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**IN THE AUSTRALIAN COMPETITION TRIBUNAL**

ACT

of 2017

**Re: Proposed acquisition of Tatts Group Limited by Tabcorp Holdings Limited**

**Tabcorp Holdings Limited (Applicant)**

Statement of: **David Attenborough**

Address: 5 Bowen Crescent, Melbourne VIC 3004

Occupation: Managing Director and Chief Executive Officer

Date: 8 March 2017

**The document contains confidential information which is indicated as follows:**

**[Confidential to Tabcorp] [.....]**

**[HIGHLY Confidential to Tabcorp] [.....]**

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**Confidential Restriction on Publication Claimed****A. INTRODUCTION**

1. I am the Managing Director and Chief Executive Officer (**CEO**) of Tabcorp Holdings Limited (**Tabcorp**) and I am authorised to make this statement on Tabcorp's behalf.
2. Exhibited to me at the time of signing this statement and marked "Exhibit DA-1" is a bundle of documents. Exhibited to me at the time of signing this statement is one further bundle of documents marked "Highly Confidential Exhibit DA-2". Where in this statement I refer to tabs in DA-1 or DA-2, I am referring to the tabs of Exhibit DA-1 and Highly Confidential Exhibit DA-2 respectively. I also refer to documents by reference to their unique document number beginning with a "TBP" prefix. I have reviewed the documents I have referred to prior to signing this statement. Tabcorp claims confidentiality over Highly Confidential Exhibit DA-2.
3. The matters set out in this statement are based on my knowledge of Tabcorp's operations, my participation on the board of Tabcorp (**Board**), my participation in the Senior Executive Leadership Team, my involvement with Tabcorp's business and my experience in the gambling and wagering industries for over 25 years, which I set out in Part A.1 below. As Managing Director and CEO of Tabcorp it is my job to know and understand all aspects of its business. Although I am not involved in the day to day operations of the business divisions, I am involved in setting overall strategies and agendas across the business. I expect those who report to me (directly or indirectly) to raise with me issues and developments that are material to Tabcorp's business and I regularly communicate with them regarding such matters.

**A.1. My experience and employment history**

4. I have been employed by Tabcorp since April 2010 when I was appointed as Managing Director of Tabcorp's wagering division, which included the TAB, TAB Sportsbet, Luxbet and Sky Media businesses. I held that position until my promotion to Managing Director and CEO on 15 June 2011.
5. I have had over 25 years' experience in the wagering and gambling industry, in Australia, England and South Africa.
6. Prior to joining Tabcorp:
  - (a) I was employed by Phumelela Gaming and Leisure Limited (**PGLL**), South Africa's leading wagering operator, from October 2003 to February 2010. I was initially employed at PGLL as the head of wagering before being promoted to Chief Operating Officer in 2004 and then to CEO (South Africa) in 2008; and

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- (b) I held various positions within Ladbrokes (formerly part of the Hilton Group Plc) from 1990 to 2002, where I was responsible initially for running the United Kingdom licensing and development for the bookmaking business, and then the development of casino and gaming opportunities internationally from 1995. In those roles I was based in the United Kingdom and South Africa.
- 7. I hold a Bachelor of Science (Honours) from the University of Exeter and a Master of Business Administration from the Henley Business School.
- 8. I am a member of the Australian Institute of Company Directors and a director of the Australasian Gaming Council.

#### A.2. Overview of the Australian gambling industry

- 9. Gambling is the placement of a wager or bet on the outcome of a future uncertain event. The primary legal forms of gambling in Australia are:
  - (a) **Wagering**, or betting, involving staking money on the outcome of a contest or of an event occurring or not occurring. The principal events on which wagering is conducted are racing (thoroughbred, harness and greyhound) and sports. The types of wagering in Australia include:
    - i. totalisator (or 'pari-mutuel') wagering, in which all bets are consolidated into a totalisator pool and final odds are not calculated until after the close of betting on the relevant event. The totalisator operator deducts from the totalisator pool a predetermined percentage as a 'commission' or 'take out rate' and the remainder of the dividend pool is distributed to the winning customers. The current totalisator operators in Australia are TAB (Tabcorp), UBET (Tatts) and WA TAB (Racing and Wagering Western Australia (RWAA));
    - ii. tote derivative wagering, a derivative of totalisator wagering whereby corporate bookmakers synthetically create products that offer payout odds which are set by reference to the final dividend paid by one or more totalisators;
    - iii. fixed odds wagering, in which odds are fixed for each customer at the time their bet is placed, although customers who bet on the same outcome at different times will not necessarily receive the same odds due to adjustment of the odds by the wagering operator. The operator's revenue in fixed odds wagering depends on the outcome of the event, its management of the book

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of bets and the extent to which bets are placed with another wagering operator so as to spread the risk of the loss; and

- iv. betting exchanges, which allow customers to wager directly against each other at agreed fixed odds, instead of betting with a totalisator or bookmaker. The betting exchange operator derives an income by charging a commission on the customer's net winnings.
- (b) **Gaming**, which includes betting on electronic gaming machines (**EGMs**) (such as poker or slot machines) and table games (such as roulette and blackjack) in licensed gaming venues and casinos.
- (c) **Keno**, which is an interactive social game played in-venue at pubs, clubs, hotels, casinos and online, in which random numbers are drawn every few minutes providing players the chance to win instant prizes.
- (d) **Lotteries**, which involves a game of chance whereby customers buy lottery tickets and the funds from ticket sales are pooled into a prize pool from which the operator deducts a commission and pays the net amount to winners by drawing 'lots' (usually numbers from a defined set) for prizes.

## **B. OVERVIEW OF TABCORP**

### **B.1. Structure of Tabcorp's operations**

- 10. Tabcorp conducts business as a supplier of gambling and entertainment products and services. It is one of the few integrated gambling and entertainment companies in the world.
- 11. Tabcorp is a public company limited by shares and is listed on the Australian Securities Exchange (**ASX**).
- 12. Tabcorp is the holding company of various other entities in the Tabcorp group (the **Group**) including:
  - (a) Tabcorp Wagering Manager (Vic) Pty Ltd (ACN 154 419 342) (**Tabcorp Manager**) (which manages Tabcorp's Victorian wagering business through an unincorporated joint venture with the Victorian racing industry (**Joint Venture**), and the SuperTAB pool);
  - (b) Tabcorp Wagering (Vic) Pty Ltd (ACN 134 587 107); Tabcorp Wagering Participant (Vic) Pty Ltd (ACN 154 418 489) (**Tabcorp Participant**) and Tabcorp Wagering Assets (Vic) Pty Ltd (ACN 154 419 226) (**Tabcorp Assets**) (which are also parties to the Joint Venture);

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- (c) Tab Limited (ACN 081 765 308) (**TAB Limited**) (which operates Tabcorp's New South Wales wagering business);
  - (d) Tabcorp ACT Pty Ltd (ACN 167 957 002) (**Tabcorp ACT**) (which operates Tabcorp's Australian Capital Territory wagering and Keno businesses);
  - (e) Keno (NSW) Pty Limited (ACN 003 992 327), Keno (Qld) Pty Limited (ACN 071 366 446) and Tabcorp Investments No. 5 Pty Limited (ACN 105 341 366) (which operate Tabcorp's Keno business in New South Wales, Queensland and Victoria);
  - (f) Tabcorp Gaming Solutions Pty Limited (ACN 138 853 675), Tabcorp Gaming Solutions (NSW) Pty Limited (ACN 141 733 575), Tabcorp Gaming Solutions (Qld) Pty Limited (ACN 136 582 851) and Tabcorp Gaming Solutions (ACT) Pty Limited (ACN 605 478 902) (which provide gaming and venue services to commercial venues in New South Wales, Victoria and the Australian Capital Territory);
  - (g) Sky Channel Pty Limited (ACN 009 136 010) and 2KY Broadcasters Pty Limited (ACN 000 820 057) (which operate Tabcorp's television and radio broadcasting business); and
  - (h) Luxbet Pty Ltd (ACN 092 104 786) (**Luxbet**) (which operates a corporate bookmaking business registered in the Northern Territory).
13. Tabcorp's business is divided into three main business divisions corresponding to each of the principal sectors in which it operates:
- (a) wagering and media;
  - (b) gaming services; and
  - (c) Keno.

**B.1.1. Wagering and media**

14. Tabcorp's Australian wagering operations include:
- (a) off-course totalisator and fixed odds wagering on racing, sports and other events in TAB agencies and licensed venues (hotels, pubs and clubs, live sites and stadiums) in Victoria, New South Wales and the Australian Capital Territory, and by telephone, mobile apps and the internet nationwide;
  - (b) on-course totalisator and fixed odds wagering in Victoria, New South Wales and the Australian Capital Territory;

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- (c) tote derivative and fixed odds betting on racing, sports and other events nationwide through Luxbet, its wholly-owned Northern Territory licensed bookmaker; and
  - (d) Trackside, a computer simulated racing product, in Victoria, New South Wales and the Australian Capital Territory.
15. In each State and Territory, there is one wagering operator licensed or authorised to conduct off-course totalisator wagering. These operators are typically referred to as 'TABs'. Tabcorp and/or its subsidiaries hold the following wagering licences:
- (a) **Victoria:** Tabcorp Wagering (Vic) Pty Ltd holds the sole Victorian Wagering and Betting Licence (**Victorian licence**) until 2024. The licence may be extended by the Victorian Government in its discretion for a further two years (to 2026). The licence allows Tabcorp Wagering (Vic) Pty Ltd to offer off-course and on-course totalisator wagering services, fixed odds betting on racing, totalisator and fixed odds betting on sports and other events and Trackside products. It also permits the operation of a betting exchange (although Tabcorp Wagering (Vic) Pty Ltd does not currently operate one);
  - (b) **New South Wales:** TAB Limited holds an on-course and off-course wagering licence to provide off-course and on-course totalisator wagering services in New South Wales for thoroughbred, harness and greyhound racing until 2097. The licences also allow TAB Limited to offer fixed odds betting on racing, totalisator and fixed odds betting on sports and other events and Trackside products, both online and through retail wagering venues. The exclusivity of TAB Limited's wagering licences applies until 2033; and
  - (c) **Australian Capital Territory:** Tabcorp acquired ACTTAB in October 2014 and as part of the acquisition was issued a 50 year exclusive totalisator licence (until 2064), a sports bookmaking licence for an initial term of 15 years with further rolling extensions to a total term of 50 years, and ongoing approvals to offer Keno and Trackside products for 50 years.
16. The wagering licences in Queensland, South Australia, Northern Territory and Tasmania are held by Tatts or its subsidiaries. In Western Australia, RWWA, the Western Australian state-owned TAB operator, has an exclusive retail wagering licence.
17. Tabcorp's overseas wagering operations include:

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- (a) a joint venture with South Africa's Phumelela Gold International to operate Premier Gateway International Limited (**PGI**) which is based in the Isle of Man and provides wagering and wagering interface systems;
- (b) a partnership with News UK to operate Sun Bets, an online wagering and gaming business in the United Kingdom and Ireland;
- (c) the distribution of racing vision and data in North America through its wholly-owned United States subsidiary Sky Racing World; and
- (d) an agreement with United States-based Unikrn to provide wagering services for eSports gaming tournaments.

