000 members within 12 months with a three-year commitment. The first year's commitment would be paid – but fully refunded if the team does not go ahead. This would also be targeted at the Tasmanian diaspora. Crowdfunding strategies might also be attractive.

A final observation: That the AFL is '*Keeper of the Code'* is more than spin. It defines the AFL's obligations as nation-wide and even more. The tragedy of football's past is that there were missed opportunities because they were no-one's responsibility. Little attention was given to NSW and Queensland until the past few decades. We lost our position in the ACT and Papua New Guinea. Less known is that New Zealand was a serious participant early in the 19th Century. At the 1908 national championships, New Zealand defeated both Queensland and NSW and even kicked five goals against Victoria. But these promising shoots were not supported and died out.

Today, taking the long view, Tasmania is now at some risk. However, the costs of securing it are reasonable. It fulfills the 'purpose' of the AFL. It is the right thing to do.

I have appreciated the opportunity to participate in this review as well as the assistance from many who gave their time to help. I also thank Walter Lee and his team at the AFL as well as some of my former colleagues at BCG who provided pro-bono support. Premier Gutwein's office assisted in accessing many persons who had helpful views to express. The Task Force, led by Brett Godfrey, readily provided assistance when asked to do so.

My hope is that we are now closer to seeing a team that is 'owned' by Tasmanians but also financially strong and viewed as a formidable competitor. There will be setbacks – as there are for any team - but we should approach with anticipation the start of a great 100-year journey.

Yours sincerely

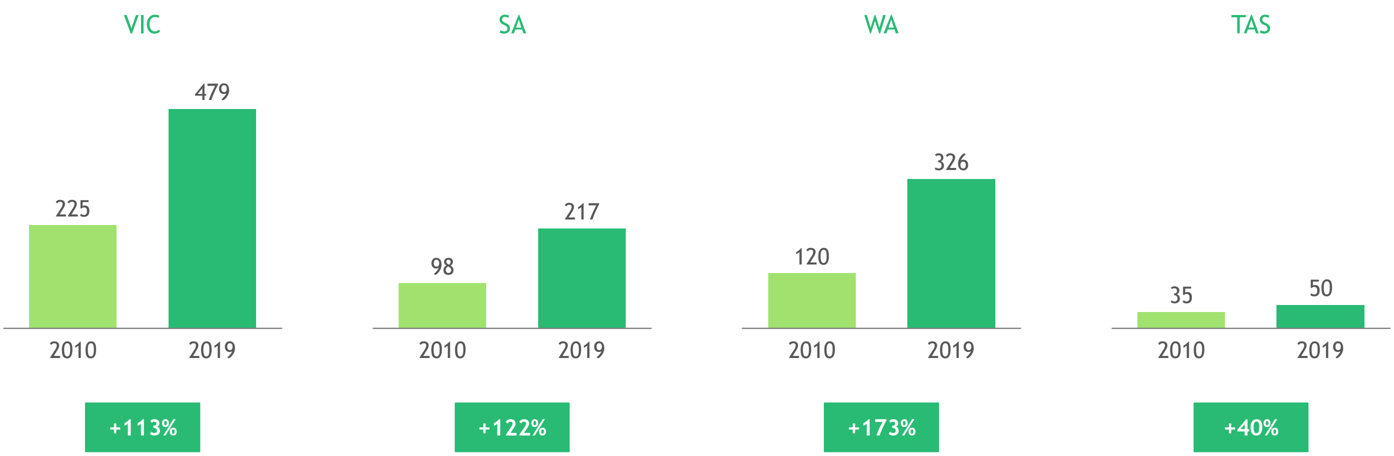
Colin Carter

EXHIBITS

Exhibit 1

Participation growth has lagged other traditional states

Community, School and Auskick growth over decade
('000 participants)

