



independent competition and regulatory commission

Investigation into the ACT racing industry

**Final report
Report 2 of 2011
April 2011**

The Independent Competition and Regulatory Commission (the Commission) was established by the *Independent Competition and Regulatory Commission Act 1997* (ICRC Act) to determine prices for regulated industries, advise government about industry matters, advise on access to infrastructure, and determine access disputes. The Commission also has responsibilities under the ICRC Act for determining competitive neutrality complaints and providing advice about other government-regulated activities. Under the *Utilities Act 2000*, the Commission has responsibility for licensing utility services and ensuring compliance with licence conditions.

The Commission has three part-time commissioners: Senior Commissioner Paul Baxter; and Standing Commissioners Malcolm Gray and Mike Buckley. For the purposes of this inquiry, the Commission comprises Commissioners Baxter and Buckley.

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Foreword

On behalf of the Minister for Gaming and Racing, the Attorney General made a reference to the Independent Competition and Regulatory Commission (the Commission) to undertake an investigation of the Australian Capital Territory (ACT) racing industry. The Minister's reference, dated 13 October 2010, is made under sections 15 and 16 of the *Independent Competition and Regulatory Commission Act 1997* (ICRC Act).

This is the first investigation of the racing industry that has been undertaken by the Commission. In undertaking this investigation, the Commission is required to make recommendations regarding the:

- appropriate system of product payments
- appropriate funding outcome for the ACT racing industry
- appropriate allocation of ACT budget funding amongst the three racing clubs
- future structure of the ACT racing industry.

In making its recommendations, the Commission is required to take into consideration the following impacts on the ACT racing industry:

- economic impact of the racing industry in the ACT
- contribution of racing in the Canberra community
- estimation of current value of racing product created by the ACT racing clubs
- net value of product payments to the ACT racing clubs
- level of interest or involvement in racing codes
- relative costs of producing racing product and maintaining racing facilities
- different forms of government support to the racing clubs
- the current structure of the racing industry and opportunities and risks arising from a national product market.

On 2 November 2010, the Commission released an issues paper which set out the terms of reference for the investigation and raised a number of issues which the Commission anticipated addressing as part of the investigation. The issues paper also called for submissions based on these issues and the terms of reference.

On 20 December 2010, the Commission released a draft report which set out the Commission's draft findings and recommendations with regard to the terms of reference. To ensure an open process, the Commission held a public hearing on 22 February 2011 to allow industry stakeholders to publicly express their opinion of the draft report as well as provide written submissions in response to the draft report.

Paul Baxter
Senior Commissioner
April 2011

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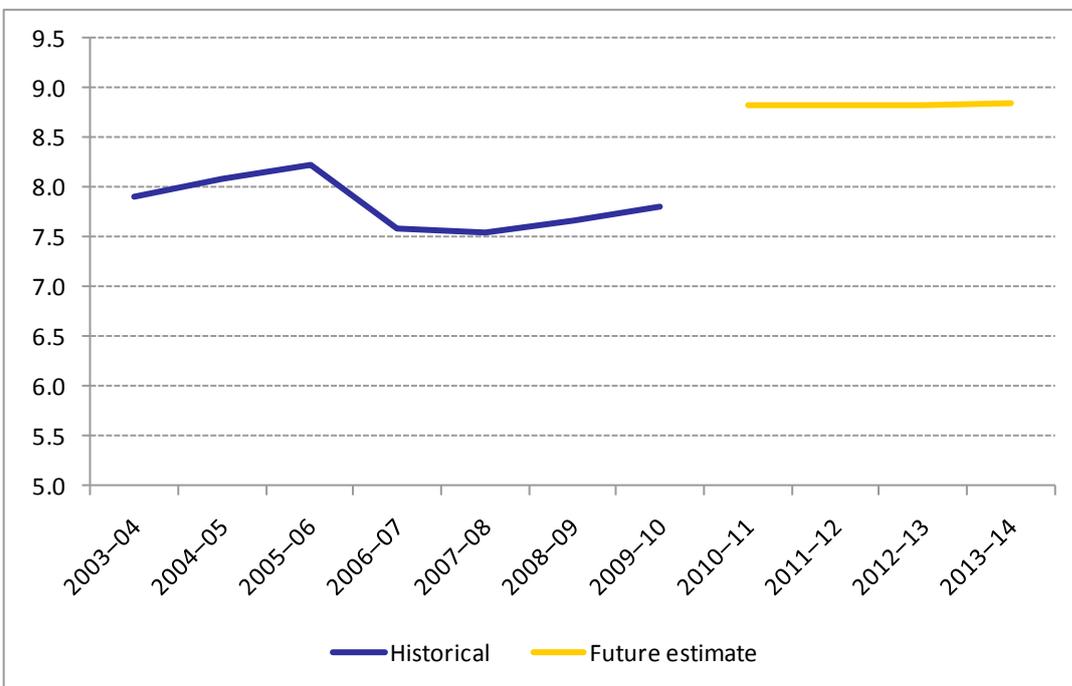
Executive summary

The ACT racing industry is in a precarious competitive position, facing a range of challenges, including its small scale; harness racing lacking a permanent home; lack of bargaining power with regard to the broadcasting of ACT races; and the likelihood that NSW racing industry will soon significantly raise prize money and become more attractive to owners. Each of these factors could have a significant impact on the short-term and long-term sustainability of the ACT racing industry.

The ACT racing industry is the smallest racing jurisdiction in Australia. In terms of most racing indicators, the ACT represents less than 1% of the Australian racing industry, while on wagering indicators the ACT represents approximately 1.2% of the Australian market.¹ This highlights the relative size of the ACT racing industry in comparison to the rest of Australia.

Historically, the ACT racing industry has been funded through payments from the government-owned totalisator, ACTTAB. However, in 2010 these funding arrangements were changed: a fixed level of funding is now provided for the industry through the ACT Government's Budget. The move to budget funding was driven by industry concerns about the competitiveness of ACTTAB and its ability to continue to support the racing industry. As shown in Figure ES.1, the move resulted in an increase in funding for the racing industry in real terms. The Commission notes that without the product payments from the race field legislation, under the current arrangements the racing industry would receive less in real terms in the future.

Figure ES.1 ACT racing industry, comparison of historical and estimated future funding (\$m, real 2008–09)



Source: ACT Treasury, Commission analysis.

¹ Australian Racing Board 2010, *Australian Racing Fact Book*, pp.12, 62.

The ACT racing industry is now concerned about the uncertainty involved in relying on budget funding (i.e. with no funding commitment beyond 2014), and is keen to secure a longer-term approach to funding.

The ACT racing industry has sought to justify its claims for ongoing financial support from the government based on its economic contribution to the ACT. There was considerable debate during the inquiry regarding the definition of the 'ACT racing industry' and its economic significance to the ACT. The Commission:

- considers that there is a separate ACT racing industry distinct from a wagering industry. This approach reflects the Commission's view that if the ACT racing industry were to cease operations there would not be a noticeable diminution in the viability of ACT wagering providers as only around 2% of wagering in the ACT is on races held within the ACT. In effect, the interdependency between the racing and wagering industries is significantly more heavily weighted to the ACT racing industry being reliant on the wagering industry than vice versa. While holding this view, for the purposes of estimating the economic contribution of the ACT racing industry the Commission included wagering conducted through ACTTAB on ACT races (i.e. 2% of wagering).
- notes that the value of the racing product derived from consumers outside the ACT who bet through an interstate wagering provider is only included to the extent that the value is reflected in the race field product payments received by the ACT racing clubs (and therefore included in the ACT value added). The value added generated by these interstate operators in their own jurisdictions as a consequence of wagers taken on races in the ACT, is not value added that can be included in the economic impact of the industry in the ACT. Nor can it be concluded that this value added represents a quid pro quo for the value added generated in the ACT as a consequence of ACTTAB's access to interstate racing product under the 'Gentlemen's Agreement'. Given that ACTTAB now pays the different jurisdictions for the use of the race field information, it does not rely on the Gentlemen's Agreement, it is highly unlikely that access to race field information from interstate would be lost if there were no ACT racing industry.
- undertook further analysis of the economic contribution of the ACT racing industry in order to address the methodological and data limitations of the 'top-down' estimate approach from the draft report. This analysis suggests that the 'bottom-up' estimate developed for this final report (approximately \$4.9 million to \$5.8 million for 2009–10) is relatively consistent with the initial 'top-down' assessment by the Commission (\$5.3 million to \$8.6 million in 2009–10).
- notes that ACG (Allen Consulting Group) estimates that the ACT-wide flow-on impact of this economic activity is 1.86 times the direct estimates, while the Commission's analysis determined that every \$1 spent on the racing industry increases the value added for the ACT economy by \$1.42.

In any case, the Commission does not consider the economic significance of the racing industry, or any other industry, to be, per se, a basis for government support. Any decision by the ACT Government to provide funding to the racing industry should be on the basis that there is a continuing market failure problem which ultimately needs to be resolved across all states and territories. However, recognising the time that this will take, and the uncertainty about what value the market will ultimately place on the racing product from the ACT, there is a case for government funding for the industry as a 'bridge' to a new national funding model which would need to be considered in the context of the competing claims of other social programs. Therefore, the funding decision should not be an attempt to determine the 'fair market value', but an interim

stage which would help to retain the industry (while still having a product-based element through the race field legislation) and encourage it to look for ways to further undertake reforms that will best position it for the challenges of the ‘national market’ for racing product.

The current funding arrangements do not provide the ACT racing industry with a significant degree of certainty beyond the completion of the current arrangements in 2014.

The primary concerns of the ACT racing industry prior to agreeing to the current funding arrangements were the decreasing performance of ACTTAB and the uncertainty of funding.

The Commission considered a number of different funding options for the ACT racing industry following the completion of the current arrangements:

- providing no budgetary funding
- maintaining budgetary funding
- reverting to ACTTAB turnover-based funding
- providing the racing industry with an interest in ACTTAB
- merging the racing industry with ACTTAB.

The Commission has concluded that re-linking the ACT racing industry with ACTTAB (either through reverting to the previous funding structure, providing the industry with an interest in ACTTAB, or merging the industry with ACTTAB) will not provide the solution to the circumstances that have led to the current situation. While ACTTAB appears to have made a considerable investment in upgrading its systems to provide customers with an expanded suite of products, it is still exposed to significant volatility in movements of VIP customers and there is no guarantee that ACTTAB’s performance will continue to improve following this investment.

The Commission also concluded that providing no budgetary funding at the end of the current arrangements (assuming no agreement on a national funding model has been reached) would have significantly detrimental effects on the racing industry. Therefore the Commission considers that if the ACT Government wishes to continue funding the ACT racing industry, it should continue to do so through the ACT Government Budget until a national funding approach is adopted. The Commission considers that funding should be inflated yearly from the current commitment on a CPI – X basis (with the suggested X of 1%).²

Funding for the ACT racing industry

If the ACT Government wishes to explicitly support the ACT racing industry after the current funding arrangements expire, it should continue to provide budgetary funding, inflated yearly at CPI minus 1%, at the 2013–14 Budget level.

If the ACT Government wishes to provide additional certainty to industry, it could consider providing support through a contractual agreement over an extended period.

In addition to existing budgetary support from the ACT Government, the racing industry has access to income associated with the sale of product fees (i.e. payments made by wagering operators for the use of race field information). Since March 2010, the ACT racing industry has received product payments of 10% of gross revenue from wagering operators throughout other

² A longer-term agreement such as this is similar to the funding arrangements for TasRacing, which has a 20-year commitment of \$27 million per annum (indexed at CPI minus 1%).

Australian jurisdictions, with approximately \$2 million generated over the first 11 months of the race field legislation.

While there is considerable debate in the racing industry about the appropriate basis on which product fees should be set (i.e. on turnover or gross revenue), the Commission considers that the current level (i.e. 10%) and structure of the product fee (i.e. on gross revenue) is appropriate. However, should other states change their arrangements (e.g. by tweaking the gross revenue model or the rate), the ACT should consider moving to adopt a similar approach.

Product payments

Gross revenue should continue to be the primary basis on which the product fee is calculated.

The current level of the product fee remains appropriate, but should be reconsidered if any of the major jurisdictions increase the level of the product fee.

To address some of the challenges facing the ACT racing industry, the Commission recommends that the ACT Government, in conjunction with the three racing clubs in the ACT, undertake a detailed investigation into the potential costs and benefits to the industry of amalgamating the three codes to create a single independent body. The Commission envisages that this independent body would abolish the current clubs and boards and create a new independent body that would make decisions on the racing industry as a whole. The advantage of a single independent governance and administrative arrangement is that it provides:

- some scope for administrative efficiency (although this is likely to be small)
- a single voice in broadcast negotiations
- a body that would make decisions for the whole of the racing industry
- a vehicle for making more efficient resourcing decisions (e.g. the split of funds across the codes, investment decisions such as track consolidation).

Structural and governance arrangements for the ACT racing industry

The ACT Government, in conjunction with the three racing clubs in the ACT, should undertake a detailed investigation into the costs and benefits of replacing existing administrative structures and establishing a single independent administrative body to oversee the management of the three racing codes.

Following the outcomes of the above recommendation for an independent administrative body to oversee the management of the three racing codes, the ACT Government, in conjunction with the ACT racing industry, should undertake a detailed investigation into the feasibility of co-locating the three different racing codes at the one location.

Allocation of funding among the codes

If an independent body is established to oversee ACT racing, the body should be provided with some discretion as to how funds are allocated across the three racing codes, reflecting the attractiveness of the racing product and the need for investment in each of the codes.

If government funding is to be provided directly to the three racing codes:

- *it should be shared on a basis agreed between the codes, or*
- *if agreement cannot be reached, it should be shared on the basis of a three-year rolling average of the product payments received by the ACT racing clubs.*

The Commission is conscious that there is a view that some form of a national funding model will emerge in the future. In this respect, the Commission believes that any funding arrangements should allow sufficient flexibility to enable a transition to a national model if in the ACT's interests. The Commission warns, however, that there is no guarantee as to the timeline for the development of any such model and, more importantly, there is a real risk that any such national model will not be in the interests of a small jurisdiction such as the ACT.

1 Introduction

1.1 Background

The ACT racing industry comprises three different racing codes—thoroughbred, harness and greyhound. Each of these codes is operated by a separate club within the ACT—the Canberra Racing Club (CRC), the Canberra Harness Racing Club (CHRC) and the Canberra Greyhound Racing Club (CGRC). As there is only one track under each code, each club is the ‘principal’ club within the ACT.

Since the establishment of legalised totalisators in the 1940s, licensed wagering operators in Australia (Totalisator Agency Boards, or TABs, and bookmakers) covered racing throughout the country but only paid product fees (a contribution from wagering operators to the racing industry based on turnover or net revenue) and taxes to the state in which they are licensed. The funding model originated with the advent of the state-based TABs and was widely referred to as the ‘Gentlemen’s Agreement’. In effect, each jurisdiction permitted wagering operators to accept bets on each others’ racing without the requirement to pay product fees. The arrangement existed regardless of the channel through which bets were taken (i.e. retail off course, retail on course, telephone or internet).

In this environment, the Racing Development Fund (RDF) was established under the *Betting (ACTTAB Limited) Act 1964* and required ACTTAB to pay the ACT Government an equivalent of 4.5% of turnover, which was subsequently distributed between the three racing codes in the ACT. This approach meant that the funding provided to the racing industry was dependent on the success of the ACTTAB and not necessarily linked to the success of the racing being provided by the three codes in the Territory.

The scope of the Gentlemen’s Agreement diminished as the wagering industry was deregulated, totalisators were privatised, new entrants such as corporate bookmakers and betting exchanges were formed, and the volume of bets with interstate operators grew. With the emergence of these different forms of wagering, the current wagering landscape is very different from the landscape that existed just 15 years ago. These developments have reduced the market power of the TABs (the government-owned ACTTAB for the ACT), and reduced the ability of the TABs (including ACTTAB) to finance the racing industry.

