ICRC

independent competition and regulatory commission

Draft Report

Investigation into the ACT racing industry

Report 11 of 2010
December 2010

The Independent Competition and Regulatory Commission (the Commission) was established by the *Independent Competition and Regulatory Commission Act 1997* 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 Act for determining competitive neutrality complaints and providing advice about other government-regulated activities. Under the *Utilities Act 2000,* the Commission also has responsibility for licensing utility services and ensuring compliance with licence conditions.

The Commission has one part-time Senior Commissioner, Paul Baxter.

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For further information on this investigation or any other matters of concern to the Commission, please contact the Commission on (02) 6205 0799.

Foreword

On behalf of the Minister for Gaming and Racing, the Attorney-General has 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
- the appropriate funding outcome for the ACT racing industry
- the appropriate allocation of ACT budget funding among the three racing clubs
- the future structure of the ACT racing industry.

In making these recommendations, the Commission is required to take into consideration:

- the economic impact of the racing industry in the ACT
- the contribution of racing in the Canberra community
- an estimation of the current value of racing product created by the ACT racing clubs
- the net value of product payments to the ACT racing clubs
- the level of interest or involvement in different racing codes
- the 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 that set out the terms of reference for the investigation and raised a number of issues which the Commission expected to address as part of the investigation. The issues paper also called for submissions based on those issues and the terms of reference. This draft report reflects the submissions made, as well as the Commission's own investigations.

The Commission invites submissions on this draft report from interested parties, to be received by 1 February 2011. Interested parties wishing to make a submission should be aware that the Commission publishes all submissions made to its investigations on its website, unless there is a specific claim for certain information to be treated as confidential. The Commission's final report for this investigation is scheduled for release in early April 2011.

Paul Baxter
Senior Commissioner
December 2010

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Executive summary

The ACT racing industry comprises three different racing codes—thoroughbred, harness and greyhound. Each is operated by a separate club within the ACT: the Canberra Racing Club (thoroughbreds), the Canberra Harness Racing Club and the Canberra Greyhound Racing Club.

Funding arrangements

Historically, ACTTAB was required to pay the ACT Government an amount equal to 4.5% of its turnover, which was subsequently distributed between the three racing codes in the ACT in fixed proportions (75% for the thoroughbreds, 12.5% for the greyhounds and 12.5% for the harness racing). This approach meant that the funding provided to the racing industry was dependent on the success of ACTTAB and not necessarily linked to the success of the racing being provided by the ACT racing industry.

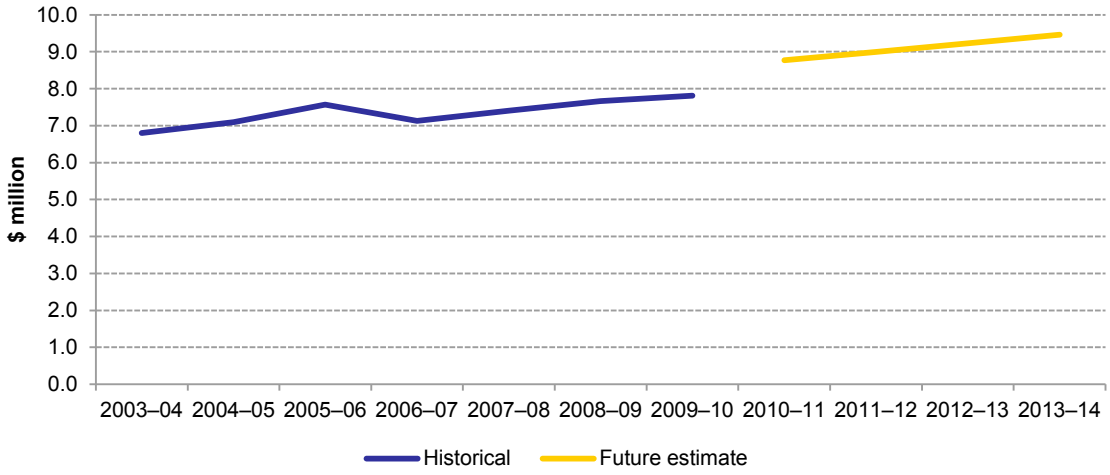
Reflecting industry concerns about the ability of ACTTAB to adequately support the ACT racing industry, funding arrangements in the ACT recently changed. The ACT Government now supports the industry in two ways:

- *Direct budget funding*. In the 2010–11 Budget, the ACT Government provided the ACT racing industry with a level of budget funding broadly commensurate with the funding that the industry received from ACTTAB prior to the changes in the wagering landscape.
- *Race fields legislation that enables the collection of product fees*. New regulations prohibit the use of race field information (for example, race times, starters and winners) relating to races in the ACT without approval, ensuring that the ACT racing clubs receive funding from wagering operators for the use of the clubs' racing information.

In total, this funding amounts to approximately $8.77 million in 2010–11, after the $7.27 million in direct budget funding is indexed annually by the Consumer Price Index (CPI). As shown in figure ES.1, this level of funding for the industry is expected to be higher than that which would have been received under the previous arrangements.[1]

[1] Office of the Chief Minister 2010, 'Funding model provides certainty to ACT racing industry', http://www.chiefminister.act.gov.au/media.php?v=9446&m=49&s=5 (accessed 26 October 2010).

Figure ES.1 Comparison of historical funding with estimated future funding of ACT racing industry ($m)



Sources: ACT Treasury, Access Economics submission, Commission analysis.

The contribution of the racing industry to the ACT

From an economic perspective, the Commission considers that the best measure of an industry's contribution is its 'value added'. Value added is represented by the wages and salaries, recovery of capital costs (depreciation), and operating surplus (profits), that is the primary inputs, used by the industry, and is a measure of the contribution by businesses or organisations, in the selected industry, to gross state product (GSP). The estimates used in this inquiry have focussed upon the value added by the racing industry, although it is noted that there are linkages between the value added by the racing industry and the value added by the wagering industry. From a national perspective there is a strong interdependence between the value added generated by the racing industry and the wagering industry. However, in the context of the ACT economy, this interdependence is not as strong as wagering in the ACT via ACTTAB is primarily on events outside of the Territory, and thus not as dependent upon the pre-existence of an ACT-based racing industry. This has important implications when considering the importance of the racing industry to the ACT economy.

In determining the value added by the ACT racing industry, the Commission has considered previous studies undertaken for the industry and derived its own estimate using information available from the Australian Bureau of Statistics (ABS). The previous estimates of the value added by the racing industry incorporated value added by the wagering industry, and included multiplier effects to incorporate indirect flow-on value-added benefits. However, the Commission believes that the wagering industry value added in the ACT is not directly dependent on the ACT racing industry, and, as acknowledged by Access Economics, the indirect effects largely occur outside the ACT and therefore do not contribute to gross state product. The Commission has therefore derived estimates from ABS information on the value added of the racing industry in the ACT, which provides a better indication of the contribution this industry makes to the ACT economy.

In adjusting estimates of the value added by the racing industry throughout Australia to derive an ACT estimate, the Commission notes that the estimated range of gross value added ($5.3–$8.6 million) by the ACT racing industry alone is similar to the current budget commitment from the ACT Government.

Table ES.1 shows an estimate of the contribution of the racing industry, both including and excluding the wagering industry, to the ACT economy. The significance of the wagering industry to any estimate of the total racing and wagering industry in the ACT is readily apparent from the data shown. However, exclusion of the wagering industry significantly reduces the overall value added contribution to the ACT economy.

Table ES.1 Value added by racing and wagering in the ACT, 2009–10

Estimate	Value added (% of GSP)	Value added ($m)
Revised IER estimate of ACT racing and wagering industry	0.25%	69.4
Access Economics estimate of ACT racing and wagering industry	0.172%	47.8
Adjusted ABS information for ACT racing and wagering industry	0.217%–0.229%	60.3–63.6
Adjusted ABS information for ACT racing industry	0.019%–0.031%	5.3–8.6

Source: ABS Cat No. 1308.8 and Commission analysis.

Based on its own analysis and drawing particularly from the ABS material, the Commission believes that the ACT racing industry contributes about 0.025% of value added to the ACT GSP. Thus, the racing industry is not a major contributor to the ACT economy in this sense.

Public finances, principally through budget funding, support this level of activity in the ACT. However, the Commission warns against viewing the support for the ACT racing industry in a static and narrow perspective. That is, it may be that public support of $7 million directed at some other activity in the ACT may have generated an equal or greater social or economic outcome.

Additionally, the Commission is not convinced, on the evidence to date, that there are any particular cultural or participation-related factors that demonstrate a justification for continued public support of the ACT racing industry. Indeed, the Commission views it as difficult to see the rationale for government support for this activity on any ground other than an equity basis (that is, that other jurisdictions support their racing industries, and that the ACT Government supports other recreational activities).

Future industry arrangements

The Commission is of the view that the aim should be for the racing industry to move in the long run to a position of self-sufficiency, relying on product fees and other forms of self generated revenue (such as the sale of broadcast rights) rather than direct public support.

The Commission acknowledges, however, that the scale of wagering on the ACT races makes it difficult to imagine that the product fees for the ACT could unilaterally be increased to support the existing size of the ACT racing industry or replace the direct budget funding currently provided in the ACT. In practice, self-sufficiency could only really be contemplated if undertaken as a part of a series of national reforms to the racing and wagering industries.

As a result, the Commission considers that there is a role for government support of the ACT racing industry, but that this support should be viewed as transitionary.

The Commission considers the new funding arrangements included in the budget to be generous to the racing industry, as they provide means to obtain funding significantly above historical levels. Furthermore, comparisons made between funding provided in other jurisdictions and the ACT fail to address the differences between the industry in those jurisdictions and that in the ACT. In particular, it is noted that the ACT has one thoroughbred race track, one harness race track and one

greyhound track while other jurisdictions have multiple facilities reflecting the geographical and population characteristics of those jurisdictions. As a consequence there are fixed costs and regional issues in these other jurisdictions which are not reflected in the industry in the ACT. Thus, ratios comparing public funding for racing to employment, population, wagering turnover, and value added are all influenced by the fundamental differences between the circumstances in the ACT to those in other jurisdictions and therefore are not reliable guides to the level of funding that should be provided by the ACT government.

Acknowledging existing funding commitments made by the ACT Government, the Commission considers that there are three options regarding future funding for the industry that are deserving of public discussion:

- removing budget funding at the end of 2014 if a national funding system is in place
- phasing out budget funding after 2014 if progress is being made towards a system of national funding
- continuing to directly fund the ACT racing industry from the Budget, but at a reduced rate.

The advantage of product fees is that they provide incentives for the racing industry to generate the desired quantity and quality of wagering events. As such, any reduction in the level of base budget funding should not be a one-for-one offset against the product fees, as that would reduce the incentives for the industry to pursue new sources of revenue.

If there is to be ongoing public support for the ACT racing industry, there is an obligation on the industry to ensure that it is efficient and operated in a transparent manner. In this respect, the Commission is of the view that, consistent with precedents in other jurisdictions, the government and industry should give consideration to:

- merging the three racing codes and providing for independent governance arrangements—such an approach would improve probity outcomes and provide for a more flexible and efficient process for allocating government support across the three codes
- merge the codes' three facilities into a single facility—the most logical site for a merged facility would appear to be Thoroughbred Park, but consideration should be given to unlocking the value of the land at Thoroughbred Park and selling it so that a new purpose-built tri-code facility can be constructed.

Draft findings and conclusions

Drawing from its analysis of the industry and from submissions made to the inquiry, the Commission has made a number of draft findings and conclusions that relate to the terms of reference (see box 1).

Draft findings and conclusions of the Commission's investigation into the ACT racing industry

Appropriate system of product payments

It is appropriate that product fees continue be calculated on the basis of gross revenues associated with ACT race events.

The rate at which the product fee is set (10%) is appropriate. However, over time it may be appropriate to increase the rate in line with other jurisdictions.

The ACT should support the development of a national approach to the support of the racing industry through a coordinated approach to product payments.

Funding outcome

It is expected that the ACT racing industry will receive greater industry funding in the future than it has received in the past through historical funding arrangements.

The product payments provide the racing clubs with an incentive to improve their product and generate a greater source of revenue.

The funding arrangements should provide some form of incentive for the industry to improve and gain efficiencies. However, a base guaranteed level of funding diminishes those incentives. The Commission is of the view that the current level of base funding from the ACT Government is generous given the historic level of funding.

The budget funding should be reduced at the end of the four-year commitment made by the ACT Government to ensure that the industry transitions towards a self-sustaining position. The transition should be made through either a phasing out or a reduction in the base level of budget funding. This phasing out process should be less than the product payments generated by the industry, thereby not removing all of the incentives on the racing clubs to improve product payments under the current regime.

Allocation of budget funding

The current agreement on the allocation of funding between the race codes is fixed and does not allow flexibility to accommodate changes in the market share of the racing codes in the ACT.

Flexibility in the allocation process would be assisted through the development of an independent ACT racing body, which would have discretion in determining an appropriate allocation of funding between the three racing codes.

In the absence of such an authority, or for transitional purposes, the allocation should be based on the wagering involvement of the racing codes. The mechanism for this allocation should involve the product payment information for the three racing clubs and the wagering of ACT consumers on racing throughout Australia.

The racing clubs receive other forms of explicit and implicit government support in addition to the budget funding that has recently been committed to the industry. While this additional support is recognised, it is not proposed that this funding be increased.

Opportunities for industry structure

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 ACT Government and the three racing codes should investigate the possibility of co-locating the codes at the one venue. This would provide efficiencies to the industry, stronger bargaining power in scheduling negotiations and greater utilisation of capital infrastructure.

This process could be commenced immediately, although it is more likely to be successfully implemented if undertaken under the independent integrated governance model of a merged ACT racing organisation as described above.

1 Introduction

1.1 Background

The ACT racing industry comprises three different racing codes—thoroughbred, harness and greyhound. Each is operated by a separate club within the ACT—the Canberra Racing Club (CRC; thoroughbreds), 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) have 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 other's racing without the requirement to pay product fees. The arrangement existed regardless of the channel through which bets were taken (retail off-course, retail on-course, telephone or internet).

In this environment, the Racing Development Fund was established under the *Betting (ACTTAB Limited) Act 1964* and required ACTTAB to pay the ACT Government the 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 ACTTAB and not necessarily linked to the success of the racing being provided by the three codes in the territory.

The Gentlemen's Agreement began to break down 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 relatively unrecognisable compared to the landscape that existed just 15 years ago. These developments have reduced the market power of the TABs (in the ACT, the government-owned ACTTAB), and reduced the ability of the TABs (including ACTTAB) to support the racing industry.

In order to tackle the breaking down of the Gentlemen's Agreement, all state and territory governments except the Northern Territory Government have implemented legislation prohibiting the use of race field information (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 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 fields legislation. In total, this amounts to approximately $8.77 million in 2010–11, after the $7.27 million in direct budget funding is indexed annually in line with 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.[2]

1.2 Review process

In the 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 fields legislation
- the appropriate funding outcome for the ACT racing industry (that is, the total quantum of funding)
- the appropriate allocation of ACT budget funding amongst the three racing clubs
- the future structure of the ACT racing industry.[3]

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 outlined in the terms of reference through an issues paper, released on 2 November 2010. The closing date for submissions was 23 November 2010. In response to the invitation, the Commission received 12 submissions, which are listed in Appendix 2.

The Commission is also inviting interested parties to make submissions in response to this draft report. Submissions may be mailed to the Commission at:

Independent Competition and Regulatory Commission

GPO Box 296

CANBERRA CITY ACT 2601

Alternatively, submissions may be emailed to the Commission at icrc@act.gov.au.

All submissions will be treated as public and will be published on the Commission's website unless the author of the submission indicates clearly that all or part of the submission is confidential and not to be made publicly available. Where confidential material is provided, the Commission prefers that it be under separate cover and clearly marked 'In Confidence'.

The secretariat may be contacted at the above addresses, by telephone on (02) 6205 0799, or by fax on (02) 6207 5887. The Commission's website is at www.icrc.act.gov.au.

The Commission intends to adopt the following timeline for the remainder of this racing investigation.

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[2] Office of the Chief Minister 2010, *Funding model provides certainty to ACT racing industry*.
[3] The full terms of reference for this investigation are reproduced in Appendix 1.

Activity	Date
Release of draft report	Monday, 20 December 2010
Submissions on draft report	5.00 pm, Tuesday, 1 February 2011
Release of final report	Friday, 8 April 2011

The Commission may also hold public hearings in February 2011, depending upon responses received on the draft report. Should a public hearing be held, it will be advertised in the *Canberra Times* and on the Commission's website.

1.3 Structure of this draft report

The remainder of this draft report is structured as follows:

- Section 2 provides an overview of the ACT racing industry using a framework for the evaluation of not-for-profit activities developed by the Productivity Commission.
- Section 3 considers the appropriate system of product payments for the ACT racing industry.
- Section 4 considers what an appropriate funding outcome is for the ACT racing industry.
- Section 5 examines different approaches to allocating the budget funding between the three different racing codes.
- Section 6 looks at opportunities for the structure of the ACT racing industry in the future.
- Appendix 1 reproduces the terms of reference.
- Appendix 2 lists the submissions received in response to the Commission's issues paper.

2 An overview of the ACT racing industry

In undertaking this investigation into the ACT racing industry, the Commission has used an assessment framework recently developed by the Productivity Commission to measure the contribution from the not-for-profit sector.[4] The framework provides a structure that shows the connections between each level of initial input for the industry through to the outcomes for those involved and the impacts on stakeholders and the community.