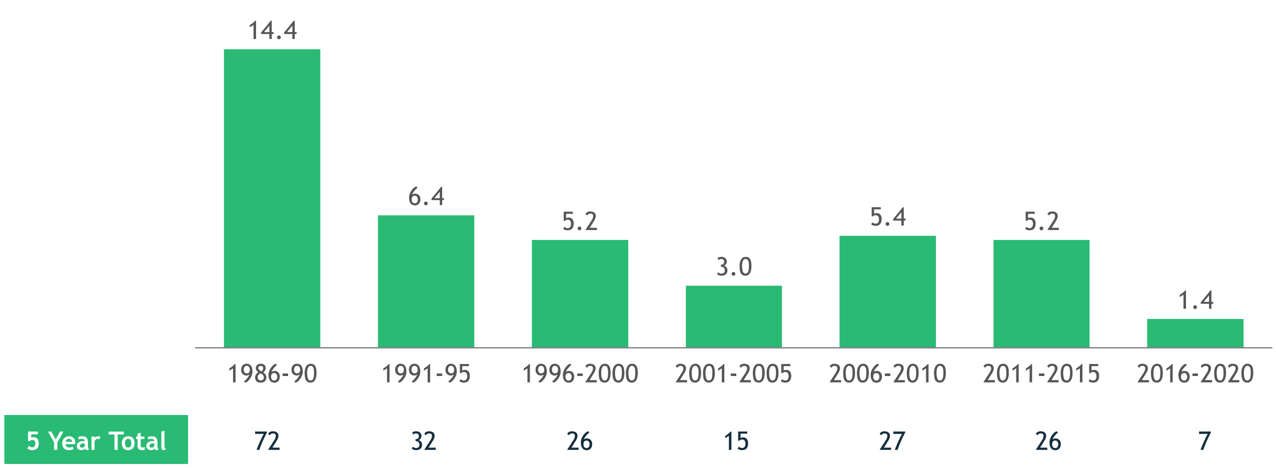


Source: AFL Data - includes Community, Schools, Auskick and "Other" participation

Exhibit 2

Fewer players drafted from Tasmania

Players drafted from Tasmania: 1986-2020
(Players per year drafted: 5-year blocks)

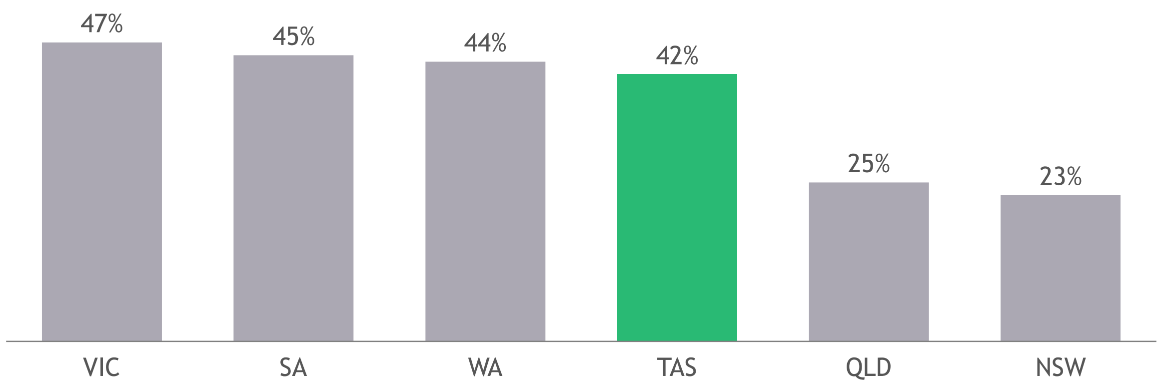


Source: AFL data

Exhibit 3

Tasmania is a 'traditional' market - though slightly weaker

'Core' fans as percent of state population



Source: AFL data - Core Fans (18+) divided by Adult population (18+)

Exhibit 4

'Away' teams playing in Tasmania are mostly lesser-drawing teams in Melbourne

'Away' teams played 29 games in Tasmania: 2016-2019

Non-Victorian teams	Victorian teams
GWS - **4**	St Kilda - **4**
Brisbane - **3**	Melbourne - **3**
Fremantle - **2**	Carlton - **3**
Port Adelaide - **2**	North Melbourne - **1**
Sydney - **2**	Richmond - **1**
Gold Coast - **2**	
Adelaide - **1**	
Eagles - **1**	
17	**12**