In order to tackle the gradual erosion of the Gentlemen’s Agreement, all state and territory governments except the Northern Territory have implemented legislation prohibiting the use of race field information (e.g. race times, starters, winners, etc) relating to races in one jurisdiction without an approval from that jurisdiction’s racing administrator. Within the ACT, the amended *Racing Act 1999* (which led to the introduction of the Racing (Race Field Information) Regulation 2010) has resulted in the ACT racing clubs receiving funding from wagering operators for the use of the clubs’ racing information.

In the 2010–11 Budget, the ACT Government, with the support of the ACT racing industry, provided the ACT racing industry with a level of budget funding commensurate with the funding the racing industry received from ACTTAB prior to the changes in the wagering landscape, as well as the product fees now collected through recently introduced race field legislation. In total, this amounts to approximately \$8.77 million in 2010–11, with the \$7.27 million in direct budget funding to be indexed annually by the consumer price index (CPI). This level of funding for the

industry is expected to be higher than that which would have been received under the previous arrangements.³

1.2 Review process

In light of the changes briefly outlined in section 1.1, in this review the Commission has been tasked with making recommendations regarding the:

- appropriate system of product payments under the race field legislation
- appropriate funding outcome for the ACT racing industry (i.e. the total quantum of funding)
- appropriate allocation of ACT budget funding amongst the three racing clubs
- future structure of the ACT racing industry.⁴

This investigation was referred to the Commission as an ‘industry reference’ under Part 3 (Investigations) Division 3.1 (Industry references) of the ICRC Act. The Commission is therefore bound by the procedures for conducting an investigation under the Act. Section 17 provides that the Commission must conduct an investigation as authorised by the terms of the reference.

As a first step in conducting the investigation, the Commission invited written submissions on the matters subject to the terms of reference through an issues paper, released on 2 November 2010. The closing date for submissions was 23 November 2010. The Commission received 12 submissions in response to the issues paper.

Following this, the Commission released a draft report on 20 December 2010 with submissions closing on 1 March 2011 and a public hearing on 22 February 2011. The Commission received 15 submissions and seven organisations/individuals participated in the public hearing.

1.3 Structure of this report

The remainder of this report is structured as follows:

- Chapter 2 provides the Commission’s analysis of the economic contribution of the ACT racing industry.
- Chapter 3 considers the value of the product payments received by the ACT racing industry.
- Chapter 4 considers the current and potential future funding arrangements for the ACT racing industry.
- Chapter 5 examines the structure and level of product payments under the race field legislation.
- Chapter 6 looks at the allocation of funding between the racing codes.
- Chapter 7 considers the structural and governance arrangements for the ACT racing industry.
- Appendix 1 reproduces the terms of reference.
- Appendix 2 provides a terms of reference concordance.
- Appendix 3 lists the consultations for the investigation.

³ Office of the Chief Minister 2010, *Funding model provides certainty to ACT racing industry*, accessed 26 October 2010 at <http://www.chiefminister.act.gov.au/media.php?v=9446&m=49&s=5>

⁴ The full terms of reference for this investigation are reproduced in Appendix 1.

2 ACT racing industry—definition and economic contribution

The terms of reference for the investigation require the Commission to undertake an investigation into the ACT racing industry, and then to examine the ‘economic impact of the racing industry in the ACT’.

The approach adopted by the Commission, consistent with the approach adopted by stakeholders in submissions and when appearing before the Commission, has been to focus on the economic value added by the ACT racing industry to the ACT economy, rather than the impact of the broader national racing industry on the ACT economy.

Over the course of this inquiry, there has been considerable debate as to:

- what constitutes the ACT ‘racing industry’
- methods for determining the value added by the racing industry.

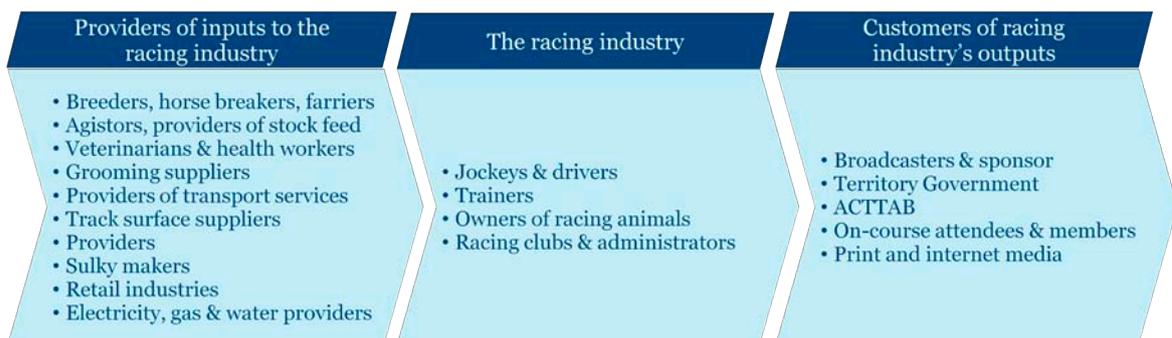
2.1 What is the ACT racing industry?

To ensure clarity, in the following sections the Commission has considered the definition of the ACT racing industry in terms of both its product boundary and its geographic scope.

2.1.1 Product boundary

The Commission considers it useful to view the ACT racing industry as comprising three recognised codes—thoroughbred racing, harness racing and greyhound racing—that sit in a supply chain as described in Figure 2.1. The Commission acknowledges that there are significant providers to and customers of the racing industry, but the boundary for the ACT racing industry should reflect that outlined in the figure.

Figure 2.1 ACT racing industry supply chain



Derived from: Cameron, A, *Correct weight? A review of wagering and the future sustainability of the NSW racing industry: a report for the NSW Minister for Gaming and Racing*, November 2008, p. 5.

In support of this approach to this industry definition, the Commission notes that the Australian Bureau of Statistics (ABS) views the ‘horse and dog racing’ (ANZSIC 9311) and ‘gambling

services not elsewhere classified' (ANZSIC 9329) industries as distinct industries.⁵ This view of distinct racing and wagering industries was the conceptual view advanced by the Commission in the draft report.

Industry stakeholders were concerned about the approach the Commission adopted in the draft report. Examples from their submissions follow.

- The three ACT racing clubs claimed: 'The belief that wagering and racing can be separated is overly simplistic. Racing and wagering exist in the same eco system and one cannot survive without the other'.⁶
- The CGRC noted: 'We believe that separating wagering and racing is not a simple matter nor is it relevant to do so.'⁷
- The CHRC claimed that the Commission's approach was 'in direct contrast to the Productivity Commission which states unequivocally that "wagering and racing are inextricably linked"'.⁸

The Commission is not convinced by the industry's position.

The Commission is still of the view that there is a separate ACT racing industry (i.e. distinct from wagering). This approach reflects the Commission's view that if the ACT racing industry were to cease operations there would not be a noticeable diminution in the viability of ACT wagering providers as only around 2% of wagering in the ACT is on races held within the ACT. In effect, the interdependency between the racing and wagering industries is significantly more heavily weighted to the ACT racing industry being reliant on the wagering industry than vice versa.

While the Commission maintains the view that there are distinct racing and wagering industries, it acknowledges the need to slightly redefine the industry boundaries employed in the draft report.

Therefore, the Commission now considers that it is appropriate to explicitly acknowledge the economic contribution of the ACT wagering industry generated by the ACT racing industry. Given that only around 2% of wagering in the ACT is on races held within the ACT, the Commission considers it appropriate to add 2% of the wagering industry's contribution to the core ACT racing industry for the purposes of estimating the economic contribution of the ACT racing industry.

2.1.2 Geographic scope

It is important to note that the racing industry in the different Australian jurisdictions is heavily interdependent, with horses, jockeys and other participants regularly moving between jurisdictions.

The terms of reference, however, require the Commission to consider the ACT racing industry's contribution to the ACT economy. The Commission has taken account of the value added from wagering on ACT races by ACT residents. ACTTAB also generates economic value from wagering on non-ACT races by ACT punters. However, this revenue is not dependent on racing occurring in the ACT and is not attributed to ACT racing. Racing clubs are directly compensated for the use of their product by non-ACT residents through race field product payments and this 'compensation' is reflected in the value added generated by racing clubs in the ACT. Similarly, ACTTAB makes product payments for its use of interstate racing product to racing clubs in other

⁵ This distinction is maintained in the newly revised standard industry classifications—ABS and Statistics New Zealand 2006, *Australian and New Zealand Standard Industry Classification 2006*, ABS cat. no. 1292.0.

⁶ Submission 16, p. 1.

⁷ Submission 21, p. 6.

⁸ Submission 19, p. 1.

jurisdictions which in turn is reflected in the value added generated by those clubs in their relevant jurisdiction. To the extent that ACTTAB generates value added on the wagering on these interstate races, this is not attributable to the ACT racing industry, and therefore is not part of the ACT industry's value added.

2.2 Economic contribution

In the draft report, the Commission focused on the ACT racing industry's direct contribution to the ACT economy. In this report, it also considers, as suggested by a number of industry participants, the indirect (i.e. flow-on) impacts of the industry on the broader ACT economy.

The Commission notes that there has been considerable discussion on the appropriate approach to determining the economic contribution of the ACT racing industry. This has been complicated by the fact that there are no boundaries on the use of the racing industry's product and therefore the downstream benefits can actually be generated in different jurisdictions.

In addressing the economic contribution to the ACT economy, the Commission's analysis has focused on the value added by the ACT racing industry. The Commission notes that product payments from interstate wagering providers received by the ACT racing clubs are incorporated into this analysis, thereby capturing the value added generated by the ACT racing industry as a consequence of the revenue returning to the ACT from the use of ACT racing product in other jurisdictions.

A number of stakeholders argued that the link between the racing and wagering industry means that if the ACT racing industry ceased to exist, so too would the ACT wagering industry, and that this should be considered when estimating the size of the ACT racing industry. However, given that ACTTAB is required to pay for the race field information of interstate jurisdictions, it would be likely to continue to have access to this information even if there were no ACT racing industry. Therefore, ACTTAB would not be relying on the previous Gentlemen's Agreement whereby it is able to use interstate race field information through providing funding to its own racing industry.

2.2.1 Direct impacts

A number of different estimates have been considered by the Commission in attempting to determine the direct contribution of the ACT racing industry. Research consultants IER Pty Ltd (IER) had previously undertaken analysis of the Australian racing industry, generating estimates of the broader economic impacts by each jurisdiction.⁹ In response to the issues paper, Access Economics (AE) provided its estimate of direct and indirect value added for the ACT racing industry, while the Commission undertook its own analysis to determine a proxy of the value added for the industry. In response to this, the Allen Consulting Group (ACG) was commissioned to provide its assessment of the value added for the industry. The draft report and the submissions received demonstrate the challenges associated with identifying the direct economic contribution of the ACT racing industry.

Many industry representatives were critical of the Commission's approach to the assessment of the economic contribution of the ACT racing industry. For example, Boag noted that:

The draft report is devalued by the Commission deriving estimates from ABS information that are contrary to accepted modelling. The report claims to seek to 'provide a better indication of the

⁹ IER, *Economic impact of Australian racing*, 2007.

contribution this industry makes to the ACT economy’ but should instead seek to base all finding on evidence and accepted practices. Such twisting of the facts presents a contribution figure that is vastly less than using accepted analysis and appears to be further bias against the Racing industry.¹⁰ There are two issues here that are confusing the debate on this issue, and in turn have the potential to confuse decisions that might be taken by the government on any future funding commitment to this industry.

The first point of confusion is the nature of the ‘accepted modelling’. The approach that has been taken by the various consultants and reports that have purported to consider the value added of the ACT racing industry to the ACT economy have been based on models that have included significant allowances for the value added that is generated by the ACT racing industry but is occurring outside the ACT. These ‘national’ models either do not address the issue of the value added that occurs within a particular jurisdiction or attribute to individual jurisdictions the value added that has occurred across the nation as a consequence of the value of the product that arises from races held within that particular jurisdiction. This approach results in an overestimation of the value added that has occurred within the jurisdiction of interest which, if included in a computable general equilibrium (CGE) model or some form of input–output based analysis, can result in estimates of the ‘economic value’ of the local industry that far exceeds any possible impact of the industry on the economy of the jurisdiction concerned (see section 2.2.2).

The second issue concerns the ‘top-down’ data that is used in the various reports by consultants and others which purport to measure the value added of the racing industry to the ACT economy. Two general approaches were evident in estimates presented in the course of this review:

- The Commission used racing industry-specific estimates for value added provided by the ABS. The benefit of this approach is the industry-specific nature of the estimates of the value added; the disadvantage is that the estimates were not current (i.e. 2004–05) and value added was not available for the ACT and had to be extrapolated from averages across other jurisdictions.
- AE and ACG used ABS National Accounts data to derive estimates of value added generated in the sports and recreation industry and used that to extrapolate an estimate for the ACT. The disadvantage of this approach is that the estimates bundled racing with other sports activities and assumptions had to be made to allow separation of the racing industry from other sporting activities.

The different approaches and data sources result in a range of estimates as shown in Table 2.1.

Table 2.1 Direct value added generated by the ACT racing industry (excluding wagering)

	Codes	Year	Value added (\$m)
ICRC draft report	All three	2009–10	5.3–8.6
Access Economics	Thoroughbreds	2008–09	11.6
Allen Consulting Group	All three	2009–10	25.0

Source: Submission 6 and Submission 20.

In addition to providing direct value added estimates, AE and ACG provided estimates on the indirect impacts of the ACT racing industry. These indirect estimates are discussed in more detail in section 2.2.2. The Commission accepts that there are indirect or flow-on effects of the industry; however, these need to be determined on the basis of the actual value added benefits that occur

¹⁰ Submission 25, p. 2.

within the ACT and are not linked to first round or direct effects that occur outside the ACT (or as a result of activities that are not related to the ACT).

The ACG submission uses CGE modelling to consider the overall impact (that is direct and indirect effects) of removing the ACT racing industry and the wagering sector from the ACT economy. The validity of this analysis is discussed in more detail in section 2.2.2.

Top-down approaches

Each of the top-down approaches submitted as part of this review has limitations (due to different assumptions and data issues) and results in different estimates. A significant limitation of these top-down approaches is that they have incorporated the value added that occurs outside the ACT in the value added attributable to the ACT. For the purposes of this investigation and the terms of reference that have been issued, the Commission remains of the view that it is better to seek to estimate the value added within the ACT (rather than the value added across the nation as a result of racing in the ACT) and to use racing-specific value added estimates, even if inferred from other jurisdictions, rather than making estimates based on much broader and larger non-racing specific results.

For example, the Commission is unconvinced of ACG's estimate of the value added generated by the racing industry. ACG describes the basis for its calculation in the following terms:

The value add contribution of the ACT racing industry can be determined using publicly available ABS data and definitions. From the Input-output tables:

- Approximately 2.4 billion dollars worth of racing was consumed domestically in 2005–06.
- Value add (the return to labour, capital and certain taxes) makes up approximately 38 per cent of the value add of the Sports and Recreation Industry of which racing is a part.
- So racing value add can be estimated to be approximately 900 million dollars in 2005–06.
- This indicates that a figure of 0.09 per cent of GDP (and thus GSP) for racing would be appropriate.
- Given GSP of \$27.8 billion for the ACT in 2009–10, the value add contributed by racing can be estimated at \$25 million.¹¹

The limitation of using data estimates for broader industry groupings is demonstrated by this approach. For example, it cannot be simply assumed that because from a 'national perspective' the estimated racing value added is 0.09 per cent of GDP this percentage automatically applies to the ACT economy. Similarly, in the ACG estimate, rather than using an estimate of the value added ratio from the entire sports and recreation industry, the Commission considers that it would be more appropriate to use the value added ratio estimated specifically for the Australian racing industry by the ABS (27%).¹² Substituting 27% for ACG's 38% leads to a revised value added estimate of \$18 million for 2009–10.

Bottom-up analysis

As a further check of the estimates shown in Table 2.1, the Commission undertook a bottom-up analysis to generate an original value added estimate. In undertaking that analysis, the Commission

¹¹ Submission 20, p. 11.

¹² See ABS cat no. 8686.0 custom data: Horse and dog racing, Customised Tables 3.1, 3.2: Sources of income, Items of expenditure (Reference period: 2004–05).

calculated the total value added for the industry in the ACT using the standard ABS and UN National Accounts definition.

