ACCESS ECONOMICS

Investigation into the ACT Racing Industry

23 November 2010

Submission by Access Economics Pty Limited to the

Independent Competition and Regulatory Commission

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AFL	Australian Rules Football
ARB	Australian Racing Board
CPI	Consumer Price Index
CRC	Canberra Racing Club
FTE	Full Time Equivalents
GST	Goods and Services Tax
ICRC	Independent Competition and Regulatory Commission
NSW	New South Wales
PC	Productivity Commission
RDF	Racecourse Development Fund
RFL	Race Fields Legislation
TAB	Totaliser Agency Board

Summary

Access Economics welcomes the opportunity to provide a submission to the Independent Competition and Regulation Commission (ICRC) investigation into the ACT Racing Industry.

This submission is in two parts: (i) a summary of the issues and Access Economics' recommendations, and (ii) the data and information supporting this summary. The submission was commissioned by the Canberra Racing Club (CRC), and focuses on thoroughbred racing, but many of the issues are relevant to all three codes.

Recent developments

Faced with a period of great uncertainty and rapid change for the ACT racing industry, the ACT Government introduced Race Fields Legislation (RFL) and changed the arrangements for product fees.[1] The ACT Government adopted RFL based on a percentage of gross revenue, similar to most other jurisdictions (other than NSW, where turnover is used). While there are still many issues facing the industry, and the product fees for 2010-11 are lower than those previously recommended by Access Economics,[2] the change in payment arrangements improved the difficult situation facing the CRC earlier this year.

The negotiations that led to this outcome were robust and the issues received detailed examination by government officials. Extensive consultation occurred – the government officials involved invested considerable time meeting with the industry to fully understand all the issues surrounding product fees and developments in wagering. While the product fee outcome for 2010-11 was below the level recommended by Access Economics, it was arrived at through a healthy process and thus has credibility as a starting point for this investigation.

The need for an investigation

Process aside, the ACT now has a different racing product fee model compared with the other jurisdictions. The sums of money involved are also considerable, though in the context of the ACT Budget and total gambling revenues, racing is a small proportion. In any case, it is understandable that the ACT Government is seeking independent verification of the appropriateness of this new system for product fees for racing in the ACT.

The Federal Court rulings of 17 November 2010, which dismissed the Betfair and Sportsbet challenges to the NSW RFL, suggest that the hybrid product fee model (part-TAB, part-RFL) may have longevity. Had these challenges been successful (and there are still avenues for further appeals), it may have accelerated the development of a national market. Now, a national market appears to have become more distant in the future. The implications of a national market for the ACT are discussed in some detail below.

Product fees for racing

Access Economics' view of appropriate product fees for racing in the ACT remains the same as estimated in our Dec 2009 report *Product Fees for Racing in the ACT.*

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[1] As described in the letter of 21 June 2010 from Minister Andrew Barr to Peter Stubbs, CEO of the CRC.

[2] Access Economics (2009) *Product Fees for Racing in the ACT*

This would see the CRC receiving budget funding for 2010-11 of $6.97 million, rather than the current budget allocation for 2010-11 of $5.451 million, which is 75% of the three code total budget allocation of $7.268 million. The CRC also received a one-off $500,000 towards the 2007 track redevelopment loan, which reflected a partial catch-up on shortfalls in prior years.

This recommendation is also similar to what would have happened if ACTTAB had maintained its performance and market share at the 2005-06 level, which would have seen 2010-11 wagering turnover of around $200 million to $210 million and racing industry fees of around $9 million to $9.45 million, with a thoroughbred share of around $6.75 million to $7.09 million, plus RFL. This would move the ACT closer towards the product fees seen in other jurisdictions, though it would still be at the lower end of the jurisdictions.

The dollar figures above are based on thoroughbred's current 75% share of the three-code total. The three-code split is discussed below, which impacts on these dollar figures.

Developing a national market

There have been many changes to the racing and wagering industries in Australia in recent years – the Productivity Commission (PC) devoted 63 pages[3] to its analysis of recent developments. The industry continues to change, with racing and wagering becoming increasingly competitive, and more national (and even international) in its focus.

Even so, the development of a national market for racing product fees is likely to take a considerable time to emerge, possibly 5-10 years or more (with the PC recommending a review in 3 years). The timeline and structure of a national market is likely to be shaped by the major jurisdictions of Victoria and NSW, and as noted above, the Federal Court's validation of the NSW RFL reduces the urgency of creating a national market. While the ACT Government and the three ACT racing clubs should be encouraged to engage in this process, in reality, they are likely to have little scope to influence this process.

Of particular importance, is how small jurisdictions are handled within a national market. There may be value in the ACT forming a 'bloc' with Tasmania, South Australia and Western Australia to ensure the different circumstances of smaller jurisdictions are not forgotten. For example, a system based purely on gross revenue (with no fixed annual component) could disadvantage a small jurisdiction – one wash-out due to bad weather could cost 1/26 of the CRC's annual revenues, even though only half of its operating costs of that race meeting (ie prize money) is variable and the other operating costs are fixed.

Furthermore, the ACT does not have the ability to cross subsidise the developmental and feeder races with the proceeds of major metropolitan Group 1 races. In contrast, NSW and Victoria can support the necessary (but loss-making) developmental and feeder races at regional tracks with the proceeds from major races. Hence, it is important that the scale economies of small jurisdictions and the role of regional racing in jurisdictions such as the ACT and Tasmania (in feeding the major NSW and Victoria metropolitan events) is recognised in any national market.