18. Tabcorp's media business includes the operation of three Sky Racing television channels which are broadcast throughout Australia as well as the broadcasting of racing commentary on Sky Sports radio in New South Wales and the Australian Capital Territory. The media business also handles the distribution of Australian and NZ Racing vision and data into 54 countries around the world via satellite, cable, mobile and the internet. Tabcorp has a wholly-owned United States subsidiary, Sky Racing World, which manages the distribution of racing vision and data in North America.

**B.1.2. Gaming services**

19. Tabcorp's gaming services division includes Tabcorp Gaming Solutions (**TGS**), which supplies Electronic Gaming Machines (**EGMs**) and associated systems and services to licensed hotels and clubs in Victoria and New South Wales, and Intecq, which Tabcorp acquired in December 2016 and which provides EGM monitoring services and gaming systems in Queensland and gaming systems in Victoria, Tasmania and New South Wales.

**B.1.3. Keno**

20. Tabcorp distributes Keno products to licensed venues (such as pubs, clubs and casinos) in Victoria, the Australian Capital Territory, Queensland and New South Wales and in TAB agencies in Queensland, Victoria and the Australian Capital Territory.

**B.2. Tabcorp's management structure**

21. Tabcorp has a Senior Executive Leadership Team (**SELT**) of which I am a member. The SELT is a group of senior business unit leaders within Tabcorp. SELT members attend weekly meetings to discuss key priorities for their respective business units and Tabcorp as a whole and are involved in strategy and business planning sessions. They are:

- (a) Executive General Manager – Commercial Development (Doug Freeman);

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- (b) Chief Operating Officer – Wagering and Media (Craig Nugent);
  - (c) Chief Operating Officer – Keno and Gaming (Adam Rytenskild);
  - (d) Chief Financial Officer (Damien Johnston);
  - (e) Chief Risk Officer (Clinton Lollback);
  - (f) Executive General Manager – People, Culture & Communications (Merryl Dooley);
  - (g) Group General Counsel (Acting) (Julian Hoskins);
  - (h) Company Secretary (Fiona Mead);
  - (i) Chief Marketing Officer (Claire Murphy); and
  - (j) Chief Information Officer (Kim Wenn).
22. In my role as Managing Director and CEO, I also report to and work closely with the Board, including participating in decision making. The Board is currently comprised of Paula Dwyer (Chair), Steven Gregg, Jane Hemstritch, Justin Milne, Zygmunt Switkowski AO, Elmer Funke Kupper (on leave of absence) and myself.
23. Additionally, I am the head of the Office of the CEO, which incorporates:
- (a) General Manager – Corporate Affairs;
  - (b) General Manager – Investor Relations & Strategy;
  - (c) General Manager – Government Relations; and
  - (d) General Manager – Government & Industry Relations.
- B.3. Tabcorp’s recent operational and financial performance**
24. For the financial year ending 30 June 2016 (**FY16**), Tabcorp’s total reported revenue and EBIT were:
- (a) for wagering and media: \$1,873 million and \$252.2 million respectively;
  - (b) for gaming services: \$107.2 million and \$41 million respectively; and
  - (c) for Keno: \$208.5 million and \$50.7 million respectively.
25. Approximately 70% of the revenue generated by Tabcorp’s businesses (\$1.5 billion in FY16) is returned to its partners – governments, the racing industry, retail venues and the community.
26. Tabcorp’s contribution to the racing industry and stakeholders increased by 1.8% to \$787 million in FY16 and included:

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- (a) a contribution to the Victorian racing industry in the amount of \$331.2 million (in accordance with Tabcorp's revenue-sharing arrangements arising from its joint venture with the Victorian racing industry (comprising of Racing Victoria, Harness Racing Victoria and Greyhound Racing Victoria));
  - (b) a contribution to the New South Wales racing industry in the amount of \$290.8 million (in accordance with Tabcorp's revenue-sharing arrangements arising from its racing distribution agreement with the New South Wales racing industry);
  - (c) race fields fees in the amount of \$94.8 million; and
  - (d) fees for broadcast rights and international contributions in the amount of \$70.1 million.
27. In addition, Tabcorp paid \$428.6 million in gambling taxes and \$61.4 million in income taxes in FY16.
28. In total, Tabcorp generated more than \$1.2 billion in gambling taxes and racing industry funding in FY16.

**C. TABCORP PROPOSAL TO ACQUIRE TATTS**

29. Tabcorp proposes to acquire the issued share capital of the Tatts Group Limited (**Tatts**) by means of a scheme of arrangement (the **proposed transaction**). In my role as Managing Director and CEO of Tabcorp, I have been directly involved, at a Board level and as part of the Senior Executive Leadership Team, in the proposed transaction.
30. I set out below the background to the proposed transaction and Tabcorp's rationale for it.

**C.1. Wagering industry trends**

31. There have been substantial changes to the Australian wagering industry over the last decade. As Managing Director of Wagering, which is Tabcorp's primary business division, and then as Managing Director and CEO of Tabcorp, I have spent a significant amount of time getting to know and understand our wagering business and the environment it operates in. I, together with my leadership team, have observed the following key trends in the current Australian wagering industry:
- (a) the growth and widespread use of online wagering (primarily via smartphones and mobile betting apps) which has increased the number of online wagering services and digital offerings (primarily through mobile devices) in Australia;
  - (b) a decline in the proportion of overall wagering turnover transacted in retail facilities;

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- (c) the removal of historical advertising restrictions governing wagering and a favourable regulatory environment in the Northern Territory has seen a significant growth of corporate bookmakers (that are not subject to the same regulatory requirements and racing industry funding requirements as totalisator operators such as Tabcorp or Tatts);
  - (d) a decline in totalisator wagering, as a proportion of total Australian wagering, and a rise in the proportion of wagering accounted for by fixed odds products; and
  - (e) the growing popularity of sports betting.
32. There is now considerable diversity in the wagering products and wagering services that are available to consumers which include totalisator (pari-mutuel), tote derivative and fixed odds products provided online, on mobile apps, by phone, through retail locations or on-course. Customers in each State and Territory have a wide range of options when placing bets, and are not restricted to a licensed operator in their home jurisdiction. In each State and Territory, customers have the option of placing fixed odds or tote derivative bets online through corporate bookmakers licensed in the Northern Territory or in other jurisdictions. They can also place online totalisator bets with operators based in States or Territories outside their home State or Territory.
33. The corporate bookmakers' offering of fixed odds and tote derivative products are easily substitutable for totalisator products and are often offered at a better price point due to the regulatory environment they operate in. For example, corporate bookmakers offer a 'top tote plus' tote derivative bet which offers customers the highest dividend paid by the three totalisator operators. Corporate bookmakers' wagering operations may be combined with other complementary interests – for example, Crown is focused on luxury experiences, gaming, hotel accommodation, signature dining and retail in addition to more recently expanding into wagering through its majority interest in CrownBet.
34. Recently, a number of independent Australian corporate bookmakers have been acquired by large, well-capitalised and well-established international wagering companies (Sportsbet by Paddy Power; Sportingbet, Centrebet and tomwaterhouse.com by William Hill; and Bookmaker.com and Betstar by Ladbrokes) as part of an aggressive targeting of the Australian market by global companies.
35. In my view, it is critical to the ongoing success of Tabcorp to respond to the competitive threat posed by corporate bookmakers in this environment. Corporate bookmakers have doubled their turnover over the past five years and, on average, have grown 19% per annum since 2006.

**Confidential Restriction on Publication Claimed****C.2. Tabcorp's outlook**

36. In order to respond to the changes in the industry referred to above, Tabcorp has sought to improve its online and fixed odds offerings and has adopted a number of measures designed to strengthen its overall pari-mutuel and fixed odds offering in direct response to the increased competition from corporate bookmakers. Some of the recent measures we have taken include:

- (a) investment in retail outlets to promote retail wagering, including working with venues to improve venue design and offerings with the aim of optimising the experience for customers;
- (b) continuing to expand our international pooling activities through pooling and coverage agreements with a number of international wagering operators;
- (c) investment in new totalisator and fixed odds products;
- (d) significant investment in our digital offering, including mobile phone apps and live streaming of racing on the internet and mobile phones;
- (e) a loyalty program for New South Wales, Victoria and the Australian Capital Territory account and retail customers; and
- (f) acquiring a new pari-mutuel betting system that offers a number of advantages including an improved customer information interface and the ability for new bet types to be developed more quickly.