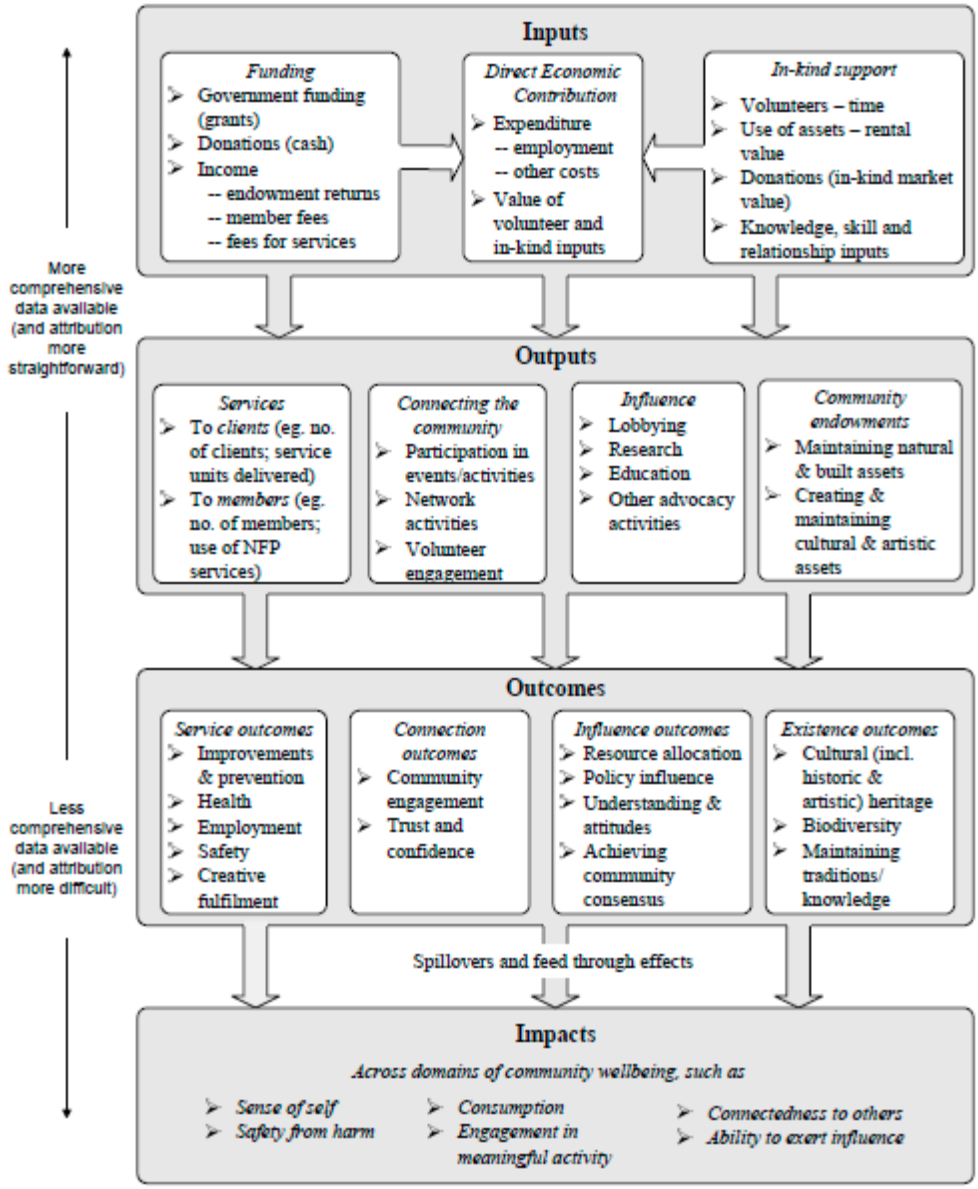
Given that the ACT racing clubs are not-for-profit clubs, the Commission considers it appropriate to use this measurement framework to better understand the impact that the ACT racing clubs and the racing industry have on the ACT community.

The primary focus of the Productivity Commission framework is the mapping between the four levels at which the contribution can be measured for the industry—inputs, outputs, outcomes and impacts. Mapping the impacts of the not-for-profit sector also assists in evaluating performance and enhancing the accountability of the industry and, in effect, the effectiveness of the funding.

Mapping also provides a logical structure through which the operational decisions of not-for-profit businesses can be followed through to their ultimate impacts. This process can itself improve understanding of how the sector operates and thereby improve decision-making within the industry. Figure 2.1 presents the framework that was developed by the Productivity Commission.

[4] Productivity Commission 2010, *Contribution of the not-for-profit sector*, research report, Canberra, p. 40.

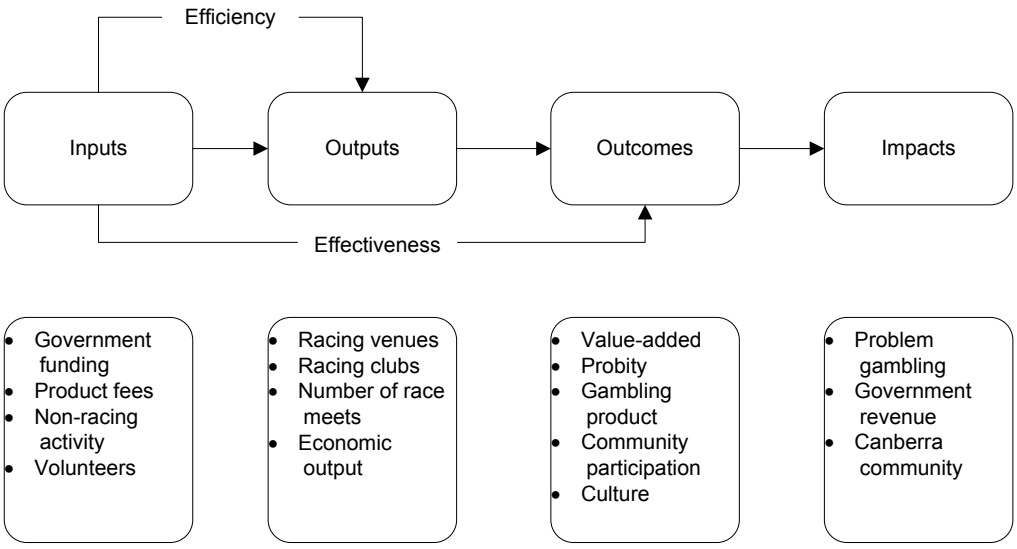
Figure 2.1 Productivity Commission's measurement framework and types of indicators



Source: Productivity Commission 2010, *Contribution of the not-for-profit sector*, research report, Canberra, p. 40.

The Commission has adapted the Productivity Commission's framework to reflect the ACT racing industry and the terms of reference (see figure 2.2). This framework is used in the subsequent parts of this section to examine the contribution of the ACT racing industry and to assist in identifying opportunities for the racing industry in the future.

Figure 2.2 Assessment framework for the ACT racing industry



This framework provides the Commission with a structure that encapsulates the racing industry as a whole and provides a basis for the findings and recommendations required under the terms of reference. Using the framework, the remainder of this section provides an assessment of:

- the inputs for the ACT racing industry (including various funding sources, employment and volunteers)
- the outputs of the ACT racing industry (including racing clubs, racing venues, race meetings and the economic activity stemming from the industry)
- the outcomes of the ACT racing industry (including the value-add of the industry, probity, gambling product, culture and community participation)
- the impacts resulting from the ACT racing industry (including problem gambling and other impacts on the ACT Government and the Canberra community).

2.1 Industry inputs

For the purposes of this assessment framework, the input measures are the resources used by the ACT racing industry. Those resources generally include factors such as labour, physical assets and financial capital.

The inputs that have been identified for the ACT racing industry are:

- government funding
- product payments
- other income
- employment
- volunteers.

The remainder of this section provides an overview of each of these inputs into the ACT racing industry.

2.1.1 Government funding

Historically, the significant source of funding for the ACT racing industry was linked to the turnover of ACTTAB. A proportion of ACTTAB's turnover (4.5%) was provided to the ACT Government (due to the ownership structure of ACTTAB) and was subsequently passed on to the ACT racing clubs, as shown in table 2.1.

Table 2.1 ACTTAB distributions to the ACT racing industry

	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09
Nominal ($ million)	6.804	7.091	7.566	7.125	7.403	7.663
Real ($ million 2009)	7.913	8.080	8.225	7.594	7.556	7.663

Source: ACT Treasury.

Breaking the nexus with ACTTAB turnover, in the 2010–11 Budget the ACT Government instead provided the ACT racing industry with $7.27 million of government funding. This figure was decided on following considerable deliberations between the ACT Government and the ACT racing industry. The amount of $7.27 million will be indexed by the CPI each year.

This approach is designed to provide the racing clubs with a degree of certainty about the amount of funds available to invest. Each of the racing clubs expressed its pleasure at having some certainty about the funding that it will receive over the near future, as that allows it to plan with more knowledge of the funding that it will have available. However, it should be noted that government funding always carries an element of risk, because changing government policies could result in funding being reduced or ultimately removed.

Impacts of government funding

Through the recent changes to funding of the ACT racing industry, the funding is now a direct line item in the ACT Budget. Although, as acknowledged in section 1 above, this funding reflects a level of funding that the racing industry would normally be receiving through contributions from ACTTAB, receiving funding through the Budget has certain implications. Those implications may result in an increase in public scrutiny of the racing clubs as the ACT community assesses the value it receives for its taxpayer-funded support.

The Commission understands that the racing industry does not view this funding as budget funding, but as the equivalent of product payments from home TABs in other jurisdictions. The Commission acknowledges that this funding reflects what the industry would normally receive through wagering funding within the ACT; however, now that there is a direct link to the ACT Government, there are additional factors that may need to be considered.

In general, there are a number of conditions in relation to accountability that are placed on government budget funding. Taxpayers generally require a certain degree of comfort that the taxpayer money delivered through the government budget is providing value for money. The Productivity Commission noted that, if racing is budget funded, it should be evaluated against the multitude of competing community claims for government funding, with the same transparency and accountability.[5]

[5] Productivity Commission 2010, *Gambling*, report no. 50, Canberra, p. 16.27.

Accountability is an important element in any form of government funding, as it builds trust between government and industry, thereby resulting in stronger relationships if further funding is required in the future.

The Productivity Commission noted in its *Contribution of the not-for-profit sector* report that there is a push from government and the community for greater accountability by not-for-profit organisations. Interested stakeholders increasingly want evidence of the effectiveness of the activities and prefer not-for-profits that can provide robust business cases for the funds.[6]

2.1.2 Product payments

The product payments received by the ACT racing industry relate to the payments made by wagering operators for the use of race fields information. As outlined in section 1, specific race fields legislation was enacted in the ACT earlier this year, allowing the ACT racing clubs to collect fees for the use of their race fields information. The ACT Gambling and Racing Commission has been collecting the product payments being made by wagering operators operating in non-ACT jurisdictions.

The ACT racing industry receives product payments of 10% of gross revenue from wagering operators throughout other jurisdictions. The product payments have been in place since March 2010 for the ACT. As this has only recently been established, there is limited information available on the product payments being received by the racing clubs.

Table 2.2 lists the product payments received by each of the ACT racing clubs since the implementation of the race fields legislation.

Table 2.2 Product payments received by ACT racing clubs

	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
Total	**$930,679**	**$230,495**	**$109,798**

Source: ACT Gambling and Racing Commission.

As the time series for the data is limited, there are problems in using this information to estimate a full year of product payments. This is because of seasonal impacts on the different codes—the thoroughbreds have a peak season in March (the Black Opal Stakes), while harness racing is not conducted over winter, which has affected the level of product payments it has received.

It is important to consider the product payments generated by each code per race meeting that the code conducts. While greyhound racing generates a higher level of product payment than harness racing (see table 2.3), this is due to the additional race meets that are conducted by the greyhound racing sector. Harness racing generally generates greater product payments per race meet, but it does not schedule as many race meets as the greyhound racing sector.

[6] Productivity Commission, 2010, *Contribution of the not-for-profit sector*, p. 275.

Table 2.3 Product payments received per race meet by ACT racing clubs

	Thoroughbred	Greyhound	Harness
March	$91,217	$8,329	$9,414
April	$65,372	$10,839	$8,744
May	$40,845	$6,440	$11,896
June	$41,010	$7,916	–
July	$72,986	$10,237	–
August	$90,243	$11,314	$17,746
September	$84,172	$11,054	$13,563
Average per race meeting	**$71,591**	**$9,220**	**$12,200**

Source: ACT Gambling and Racing Commission.

Further comparisons of these payments between the codes are limited due to the different nature of the codes and a lack of information. For example, unlike the thoroughbred club, both the greyhound club and the harness racing club have limited full-time employees and do not endeavour to attract patrons to their race meetings. Therefore, any comparisons on these types of bases would prove meaningless.

The Commission has been unable to source sufficient information for a reasonable comparison of product payments among the jurisdictions. The product payment information is not publicly available, and the Commission has had to rely on other jurisdictions providing the required information. Given current legal proceedings regarding racing product fees, some of the jurisdictions have been unable to provide the required information to support the comparison.

It is envisaged that further information to undertake a jurisdictional comparison of product payments made under the various race fields legislation will be available for the final report.

2.1.3 Non-racing activities

Each of the ACT racing clubs has the ability to generate additional income from sources that are not linked to the ACT Government or product payments. Those sources of income may include such things as membership subscriptions, sponsorships, bar takings, training facilities, and so on.[7]

Each of the clubs operates its bar facilities in an independent fashion, and the harness and thoroughbred clubs also operate their training and catering facilities independently. Table 2.4 lists the trading profit from these separate activities, as well as additional revenue generated by the racing clubs in addition to the funding that they receive through government/ACTTAB distributions and product payments from race fields legislation.

Table 2.4 Returns from non-racing activities for ACT racing clubs

	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
Thoroughbred	$1,267,538	$1,146,770	$952,629	$1,717,029	$2,001,603	$1,805,728
Harness	–$20,869	–$21,050	$4,357	–$14,190	$14,950	–$89,583
Greyhound	n.p.	107,619	$97,215	$105,933	$78,999	$101,870
Total	**1,246,669**	**1,233,339**	**1,054,201**	**1,808,772**	**2,095,552**	**1,818,015**

n.p. = not provided.

[7] The Commission notes that the size, location, quality and contractual basis for occupancy affects the ability of the three clubs to generate revenue external to racing operations.

Source: Annual reports of CRC, CHRC and CGRC.

It can be seen that both the CRC and the CGRC have demonstrated a much greater ability than the CHRC to generate income separate from the budget funding and product payments. The most significant factor affecting the CHRC's non-racing activities is the cost of the complex. The CHRC incurs a trading loss from operating the complex; however, it should be noted that the CHRC considers the training complex to be an important part of its facilities and the value-add that attracts owners to race in the ACT.

2.1.4 Employment within the ACT racing industry

The CRC estimates that there are 480 full-time equivalent workers currently employed within the ACT thoroughbred racing industry.[8] In addition to the staff who are employed by the CRC, the club also accommodates 22 trainers within its facilities, which provide further employment to stable hands.

The CHRC has two full-time staff members, the general manager and the track curator, while a part-time accountant maintains the club's accounts. In addition, the number of staff working at the club increases to more than 20 on race days. The cost of the additional staff is approximately $11,400 per race meeting, but can vary depending on the number of races being held.[9]

The CHRC's submission also states that there are 25 local trainers within the ACT, and that each trainer has one or two stable hands.[10] It is unclear from the submission whether these trainers and stable hands are hobbyists or are employed within the industry.

Similarly to the CHRC, the CGRC does not have a large employee base and requires a considerable increase in staff to meet race day requirements. Furthermore, given the nature of greyhound racing, it would be expected that the trainers of the greyhounds would be hobby trainers.

2.1.5 ACT racing industry volunteers

There is limited information on the number of volunteers providing their time to the ACT racing industry. However, the Commission expects that there would be a considerable number of volunteers required to assist on race days for each of the racing codes. Additionally, volunteers would be involved in feeder aspects of the industry, such as training.

2.2 Industry outputs

Outputs are the direct result of inputs (see section 2.1), activities and processes that are in place. The outputs are not ends in themselves but provide a means of delivering the outcomes. Ideally, outputs should provide the connection between the inputs and the outcomes and provide some accountability to the industry. The outputs that the Commission has identified for the ACT racing industry are:

- racing clubs
- racing venues
- race meets

[8] CRC submission, p. 10.
[9] CHRC submission, p. 5.
[10] CHRC submission, p. 6.

- economic activity.

The remainder of this section considers each of these outputs.

2.2.1 Racing clubs

There are currently three different racing clubs operating in the ACT—the CRC, the CHRC and the CGRC. This section provides an overview of each of the clubs.

Canberra Racing Club

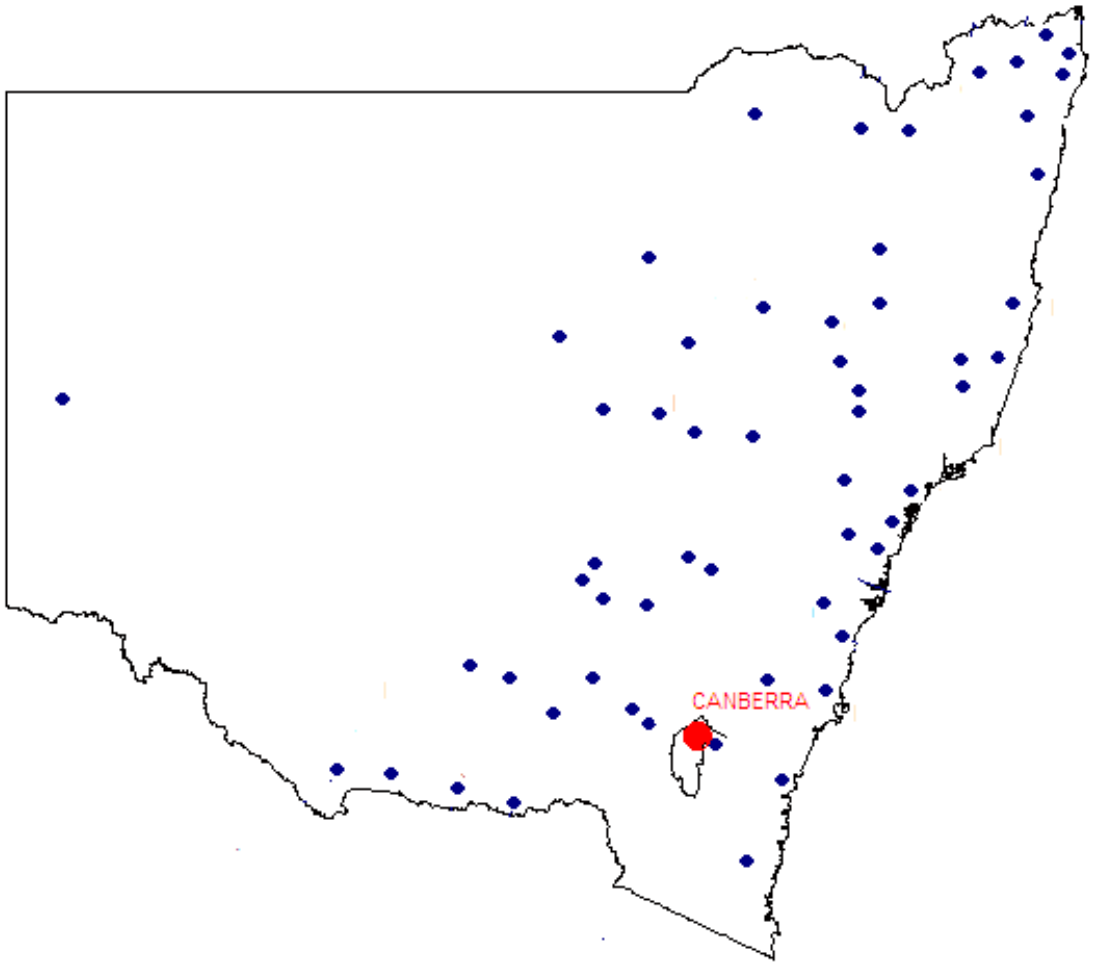
The CRC is responsible for the thoroughbred racing industry within the ACT. The club is located at Thoroughbred Park in Lyneham and has recently spent considerable funds on upgrading the facilities and the racetrack at the venue.

The CRC has a long-term lease on the land for Thoroughbred Park and therefore is able to utilise the facilities to generate external sources of income. In the past and present, the club has provided office space to betting operators and a security firm, and catered for functions.

