

# ICRC investigation into the ACT racing industry: Public Hearing

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## Background

- Access Economics was commissioned by the Canberra Racing Club to collect statistics on product fees for racing, economic impacts and to comment on product fee issues.
- Access Economics provided a submission in response to the ICRC Issues Paper (Report 10/2010).



## Draft Report conclusions

- Relies heavily on the ACT Government being able to continue operating a retail wagering monopoly (ACTTAB) while reducing product fees to the racing industry.
- Creates significant uncertainty: impossible to achieve efficiencies (like investing in a three-code complex) with this uncertainty over future product fees

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## Draft Report conclusions (cont'd)

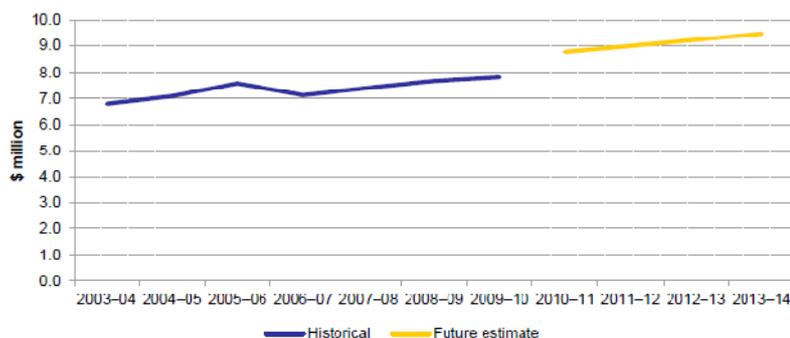
- The Draft Report argues that wagering in the ACT is relatively **independent** of the racing industry. *ICRC, p28*
- The Draft Report also argues that **problem gambling** is an output of the racing industry. *ICRC, p7 and p33*

This is difficult to reconcile...

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## ICRC citations

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



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

**Primary source was actually: a letter from Minister Barr to the CRC CEO Peter Stubbs, 21 June 2010**

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## ICRC citations (cont'd)

- Access Economics seems to have been given much of the credit for framing the criteria of the investigation

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.

*ICRC, p48*

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## ICRC citations (cont'd)

- And again:

*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.

*ICRC, p50*

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## ICRC citations (cont'd)

- Or was it the Minister's TOR that framed the investigation?

- d) compare the current net value of product payments measured at c) with:
  - i. current net value of product payments to racing clubs in other jurisdictions; and
  - ii. considered as comparisons of payments per capita, per racing industry fulltime employee, per racing patron and per dollar of economic contribution.

*ICRC, p67*

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## Or the ICRC Issues Paper?

The Commission seeks comments and information on the economic impact of the ACT racing industry.

The Commission seeks comments on the different sources of contribution of racing to the ACT community.

The Commission seeks comments and information on product payments currently being received by the ACT racing clubs.

The Commission seeks comments and information on product payments currently being received by racing clubs in other jurisdictions.

*ICRC, Issues Paper*

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## Access Economics' response

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

	Value added (\$m)	Employment (FTE)
Direct	26.6	270
Indirect	17.7	210
<b>Total</b>	<b>44.4</b>	<b>480</b>

Source: Access Economics

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## Access Economics' response (cont'd)

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

State	Fees from wagering operators (\$m)	Total wagering of all codes (\$m)		Product fees as % of wagering	
		Turnover	Expenditure	Turnover	Expenditure
NSW	237.0	5,415.3	847.0	4.38%	27.98%
VIC	321.0	4,395.1	696.5	7.30%	46.09%
QLD	124.9	2,474.1	393.7	5.05%	31.73%
WA	108.0	1,689.8	279.5	6.39%	38.63%
SA	40.5	815.0	101.9	4.96%	39.70%
TAS	30.8	671.9	105.0	4.58%	29.33%
ACT	7.7	216.7	34.3	3.54%	22.32%
NT	8.7	3,691.3	193.4	0.23%	4.48%
<b>Total</b>	<b>878.5</b>	<b>19,369.5</b>	<b>2,651.3</b>		
<b>ACT/Total</b>	<b>0.9%</b>	<b>1.1%</b>	<b>1.3%</b>		

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

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## Access Economics' response (cont'd)

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

State	Fees from wagering operators (\$m)	Population measure		Product fees/capita (\$)	
		Total ('000)	Adult (18+) ('000)	Total	Adult (18+)
NSW	237.0	7,133	5,473	\$33.22	\$43.31
VIC	321.0	5,448	4,227	\$58.92	\$75.95
QLD	124.9	4,427	3,356	\$28.22	\$37.23
WA	108.0	2,247	1,715	\$48.04	\$62.97
SA	40.5	1,625	1,272	\$24.91	\$31.82
TAS	30.8	503	385	\$61.20	\$80.04
ACT	7.7	353	273	\$21.73	\$28.05
NT	8.7	226	164	\$38.31	\$52.98
<b>Total</b>	<b>878.5</b>	<b>21,963</b>	<b>16,863</b>	<b>\$40.00</b>	<b>\$52.09</b>