**C.3. Previous discussions regarding proposed Tabcorp / Tatts merger**

37. On 16 November 2015, Tabcorp and Tatts announced that they had been in confidential discussions regarding a potential nil-premium merger of equals. The parties were unable to reach agreement on key transaction terms and, in particular, as to the nil-premium exchange ratio. As a result, those discussions concluded. A copy of Tabcorp's ASX statement is at **Tab 1** of **DA-1 [TBP.011.001.0007]**.

**C.4. The proposed transaction**

38. In September 2016, I recommended to the Board that it resolve to pursue the current proposed merger with Tatts, in the form of an acquisition of the issued share capital of Tatts by means of a scheme of arrangement. Under the scheme of arrangement, Tatts shareholders will receive 0.80 Tabcorp shares plus 42.5 cents cash for each Tatts share held.

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39. There were papers and discussion materials presented to the Tabcorp Board in September 2016:
- (a) on 14 September 2016, at **Tab 1** of **DA-2 [TBP.001.001.8697]** at **[.89111]**; and
  - (b) on 23 September 2016, at **Tab 2** of **DA-2 [TBP.001.001.8629]**.
40. On 23 September 2016, the Tabcorp Board considered and resolved to pursue the proposed merger with Tatts.
41. On 18 October 2016, following a period of information exchange, due diligence and negotiation, Tabcorp and Tatts entered into an implementation deed (**Implementation Deed**). A copy of the Implementation Deed is at **Tab 2** of **DA-1 [TBP.006.001.0136]**.
42. Tabcorp announced the proposed transaction to the market in a statement to the ASX on 19 October 2016. A copy of the ASX statement and accompanying presentation is at **Tab 3** of **DA-1 [TBP.011.001.0110]** and **Tab 4** of **DA-1 [TBP.006.001.0121]**.
43. Under the terms of the Implementation Deed, the proposed transaction is subject to certain conditions precedent, including:
- (a) competition approval (from the Australian Competition and Consumer Commission, the Australian Competition Tribunal or the Federal Court of Australia) (clause 3.1(a)(1));
  - (b) various state and territory regulatory approvals (clause 3.1(a)(2));
  - (c) shareholder approval by Tatts shareholders to agree to the scheme of arrangement (clause 3.1(b));
  - (d) court approval of the scheme of arrangement (clause 3.1(c)); and
  - (e) the issuance of new Tabcorp shares in accordance with the terms of the scheme of arrangement (clause 3.1(d)).

**C.5. Expected profile of the merged entity**

44. Based on the closing share prices of Tabcorp and Tatts as at 17 October 2016, being the last trading day prior to the announcement of the proposed acquisition, the merged entity is expected to have a pro forma enterprise value of approximately \$11.3 billion, market capitalisation of approximately \$8.6 billion, revenue of over \$5 billion and EBITDA of over \$1 billion.
45. The merged entity will have diversified wagering, media, lotteries, Keno and gaming operations in the following four key areas:

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- (a) **Wagering and media:** totalisator and fixed odds licences and retail wagering networks in New South Wales, Victoria, Queensland, South Australia, Tasmania, the Australian Capital Territory and Northern Territory, offering wagering products in approximately 4,300 retail outlets as well as Trackside in New South Wales, Victoria and the Australian Capital Territory (with the potential for expansion into other jurisdictions);
  - (b) **Lotteries:** an Australian lotteries business with licences to offer products in New South Wales, Victoria, Queensland, South Australia, Tasmania, the Australian Capital Territory and the Northern Territory;
  - (c) **Keno:** a Keno distribution network of over 4,200 venues across clubs, hotels and TAB agencies in Victoria, Queensland, South Australia and the Australian Capital Territory, and in clubs and hotels in New South Wales; and
  - (d) **Gaming Services:** gaming machine monitoring operations in New South Wales, Queensland and the Northern Territory and venue services operations nationwide.
46. As emphasised in our statements to the market, the merger combines the complementary strengths of Tabcorp and Tatts. Tabcorp's history is in wagering. Although Tabcorp operates significant gaming, Keno and media businesses, its core expertise and the highest proportion of its revenue is wagering.
47. By contrast, Tatts' main business is in lotteries. Although Tatts also operates a significant wagering business, it does so largely in different states and territories to Tabcorp. Tatts also operates gaming services businesses, which again have limited overlap with the Tabcorp businesses.
48. Tatts' key business units are:
- (a) **wagering services**, including:
    - i. on-course and off-course totalisator and fixed odds wagering in Queensland, South Australia, Tasmania and the Northern Territory; and
    - ii. totalisator and fixed odds wagering over the telephone and internet nationwide and overseas;
  - (b) **gaming services**, incorporating the provision of monitoring systems and technical support to gaming venues. Tatts' gaming services business is made up of two separate reporting units, namely:

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- i. Maxgaming, Tatts' gaming venue services division. This business is focused on the provision of government mandated electronic monitoring systems to gaming machine venues in New South Wales, Queensland and the Northern Territory. The operation uses this network and the associated infrastructure to provide additional value-adding services to its contracted venues; and
  - ii. Bytecraft, Tatts' provider of maintenance, technology and logistics support. It provides warehousing, installation, relocation, repair and maintenance of gaming machines, lottery and wagering terminals and other transaction devices in Australia and New Zealand; and
- (c) **lotteries**, as the leading lotteries operator in Australia in all States other than Western Australia (which has a government owned and operated lottery) under brands such as Lotto, Powerball, OzLotto and Golden Casket. Tatts also offers Instant Scratch-it tickets in all states except for Western Australia.

#### **C.5.1. Wagering**

49. Tabcorp and Tatts have largely complementary wagering businesses, with no overlap in retail operations. They and their subsidiaries are the sole licensed providers of retail and totalisator wagering in the States and Territories in which they operate (Tabcorp in Victoria, New South Wales and the Australian Capital Territory, and Tatts in Queensland, South Australia, the Northern Territory and Tasmania). Tabcorp and Tatts also provide totalisator and fixed odds wagering products online through their website and mobile apps as well as over the telephone. Corporate bookmakers, traditional bookmakers and Betfair (a licensed betting exchange) also all provide wagering products online through their websites and apps and over the telephone.

#### **C.5.2. Lotteries**

50. Prior to its merger with UniTAB Limited (the former operator of the TABs in Queensland) in 2006, where it acquired UniTAB Limited shares by scheme of arrangement, Tatts was focused solely on lotteries. It continues to operate the public lotteries in each State and Territory, except in Western Australia where the State is the operator.
51. Tabcorp does not hold any licences to conduct public lotteries and therefore does not and cannot supply lottery products.

#### **C.5.3. Keno**

52. Keno products are almost exclusively supplied through retail outlets such as pubs, clubs and TABs. Keno is seen as a social game – typically played by consumers as they enjoy

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a meal or drink and socialise at a pub or club. The games are run at short intervals (normally around every three minutes).

53. Tabcorp is the only licensed provider of Keno in retail outlets in Queensland, New South Wales, Victoria and the Australian Capital Territory, while Tatts is the only licensed provider in retail outlets in South Australia. Their licences and retail outlets do not overlap.

#### **C.5.4. Gaming**

54. Following Tabcorp's December 2016 acquisition of INTECQ Limited, Tabcorp and Tatts overlap in two aspects of gaming:

- (a) the supply of gaming and promotional management systems in Victoria and New South Wales; and
- (b) the supply of EGM monitoring services, and gaming and promotional management systems, in Queensland.

55. In relation to gaming and promotional management systems, there are a number of suppliers including global operators Aristocrat, Konami, Bally and IGT and Australian operator Global Gaming.

56. In relation to monitoring services, Intecq and Tatts are the principal suppliers in Queensland. There are two other licensed monitors in Queensland (Utopia and Progressive Venue Services), as well as a number of entities with existing capabilities in related services. There is no limit to the number of monitoring licences that are able to be issued in Queensland.

#### **C.5.5. Media**

57. Tabcorp operates three Sky Racing television channels and Sky Sports Radio, which is broadcast in New South Wales and the Australian Capital Territory. It also distributes Australian and New Zealand Racing vision and data internationally.

58. Tatts operates RadioTAB, which is broadcast in Queensland, South Australia, the Northern Territory and Tasmania.

59. There is no overlap between the parties' media operations.

#### **C.6. Tabcorp's rationale for the proposed transaction**

60. The proposed transaction would create a combined Tabcorp and Tatts entity (the **merged entity**) which would be positioned to compete effectively as a global wagering, lotteries and gaming business. The merged entity would hold an enhanced portfolio of

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long term wagering, lotteries and gaming licences. I believe that the proposed acquisition would strengthen Tabcorp's operating platform and better enable us to compete and grow in the rapidly changing and increasingly global market.

61. A central reason for my recommendation to the Board that Tabcorp enter into the proposed transaction was to maintain the viability of the racing industry across Australia. A healthy racing industry supporting a large number of race meetings with good prize money and strong and deep fields is essential to Tabcorp's ability to continue to offer attractive Australian wagering products. I believe that Tabcorp operates in a racing industry ecosystem where a decline in any significant part of that system has a negative impact on Tabcorp's wagering operations. I am concerned that the racing industry has been in decline in States where Tatts holds the wagering licences. The decline of the racing industries in Queensland, South Australia and Tasmania has been the subject of considerable commentary. A sample of reports on these racing industries' decline is at **Tab 5 of DA-1 [TBP.001.026.0161]**.
62. In particular, I believe that the merged entity will be positioned to:
- (a) deliver substantial synergies of at least **[Confidential to Tabcorp]** per annum EBITDA (net of benefits to the racing industry);
  - (b) enhance the customer experience through business growth and improvements, including greater investment in existing businesses and the introduction and the development of new products;
  - (c) better compete against corporate bookmakers in Australia; and
  - (d) provide a range of benefits to stakeholders. In particular, the transaction is expected to result in at least **[Confidential to Tabcorp]** per annum of additional funding to the Australian racing industry and unlock growth in wagering, lotteries and Keno.