The CRC races both mid-week and on weekends, but Friday is the main day on which it conducts its races. Three major events during the year provide a significant boost to its operations—the Black Opal Stakes, the Canberra Cup and Melbourne Cup day.

Figure 2.3 shows the locations of thoroughbred racetracks in NSW. This highlights the competitive constraints that the CRC operates under, especially with a competing racetrack such as Queanbeyan in such close proximity. This geographical competition places pressure on the CRC as it schedules its race meets, as it will most likely be competing with surrounding racetracks to attract entrants.

Figure 2.3 Location of thoroughbred racing tracks in NSW and the ACT



Canberra Harness Racing Club

The CHRC is responsible for the harness racing industry within the ACT. The club is located at the Exhibition Park in Canberra (EPIC), where it shares facilities with other events and functions. It should be noted that the Racing Development Fund provided the funds to build the facilities used by the CHRC at EPIC, such as the grandstand; however, in its agreement to move locations to EPIC, the ownership of these facilities was transferred to EPIC.

Due to these locational arrangements, the CHRC faces additional complexity in determining its scheduling. This is because, while it may be able to access broadcasting scheduling for a particular race meet, it may not be able to obtain access to the venue through EPIC for that date. Similarly, it may be able to obtain the use of the venue for a particular date but may not be able to organise broadcasting arrangements for that date. Obtaining agreement for the use of EPIC for race meetings can be difficult because it is not primarily a racetrack, but provides facilities for a considerable number of other functions and events.

Currently, the CHRC has an agreement through Harness Racing Victoria to have access to broadcasts on Monday nights. This agreement stemmed from Harness Racing Victoria gaining additional broadcasting slots from its deal with the broadcaster, to which it could subsequently not commit. It therefore approached the CHRC to determine whether the club would be interested in fielding races on Monday nights. Because of the smaller size of the CHRC, it does not have the same ability to negotiate with the broadcaster as clubs in other jurisdictions.

Given that the broadcasting agreements have become significantly more important to the CHRC and its financial position, the harness racing provided is becoming more of a broadcast event. As evidence of this, the Monday night races do not charge a fee for attendance. The CHRC is not actively trying to build attendances for its Monday night races, as it sees the wagering side of the industry becoming more important. It still has one event on its calendar that is designed to attract patronage—the Christmas Cup—although all gate takings from that event are provided to charity.

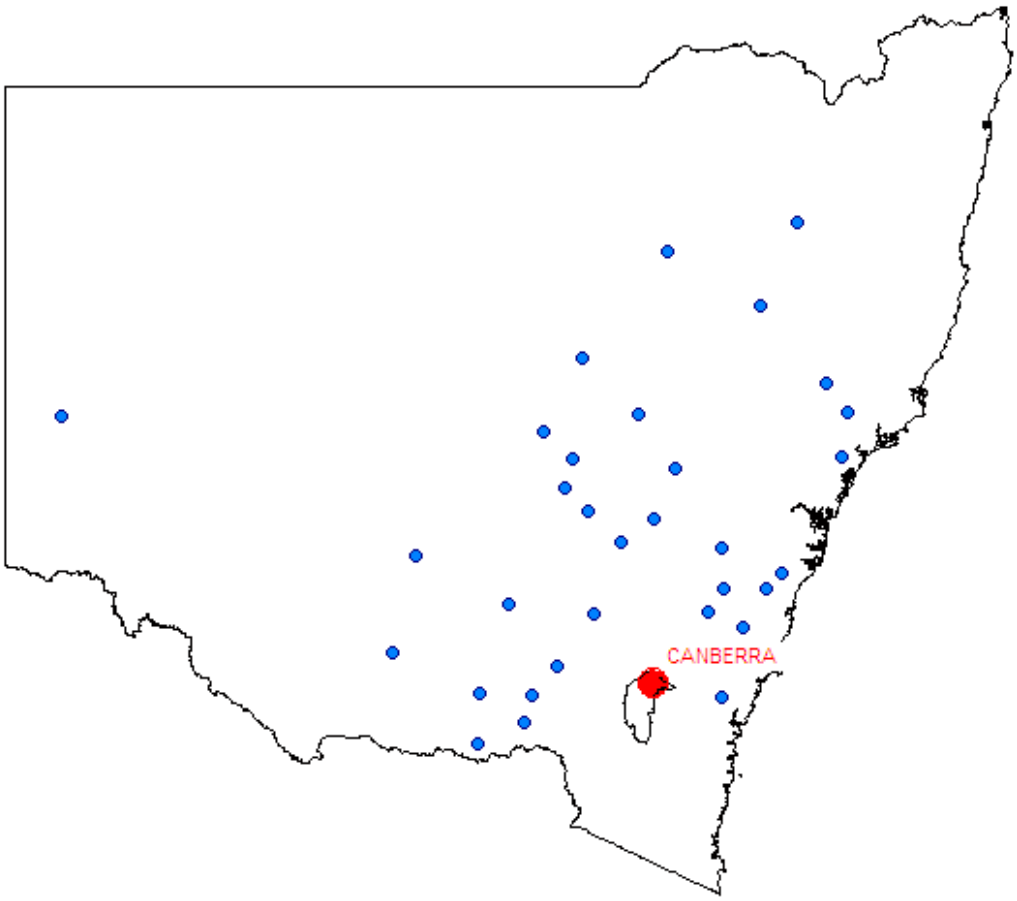
The CHRC's arrangement with EPIC also inhibits its ability to generate income from its facilities outside race meetings. This places the club at a disadvantage when it is looking for other sources of revenue, but the arrangements in place also mean that the CHRC does not incur the full costs of maintenance that the facility requires.

The CHRC has been able to differentiate itself from other harness racing venues in the area by offering restricted heat racing. This type of racing is low in prize money and is focused on young or lesser rated horses. The appeal of restricted heat races for trainers is that the winning horses are not penalised with higher weights in subsequent races. By offering this differentiated service, the CHRC is able to provide a unique service to the harness racing market in the region.

In addition to this, the CHRC also offers a greater starter's subsidy for its races. A starter's subsidy is a compensation payment to the owner of the horse if it did not win prize money in the race. At present, the starter's subsidy within the ACT is 2% compared to the NSW Harness subsidy of 1%. This provides the CHRC with an advantage over the surrounding racetracks in country NSW.

Figure 2.4 highlights the geographical competition for harness racing clubs within country NSW. The harness racetracks are not as concentrated as the thoroughbred racetracks, but the CHRC advises that there is still considerable competition from surrounding racetracks in attracting meeting participants.

Figure 2.4: Location of harness racing tracks in NSW and the ACT



Canberra Greyhound Racing Club

The CGRC is responsible for the greyhound racing industry within the ACT. The club primarily races on Sunday evenings throughout the year, and has staged 44 race meets during the past year. The facilities that the CGRC operates from are provided through a leasehold agreement under which it has full control of the facilities. The club can cater functions and generate external revenue through the use of the facilities.

In contrast to harness racing, the primary attraction for greyhound trainers is the prize money on offer. The CGRC therefore strives to at least match the prize money on offer at surrounding country NSW greyhound race meets, but this is not always achievable.

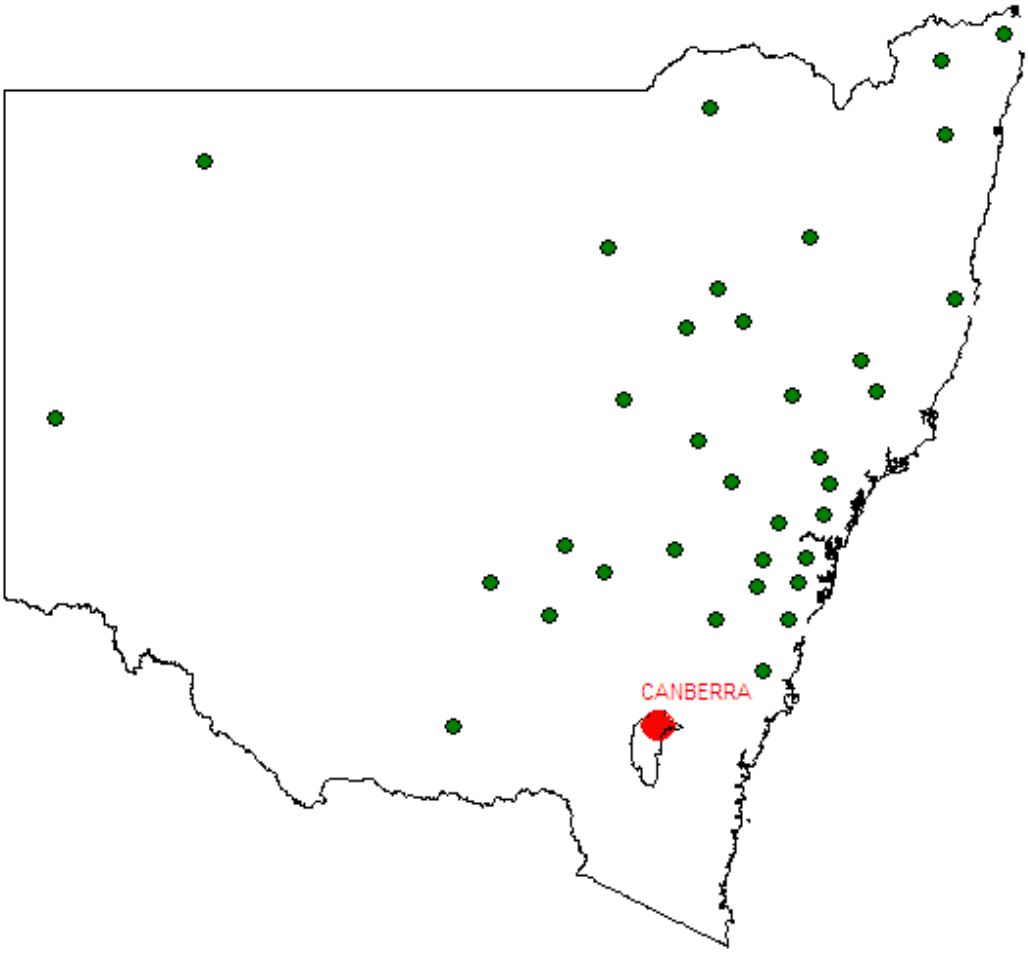
Through the implementation of the race fields legislation, the CGRC has begun to see the benefits of wagering on its product. It has identified that the majority of product fees received by the club have come from Western Australia. This is a reflection of the timing of the Sunday evening race meetings and the time difference in Western Australia.

Due to the size of the ACT market and the resources of the CGRC, the club relies on Greyhound Racing NSW for a significant number of race-day functions, such as stewards. Given the size of the CGRC, it would not be appropriate, and most likely not possible, to provide all of those functions from its own resources.

Based on a geographical comparison with the other codes, the greyhound industry faces the lowest concentration of racetracks in the surrounding area (see figure 2.5). This does not mean that the

club does not face competition from surrounding racetracks, but merely that the level of competition may not be as great as for the other two racing codes.

Figure 2.5: Location of greyhound racing tracks in NSW and the ACT



2.2.2 Racing venues

Each of the racing clubs operates at a separate site in Canberra. A number of different aspects of the facilities are duplicated at each site.

The Thoroughbred Park complex includes the racetrack and associated facilities, such as stables, horse stalls, mounting yard, bookmakers' ring and grandstand. The facility is built on Crown land which is leased to the CRC.

As noted above, the CHRC is located at EPIC. The facilities at EPIC include a grandstand, a cafeteria, a betting hall and a restaurant. Most of the facility was developed through the Racing Development Fund, but it is now administered by EPIC on behalf of the ACT Government.

The CHRC facility is located at Narrabundah and contains a kennel complex, a betting ring, a refreshment area and offices. The club operates at these facilities through a lease on the premises.

2.2.3 Race meetings

Frequency of race meetings

The number of race meetings held by the CRC each year has ranged between 20 and 24 in the past decade, with the exception of the years affected by the logistical restrictions placed on the industry because of the equine influenza outbreak and the reconstruction of the course at Thoroughbred Park (see table 2.5). The CRC has had a relatively consistent average number of starters for its races over that same period.

Table 2.5 Details of CRC race meetings, 2001–02 to 2009–10

	Race meetings	Races	Average number of starters
2001–02	22	202	9.2
2002–03	24	180	7.5
2003–04	22	173	7.9
2004–05	20	160	8.0
2005–06	20	164	8.2
2006–07	13	107	8.2
2007–08	16	122	7.6
2008–09	22	164	7.5
2009–10	23	188	8.2

Source: Australian Racing Board 2010, *Factbook 2009–10*.

The CHRC holds its meetings primarily over the summer months and therefore does not have as many opportunities to conduct race meetings, although it plans on extending its racing period in the near future. Table 2.6 outlines the race meetings held by the CHRC. It can be seen that the club was also affected by the equine influenza outbreak through a reduction in the number of meetings held in 2007–08.

The CHRC advised the Commission that, with the increasing importance of product payments, the forward-looking plan is that the club will not race without television coverage of the race meet.

Table 2.6 Details of CHRC race meetings, 2001–02 to 2009–10

Year	Race meetings
2001–02	17
2002–03	16
2003–04	17
2004–05	17
2005–06	17
2006–07	17
2007–08	13
2008–09	17
2009–10	17

Source: Advice from CHRC.

The CGRC staged 44 race meetings in the last financial year and expects to host the same number of meetings in 2010–11.

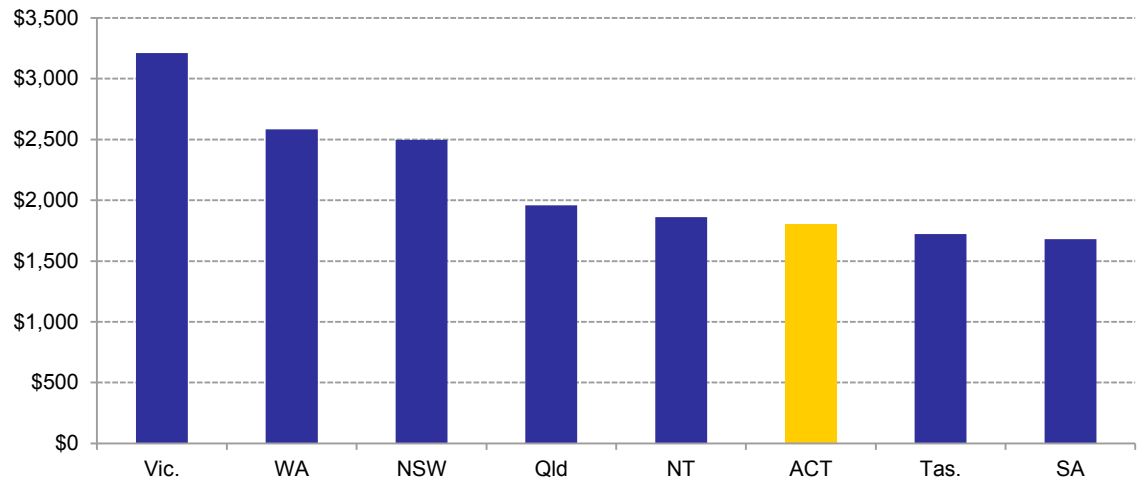
Returns to owners through racing

One of the significant factors that affects the clubs' ability to stage race meetings and attract meeting entrants is the level of prize money on offer. Prize money is the major cost item for each of the clubs, but decreasing club costs through cutting the levels of prize money could reduce their ability to attract and hold meetings in the first place.

Figure 2.6 shows that the ACT is at the lower end of the thoroughbred prize money on offer per starter in comparison to other jurisdictions. The ACT provides a greater average return to starters than Tasmania and South Australia, and is slightly below Queensland and Northern Territory.

Victoria ranks considerably higher than other jurisdictions, as a significant increase in prize money for its larger race meets during the Spring Carnival affects the average.

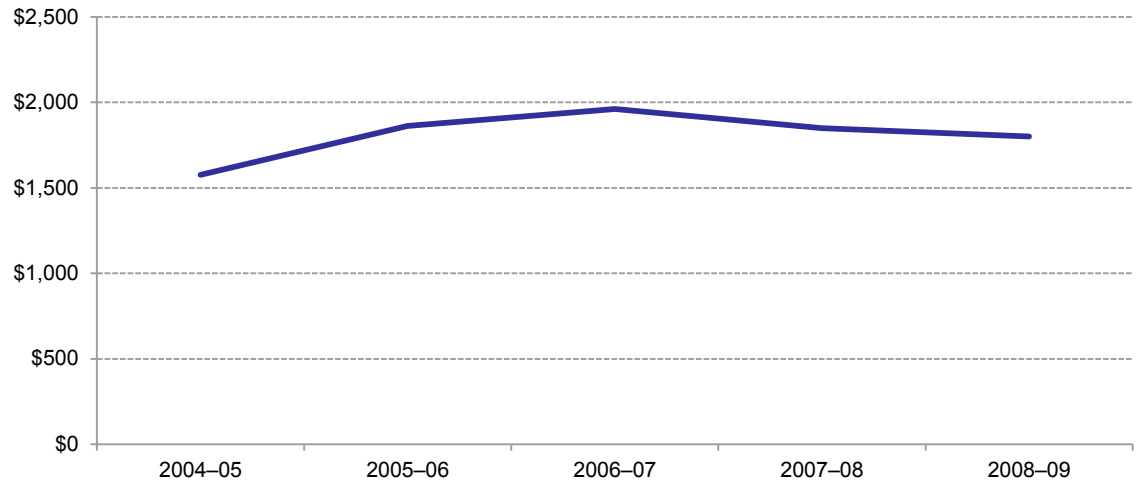
Figure 2.6 Average prize money per starter for thoroughbred racing in 2008–09



Source: Australian Racing Board, *Factbook 2008–09*.

Figure 2.7 shows that CRC has been able to maintain an average level of prize money per starter of approximately $1,800 over the past three years in nominal terms; however, this reflects a decrease in prize money in real terms.

Figure 2.7 Average prize money per starter for thoroughbred racing in the ACT (real 2008–09 $)



Source: Australian Racing Board, *Factbook 2008–09*.

The CHRC currently offers prize money of $3,000 for its restricted heats and $5,000 for its country penalty races. One major meeting, the Canberra Cup, provides $35,000 in prize money. In addition to this is the starters' subsidy of 2%, which the CHRC offers to all race entrants.

The CGRC offers differentiated prize money depending on the distance of the race—the longer the race, the greater the prize money. Table 2.7 was provided by the CGRC in its submission on the issues paper, and highlights the differences in the standard levels of prize money between the CGRC and one of its main competitors in the region, Wagga Wagga. The prize money on offer for the CGRC races (primarily the shorter races) is less than that offered by Wagga Wagga. The

CGRC advises that this type of differential in the levels of prize money can lead to owners and trainers taking their greyhounds to the meets with higher prize money on offer.

Table 2.7 Standard prize money for CGRC race meetings compared to Wagga Wagga greyhound races

Distance	No. of races	1st	2nd	3rd	Total per race
310 m	4	$400	$100	$60	$560
440 m	3	$550	$140	$80	$770
530 m	2	$650	$160	$110	$920
600 m	1	$650	$160	$110	$920
Typical Wagga Wagga greyhound race meeting					
320 m	4	$650	$200	$120	$970
440 m	3	$650	$200	$120	$970
516 m	3	$650	$200	$120	$970

Source: CGRC submission, p. 9.