Exhibit 5

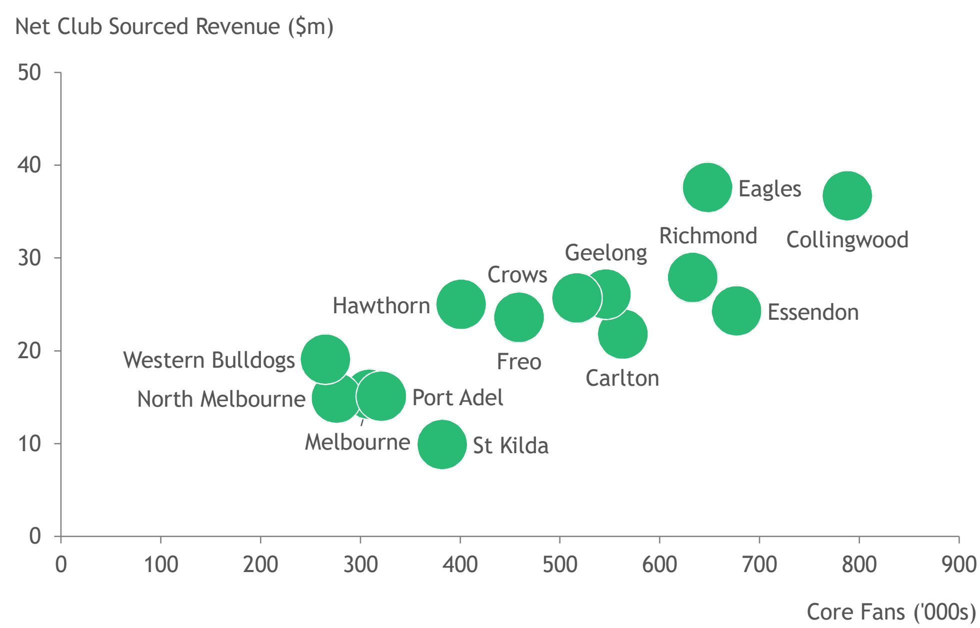
Market penetration in Southern States suggests potential AFL Club memberships in Tasmania of around 39,000

Total AFL club members	992,000
Less members resident in NSW, QLD, NT, ACT	(140,000)
Members in 4 Southern States	852,000
Population of Southern States	11,660,000
Market Penetration	1 in 13.7 persons
Tasmania: 541,000 ÷ 13.7	**39,500 AFL members**

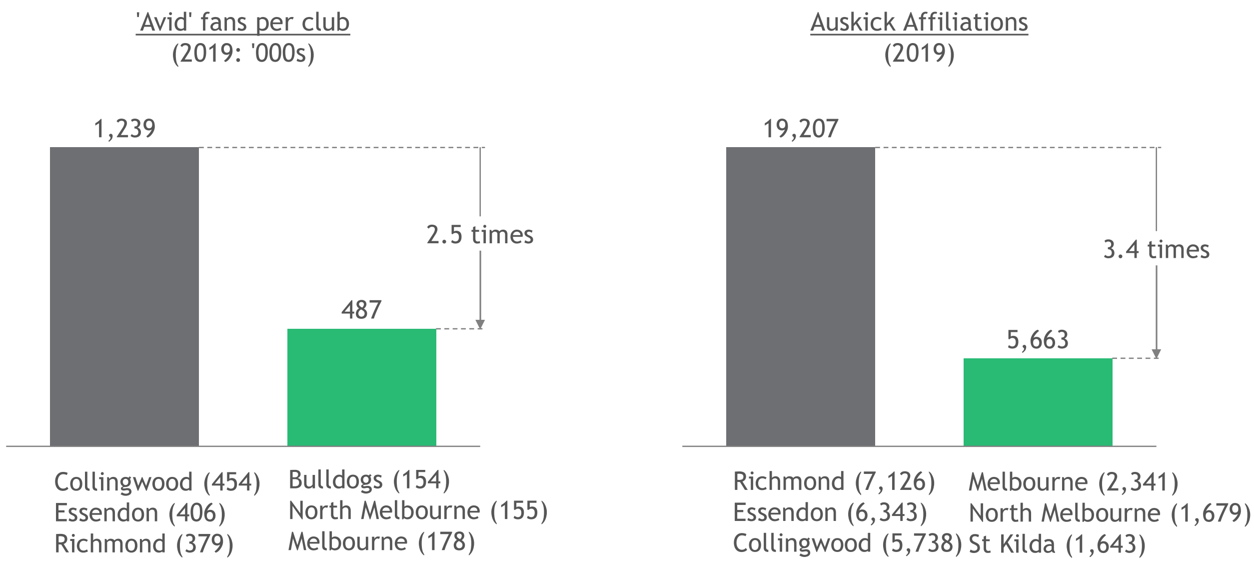
Size of supporter base drives club revenue