#### **C.7. Anticipated cost savings and revenue increases**

63. The proposed merger is likely to deliver annual cost savings and revenue increases of more than **[Confidential to Tabcorp]** and EBITDA (net of any increased annual revenue that is estimated to flow to the racing industry) of at least **[Confidential to Tabcorp]**.
64. I expect that cost savings and revenue increases will be available from:
- (a) **cost savings** of approximately **[Confidential to Tabcorp]** per annum in the following areas:

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- i. wagering;
  - ii. technology;
  - iii. corporate;
  - iv. procurement; and
  - v. property and field services;
- (b) **revenue increases** in the merged entity's wagering business of approximately **[Confidential to Tabcorp]** [REDACTED] per annum through:
- i. fixed odds performance improvement primarily due to risk management improvement;
  - ii. business improvements including the introduction of new and increased product offerings, re-branding to the TAB brand, and retail and customer account investment in Tatts states; and
- (c) **revenue increases** in the merged entity's South Australian Keno business of approximately **[Confidential to Tabcorp]** [REDACTED] per annum as a result of:
- i. investing in rebranding and marketing to attract customers;
  - ii. upgrading Keno venues to enhance the customer experience; and
  - iii. pooling South Australian Keno jackpots with Keno jackpots in the wider Tabcorp network to make them more attractive to customers and introducing new Keno products.

**C.8. Enhanced customer experience**

65. I expect that the merged entity will be strongly positioned to innovate, invest, and compete in an evolving marketplace. It will have greater capacity to invest in all of its distribution channels, including as a result of the synergy benefits arising from the proposed transaction, and will have a strong incentive to do so given the highly competitive environment in which Tabcorp and Tatts are currently operating.
66. I also expect that a larger balance sheet would better facilitate the pursuit of growth and investment opportunities.
67. This would provide benefits from the wagering customer perspective, including:
- (a) the introduction and development of new products, and the expansion of wagering products in some States;

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- (b) the potential for larger, more liquid pools, which are more stable and may potentially result in larger payouts to winning customers;
- (c) investment in retail outlets, including improving the customer digital experience within these locations, which will allow retail outlets to better compete with online wagering services; and
- (d) increased ability to respond to opportunities in an increasingly global wagering market.

**C.9. Strengthening of the racing industry**

- 68. Tabcorp and Tatts are the principal funders of the racing industry in Australia. Their combined financial contribution to the racing industry in FY2016 was approximately \$1 billion.
- 69. Tabcorp and Tatts currently contribute a significant percentage of their margin (revenue less certain expenses) to the racing industries in their respective jurisdictions. For example:
  - (a) under Tabcorp's Victorian wagering and betting licence, VicRacing receives a product fee based on net wagering revenue and 50% of the total net 'profit' derived from wagering and betting under the authority of the licence, as well as a range of other fees; and
  - (b) TAB Limited is party to a Racing Distribution Agreement under which it pays to the New South Wales racing industry a product fee of approximately 22% of net wagering revenue, a wagering incentive fee of 25% of wagering earnings, an annual fixed product fee indexed to CPI, and certain other fees in respect of particular products.
- 70. The nature of those funding arrangements means that the benefits arising from synergies and business improvements would not only accrue to the merged entity's shareholders but also deliver additional funding directly to the racing industry.
- 71. I expect the synergies arising from the proposed merger to result in approximately \$50 million in increased annual revenue that will flow to the racing industry. This additional funding could be used to (for example):
  - (a) support increased prize money and provide more capital for investment in racing infrastructure; and
  - (b) create broader economic benefits, including in regional areas.

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72. UBET's wagering business has also been underperforming compared to the TAB, which has impacted on the level of funding flowing through to the racing industry in states where Tatts holds the wagering licence. It is critical therefore for Tabcorp to take steps to improve the UBET business in order to strengthen the racing industry in these States. This in turn will enable Tabcorp to continue to offer attractive Australian racing products to its customers. Tabcorp has an additional incentive to improve that business in that one of the few levers declining racing industries can use to raise additional funding in response to any flow-through shortfall is to increase race field fees. This directly impacts on Tabcorp.

**D. POTENTIAL WA TAB PRIVATISATION****D.1. Potential WA TAB privatisation**

73. The potential privatisation of WA TAB, the Western Australian totalisator operated by the state-owned body corporate Racing and Wagering Western Australia (**RWWA**) which has the exclusive right to conduct retail wagering in that state, has been the subject of speculation for some time. In May 2014 the WA Treasurer Dr Mike Nahan, when handing down his second State Budget, announced that total public sector net debt stood at \$22 billion (and subsequently announced in December 2014 a \$1.3 billion operating deficit, the state's first in 15 years). The Treasurer announced at the time of delivering the May 2014 Budget the Government's intention to pursue asset sales to combat rising debt and included the WA TAB in a list of assets in respect of which the Government's continued ownership would "be reviewed". In mid-2014, the Western Australian Government initiated a consultation process with the Western Australian racing industry and other stakeholders to consider the merits of a privatisation.
74. A number of Western Australian racing industry representatives established the Western Australian Racing Representative Group (**WARRG**) to represent the Western Australian racing industry in relation to the potential privatisation. In August 2014, WARRG commissioned Mr Ray Gunston to prepare a report on the potential privatisation of WA TAB in order to assist the industry's consideration of the issue (**Gunston Report**). Mr Gunston concluded that the Western Australian racing industry is barely self-funding on an operational cash flow basis and that any racing funding model that did not sustain current funding levels would immediately impact the Western Australian racing industry and reduce investment. He therefore concluded that for a privatisation to occur there must be a commitment to secure a funding model that meant the Western Australian racing industry was at least no worse off under the industry funding model delivered by

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the WA TAB operator. A copy of the Gunston Report is at **Tab 6 of DA-1 [TBP.004.026.3769]**.

75. Various racing industry representatives have expressed a range of views on privatisation throughout the process to date, ranging from supporting it on the condition that the racing industry is at least no worse off under any privatisation, to a “wait and see” position, to outright opposition. A sample of public documents and media reports reporting the views of various racing industry representatives at different points in time is at **Tab 7 of DA-1 [TBP.001.026.0384]**.
76. Various Liberal, National, Labor and One Nation politicians have also expressed a range of different views at different stages of the WA TAB privatisation debate. A sample of public statements and media reports reporting the views of various Western Australian politicians at different points in time is at **Tab 8 of DA-1 [TBP.001.026.0736]**.
77. Various politicians and racing industry representatives have also expressed concern regarding the potential detrimental impact of privatisation on the future of the racing industry in Western Australia by reference to the experience of the racing industry in Queensland, South Australia and Tasmania following the privatisation of the totalisators in those states. A sample of public statements and media reports reporting on those concerns is at **Tab 9 of DA-1 [TBP.001.027.1279]**.
78. The Executive Chairman of WARRG, Mr Michael Grant, was reported as having said in November 2016 that WARRG believes that the WA TAB should be privatised as long as there are guarantees that the industry would be no worse off under a private owner, there is a fund set aside for infrastructure investment, and governance issues are resolved. Following Mr Grant’s November 2016 statement Liberal MP Murray Cowper, in direct response to Mr Grant’s statement, stated that Mr Grant did not speak for the entire racing industry and that he (Mr Cowper) remained opposed to the sale: “the industry is bigger than just Perth and there are significant elements in country gallops, trots and greyhounds that aren’t on board”. Copies of these media reports are at **Tabs 10 and 11 of DA-1 [TBP.011.001.2258]** and **[TBP.014.001.0996]**.
79. The Western Australian Premier Mr Barnett had said, around the same time as Mr Grant’s statement and a few days before Mr Cowper’s statement, that he had long held the view that the State should not own the TAB, and believed that the racing industry now shared his view and was “hopeful the Nationals and racing industry will join with the Liberal Party on an agreed position to sell the TAB”. The Labor Party’s Shadow Racing and Gaming Minister Mr Mick Murray stated in response that a Labor Government would sell the WA TAB only if it has the support of the entire racing

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industry, and “That’s important, because there’s still some groups that don’t agree with where Michael Grant’s group [WARRG] is going.” A copy of this media report is at **Tab 10 of DA-1 [TBP.011.001.2258]**.

80. On around 30 January 2017, WARRG released a position paper ahead of the State Government election in Western Australia which will take place on 11 March 2017. The position paper states that the Western Australian racing industry has formally adopted a position of “conditional support” of the WA TAB privatisation and that the Western Australian racing industry will work constructively with the Western Australian Government to contribute to the development of an appropriate post-privatisation framework based upon certain conditions including:

- (a) “at least no worse off” funding for the Western Australian racing industry;
- (b) wagering taxation reform / parity with other Australian States;
- (c) the guarantee of an infrastructure fund of “at least \$100 million” from the proceeds of any privatisation; and
- (d) an appropriate operating model.

A copy of the WARRG position paper is at **Tab 12 of DA-1 [TBP.001.018.8262]**.

81. **[HIGHLY Confidential to Tabcorp]** [REDACTED]

82. **[HIGHLY Confidential to Tabcorp]** [REDACTED]

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- 83. **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]
- 84. **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]
- 85. **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]
- 86. Following the release of WARRG’s position paper Opposition Leader Mark McGowan was reported as saying that the Labor Party’s position was, consistent with the Labor Party’s previously reported position, that “if the racing industry is united and wants to sell it, then [we] would agree with that.” A sample of media reports regarding the responses of various politicians following the WARRG report is at **Tabs 13 and 14 of DA-1 [TBP.001.018.6846]** and **[TBP.001.018.6432]**.
- 87. A major issue in the Western Australian state election campaign has been the current Liberal Government’s plan to privatise 51% of WA Power. Labor strongly opposes that proposed privatisation. A sample of public statements and media reports reporting on this issue is at **Tab 15 of DA-1 [TBP.001.026.0013]**.
- 88. In May 2016, the RWWA Chief Executive Mr Richard Burt confirmed there was no defined timeframe or process for any sale and was quoted as saying “We may be

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running the licence but we are not aware at this stage what the timeframe is or what the process is." A copy of this media report is at **Tab 16** of **DA-1 [TBP.011.001.2111]**.