The Commission notes that an increase in the level of prize money drives the level of participation. However, it does not necessarily reflect a higher wagering pool from which the clubs would benefit through higher product payments.

2.2.4 Economic output

The economic output of the industry is defined as the combination of the value added by the industry (discussed in section 2.3.1) and the input costs used in generating this value. It is, in effect, a measure of the gross output for an industry.

Table 2.8 IER estimate of total direct expenditure on ACT thoroughbred racing industry ($m, 2004–05)

Spending category	Expenditure
Direct spending by participants	$13.0
Direct spending by customers	$1.4
Direct spending by racing clubs	$4.0
Direct spending from wagering	$17.3
Total direct spending	**$35.9**

Note: Numbers may not add due to rounding.

Source: IER, *Economic impact of Australian racing*, pp. 25–26.

While there has been one formal study that considered the size of the economic output associated with the whole of the ACT racing industry,[11] it is considered particularly dated and has not been relied upon by the Commission. However, there are two more recent published estimates of the size of the ACT thoroughbred industry, which are outlined below.

The Australian Racing Board commissioned IER Pty Ltd to undertake an independent study into the economic impacts generated by Australian thoroughbred racing in 2004–05. In its report, IER considered the impacts specifically for the ACT. It concluded that total direct spending from racing in the ACT was $35.9 million.[12] The breakdown of that expenditure is provided in table 2.8.

In Access Economics' submission on the issues paper, it provided an estimate of the total thoroughbred-related expenditure in the ACT which was based on the IER estimate, updated to 2008–09. The revised estimate was $52.0 million.[13] The breakdown of that expenditure is provided in table 2.9.

[11] ACIL Consulting, 2001, *Beyond the winning post: The impact of the racing industry on the economy of the Australian Capital Territory*.
[12] IER, 2007, *Economic impact of Australian racing*, p. 25.
[13] Access Economics submission, p. 14.

Interestingly, Access Economics attributes the growth in the racing industry since 2004–05 to a growth in wagering (on ACT and other races), rather than to the core activities of the ACT race clubs and racing participants.

Table 2.9 Access Economics estimate of total direct expenditure on ACT thoroughbred racing industry ($m, 2008–09)

Spending category	Expenditure
Direct spending by participants	$15.1
Direct spending by customers	$1.7
Direct spending by racing clubs	$7.4
Direct spending from wagering	$27.9
Total direct spending	**$52.0**

Note: Numbers may not add due to rounding.

Source: Access Economics submission, p. 14.

The Commission has not sought to verify these estimates because the metric in which the Commission is most interested is the value added by this activity, rather than the activity itself. The value added by the ACT racing industry is considered in section 2.3.

2.3 Industry outcomes

Outcomes are defined as the intended results of the activities of the organisation. They are the basis upon which the activities are judged to be successful or not. The outcomes that the Commission has identified for the ACT racing industry are:

- value-added of the ACT racing industry
- probity of the industry
- gambling product
- community participation
- culture.

The remainder of this section considers each of these outcomes.

2.3.1 Value added by the ACT racing industry

The value added by an industry is the value that the industry generates from its inputs that contributes to the gross state/domestic product. It does not incorporate the input costs in generating that value.

In assessing the value added by the ACT racing industry, the Commission has relied on other investigations that have considered the value added by the industry, as such studies have had access to industry data not readily accessible to the Commission.

The South Australian Centre for Economic Studies notes that these estimates should generally be treated with caution. It states that:

> Studies commissioned by the racing industry clearly overstate the size and role of the racing industry by including all employment in all industries throughout the economy that results from spending in the thoroughbred racing industry. They are not estimates of employment in the racing industry itself, but further and equally importantly, it only makes sense to measure the 'economic impact' resulting from international tourism related to racing, not general spending by Australians (i.e. if the racing industry didn't exist Australians would enjoy their leisure time and expenditure in other ways).

> We conclude that the industry estimates of the 'economic impact' of the industry, and accompanying multiplier analysis and employment estimates overstate the role played by the racing industry.[14]

For the purposes of this inquiry, the Commission has been mindful to assess the value added for the ACT economy. Thus, while the extent of economic impact generated by 'international tourism' has not been relevant to an assessment of the ACT industry, it does highlight the extent to which any economic impact that is created represents a value-added benefit that is attributable to expenditure diverted from other activities within the ACT by ACT residents, and activity that is a consequence of expenditure by people from outside the ACT or that would otherwise have been spent outside the ACT by ACT residents. It is the 'incremental' expenditure and value added that are generated in the ACT that contribute to economic benefits for the territory economy.

The first examination of the value added by the industry was conducted by ACIL Consulting in 2001 and covered all three racing codes within the ACT. In 2007, IER provided a report, commissioned by the Australian Racing Board, that considered the economic impact of thoroughbred racing throughout Australia. In addition, Access Economics provided a submission to the issues paper that used the IER analysis and updated the estimate to reflect more recent information.

In providing another source of information on the estimate of value added by the industry, the Commission has undertaken analysis of previous estimates from the Australian Bureau of Statistics (ABS).

Below is a summary of each of these approaches to estimating the value added by the ACT racing industry.

ACIL Consulting

ACIL Consulting was commissioned by the ACT racing industry to examine the contribution of racing to the ACT economy in 1999–2000. The examination concluded that the three racing codes contributed nearly $25 million per year to the ACT's gross domestic product (GDP). This estimate was an increase from the previous examination conducted by ACIL Consulting in 1992, which was $17 million.[15] These examinations by ACIL Consulting are the only known examinations of the contributions of all three racing codes within the ACT.

While the report provided a combined estimate of the three racing codes, it did not distinguish the value-added for the different codes. Table 2.10 outlines the contributions

Table 2.10 ACIL Consulting estimate of the value-added by the ACT racing industry in 1999–2000 ($m)

	Value added to ACT GDP
Admin and control	$0.3
Breeding	$0.9
Owning	$1.2
Training and keeping racers and others	$0.9
Riding/driving	$0.2
Veterinary	$0.4
Farrier	$0.2
Club	$1.3
Race gambling	$19.3
Total value-added	**$24.7**

Source: ACIL Consulting, 2001, *Beyond the winning post: The impact of the racing industry on the economy of the Australian Capital Territory*.

[14] South Australian Centre for Economic Studies, Swinburne Institute for Social Research and University of Western Sydney, 2005, *Changes in wagering within the racing industry*, Victorian Gambling Research Panel, pp. 39–40.
[15] ACIL Consulting, 2001, *Beyond the winning post: The impact of the racing industry on the economy of the Australian Capital Territory*.

that each sector provided to the total value-added in ACIL Consulting's examination. As can be seen from this table, the gambling sector of the industry contributes the significant majority (78%) of the value-added for the industry.

Given that this examination of the industry was completed ten years ago, the Commission considers its continued relevance to this investigation to be limited.

IER—Economic impact of Australian racing

A 2007 report published by IER was commissioned by the Australian Racing Board to determine the economic impacts generated by Australian racing. In determining the broader economic impacts, IER defined stakeholders as shown in table 2.11.

Table 2.11 Boundaries for IER economic impact study

	Type of participant/entity	Level of study
A1	Racing clubs, Trainers, Breeders, Jockeys, Drivers, Owners, Bookmakers etc.	In-depth. These participants/entities have a direct and integral relationship with Australian racing. They all generate significant expenditure. 'Within boundary of economic assessment'
A2	Veterinarians, Farriers, Fuel providers, Feed providers etc.	Minimal. These participants/entities generally provide services to Australian racing. The expenditure on these services has been covered off within the assessment of spending by the participants listed above. 'Contained within the assessment of A1 above'
A3	Employees of Australian racing—Breeders and Trainers' staff, Bookmakers' staff etc.	They are considered a part of the broader racing industry however any expenditure by these participants will have been covered off within the assessment of spending by the participants listed above. 'Contained within the assessment of A1 above'
A4	Wagering service providers (i.e. Betfair etc.)	While these operators do generate economic activity, their impacts are difficult to quantify. 'Outside boundary of economic assessment'

Source: IER, 2007, *Economic impact of Australian racing*, p. 7.

The report provides details on the value added by Australian thoroughbred racing and also on each jurisdiction. For each of the jurisdictions, the report provided an estimate of the gross value added by the industry and the value added as a percentage of gross state product (GSP). The results for each jurisdiction are provided in table 2.12.

Table 2.12 Racing industry value added, 2005–06, from IER report

	Real gross value added ($m)	Value added as % of GSP
Australian Capital Territory	$49.6	0.48%
Victoria	$1,811.9	0.61%
New South Wales	$1,675.3	0.78%
Queensland	$699.1	0.44%
South Australia	$345.1	0.45%
Western Australia	$258.5	0.35%
Northern Territory	$140.3	0.84%
Tasmania	$64.2	0.36%
Australia	**$5,044.0**	**0.58%**

Source: IER, 2007, *Economic impact of Australian racing*.

On further investigation of these estimates, the Commission is concerned that the value added as a percentage of GSP presented by IER may be inaccurate. In the numbers provided by IER, the Victorian estimate of value added is greater than that for NSW; however, Victoria's value-add as a

percentage of GSP is lower than NSW's. This does not appear correct, as Victoria would need to have a GSP higher than NSW's in order to have a lower percentage estimate. Considering that Victoria has never had a GSP estimate higher than NSW, it would seem that this percentage estimate could not be correct.

Given this observation, the Commission prepared its own estimate of the value added as a percentage of GSP. This estimate uses the value-added information from the IER report and the GSP information from the ABS. The revised estimates do not result in a significant change to the estimate of the overall value added by the Australian racing industry (0.58% to 0.50% of GDP), but there are some jurisdictions for which there are considerable variations. The ACT is one such jurisdiction: the revised estimate is nearly half the value of the IER estimate (0.48% to 0.25%).

Table 2.13 Revised 2005–06 racing industry value added, from IER report

	Real gross value added ($m)	Value added as % of GSP
Australian Capital Territory	$49.6	0.25%
Victoria	$1,811.9	0.74%
New South Wales	$1,675.3	0.51%
Queensland	$699.1	0.37%
South Australia	$345.1	0.28%
Western Australia	$258.5	0.40%
Northern Territory	$140.3	1.15%
Tasmania	$64.2	0.35%
Australia	**$5,044.0**	**0.50%**

Source: IER, 2007, *Economic impact of Australian racing*; ABS cat. no. 5220.0.

The Commission used the revised percentage of GSP estimate as a means to estimate in dollar terms the 2009–10 value added for the ACT. This resulted in an estimate of $69.4 million (based on a 2009–10 GSP figure for ACT of $27.8 billion).

Access Economics

Access Economics provided an estimate of the total value added by the ACT thoroughbred racing industry of $44.4 million for 2008–09 using the initial estimates from the IER for the ACT. The total estimate of $44.4 million comprises $26.6 million in direct value-added and $17.7 million of indirect value-added by the industry (allowing for rounding errors). The breakdown of the direct value-added is provided in table 2.14.

Table 2.14 Access Economics' direct value added based on industry sector ($m)

	Direct spending by participants	Direct spending by customers	Wagering	Racing club	Total
Value-added	$6.1	$0.7	$15.0	$4.9	$26.6

a Apparent error in addition is due to rounding error.

Source: Access Economics submission, p. 14.

The indirect sectors that Access Economics used in its analysis related to intermediate inputs provided by other sectors of the economy to racing in the ACT. Examples include food and beverages for the attending public, and non-race day consumption items such as horse feed, fuel and machinery.

It can be seen from table 2.14 that the wagering sector provides the most significant proportion of the direct value added estimate for the ACT racing industry. The inclusion of wagering has a significant impact on Access Economics' estimate of the direct value-added for the industry. However, only around 2% of wagering in the ACT is on races held within the ACT. Thus, in terms of the directly related value added in the ACT, the wagering by ACT residents on ACT racing product creates a negligible value added. Value added created on wagering by ACT residents on races held in other jurisdictions would continue regardless of the existence of an ACT racing industry. Thus, any value added created in the ACT as a result of domestic wagering would occur regardless of the existence of the local industry.

In interpreting the Access Economics estimates, care also needs to be taken in interpreting where the estimated value added occurs. For example, while there are some stabling facilities within the ACT for thoroughbreds and harness racers, the majority of horses participating in ACT racing will be stabled outside the ACT. Thus, the flow-on or indirect value added effects in the ACT may be much less than presented in the Access Economics assessment. The Access Economics submission acknowledges this problem:

> 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 traded into the ACT, it is likely that the indirect contribution outlined here is a high-side estimate.[16]

The creation of indirect value added effects outside the ACT does not necessarily benefit the ACT, and this needs to be recognised when assessing the total value added generated by an industry, and the value added that occurs within the jurisdictional boundary of the ACT. Similarly, the generation of wagering related value added that is attributable to race meets that are held outside the ACT cannot be attributed to the ACT racing industry. Caution is therefore required when attributing all value added activity arising from the racing and the wagering industry within the ACT to the ACT racing industry. To adopt this approach would clearly overestimate the value of the ACT racing industry to the Territory's economy.

Just as happens when an ACT resident purchases a product at a local store and much of the value added may be attributed to other jurisdictions, much of the value added from the ACT racing and wagering industries may flow outside the ACT. However, when analysing the benefits to the ACT from ACT Government spending, the focus needs to be on the return the ACT community is getting from the spending, and the narrow focus on value added within the ACT may be the best measure.

However, the Commission recognises that a parochial view of value added taken by all jurisdictions in Australia could result in a value-destroying outcome. For example, if all jurisdictions ceased funding of racing and the racing industry collapsed, the wagering industry would significantly contract as well. This highlights the need for a national focus on the overall funding for this industry.

It should be noted that Access Economics' revision of the IER estimate of the value added resulted in a value-added figure for 2008–09 ($44.4 million) that is below that estimated in 2005–06 by IER ($49.6 million). With Access Economics using the IER estimate as the basis for its 2008–09 estimate, this implies that the industry contracted between 2005–06 and 2008–09.

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[16] Access Economics Submission, p.15.

In updating the Access Economics estimate to reflect a 2009–10 estimate of the industry's value-add, the Commission has converted the estimate into a percentage of the 2008–09 GSP. That percentage has then been used to derive a dollar estimate of the 2009–10 industry value-add. This calculation results in an updated value in 2009–10 dollars of $47.8 million. However, the above discussion highlights the concerns the Commission has with the Access Economics (and IER study upon which it is based) estimates of the economic value added of the racing industry in the ACT, particularly when the estimates are used to justify government funding.

Given these issues, the Commission has further investigated the value added estimates provided by the ABS in determining an appropriate estimate of the value added by the ACT racing industry.

Australian Bureau of Statistics

The ABS surveyed businesses and other organisations engaged in sports and physical recreation services in 2004–05. The survey provided considerable information on the racing industry and the impact that it has on the Australian economy.

The ABS defines an industry's value added as the value added by an industry to the intermediate inputs used by the industry. It is a measure of the contribution to GDP by businesses or organisations in the selected industry. For the racing industry, the following equation was used by the ABS in estimating the industry value added:

> Sales and service income
>
> *plus* funding from federal, state and/or local government for operational costs
>
> *plus* capital work done for own use
>
> *plus* closing inventories
>
> *less* opening inventories
>
> *less* intermediate input expenses
>
> *less* capitalised purchases
>
> *equals* industry value added.[17]

The information in relation to the ACT has a standard error greater than 50% and therefore could not be provided to the Commission by the ABS. Therefore, inferences must be made from the information on other jurisdictions and Australia as a whole provided by the ABS. The information on the value added by the racing industry that was available on a jurisdictional basis is provided in the following tables.[18]

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[17] Australian Bureau of Statistics, *Sports and physical recreation services 2004–05*, cat. no. 8686.0.

[18] –Information could not be provided at the disaggregated level for NSW, SA, and WA by the ABS for the greyhound and harness industries due to the standard error of the estimate; however, the total numbers include these amounts.

Table 2.15 Racing industry value-added from Australian Bureau of Statistics, 2004–05 ($m)

	Thoroughbred	Greyhound	Harness	Total
New South Wales	57.2	n.p.	n.p.	70.9
Victoria	95.2	13.7	8.7	117.5
Queensland	42.4	3.3	1.9	47.6
South Australia	11.4	n.p.	n.p.	16.1
Western Australia	20.3	n.p.	n.p.	24.5
Tasmania	2.1	0.8	0.3	3.2
Australia	**233.9**	**36.4**	**15.0**	**285.3**

n.p. = not provided.

Source: Data available on request from ABS—cat. no. 8686.0.

Table 2.16 Racing industry value added as a percentage of gross state product, 2004–05

	Thoroughbred	Greyhound	Harness	Total
New South Wales	0.018%	n.p.	n.p.	0.023%
Victoria	0.041%	0.006%	0.004%	0.051%
Queensland	0.025%	0.002%	0.001%	0.028%
South Australia	0.019%	n.p.	n.p.	0.027%
Western Australia	0.020%	n.p.	n.p.	0.024%
Tasmania	0.012%	0.005%	0.002%	0.019%
Australia	**0.025%**	**0.004%**	**0.002%**	**0.031%**

n.p. = not provided.

Source: Data available on request from ABS—cat. no. 8686.0.

Table 2.17 provides a range for each of the different racing codes for the states and the national estimate from the above information.

Table 2.17 Racing industry value added as a percentage of GSP

	Thoroughbred	Greyhound	Harness	Total
State minimum	0.012%	0.002%	0.001%	0.019%
State maximum	0.041%	0.006%	0.004%	0.051%
Australia	**0.025%**	**0.004%**	**0.002%**	**0.031%**

Source: Data available on request from ABS—cat. no. 8686.0.

In order to provide a comparison with the estimates prepared by Access Economics and IER, the Commission has also considered the value added by the wagering sector.

The industry value-added estimate for both the racing and TAB wagering industries (wagering being the TAB only, as confidentiality issues precluded the ABS from providing information in relation to corporate bookmakers) is provided in table 2.18. The information on the TAB wagering industry could only be accessed at a national level and has therefore been combined with the national estimate of the racing industry value added. This estimate is significantly higher than that for the racing industry alone but is still materially lower than the estimate derived by IER (0.50%).

Table 2.18 Industry value added by the combined racing and TAB wagering industries as a percentage of GSP

	Industry value added ($m)	Industry value added as % of GSP
Racing industry	$285.3	0.031%
TAB wagering industry	$1,837.3	0.198%
Combined racing and wagering industries	**$2,122.6**	**0.229%**

Source: Data from ABS—cat. nos. 8684.0 and 8686.0 and data available on request from the ABS.

Using the minimum and maximum estimates from table 2.17, the Commission has derived a minimum and maximum range for the combined industry value added by the racing and TAB wagering industries. The range is presented in table 2.19.