While a small jurisdiction 'bloc' may be able to have some influence, many aspects of the timing and structure of a future national racing product fee market are well outside the control

[3] Productivity Commission (2010) *Gambling*, chapter 16

of the ACT Government and the three ACT racing clubs. Hence, the focus of the ACT Government should be on managing the factors within its control to ensure a good outcome for the Canberra community and the three racing clubs.

For the foreseeable future, product fees for racing clubs in most jurisdictions will continue to be largely through home-State[4] product fees, supplemented by RFL product fees on interstate wagering operators. A small component of race club revenues are derived from broadcast fees, overseas product fees, sponsorships and non-racing-related sources.

In recent years the CRC has worked to expand its revenue streams. The CRC is now receiving product fees from some overseas wagering operators, broadcast fees from Sky, sponsors, memberships, admission fees and has developed its conference business using its facilities on non-race days. As such, opportunities to diversify its revenues are largely tapped out.

The CRC continues to be a lean operation, with a small permanent staff and honorary (unpaid) Committee members. The CRC faces a number of cost pressures outside its control, with electricity, potable water and other input costs continuing to rise faster than general inflation.

In any case, the key issue is how the surpluses (or super profits) made by wagering operators, from offering bets on racing product, are returned back to the racing clubs. Whether clubs also make money from conferences or sponsors has no relevance – an increase in these other revenue sources should not be used as an excuse to lessen the product fees paid by wagering operators.

Home-State product fees

Racing clubs in most jurisdictions continue to receive the bulk of their product fees from their home-State TAB. In the ACT, product fees were moved from ACTTAB to a Budget allocation, but with ACTTAB being Government owned this had little impact on whole-of-government finances, and so the term 'home-State product fees' is used here, rather than the traditional terminology of 'TAB product fees'.

To properly understand the budgetary impacts of this change it is necessary to net out the transfers between ACTTAB and the ACT Government, which include ACTTAB dividends, income tax equivalent payments, retained earnings, rates equivalent payments and the like.

Based ACTTAB forecasts,[5] racing product fees would have cost it $7.657 million in 2010-11, for the three codes combined. Following the change in arrangements, the ACT budget impact for 2010-11 is now $7.268 million.[6] Hence, there is a whole-of-government budget saving of $0.389 million under the new arrangements. Whereas most other jurisdictions passed on RFL revenues to racing clubs in full (to address the partial erosion of TAB monopolies in prior years), the ACT Government partly clawed back some of the RFL revenues. This was also confirmed by the Productivity Commission.[7]

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[4] For brevity, 'State' refers to the 8 State and Territory racing jurisdictions.

[5] ACTTAB (2010a) *Statement of Corporate Intent* 1 July 2010 – 30 June 2011, using 2009-10 racing product fees plus ACTTAB's wagering growth expectations of 3% for 2010-11.

[6] Letter of 21 June 2010 from Minister Andrew Barr to Mr Peter Stubbs, CEO of the Canberra Racing Club

[7] Productivity Commission (2010) *Gambling*, page 16.23.

Taking into account other budgetary impacts, the wagering and racing industry generate a net positive (surplus) direct budget impact of $1.654 million, as detailed in the main body of this submission. The racing industry also makes indirect contributions to the Budget position due to the economic activity it creates in the ACT.

While the focus of this Investigation is on racing rather than ACTTAB, the performance of ACTTAB is an important ACT Budget offset to the product fees paid to the racing clubs. ACTTAB has lagged behind the technology available interstate (such as flexi bets) which has indirectly put pressure on the product fees paid to racing. The financial stress and funding difficulties facing the racing clubs over the past few years could have been avoided if the ACT Government had been more pro-active in preventing ACTTAB from stagnating in recent years. While racing revenue is now delinked from ACTTAB, the Budget offset provided by ACTTAB's performance is still an indirect concern for the racing industry.

A further offset that has now been lost is the corporate bookmaker sector. In the past, the ACT had a considerable number of corporate bookmakers, most of which have been lost to the Northern Territory, where they are understood to pay $18 million per annum in tax to the NT Government.

When analysing product fees and comparing with other jurisdictions, it is important to take a whole-of-government view on combined ACTTAB and Government budget impacts. Furthermore, it is recommended that the ACT Government improve its Budget reporting of racing product fees and the various ACTTAB offsets (dividends, retained earnings/balance sheet impacts, income tax equivalent payments, etc) to make the net budget impacts clearer – the current presentation in Budget Papers is potentially misleading and the true Budget impact of recent changes to racing product fee arrangements are very difficult to decipher.

The 'Gentlemen's Agreement'

For many years the TAB paid product fees to the racing clubs in its jurisdiction in return for the privilege of offering bets on races staged by racing clubs in other jurisdictions, and in return for their legislated monopoly.

While the TAB monopolies have partly eroded due to developments in wagering, home-State product fees still comprise the significant majority of total product fees in all jurisdictions.

Hence, the ACT Government (through its wholly-owned business, ACTTAB) still receives a considerable benefit from ACTTAB being able to offer wagers on races staged by racing clubs in other jurisdictions.

When a punter in the ACT bets on the Melbourne Cup – or indeed any other thoroughbred race – the ACT Government benefits via its wholly-owned wagering business, ACTTAB. The product fees (essentially, the super profits) earned from that punter's wager do not belong to the ACT Government (nor ACTTAB). They arise from, and belong to, the racing industry. Under a national model, more (or all) of that product fee would be paid to the Victorian Racing club. Under the Gentlemen's Agreement it would be paid to the CRC in lieu. Under the current hybrid system, some of those product fees are paid to the Victorian racing club, some are streamed to the CRC via a budget allocation and some is retained as tax revenue.