**D.2. Tabcorp's views on WA TAB**

89. **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED]  
[REDACTED]

(a) [REDACTED]  
[REDACTED]

(b) [REDACTED]

(c) [REDACTED]

i. [REDACTED]

ii. [REDACTED]  
[REDACTED]

iii. [REDACTED]

iv. [REDACTED]

**D.3. [HIGHLY Confidential to Tabcorp]** [REDACTED]

90. **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

91. **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

92. **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED]

(a) [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

**Confidential Restriction on Publication Claimed**

[REDACTED]

(b) [REDACTED]

(c) [REDACTED]

93. [HIGHLY Confidential to Tabcorp] [REDACTED]

94. [HIGHLY Confidential to Tabcorp] [REDACTED]

[REDACTED]

95. [HIGHLY Confidential to Tabcorp] [REDACTED]

D.4. [HIGHLY Confidential to Tabcorp] [REDACTED]

96. [HIGHLY Confidential to Tabcorp] [REDACTED]

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- (a) [REDACTED]
- (b) [REDACTED]
- (c) [REDACTED]
- (d) [REDACTED]
- (e) [REDACTED]

D.5. [HIGHLY Confidential to Tabcorp] [REDACTED]

97. [HIGHLY Confidential to Tabcorp] [REDACTED]

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[REDACTED]  
[REDACTED]  
[REDACTED]

98. **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED]

- (a) [REDACTED]
- (b) [REDACTED]
- (c) [REDACTED]  
[REDACTED]
- (d) [REDACTED]
- (e) [REDACTED]
- (f) [REDACTED]  
[REDACTED]
- (g) [REDACTED]
- (h) [REDACTED]
- (i) [REDACTED]  
[REDACTED]
- (j) [REDACTED]
- (k) [REDACTED]  
[REDACTED]

99. **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED]

[REDACTED]. RWWA's 2016 Annual Report notes that:

*“Whilst the TAB continues to perform favourably at or above national benchmarks, soft economic conditions and weak consumer confidence are likely to weigh on the financial performance of the business in 2016. In addition to the economic backdrop, wagering competition is expected to increase during the upcoming years with corporate bookmakers seeking greater market penetration at the expense of traditional Australian wagering operators.”*

A copy of this report is at **Tab 17** of **DA-1 [TBP.011.001.2143]**.

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100. [HIGHLY Confidential to Tabcorp] [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

101. [HIGHLY Confidential to Tabcorp] [REDACTED]  
[REDACTED]  
[REDACTED]. Premier Barnett has been reported as saying that his Government "will only sell the TAB if it gets the right price for it". A copy of a transcript of a press conference recording this position is at **Tab 18 of DA-1 [TBP.015.001.4234]**.

102. [HIGHLY Confidential to Tabcorp] [REDACTED]  
[REDACTED]

(a) [REDACTED]

(b) [REDACTED]  
[REDACTED]

103. [HIGHLY Confidential to Tabcorp] [REDACTED]  
[REDACTED]

104. [HIGHLY Confidential to Tabcorp] [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

D.6. [HIGHLY Confidential to Tabcorp] [REDACTED]

105. [HIGHLY Confidential to Tabcorp] [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]. There were five bidders to acquire the ACTTAB assets. Although only Tabcorp and Tatts proceeded to the final bid stage, that was because the ACT government excluded the other three bidders from the final bid process primarily because it assessed them as not meeting the operational capacity tender requirement. The ACT Auditor-General subsequently concluded in a report that "[t]he evaluation of the operational capacity

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criterion inappropriately excluded interested parties from further consideration.” A copy of the Auditor-General’s report is at Tab 19 of DA-1 [TBP.011.001.2808].

106. **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED]

(a) [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

(b) [REDACTED]  
[REDACTED]

(c) [REDACTED]  
[REDACTED]

(d) [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

(e) [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

(f) [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

107. **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]. A sample of

those media reports is at Tab 20 of DA-1 [TBP.001.026.0036].

**Confidential Restriction on Publication Claimed****D.6.1. CrownBet**

108. CrownBet is an online wagering company, majority-owned by Australian company Crown Resorts Limited (**Crown**) which has a 62% interest in CrownBet. Crown combines wagering operations with other complementary interests, including luxury experiences, gaming, hotel accommodation, signature dining and retail. Crown's global profit for FY2015 was A\$526 million.
109. CrownBet CEO Matthew Tripp previously owned Sportsbet before selling it to Irish bookmaker Paddy Power in 2010. He subsequently acquired BetEzy in 2013 after his non-compete clause expired, before establishing CrownBet with Crown in late 2014.
110. Crown holds a 50% interest in Aspers Group, which operates casinos throughout the United Kingdom, and a 24.5% interest in Cannery, which operates casinos throughout the United States. Crown also has other Australian gambling interests, including Crown Melbourne, Crown Perth and a proposed resort in Sydney's Barangaroo which will have a gaming licence.
111. In Western Australia, the absence of poker machines in retail venues such as pubs and clubs means that customers wanting to use poker machines will attend Crown Perth. Crown's exclusivity arrangements provide that the State of Western Australia must not grant another licence to a casino and hotel of similar size and standard as Crown Perth within a 100km radius of Crown Perth. Crown also has the rights to Keno in Western Australia (operating in the casino only).
112. Crown is rapidly investing in complementary assets. In addition to its online wagering operation CrownBet (62% interest) and online betting exchange Betfair Australia (100% interest), in July 2015 Crown acquired 60% of United States-based online social gaming business DGN Games (and currently holds a 70% interest through subsequent investment). Through this majority-owned subsidiary, Crown has an interest in Winners Club Limited (100% owned by DGN Games), which provides development and analytical services to online social gaming sites.
113. CrownBet is one of Australia's fastest growing bookmakers. It is the exclusive wagering partner of the AFL for the next five years and premium wagering partner of Racing.com.
114. CrownBet has made considerable investment in interfaces including new Apple iOS (iPhone) and Android Apps (smartphone), along with a website released in September 2014. These interfaces are all industry best practice in their use, design, and consistency in user experience across all devices. Tabcorp estimates that CrownBet as

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a relative newcomer to the market currently accounts for around 5% of online wagering in Australia.

115. CrownBet has also been progressing initiatives to compete in the retail environment. It has approached a number of pubs and clubs in various States to propose arrangements where the pub or club would display CrownBet advertising and merchandising material in the venue and promote CrownBet to the customer base in the venue to subsequently open CrownBet betting accounts. CrownBet has also made proposals to venue operators that would involve venue customers that sign up to CrownBet accounts obtaining the benefits of the Crown loyalty scheme across the venue's products, including gaming.
116. **[Confidential to Tabcorp]** [REDACTED]  
[REDACTED]  
[REDACTED]
117. On 7 February 2017, ClubsNSW and CrownBet announced a partnership for the provision of digital wagering services in NSW clubs. A copy of the joint media release for CrownBet and ClubsNSW is at **Tab 21 of DA-1 [TBP.001.018.5446]**. Clubs have the option of engaging CrownBet to provide exclusive digital wagering services by way of an Individual Licenced Venue Agreement. A copy of a summary of the key terms and conditions of that agreement is at **Tab 22 of DA-1 [TBP.001.020.0259]**.
118. Tabcorp understands based on that summary and media reports that the deal involves an initial period of 10 years during which Crownbet is appointed as the club's exclusive 'Official Digital Wagering Advertising Partner' and 'Official Daily Fantasy Sports Partner'. CrownBet will invest in Wi-Fi and technology upgrades for over 1,200 clubs across New South Wales as well as developing a new app which would allow club patrons to wager through CrownBet in NSW clubs on mobile phones and tablets. Other features of the deal involve CrownBet paying the clubs a percentage of relevant wagering received in respect of certain bets made by club members who register as a CrownBet customer. Club members and patrons will be able to redeem CrownBet Rewards points earned on bets for offers at specific club venues. CrownBet terminals displaying racing and sports information and betting odds will also be installed in participating venues. A sample of media reports on CrownBet's digital partnership with Clubs NSW are at **Tab 23 of DA-1 [TBP.001.026.0084]**.
119. Tabcorp is concerned that the CrownBet arrangements contravene the terms of Tabcorp's existing New South Wales exclusive retail licence and the legislative regime which supports that licence. It is considering its position in that regard.

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120. At the time of the announcement Crownbet CEO Matthew Tripp was quoted as saying that CrownBet is “open to discussions with any other organisations where CrownBet can offer wagering services in venues where people congregate.” Following that statement Clubs Queensland’s Chief Executive Officer Douglas Flockhart was quoted as saying that he sees no merit in such a deal in Queensland. A copy of these media reports are at **Tab 24 of DA-1 [TBP.001.018.5426]**.
121. Crown has customer assistants in its casinos offering to assist casino customers in opening new CrownBet accounts. CrownBet similarly cross-sells to its account holders to encourage attendance at Crown casinos.
122. **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

**D.6.2. Seven West**

123. Seven West Media (**Seven West**) is an ASX-listed diversified media business based in Western Australia. Seven West’s EBITDA for FY2016 was A\$363.5 million.
124. In 2015 Seven West acquired Victorian thoroughbred broadcasting rights and has since launched a thoroughbred racing channel, Racing.com, on Channel 78 and through digital devices in a joint venture with Racing Victoria. Tabcorp’s assessment is that Racing.com may continue to expand its racing coverage by acquiring further thoroughbred racing product rights. A copy of a media article reporting on this is at **Tab 25 of DA-1 [TBP.001.018.5450]**.
125. In May 2016 the Racing.com joint venture announced it had non-exclusive rights to broadcast Hong Kong racing. The Australian Financial Review reported that this could be the first step in “broadcast deal negotiations across several states and merger and acquisition activity in the wagering sector”, noting that it had “ramifications for the established listed wagering operators such as Tabcorp and racing administrators around the country”. The same article notes that “[w]hen it comes to racing, however, the real money is to be made in wagering. There has already been speculation about Seven West looking at a bid for the West Australian tote. Far more likely is a tie-up between Seven West and an operator such as Crown Bet, given the latter already advertises on

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Racing.com and James Packer and Kerry Stokes, former and current chairman of Crown Bet's part-owner Crown Resorts and Seven respectively, are close." A copy of that article is at **Tab 26** of **DA-1 [TBP.011.001.1169]**.