Table 2.19 Range of industry value-added of the combined racing and TAB wagering industries as a percentage of GSP

	Racing industry value added	TAB wagering industry value added	Industry value added as % of GSP
Minimum	0.019%	0.198%	0.217%
Maximum	0.051%	0.198%	0.249%
National	0.031%	0.198%	0.229%

Source: Data available on request from ABS—cat. nos. 8684.0 and 8686.0.

In order to provide an estimate of the value added by the ACT racing industry, the Commission has used this range of percentages of GSP to determine an appropriate range for the percentage of ACT GSP. Given that the ACT is one of the smaller jurisdictions in terms of the racing industry (this can be seen through the state comparison in the IER report), the Commission expects that the percentage contribution of the ACT racing industry to the ACT GSP would be in the lower part of that range. The Commission has therefore determined that the range would be between the minimum estimate (0.217%) and the national estimate (0.229%).

In determining a dollar estimate for the ACT racing and wagering industries, the Commission has applied these percentage estimates to the 2009–10 GSP figure for the ACT. This approach resulted in a range of industry value-added by the ACT racing and wagering industry of $60.3 million to $63.6 million.

Given the nature of the market for the ACT racing industry, there are difficulties in using national data to determine the value added of the local industry. The industry is possibly unique in that there is such considerable leakage between it and its adjacent jurisdiction, NSW. For example, a significant proportion of industry participants are not located within the ACT, and therefore the use of national information to determine the impact of the ACT racing industry may overstate that impact.

Notwithstanding this caveat, the Commission considers that the Access Economics and Commission-adjusted IER estimates are reasonable estimates of the value added by the racing *and* wagering industries for the ACT.

In considering the value added by the ACT racing industry, it is apparent that it is significantly lower than that of the combined racing and wagering industry. While these estimates incorporate some element of the wagering industry value-added, it is important to consider the value added of the industry without the wagering impact. This focus primarily on the value added by the racing

industry is especially relevant if it is determined that the ACT racing industry and the wagering industry within the ACT are relatively independent.

The question of independence considers whether, if racing were no longer conducted within the ACT, there would be a material impact on the wagering industry in the territory. Given that the level of ACTTAB's turnover on ACT races represents only a small proportion of its overall turnover (discussed in section 2.3.3), it would be reasonable to assume that the wagering industry does not have a material dependency on the ACT racing industry. If it is concluded that the industries are independent, then the value added by the ACT racing industry would be considerably lower than the IER and Access Economics value-added estimates, which incorporate a significant contribution by the wagering industry.

Given that the information on the specific value added by the ACT racing industry itself is unavailable, an estimate must be derived. Using the same approach as that used earlier to derive a range of estimates for the value-added for the racing and wagering industries, the Commission has used the minimum and national average estimates of the racing industry value-added as a percentage of GSP (0.019% to 0.031% of GSP-see table 2.19). Such an approach is used in order to reflect more accurately the size of the ACT racing industry. This equates to a range of value-added for the racing industry of $5.3 million to $8.6 million for the ACT in 2009–10 (based on a 2009–10 GSP figure for the ACT of $27.8 billion).

The Commission notes that this range is similar to the amount committed to the industry by the ACT Government. Therefore, the ACT Government will achieve no better than an approximate dollar-for-dollar value added for the industry from its budget funding commitment. In most cases (although not all, as the justification for funding varies), it would be expected that the value added from an industry should be higher than any budget contribution provided by the government.

To provide some perspective on how the ACT racing industry compares in value-added terms with other industries within the ACT, table 2.20 lists different industries and their industry value-added estimates for the territory. As can be seen from the table, and as could be expected, the contribution of racing industry to the ACT economy is relatively minor in comparison to the contributions of other ACT industries.

Table 2.20 Industry value added for other industries within the ACT, 2009–10

Industry	Value-added ($m)
Agriculture, forestry and fishing	21
Manufacturing	294
Arts and recreation services	393
Accommodation and food services	498
Electricity, gas, water and waste services	519
Retail trade	802
Education and training	1,282
Health care and social services	1,519
Adjusted ABS information for ACT racing and wagering industries	**60.3–63.6**
Adjusted ABS information for ACT racing industry alone	**5.3–8.6**

Source: ABS, cat. no. 1308.8.

Table 2.20 indicates that, with a value added estimate of about 0.2% of GSP for racing and wagering and 0.031% for racing, the racing industry, despite its possible importance socially and culturally, is not a major contributor to the GSP of the ACT economy.

2.3.2 Probity of the industry

A deficit of probity and integrity leads to a decrease in confidence in the industry and its administrators. One of the desired outcomes for the industry, therefore, is the maintenance and communication of public confidence in the probity of racing.

The *Canberra Times* published an article at the end of 2009 about concerns held by the industry for the integrity of a race meeting held by the CGRC in December 2009. The article reported that some Northern Territory bookmakers incurred significant losses on one race and were keen for the integrity division of Greyhound Racing NSW to investigate.[19]

The Commission notes that, while this incident may be considered minor by the CGRC, it had an impact on the public perception of integrity within the industry. If there is a perceived lack of integrity within an industry such as racing, the level of wagering is likely to fall because punters are unwilling to wager on race meets when they cannot be assured of the integrity of the events. Given the interdependencies between the racing industry and the wagering industry in general, it is imperative that the ACT racing clubs provide a high level of probity and integrity to maintain confidence in their product.[20]

The probity of an industry can also be a reflection of the size and resources available to the industry. If an industry is unable to provide sufficient resources to ensure probity, it is at a greater risk than larger industries. Given the smaller size of the greyhound and harness racing codes within the ACT, they are at a greater risk of probity problems than the thoroughbred racing code. Probity within the industry is therefore an important output that must be considered and, while there are no indications of major probity failings, there is a need to ensure that every effort is made to ensure the highest level of probity across the industry in a highly competitive racing product environment.

2.3.3 Gambling product

One of the primary outcomes generated by the ACT racing industry is the gambling product that it produces. Gambling product is the primary funding mechanism for the racing industries throughout Australia, ensuring that the consumers of the industry provide some funding back to the industry.

Figure 2.8 shows the trend in total wagering turnover in real terms throughout Australia on racing product, while figure 2.9 presents the total wagering turnover within the ACT in real terms. While wagering throughout Australia grew over the period from 1997–98 to 2007–08, the level of wagering in the ACT remained stagnant in real terms.

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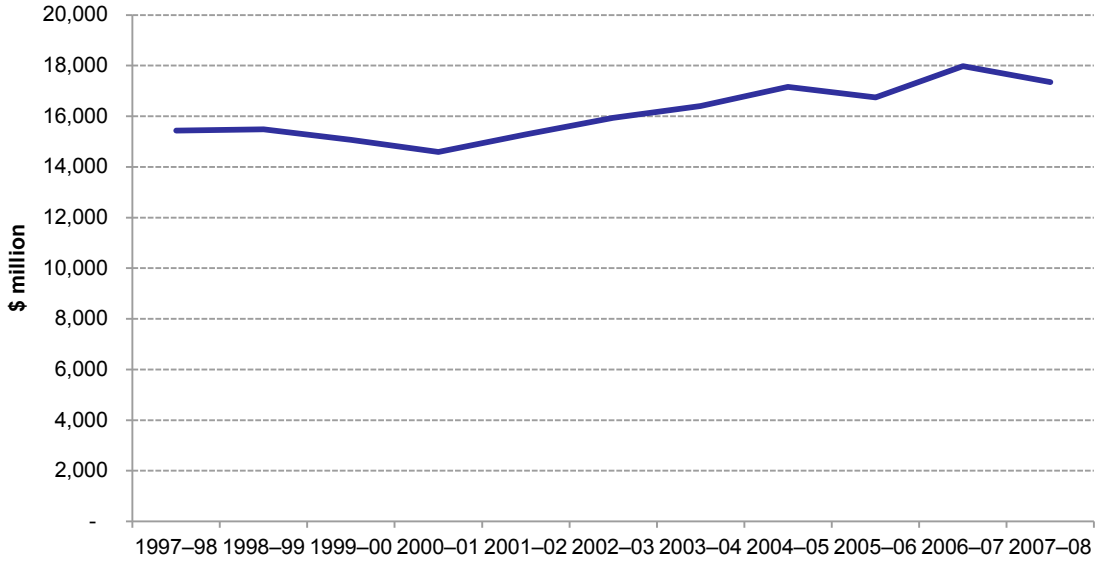
[19] 'Concerns about bets and losses in ACT', *Canberra Times*, 19 December 2009.

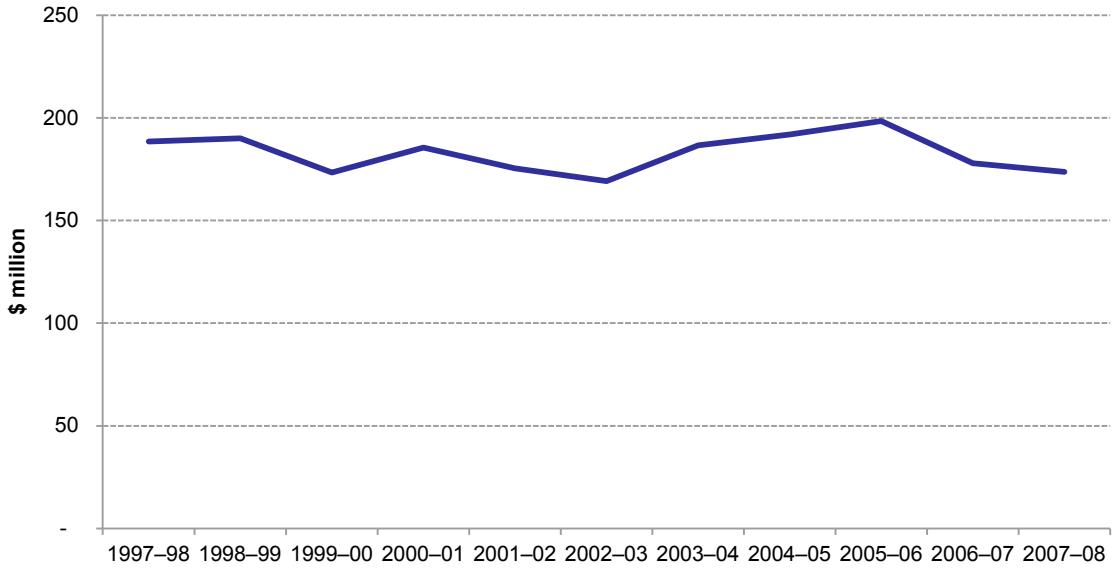
[20] While the ACT racing industry has de-linked its funding from the turnover of ACTTAB, there is still an interdependency through the product payments. Any future move towards a national approach would probably incorporate funding through wagering.

Figure 2.8 Total turnover on wagering throughout Australia, 1997–98 to 2007–08 ($m, real 2007–08)



Source: Office of Economic and Statistical Research, Queensland Government, 2010, *Australian gambling statistics*.

Figure 2.9 Total turnover of racing wagering placed within the ACT, 1997–98 to 2007–08 ($m, real 2007–08)



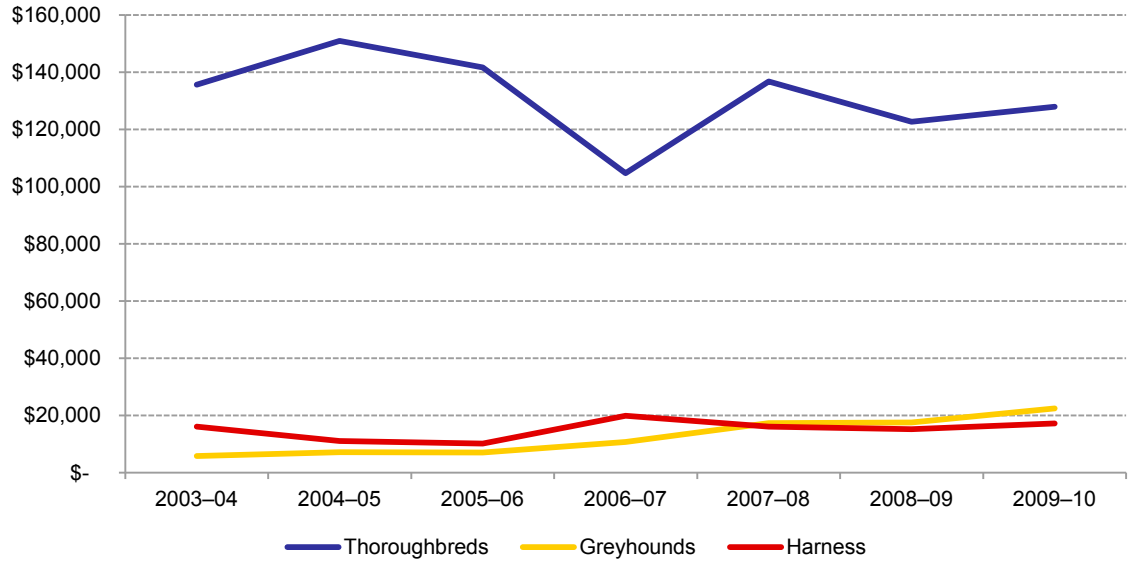
Source: Office of Economic and Statistical Research, Queensland Government, 2010, *Australian gambling statistics*.

It can be seen from the levels of turnover shown in figures 2.9 and 2.10 that ACTTAB's wagering on ACT races is relatively small compared to the overall wagering turnover of ACTTAB. Over the past three years, ACTTAB's wagering turnover for ACT races has been approximately 2% of the agency's total wagering turnover.[21] Therefore, turnover on ACT races does not have a significant effect on ACTTAB's overall turnover.

In considering the breakdown of the wagering turnover within the ACT more closely, it is apparent that the thoroughbred races generate the most significant level of wagering. As shown in figure 2.10, however, wagering on greyhound races within the ACT has been steadily increasing until it now generates on average more than harness racing at an average race meet.

[21] ACT Treasury, Australian Gambling Statistics.

Figure 2.10 Breakdown of average turnover per race meet for ACTTAB customers on ACT races



Source: ACT Treasury.

In considering the changing proportions of wagering across the different racing codes (table 2.21), it is clear that wagering on greyhound racing is growing at a faster rate than wagering on the other codes. It can be seen from this table that the different codes' market share of wagering can fundamentally shift in a reasonably short period.

Table 2.21 Proportion of wagering by ACTTAB customers on ACT races in the three racing codes, 2003–04 to 2009–10

	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
Thoroughbred	85%	87%	84%	65%	77%	73%	72%
Greyhound	7%	8%	10%	20%	19%	20%	22%
Harness	8%	5%	6%	15%	4%	7%	6%

Source: ACT Treasury.

2.3.4 Community participation

The primary focus in determining the level of community participation in the different racing codes is the level of attendance for each racing code. While information is not available on the number of ACT residents who attend ACT sporting events, table 2.22 outlines the results of an ABS survey on the number of ACT residents (over 15 years of age) who attended a sporting event during 2006. The attendance at these sporting events was not limited to the ACT and therefore could include attendance at other states (for example, attendance at Victoria's Spring Carnival).

Table 2.22 Attendance at ACT sporting events, 2006

	Attendance ('000)	% of ACT population 15+ years old
Australian rules football	26.6	10.5%
Basketball	6.1	2.4%
Cricket (outdoor)	13.8	5.5%
Greyhound racing	**1.1**	**0.4%**
Harness racing	**3.0**	**1.2%**
Horse racing	**21.2**	**8.4%**
Motor sport	19.5	7.7%
Netball	1.4	0.6%
Rugby league	34.8	13.7%
Rugby union	40.1	15.8%
Soccer (outdoor)	9.2	3.6%
Tennis	1.8	0.7%

Source: ABS, cat. no. 4174.0.

It is evident that thoroughbred racing, by attendance, is the dominant racing code in the ACT.

Similar ABS surveys conducted for 1995 and 1999 indicate a higher level of attendance by ACT residents at racing industry events in those years compared to attendance in 2006. This is consistent with industry comment of declining attendance, and reflects the wider range of electronic coverage of racing activity currently available.

Table 2.23 Racing attendance within the ACT, 2006

	Attendance ('000)	% of racing attendees
Horse racing	21.2	84%
Harness racing	3.0	12%
Greyhound racing	1.1	4%

Source: ABS Cat. 4174.0

It should be acknowledged that the ABS survey from which these figures are derived may overstate the level of community participation in the ACT racing industry, as the attendance of the sporting events was not required to be in the ACT. The level of attendance may therefore be inflated through ACT residents attending sporting events in other jurisdictions.

In addition to this, the survey noted that for the racing industry (thoroughbred, harness and greyhound) nearly three-quarters of those who attended a racing event only attended one or two times over the 12 months of the survey. This shows that a significant proportion of attendees at racing events focus on the larger meets rather than being regular attendees.[22]

The CRC stated in its submission that it attracts an average of 40,000 attendees each year to its race meetings.[23] The CHRC advised that its average attendance at race meetings is 150, with the main race of the year, the Canberra Cup, attracting up to 1,200 people.[24]

[22] ABS, cat. no. 4174.0 (Table 10).
[23] CRC submission, p. 10.
[24] CHRC submission, p. 6.

2.3.5 Culture

The cultural outcome derived from the racing industry is primarily based on public involvement and attendance at race meetings. Without public attendance, the industry's cultural impacts would be much smaller.

The decline in meeting attendance noted above has been facilitated by the advent of online and off-course wagering, which would not be seen as providing any cultural benefits to the ACT region. The increasing prevalence of off-course wagering has led to the development of electronic horse racing wagering games such as 'Trackside', which focuses on the wagering side of the racing industry without any indirect components of the industry that can add to the cultural side of the community.

2.4 Industry impacts

The impacts outlined in this framework are the long-term effects produced by an activity—either directly or indirectly, intended or unintended, positive or negative. The primary difference between an impact and an outcome is the long-term nature of the impacts.

For this investigation, the Commission has identified the following impacts of the ACT racing industry:

- problem gambling
- revenue for the ACT Government
- charitable support for the Canberra community.

The remainder of this section addresses each of these impacts in relation to this investigation.

2.4.1 Problem gambling

The Australian National University was recently commissioned by the ACT Gambling and Racing Commission to conduct a prevalence survey on gambling participation and problems in the ACT. The study considered all forms of gambling, not just wagering on racing. According to this survey, 0.5% of the ACT population were identified as problem gamblers (using the Canadian Problem Gambling Index).[25]

Table 2.24 provides a breakdown of the frequency of gambling across the different types. Around one-fifth of the ACT population gambled on races at least once in the 12 months of the survey.

[25] T Davidson and B Rodgers, 2010, *2009 Survey of the nature and extent of gambling, and problem gambling, in the Australian Capital Territory*, 26 November.