The calculation of value added is based on:

- Operating surplus
- plus* wages and salaries
- plus* depreciation
- plus* any net indirect taxes

The operating surplus is derived from the income that the industry generates (from sources such as funding distributions, broadcast rights, product fee payments, sponsorships, race day activities etc) less the cost of intermediate demand for services and other direct costs such as wages and salaries, indirect taxes and depreciation.

Three components of the ACT racing industry contribute to the value added in the Territory:

- ACT racing clubs—the value added can be determined from the clubs’ annual reports.
- ACTTAB as it relates to wagering on ACT races—the value added can be determined from ACTTAB’s annual report.
- trainers within the ACT.

The estimated value added from the ACT racing clubs is shown in Table 2.2

Table 2.2 Value added (\$) by the three ACT racing clubs, 2009–10

	Canberra Racing Club	Canberra Harness Racing Club	Canberra Greyhound Racing Club	Total
Operating surplus	-199,453	-169,094	206,100	-162,447
Wages and salaries	874,967	121,283	202,066	1,198,316
Depreciation	1,321,090	101,486	64,818	1,487,394
Net indirect tax	0	0	0	0
Value added	1,996,604	53,675	472,984	2,523,263

Source: 2009–10 annual reports.

Note: Depreciation includes depreciation on RDF funded assets. Operating surplus incorporates revenue from product payments.

To this estimate needs to be added the portion of ACTTAB wagering activity associated with wagering on ACT races and the value added from the trainers.

As noted earlier, if including the wagering industry in a broader concept of the economic contribution generated by ACT racing it is only appropriate to make allowance for the value added generated by wagering on races in the ACT. As only 2% of wagering in the ACT is on races that occur within the ACT, the value added of ACTTAB needs to be discounted by 98% for the purposes of calculating the economic contribution of ACT racing.

Table 2.3 Value added (\$) by ACTTAB, 2009–10

	Total ACTTAB	ACT racing related ACTTAB (2%)
Operating surplus	-1,081,000	-21,620
Wages and salaries	6,958,000	139,160
Depreciation	1,394,000	27,880
Net indirect tax	0	0
Value added	7,271,000	145,420

Note: No payroll or GST in financial statements.

Looking now at the value added generated by trainers, an estimate of the total training turnover was derived by members of the Canberra Thoroughbred Racing Trainers. This estimate was based on an average trainer’s fee per horse and the number of horses being trained within the ACT. This approach resulted in an estimate of \$8.2 million in revenue for trainers within the region. An estimate of the revenue for trainers of harness race horses and greyhounds has not been undertaken as the vast majority of these are hobby trainers and therefore the resulting turnover would not have a material impact on the amount.

Taking the value added ratio of:

- 38% for the ‘Sports and Recreation Industry’ identified by ACG¹³ suggests a value added from thoroughbred training of about \$3.1 million per year
- 27% for the racing industry (discussed above) suggests a value added from thoroughbred training of about \$2.2 million per year.

Putting these sources of value added together suggests an estimated value added for the ACT racing industry of approximately \$4.9 million to \$5.8 million for 2009–10.

The advantage of this bottom-up approach is that it is derived directly from the records of the ACT industry itself. It does not generally rely on adjustments to ‘top-down’ estimates, although allowance has been made for two estimates of the value added generated by the thoroughbred training activities in the ACT. It is also acknowledged that the value added estimate will vary from year to year depending on the financial performance of ACTTAB (which although it reports a negative operating surplus for the year, makes only a small contribution to the relevant total estimate of value added) and the CRC and CHRC, both of which reported a negative operating surplus in 2009–10.

However, what the bottom-up approach demonstrates is that the direct value added of the industry (including the relevant wagering value added) is broadly in line with the estimate of the direct value added identified in the Commission’s draft report.

2.2.2 Indirect and spillover effects

Indirect effects

The ACT racing clubs and other stakeholders¹⁴ were critical of the Commission’s draft report on the basis that the Commission focused on the direct economic contribution of the racing industry rather than acknowledging the flow-on benefits that the racing industry may generate for the

¹³ Submission 20, p. 11.

¹⁴ See Submission 11.

broader ACT economy (i.e. the industries shown upstream and downstream of the racing industry in Figure 2.1).

As a result, ACG was commissioned by the ACT racing clubs to assess the direct and indirect benefits of the ACT racing industry. Using a CGE model, ACG estimated the impact of the racing industry by comparing the model's status quo outcomes with a scenario 'where the ACT racing industry is removed from the economy'.¹⁵

Summarising the ACG report, the ACT racing clubs suggest that 'the ACT Racing Industry creates significant multiplier effects from the funding provided by the ACT Government through its annual budget'.¹⁶ Indeed, ACG reports that 'for every \$1 dollar reduction in the racing industry, the ACT economy's economic output would fall by \$1.86'.¹⁷

The Commission has a number of concerns about the modelling approach employed by ACG:

- The Commission remains concerned that the direct size of the ACT racing industry is overstated, and hence the indirect dollar and employment estimates are overstated. It is for this reason that the Commission refers to the multiplier above rather than the absolute values for the model outputs.
- The racing industry is not well specified in the model. ACG notes that 'The shutdown of the ACT racing industry is modelled as a 3 per cent reduction in the output and investment in the "other services" sector in the ACT (The proportion estimated using ABS tables 5209.0 and 5215.0)'.¹⁸ However, as a consequence of this assumption, the relativities in the model's database most likely reflect the other 97% of economic activity in the 'other services' sector, rather than any relationships inherent in the racing industry. This means that the results in aggregate are likely to be a poor representation, and most certainly are in terms of the sectoral impacts presented.
- Even if an industry can be specified with some degree of precision in the relevant CGE model, simply removing an industry from a CGE model does not provide an effective guide for policy development. It is an unrealistic assumption, because the industry relativities in the model assume that an industry exists, and there is no grounds for assuming that the relativities remain the same in the absence of a specific industry (unless in turn it is argued that the relative size of the industry is trivial). It is for this reason that Australia's pre-eminent CGE modellers argue that 'While CGE simulations can quantify an industry's potential contribution to the economy, they are not of direct relevance to policy discussions unless they are linked to policies'.¹⁹

The Commission also notes that CGE modelling is impractical for relatively small adjustments (i.e. shocks) given that the results will be very small percentages of the regional economy and hence subject to significant margins for error.

¹⁵ Submission 20, p. 15.

¹⁶ Submission 16, p. 1.

¹⁷ Submission 20, p. 23.

¹⁸ Submission 20, p. 18.

¹⁹ See P Dixon and M Rimmer, *Measuring contributions to the Australian economy: the benefits of a fast-growing motor vehicle and parts industry*, Monash University, Centre of Policy Studies/IMPACT Centre Working Paper G-138, 2003, p. 16.

Given these concerns about the CGE modelling in this case, the Commission considers that there may be an easier way to analyse the potential flow-on (i.e. indirect) impacts associated with a contraction of the ACT racing industry.

While less sophisticated, the Commission considers that the key issue at hand can be illustrated by the use of a regional input–output (I–O) model. I–O analysis is described in Box 2.1. To do this the Commission relied on a PricewaterhouseCoopers (PwC) I–O model of the ACT economy derived from the database employed by the TERM CGE model (from the same model foundations as the Monash Multi-Regional Forecasting model used by ACG).

Box 2.1 An overview of input–output (I–O) modelling

Input–output (I–O) tables contain a detailed record of all the flows and stocks within an economy for a given year. They record the activity of each industry within a region, as well as the economy in aggregate. By detailing the intermediate input use of all sectors, they highlight the dependencies between industries, and which industries are most important to the regional economy. Input–output tables include full details for both sales and costs of all industries, including payments to labour (and sometimes the number of people employed), payments to the owners of capital, tax payments, import expenses and the cost of intermediate inputs. They also include a full accounting of final demands in an economy: household consumption, government absorption, investment, inventories and exports. Using the sales and cost information, I–O tables provide an easy method of examining and decomposing gross regional product from both the income and expenditure perspective of the national accounting framework.

I–O models use the data contained in an I–O table to estimate the way a particular policy or project will impact on the rest of the economy. They do this based on assumptions about the behaviour of the economy, using the initial I–O table as the starting point.

I–O models are used to make estimations of the way that a particular policy will impact on the broader regional economy. The models use the existing input mix in the economy to extrapolate the way the mix and size of the economy would change subject to an increase in demand or spending.

I–O models have several strengths that make them ideally suited to regional economic analysis:

- The assumptions in the theory of I–O models mean they are not suited to large open economies, where prices adjust and factors are available in limited supply. However, this makes them more realistic for relatively small (including regional) economies, which can draw factors from nearby regions.
- I–O models offer a simple way of estimating economic impacts. Since the modelling tool itself is not overly advanced, this makes the results of I–O techniques relatively easy to understand for a non-technical audience. Similarly, they are a well-known technique, with an established literature.
- I–O models offer a convenient method of decomposing model results. The impact on the economy can be broken down in to first round, industrial support, consumption, and total impacts.
- Most importantly, due to the I–O tables underpinning the models, I–O models can map the interconnections in an economy in a way that accurately reflects regional industry mixes.

While I–O models also have several limitations*, for the purposes of understanding regional and sectoral interconnections and the relative contribution of industries in smaller regions the limitations are not considered significant.

* For limitations associated with multipliers, see I Rama and P Lawrence, *Partial multipliers: when more is less*, 2009.

The PwC I–O model provides a series of multipliers for the ACT economy. A multiplier is a measure of the degree of impact that a given dollar of spending will have on the broader ACT economy after all the interconnections have been taken in to account. Table 2.4 outlines the impact that a \$1 million increase in each of the industry sectors listed would have on the ACT gross state product (GSP). It shows that a \$1 million injection into the sporting industry would result in a \$1.422 million increase in the ACT’s GSP.

Table 2.4 Impact on value added of \$1m expansion in ACT industries’ output

Industry	Impact on GSP (\$m)
Health	1.654
Government administration	1.550
Arts	1.539
Defence	1.469
Retail trade	1.447
Sport	1.422
Gambling	1.390
Child care services	1.380
Residential building	1.375
Construction services	1.372

Source: PricewaterhouseCoopers input–output model of the ACT economy.

The effective multiplier effect of 1.422 from the PwC I–O model is in comparison to the 1.86 multiplier that was derived by ACG through its CGE model.

The Commission is of the view that the flow-on benefits of racing for the ACT economy as a whole are not significantly different from the proportional flow-on benefits from other ACT industries. This is evident from the multipliers shown in Table 2.4. Furthermore, these multiplier effects include the full consumption and production effects, and do not account for the effect of expenditure on ACT racing product which might be diverted to other activities in the ACT should the racing industry cease to exist. Thus, they represent an overestimate of the actual impact as at least some part of this expenditure could be expected to be diverted to other activities, which would compensate for some of the implied loss in value added in the ACT.

The ACG analysis also estimated that the closure of the ACT racing industry would result in a loss of 451 jobs for the ACT economy. Given the earlier discussion on the ACG analysis, the Commission has undertaken its own analysis of the estimate of direct and indirect employment for the ACT racing industry.

In providing a comparison of the total number of direct and indirect number of jobs within the ACT racing industry, the Commission has

- undertaken a bottom-up analysis of the direct FTEs for the ACT racing industry; and
- applied the cost of the direct FTEs to the PwC I–O model to determine the indirect FTE impacts for the ACT racing industry.

The bottom-up analysis consisted of using available information from the annual reports of the racing clubs and ACTTAB, with some further clarifying information required in relation to the CRC and CGRC FTE estimates. The estimate of the training component of the industry was derived through discussions with the training industry and assumptions on salaries of employees. The Commission undertook this bottom-up analysis to provide an estimate more tailored to the ACT racing industry itself than an estimate derived from the top down, which relies on assumptions concerning valued-added allocations between the jurisdictions.

The Commission understands that there are 22 thoroughbred trainers working within the ACT. The Canberra Thoroughbred Trainers Association advised that, on average, trainers in the region employ approximately 7–8 stablehands, most in full-time positions. The Commission has therefore estimated that trainers within the region would have approximately 5 FTEs working for them over the year.

In deriving an estimate for the wages of stablehands, the Commission notes that the minimum wage for stablehands is approximately \$29,000.²⁰ For the purposes of this analysis, and recognising that some stablehand staff will be part time and juniors, it is assumed that the average wage is \$29,000.

The Commission has assumed that trainers effectively are owners and therefore share in the operating surplus generated by the businesses concerned. However, in the FTE employment estimates, the trainers have been included and, as discussed below, the indirect effects from their ‘employment’ in the industry is reflected in the multiplier effects outlined below.

Table 2.5 outlines the outcomes of this analysis, with the estimate of 162 direct FTEs for the ACT racing industry. The Commission notes that this number of employees is largely driven by the number of stablehands that are employed by the ACT thoroughbred trainers.

Table 2.5 Number and cost of direct FTEs for the ACT racing industry, 2009–10

	FTEs	Wages expenditure (\$)
Canberra Racing Club	19.5	875,967
Canberra Harness Racing Club	4	121,283
Canberra Greyhound Racing Club	5	202,066
ACTTAB	1.5	139,160
Trainers—owner operators	22	Not applicable
Trainers—stablehands	110	3,520,000
Total	162	4,527,000

Based on the PwC I–O model, the labour income multiplier for the indirect component of the sports industry sector is 2.04 of the direct component. Therefore using the level of income from the

²⁰ Horse and Greyhound Training Award 2010, p. 10.

direct wages and salaries derived above (\$4.5 million), the estimate for the indirect labour income of the industry was \$9.2 million.²¹ As these indirect impacts are across the ACT economy, the Commission has used the average wage for the ACT in 2009–10 (\$64,400) to determine an estimate of the number of jobs this increase in labour income implies in employment for the ACT economy.²² This results in an estimate of indirect FTEs for the industry of 143. Therefore the Commission estimates that the combined number of direct and indirect FTEs attributable to the ACT racing industry (including trainers) is 305. This is less than the ACG estimate of 451, but still represents a material number of jobs for the ACT economy.

One of the flow-on impacts that could also be considered relates to the generation of economic activity that is captured in part by government taxation. Indeed, the terms of reference require that the Commission consider the benefit that the ACT Government receives through ACTTAB's use of race field product from the ACT racing clubs and interstate racing clubs.

The ACT Government is a direct beneficiary of the racing and wagering industries through its collection of taxes on racing-related wagering. However, the Commission notes that racing taxes are a minor component of total ACT taxation (Table 2.5), and indeed are a diminishing component of gambling taxes in the ACT.²³

Table 2.6 Sources of ACT taxation (\$m)

	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10
Total gambling taxes	43	43	45	50	48	47	48	52	51	53
Taxes on government lotteries	5	4	5	6	6	6	7	7	9	10
Taxes on private lotteries	8	8	8	7	7	7	7	6	5	6
Taxes on gambling machines	27	27	28	33	31	31	31	35	34	34
Casino taxes	2	2	2	2	2	2	2	2	2	2
Race betting taxes	1	2	2	1	1	1	1	1	1	1
Other ACT taxes	618	553	659	723	718	801	932	1,036	1,036	1,103
Total	661	596	704	773	766	848	980	1,088	1,087	1,156

Source: ABS 2010, *Taxation Revenue, Australia, 2009–10*, cat. no. 5506.0.

Note: 1999–2000 was not used as a comparison due to changes from the introduction of the GST.