The question at hand is whether the ACT Government is retaining too much of this revenue, to the detriment of the punters who fund the industry, and the racing clubs and their employees.

At the same time, ACTTAB is partly paying for that privilege through RFL payments to other states, estimated at $2.234 million in 2010-11 by ACTTAB.[8] Since RFL payments are only a small component of the product fees paid to interstate racing clubs (with their home-State TAB still making up the majority of their product fees) ACTTAB is now paying interstate racing clubs around 29% of what it would have been paying its home-State clubs – a considerable net saving that has helped ACTTAB return to profitability.

As a result, there remains a significant component of home-State funding in the spirit of the 'Gentlemen's Agreement'. Because of the unwritten nature of the 'Gentlemen's Agreement', it is difficult to ascertain the consequences if the ACT did not continue to adequately fund the racing clubs within its jurisdiction. Certainly, the 'claw back' noted above, as identified by the PC, suggests a desire by the ACT Government to lessen its effort in supporting the racing clubs in its jurisdiction, relative to other jurisdictions.

In the short term, it may be possible for the ACT Government to lessen its effort without direct consequences. However, if home-State product fees in the ACT do not keep in pace with other jurisdictions in the future, it could impact the ability for ACTTAB to offer wagers on interstate racing, or impact on the ACT indirectly, though various negotiations on a national market or pooling with interstate TABs. By the very nature of the 'Gentlemen's Agreement', it is difficult to be precise about the consequences, but there are likely to be risks associated with a lessening of effort in home-State product fees in the ACT.

'Optimal' product fees

A very interesting, but difficult question is the optimal level of product fees and hence, the optimal amount of race meetings to stage in the ACT. As noted by the PC, product fees exist to remedy the 'free rider' problem – meaning that wagering operators would pay nothing to racing clubs if they could get away with it. Because of this 'market failure', it is not possible to simply allow the 'invisible hand' of market forces to determine the optimal price and quantity of racing. Rather, as the ICRC would no doubt be very familiar with for regulated industries, it is necessary to find arms-length comparisons to check whether the current level of racing in the ACT is 'optimal'.

The Terms of Reference suggest some benchmarks for this purpose, including comparisons with other jurisdictions, per capita, and so forth.

The PC[9] found some 'implied transfers' between some jurisdictions (mainly NSW being a net importer and Victoria being a net exporter of racing product). For the ACT, it showed the amount of ACT wagering on Australian racing was slightly higher than the Australian wagering on ACT racing. However, these data do not make it clear whether any imbalance is due to a lack of supply of ACT racing product (in turn, due to funding constraints) or a lack of demand. Hence, other comparisons are needed.

[8] ACTTAB (2010a) *Statement of Corporate Intent*, Appendix A

[9] Productivity Commission (2010) *Gambling*, Table 16.1, page 16.19

As detailed in the main body of this submission, on most comparisons, the amount of racing in the ACT and the product fees for racing in the ACT are smaller than the arms-length comparator. This is further compounded by the ACT being a small jurisdiction, where the three clubs have to act as both a principal racing authority and a racing club. This lack of scale economies (other things equal) would require a greater level of funding to ensure consumers in the ACT receive a comparable level of racing activity compared with consumers in other jurisdictions.

In particular, the ACT accounts for 1.1% to 1.3% of all wagering on the three racing codes (depending on the metric used). However, the ACT racing clubs only receive 0.9% of the product fees paid by wagering operators to racing clubs, nationwide. That is, the amount returned to racing by wagering operators in the ACT is lower than in all other jurisdictions (with the exception of the anomalous arrangements in the Northern Territory).

Importantly, the Commonwealth Grants Commission determined that the ACT Government is to receive $498.57 million per annum of additional GST revenue to compensate for its lack of administrative scale.[10] Therefore, the ACT Government receives a significant adjustment to assist it with the burden of being a small jurisdiction, yet the CRC does not.

Furthermore, the ACT is a small economy with a relatively un-diversified economy. The ACT economy has a large reliance on the Commonwealth Public Service, and relatively little mining, agriculture or manufacturing activity. In that context, the presence of a racing industry (albeit relatively smaller than in most other jurisdictions), broadens the scope of economic activity and entertainment opportunities available compared with the larger cities of Australia.

In the case of thoroughbred racing, relative to harness and greyhound racing, the thoroughbred industry has a large permanent presence in the ACT with many full time professional trainers and jockeys located in the ACT, and numerous employees based in the ACT. The horses trained and kept at Thoroughbred Park are also used to supply runners for regional races in surrounding parts of southern NSW (thus providing interstate export earnings for the ACT). In contrast, the other two codes are characterised by a high proportion of trainers and runners that travel into the ACT for race meetings, rather than having a permanent base in the ACT.

Thoroughbred Park is entirely maintained by the CRC, whereas in the case of harness racing, the maintenance of their facilities is partly subsidised by EPIC.

Economic impacts

Access Economics has updated previous studies of the economic impact of racing to 2008-09. Details are in the main body of this submission:

The thoroughbred racing industry generated $52.0 million in expenditure which resulted in direct plus indirect economic impacts of: $44.4 million in value added to the ACT; and, employment of 480 Full Time Equivalent (FTE) workers.