Table 2.24 Frequency of gambling within 12 months by adult population of the ACT

Type of activity	Low (1–11)	Medium (12–47)	High (48+)
Lotto or other lottery game	25.1%	9.8%	11.2%
Electronic gaming machines	21.0%	6.3%	3.0%
Horse and greyhound races	20.8%	1.8%	1.8%
Scratch tickets	16.1%	5.5%	1.2%
Table games at casino	7.3%	0.9%	0.04%
Private games, such as cards, for money	6.6%	1.2%	0.3%
Sports or special event	5.2%	1.9%	0.8%
Keno	4.8%	0.8%	0.1%
Casino-type games on internet	0.8%	0.8%	1.0%
Bingo	1.5%	0.2%	0.4%
Other	0.7%	–	–

Source: T Davidson and B Rodgers, 2010, *2009 Survey of the nature and extent of gambling, and problem gambling, in the Australian Capital Territory*, 26 November 2010, p. 22.

The study found that those identified as problem gamblers were most likely to bet on a range of products, with the average being four different products. Given that horse and greyhound racing is the third most prevalent form of gambling in the ACT, it is likely that problem gamblers are wagering on horse and greyhound racing.[26]

2.4.2 Revenue for the ACT Government

The ACT racing industry has a clear impact on ACT Government revenues. The impact of the change in funding arrangements to budget funding is considered above, so this section addresses the impact that ACTTAB has on the ACT Government and how changes to the funding arrangements may affect the government.

Impact of ACTTAB on ACT Government

ACTTAB was established in 1964 and is wholly owned by the ACT Government. Its primary activity is to provide totalisator wagering services along with other fixed-odds wagering. This wagering activity is primarily undertaken within the ACT (on events throughout Australia); however, with the advent of new technology in the wagering sector, an increasing number of wagering transactions are taking place across state borders.

Through the *Betting (ACTTAB Limited) Act 1964*, ACTTAB has the exclusive right in the ACT to provide totalisator services for racing and other approved sporting events. ACTTAB operates on race meetings throughout Australia and overseas, combining its betting pools with Victoria, Western Australia and Tasmania to form the SuperTAB wagering pool.[27]

At 30 June 2010, there were a total of 52 ACTTAB retail outlets throughout the ACT. Of those, 15 were branches and agencies while 37 were sub-agencies located in clubs, hotels, taverns and Casino Canberra. In addition to the retail facilities, ACTTAB also has more than 5,000 account holders who use internet and telephone services.[28]

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[26] Davidson and Rodgers, *2009 Survey of the nature and extent of gambling, and problem gambling, in the Australian Capital Territory*.
[27] By combining these pools, ACTTAB has access to a much larger wagering pool to distribute the winnings against. Larger wagering pools provide punters with larger jackpots and more consistent odds.
[28] ACTTAB *Annual Report 2009–10*, p. 2.

Table 2.25 outlines information on the payments that ACTTAB makes to the ACT Government, broken down by the source of the revenue. Information was available until 2009–10 and clearly shows a decline in revenue received from ACTTAB. For both 2008–09 and 2009–10, ACTTAB was in a negative position due to tax losses for each year.

Table 2.25 ACTTAB payments to ACT Government ($m)

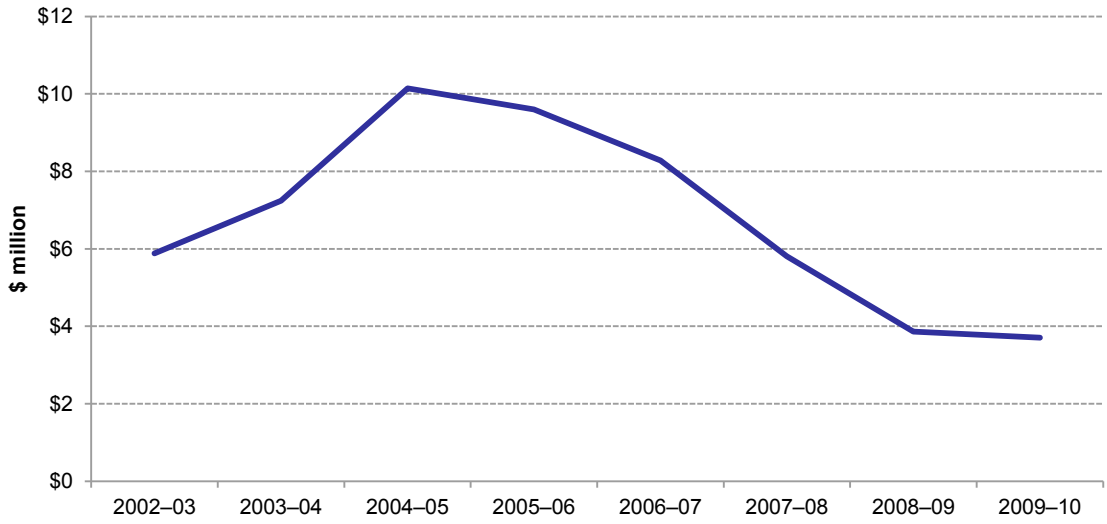
	Dividends payable	Tax equivalents paid	Licence fees	Total received
2002–03	0.573	0.508	3.723	4.804
2003–04	1.228	1.100	3.758	6.086
2004–05	3.563	1.339	3.801	8.703
2005–06	3.265	1.450	3.911	8.626
2006–07	2.764	0.722	4.107	7.593
2007–08	0.828	0.579	4.155	5.562
2008–09	0.128	–0.600	4.248	3.776
2009–10	0.000	–0.636	4.343	3.707

Note: The licence fee amounts for 2008–09 and 2009–10 have been estimated based on historical licence fees because that information was not explicitly available.

Source: ACT Treasury and ACTTAB annual reports.

This information has been replicated in figure 2.11 to show clearly the trend in funding that has been provided by ACTTAB to the ACT Government.

Figure 2.11 Total payments made by ACTTAB to the ACT Government ($m, real 2009–10)



Source: ACT Treasury and ACTTAB annual reports.

One of the factors that has been suggested as a potential cause of this decline in the performance of ACTTAB is the range of wagering products that it provides. A number of other jurisdictions' TABs have implemented additional wagering options such as flexi betting on quadrellas, first fours and trifectas, and duet betting (picking any two of the first three).

ACTTAB has previously stated that its decline in turnover during this period was primarily a result of a decline in VIP betting, largely attributable to the impact of competitors offering incentives and rebates to VIP punters in other jurisdictions. ACTTAB noted that both retail and account betting

operations recorded strong growth during this time.[29] The influence of VIP customers on ACTTAB's overall turnover highlights the volatility that this type of customer can bring to small market participants, such as ACTTAB.

The CRC stated that ACTTAB is currently making significant capital investments in new hardware and software to improve its betting systems. This will allow ACTTAB to provide different wagering options that are currently offered in other jurisdictions. It is expected that this new system will be available to ACTTAB account customers by the end of 2010 and will be installed in all outlets during the first half of 2011.[30]

One of the risks to the future impact that ACTTAB has on the ACT Government is the threat of further VIP customers taking their business elsewhere. As stated above, VIP customers can have a significant impact on smaller TABs. Therefore, if ACTTAB were to lose more of its VIP customers to other wagering providers, that would further reduce funding provided to the ACT Government and the viability of the business itself.

Impact of changing the funding structure on ACT Government

Given the recent changes to the funding of the racing industry, it would be expected that in future the ACT Government will begin to receive greater distributions and tax payments, as ACTTAB will not be required to set aside funding for the ACT racing industry. Table 2.26 shows the distributions that were paid by ACTTAB to the ACT racing industry under the previous funding arrangements of 4.5% of total turnover being paid to the industry.

Table 2.26 ACTTAB distributions to the ACT racing industry ($m)

	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
Funding	6.804	7.091	7.566	7.125	7.403	7.663

Source: ACT Treasury.

ACTTAB will no longer be required to provide this funding to the industry and will therefore be in a better position to pay dividends to the ACT Government and operate in a tax-paying position. It should be noted, however, that because ACTTAB operates independently with its own board, this does not mean that the ACT Government will automatically receive the equivalent of 4.5% on turnover in the future. ACTTAB will have discretion over the funds that will now be available to it. Furthermore, with the introduction of race fields legislation in other jurisdictions, ACTTAB will be required to pay product payments that it would not have paid in the past. While the ACT Government should expect that ACTTAB will be in a healthier corporate position in future, it would not expect to receive all of the funding freed up by the change in funding arrangements.

2.4.3 Charitable support for the Canberra community

The CRC provides support for a number of organisations through donations of money, goods and services. At each of the major race meetings, the club allows a designated charity to collect funds at the entrance from racing attendees. Organisations that have been assisted by the CRC include the Australian Red Cross, St Vincent de Paul, Careflight, the Lara Jean Association, and Pegasus—Riding for the Disabled.

[29] ACTTAB *Annual Report 2006–07*, p. 2.
[30] CRC submission on issues paper, p. 16.

The CHRC provides the gate takings from its Christmas Cup race meeting each year (the only race meeting at which it collects a gate fee) to the Cancer Council ACT, while it also conducts a charity auction race night for the Eden Monaro Cancer Society.[31]

The CGRC also offers support and financial assistance to the ACT charitable sector. In recent years, it has supported Snowy Hydro Helicopter charity day, the Heart Foundation, Koomari, the Gregan Foundation, the K-Mart Wishing Tree and various Cancer Councils.[32]

[31] CHRC submission, p. 5.
[32] CGRC submission, p. 7.

3 The appropriate system of product payments

This section considers the different approaches that have been applied by jurisdictions to derive product payments and what is an appropriate system of product payments. It considers:

- the basis upon which product payments are levied
- the rate of the product payment
- a recent ruling by the Federal Court regarding product payments
- the possibility of a national approach to product payments.

3.1 The basis upon which product payments are levied

There has been, and continues to be, considerable debate about the appropriate system of product payments in jurisdictions across Australia. As outlined in section 1.1, with the breakdown of the so-called 'Gentlemen's Agreement' each state has sought to implement its own format of race fields legislation to ensure the continued funding of the racing industry within its jurisdiction. Table 3.1 outlines the different approaches in each of the jurisdictions. It can be seen from this that the ACT applies a 10% fee on the gross revenue of wagering operators.

Table 3.1 Industry agreements with TABs and product fees under race fields legislation

	TAB and racing industry funding arrangements	*Product fee under race fields legislation for all wagering operators*		
		Thoroughbred	Greyhound	Harness
ACT		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
Victoria	18.8% of net revenue 25% of net profit A further marketing aid program of $85.2 million 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
South Australia	42% of gross wagering revenue	10% of gross revenue	10% of gross revenue	10% of gross revenue
Queensland	39% of gross revenue	1.5% of turnover	1.5% of turnover	1.5% of turnover
Western Australia		Choice between a) 1.5% of turnover and b) the greater of 20% of gross revenue or 0.2% of turnover	Choice between a) 1.5% of turnover and b) the greater of 20% of gross revenue or 0.2% of turnover	Choice between a) 1.5% of turnover and b) the greater of 20% of gross revenue or 0.2% of turnover
Tasmania		Has indicated a gross revenue basis	Has indicated a gross revenue basis	Has indicated a gross revenue basis

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

Source: Productivity Commission, 2010, *Gambling*, report no. 50, Canberra.

The key point of contention in the debate in each jurisdiction is about which of two alternative bases product fees should be levied on:

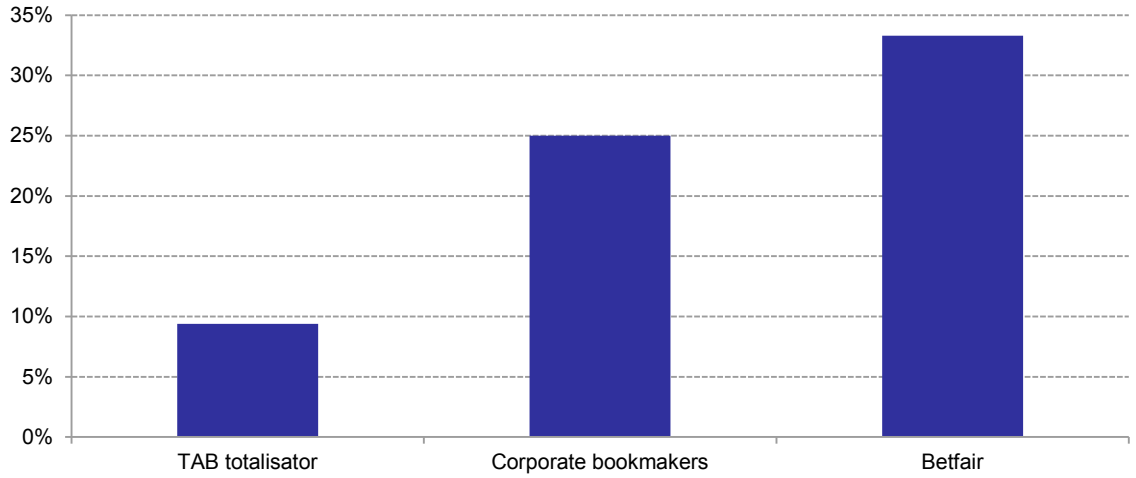
- gross revenue—this is the total amount wagered, minus the amount paid out to punters as winnings (in other words, total player losses). Gross revenue is often also referred to as 'gross profit'.[33]
- turnover—this is the total value of the bets placed on the backer's side.[34]

The debate as to the relative merits of these approaches has hinged on the view, most vocally advanced by Betfair 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 has a take-out rate of 4.5%.[35]

As shown in figure 3.1, 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 disadvantage[36] and may discourage price competition between wagering providers.

Figure 3.1 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 (that is, 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

[33] 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).
[34] In a non-racing context, 'turnover' generally refers to the total amount of sales.
[35] Productivity Commission, 2010, *Gambling*, pp. 16.7 and 16.38.
[36] 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).

operators that would otherwise undermine funding to the racing industry (where it is supported by TABs).

In any case, it is not clear that protecting high-margin operators through turnover-based measures would 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.[37] That is, non-TAB wagering providers 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 raises the value of secondary assets (gate receipts, sponsorship and other advertising opportunities, use of racetrack facilities such as conference rooms, 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 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 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.[38]

The Commission supports this view and the current gross revenue model employed in the ACT.

Draft finding 3.1

It is appropriate that product fees continue to be calculated on the basis of gross revenues associated with ACT race events.

3.2 The rate of the product payment

In its review of gambling, the Productivity Commission noted that:

> there are some indications as to what an appropriate price range might be:
>
> - proponents typically suggest that between 10 and 20% of gross revenue be paid as a product fee to the racing industry

[37] CitiGroup, 2010, *TABCORP and Tatts Group: Road map for racing reform*.
[38] Productivity Commission, 2010, *Gambling*, p. 16.39.

- 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% range.[39]

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 3.1).

While it is tempting to consider increasing the product fee rate significantly, that would raise the cost of wagering on ACT races and hence result in a diminution of that wagering and a longer term decline in the revenue achievable through product fees. Additionally, setting the standard product fee dramatically above the 10% to 20% range risks online wagering providers evading the fee by moving their business operations off-shore.[40]

Draft finding 3.2

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.

3.3 The Federal Court on product payments

With the introduction of race fields legislation in NSW in 2008, wagering operators taking on bets in NSW were required to pay a product payment of 1.5% of turnover. Betfair and Sportsbet subsequently commenced Federal Court proceedings against both 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 the 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 fields 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 fields information, calculated on the basis of 1.5% of turnover for NSW.

These proceedings have created uncertainty about the use of product payment regimes throughout each of the jurisdictions. The Commission notes that, at the time of writing this report, Sportsbet has applied to seek special leave to appeal to the High Court of Australia, while Betfair has not yet announced its intentions.

3.4 A national approach to product payments

In addition to the debate about the different jurisdictional approaches and the legal proceedings, there is another uncertainty with regard to the potential introduction of a national approach to product payments. In the Productivity Commission's gambling inquiry, it recommended that:

> 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

[39] Productivity Commission, 2010, *Gambling*.
[40] Productivity Commission, 2010, *Gambling*.

> to replace these arrangements with a national statutory scheme, in which there would be a single product fee for each code.[41]

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 the jurisdictions, it may be difficult to gain consensus among them.

Stakeholders in the ACT racing industry were predominantly in favour of a national approach; however, they were unsure of the timing of such an approach and how much influence the ACT would have in establishing it. The CRC stated in its submission that:

> there is strong support in government and racing circles in Australia for the establishment of a national funding model based on fees for product. Because of the small size of the ACT racing industry in comparison to those of the other jurisdictions, it is likely that the ACT local racing industry or the ACT Government will have limited influence over the outcome and financial model for a national statutory scheme.[42]

The CHRC also stated that it supports the creation of a single product fee for each racing code for Australia. However, it noted that any national approach needs to consider the impact on both the larger metropolitan clubs and the smaller clubs.[43]

On a similar note, the CGRC also proposed that the ACT Government consider joining smaller states such as South Australia and Tasmania to ensure that the future design of a national statutory scheme recognises and does not harm smaller jurisdictions once operational.[44] This concept was supported by Access Economics, which stated that there may be value in the ACT forming a 'bloc' with Tasmania, South Australia and Western Australia to ensure that the different circumstances of smaller jurisdictions are not forgotten.[45]

Draft finding 3.3

The ACT should support the development of a national approach to the support of the racing industry through a coordinated approach to product payments.

[41] Productivity Commission, 2010, *Gambling*, p. 16.46.
[42] CRC submission, p. 15.
[43] CHRC submission, p. 8.
[44] CGRC submission, p. 10.
[45] Access Economics submission, p. 2.

4 Appropriate funding outcome

There are questions in relation to the use of budget funding to provide assistance to the ACT racing industry. This section considers two primary questions in relation to that funding:

- Should there be public funding for the racing industry?
- What should be the level of base public funding?

4.1 Should there be public funding for the racing industry?

While some parts of the ACT racing industry would disagree, the ACT Government's budgetary support for the industry is a form of industry assistance.[46] Additional questions about that assistance are required if it is to be provided on an ongoing basis. To ensure value for taxpayers, it is important to ask why ACT taxpayers should provide financial assistance to the ACT racing clubs.

One of the primary reasons for providing financial support for particular firms and/or industries is market failure. As the Industry Commission noted:

> markets will not always function perfectly, or adjust immediately to changes in their economic environment. There will be occasions where their 'failure' is sufficient to warrant government intervention.[47]

There are a number of types of market failure for which government intervention may be warranted, including:

- public good—where there is non-excludability (people cannot be stopped from consuming) and non-rivalry (use of a product or service does not use it up)
- externalities—where the market fails to signal benefits and/or costs
- information asymmetries—where there are severe information problems that are costly to correct
- transaction costs—where the costs of coordination are particularly high.

The Commission notes, however, that thought needs to be given prior to jumping to the identification of a market failure and automatically seeing a rationale for financial support, as the response to market failures can be different depending on the type of failure:

> While markets rarely if ever operate 'perfectly', they usually generate information which signals opportunities to market participants. If government action is to be appropriate, the market failures or imperfections need to be clearly identified, and the government action introduced in a cost-effective and well targeted manner.[48]

There are two potential market failures most relevant to the racing industry: public good and externalities.

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[46] See Industry Commission, 1996, *State, territory and local government assistance to industry*, report no. 55, AGPS, Canberra, pp. 3–6.
[47] Industry Commission, 1996, *State, territory and local government assistance to industry*, p. 29.
[48] Industry Commission, 1996, *State, territory and local government assistance to industry*, p. 29.