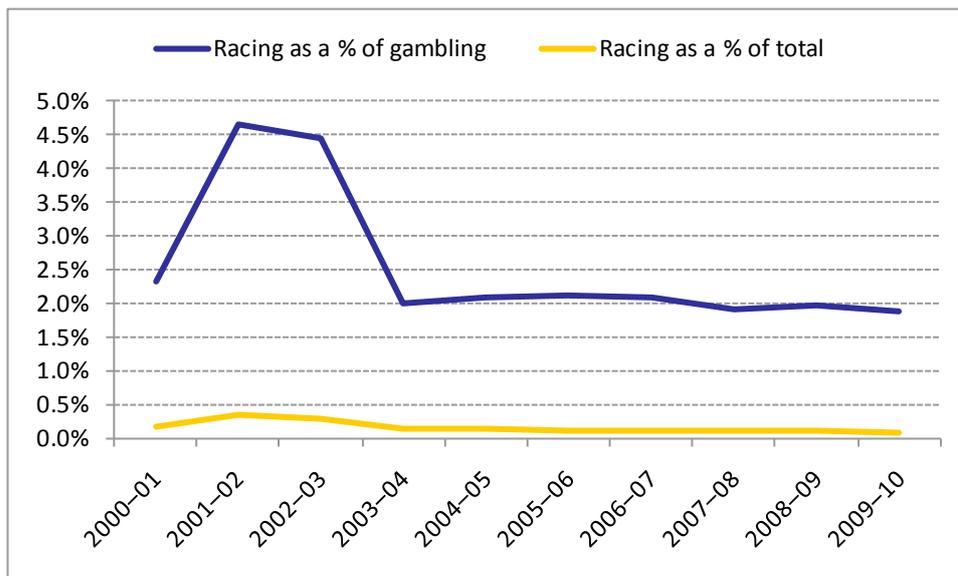
Drawing on the data in Table 2.6, Figure 2.2 shows the decline in the relative importance of racing taxes to the ACT Government over time. The Commission notes that many of the states have reduced their wagering tax rates in an attempt to attract corporate bookmakers or to provide local wagering providers with a playing field more like that for providers operating out of the Northern Territory.

²¹ The derivation of the labour income multiplier is linked to the calculation of the value added multiplier for the industry, which in turn captures the impact of owner–operator trainers 'income' from the operating surplus of their training businesses.

²² ABS, cat. no. 6302.0, November 2010.

²³ ABS 2010, *Taxation Revenue, Australia, 2009–10*, cat. no. 5506.0.

Figure 2.2 Relative importance of racing taxes in the ACT



Source: ABS, Taxation Revenue, Australia, 2009–10, cat. no. 5506.0, 2010.

This information highlights the fact that the ACT Government does not receive a direct material benefit as a result of the taxation of wagering. Table 5.1 shows the dividends and licence fees paid by ACTTAB to the ACT Government since 2002–03. It can be seen that the dividends received by the ACT Government have declined considerably in recent years, although this is expected to improve in future years as under the current industry funding arrangements, ACTTAB is no longer required to contribute to the Racing Development Fund.

Table 2.7 Sources of ACT taxation (\$ '000s)

	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10
Dividends received	573	1,228	3,563	3,265	2,764	828	128	\$0
Licence fees	3,723	3,758	3,801	3,911	4,107	4,155	4,248	4,343

Source: ACT Treasury.

Again, the Commission notes that the activity underpinning the payment of the licence fees and dividends by ACTTAB relate primarily to wagering on non-ACT races and thus cannot be considered a direct result of the existence and operation of the ACT racing industry.

Spillover effects

Spillover effects relate to secondary effects of the industry or event. The industry has argued that there are a number of spillover effects, including the effect of the various major racing events on the fashion industry in the ACT. However, the Commission considers that the primary spillover effects from the ACT racing industry relate to the tourism industry, attracting customers to the ACT for a separate holiday resulting from attending or viewing on Sky Racing an ACT race meet.

To the extent that racing fans come to Canberra as tourists as a result of their association of Canberra with the racing industry, this ‘visitor attraction’ impact could be significant. However, it is likely that only a small percentage of racing fans, having visited Canberra for a race meet or viewed Canberra races on television, have been attracted to the ACT for a non-racing tourist visit. In addition, a large number of those actually attending the race meets would be from a nearby

region of the ACT and therefore unlikely to come back to Canberra specifically for a holiday destination.

Given the decreasing attendance at these events, the Commission expects that the tourism spillover effects would be relatively minor. The Commission considers that its analysis of the multipliers associated with the ACT racing industry in the previous section effectively allowed for any potential spillover effects of this nature.

The Commission also acknowledges that there are a number of wider social spillover impacts, both positive and negative, resulting from the racing industry. These impacts can have a material impact on the wider society; however, it is quite difficult to quantify their impact in any meaningful sense. This is the same quantification problem faced by other sporting industries in the ACT such as Super Rugby, the National Rugby League, the Women's National Basketball League and the Australian Football League, all of which also have both positive and negative impacts on the wider community. A listing of these spillover effects (such as participation in encouraging school sport activities, appearances at charity and community events, and creation of 'community pride' in sporting success) only serves to highlight the similarity in these types of spillover effects without necessarily downgrading the importance of any one to the relevant section of the community to which they are directed.

2.3 Conclusion

Estimation of the economic contribution of the ACT racing industry has generated considerable stakeholder comment and criticism during the review.

The estimation of the economic contribution of the ACT racing industry should be focused on the direct value added by the industry to the ACT economy. The value added generated by the ACT racing industry should include the value added attributable to wagering on ACT races within the ACT, plus recognition of the product payments that the ACT clubs receive for their product from interstate betting agencies. Inclusion of the total value added generated by ACTTAB in the value added for the ACT racing industry overestimates the ACT racing industry's value added as nearly all of ACTTAB's value added can be attributed to non-ACT racing product. Furthermore, as ACTTAB now pays product fees to other jurisdictions for the use of their race field information, if the ACT racing industry were to cease to exist the ACT wagering industry would continue to operate and generate value added within the Territory.

Further analysis of the economic contribution of the ACT racing industry suggests that:

- the initial 'top-down' assessment by the Commission of direct value added (\$5.3 million to \$8.6 million in 2009–10) is relatively consistent with the 'bottom-up' estimates developed for this report (approximately \$4.9 to \$5.8 million for 2009–10)
- the bottom-up approach, drawing directly from ACT racing clubs' own records and those of ACTTAB, provides a more soundly based estimate of the direct value added generated by the ACT racing industry, avoiding the methodological and data limitations of the top-down approach.

However, the Commission warns against a myopic focus on a specific estimated dollar value of economic contribution, given that every methodological approach employed during this review has both strengths and weaknesses.

The Commission considers that tourism spillover effects from the ACT racing industry would be relatively minor. The Commission considers it unlikely that a large proportion of those attending or viewing ACT race meets will return to Canberra for a non-racing visit or holiday. Other spillover effects will not be dissimilar to those generated by other sporting activities, although the particular types of spillovers will vary from one sporting activity to another.

The Commission considers that the direct contribution of the racing industry is the best measure of its importance to the community as a whole. This reflects the Commission's view that in terms of the estimates provided of the indirect effects:

- the CGE modelling presented by ACG²⁴ is of limited value given the small contribution of racing to the 'other services' sector and hence the generalised nature of the analysis
- all industries have flow-on consequences, and the relative multiplier value of racing is not as significant as the multipliers for other industries that the government supports or could support.

Given these observations, the Commission is of the view that the size of the ACT racing industry's direct contribution to the ACT economy is relatively small in the context of the ACT economy as a whole.

Furthermore, if the justification is that government funding of racing (discussed in subsequent chapters) should be contributed to activities that maximise the broader flow-on benefits for the community (that is, indirect and spillover effects), the Commission is of the view that the ACT Government could also fund other activities with similar or greater economic benefits.

Given these concerns about reliably estimating the economic contribution of the industry, and its apparent relatively small economic contribution, the Commission does not support funding models that make explicit reference to the economic contribution of the racing industry.²⁵ The Commission nonetheless recognises that the racing industry is part of the social fabric of the ACT community and that public funding of social pursuits in the context of a well specified budget process is a legitimate role of government.

The Commission acknowledges that there are a number of broader social impacts, both positive and negative, resulting from the racing industry. These impacts can have a material impact on the wider society; however, it is quite difficult to quantify their impact in any sense. This is the same issue faced when 'valuing' other sporting industries such as Super Rugby, the National Rugby League, the Women's National Basketball League and the Australian Football League, all of which have both positive and potential negative impacts on the wider society. These wider social impacts do not provide the basis on which a decision to provide budget funding should be made. However, these spillovers are recognised, and to the extent that beneficial spillovers can be maximised (while minimising negative spillovers), the opportunity to use budget funding for this purpose is generally acknowledged.

²⁴ See Submission 20.

²⁵ Such approaches were advocated by the Canberra Racing Club—see Canberra Racing Club Presentation, Public Hearing (22 Feb 2011).

3 Value of product payments

This chapter addresses the current value of the racing product issue in section 1b) of the Commission’s terms of reference by providing an understanding of the absolute and relative value of the product payments generated by the ACT racing industry. The chapter also considers the current net value of product payments by comparison with other jurisdictions, and a comparison of payments against other factors such as full-time employee estimates—Terms of Reference 1 c) and d). In the absence of a clear price for racing product the Commission has estimated the value of the racing product from what consumers have paid for the use of the product through the product payments.

3.1 Product payments for ACT racing

The product payments received by the ACT racing industry relate to the payments made by wagering operators for the use of race field information. Since March 2010 the ACT racing industry receives product payments of 10% of gross revenue from wagering operators in other jurisdictions.

The product payments that have been collected by the ACT Gambling and Racing Commission since the introduction of race field legislation (an 11-month period) are approximately \$2 million. Table 3.1 outlines the product payments that have been received by the ACT racing clubs thus far.

Table 3.1 Product payments received by ACT racing clubs (\$), 2010–11

	Thoroughbred	Greyhound	Harness
March	182,434	24,986	18,827
April	130,744	32,517	8,744
May	81,689	32,198	23,793
June	41,010	31,663	0
July	145,971	30,711	0
August	180,487	45,257	17,746
September	168,345	33,162	40,688
October	120,137	43,810	15,812
November	151,164	39,398	33,956
December	85,762	14,680	14,004
January	102,649	43,332	36,147
Total	1,390,391	371,715	209,717

Source: ACT Gambling and Racing Commission.

Although the introduction of race field legislation has allowed the ACT racing clubs to collect product payments for their product, it should be noted that while the ACT racing industry receives a benefit from these product payments, ACTTAB is required to pay similar product payments to other jurisdictions. In 2009–10, ACTTAB was required to pay \$2.3 million to other racing jurisdictions for the use of race field information. Based on the product payments that have been collected thus far by the ACT racing clubs, this amount is more than the clubs receive for the use of their race field information by wagering operators in other jurisdictions.

In other jurisdictions, the net position can impact on the quantum of funding for the industry. For example, the arrangements under the joint venture between the Victorian racing industry and Tabcorp mean that the payments by Tabcorp for the use of race field information for other jurisdictions impact on the level of funds the industry receives from Tabcorp. The funding for the ACT racing industry however is not impacted by the payments by ACTTAB for the use of race field information for other jurisdictions.

In reference to section 1b) of the terms of reference, the Commission notes that the potential for the industry to grow this revenue for its racing product is limited by certain external factors such as the fee levels set by larger jurisdictions and the timeslots available to the ACT racing industry. Chapter 7 outlines two approaches that could assist the industry in growing this revenue in the future.

In the absence of a national payments system which might negotiate product payments that better reflect the value of racing product to the wagering industry, it is too early to determine if the product payments will support an economically efficient level of racing activity in the ACT.

3.2 Comparison with other jurisdictions

Paragraph 1 d) i of the terms of reference requires a comparison of product payments in the ACT with those in other jurisdictions. In considering the total product payments received, the Commission has incorporated the product payments received by racing industries from their home TAB (through the Gentlemen's Agreement).

The following tables (3.2 to 3.4) have been drawn from AE's submission to the issues paper, with the Commission applying its analysis on the numbers submitted. Table 3.2 shows the racing industry product fees across all jurisdictions. Wagering activity includes all forms of wagering (i.e. TAB, on course, off course, fixed odds and bookmakers, for thoroughbreds, harness and greyhounds combined). It should be noted that the wagering information is based on where the wager was placed, not where the race was being held. The existence of a significant number of corporate bookmakers in the Northern Territory and the fact that TABs can hold wagers for races interstate have an impact on this analysis.

Table 3.2 Racing industry product fees, 2008–09

State	Product fees from wagering operations (\$m)	Total wagering of all codes (\$m)		Product fees as % of wagering	
		Turnover	Gross revenue	Turnover	Gross revenue
NSW	237.0	5,415.3	847	4.38	27.98
Vic.	321.0	4,395.1	696.5	7.30	46.09
Qld	124.9	2,474.1	393.7	5.05	31.73
WA	108.0	1,689.8	279.5	6.39	38.63
SA	40.5	815.0	101.9	4.96	39.70
Tas.	30.8	671.9	105	4.58	29.33
ACT	7.7	216.7	34.3	3.54	22.32
NT	8.7	3,691.3	193.4	0.23	4.48
Total	878.5	19,369.0	2,651.3		
ACT/Total	0.90%	1.10%	1.30%		

Source: Submission 6, p. 17.

In analysing the numbers provided by AE, the Commission could not accurately recreate the product fees that AE states are received by the different jurisdictions. However, the Commission has accepted the AE numbers as reasonable approximations for the funding received by the racing industries.

It is important to clarify the distinction between product payments and other payments. In Victoria, for example, Tabcorp pays a variety of fees through its agreement with the Victorian racing industry. The \$321 million that AE used appears to incorporate the profit-sharing agreement and fixed program and marketing fees agreed to between the Victorian racing industry and Tabcorp. The agreement between the Victorian racing industry and Tabcorp was made at the time of the privatisation of Tabcorp.

The Commission acknowledges that these other funds are being provided to the racing industry; however, these are not product payments per se. Other funding arrangements agreed to by the wagering providers and the racing industry do not necessarily reflect the product payments that are designed to reflect the value of the racing product, such as marketing fees for the industry.

This type of comparison is distorted by the information that is available through wagering. Table 3.2 provides a comparison of the product fees for a jurisdiction as a percentage of the wagering that is undertaken within the jurisdiction. Given that only 2% of the turnover of ACTTAB relates to the ACT racing industry, this comparison does not provide a reflection of the wagering value that is generated through the funding of the racing industry in the ACT. By comparison, in other jurisdictions (with the exception of the Northern Territory), a much larger proportion of the wagering relates to the racing product in those jurisdictions.

Table 3.3 outlines AE’s estimate of the product fees on a per capita basis for both the total and adult population in each jurisdiction.

Table 3.3 Product fees per capita, 2008–09

State	Product fees from wagering operations (\$m)	Population measure		Product fees/capita (\$)	
		Total ('000)	Adult (18+) ('000)	Total	Adult (18+)
NSW	237.0	7,133	5,473	33.22	43.31
Vic.	321.0	5,448	4,227	58.92	75.95
Qld	124.9	4,427	3,356	28.22	37.23
WA	108.0	2,247	1,715	48.04	62.97
SA	40.5	1,625	1,272	24.91	31.82
Tas.	30.8	503	385	61.20	80.04
ACT	7.7	353	273	21.73	28.05
NT	8.7	226	164	38.31	52.98
Total	878.5	21,963	16,863	40.11	52.09

Source: Submission 6, p. 18.

Table 3.4 shows the amount of economic benefits per \$1 of racing industry product fees. AE states that this only includes estimates from the thoroughbred industry, with the economic benefits from greyhounds and harness for all jurisdictions not available and therefore not included. The value added considered in this analysis was provided by AE in an earlier submission. These estimates of value added and FTE have been discussed in more detail in Chapter 2 and the Commission considers them to be an overestimation due to the ‘top-down’ approach used by AE and the ‘full multiplied value’ being used.

Table 3.4 Economic benefits per \$1 of racing industry product fee, 2008–09

State	Product fees from wagering operating (\$m)	Economic indicator		Impact per \$ of fees	
		FTEs	Value added (\$m)	FTEs	Value added (\$m)
NSW	237.0	16,042	1,693	67.7	7.14
Vic.	321.0	15,836	1,759	49.3	5.48
Qld	124.9	7,683	695	61.5	5.56
WA	108.0	3,555	356	32.9	3.30
SA	40.5	2,886	259	71.3	6.40
Tas.	30.8	636	62	20.6	2.01
ACT	7.7	431	48	56.3	6.27
NT	8.7	1,608	169	185.6	19.51
Total	878.5	48,677	5041	55.4	5.74

Source: Submission 6, p. 19.