126. CrownBet is Racing.com's premium wagering partner for 2015 and 2016 and Ladbrokes is its Associate partner.

127. **[HIGHLY Confidential to Tabcorp]** [REDACTED]

128. **[HIGHLY Confidential to Tabcorp]** [REDACTED]

[REDACTED]. Copies of a sample of media reports reporting on this are at **Tab 27** of **DA-1 [TBP.001.026.0118]**.

### **D.6.3. Ladbrokes**

129. Ladbrokes is a British-based betting and gaming company. It merged with Gala Coral Group in 2016 to form Ladbrokes Coral, with an estimated enterprise value of A\$11.7 million. The Group has a presence in the United Kingdom, Ireland, Belgium and Spain as well as in Australia. Ladbrokes has considerable expertise in retail; around 70% of its United Kingdom operation is made up of retail revenue and it has reported that it is focusing on investments in retail and digital. Copies of a selection of these reports are at **Tabs 28, 29 and 30** of **DA-1 [TBP.014.001.0980], [TBP.014.001.0954]** and **[TBP.013.001.0398]**.

130. Ladbrokes has been expanding its presence in Australia through acquisition. In 2013 Ladbrokes acquired Bookmaker Pty Ltd and in April 2014 it acquired Australian online bookmaking business Betstar. Tabcorp estimates that Ladbrokes accounts for around 12% of online wagering in Australia, with reported year on year digital turnover growth to March 2016 of 52%.

131. Ladbrokes' strategy in Australia is to develop innovative products and build a strong customer base backed by investment in brand awareness. One of its new strategies is to

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allow customers to instantly deposit money into their Ladbrokes account at over 1,000 newsagents across Australia. Ladbrokes has also developed retail account withdrawal functionality via the Visa card network. Ladbrokes Australia also became the official corporate bookmaker for the Melbourne Racing Club from 1 January 2016.

132. Ladbrokes net revenue in Australia in FY2015 increased by 54% to £53.2m. **[HIGHLY Confidential to Tabcorp]** [REDACTED]

**D.6.4. William Hill**

133. William Hill was founded in 1934 and listed on the London Stock Exchange in 2002.
134. The Group's revenue in the 2015 calendar year was over £1.59 billion and group profit for the year ending 29 December 2015 was £190 million. William Hill's Australian operating profit for FY2015 was A\$26 million.
135. William Hill entered the Australian market in 2013 when it acquired the Australian and Spanish operations of Sportingbet. Sportingbet had acquired ASX-listed Centrebet two years prior. In 2013 William Hill also acquired Australian bookmaker tomwaterhouse.com. All three companies (Centrebet, Sportingbet and tomwaterhouse.com) have subsequently been rebranded under the William Hill banner, with all customers migrated to the single platform.
136. William Hill provides online racing and sports betting, is the third largest betting operator in Australia by net revenue, and boasts a market advantage in its innovative technology and ability to leverage the Group's resources to enter into new parts of the market. William Hill was the first betting operator to launch in-play betting in Australia. William Hill is investing heavily to build its brand presence in Australia. Tabcorp estimates that William Hill accounts for approximately 12% of online wagering in Australia, with reported year on year digital turnover growth to March 2016 of 8%. A copy of a report on this is at **Tab 31 of DA-1 [TBP.008.001.1118]**.
137. William Hill also manages RWWA's fixed odds book and acts as WA TAB's manager. The WA TAB's fixed odds bookmaking is outsourced to William Hill. **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

**Confidential Restriction on Publication Claimed****D.6.5. Sportsbet (Paddy Power)**

138. Paddy Power is an Irish listed betting company. Paddy Power recently merged with Betfair, and now has an estimated enterprise value of A\$13.4 billion.
139. Paddy Power acquired a 51% stake in Sportsbet in May 2009, before acquiring the remainder of the company in December 2010. Sportsbet was Australia's first licensed corporate bookmaker founded in 1993.
140. Paddy Power's global profit for the year ended 31 December 2015 was €152.8m (approximately A\$228m). Approximately 44% of Paddy Power's operating profit for FY15 was derived from the Australian market, and the group's Australian operating profit increased by 52% in that financial year. In the first quarter of 2016, Paddy Power's online sales rose by 17% to £195m, with Sportsbet reportedly contributing strongly to that growth. Paddy Power announced in its 2016 interim results that Australian revenue was up 17% to £129m.
141. Sportsbet's EBITDA has risen from \$24 million to \$129 million in the last six years. It is the largest corporate bookmaker currently operating in Australia and Tabcorp estimates that it accounts for approximately 20% of online wagering, with reported year on year digital turnover growth to March 2016 of 31%.
142. Paddy Power describes its presence in Australia as "the market leader in the fast-growing Australian online betting market". Paddy Power is extracting significant profits from Sportsbet **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED].

**D.7. Implications for Tabcorp**

143. **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]
144. The current Western Australian Premier has recently been reported as saying that the merger of Tabcorp and Tatts is not likely to affect the amount received from any sale of the WA TAB and that he expects there would be bidders beyond Tabcorp and Tatts. A copy of a transcript of the press conference in which he made those statements is at **Tab**

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18 of DA-1 [TBP.015.001.4234]. The Premier said that he based this belief on his knowledge as to the likely interest of other bidders. **[HIGHLY Confidential to Tabcorp]**

[REDACTED]

145. **[HIGHLY Confidential to Tabcorp]** [REDACTED]

**E. POTENTIAL FUTURE WAGERING INDUSTRY TRENDS**

146. In my capacity as CEO and Managing Director of Tabcorp, and previously as Managing Director of the Wagering division, I have received numerous reports and also participated in many SELT and Board discussions regarding wagering industry competition. **[HIGHLY Confidential to Tabcorp]** [REDACTED]

[REDACTED]

**E.1. Changes in wagering industry and future trends**

147. The last decade has seen a complete transformation of the Australian wagering industry and the competitive wagering landscape. The market is continuing to experience significant structural changes in both products and channels. Over the past 5 years, fixed-odds racing and sports wagering has grown from 41% to 63% of industry turnover, with increased penetration expected to continue. The industry has also seen rapid digital

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convergence over the past 5 years with digital increasing from 30% to 51% of industry turnover. Channel convergence is occurring at pace in key global markets, with Australia and the United Kingdom experiencing a rapid uptake of mobile based online betting. Where allowed, the predominant business model is multi-product as this provides growth, leverages fixed costs and provides attractive cross-sell opportunities.

148. One major recent wagering industry change has been the consolidation in the United Kingdom market. Consolidation via mergers with other wagering operators has seen Paddy Power (with Betfair) and Ladbrokes (with Coral) significantly increase the scale of their United Kingdom operations with approximately 80% of the betting market in the United Kingdom now controlled by these two major companies and William Hill. There has been a significant amount of merger and acquisition activity amongst corporate bookmakers in Australia, driven largely by foreign entrants to the Australian market. Corporate bookmakers have doubled their turnover over the past 5 years and now account for more than \$12 billion in national annual turnover. The major corporate bookmakers have seen strong growth in account holders, particularly Sportsbet (owned by Paddy Power). This competition has driven significant increases in marketing spend – total industry spend has increased from \$119m to \$328m in the last 5 years.

149. **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

150. **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED]  
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151. **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED]

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- [REDACTED]
- [REDACTED]
- [REDACTED]
152. **[HIGHLY Confidential to Tabcorp]** [REDACTED]
- [REDACTED]
153. **[HIGHLY Confidential to Tabcorp]** [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
154. **[HIGHLY Confidential to Tabcorp]** [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
155. Sportsbet (owned by Paddy Power) had the highest number of account holders at the end of calendar year 2015 with 754,000 account holders compared to just over 430,000 for Tabcorp in the middle of 2016. **[HIGHLY Confidential to Tabcorp]** [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
156. This growth reflects a very high level of marketing spend by the corporate bookmakers. Tabcorp estimates that in FY15 Sportsbet spent approximately \$92 million, William Hill \$77 million and Ladbrokes \$65 million (doubling its spend from the previous year). Sportsbet has various sponsorships, including the NRL on Nine, the AFL, the FFA and

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the Big Bash, with CrownBet also emerging as a major sponsor of the AFL. CrownBet is Racing.com's premium wagering partner and Ladbrokes its associate wagering partner.