[10] Commonwealth Grants Commission (2010), Table 23-4, p497 available at: http://www.cgc.gov.au/__data/assets/pdf_file/0015/18411/Chapter_23_-_Administrative_scale.pdf

An important facet of the CRC is the role it plays in providing 'critical mass' to other recreational activities involving horses. Without the local racing industry, it is likely that Canberra would not have the demand to support a large animal veterinary clinic and other facilities used by recreational horse owners.

Three code split

Of relevance here is:

1. the interest in each code by ACT residents (ie consumer demand).
2. the interest in each ACT club nationally.
3. the cost structure, economic impact and other spillovers of each code.

ACTTAB reports[11] that its nationwide pari-mutuel turnover on the three codes in 2009-10 was 77.5% for thoroughbreds, 10.8% for harness and 11.7% for greyhounds. Given that ACTTAB generally uses a constant takeout rate on pari-mutuel betting,[12] the whole-of-government budget (via ACTTAB) impact would follow the same proportions. The inclusion of fixed-odds betting in the above data increases the thoroughbreds share to 77.8% in 2009-10.

The ARB 2009 Fact Book records wagering on thoroughbreds in 2008-09 in the ACT (from all TAB, fixed odds, bookmakers and others) at 77.9% of the three codes, but does not provide a split of the other two codes. This was comprised of $168.8 million of turnover on thoroughbreds and $47.87 million on the other two codes ($216.67 million in total). Hence, thoroughbreds are clearly the most popular of the three codes for consumers in the ACT.

In terms of national wagering interest in the three ACT clubs, the data are incomplete. Data on national wagering on ACT race have only been collected since RFL payments commenced in March 2010 and the ACT Gaming and Racing Commission only report the data at the end of June and December each year. Therefore, only four months of data (March 2010 to June 2010 inclusive) were available at the time of writing. Further complications in interpreting the data are:

- the seasonal peak in thoroughbred racing – the Black Opal Stakes – in March, making it difficult to estimate a full year of data from four months of data, when there are seasonal fluctuations;
- the ACT Gambling and Racing Commission only provided the CRC with data on thoroughbred and total, without a split between harness and greyhound;
- track redevelopments in the past and significant changes to racing calendars for all three codes in 2010-11 will result in the 2010-11 data being quite different to the 2009-10 data; and
- the CRC has now achieved full TAB and Sky coverage of all its 26 race meetings for 2010-11, which will significantly enhance its brand and thus RFL revenues compared with 2009-10.

While the RFL data for thoroughbreds appears broadly in line with its share of the three code split, the data issues highlighted above suggest it would be prudent to wait for the full 2010-11 fiscal year data to be available before using this RFL data to inform any decision making.

[11] ACTTAB (2010b) *Annual Report 2009-10*, p41

[12] Takeout rate = (turnover – winnings returned to punters) ÷ turnover, where turnover is the initial wagers placed

The third factor influencing the three code split is the cost and economic contributions of the three codes. Thoroughbred Park has resident trainers, strappers, jockeys and other industry participants, employed in the ACT. The other two codes rely more heavily on runners coming from interstate for race meetings. Thoroughbred racing also attracts greater on-course attendances for race meetings and related activities (such as fashions on the field), with flow-on benefits to fashion retailers, winemakers, catering and other ACT businesses.

Thoroughbred racing is also a more complex undertaking, requiring a higher proportion of the work done in the industry to be undertaken by full-time professionals, with less work in the thoroughbred industry being undertaken as a hobby or by owners. Given the available information, a thoroughbred share of around 80% would be more consistent with the consumer interest in thoroughbred racing, the cost structure of thoroughbred racing and the economic impacts of thoroughbreds in the ACT. A thoroughbred share of 80% would increase the dollar figures quoted earlier, with the recommend 2010-11 thoroughbred product fees increasing from $6.97 million to $7.43 million, under an 80% split.

Beyond 2010-11, as more RFL data becomes available, it may be possible to construct an explicit formula for splitting revenues that uses (say) a rolling three-year weighted average of RFL data (national betting on the three ACT clubs) and the data on ACT consumers' demand for the three codes (ACT resident betting on the three codes nationally), with the latter also reflecting the benefit ACTTAB receives from being able to offer bets on interstate races. This would ensure the funding of the local industry reflects the local consumers' interest in each code, national interest in the ACT clubs' product, and the benefit to the Government Budget from each code (via ACTTAB).

As such, to reflect these three factors, the weight for the moving average could be set at one-third of each code's percentage of RFL revenues and two-thirds of each code's percentage of ACT consumers' betting nationally.

Transitional issues

The ACT racing industry has experienced several years of volatility in product fee arrangements. There may be further volatility in the future as a national model is developed. Other recent disruptions (unrelated to product fee arrangements) include Equine Influenza and Jockey Insurance.

The 2010-11 Budget announcement and forward estimates allows the industry an opportunity to recover and stabilise following the volatility in product fee arrangements in recent years. It also allows some time to prepare for any future changes towards a national product market. Furthermore, racing calendars need to be planned up to a year in advance to allow time for marketing, sponsorships and other arrangements.

As such, if the ICRC envisaged any substantial changes to product fee arrangements, a suitable transition period and implementation timeline is recommended, to avoid unnecessary dislocation and disruption to the industry. Similarly, an increase in the thoroughbred share of the three-code total may need to be phased in gradually, to avoid disruptions to the other two codes.