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

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## Access Economics' response (cont'd)

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

State	Fees from wagering operators (\$m)	Economic Indicator		Impact per \$m of fees	
		FTEs	Value added (\$m)	FTEs	Value added (\$m)
NSW	237.0	16,042	1,693	67.7	\$7.14
VIC	321.0	15,836	1,759	49.3	\$5.48
QLD	124.9	7,683	695	61.5	\$5.56
WA	108.0	3,555	356	32.9	\$3.30
SA	40.5	2,886	259	71.3	\$6.40
TAS	30.8	636	62	20.6	\$2.01
ACT	7.7	431	48	56.3	\$6.27
NT	8.7	1,608	169	185.6	\$19.51
<b>Total</b>	<b>878.5</b>	<b>48,677</b>	<b>5,041</b>	<b>55.4</b>	<b>\$5.74</b>

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

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## Revisiting the Terms of Reference

- The Draft Report dismisses much of the information sought, and supplied by Access Economics, as 'not appropriate'.
- If the ICRC has concerns about the appropriateness of its TOR, it could perhaps direct those concerns to the Minister.
- The ICRC has taken an **industry assistance** approach when it was asked to place a value on **product fees**

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## Industry assistance?

- The Investigations' Terms of Reference makes no mention of **industry assistance** nor **industry existence**.
- The ICRC was asked to undertake a **valuation** of racing industry **product fees**
- The Draft Report, as it stands, does not address the Terms of Reference

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## The thrust of the submissions

- The ICRC received a number of submissions on its Issues Paper.
- The Draft Report appears to differ markedly from the broad thrust of the submissions received.
- As well as not addressing the Terms of Reference, the Draft Report does not reflect the consensus of the affected parties.

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## Specific issues

### Some specific issues with the ICRC's Draft Report: 1) Has the industry contracted?

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.**

*ICRC, p24*

***This apparent 'contraction' was due to AE using different ratios (of expenditure : value added) than IER.***

***The industry did indeed grow between 2005-06 and 2008-09***

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## Specific issues (cont'd)

### 2) Are product fees:turnover similar to NSW?

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.

*ICRC, p49*

**No, the NSW figures **exclude** RFL revenues, while the ACT figures **include** RFL revenues**

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## Specific issues (cont'd)

### 3) Did AE only provide estimates of *racing and wagering* economic activity combined?

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. *ICRC, p27*

No, a breakdown was given *ICRC, p20*

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
<b>Total direct spending</b>	<b>\$52.0</b>

Note: Numbers may not add due to rounding.  
Source: Access Economics submission, p. 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	\$5.1	\$0.7	\$15.0	\$4.9	\$25.6

<sup>a</sup> Apparent error in addition is due to rounding error.  
Source: Access Economics submission, p. 14.

*ICRC, p23*



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## Specific issues (cont'd)

### 4) Table 2.5 requires amendment

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.

*ICRC, p17*



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## Specific issues (cont'd)

### 5) ACTTAB dividends and retained earnings

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.

ICRC, p36

*Retained earnings increase shareholders' equity. Shareholder returns involve more than just ACTTAB's current year dividends.*

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## Specific issues (cont'd)

### 6) 'Racing industry' versus 'thoroughbreds'

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%
<b>Australia</b>	<b>\$5,044.0</b>	<b>0.50%</b>

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

ICRC, p23

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## Specific issues (cont'd)

### 7) Victorian and NSW GSP

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.

*ICRC, p22 and p23*

*This appears to be just a typo in the IER report (p30) where 0.78% should read 0.48%*

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## Specific issues (cont'd)

### 8) Economic contribution methodology *ICRC, p25*

*Appears to be a non-standard method, based on broad national averages, based on 2004-05 data*

*Doesn't reconcile with the readily observable economic activities occurring in the ACT*

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## Specific issues (cont'd)

### 9) Small jurisdiction, large jurisdiction?

- The Draft Report relies on a “small jurisdiction” argument to argue there is wagering and racing are relatively independent *ICRC, p28*
- The Draft Report also relies on a “big jurisdiction” argument that any expenditure reduction/job losses from racing will be re-absorbed elsewhere *ICRC, p20 to p21*

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*ICRC, p20 to p21*

## Conclusion

The Draft Report could benefit from revision:

- It could better reflect its Terms of Reference and its Submissions
- It could shift the focus from ‘industry assistance/existence’ framework to a product fee valuation framework
- Needs to assess the risks to ACTTAB and the ACT Government from ‘breaking the link’ between racing and wagering

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