Public good

There are two ways to analyse a claim for industry funding due to a market failure being driven by public good issues.

First, if one views racing as a product or service in and of itself, then it is difficult to view it as a public good because spectators can be excluded from seeing a broadcast or attending at a track. Thus, there is scope for charging people to fund the activity. One point reinforced during consultations is that racing is not provided by people attending race meetings in person, and hence it is unrealistic to assume that the costs of racing can be covered by attendance.

Second, the information generated from racing that feeds into the wagering industry does, however, have public good characteristics.[49] That is, once a race field is finalised and a winner declared, such information cannot easily be excluded from use by wagering providers, and is not 'used up'.

Externalities

An externality argument is often made; that is, that the racing industry supports a range of other industries and hence there is a multiplier benefit (a positive spillover)—which means that, without support, racing production will be sub-optimal and hence requires support to stimulate production. The Commission considers that this argument is weak, given that the net impact of industry assistance is dubious.[50] Even though supporting the ACT racing industry may result in an expansion (or possibly the continued existence) of an industry with associated increased industry output, employment benefits and so on, there is an opportunity cost of such support. That is, in the absence of the support for the racing industry, the assistance could have been diverted to other activities (such as the provision of hospital beds or the construction of new infrastructure).

Even when there is a market failure, there should not be a presumption that funding is necessarily the most appropriate response. As the Industry Commission noted:

> … markets will not always function perfectly, or adjust immediately to changes in their economic environment. There will be occasions where their 'failure' is sufficient to warrant government intervention. There are occasions, however, where even some of these difficult challenges [market failures] can be overcome by legislation which specifies property rights clearly rather than by direct assistance.[51]

This is the path that state and territory governments have embarked upon with race fields legislation that provides for the ability of racing bodies to charge for their 'intellectual property'.

In the longer term, the objective for any industry receiving government financial assistance should be to achieve a self-sufficient state. This is the same for the ACT racing industry.

The challenge in the short term is that the funding mechanisms are not in place to allow this to happen. For example, if the ACT racing industry sought to rely solely on race fields legislation to fund its operations it would need to set the product fee significantly higher than the current level. The result of this unilateral action by the ACT industry would be to reduce the odds provided on ACT races, making them relatively less attractive in comparison to races in other jurisdictions. The

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[49] Productivity Commission, 2010, *Gambling*, p. 16.3.
[50] Industry Commission, 1996, *State, territory and local government assistance to industry*.
[51] Industry Commission, 1996, *State, territory and local government assistance to industry*.

view of most stakeholders is that some form of coordinated national reform will make self-sufficiency more feasible, but that is not an immediate prospect.

While there is a transitionary market failure argument to support funding of the racing industry, the major justifications advanced for that funding appear to be based on one or more equity arguments:

- Other jurisdictions also provide funding by some mechanism.[52]
- Other sports/activities receive funding from the ACT Government.

Given the logic of supporting the racing industry as a transitionary measure until a more coordinated national response can be developed, the Commission is of the view that such support should only be provided:

- to support an efficiently run industry
- in such a way that provides incentives for the industry to move towards being self-sufficient.

In principle, the Commission's immediate concern is that:

- current arrangements are inflexible between codes (discussed in section 5).
- there may be scope for more efficient operations (discussed in section 6).
- current arrangements provide a relatively high level of base support (discussed in section 4.2) and hence have diminished the immediate incentive for self-sufficiency.

4.2 What should be the level of base public funding?

It is apparent to the Commission from industry consultations and submissions that the ACT racing bodies:

- support the provision of budgetary support rather than relying on the performance of ACTTAB
- support the annual indexation of funding
- would prefer the quantum of funding to be higher.

The Commission notes that the funding arrangements provide the industry with a degree of certainty about more than 80% of the funding that it is expected to receive from the primary sources of industry funding. Table 4.1 provides an assessment of the total industry funding that the ACT racing industry is 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 the CPI). In addition, the ACT racing industry has begun receiving product payments from wagering operators throughout Australia to cover the wagering being placed on their product. It is estimated that in 2010–11 the ACT racing industry will receive $1.5 million in funding through such fees. 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 that period.

[52] To some degree, this may be viewed as a 'prisoner's dilemma'. If two jurisdictions are involved, both will consider that they have two options: either maintain industry support for the racing industry or make an agreement to reduce support. Either jurisdiction will benefit from industry support, regardless of what the other jurisdiction does; therefore, they both incline towards support. The paradox is that both jurisdictions are acting rationally, but producing an apparently irrational result if a coordinated withdrawal of industry support would provide a greater economy-wide benefit.

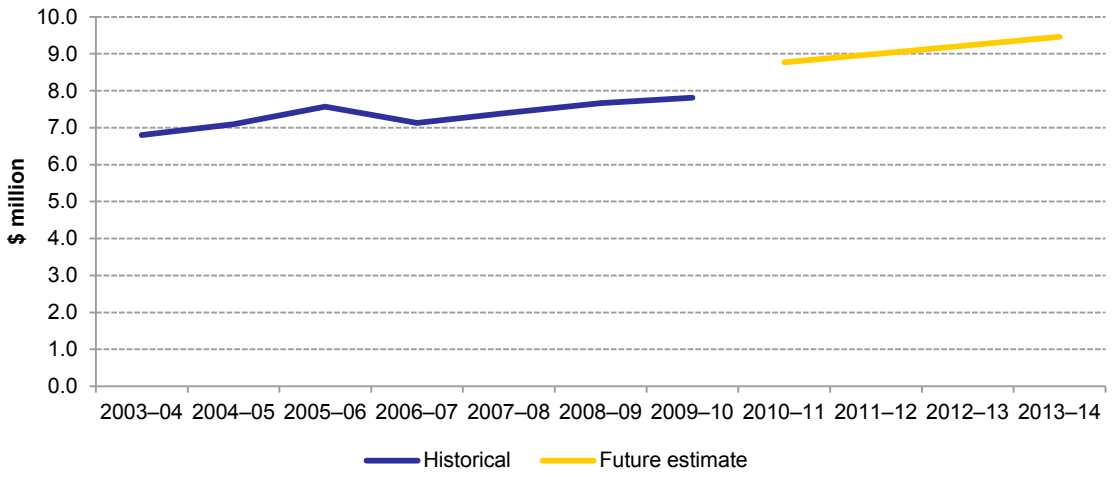
Table 4.1 Future industry funding from ACT Government and product payments, 2010–11 to 2013–14 ($m)

	2010–11	2011–12	2012–13	2013–14
ACT Government	7.268	7.457	7.651	7.848
Product payments	1.500	1.538	1.576	1.615
Total industry funding	8.768	8.995	9.227	9.463

Source: Access Economics submission, Commission analysis.

The guaranteed 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 figure 4.1) is likely to result in an increase in total funding for the ACT racing industry.

Figure 4.1 Comparison of historical funding with estimated future funding of ACT racing industry ($m)



Source: ACT Treasury, Access Economics submission, Commission analysis.

The Commission is of the view that this level of base funding is generous to the ACT racing industry, given its historical levels of funding.

4.2.1 Comparison with other jurisdictions

In support of an increase in the level of funding provided to the ACT racing industry, the Access Economics submission provides a comparison of the historical funding received by the ACT racing clubs in comparison with other jurisdictions. The submission uses a number of criteria for the comparison of funding levels, including:

- percentage of turnover
- percentage of expenditure
- per capita
- per full-time employee
- per dollar value added.

The remainder of this section considers each of these comparisons.

Turnover

Access Economics provided an estimate of the levels of funding received by each of the jurisdictions in relation to the level of racing and sports wagering turnover within the jurisdiction. The submission asserts that the ACT has the lowest level of funding as a percentage of wagering turnover (excluding the Northern Territory, which distorts the analysis).[53] The analysis notes that funding as a percentage of turnover was 3.54% in 2008–09. In table 4.2, the Commission has provided an estimate for 2009–10 and 2010–11 to allow a comparison with the new levels of funding announced by the ACT Government.

The estimates of funding are derived from the budget commitment and forecast product payments. The forecast of wagering turnover is based on the decrease in $10 million in turnover from ACTTAB in 2009–10 and a continued increase in non-TAB activities that equates to the CPI. It has then been assumed that ACTTAB will return to growth of CPI in turnover for 2010–11. These estimates have been used as a guide only, but serve to highlight the increase in the ratio of government funding to wagering turnover as a consequence of the government's latest financial commitment to the industry.

Table 4.2 Funding as a percentage of wagering turnover

	Funding ($m)	Turnover ($m)	Funding as a percentage of turnover
2008–09	7.7	216.7	3.54%
2009–10	7.8	207.7	3.75%
2010–11	8.8	212.9	4.12%

Source: Commission analysis.

From this analysis, it can be seen that the committed level of funding to the ACT racing industry will increase the percentage of funding to wagering turnover in the future, bringing this ratio close to the estimates for NSW and Tasmania provided in the Access Economics material.

The Commission notes that the turnover estimates are based on the total levels of wagering within the jurisdictions, not the levels of wagering placed on races within each of the jurisdictions. Due to the size of the ACT racing industry in comparison to the other jurisdictions, this is an important consideration. As shown in section 2.3.3, the amount wagered with ACTTAB on ACT races is quite small (approximately 2% of ACTTAB's turnover); therefore, a considerable majority of the wagering conducted within the ACT is on racing in other jurisdictions. Furthermore, based on information provided by Betfair, the Productivity Commission showed that the level of wagering conducted on ACT races was less than the level of wagering conducted by residents within the ACT on racing throughout Australia.

Thus, a comparison of government funding with wagering turnover at a jurisdictional level is not an appropriate basis upon which to make a comparison between jurisdictions, particularly those that have a much higher proportion of wagering on 'domestic' race meetings. Should wagering on non-ACT racing product be removed from ACTTAB's wagering turnover estimates, the ratio of funding to wagering turnover for the ACT would be extremely high reflecting a high level of public funding support given the level of wagering support by domestic punters for the domestic race meets.

Racing expenditure

The 'racing expenditure' used by Access Economics in its comparisons between jurisdictions is referred to elsewhere as gross revenue from wagering. This is another measure of wagering activity that is used within the industry. Again, it is not a good comparator given the 'single track'

[53] Access Economics Submission, p.17.

characteristic of the ACT racing industry versus the multiple-track and therefore more numerous racing meets in other jurisdictions. As with the analysis of turnover, this information is based on wagering within the ACT rather than wagering on ACT races.

Per capita

Access Economics calculates that funding received by the ACT racing industry on a per capita basis is lower than in other jurisdictions and is below the national average. However, it should be noted that a per capita comparison across jurisdictions is not an appropriate criterion to determine a reasonable level of funding across the jurisdictions. This is because it assumes that the population of each state has the same level of interest and involvement in the industry. However, that may not be the case. In order to demonstrate this, table 4.3 outlines the level of gambling per capita across each state. It can be seen that the average gambling expenditure per adult within the ACT is well below the national average.

Table 4.3 Average expenditure across jurisdictions

	Expenditure ($m)	Average expenditure per adult ($)
Australian Capital Territory	**243**	**901**
New South Wales	7,150	1,319
Victoria	5,110	1,229
Queensland	3,344	1,016
South Australia	1,136	921
Western Australia	1,129	672
Tasmania	429	1,124
Northern Territory	500	3,129
Australia	**19,042**	**1,147**

Note: Western Australia currently does not have poker machines, which would affect these results.

Source; Productivity Commission, 2010, Gambling, Report No. 50, p. 2.3.

In addition, the racing industry is increasingly focused on a national market. The CHRC has already focused its attention on the national market through the use of television coverage and not on attracting attendance at its race meetings from within the ACT. Therefore, the use of funding per capita does not necessarily provide a meaningful criterion for assessing the appropriate level of government funding for this industry.

Full-time employees

Access Economics provided a comparison based on the number of full-time employees (FTEs) within the racing industry of each of the jurisdictions. The estimates used are based on Access Economics' own FTE estimates and the study undertaken by IER. The Commission notes that the estimates of the FTEs for the jurisdictions appear high and could be a reflection of the approach used by Access Economics and IER in deriving the estimates. As outlined in section 2.3.1, these estimates included the wagering sector and also incorporated indirect elements of the racing industry, thereby multiplying the impacts of the industry. This approach would result in an overstated estimate of the FTEs for the industry. Furthermore, it is further complicated by the extent to which the FTE estimates for the ACT represent people employed outside the ACT.

Given the need to achieve efficiencies in the operation of the racing industry, a high FTE to government funding ratio would not necessarily reflect an efficient allocation of public funds.

Value added by the industry

Access Economics also determined the value added per dollar of funding for each of the jurisdictions based on its own and IER estimates of the value added by the racing industry. The use of value added by the industry as a measure of comparison is the most appropriate, as it highlights the contribution that the industry makes to the GSP of each of the jurisdictions. Access Economics

provided this comparison using its own estimates of the value added for the ACT racing industry and the IER estimates for the value added by the racing industries in other jurisdictions.

As outlined in section 2.3.1, the IER and Access Economics estimates of the value added by the racing industry appear to be overstated in the ACT due to the approach taken, which incorporated wagering value that would exist regardless of the existence of the racing industry in the ACT, and multiplier outcomes which, as acknowledged by Access Economics, may not reflect activity within the ACT. Given this, the Commission has used information from the ABS on the value added by the racing industry to provide a more accurate reflection of the industry in the ACT.

The Commission has estimated the value added generated by the ACT racing industry to be in the range of $5.3 million to $8.6 million. On the basis of a funding contribution of $7.27 million in 2010–11, this suggests that the value-add generated in the ACT only approximates the funding provided to the industry from government. A comparison with other jurisdictions, particularly the larger states with more self-contained racing industries (that is, industries in which there is a high proportion of wagering placed on racing product generated within the state), is not a meaningful metric upon which to determine appropriate public funding levels.

Given these low estimates of value added per dollar of funding in the ACT, the Commission does not believe that there is a strong argument for ongoing government funding other than on an equity basis (that is, that other jurisdictions support their racing industries, and that the ACT Government supports other recreational and sporting activities).

Draft finding 4.1

It is expected that the ACT racing industry will receive greater industry funding in the future than it has received in the past through historical funding arrangements.

Product payments provide the racing clubs with an incentive to improve their product and generate a greater source of revenue.

The funding arrangements should provide some form of incentive for the industry to improve and gain efficiencies. However, a base, guaranteed level of funding diminishes those incentives. The Commission is of the view that the level of base funding from the ACT Government is generous, given the historical levels of funding.

4.3 Ongoing budget funding of the industry

As outlined above, the long-term goal for any industry receiving government assistance is to achieve self-sufficiency. Given this, the Commission considers the budget funding of the ACT racing industry to be temporary, with the aim that product payments from wagering will eventually replace the budget funding.

The Commission expects that the industry will not become self-sufficient until a national approach to product payments is established, with the objective of the regime being to achieve self-sufficiency. Therefore, budget funding of the ACT racing industry should be seen as a transitional measure until a national approach is in place. The Commission has noted that the funding agreed to by the ACT Government is generous, given the previous levels of funding received by the industry. Therefore, the industry is well placed over the next four years to put itself in a strong economic position.

The Commission recognises that a commitment has been made by the ACT Government to the ACT racing industry until 2013–14, and therefore any transitioning of the budget funding would occur at the completion of that commitment. There are primarily three options in transitioning the ACT racing industry away from budget funding to becoming self-sufficient:

- removal of budget funding at the end of the current commitment period if a national scheme is in place
- phasing out of budget funding beyond the current commitment period and until a national scheme is in place, at which time budget funding would cease
- continuing to directly fund the ACT racing industry from the budget, but at a reduced rate.

In regard to the straight removal of the budget funding, it is unlikely that the national scheme for product payments will be in place by the end of the four-year commitment of funding from the ACT Government. If a national approach is not in place by that time, the industry would not have access to any other revenue stream that would assist in it becoming self-sufficient.

For the second transition option, the removal of the budget funding could be on a phased basis until a national scheme for product payments is put in place. Phasing would allow the industry a period of time to transition to a self-sustaining position.

The Commission proposes that there be a phasing out of the budget funding over a period of time beyond the current four-year commitment. This process would reflect the increasing importance of product payments as a source of revenue to the industry.

Finally, the budget funding could continue to be provided but at a reduced rate compared to the current commitment. This will provide a greater incentive through the product payments to generate the desired quantity and quality of wagering events.

The Commission does not propose that any reduction in the level of budget funding be equal to any increase in product payments achieved by the industry, as that would eliminate any incentives the clubs have through the product payment regime. Instead, there would need to be some proportionality incorporated into the transitioning process.

Given that a national scheme is unlikely to be in place by the end of the commitment period, the Commission expects that either a phasing out or a reduction in the budget funding is most appropriate, while maintaining incentives for the industry to efficiently grow revenue.

The phasing out of budgetary support does not necessarily preclude the retention of at least some level of government funding on equity grounds. The Commission is aware of the financial and other forms of support that is already given for other recreational and sporting activities within the ACT, and on equity grounds at least, there would appear to be an argument in favour of some level of longer term funding , but at a level much below that currently committed to by the Government.

Draft conclusion 4.2

The budget funding should be reduced at the end of the four-year commitment made by the ACT Government to ensure that the industry transitions towards a self-sustaining industry. This transition should be made through either a phasing out or a reduction in the base level of budget funding.

Under each of these scenarios, the level of reduction should be less than the product payments generated by the industry, so as not to remove all of the incentives for the racing clubs under the current regime.

5 Allocation of budget funding

It is important to ensure that the funding provided to the racing industry is appropriately allocated across the three racing codes. This section:

- discusses the current allocation of funding between the racing codes
- considers different approaches to the allocation of the funding, such as meeting attendance, employment, costs of production, wagering activity, competitive tendering, an independent ACT racing body and the current approach
- identifies an appropriate approach to the allocation of budget funding for the industry
- discusses the explicit and implicit forms of government support for the ACT racing industry.

5.1 Current allocation of funding between the racing codes

In addition to the debate regarding the level of the funding provided to the ACT racing industry, it is also important to consider the allocation of the funding between the three racing codes. Historically, the funding provided by ACTTAB across the three codes has been allocated as follows:

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

The CHRC advises that this split is based on recommendations from a Power and Bennet report nearly 20 years ago.[54]

This allocation is a fixed agreement that has been in place for nearly 20 years since the recommendations and does not provide any flexibility to reflect changes to the market share or the structure of the industry.

5.2 Different approaches to allocating funding

A number of different approaches can be used in allocating funding between the different racing codes. Ideally, the approach should allow flexibility to account for changes to the industry and not disadvantage certain codes through applying a fixed long-term approach.

The Cameron Review into the NSW racing industry established one of its principles for reform as being that revenue received by each of the racing codes should bear some relationship to the controllable activities of each code. In further defining this principle, it stated:

> The linking of revenue received to the controllable activities of each code provides an incentive to each code to operate in a manner that maximises their revenue and increases efficiency. To the degree that revenue is not related to the activities of the individual codes, there will not be

[54] CHRC submission, p. 6.