Industry future

The ACT is a small jurisdiction, with the three racing codes each carrying the burden of being a principal racing authority (responsible for rules, regulation and integrity) and a racing club (responsible for day-to-day racing operations). The direct costs to CRC of being a principal racing authority were $69,093 in 2009-10 financial year, plus staff time associated with attending ARB meetings, plus approximately $500,000 in integrity costs (such as drug testing and stewards).

Additionally, the three clubs operate across three different race tracks:

- Thoroughbred racing at Thoroughbred Park;
- Harness racing at Exhibition Park In Canberra (EPIC); and
- Greyhound racing at Narrabundah

This results in the duplication of ACTTAB on-course facilities and Sky broadcast facilities across three locations. There is also a racecourse in Queanbeyan, further adding to the amount of track maintenance and capital costs borne by the racing industry in the Capital Region.

The increasingly competitive and national nature of racing suggests the industry will only continue to become more competitive. Decades ago, the racing industry was largely local, supported by locals attending the race track, the local TAB and local bookmakers. Now, TV coverage (Sky) and national wagering are more important. The CRC is now even competing with overseas racing clubs to be listed in race guides such as *The Sportsman*.

Meanwhile, other jurisdictions are exploring mergers and track relocations. A $174 million Randwick upgrade and merger between the Sydney Turf Club and Australian Jockey Club is currently being negotiated. The Harold Park Paceway (harness racing) is relocating to an upgraded facility at Menangle in South Western Sydney, with the Harold Park site at Glebe to be redeveloped into a mix of residential, community and commercial land.

The ACT Government has a large stake in the future of the ACT racing industry:

- through its ownership of ACTTAB;
- through its ownership of the harness track at EPIC;
- through its spatial planning role, and the possibility that some future racing industry scenarios could involve varying the Territory Plan; and
- through its role of advancing the interests of the Canberra Community.

Hence, while governments may be inclined to defer to industry in formulating plans for the industry's future, in the case of racing, there is a need for the ACT Government to be actively involved in a co-ordinating role between the three codes, ACTTAB, EPIC and ACTPLA (and possibly, Queanbeyan) to negotiate a way forward for the local industry.

Access Economics is concerned that the increasing nationalisation and internationalisation of wagering and racing could place considerable pressure on the three ACT racing clubs over the next decade, regardless of how short-term product fees are determined. There is significant scope for the industry to rationalise its operations, to become more competitive, and to achieve greater economies of scale compared with the current three-location structure of the industry. There is scope for such a rationalisation to free up land that can be sold to finance

this consolidation, akin to the closure of Harold Park. There are also other budget offsets for the ACT Government, through savings to ACTTAB and freeing up capacity for more exhibitions at EPIC.

Conclusion

This Investigation is an important opportunity to reform product fee arrangements and to enhance the contribution that racing makes to the ACT Community and economy.

Recent ACT Government changes to racing industry product fees have been welcome and have helped stabilise the industry. However, there is scope to move further towards the product fees previously recommended by Access Economics. This would see home-state product fees (three codes combined), for 2010-11 of around $9.3 million, plus RFL revenues.

The wagering and racing industry makes a net positive (surplus) contribution to the Budget. Part of this is due to ACTTAB's right to offer bets on interstate racing, which is dependent on the ACT maintaining an appropriate level of product fees for the racing clubs in its jurisdiction.

Thoroughbred racing generates the most interest from consumers, has the most complex business model and generates the most economic spillovers. The current 75% share for thoroughbreds could be increased to 80% to better reflect this.

Being a small jurisdiction, there is a need for the ACT Government, ACTTAB, EPIC and the three codes to explore how to best use their resources to remain competitive with the larger jurisdictions in the future. Other jurisdictions are already modernising and rationalising, and the ACT could fall behind.

The CRC has already been active in adapting to the new national focus of racing, with its track upgrade and with 2010-11 being the first year of full TAB and Sky coverage of all its race meetings. With appropriate product fee arrangements, the CRC is well-placed to build on these achievements to further enhance its contribution to the ACT Community and economy.

1 Background and supporting data

The remainder of this submission provides data and other information to support the summary above.

1.1 CRC product fees

The following extract is from the letter of 21 June 2010, from Racing Minister Andrew Barr, to Peter Stubbs, CEO of the CRC. It records the 2010-11 budget allocation and forward estimates, which provides product fees to racing of $7.268 million, and the CRC receives a 75% share of this, resulting in a 2010-11 product fee for the CRC of $5.451 million.

The budget funding for the industry from the 2010-11 ACT Budget is shown in the table below.

	2010-11 ($'000)	2011-12 ($'000)	2012-13 ($'000)	2013-14 ($'000)
Budget funding for the ACT racing industry	7,268	7,457	7,651	7,848

Additionally, the CRC received $500,000 as a one-off payment towards the 2007 track redevelopment loan, which was a catch-up for product fee shortfalls in prior years. The CRC also receives RFL revenues estimated to be $1.125 million for 2010-11, or $1.5 million for the three codes combined. With 2010-11 being the first full year of RFL revenues, collected under new legislation, the exact amount of RFL revenues is uncertain.

The total product fee payment to the CRC for 2010-11 is therefore estimated to be $6.576 million, plus CPI in later years, plus a one-off $500,000 payment that occurred in July 2010.