Exhibit 6

Traditional states: Fan base versus Revenue
(2019 data: $m)



Large Victorian clubs have more than 2.5 times the fans as smaller clubs and the gap is growing with kids



The English Premier League has massive revenue inequalities: more than 5 times from top to bottom

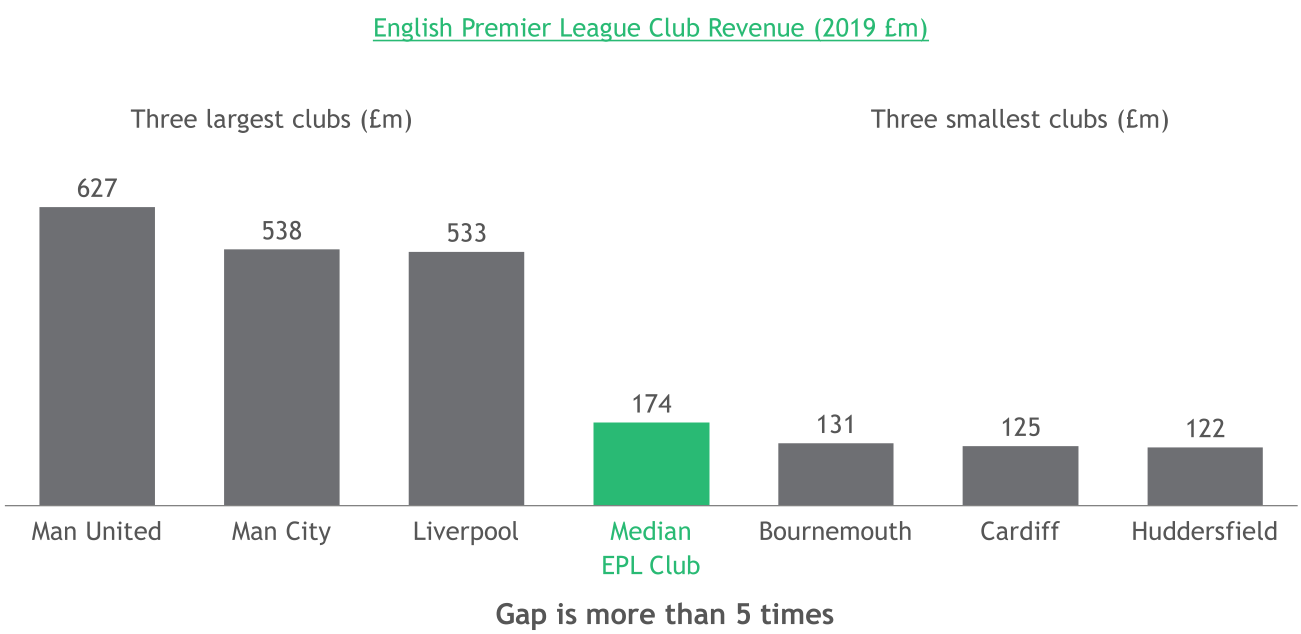


Exhibit 9

Major League Baseball has large revenue inequalities

US Major League Baseball Club Revenue (2020: $USm)