157. One consequence of the growth in numbers of corporate bookmaker digital account holders is that Tabcorp increasingly faces competition for customers within its retail venues. Although Tabcorp has the sole right to offer over the counter betting and self-service betting machines in retail venues in the States where it holds the retail licence, there is nothing to stop customers in those venues wagering through their digital accounts with other wagering operators. Corporate bookmakers are able to advertise through the vision available in the venues to encourage venue customers to open accounts with them or bet through their existing accounts with them, such as CrownBet advertising associated with its sponsorship of the AFL and CrownBet and Ladbrokes advertising associated with their Racing.com wagering partner status. **[HIGHLY Confidential to Tabcorp]** [REDACTED]

158. **[HIGHLY Confidential to Tabcorp]** [REDACTED]

E.2. **[HIGHLY Confidential to Tabcorp]** [REDACTED]

159. **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]. Copies of a sample of analyst reports commenting on this are at Tab 32 of DA-1 [TBP.001.027.0114]. **[HIGHLY Confidential to Tabcorp]** [REDACTED]

160. **[HIGHLY Confidential to Tabcorp]** [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

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[REDACTED]

161. **[HIGHLY Confidential to Tabcorp]** [REDACTED]

[REDACTED]

162. **[HIGHLY Confidential to Tabcorp]** [REDACTED]

[REDACTED]

163. **[HIGHLY Confidential to Tabcorp]** [REDACTED]

[REDACTED]

Signature of witness



Name of witness

David Attenborough

Date of signature

8 March 2017

**IN THE AUSTRALIAN COMPETITION TRIBUNAL**

**ACT of 2017**

**Tabcorp Holdings Limited** (Applicant)

**RE: PROPOSED ACQUISITION OF TATTS GROUP LIMITED BY TABCORP HOLDINGS LIMITED**

**EXHIBIT CERTIFICATE**

This is the exhibit marked “**DA-1**” to the statement of **DAVID ATTENBOROUGH** dated **8 March 2017**.

**Exhibit DA-1**

---

Filed on behalf of Tabcorp Holdings Limited (Applicant)

Prepared by Grant Marjoribanks

Herbert Smith Freehills

Tel (02) 9225 5517

Email grant.marjoribanks@hsf.com

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Sydney NSW 2000

AUSTRALIA

Fax (02) 9322 4000

Ref 82602332



RE: Proposed acquisition of Tatts  
Group Limited by Tabcorp Holdings  
Limited

| Tab | Document Description  | Document ID                      |
|-----|---|----------------------------------|
| 1   | Tabcorp ASX announcement dated 16 November 2015 regarding merger discussions  | <a href="#">TBP.011.001.0007</a> |
| 2   | Merger Implementation Deed between Tabcorp Holdings Limited and Tatts Group Limited dated 18 October 2016   | <a href="#">TBP.006.001.0136</a> |
| 3   | Tabcorp and Tatts ASX announcement dated 19 October 2016 regarding the proposed transaction   | <a href="#">TBP.011.001.0110</a> |
| 4   | Presentation dated 19 October 2016 titled "Recommended Combination of Tabcorp Holdings Limited and Tatts Group Limited – Tabcorp and Tatts to combine to create a world-class, diversified gambling and entertainment group"                | <a href="#">TBP.006.001.0121</a> |
| 5   | Sample of public documents and media reports on the Queensland, South Australian and Tasmanian racing industries' decline   | <a href="#">TBP.001.026.0161</a> |
| 6   | Report to the Western Australian Racing Representative Group (WARRG) on the potential privatisation of the Western Australian TAB dated November 2014   | <a href="#">TBP.004.026.3769</a> |
| 7   | Sample of public documents and media reports reporting the views of various racing industry representatives on privatisation of the WA TAB at different points in time  | <a href="#">TBP.001.026.0384</a> |
| 8   | Sample of public statements and media reports reporting the views of various Western Australian politicians at different points in time regarding WA TAB privatisation  | <a href="#">TBP.001.026.0736</a> |
| 9   | Sample of public statements and media reports reporting concerns of politicians and racing industry representatives regarding the WA TAB by reference to the experience in Queensland, South Australia and Tasmania following privatisation | <a href="#">TBP.001.027.1279</a> |
| 10  | Media report titled "Industry group backs TAB Sale" – The West Australian, 11 November 2016   | <a href="#">TBP.011.001.2258</a> |



| Tab | Document Description   | Document ID                      |
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| 11  | Media report titled "Liberal MP pours cold water on TAB sale bid" – The West Australian, 14 November 2016  | <a href="#">TBP.014.001.0996</a> |
| 12  | Paper 1 – "Racing Towards the 2016 State Election" – The Racing Industry's Position, prepared by the Western Australian Racing Representative Group (WARRG) on behalf of the WA Racing Industry dated January 2017 | <a href="#">TBP.001.018.8262</a> |
| 13  | Media report titled "Privatising TAB back on track" – The West Australian, 2 February 2017   | <a href="#">TBP.001.018.6846</a> |
| 14  | Media report titled "Libs need last-gasp deal with Hanson" – The Australian, 3 February 2017   | <a href="#">TBP.001.018.6432</a> |
| 15  | Sample of media reports reporting on the issue of the Liberal Government's plan to privatise 51% of WA Power   | <a href="#">TBP.001.026.0013</a> |
| 16  | Media report titled "Western Australia rift over TAB sell-off" – Sydney Morning Herald, 18 May 2016  | <a href="#">TBP.011.001.2111</a> |
| 17  | RWWA's 2016 Annual Report dated 17 October 2016  | <a href="#">TBP.011.001.2143</a> |
| 18  | Transcript of Press Conference of Colin Barnett dated 19 October 2016  | <a href="#">TBP.015.001.4234</a> |
| 19  | Auditor-General's report regarding the sale of the ACTTAB (Report No 7/2015) dated 26 June 2015  | <a href="#">TBP.011.001.2808</a> |
| 20  | Sample of media reports on the wagering market and the likelihood of CrownBet, SevenWest, Ladbrokes, William Hill and Sportsbet participating in sale process for the WA TAB                                       | <a href="#">TBP.001.026.0036</a> |
| 21  | Joint media release of Clubs NSW and CrownBet  | <a href="#">TBP.001.018.5446</a> |
| 22  | Summary of the key terms and agreements of CrownBet's digital partnership agreement with Clubs NSW   | <a href="#">TBP.001.020.0259</a> |



| Tab | Document Description  | Document ID                      |
|-----|---|----------------------------------|
| 23  | Sample of media reports regarding CrownBet's digital partnership with Clubs NSW   | <a href="#">TBP.001.026.0084</a> |
| 24  | Media report titled "Crown makes \$300m bet on NSW with Clubs deal" – The Australian, 7 February 2017   | <a href="#">TBP.001.018.5426</a> |
| 25  | Media report titled "Tabcorp aggressively bidding for horse racing broadcast rights" – The Australian Financial Review, 7 October 2016  | <a href="#">TBP.001.018.5450</a> |
| 26  | Media report titled "Seven and Racing Victoria shake up horse racing with Hong Kong deal" – The Australian Financial Review, 22 May 2016  | <a href="#">TBP.011.001.1169</a> |
| 27  | Sample of media reports reporting on the prospect of a bid from Seven West (either in its own right or in conjunction with one of its wagering partners such as Crown or Ladbrokes) | <a href="#">TBP.001.026.0118</a> |
| 28  | Media report titled "Ladbrokes reports profit as digital turnaround begins to take hold" – Diginomica, 4 August 2016  | <a href="#">TBP.014.001.0980</a> |
| 29  | Ladbrokes Notification of 2016 Interim Results dated 4 August 2016  | <a href="#">TBP.014.001.0954</a> |
| 30  | Ladbrokes Annual Report 2015  | <a href="#">TBP.013.001.0398</a> |
| 31  | UBS Analyst Report dated 7 June 2016 – Australian Gaming, UBS Evidence Lab: Australian wagering iOS app download trends   | <a href="#">TBP.008.001.1118</a> |
| 32  | Sample of analyst reports commenting on the Victorian licence   | <a href="#">TBP.001.027.0114</a> |

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# Crown makes \$300m bet on NSW with Clubs deal



CrownBet CEO Matt Tripp (right) and Clubs NSW boss Anthony Ball have signed a \$300 million online wagering deal. Louie Douvis



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by [John Stensholt](#)

James Packer's Crown Resorts has made its biggest bet on online wagering, with its corporate bookmaker CrownBet set to spend \$300 million in NSW to end Tabcorp's exclusive relationship with the powerful licensed clubs network.

As foreshadowed by [The Australian Financial Review](#), CrownBet and Clubs NSW confirmed on Tuesday that the online bookmaker – 62 per cent owned by Crown Resorts – has signed a 10-year deal to be the clubs' official digital wagering partner.

The deal will involve considerable capital expenditure for CrownBet during the next three years, including paying for Wi-Fi and technology upgrades to almost 1140 clubs, and the building of a special app for club patrons that will allow punters to gamble on the CrownBet app on their phones or tablets and in competition with TAB outlets in the same venues.

CrownBet chief executive Matthew Tripp said the deal was the biggest he had undertaken during 20 years in the wagering industry, but signalled he could clinch similar agreements in other states.

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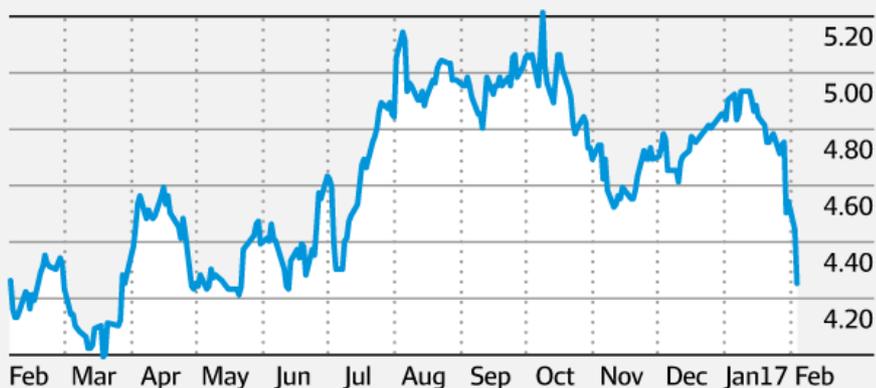
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"We could look to go up to Queensland in the future, and we are open to discussions with any other organisations where we can offer wagering services in venues where people congregate."

Mr Tripp said [Mr Packer, who rejoined the Crown Resorts board in January](#), had been supportive of CrownBet's push into NSW after telling the *Financial Review* that the online wagering business was one of his five main priorities for 2017.

"James has been really engaged on this and been very positive about our strategy," Mr Tripp said. "He has been very supportive through this whole process."