Note: FTEs = full-time equivalent employees.

AE’s estimates of FTEs and value added were obtained through IER’s assessment of the economic impact of the Australian racing industry. The Commission highlighted in Chapter 2 its concerns in relation to the value added estimates derived by AE and other consultants used by the industry. The Commission considers the actual contribution to value added for the ACT economy to be significantly lower than that reported by these studies. However, the Commission notes that it is quite difficult to determine accurate estimates of the value added by the racing industry across the different jurisdictions and a number of different approaches have previously been undertaken.

Thus, there are also difficulties in interpreting the value added and FTE estimates presented for the other jurisdictions.

While the information used in Table 3.4 indicates that there are 431 full-time employees of the ACT thoroughbred racing industry, the Commission considers this estimate to be inflated (see discussion in section 2.2.2). The FTE estimates provided by the Commission suggest that the FTE may be closer to 305.

Notwithstanding these fundamental data problems, the Commission notes that the use of these comparisons and ratios can distort a dispassionate understanding of the value of product payments made in the ACT by comparison to other jurisdictions. For example, Table 3.3 implies that the ACT has the lowest level of product fees per capita²⁶, whereas Table 3.4 indicates that the ACT has a higher number of FTEs per dollar of product fees than a number of jurisdictions. On face value this would imply that as the ACT generates a greater benefit from a lower level of product fees, there is no need for any increase in these fees on a per capita basis. However, it is also consistent with the Commission's finding that the FTE estimates provided by AE are overstated. This serves to highlight the difficulty encountered in attempting to use this type of information for the purpose of making comparisons between the jurisdictions and in drawing conclusions regarding the level of funding support that should be provided to the industry.

The unique set of circumstances faced by individual jurisdictions in terms of the funding of their respective racing industry and the value added that is generated within their jurisdictional boundaries needs to be fully understood before any attempt can be made to use such information in the manner proposed in submissions made to the Commission. Given the imprecision that is involved in this task, the Commission is not convinced that such analysis, even using the data provided by consultants engaged for this purpose by the ACT racing industry, is of much help in addressing the inquiry's terms of reference.

3.3 Conclusion

The Commission noted in the draft report that while the terms of reference outlined these factors for this comparison, they do not necessarily form the best policy basis to justify funding decisions.

Each different jurisdiction has different characteristics and agreements that impact on the level of funding received and the level of racing product that is supplied. These jurisdictional comparisons, however, do not imply that the ACT racing industry should necessarily receive a certain amount of funding in order to meet certain comparison criteria as a basis for funding decisions.

²⁶ This may not necessarily be a bad outcome for ACT residents as the draft report highlighted that ACT residents had the lowest level of wagering per capita of any state or territory.

4 Funding for the ACT racing industry

Notwithstanding that there are no boundaries restricting the racing industry and there is a national market for the use of race field information, the pricing for this information has evolved through state-based legislation. The price for racing product within Australia is established through a mixture of legislation and arrangements with the racing industry and wagering providers. Therefore, there is no market-based function to determine the optimal price for, and level of, racing product for the industry. The current situation of product payments does not allow for any price signals or market-determined price to assist in determining an approximate market value for the industry.

This lack of an operating market to determine the price creates difficulties in attempting to approximate the levels of financial support that accurately reflect the value of the transfer of racing product from the producer to the consumer.

Historically, the funding for the ACT racing industry was through a distribution from ACTTAB of 4.5% of wagering turnover on racing events. Recently, however, with the support of the ACT racing clubs, the ACT Government amended these arrangements to provide the industry with a fixed amount of budget funding for a four-year period. This arrangement ends in 2013–14.

In this chapter the Commission considers the more appropriate funding outcome and arrangements for the ACT racing industry and how these arrangements can best serve the industry in the long term, thereby addressing section 1 of the terms of reference.

4.1 Current funding arrangements

The Commission noted in its draft report that the funding arrangements provide the industry with a degree of certainty over more than 80% of the income that they are expected to receive from the primary sources of industry funding. There is considerable uncertainty, however, regarding the funding of the industry at the conclusion of the current arrangements.

Table 4.1 provides an assessment of the total industry funding that the ACT racing clubs are expected to receive over the next four years. The announcement by Racing Minister Andrew Barr in relation to the level of budget funding for the ACT racing industry provides a certain level of funding over the next four years (indexed by CPI). In addition to this, the ACT racing industry has begun receiving product payments from wagering operators throughout Australia in relation to the wagering being placed on their product. It is estimated that for 2010–11 the ACT racing industry will receive approximately \$2.0 million in funding through these product payments. In deriving a forecast for the next four years, the Commission has applied a simple growth measure of 2.5% to account for growth in wagering over this period.

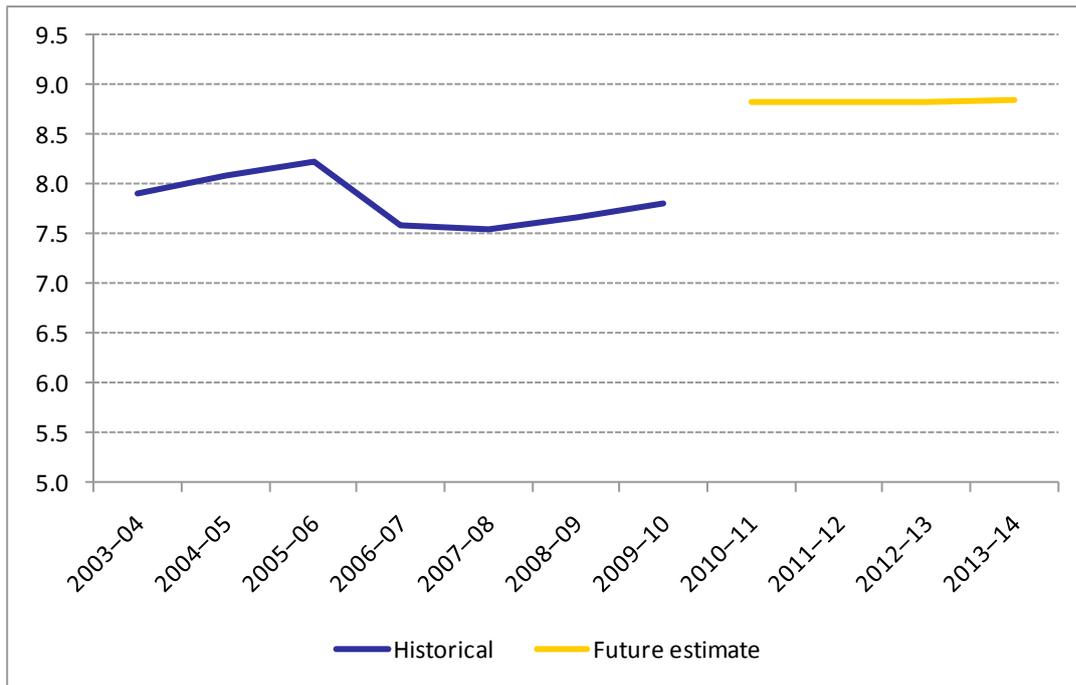
Table 4.1 Future industry funding from ACT Government and product payments (\$m, nominal)

	2010–11	2011–12	2012–13	2013–14
ACT Government	7.268	7.457	7.651	7.848
Product payments	2.000	2.050	2.101	2.154
Total industry funding	9.268	9.507	9.752	10.002

Source: Commission analysis.

The guaranteed level of funding from the government is equivalent to the historical funding from ACTTAB turnover, while the product payments provide a mechanism by which the clubs can grow funding as a result of their own endeavours. In practice, this approach (as shown in the Figure 4.1) is likely to result in an increase in total funding for the ACT racing industry. The Commission notes that without the product payments from the race field legislation, the racing industry would receive less in real terms in the future under the current budget funding arrangements.

Figure 4.1 ACT racing industry, comparison of historical and estimated future funding (\$m, real 2008–09)



Source: ACT Treasury, Commission analysis.

4.2 Possible future funding mechanisms

As outlined above, the current industry funding arrangements provided a level of certainty for the ACT racing industry for the duration of the arrangement. It is important for the industry to establish the ongoing support for the industry and where this funding is to come from.

As a result of the stakeholder consultation process, the Commission has drawn a number of conclusions about future revenue sources:

- There is little scope for significant growth in racing clubs' non-racing related income.
- It would be dangerous for the ACT to increase race field fees above those of the major jurisdictions; at the margin such an increase would encourage wagering providers to substitute non-ACT product for ACT races.

Hence, some other mechanism needs to be found if there is to be ongoing funding support for the ACT racing industry.

Ideally, the establishment of a national funding approach for the Australian racing industry would provide the funding mechanism for the ACT racing industry. The Commission notes, however,

that while this is the most appropriate funding mechanism, the structure of such a model is unknown and therefore the overall impact on the funding for the ACT racing industry is unknown.

A number of different options are available for the ongoing support of the racing industry in the absence of a national funding model:

- providing no budgetary funding
- maintaining budgetary funding
- reverting to ACTTAB funding based on turnover
- providing the racing industry with an interest in ACTTAB
- merging the racing industry with ACTTAB.

4.2.1 Providing no budgetary funding

One of the options for the future funding of the ACT racing industry is for the ACT Government to remove the budgetary funding at the completion of the current arrangements. The Commission does not consider this to be a feasible option without another form of funding available to the industry. Without a mechanism for generating funds to replace the withdrawal of the present government budgetary funding, the industry would not survive.

The Commission considers, as it did in the draft report, that in the long term the industry should be self-sufficient and not be funded through the budget; however, without a national approach to funding the industry, the Commission does not consider this approach to be viable or appropriate.

4.2.2 Maintaining budgetary funding

While the industry supported the move to budgetary funding given the concerns about the performance of ACTTAB, it has not maintained its support.

Indeed, from discussions with industry stakeholders it became apparent that the industry would prefer a different funding structure. The principal concern is that budget funding arrangements are for a finite period, and that government processes (including this Commission review) impose undue uncertainty on industry.

One option is for the government to enter into a binding longer-term contractual agreement with industry which, while providing budget support, has greater certainty because of the potential resort to legal enforcement.

One of the drawbacks of this approach is that by de-linking funding from performance (i.e. the production and consumption of racing product), the performance incentives for the ACT racing industry are diminished.

This approach would, however, provide the industry with a degree of certainty until the introduction of a national funding model and with the ability to undertake any structural changes that may benefit the industry in the long run without impacting the level of funding over the short term.

4.2.3 Reverting to ACTTAB funding based on turnover

There is broad support from the ACT racing clubs for a move back to linking industry support to ACTTAB:

- The CGRC stated that funding for the industry should be linked with the level of wagering on ACTTAB. It acknowledged that if ACTTAB revenues declined markedly, or if ACTTAB was sold, the funding arrangements could be revisited; however, the club was concerned that de-linking the funding from ACTTAB and making it a line item in the budget created a higher degree of uncertainty for the industry.²⁷
- The CHRC suggested that after the current arrangements there should be a move to re-establish the funding link between ACTTAB and the racing industry: ‘Provided the link between wagering and the racing clubs can be re-established, budget funding could become a thing of the past.’²⁸

With regard to the first option of reverting to the previous arrangement of ACTTAB funding following the completion of the current budget funding arrangements, it is likely that the percentage of turnover would need to be different if racing were to continue to receive the same level of funding as currently available under the budget funding arrangements. This would be dependent on the performance of ACTTAB over the upcoming years until the end of the budget funding arrangement.

If it is assumed that the investments being undertaken by ACTTAB to improve its infrastructure will improve ACTTAB’s performance, resulting in an average growth in racing turnover of 3% per annum, the racing industry would need funding of approximately 5.15% on turnover to receive the same level of funding as it does under the current budget funding arrangement. If ACTTAB’s performance is less than this, a greater percentage of turnover would be required for the racing industry. Another complicating factor in this scenario is how ACTTAB covers this increase in cost in such a price-competitive industry. If ACTTAB has to pass this increase in costs through to customers, this may have a detrimental effect on ACTTAB’s performance, and hence the racing industry’s funding.

ACTTAB has upgraded its systems and product offerings, which could lead to an improved performance. However, it has indicated that the movement of premium punters has the most significant impact on its performance and that even with these improvements the addition/removal of a single premium punter would have a greater impact on its financial performance.²⁹ Therefore there is still a risk that ACTTAB’s turnover could decline in the future, thereby resulting in declining revenue for the racing industry if it was re-linked to ACTTAB’s performance.

The Commission notes that while reverting to the previous funding arrangement removes the uncertainty regarding budget funding, it does not necessarily solve the issues that the racing industry had with the funding arrangement before the change to budget funding.

The Commission warns that if the racing industry reverts to the previous funding model of being linked to ACTTAB’s turnover, the industry needs to understand that this provides no particular level of certainty. Indeed, ACTTAB’s submission in response to the draft report specifically points to the volatility in the premium punter segment and went on to note that:

²⁷ Submission 21, p. 7.

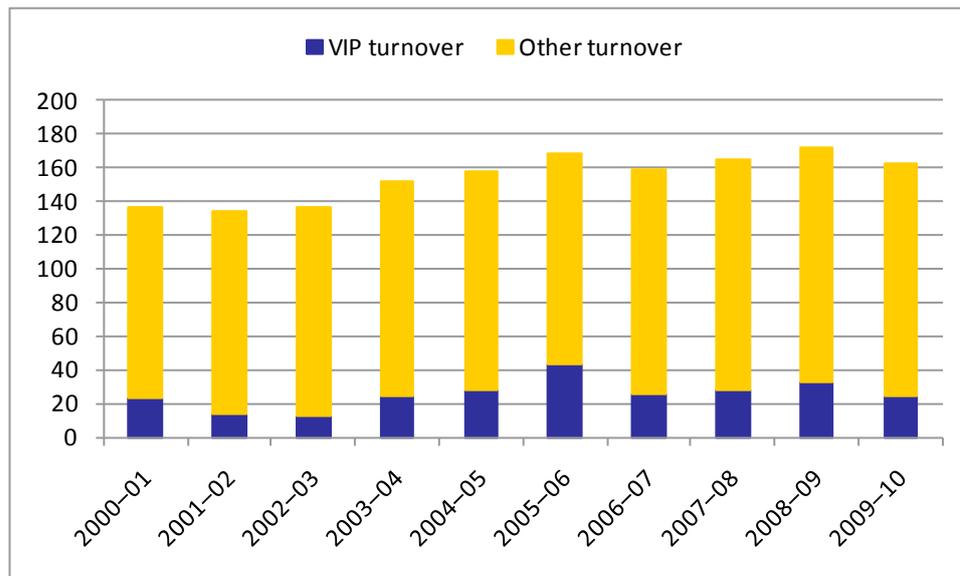
²⁸ Submission 19, p. 4.

²⁹ Submission 24, p. 3.

... the volatility in this component of the market is anticipated to continue for some time yet and in the Corporation's view it is unrealistic for racing bodies to expect that turnover of the level witnessed in 2005–06 could be either maintained or growth levels of that magnitude sustained in the long term.³⁰

ACTTAB's turnover is shown in Figure 4.2. ACTTAB's comments suggest that the racing clubs' insistence that government funding be based on 2005–06 revenue was inappropriate due to the higher proportion of VIP customers for that year. This is especially the case when ACTTAB itself indicates that it considers it unrealistic to expect that level of turnover to be maintained.

Figure 4.2 ACTTAB turnover (\$m)



Source: Submission 24, p. 4.

Based on the volatility and the risk that continue to be inherent in linking the ACT racing industry's funding to ACTTAB, the Commission considers that this approach would not provide the industry with the appropriate degree of certainty that it needs in the transition period prior to a national funding model.

4.2.4 Providing the racing industry with an interest in ACTTAB

The fourth option is to provide the racing industry with some form of interest in ACTTAB. This provision could be through a joint venture with ACTTAB where the racing industry receives a portion of the profits generated or is provided with the operational responsibilities of ACTTAB. This would better align the racing industry's interests with those of ACTTAB, and vice versa, and would allow the racing industry to have some control over the future level of funding to be received by the industry.