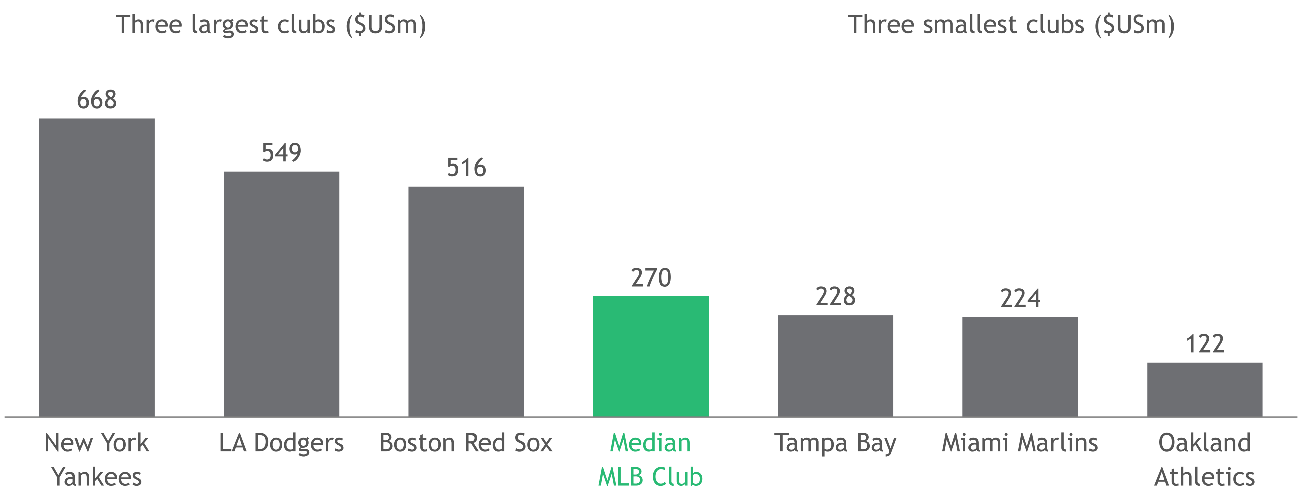
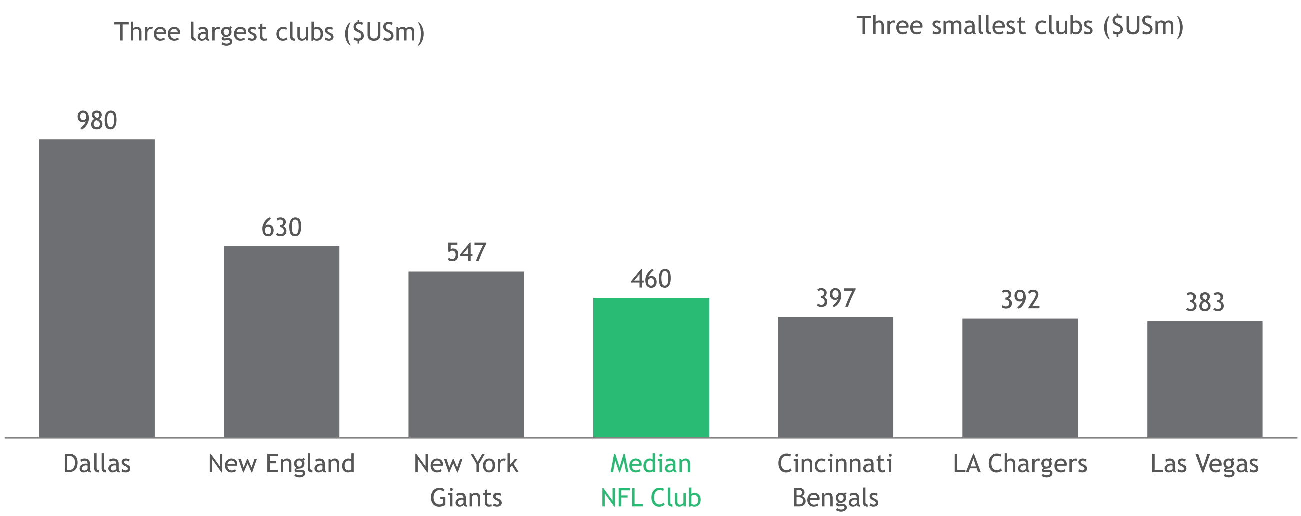


Exhibit 10

One club aside (Dallas), the NFL revenue gap is much less than 2 to 1

NFL Club Revenue (2019: $USm)