Access Economics has previously[13] estimated CRC product fees for 2010-11 of $6.97 million, which would return product fees back to the real levels seen before the ACTTAB monopoly started to erode. Other jurisdictions, where TAB performance has been less affected by the liberalisation of wagering markets, have received RFL revenues as an additional payment on top of home-State (TAB) product fees. Adopting a similar approach in the ACT would see product fees to the CRC (using the current 75% split) of $8.095 million for 2010-11, escalated for cost increases in subsequent years.

For the three codes combined, that would be approximately $10.79 million in combined RFL and budget-funded product fees, for 2010-11.

[13] Access Economics (2009) *Product Fees for Racing in the ACT*

1.2 Budget impacts

1.2.1 Direct impacts

The racing industry currently receives product fees through two avenues: a budget allocation and the RFL revenues administered by the ACT Gambling and Racing Commission.

Until 30 June 2010, ACTTAB made payments to the racing clubs, based on 4.5% of turnover, through the RDF.

The presentation of the ACT Budget papers makes it difficult to calculate the budget surplus generated by the wagering and racing industries. Due to the joint nature of racing and wagering, it is not possible to assess the budget contribution of racing in isolation from the benefit to the budget from ACTTAB being able to offer bets on interstate racing clubs: a privilege which only arises because ACT Government pays product fees to the racing clubs within its jurisdiction. As such, the budget impact of the 'jointly produced' output of the wagering and racing industries needs to be assessed as a whole.

The direct 2010-11 budget impact to the ACT Government includes revenue from:

- ACTTAB licence fees (of which, 87% of ACTTAB revenues relate to racing), of $1.348 million x 87% = $1.173 million.
- ACTTAB dividends, ACTTAB income tax equivalent payments and ACTTAB retained earnings (these are not receipts in the current year, but a deposit towards investments that generate income in future years and add to the whole-of-government balance sheet. Hence, these should be included as a benefit to the whole-of-government budget position) amounting to the removal of the RDF of $7.434 million plus anticipated growth of 3% in 2010-11, equalling $7.657 million.
- RFL administrative fees collected by the ACT Gambling and Racing Commission of $75,000.
- Rates paid by the Canberra Racing Club of approximately $20,000.
- Rental paid to EPIC from the Harness Racing club of approximately $25,000.

Expenditures by the ACT Government include:

- Product fee payments to the ACT racing clubs of $7.268 million.
- ACTTAB sponsorship of racing ($28,000 for the Tony Campbell Cup).

The current reporting in the ACT Budget Papers make it somewhat difficult to compile the above information and so Government correspondence with the CRC, ACTTAB annual reports and the ACTTAB Statement of Corporate Intent were used to inform the above estimates.

The result that racing and wagering make a net positive (surplus) contribution to the ACT Budget of $1.654 million (comprising revenues of approximately $8.95 million, less expenditure of $7.296 million), not including the one-off payment of $500,000 relating to the 2007 track redevelopment, as this item related to a catch up from ACTTAB product fee shortfalls in previous years. By way of a cross check, the most recent *Australian Gambling Statistics* (26th edition) reports 2007-08 Government Revenues from wagering of $8.551 million, which is 14% of total revenues from gambling. Gaming machines, lotteries and

the casino account for the vast bulk of gambling activity in the ACT and 89% of total gambling expenditure.

As the above analysis shows, the Government makes a net positive return from wagering and racing. However, much of this result – namely the performance of ACTTAB – is outside the control of the racing clubs.

ACTTAB is facing an increasingly competitive wagering market and has lost market share to other wagering operators in recent years. ACTTAB is now planning to upgrade its technology to offer the flexi-bet (or 'exotic') products offered by other wagering operators. These investments have the potential to shore up ACTTAB's revenues. However, there remains a risk that the net positive contribution of wagering and racing to the ACT Budget could become negative for reasons that are not related to the performance of the racing clubs. If such a scenario eventuated, it could place budgetary pressure on product fees for the racing clubs, due to factors that relate to ACTTAB's performance and market share, rather than the performance of the racing clubs.

The ACT has also lost considerable Budget revenues from corporate bookmakers which have relocated to the Northern Territory. In the same way that the Commonwealth Grants Commission distinguishes between 'taxing effort' versus 'taxing capacity', in determining grates to the States and Territories, it is important for the ICRC to assess whether the ACT Government and ACTTAB have fully exploited their capacity to generate wagering revenue under their 'Gentlemen's Agreement' entitlements or, whether more could have been done to improve ACTTAB's technology sooner, and to avoid the departure of corporate bookmakers.

1.2.2 Indirect budget impacts

To properly assess the full suite of budget impacts from the wagering and racing industry would require General Equilibrium modelling, which has not been possible in the time available for submissions. Further complicating the issue is the manner in which the Commonwealth Grants Commission distributes GST revenues to the States and Territories, which can cause lags and distortions in how an increase in GST (due, say, to an increase in ACT tourism spending by interstate race attendees) flows back to the Territory's coffers.

That said, putting aside the modelling issues, the wagering and racing industry potentially generates a range of other potential impacts on the ACT Budget:

- ACT Government revenues (such as rates and payroll tax) generated from supporting industries including trainers, farriers, vets and catering companies.
- GST revenues from economic activity created by the racing industry.