The CRC also outlined this as an alternative option that would be worthy of further investigation. It outlined two different options for a joint venture—an arrangement with the ACT Government to run ACTTAB or a joint venture partnership with a corporate partner to take ownership of

³⁰ Submission 24, p. 2. The industry has argued that the payments made in 2005–06 should be used as the starting point for determining future levels of funding for the industry. However, the evidence of ACTTAB identifies that this was possibly the high point in terms of funding from wagering in the ACT.

ACTTAB. Both of these options would result in the ACT racing industry being funded through its interest share in the agreements.³¹

While aligning the interests of the racing industry with ACTTAB may have some benefits for the industry in having a greater level of control, the Commission, for the reasons outlined above, does not consider that this approach would provide the racing industry with the certainty of funding that it considers important.

4.2.5 Merging the racing industry with ACTTAB

The final option is to merge the racing industry with ACTTAB. This approach would fully align the interests of the ACT racing industry with the ACT wagering industry. This is similar to the CRC proposal whereby the racing industry would take ownership of ACTTAB, with the racing industry funded through the profits of ACTTAB.³² As an example of this model, in Western Australia an independent racing body was amalgamated with the Totalisator Agency Board of Western Australia to form Racing and Wagering Western Australia (RWWA).

Given that the funding for the racing industry would be based on the performance of ACTTAB, by merging the interests of the wagering industry with the racing industry, the racing industry would be reliant on the performance of ACTTAB. As outlined above, re-linking the ACT racing industry with ACTTAB would not provide any greater degree of certainty for funding in the long run. ACTTAB highlighted in its submission that it is extremely vulnerable to movements in its VIP customers and movements of these customers would have a greater influence on ACTTAB's performance than the current improvements in systems being undertaken. Therefore the Commission does not consider this approach to be the answer to the racing industry's concerns about medium- to long-term funding. It would also lead to a considerable increase in the risk in the levels of funding available to the industry.

From a government policy perspective, it would also potentially expose the ACT Government to the risk of having to fund the industry again at some time in the future should ACTTAB not be sufficiently profitable to meet the industry's funding expectations.

4.3 Quantum of funding

The Commission stated in its draft report that it is of the view that the level of base funding is somewhat generous to the ACT racing industry given its historic levels of funding. In effect, this view was supported by ACTTAB when it noted (as cited above) that 'it is unrealistic for racing bodies to expect that turnover of the level witnessed in 2005–06 could be either maintained or growth levels of that magnitude sustained in the long term'.³³

In response to the Commission's claim that the current level of budget funding is generous, the CHRC stated:

The commission's opinion is based on a funding model in its first year of operation. Historically CHRC has used its funds to conduct harness racing for lower classes of racehorses. To date funding has been adequate not generous for this purpose. The club sees itself as a nursery both in promoting racing and training. We have advertised and taken action to attract new trainers to the sport. We see

³¹ Submission 26, p. 23.

³² Submission 26, p. 21.

³³ Submission 24, p. 2.

our excellent training facilities as an ideal feeder platform for metropolitan racing. The club will achieve these goals within the current funding allocation.³⁴

The Commission considers that there is no ‘correct’ level of funding for the industry; rather, a mechanism needs to be put in place that allow the racing industry to generate a level of revenue that reflects the value of its product. In Chapter 3, the Commission noted the difficulties in comparing the levels of funding of different jurisdictions across different ratios. Such comparisons do not provide meaningful insights into the level of funding for the industry.

The Commission notes, however, that in recent years the racing clubs within the ACT have been able to maintain, or slightly increase, the number of race meetings under the lower levels of funding. Therefore, the Commission considers that the quantum of funding for the ACT racing industry appears appropriate.

However, the question arises as to how this level of funding should be determined on a year on year basis. A mechanism that is clearly understood by all parties will help to remove uncertainties within the industry and will establish a clear guideline for any future government involvement as a funding provider.

The Commission notes that TasRacing is currently primarily funded through a 20-year funding deed with the Tasmanian Government which provides base funding of \$27 million a year (plus CPI less 1%) over 20 years. This agreement of funding was struck between the Tasmanian racing industry and the Tasmanian Government at the time of the formation of Tasracing and it is likely that a number of different factors were incorporated in determining the quantum of funding.

The Commission considers that the application of an efficiency factor to the level of funding for the industry (i.e. the use of the CPI – X formula) provides an incentive for the industry to find further efficiencies and maximise additional sources of revenue (where available). This arrangement would broadly underpin the existing level of activity within the sector. This efficiency mechanism is similar to incentive mechanisms that are required of general government expenditures. This efficiency factor should be in place until the introduction of a national funding model or until the ACT Government considers that sufficient reforms and efficiency gains have been made and that any further application of the efficiency factor may have negative influences on the industry. This approach will also provide an incentive for the racing industry to identify opportunities to capture additional revenue through product fees and other sources of income.

In addition to having a funding agreement with the Tasmanian Government, TasRacing has access to a \$40 million debt facility with Tascorp, which will be repaid by the Tasmanian Government subject to certain conditions. This approach has some merit in providing the industry with a further source of funding. However, the Commission is of the view that if the ACT Government were to adopt something along these lines, a number of conditions should be attached to the debt facility, such as the racing industry undertaking structural reform to best position itself for the national funding model.

4.4 Conclusion

The Commission does not consider the re-linking of the ACT racing industry with ACTTAB (in any form) to be the answer to the industry’s funding problems, especially certainty.

³⁴ Submission 19, p. 4.

ACTTAB has highlighted the level of risk it is currently facing and has said that its current infrastructure investments may not result in the positive outcomes it is expecting. There is no guarantee that if the racing industry were to be re-linked with ACTTAB the level of funding would not decline in the future (similar to the circumstances that led to the decision in 2010 to de-link the industry from ACTTAB). Thus, it does not provide the industry with any additional certainty over the long term.

The Commission considers that if the ACT Government wishes to continue funding the ACT racing industry, it should continue to do so through the ACT Budget until a national funding approach is adopted. Until a national funding mechanism is established which addresses the market failure in the racing industry, it is not possible to derive a market-based value of the racing product. Therefore by providing a degree of certainty for the industry over the medium term, the industry can be incentivised to reposition itself for the adoption of a national funding approach through structural reforms (see Chapter 7).

The Commission considers, therefore, that should a continuation of budget funding occur beyond the end of the current five-year agreement, this funding should be inflated yearly from the current commitment on a CPI – X basis. The Commission suggests that X should be 1%.

This approach is preferred because it provides an incentive for the racing industry to:

- find efficiencies in their operations
- identify opportunities to capture additional revenue through product fees and other sources of income.

If necessary to ensure certainty, this offer could be provided contractually for an extended period (say, 10 years), revocable once a national funding scheme emerges.

During this interim period, the ACT Government should investigate the governance and structural reforms considered in Chapter 7.

The ACT Government could also consider providing a debt facility for the industry for infrastructure investments, which would be similar to the TasRacing arrangement. This would assist the industry in undertaking significant infrastructure investment that should benefit the industry over the long term. However, this debt facility should be provided subject to certain conditions being met, such as the racing industry undertaking structural reform to best position itself for the national funding model.

Recommendation 4.1

If the ACT Government wishes to explicitly support the ACT racing industry after the current funding arrangements expire, it should continue to provide budgetary funding, inflated yearly at CPI minus 1%, at the 2013–14 Budget level.

Recommendation 4.2

If the ACT Government wishes to provide additional certainty to industry, it could consider providing support through a contractual agreement over an extended period.

5 Product payments under race field legislation

With one exception, all of the racing jurisdictions apply a product payment for the use of race field information. These product payments are enacted through race field legislation and apply to wagering providers. In assessing the quantum of product payments there are two primary areas—the calculation approach and the level at which it should be set. This chapter considers these factors, as well as a potential national approach to product payments and addresses section 1 of the Commission’s terms of reference.

5.1 Structure of the product fee

The key point of contention in the debate on the application of race field product payments concerns on which of two alternative bases product fees should be levied:

- *Gross revenue*. This is the total amount wagered, minus the amount paid out to punters as winnings (in other words, total player losses). Gross revenue is often also referred to as gross profit.³⁵
- *Turnover*. This is the total value of the bets placed on the backer’s side.³⁶

With the gradual eroding of the Gentlemen’s Agreement, each state has sought to implement its own format of race field legislation to ensure the continued funding of the racing industry within its jurisdiction. Table 5.1 outlines the different approaches for each of the jurisdictions. It shows that the ACT applies a 10% fee on the gross revenue of wagering operators.

³⁵ In a non-racing context, ‘gross revenue’ generally refers to the total amount of sales, minus the cost of the goods sold (but does not factor in other costs such as overheads, payroll, taxation or interest payments).

³⁶ In a non-racing context, ‘turnover’ generally refers to the total amount of sales.

Table 5.1 Industry agreements with TABs and product fees under race field legislation

	TAB and racing industry funding arrangements	Product fee under race field legislation for all wagering operators		
		Thoroughbred	Harness	Greyhound
ACT	Direct budget funding	10% of gross revenue	10% of gross revenue	10% of gross revenue
NSW	22% of net revenue 25% of net profit An annual lump sum of \$12 million (indexed by CPI)	1.5% of turnover 3% of turnover for 'copyright fee'	1.5% of turnover	10% of gross revenue
Vic.	18.8% of net revenue 25% of net profit A further marketing and program fee of \$85.2m in 2008/09	10% of gross revenue (15% of gross revenue in Sept and Oct) TAB Limited product fee calculated as 1.5% of turnover	1.5% of turnover Betfair product fee calculated as 0.66% of net customer winnings	10% of gross revenue TAB Limited product fee calculated as 1.5% of turnover
SA	42% of gross wagering revenue	10% of gross revenue	10% of gross revenue	10% of gross revenue
Qld	39% of gross revenue	10% of gross revenue (15% of gross revenue in May and June)	10% of gross revenue (15% of gross revenue in May and June)	10% of gross revenue (15% of gross revenue in May and June)
WA		Choice between a) 1.5% of turnover, or b) The greater of 20% of gross revenue or 0.2% of turnover	Choice between a) 1.5% of turnover, or b) The greater of 20% of gross revenue or 0.2% of turnover	Choice between a) 1.5% of turnover, or b) The greater of 20% of gross revenue or 0.2% of turnover
Tas.	Direct budget funding	Have indicated a gross revenue basis	Have indicated a gross revenue basis	Have indicated a gross revenue basis

Source: Derived and updated from Productivity Commission, *Gambling*, Report No. 50, 2010.

Note: The ACT previously had a TAB funding arrangement of 4.5% on turnover.

The debate on the relative merits of these approaches has hinged on the view, most vocally advanced by Betfair³⁷ and corporate bookmakers, that the turnover-based approach unfairly penalises lower margin operators such as betting exchanges and corporate bookmakers.

The margin for a wagering operator is commonly referred to as the 'take out' (the take-out rate is the amount removed from the total prize pool available to punters). TABs are high margin operators and typically have take-out rates of between 14.5% and 25% (the rate varies by state and by product), whereas corporate bookmakers have a take-out rate of about 6% and Betfair a take-out rate of 4.5%.³⁸

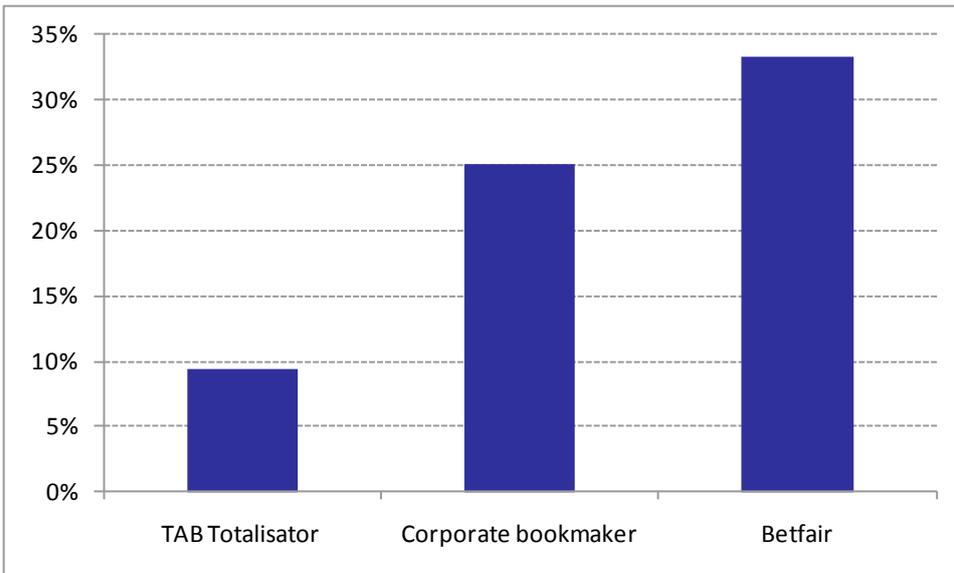
As shown in Figure 5.1, operators with lower take out rates will be required to pay higher turnover-based product fees to recover an equivalent gross revenue product payment. This puts the lower margin operators at a relative disadvantage³⁹ and may discourage price competition between wagering providers.

³⁷ See Submission 22.

³⁸ Productivity Commission 2010, *Gambling*, Report No. 50, Canberra, pp. 16.7 and 16.38.

³⁹ Whether low margin operators are made unviable by turnover-based fees depends on the level of the fee and the capacity of different types of operators to raise their prices (which may not be financially feasible).

Figure 5.1 Gross revenue product fees equivalent to a 1.5% turnover product fee



Source: Productivity Commission 2010, *Gambling*, Report No. 50, Canberra, p.16.38.

The argument being advanced by some segments of the racing industry is that such an outcome is acceptable because only turnover-based product fees can support the current size of the racing industry (i.e. profits are too small a base upon which to set a fee). In particular, it is argued that turnover-based product fees prevent a shift from higher margin operators towards lower margin operators that would otherwise undermine funding to the racing industry (i.e. where TABs support it).

It is not clear that protecting high margin operators through turnover-based measures would actually result in a larger ACT racing industry. For example, lower margin operators may enable the wagering industry as a whole to compete more effectively against other forms of gambling or recreation.⁴⁰ That is, non-TAB wagering providers could increase betting turnover through price competition and through their advertising efforts, increasing the consumption of racing product and enhancing interest in racing more generally. In turn, this potentially raises the value of secondary assets (e.g. gate receipts, sponsorship and other advertising opportunities, use of racetrack facilities such as conference rooms or venue hire, etc.), providing the racing industry with greater scope to reduce the risks of revenue volatility by diversifying across revenue sources.

Specifically addressing the appropriate base for product fees, the Productivity Commission (PC) recently concluded:

Overall, gross revenue appears to be the more appropriate basis upon which product fees should be charged. Gross revenue is already widely used as a basis for payment to racing and sporting authorities in Australia and internationally, and can be applied universally without disproportionately burdening certain types of wagering operators. This means that gross revenue based product fees:

- have greater flexibility in that they can support diverse business models
- are conducive to price competition between wagering operators.

These features are more likely to deliver better value to consumers and a wider range of wagering products. Similarly, to the extent that gross revenue based product fees facilitate a closer alignment

⁴⁰ CitiGroup, *TABCORP and Tatts Group: road map for racing reform*, 2010.

of financial interest between racing and wagering, these industries will have a greater incentive to respond to consumers' preferences. In both cases, consumer interests are better served by product fees based on gross revenue. This in turn, will enhance the prospects for both racing and wagering to remain relevant and vital industries in Australia.⁴¹

The Commission's draft report considered that it was appropriate that product fees continue to be calculated based on gross revenues associated with ACT race events.

The CHRC agreed with the gross revenue approach as being the most appropriate basis for the product fees, while Betfair also considers that a product fee based on gross revenue is the most appropriate mechanism to maximise short- and long-term funding for the racing industry.⁴²

The Canberra Thoroughbred Racing Trainers considered that the NSW turnover approach to product fees was a much fairer approach for the racing industry. They recommended adopting this approach if Racing NSW is successful in its current legal proceedings.⁴³ Additionally, Teague supported a turnover approach, arguing that 'gross profit is high risk, unpredictable and therefore less desirable'.⁴⁴

The Commission notes that there are positives and negatives for each approach. Under the turnover approach, the racing industry is not relying on the wagering provider to generate revenue from the race field information. The racing industry receives a percentage of any wager that is placed, thereby ensuring that it is compensated for all uses of its race field information. Alternatively, it can place considerable financial strain on those wagering providers that operate at a lower margin, such as corporate bookmakers and betting exchanges.