28 of the 32 teams have revenues within 15% of the median

Exhibit 11

Playing careers have lengthened - and doubled since 1990

Average number of career games

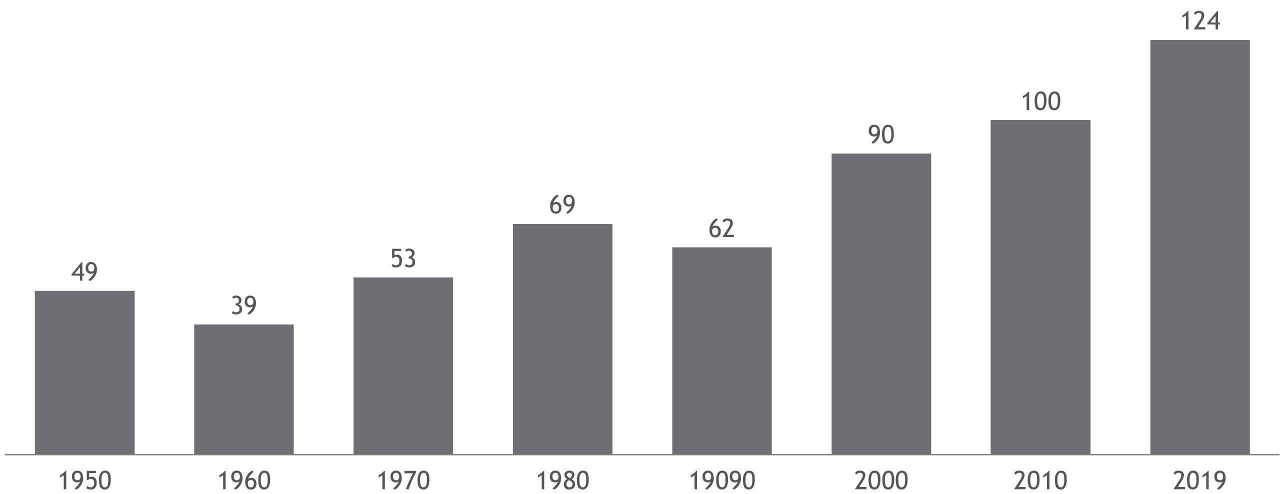
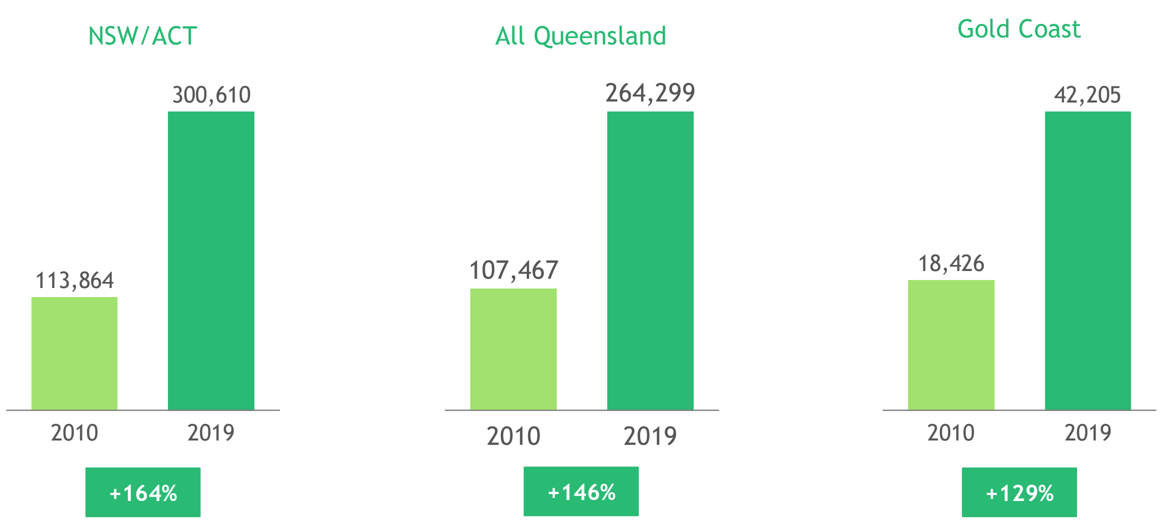


Exhibit 12

Participation growth in NSW/ACT and Queensland has been substantial

Participation: 2010 to 2019[1]



1. Community, School, Auskick and Other Participation