1.3 Economic impacts

1.3.1 Methodology

The most recent comprehensive report on the economic impacts of thoroughbred racing was by IER[14], which included a chapter on the ACT. The most recent report on all three codes in the ACT was by ACIL Consulting.[15]

[14] IER (2007) *Economic Impact of Australian Racing*, Chapter 4

The revenue estimates here are based on the IER report for 2005-06. To change the reference year to 2008-09 revenue was updated using various indicators of activity in the ACT racing sector. Participant spending, *Australian Racing Factbook 2008-09*, was updated using the number of starters, racing club and customer spending was increased using race days in the ACT.[16] Wagering revenue data was taken from the Australian Gambling Statistics (26th edition, 2007-08). Data for the racing club was taken from its annual report and payroll data. Once the revenue was estimated the direct and flow-on contribution was estimated using the ABS Input-output tables.

1.3.2 Results

Total thoroughbred racing related expenditure in the ACT was $52.0 million in 2008-09, see Table 1.1. This included $15.1 million by participants including trainers, breeders, owners and jockeys. $27.9 million was wagered in the ACT with the CRC spending $7.4 million. Racing customers also spent a further $1.7 million on travelling and getting reading for race days in the capital.

Table 1.1: ACT thoroughbred racing expenditure, 2008-09

Sector	Expenditure ($m)
Direct Spending by Participants	15.1
Direct Spending by Customers	1.7
Wagering	27.9
Racing Club	7.4
Total	52.0

Source: Access Economics estimates, numbers may not add due to rounding

Of the $52.0 million spent on racing in the ACT, $26.6 million of direct value added was generated, see Table 1.2. Of the value added, $11.3 million is generated through direct wages and $15.4 million through Gross Operating Surplus (GOS) and gambling taxes.

A large proportion, $15.0 million, of the value added was generated in the wagering sector with high estimated levels of taxes levied on the race wagering. 156 people are also estimated to work in the wagering sector, this will include those employed by ACTTAB at its head office and through the retail network.

Table 1.2: Direct economic contribution, thoroughbred racing in the ACT, 2008-09

	Direct Spending by Participants	Direct Spending by Customers	Wagering	Racing Club	Total
Value Added ($m)	**6.1**	**0.7**	**15.0**	**4.9**	**26.6**
Labour Income ($m)	3.8	0.4	6.4	0.7	11.3
GOS (incl. gambling tax)	2.3	0.3	8.7	4.2	15.4
Employment (FTEs)	84	9	156	20	270

Source: Access Economics estimates

[15] ACIL Consulting (2001) *Beyond the Winning Post: The Impact of the Racing Industry on the Economy of the Australian Capital Territory.*

[16] Australian Racing Board (2009) *Australian Racing Fact Book*

In total, the racing industry generates $44.4 million in value added to the ACT and employs 480 FTE workers, see Table 1.3.

Table 1.3: Total contribution of thoroughbred racing in the ACT, 2008-09

	Value added ($m)	Employment (FTE)
Direct	26.6	270
Indirect	17.7	210
Total	44.4	480

Source: Access Economics

This includes $17.7 million in indirect or flow-on value added, from 210 workers in the ACT. This flow-on economic contribution and employment is generated through the intermediate inputs provided by other sectors of the economy that supply inputs to the racing in the ACT. For example, on race days racing clubs provide refreshments like food and beverage for the attending public. These inputs are supplied by businesses like wholesalers, winemakers and food manufacturers, which generate profits and employ workers. Outside race days, the industry consumes goods and services such as horse feed, fuel, machinery and so forth.

It is worth noting that where these intermediate inputs are supplied from businesses located outside the ACT, the indirect value added and employment will be generated in other states of Australia. Given the high level of interstate goods trade into the ACT, it is likely that the indirect contribution outlined here is a high-side estimate.

1.3.3 Other sporting codes

Access Economics has recently quantified the economic contribution of sport and recreation for the ACT Government.[17] The report covered participation sports such as cycling, swimming, cricket and the various football codes. The report focused on the health and fitness benefits of participation sports. It did not cover racing, as racing is very different to participation sports, being part of the entertainment sector rather than part of the sport and recreation sector of the economy.

Government involvement in the funding of sports and fitness are for public health/obesity reasons, which have a different rationale to the public good free-rider issues surrounding product fees for racing, which have resulted in RFL and Government budget allocations for racing product fees.

As such, there is little gained from comparisons between the Government's public health/ obesity initiatives and how the Government determines product fees for racing.

[17] Access Economics (2010) Building an active community: The economic contribution of sport and recreation in the ACT, available at: http://www.tams.act.gov.au/__data/assets/pdf_file/0005/199931/ACT_Sport_-_Final_report_-_August_2010.pdf

1.4 Comparisons with other jurisdictions and per capita

Access Economics[18] reviewed the product fees received by ACT racing clubs in 2003-04. An extract from that report is in Table 1.4. It shows a situation that has persisted for a considerable period, with the ACT racing clubs receiving the lowest product fees as a proportion of home-State TAB turnover, and also as a proportion of expenditure.

The ACT share of 4.36% of turnover is slightly different to the RDF scheme rate of 4.5%, because the turnover data for that year included some sports betting. More recent data on racing and wagering has been collected to give a more accurate figure (excluding sports betting, but including non-TAB wagering on racing).

Table 1.4: Racing industry product fees, 2003-04

Jurisdiction	$m 2003-04	Industry revenue as % of wagering (racing & sports)			
		Turnover	Ranking	Expenditure	ranking
NSW	214.8	4.38%	7	27.83%	7
VIC	261.4	7.71%	1	50.27%	1
QLD	110.7	5.96%	4	39.00%	Eq 3
WA	64.9	6.10%	Eq 2	35.83%	5
SA	42.5	5.91%	5	39.00%	Eq 3
TAS	17.6	6.10%	Eq 2	40.44%	2
ACT	6.8	4.36%	**8**	24.83%	**8**
NT	6.2	5.62%	6	35.13%	6

Source: Access Economics (2005) *Funding ACT Racing*

The following Table 1.5 updates the above table to the most recent available data, for 2008-09, using a variety of sources, including annual reports, the ARB Fact Book, the 26th edition of Australian Gambling Statistics and the PC report on gambling.