Under the gross revenue approach, the wagering providers are not discriminated against based on their operating structure. This can alleviate barriers to entry and potentially generate growth in the wagering market through lower margin operators. However, the racing industry is at risk if these operators reduce their revenue margins and turnover is unchanged, or the operators are unable to generate revenue from the race field information. Under these scenarios, the racing industry would lose revenue from race field product payments.

5.2 Level of the product fee

Once the approach to determining the product fee has been established, the next step is to consider what fee level would be appropriate. In its review of gambling, the PC noted that:

there are some indications as to what an appropriate price range might be:

- proponents typically suggest that between 10 and 20 per cent of gross revenue be paid as a product fee to the racing industry
- of those who use gross revenue as the basis for payment under their race fields legislation, most racing authorities in Australia also charge within a 10 to 20 per cent range.⁴⁵

Currently, the level of product fees charged on a gross revenue basis in the ACT (10%) is broadly consistent with similar gross revenue product fees in other jurisdictions (see Table 5.1).

⁴¹ Productivity Commission, *Gambling*, Report No. 50, Canberra, 2010, p. 16.39.

⁴² Submission 19, p.2, Submission 22, p.2.

⁴³ Submission 18, p.2.

⁴⁴ Submission 13, p.4.

⁴⁵ Productivity Commission, *Gambling*, p. 16.39.

The Commission's draft report considered that while it is tempting to consider increasing the product fee rate significantly, this will raise the cost of wagering on ACT races and hence result in a diminution of wagering on ACT races, and a longer-term decline in the revenue achievable through product fees. Additionally, if the standard product fee is set dramatically above the 10% to 20% range, on-line wagering providers could evade the fee by moving their business operations offshore.⁴⁶

The Commission's draft finding was that the rate at which the product fee is set (10%) appears to be appropriate. However, over time it may be appropriate to increase the rate in line with other jurisdictions.

While CHRC agrees with the gross margin approach for the product fees, it considers that the level for the product fees should be somewhere between 10% and 20%.⁴⁷ Hogbin also appears to countenance a higher product fee.⁴⁸

Betfair stated that whatever percentage is chosen for the product fees, all wagering operators should pay the same rate of revenue. It also noted that the industry must remain flexible in relation to the level of its product fees in order to compete with other racing industries and other gambling products.⁴⁹

5.3 Potential impact of a national racing industry funding model

With the introduction of race field legislation in NSW in 2008 wagering operators taking on bets in NSW were required to pay a product payment of 1.5% of turnover. Both Betfair and Sportsbet subsequently commenced Federal Court proceedings against Racing NSW and Harness Racing NSW. They challenged the payments on the basis that the 1.5% turnover-based fee was discriminatory and protectionist in breach of the Australian Constitution.

Following these initial proceedings, the case was appealed on varying bases to the Full Court of the Federal Court of Australia. The Full Court's decision acknowledged the validity of the NSW race field regime by not declaring it as invalid or contrary to the Constitution. As a result, unless a successful appeal is lodged to the High Court, wagering operators are legally required to pay a fee for the use of NSW race field information, with this fee calculated on the basis of 1.5% of turnover.

These proceedings have created uncertainty about the use of product payment regimes throughout each of the jurisdictions. The Commission notes that both Sportsbet and Betfair have been granted permission to appeal the judgements of the Full Court to the High Court of Australia. The appeals are expected to take place in June of this year.

In addition to uncertainty about the different jurisdictional approaches and the legal proceedings, there is uncertainty about the potential introduction of a national approach to product payments. The PC's gambling inquiry made the following recommendation:

Within three years, the Australian Government should assess whether the race fields legislation frameworks are legally sustainable across all jurisdictions and give rise to competitive outcomes. If either condition is not satisfied, the Government should work with state and territory governments

⁴⁶ Productivity Commission, *Gambling*, p. 16.39.

⁴⁷ Submission 19, p. 3.

⁴⁸ See Submission 15, p. 4.

⁴⁹ Submission 22, p. 10.

to replace these arrangements with a national statutory scheme, in which there would be a single product fee for each code.⁵⁰

This national approach would be expected to remove the differences between the jurisdictions and provide a consistent approach for wagering operators throughout the different jurisdictions. However, due to the different positions of each of the jurisdictions, it may be difficult to gain consensus among the jurisdictions for such a national approach.

The Commission's draft finding was that the ACT should support the development of a national approach to the funding of the racing industry through a coordinated approach to product payments.

Stakeholders were generally positive about a national approach to product fees; however, some noted that the timeframe for any implementation of a possible national approach would be considered a more long-term development.

For example, Greyhounds Australasia submitted that it recognises the importance of a national approach and acknowledges that returns from the wagering dollar should be fair, equitable and sufficient to meet the needs of all parties. It also recommended that the ACT Government work with state and territory governments to enact laws that will withstand challenge on constitutional grounds and address the fundamentals of a national model.⁵¹

5.4 Conclusion

The Commission acknowledges that the ACT is a small racing jurisdiction in relation to other states and therefore:

- needs to be seen as a price taker (i.e. prices established by NSW and Victoria) in terms of the level of prices for the use of its racing product; and
- has only a limited scope to influence the debate regarding a national funding model. However if opportunities arise whereby the ACT can assist in developing a national approach or removing state-based barriers to a national approach, then these should be pursued.

The Commission recommends that the ACT Government support the development of a national approach for the support of the racing industry through a coordinated approach to product fees.

5.4.1 Appropriate basis for establishing product fees

In undertaking a comparison of the potential outcomes from the different approaches for product fees, the Commission undertook a high-level analysis of the funding that would have been received through a turnover-based model. Over the period since the race field legislation, the ACT racing industry has received \$2.0 million through the gross revenue approach. Applying the 1.5% of turnover approach (as applied in NSW), the racing industry would have received \$2.2 million.

It should be noted, however, that this high-level analysis does not consider the impact of higher prices on customers and the price sensitivity of these customers. As outlined above, the turnover approach has a more considerable impact on those wagering providers operating at lower margins; therefore, it would be expected that these providers would increase their prices (i.e. offer worse

⁵⁰ Productivity Commission, *Gambling*, p. 16.46.

⁵¹ Submission 27, p. 6.

odds) to their customers. Over the long term this could lead to a decrease in wagering, depending on the price sensitivity of customers.

The Commission notes that Racing Victoria has commissioned an independent review of product fees for its race field information. The Facts and Issues Paper, released in March 2011, outlined that a ‘blended approach’ can provide the racing industry with the benefits of both approaches.⁵²

Under a blended approach, the overall product fee received would still be set on the basis of gross revenue, but a floor on the quantum of product fees received would be set through the use of a turnover levy. This means that in the short term the racing industry is not totally reliant on the wagering providers actually generating revenue from the race field information.

The Commission recommends that the ACT Government monitor the outcome of this review and consider implementing a similar approach for the ACT.

Recommendation 5.1

Gross revenue should continue to be the primary basis on which the product fee is calculated.

5.4.2 Appropriate level of the product fee

As outlined in the draft report, the Commission continues to recommend that the ACT Government should consider increasing the level of the product fee over time; however, it needs to be cognisant of the potential negative impacts of imposing higher costs on wagering providers.

As an example of the potential financial impact of increasing the level of the fee, if the ACT racing industry had set the level of the product fee at 15% since the commencement of the legislation, the industry would have received \$3.0 million in payments to this point in time. It should be noted again that this simple calculation does not take into account the potential price sensitivity of customers or the reactions of wagering providers. Of the other jurisdictions, only Western Australia has a higher rate, with both Victoria and Queensland having the same rate with a surcharge during their two months of premium racing.

Racing Victoria is also considering the appropriate level of the fee for the racing industry and the potential negative impacts of increasing the level of the product fees; it will release its final report in May. The Commission considers that the ACT Government should review the level of the product fees in the light of the outcomes from this review.

The adoption of an approach similar to the outcome of the Racing Victoria wagering review could also help move the industry towards a national approach to product fees.

Recommendation 5.2

The current level of the product fee remains appropriate, but should be reconsidered if any of the major jurisdictions increase the level of the product fee.

⁵² PwC, *Facts and issues paper*, March 2011.

6 Allocation of funding among the codes

It is important to consider not only the level of the funding provided to the ACT racing industry (see Chapter 4), but also the allocation of the funding between the three racing codes. Historically this split has been used to allocate the funding provided by ACTTAB across the three codes. The breakdown of this allocation is:

- 75% to the CRC
- 12.5% to the CHRC
- 12.5% to the CGRC.

This chapter provides a discussion on the current distribution arrangements between the codes and what characteristics should be considered for the future arrangements. It addresses section 2 of the Commission's terms of reference.

6.1 Future allocation of funding among the racing codes

The three ACT racing codes provided a joint submission to the inquiry outlining that they have agreed to continue with the current distribution of the budget funding for the next two years (2011–12 and 2012–13). They have agreed to this to remove one of the elements of uncertainty in relation to funding for the industry. The codes have also agreed that on completion of these two years, the methodology behind a funding split between the three codes should include in its calculation a component for the level of wagering generated on a code's product.⁵³

The Commission considered a number of different approaches to distribute the funding between the three different racing codes. Most of those approaches, which relied on allocation factors such as meeting attendance, employment and costs of producing the racing product, were discounted in the draft report, and the Commission notes that no stakeholder has provided any arguments that these factors should form the basis of allocating funds between the three codes.

The Commission is not attracted to the current approach to funding distribution. While the fixed distribution approach provides codes with a degree of certainty over the life of the agreement, it does not properly reward codes that effectively promote their product.

In this respect, the Commission is attracted to approaches that fund the three codes:

- in proportion to the level of interest in the product generated (the level of interest is best represented in terms of the wagering turnover on each of the codes)
- in a manner that acknowledges that the need for investment may require, from time to time, some additional support.

It is difficult to specify an equation that adequately captures both of these elements in a sufficiently flexible manner.

The flexibility in this allocation process would be assisted through the development of an independent ACT racing body (this is discussed in more detail in Chapter 7) which would have discretion in determining an appropriate allocation of funding between the three racing codes. The

⁵³ Submission 16, p. 2.

current approach to the distribution of funds between the codes for TasRacing comprises three components:

- 50% of funding for each code is fixed
- 15% of funding relates to estimated race field fees
- 35% of funding is on activity-based performance that involves rewards for performance in a number of areas.

Such an allocation process has the advantage of combining a degree of certainty of funding levels for the separate codes with the flexibility to reward the separate codes for performance based on certain criteria.

6.2 Implicit and explicit forms of government support

There is a difference between ongoing support and temporary support. An argument could be made that ongoing support to a specific racing code should be factored in when determining an appropriate allocation of funding between the codes. In contrast, any temporary support should not be factored into medium- or long-term allocation agreements on funding.

There are a number of different approaches to providing direct and indirect forms of government support to industries. Some of the forms of support for the ACT racing industry outlined in the draft report follow:

- *Current grant to the CRC.* The CRC received a one-off payment of \$500,000 to partly repay its existing loan for the track redevelopment completed in 2007. Previously, the CRC funded those repayments through the Racing Development Fund; however, the ACT Government has provided for a one-off payment to assist with the repayments.
- *Non-commercial rents.* The CGRC currently operates with a leasehold arrangement for its venue. In response to the draft report, the CGRC indicated that it pays quarterly rent to the ACT Land and Planning Authority, as well as paying rates to the ACT Revenue Office. Without undertaking a comprehensive analysis of the commercial value of the property, it is difficult for the Commission to determine whether the CGRC is receiving support through its leasehold arrangement by being charged less than commercial rent by government.
- *CHRC–EPIC relationship.* The CHRC is located within Exhibition Park in Canberra (EPIC). This relationship provides positives and negatives for the CHRC. While the CHRC is not exposed to all the maintenance costs of the venue, it is also at a scheduling disadvantage because it does not have exclusive rights to the venue. The exclusion of maintenance costs provides the CHRC with an indirect benefit.

The Commission notes that racing is not to the only sport or industry in the ACT to receive government benefits; a number of other sports and industries receive direct budget funding and support as well as indirect assistance. The justification for government support varies depending on the circumstances and the government at the time. Racing industries in other jurisdictions also receive benefits from their respective jurisdictional governments.

6.3 Conclusion

The Commission considers that if an independent body is established (see Chapter 7), this body should be responsible for allocating the funds between the codes as it considers appropriate. As this is likely to cause some further degree of uncertainty to existing racing administrators,

consideration could be given to, for example, providing that each code will have access to its race fees returns, and then there is a guaranteed minimum percentage of budget funding for each code (e.g. 70% of funds distributed to the codes in accordance with their percentage of racing turnover), with a residual (e.g. 30%) at the discretion of the independent body (TasRacing is an example of a similar structure approach to the allocation of funding). However, if this body is not established, a fall-back option is required.

The Commission considers that if the racing clubs can agree to an approach for the allocation of funds between the codes (i.e. as is currently in place), this should be the best approach going forward.

However, if the clubs cannot agree on the best allocation, the allocation is most transparently provided on the basis of the market share of wagering undertaken on each of the three forms of racing. This calculation should be based on a three-year rolling average of the product payments received by the ACT racing clubs once the clubs have received them for three years. This would allow the clubs to adjust to any short-term variations in the market share of the codes. This timing should align with when the current arrangements between the clubs expire.

Recommendation 6.1

If an independent body is established to oversee ACT racing (see Recommendation 7.1), the body should be provided with some discretion as to how funds are allocated across the three racing codes, reflecting the attractiveness of the racing product and the need for investment in each of the codes.

Recommendation 6.2

If government funding is to be provided directly to the three racing codes:

- *it should be shared on a basis agreed between the codes, or*
- *if agreement cannot be reached, it should be shared on the basis of a three-year rolling average of the product payments received by the ACT racing clubs.*

7 Structural and governance arrangements for the ACT racing industry

In accordance with section 3 of the Commission's terms of reference, this chapter examines the current structure of the racing industry to identify opportunities for the industry to be more efficient, sustainable and competitive in a national product market.

The racing industry throughout Australia is facing considerable challenges through the pricing of its product and the increasing competition from other sports for the wagering dollar of consumers. The current pricing structure is set on a state basis, leading to considerable variation in prices across Australia. In addition, the industry itself is facing considerable external pressure through sports betting and its impact on the level of wagering undertaken on racing, and hence the level of funding received by the industry. Due to the relatively new concept of sports betting, it is unsure how this will impact on the racing industry in the long term.

The ACT racing industry itself is a relatively small industry in relation to other racing industries in Australia. It therefore does not have a strong negotiating position when it comes to broadcasting or national funding arrangements. The Commission's draft report examined two components of the industry structure that it considered required further investigation in order to assist the ACT racing industry:

- rationalisation of administrative bodies
- rationalisation of racing facilities.

These issues are discussed in turn in the following sections.

7.1 Rationalisation of administrative bodies

The Commission's draft conclusion was that the ACT Government and the ACT racing industry should establish one independent body that oversees the three different racing codes. This would be likely to increase the integrity of the racing industry for the different codes and provide a more flexible and efficient allocation of resources across the industry.

The Commission was of the view that a merged arrangement could have the benefits of enhancing the probity of smaller codes and providing greater flexibility in the allocation of funding across the three codes.

It appears from the submissions that there was some confusion about the Commission's draft recommendation on the rationalisation of administrative bodies. Some industry stakeholders were of the opinion that the independent authority considered in the draft report was in addition to the current club administrations, thereby adding a further administrative layer to the industry. For example:

- Greyhounds Australasia stated that it was not sure that the CGRC would be financially better off under an independent body.⁵⁴
- CGRC considered that the establishment of an independent body would add another layer of governance to the industry and that this could increase the costs for CGRC.⁵⁵

In making the draft recommendation to form an independent body for the ACT racing industry, the Commission envisaged disbanding the current structure of the three individual racing clubs and absorbing them into the newly created independent body.