> appropriate incentives for codes to provide the level and quality of racing that would otherwise be demanded by the wagering public.[55]

In addition, the Productivity Commission addressed the allocation of funding from the jurisdictions' TABs. This allocation is different from the product payments allocation, as it is set through the race fields legislation as being based on wagering turnover or gross revenue. While the ACT racing industry will be funded through the ACT Government budget in future, rather than through its TAB, ACTTAB, the debate about the allocation of this funding remains the same:

> Whereas product fees from corporate bookmakers and other interstate wagering operators are paid directly to each code's racing authority, TABs allocate funding according to inter-code agreements. The funds are split according to specific funding formulae, which are periodically reviewed. Ideally, the share of TAB payments should correspond to the proportion of wagering turnover derived from each code of racing.[56]

Funding agreements that are unresponsive to changes in market share between the racing codes have several adverse implications:

- competition between racing codes is stifled
- the power of consumers to 'vote with their dollars' is diminished.

As the funding of the racing industries is generally multifaceted and involves various direct and indirect forms of concessions, it is difficult to conclusively determine the overall appropriateness of an approach. However, arrangements that provide more industry funding to racing codes that perform well would be preferable to the fixed arrangement that is currently in place.

A number of different approaches could be used in the allocation of funds within the ACT racing industry. The following sections discuss each of the different allocation approaches identified by the Commission.

5.2.1 Meeting attendance

One consideration is the level of interest in the industry, which can be measured through meeting attendance. While in other industries this may be an appropriate allocation measure, given the changes to the racing industry and the increasing importance of television coverage, the clubs do not necessarily try to maximise attendances for each of their meetings.

The CHRC does not explicitly try to attract patrons to its race meetings and does not charge any entrance fees to those who attend. Applying an allocation approach based on meeting attendances would disadvantage the CHRC, as it does not focus its attention on this aspect of the industry.

5.2.2 Employment within the ACT racing industry

Using an allocation approach that is derived through employment information would not assist in driving efficiencies within the industry. This is because the clubs would have an incentive to employ more people in an attempt to obtain a greater allocation of the funding, thereby potentially creating an inefficient industry.

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[55] A Cameron, 2008, *A review of wagering and the future sustainability of the NSW racing industry: A report for the NSW Minister for Gaming and Racing*, p. 35.
[56] Productivity Commission, 2010, *Gambling*, p. 16.24.

In addition, it would be difficult to determine an appropriate level between the different codes due to their different natures. While both the harness and greyhound codes are likely to have significantly more hobby participants, who would not necessarily be considered employees, they also contract with the harness and greyhound racing authorities in NSW to provide a significant proportion of race-day services. These factors would make it difficult to determine what an appropriate allocation between the codes would be.

5.2.3 Costs of producing racing product

The budget funding could be based on the costs of each race club in producing its product. For an efficient industry, the allocation could be based on the marginal cost of producing the race product; however, it is unclear whether the ACT racing industry is an efficient industry.

One of the drawbacks of this approach is that if it is based on the marginal cost and the industry is not truly efficient, any race club that is able to achieve cost reduction efficiencies will be penalised through a reduced allocation of the budget funding. This does not provide the clubs with an incentive to improve efficiencies and reduce their operating costs. This problem of penalising entities for making efficiencies also occurs in regulated industries, such as electricity and gas. In those instances, the regulated businesses are provided with incentives to reduce their costs by being able to retain their efficiency gains through an extra allocation of revenue for a period of time. If this approach is considered the most appropriate, something similar would need to be implemented to ensure that the clubs are not penalised for making efficiency gains.

In addition, the most significant cost to the industry is the prize money offered to owners. This complicates the issue: if there is insufficient prize money returning to owners, the supply of horses and/or greyhounds will reduce and subsequently lead to a negative impact on the ACT racing industry.

5.2.4 Wagering involvement

The wagering turnover of each code could be used as an indicator of consumer interest and market share to allocate the budget funding. As noted in the CHRC submission, attendance at race meetings has historically been a good indicator of interest in the racing industry. However, with the changing focus of the racing industry and its sources of funding that is no longer the case.[57]

The introduction of product payments provides an incentive to the racing clubs to continue to improve their product to generate a greater amount of wagering and therefore a greater source of funding through product payments. If the system for product payments in the ACT had been established over a longer period of time, the outcomes of the payments would be the most appropriate approach to allocating budget funding between the three racing codes.

Both the CRC and the CGRC submitted that the current funding arrangement should be adjusted to reflect the level of wagering between the three different codes. Both clubs see the market share of wagering between the three codes as providing an indication of the relative standing of the different codes and the level of consumer interest in them.

Access Economics' submission proposed that the allocation of funding should reflect the wagering that occurs on each code. It noted that information from race fields legislation is limited at the

[57] CHRC submission, p. 6.

moment and suggested that once there is sufficient information an approach could be implemented that reflects:

- a rolling three-year weighted average of race fields legislation information (this reflects the national wagering on the three ACT racing clubs)
- ACT consumers' wagering on the three racing codes throughout the nation.

Access Economics went on to state that such an approach would ensure that the funding of the local industry reflects the local consumers' interest in each code, national interest in the ACT racing clubs' product and the benefit to the ACT Budget from each code (via ACTTAB).[58]

5.2.5 Competitive tendering

An alternative approach to allocating the funding between the three racing codes is to require each to submit tenders each year (or for other desired periods) for certain allocations of funding from the ACT Government. The tenders would be assessed by the ACT Government to determine an appropriate allocation of funds between the three codes.

One of the benefits of this approach is that the ACT Government will know where its funding is specifically going; another is that this approach will ensure higher accountability for the racing clubs. The problem with this approach, however, is that it could add significant administration costs to the racing clubs, which would then need to be funded by the clubs.

5.2.6 Independent ACT racing body

An alternative approach for allocating the budget funding is to establish an ACT racing body with an independent board and give it the responsibility for allocating the funding between the different racing codes. This idea is discussed in detail in section 6.1.

The board of the body would have discretion in its allocation and would be able to make strategic investment decisions, which may not be possible under other allocation approaches. For example, the board may decide to make significant investments in one racing code because it sees potential long-term benefits for the code. Similarly, the board would be able to allocate funding resources in each year to the racing codes based on the needs of the different codes or on how the board sees fit.

5.2.7 Current fixed agreement

The final approach to allocating the budget funding between the three racing codes is to adopt the current fixed agreement. The fixed agreement approach does not provide the industry with any flexibility in the allocation process and can potentially hinder the development of the industry if funding is not set at appropriate levels.

Both the CRC and the CHRC have suggested that this fixed agreement is no longer appropriate and should be changed to reflect changes in the industry, while the CHRC agrees with the current level of funding.[59]

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[58] Access Economics submission, p. 8
[59] CRC submission, p. 11; CGRC submission, p. 8; CHRC submission, p. 5.

5.3 Appropriate approach to the allocation of budget funding

Given the complex nature of the racing industry, fixed inter-code agreements, such as that currently in place, can lead to an inappropriate allocation of funding if the agreements do not properly reflect market share, consumer interests or the efficient costs of producing the product. Therefore, an approach that allows for flexibility in the allocation is needed to provide the industry with the best outcome overall.

The ideal approach would be to establish an independent ACT racing body that would oversee the allocation of the funding across the three racing codes. Providing the allocation power to an independent board would allow flexibility in the allocation process and would ensure that allocation decisions are made in the best interests of the entire ACT racing industry. The establishment of such an independent body is discussed in detail in section 6.1.

In the absence of such an authority (or for transitional purposes until such an authority is established), the Commission considers that an allocation based on wagering involvement is the next best approach. This is consistent with the Productivity Commission's findings and provides the racing clubs with an incentive to improve their product to generate greater levels of wagering. The allocation should be fluid to provide flexibility in response to changes in the levels of wagering, rather than a static allocation based on the levels of wagering at the time of the agreement. The Access Economics proposal of using an approach that utilises the product payment information and the wagering involvement of ACT consumers throughout Australia is an appropriate approach to the budget allocation.

Draft finding 5.1

The current agreement on the allocation of funding between the race codes is fixed and does not allow flexibility in response to changes in the market share of the racing codes in the ACT.

Draft conclusion 5.1

Flexibility in the allocation process would be assisted through the development of an independent ACT racing body, which would have discretion in determining an appropriate allocation of funding between the three racing codes.

In the absence of such an authority, or for transitional purposes, the allocation should be based on the wagering involvement of the racing codes. The mechanism for this allocation should involve the product payment information for the three racing clubs and the wagering of ACT consumers on racing throughout Australia.

5.4 Implicit and explicit forms of government support

It is important to consider other implicit and explicit forms of current government support for the racing clubs in the ACT.

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. 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 known forms of support for the ACT racing industry include:

- the current grant to the CRC
- non-commercial rents
- the CHRC–EPIC relationship.

In 2010–11, the CRC will receive a one-off payment of $500,000 to put towards 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.

The CGRC currently operates with a leasehold arrangement for its venue. It is unclear whether indirect support to the CGRC is being provided through less than commercial rates of rent for the facility.

As outlined above, the CHRC is located within 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; however, further analysis is required to determine whether the relationship has a net benefit or cost to the CHRC.

Draft finding 5.2

The racing clubs receive other forms of explicit and implicit government support in addition to the budget funding that has recently been committed to the industry.

In addition to this, the Commission will seek to identify current levels of implicit and explicit government support that is provided to the racing industries in other jurisdictions as a way of providing a comparison with those levels of support provided by the ACT Government to the ACT racing industry.

6 The structure of the ACT racing industry

The Commission's concern with the current industry structure (three racing clubs operating at three different venues) is that the industry may become inefficient:

- in operations because of the inefficient utilisation of venues and the consequent excess land required to support the industry
- due to the duplication of club structures and the small scale of two of the clubs.

This concern is reflected in the CHRC's submission, in which the club noted that due to the small size of the ACT market there are diseconomies of scale for the industry, and that the industry should therefore explore the feasibility of bringing together the three codes of racing in one facility and explore suitable governance arrangements.[60]

While there may be a temptation to view these two issues together, the Commission is of the view that they should be considered separately. The remainder of this section considers each of these issues in detail.

6.1 Racing clubs

Rather than maintaining three separate club structures, one of the options for the industry is the merging of the three race clubs, creating one independent body. There is precedent for such an approach: Tasracing and Racing Queensland both currently operate with a single jurisdictional authority that represents the three different racing codes.

Such an approach would be likely to:

- result in some small economies because of the ability to minimise unnecessary duplication (in practice, the Commission considers this a minor benefit because greyhound and harness operations are undertaken with minimal staff and there are few cost savings)
- increase the effectiveness of the smaller codes by providing them with access to greater professional support
- improve the probity of racing in some codes.

The Commission is of the view that a merged arrangement could have two additional benefits if undertaken in an appropriate manner:

- *Enhanced probity in the smaller codes*. As noted in section 2.3.2, there is a concern that the smaller operations may lack the scale to ensure the appearance of a sufficient level of integrity. Merging the governance of the three codes would allow this potential concern to be addressed.
- *Greater flexibility in the allocation of funding across the three codes*. With an overarching controlling body there would be an opportunity to allocate funding to activities that would produce the greatest return, rather than a static allocation of funds across the three codes (as exists today).

[60] CRC submission, p. 17.

To achieve these outcomes, the Commission is of the view that the governance of the unified body would need to be above the control of any particular code. Indeed, the CHRC noted in its submission that any three-code arrangement would have to be controlled by a board that had equal voting rights for each code, with an agreed revenue split between the codes and administration.[61]

Again, there is a precedent for this model of independent governance in the racing industry. For example, the current structure of the Tasracing board includes both industry and independent representatives:

- three industry representatives (one each from the thoroughbred, harness and greyhound sectors)
- two independents (marketing and legal)
- a chairman.

Another approach would be to have a truly independent governance arrangement in which there are no specific representatives of any of the three codes.

Draft conclusion 6.1

The Commission's draft conclusion is 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.

6.2 Racing venues

An inefficiency in the current ACT racing industry that was both raised by stakeholders, and is also evident through the assessment of the industry, is the use of three different racing venues for the three different racing codes. The consolidation of the three venues into one tri-code facility could potentially provide benefits to the ACT racing industry.

The potential benefits of co-location are obvious. Race meetings are held relatively infrequently and the available land is relatively inefficiently used (it includes large areas of unused land). Hence, a joint facility may facilitate a reduction in the costs of racing and improve the scheduling of race meets, thereby potentially increasing the number of race meets and improving the gambling product being provided by the industry.

In effect, through the co-location of the three racing codes, the industry would be able to improve its efficiency by providing the same level of output for a lower level of inputs.

There are some costs and risks associated with co-location:

- There is the potential for disputes about the allocation of race days and the use of common areas unless an appropriate governance structure is put in place.
- There are costs associated with the relocation of codes to the common facility.

Again, there is a precedent for tri-location in Tasmania (see box 1).

[61] CHRC submission, p. 9.

Box 6.1: Co-location of the three racing codes in Hobart and Launceston

In Tasmania, both premier racetracks (Hobart and Launceston) are tri-code facilities.

Under the current framework, Tasracing is the owner of the venues and covers all maintenance and infrastructure upgrading costs. The racing clubs pay a rent to Tasracing for the use of the venues and the provision of maintenance services. One of the primary reasons for the consolidation of the tracks and the co-locating of the racing codes was occupational health and safety at the previous racetracks. Another reason was the decreasing revenues of the racing clubs at the time.

Tasracing considered developing a new tri-code venue in a greenfield development, but this was considered too expensive. The thoroughbred racetrack was therefore used as the base track, and upgrades were undertaken to provide for the other two racing codes.

At the time of the consolidation, the Minister for Racing had a significant source of funding to provide to the industry. Instead of increasing prize money for race meets within the Tasmanian racing industry, it was decided that the state's long-term interests would be best served by using the funds for capital investments.

Tasracing informs the Commission that, although there was initial resistance to the consolidation of the racetracks, the reaction since has been a positive one.

As noted above, the CHRC's submission advanced the suggestion that the industry should explore the feasibility of bringing together the three codes of racing in one facility.[62]

Similarly, Access Economics noted in its submission that 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.[63]

The Commission has identified two initial options that could be considered in co-locating the three racing codes:

- disposing of all existing venues and creating a new venue
- upgrading Thoroughbred Park using funds from selling the greyhound venue.

Both of these options have positives and negatives for the ACT racing industry. The remainder of this section provides an overview of them.

6.2.1 Option 1: New location

Under the new location option, both the thoroughbred and the greyhound venues would be sold off. The funds resulting from the sales would be used to develop a new tri-code facility on a new site.

The positives of such an option are that the new location would hold no historical vested interests and it would not appear that one code is taking over the other codes, thereby providing a new start for the ACT racing industry. Furthermore, depending on the market dynamics and the location of

[62] CRC submission, p. 17.
[63] Access Economics submission, p. 9.

the new venue, the industry could generate a profit from such a venture. The sale of land such as Thoroughbred Park and the greyhound racing venue could potentially provide a significant windfall to the industry.

The primary negative for this option is the amount of infrastructure that has already been built in the existing venues, especially the thoroughbred racetrack. Thoroughbred Park and external stakeholders have invested considerably to upgrade the venue to accommodate the training facilities attached to it. The sale of these venues would render those additional capital improvements effectively worthless, as they would not be expected to be of use to potential buyers and would have to be replicated at the new venue.

The Commission notes that ACIL Consulting's *Beyond the winning post* report stated that, at the time of the report in 2001, the ACT Government was considering a proposal by the three racing codes that would combine all the codes in the one complex at the thoroughbred racetrack.[64]

6.2.2 Option 2: Upgrade of existing location

The other option for the industry would be to sell the greyhound racing venue and use those funds to upgrade Thoroughbred Park to accommodate the three different racing clubs. Thoroughbred Park is the most likely venue that could be upgraded to cater for the three different codes because the CRC owns the venue and it has the required area for such a facility.

Thoroughbred Park has recently undergone capital improvement works and provides a high standard of ancillary facilities. The close proximity of the stabling facilities for the harness trainers would also prove to be a beneficial outcome with this option. The facilities would not need to be replicated under this option because they are close enough to Thoroughbred Park to allow it to effectively operate as one facility.[65] In addition, the racing industry would receive an injection of funding from the sale of the greyhound venue to assist with the cost of the upgrade.

Because two of the three racing codes require sufficient lighting infrastructure to conduct race meetings at night, it may prove beneficial to provide lighting for the third racing code (thoroughbreds), as has been done in Launceston in Tasmania. Such a shift in the scheduling of thoroughbred race meets may also assist the CRC's push for Friday evening meets, and could potentially lead to better coverage or increased turnouts for race meets.

One of the negatives of this option is that the revenue from the sale of the greyhound racetrack may not be enough to cover the cost of the upgrade of Thoroughbred Park, and that therefore subsequent funding will be required, most likely from government. In addition, integration issues may arise where one race club is the previous sole operator or owner of the venue. The other racing codes may require some convincing to move to a facility that was initially established to provide a different code of racing. Significant effort will be needed to remove such vested interests between the codes if this option is to work successfully.

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[64] ACIL Consulting, 2001, *Beyond the winning post: The impact of the racing industry on the economy of the Australian Capital Territory*, June.

[65] It should be noted that a decision to keep the stabling facilities in their current location may not be one that is to be made by the racing industry if this option is chosen.

Draft conclusion 6.2

The Commission's draft conclusion is that the ACT Government and the three racing codes should investigate the possibility of co-locating the codes at the one venue. This would provide efficiencies to the industry, stronger bargaining power with regard to scheduling negotiations and greater utilisation of capital infrastructure.

This process could be commenced immediately, although it is more likely to be successfully implemented if undertaken under the independent integrated governance model of a merged ACT Racing as described in Draft Conclusion 6.1.

The Commission seeks stakeholder comments on merits of the two different options:

- consolidation at Thoroughbred Park
- consolidation at a greenfield site.

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

      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

   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

   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 Submissions received

The following is a list of the submissions received in response to the issues paper.

Submission 1.	Australian Jockeys Association
Submission 2.	N Pushack (Member CHRC)
Submission 3.	R Potter (Barrier Attendants, CRC)
Submission 4.	ACTTAB
Submission 5.	Canberra Harness Racing Club
Submission 6.	Access Economics
Submission 7.	Australian Racing Board
Submission 8.	Canberra Greyhound Racing Club
Submission 9.	Canberra Racing Club
Submission 10.	Canberra Thoroughbred Racing Trainers
Submission 11.	Dr M Ethell
Submission 12.	L Boag

Abbreviations and acronyms

ABS	Australian Bureau of Statistics
ACT	Australian Capital Territory
ACTTAB	ACT Totalisator Agency Board
Commission	Independent Competition and Regulatory Commission (ACT)
CRC	Canberra Racing Club
CGRC	Canberra Greyhound Racing Club
CHRC	Canberra Harness Racing Club
CPI	Consumer Price Index
FTE	full-time employee
GDP	gross domestic product
GSP	gross state product
NSW	New South Wales
TAB	Totalisator Agency Board