Wagering activity includes all forms of wagering (TAB, on course, off course, fixed odds and bookmakers), for thoroughbreds, harness and greyhounds combined, from Table 70 and Table 82 in the ARB 2009 Fact Book (excluding sports betting).

Payments to the racing industry are sourced from various annual reports of racing clubs and TABs. Expenditure to Turnover ratios are based on 2007-08 Australian Gambling Statistics (racing expenditure divided by racing turnover for each jurisdiction). Results for the Northern Territory are an outlier, due to the unusual industry structure in that jurisdiction.

As such, the results cannot be directly compared with the previous Access Economics 2005 estimates. That said, the broad conclusion is the same: whether measured as a percentage of turnover or expenditure, racing in the ACT receives product fees that are a lower percentage than all other jurisdictions (with the exception of the anomalous NT).

Based on the most recent available data, the ACT accounts for around 1.1% to 1.3% of wagering on the three codes of racing (depending on the metric used). However, the product

[18] Access Economics (2005) *Funding ACT Racing*

fees paid to the ACT racing industry are only 0.9% of the national total. Hence, relative to other jurisdictions, the ACT pays its local industry a smaller proportion of national total product fees than the ACT share of national wagering on racing.

Other things equal, this suggests that the ACT racing industry is receiving a lower proportion of product fees than ACT consumers demand as reflected in their proportion of national wagering.

Furthermore, there is a significant amount of wagering by professional punters based in the ACT that is wagered through interstate wagering operators. Hence, the denominator of $216.7 million of wagering in the ACT is lower that actual ACT-resident wagering.

Table 1.5: Racing industry product fees, all three codes, 2008-09

State	Fees from wagering operators ($m)	Total wagering of all codes ($m)		Product fees as % of wagering	
		Turnover	Expenditure	Turnover	Expenditure
NSW	237.0	5,415.3	847.0	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	105.0	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	19,369.5	2,651.3		
ACT/Total	0.9%	1.1%	1.3%		

Source: Access Economics calculations, based on ARB 2009 Fact Book wagering data, racing club annual reports, various TAB annual reports, thoroughbrednews.com.au, and take-out rates derived from Australian Gambling Statistics 26th edition. Does not include the NSW RFL fees that were held back from the racing clubs during the legal challenge.

For 2009-10 and the current financial year, the comparisons become more difficult, due to:

- the introduction of RFL in many jurisdictions part way through that year;
- some 2009-10 annual reports are not yet available; and
- the funds held back due to the legal challenges in NSW.

Broadly speaking, in most other jurisdictions, the market share of home-State TABs have not declined as rapidly as in the ACT and RFL revenues were added on top of home-State TAB component of product fees. As a result, the position of the ACT relative to other jurisdictions has declined over the past year.

Table 1.6 shows product fees on a per capita basis, for total and adult populations in each jurisdiction. Population data is from the ABS as at 30 June 2009. This shows that the ACT racing industry receives the lowest product fees of all jurisdictions on a per capita basis and is well below the national average of $52.09 per adult.

Table 1.6: Racing industry product fees per capita, 2008-09

State	Fees from wagering operators ($m)	Population measure		Product fees/capita ($)	
		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	$40.00	$52.09

Source: Access Economics calculations based ABS population data. Excludes NSW RFL fees.

The next comparison, in Table 1.7, is the amount of economic benefits per $1m of racing industry product fees. This is essentially the 'bang per buck' in terms of benefits delivered per dollar of product fee.

Due to data issues, the only estimates of economic impacts that use a methodology comparable across all jurisdictions are the thoroughbred industry estimates for 2007 by IER. The following table uses those figures, and for comparability does not use the more recent ACT estimates reported earlier. Note that economic benefits from greyhounds and harness for all jurisdictions are not available, so are not included. Hence, the absolute magnitudes of benefits are understated, but if greyhounds and harness are a broadly similar share of racing activity in each jurisdiction, the *relativities* across jurisdictions are still meaningful.

The ACT industry seems to deliver higher benefits per dollar of product fees than several other jurisdictions, and delivers more 'bang per buck' than the national average. Again, the results for the NT seem anomalous.

Table 1.7: Economic benefits per $1m of racing industry product fees, 2008-09

State	Fees from wagering operators ($m)	Economic Indicator		Impact per $m of fees	
		FTEs	Value added ($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	5,041	55.4	$5.74

Source: Access Economics calculations based on the IER thoroughbred impact study.

A further metric in the ICRC terms of reference is the product fees per racing patron. A breakdown of track attendances was not readily available, although IER report around 4.9 million attendances nationwide (second only to AFL matches) and Thoroughbred Park attracts around 50,000 to 55,000 per annum, resulting in a share of national on-track attendances (just over 1%) that is similar to the ACT share of national wagering and racing product fees.

Due the high importance of off-track and TV broadcast interest in racing, the on-track attendance figures only cover a small part of the total viewing audience for ACT racing. Even so, on the data available, the ACT seems to be performing broadly in line with the available benchmarks.