In relation to this, the CRC stated that it:

is not in favour of an independent body above the control of any particular code but believes it is worth investigating a possible merger of the clubs, which have the expertise for the governance and operations of racing both at a principal and racing club level.⁵⁶

The Commission notes that some other jurisdictions have a whole-of-industry body. In some cases, such bodies are primarily independent; in others, historical vested interests have been maintained. The Commission understands that some whole-of-industry bodies were established to remove some of the conflict of interest between code and club administrations; however, there was also a perceived benefit of having a body that would make decisions for the whole industry.

The following considers the three whole-of-industry bodies within Australia—Racing Queensland Limited, Racing and Wagering Western Australia (RWWA), and TasRacing.

Racing Queensland Limited

Racing Queensland was formed on 1 July 2010 when the three racing codes of Queensland were amalgamated under one control body.

The constitution for the Queensland Racing Board provides:

The company will have regard to the best interests of the thoroughbred, harness and greyhound racing codes as a whole, and the continued existence and welfare of each individual code in exercising its powers and performing the functions of a control body.⁵⁷

The Racing Queensland Board has five thoroughbred representatives, one harness representative and one greyhound representative. The Commission notes that recently the greyhound representative of the board was removed from her position, creating some issues between greyhounds and the other codes.

In addition to this, members of the harness and greyhound communities recently voted to withdraw from the Racing Queensland agreement. This appears primarily driven through apparently unfulfilled promises that were made at the time of the codes agreeing to the amalgamation.⁵⁸

⁵⁴ Submission 27, p. 9.

⁵⁵ Submission 21, p. 12.

⁵⁶ Submission 26, p. 26.

⁵⁷ Constitution of Racing Queensland Limited, s 3.3.

Racing and Wagering Western Australia

RWWA was established in 2003 after a review into the Western Australia racing industry conducted in 2001. At the time of the review, the Western Australian racing industry was considered to be in a static, or even declining, situation. The review considered that there was no structure, formal or otherwise, for the codes to come together and make decisions in the interests of the racing industry as a whole. The review noted that:

The present structures and processes of governance in fact conspire against effective whole-of-industry decision making. They set each code in competition with the others and engender inter-code rivalry and conflict. This can only be detrimental to an industry already facing so many external pressures and challenges.⁵⁹

The review therefore recommended the establishment of an independent whole-of-industry body that considered the interests of the Western Australian racing industry as a whole. It also recommended that the racing industry and the Western Australian TAB merge to overcome the division between the Western Australian TAB and the racing clubs.

The Board of RWWA comprises eight members: three representatives of the respective codes (one from each), an independent chair appointed by the Minister, and four independent members with expertise in management, finance, business, commerce or information technology. The process for selecting ‘independent’ board members is such that industry representatives have a majority. Therefore, the RWWA model has been criticised for not providing a governance structure as independent of the industry as is implied by the composition of the board.

TasRacing

TasRacing was established in January 2009 through the merging of governance and administration responsibilities across all racing codes in Tasmania.

The TasRacing Board is an independent board with only one representative from each of the racing codes and four skills-based directors. This approach assists in removing some of the vested interests that may be inherent in restructuring the industry. TasRacing is funded through an arrangement with the Tasmanian Government for a fixed fee of \$27 million (indexed at CPI – X for a period of 20 years and a further debt facility from the government of \$40 million, which is to be used for capital works.

7.2 Rationalisation of racing facilities

The Commission’s draft conclusion was that the ACT Government and the three racing codes should investigate the possibility of co-locating at the one venue. This could provide efficiencies to the industry, stronger bargaining power in scheduling negotiations and greater utilisation of capital infrastructure (see Box 7.1). The draft report noted that this process could be commenced immediately, although it also stated that it is more likely to be successfully implemented if undertaken under the independent ACT racing industry body described above.

The Commission outlined two potential options for co-locating the different racing codes—a new location or redeveloped facilities at the existing Thoroughbred Park. Positives and negatives

⁵⁸ The *Courier-Mail*, ‘Harness racing and greyhound racing communities vote to withdraw from tri-code agreement under Racing Queensland Limited’, 7 February 2011.

⁵⁹ R Turner, *Future governance of the Western Australian racing industry: a report to the Minister for Racing and Gaming*, October 2001, p. 19.

associated with each of these options were outlined in the draft report, with the Commission seeking stakeholder comments on the merits of the two different options.

The CRC supported the feasibility study suggested in the draft report, but noted that the more realistic approach may be to develop Thoroughbred Park. It also noted that it is important that racing and training continue through any redevelopment period.⁶⁰

Both the CGRC and Greyhounds Australasia indicated that a cost–benefit analysis for co-location would need to be undertaken by the ACT Government, with Greyhounds Australasia also stating that the greyhound code must be no worse off through any rationalisation.⁶¹

Greyhounds Australasia also stated that factors such as the viewing spectacle and occupational health and safety need to be considered in relation to a rationalisation of racing facilities.⁶²

The CGRC indicated that there have been budget and implementation problems with the tri-code facility in Tasmania. It also stated that it strongly opposes any tri-code facility that has three or four tracks inside each other. It considers that any tri-code facility should have a dedicated greyhound track adjacent to the thoroughbred/harness track.⁶³

A joint submission from the three racing codes supports the investigation into potentially co-locating the codes at one venue, be it either a greenfield site or a redeveloped Thoroughbred Park. The submission states that the industry will support the move to co-location if a cost–benefit analysis concludes that there would be a successful outcome for the industry.⁶⁴

Box 7.1 Multi-code facilities elsewhere in Australia

A number of tri-code facilities have been developed throughout Australia. The Commission acknowledges that issues have arisen in terms of construction budgets and aesthetics in some cases. However, it should be noted that these issues are primarily related to the planning phase of the developments and any rationalisation of racing facilities in the ACT should learn from any of the planning issues that have arisen elsewhere.

Other issues that have arisen in other jurisdictions have resulted from industry promises and vested interests from the different racing codes. Tri-code facilities are a relatively new concept for the racing industry and would mean that some codes may have to relinquish power or the use of infrastructure that they have heavily invested in.

Some of the benefits that can be seen from the tri-code facilities in other jurisdictions are that the codes can more efficiently use the shared facilities, and a limited source of capital can be used across the three codes and can increase the standards of the facilities.

Racing Queensland’s Industry Infrastructure Plan outlines the reasons for developing tri-code facilities: underutilised facilities, ageing infrastructure, downturn in attendance and clubs struggling to maintain financial viability with substandard facilities.⁶⁵

⁶⁰ Submission 26, p. 26.

⁶¹ Submission 21, p. 12-13; Submission 27, p. 9.

⁶² Submission 27, p. 9.

⁶³ Submission 21, p. 8.

⁶⁴ Submission 16, p. 2.

⁶⁵ Racing Queensland Limited, *Industry Infrastructure Plan*, December 2010, p.5.

7.3 Conclusion

The Commission is of the view that the ACT Government, in conjunction with the three ACT racing clubs, should undertake a detailed investigation into the potential costs and benefits to the industry of amalgamating the three codes to create a single independent body. This process should allow all industry stakeholders a chance to raise issues to be considered prior to any amalgamation of the industry codes. It is envisaged that this independent body would abolish the current clubs and boards and create a new independent body that would make decisions on the racing industry as a whole.

The Commission considers that the current situation of the national racing industry lends itself to a rationalisation of industry bodies within the ACT, thereby providing the industry with a stronger position during any negotiations on future broadcasting arrangements or national funding models. Furthermore, if the industry has a degree of funding certainty over the medium term, it can undertake such structural reforms without the risk of a significant impact on funding.

The advantage of a single independent governance and administrative arrangement is that it provides:

- some scope for administrative efficiency (although this is likely to be small)
- a single voice in broadcast and other negotiations
- a body that would make decisions for the whole of the racing industry
- a vehicle for making more efficient resourcing decisions (e.g. the split of funds across the codes, investment decisions such as track consolidation).

In creating such a body, the ACT Government would need to ensure that one code does not have a greater influence over other codes and that appropriate corporate governance structures are in place to manage competing interests.

Following the outcomes of the investigation into the administrative structures, the Commission considers that the ACT Government, in conjunction with the ACT racing industry, should undertake a detailed investigation into the feasibility of co-locating the three different racing codes at the one location. The Commission considers that the potential benefits of co-location warrant further consideration for the industry.

In undertaking any redevelopment for co-location, the Commission notes that any impact on the operations of the racing industry could have significant effect on the viability of the industry. Therefore any redevelopment should allow for continuous operation of the industry.

Recommendation 7.1

The ACT Government, in conjunction with the three racing clubs in the ACT, should undertake a detailed investigation into the costs and benefits of replacing existing administrative structures and establishing a single independent administrative body to oversee the management of the three racing codes.

Recommendation 7.2

Following the outcomes of Recommendation 7.1, the ACT Government, in conjunction with the ACT racing industry, should undertake a detailed investigation into the feasibility of co-locating the three different racing codes at the one location.

Appendix 1 Terms of reference

Australian Capital Territory

Independent Competition and Regulatory Commission (Investigation into the ACT Racing Industry) Terms of Reference Determination 2010 (No 1)

Disallowable instrument DI2010–269

Made under the

Independent Competition and Regulatory Commission Act 1997 (the Act), Section 15 (Nature of industry references) and Section 16 (Terms of industry references)

Reference for investigation under Section 15

Pursuant to section 15(1) and 16 of the Independent Competition and Regulatory Commission Act 1997 (the Act), I refer to the Independent Competition and Regulatory Commission (the Commission) the task of undertaking an investigation of the ACT racing industry.

1. The review will examine and make recommendations on an appropriate system of product payments and an appropriate funding outcome for the ACT racing industry. In making its recommendations the review will:
 - a) examine the economic impact of the racing industry in the ACT, including, but not limited to:
 - i. the benefit the ACT Government receives through ACTTAB's use of race field product from the ACT racing clubs and interstate racing clubs;
 - ii. the contribution of racing in the Canberra community, the revenue streams of racing clubs (including wagering, broadcast, sponsorship and functions), employment impacts, tourism spillovers and any other relevant trends in the industry;
 - b) estimate the current value of racing product created by the ACT racing clubs and provide advice on the capacity for future growth in value of racing product;
 - c) measure the current net value of product payments to the ACT racing clubs;
 - d) compare the current net value of product payments measured at c) with:
 - i. current net value of product payments to racing clubs in other jurisdictions; and
 - ii. considered as comparisons of payments per capita, per racing industry fulltime employee, per racing patron and per dollar of economic contribution.

2. The review will also examine and make recommendations on an appropriate allocation of ACT budget funding amongst the three racing clubs (Canberra Racing, Canberra Harness Racing Club and the Canberra Greyhound Racing Club). In making recommendations the review will consider relevant issues including, but not limited to:
 - a) any information arising from 1) above;
 - b) the level of interest/involvement in racing product both nationally and locally;
 - c) the relative costs of producing racing product and maintaining racing facilities; and
 - d) other forms of implicit and explicit government support to the racing clubs.
3. The review will also examine the impact, opportunities and challenges of a possible national statutory scheme on the ACT racing clubs and make recommendations on the future structure of the ACT racing industry. In making its recommendations the review will:
 - a) examine the opportunities and risks arising from a national product market to the ACT Government, Canberra community and ACT racing clubs; and
 - b) examine the current structure of the racing industry and identify opportunities for the industry to be more efficient, sustainable and competitive in a national product market.
4. The review will invite public submissions.

Simon Corbell MLA
Attorney General
13 October 2010

Appendix 2 Terms of reference concordance

Specific elements of the Terms of Reference	Addressed in ...
1. The review will examine and make recommendations on an appropriate system of product payments and an appropriate funding outcome for the ACT racing industry. In making its recommendations the review will:	Chapter 2, 3, 4 and 6
a) examine the economic impact of the racing industry in the ACT, including, but not limited to:	
i) the benefit the ACT Government receives through ACTTAB's use of race field product from the ACT racing clubs and interstate racing clubs;	Section 2.2.2
ii) the contribution of racing in the Canberra community, the revenue streams of racing clubs (including wagering, broadcast, sponsorship and functions), employment impacts, tourism spillovers and any other relevant trends in the industry;	Section 2.2.2
b) estimate the current value of racing product created by the ACT racing clubs and provide advice on the capacity for future growth in value of racing product;	Chapter 3
c) measure the current net value of product payments to the ACT racing clubs;	Chapter 3
d) compare the current net value of product payments measured at c) with:	
i) current net value of product payments to racing clubs in other jurisdictions; and	Section 3.1
ii) considered as comparisons of payments per capita, per racing industry fulltime employee, per racing patron and per dollar of economic contribution.	Section 3.1
2. The review will also examine and make recommendations on an appropriate allocation of ACT budget funding amongst the three racing clubs (Canberra Racing, Canberra Harness Racing Club and the Canberra Greyhound Racing Club). In making recommendations the review will consider relevant issues including, but not limited to:	Chapter 5
a) any information arising from 1) above;	Section 5.1
b) the level of interest/involvement in racing product both nationally and locally;	Section 5.1
c) the relative costs of producing racing product and maintaining racing facilities; and	Section 5.1
d) other forms of implicit and explicit government support to the racing clubs.	Section 5.2
3. The review will also examine the impact, opportunities and challenges of a possible national statutory scheme on the ACT racing clubs and make recommendations on the future structure of the ACT racing industry. In making its recommendations the review will:	Chapter 7
a) examine the opportunities and risks arising from a national product market to the ACT Government, Canberra community and ACT racing clubs; and	Chapter 7
b) examine the current structure of the racing industry and identify opportunities for the industry to be more efficient, sustainable and competitive in a national product market.	Chapter 7

Appendix 3 Consultations

The following is a list of the submissions received in response to the draft report.

- Submission 13—B Teague
- Submission 14—P Mair
- Submission 15—J Hogbin
- Submission 16—ACT Racing Industry
- Submission 17—Access Economics
- Submission 18—Canberra Thoroughbred Racing Trainers
- Submission 19—Canberra Harness Racing Club
- Submission 20—Allen Consulting Group
- Submission 21—Canberra Greyhound Racing Club
- Submission 22—Betfair Australia
- Submission 23—Australian Racing Board
- Submission 24—ACTTAB
- Submission 25—L Boag
- Submission 26—Canberra Racing Club
- Submission 27—Greyhounds Australasia

The following is a list of those who appeared at the Public Hearing on 22 February 2011.

- Mr Tim Olive, Chairman, Canberra Racing Club
- Mr Peter Stubbs, Chief Executive, Canberra Racing Club
- Mr Ray Redman, President, Canberra Harness Racing Club
- Mr Phil Hardy, Secretary, Canberra Harness Racing Club
- Mr Mike Brady, Secretary, Canberra Greyhound Racing Club
- Mr Ashley Dwyer, Chairman, Canberra Board of Management, Canberra Greyhound Racing Club
- Mr Simon Bush, Bush Consulting
- Mr Andrew Harding, Chief Executive, Australian Racing Board
- Mr Geoff Bloom, Director, Australian Racing Board
- Dr Jerome Fahrer, Director, The Allen Consulting Group (on behalf of the Canberra racing industry)
- Mr Steve Corcoran, Senior Consultant, Access Economics
- Mr Laurie Olive

Abbreviations

ABS	Australian Bureau of Statistics
ACG	Allen Consulting Group
ACT	Australian Capital Territory
ACTTAB	ACT Totalisator Agency Board
AE	Access Economics
CGE	computable general equilibrium
Commission	Independent Competition and Regulatory Commission (ACT)
CGRC	Canberra Greyhound Racing Club
CHRC	Canberra Harness Racing Club
CRC	Canberra Racing Club
FTE	full-time equivalent
GDP	gross domestic product
GSP	gross state product
NSW	New South Wales
PC	Productivity Commission
Qld	Queensland
RWWA	Racing and Wagering Western Australia
SA	South Australia
TAB	Totalisator Agency Board
Vic.	Victoria
Tas.	Tasmania
WA	Western Australia