Crownbet will also enter into a revenue share arrangement with the NSW clubs, and will install terminals in clubs that will contain racing and sports information and betting odds. Though the terminals may in the future offer punters refund options, bets will not be able to placed through them.

Mr Tripp said CrownBet will end the 2017 financial year with more than 200,000 active customers, and estimated the deal in NSW – where the company has only about 4 per cent market share – could increase that client base 50-60 per cent during the next five years.

The deal will come as a blow to [rival Tabcorp](#), which has TAB outlets in clubs throughout the country and still relies heavily on bets placed by customers in retail outlets.

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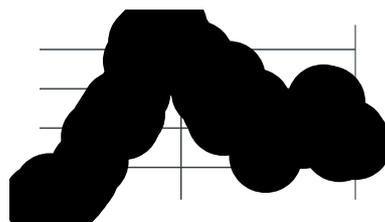
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\$11.24 0.02 0.18%

volume 87286 value 981867.9

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1 DAY



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Tabcorp chief executive David Attenborough would not comment on the specifics of the deal but said: "Tabcorp is competing vigorously in the digital space, as we have been, to very good effect. We have made big strides in that area and think we have a very good digital wagering product."

[He also pointed to Tabcorp's own recent deal to incentivise retail operators, including pubs and clubs, to share in digital TAB wagering revenue.](#) Tabcorp is also seeking an \$11.3 billion merger with Tatts Group.

Clubs NSW chief executive Anthony Ball said about 95 per cent of clubs in the state were losing money on operating a TAB outlet in their venues and the clubs needed to undertake a digital wagering deal to stay relevant to members.

"The economics of wagering in clubs is poor. And when you look at all the 18-25-year-olds, these days they do everything on their phone. That extends to betting. So we have to play in that space now."

Mr Ball said it would be up to individual clubs whether they would maintain their TAB outlets into the future, though some are concerned Tabcorp could turn off their Sky Racing channel in clubs, even though the clubs and Tabcorp operate the Keno lottery-style jackpot game.

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## M E D I A   R E L E A S E



7 February 2017

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## **CLUBSNSW AND CROWNBET FORM HISTORIC PARTNERSHIP**

ClubsNSW and CrownBet are pleased to announce a groundbreaking partnership for the provision of digital wagering services in NSW clubs.

The agreement follows ClubsNSW's extensive wagering review and tender process which saw CrownBet clearly beat Australia's largest wagering providers through their world-class wagering products, strong commitment to responsible gambling and substantial benefits for clubs of all sizes.

"More than 90% of clubs have been losing money on their TAB facilities in recent years as more and more people switch to online wagering," ClubsNSW CEO Anthony Ball said.

"Our arrangement with CrownBet will ensure all NSW clubs get their fair share from digital bets and will help ensure the industry's long-term viability. Small and regional clubs will be the biggest winners," he said.

The CrownBet affiliation will be available to clubs today. It will not necessarily affect existing retail betting infrastructure, but it will update and modernise the in-venue wagering experience.

"We're thrilled to receive this groundbreaking endorsement from ClubsNSW. Our plan is to change the entire wagering experience for the benefit of their members and guests," CrownBet CEO Matt Tripp said.

"We're going to offer a world-class digital wagering experience for punters in clubs right across NSW," Mr Tripp said.

CrownBet will integrate its market-leading CrownBet Rewards into club loyalty programs. Club members will be able to earn and redeem points in venue, including at club restaurants and cafés or over the bar.

"This is a watershed agreement which will bring clubs into the 21<sup>st</sup> century digital economy, helping all clubs stay relevant and profitable," Mr. Ball said.

**END**

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## Tabcorp aggressively bidding for horse racing broadcast rights



Tabcorp is pushing for new broadcast rights in several jurisdictions. [bradleyphotos.com.au](#)

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by [John Stensholt](#)

Tabcorp is aggressively protecting its horse racing broadcast rights in several Australian states and New Zealand in the face of strong competition from Seven West Media and Racing Victoria's Racing.com joint venture.

Tabcorp, which broadcasts racing on its Sky Racing pay-television platform and online on its TAB website, recently shelled out big money to maintain access to vision in Western Australia and is currently locked in talks with racing authorities in South Australia and New Zealand to extend deals.

The extensions will be costly, with Racing.com having forced Tabcorp to pay as much as \$26 million over the next six years for WA rights, about 10 times more than it was previously paying annually. Tabcorp has paid a premium to maintain its relationship with WA racing ahead of [a mooted move by the state government to sell off the WA TAB agency](#). It is also set to clinch an extension to broadcast WA country thoroughbred, harness and greyhound racing.

In South Australia, Tabcorp is in an exclusive negotiating period with racing authorities. It holds "first" and "last" rights, meaning it can negotiate before others and match any bids that may come in once the exclusive period ends. Racing.com is said to be keen to bid.

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Meanwhile, Tabcorp is also in protracted negotiations regarding rights to New Zealand racing. The rights have rolled over to Tabcorp for more than two years and negotiations with authorities across the Tasman with both Tabcorp and Racing.com have been on-going for at least 12 months.

Domestic and international broadcast rights are up for grabs, and New Zealand is also in the market for a company to manage its fixed-odds business. [Tabcorp and corporate bookmakers including Sportsbet are in the market for that contract.](#)

But Tabcorp is understood to be playing hard ball and has threatened to end its co-mingling relationship with New Zealand, where all bets are consolidated in the same pool, on October 31 – the day before the Melbourne Cup.

Tabcorp would not comment on the rights negotiations, and has denied it has made the co-mingling threat.

Racing.com was established in August last year, broadcasting Victorian thoroughbred racing and Hong Kong racing. Tabcorp also has rights to Victorian racing – several corporate bookmakers stream races on their websites – and NSW, though William Hill is understood to be paying \$6 million annually and \$3 million in marketing contributions for online streaming rights.

Tabcorp, meanwhile, will launch a digital advertising campaign that will run as the spring racing carnival reaches its peak with the Melbourne Cup on November 1.

Featuring trainer James Cummings, grandson of Bart Cummings, and other racing identities, the ads will promote Tabcorp's financial contribution to the thoroughbred and harness racing industries.

"The campaigns will celebrate the heroes of the industry, the wider community that benefits from that [funding] and we think it is right to inform the public how important the TAB is to the health of racing," Tabcorp chief executive David Attenborough said this week.

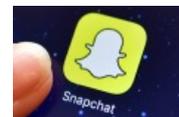
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The provision of gambling and other entertainment services. The company has wagering and media, gaming services, and Keno operations.

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## NewsRoom

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February 3, 2017

Section: TheNation

### Libs need last-gasp deal with Hanson

ANDREW BURRELL; EXCLUSIVE

Support for Pauline Hanson's One Nation is soaring across **WesternAustralia** ahead of next month's state election, in a dramatic shift that could deliver it lower house seats and help the Labor Party win government.

The latest Newspoll, taken exclusively for The Australian this week, suggests the rapid re-emergence of One Nation will hinder Premier Colin Barnett's attempt to win a third term on March 11.

The result will increase pressure on Mr Barnett — the nation's longest-serving leader — to negotiate a preference-swap deal with One Nation, which could be his only chance of hanging on to power.

With the campaign officially beginning this week, the Labor Party under Mark McGowan has increased its election-winning lead over the Liberal-National government.

The ALP leads by 54 per cent to 46 per cent in two-party preferred terms — up from 52-48 in the last Newspoll in October — which would deliver the party 14 more seats at the election and make Mr McGowan premier.

The Liberal Party's primary vote has slumped to just 30 per cent — its worst result in the Barnett era. Labor's primary vote also went backwards, from 41 per cent to 38 per cent.

But One Nation's share of the statewide primary vote soared from 3 per cent to 13 per cent, making it more likely the party will hold the balance of power in the upper house.

Senator Hanson unveiled her candidates for the election only last month after the party had been largely inactive in **WesternAustralia** for years.

One Nation's leader in the state, businessman Colin Tincknell, claimed last night that internal party polling was showing it could win more than 30 per cent of the vote in several seats in regional and outer-suburban areas, where the state's economic downturn was hitting hard.

Attributing One Nation's success to voters being sick of "political correctness", he said the party aimed to win the seats of Swan Hills, Darling Ranges, Baldivis, Central Wheatbelt, Roe, Moore, Pilbara, Kalgoorlie, Collie-Preston and Warren-Blackwood.

All but two of the seats are held by the Liberal-National government. "In those 10 seats, we are running second at the moment," Mr Tincknell said. "We can win them by polling 35 per cent (of the primary vote) and then picking up another 15 per cent of the vote on preferences." The Newspoll survey also asked One Nation voters about how they intended to allocate their preferences.

The flow of preferences was split roughly 50-50 between Labor and the Liberal-Nationals, which would boost Labor's chances in several conservative-held seats that it aims to win.

The Liberals are expected to attempt to strike a preference deal with One Nation, but Mr Tincknell said last night he expected One Nation would allocate preferences equally to both Liberal and Labor in different seats.

He defended the party's policy of opposing the **sale** of poles-and-wires utility **Western Power**, a move proposed by the Barnett government that would slash state debt by about \$8 billion.

"Quick fixes are not the answer (to cutting debt)," he said. "Once you privatise — the **TAB**, **Western Power**, or the ports — once we get rid of all of our assets, history tells us that the cost of living goes up.

"So when you're on the margins, when you're a pensioner or a low-income worker, you can't afford to pay more for power or going down to have a bet." Mr Tincknell said he believed debt would need to be repaid slowly, but the best way to fix the budget was to create jobs. "I'm sick and tired of McGowan, Barnett and (Nationals leader Brendon) Grylls saying we can fix the budget in one term — they're just hoodwinking the public," he said.

According to Newspoll, Mr Barnett's personal approval ratings have improved slightly but remain among the lowest ever recorded by a state leader.

Only 32 per cent of voters are satisfied with his performance and 57 per cent are dissatisfied. In contrast, 46 per cent of voters are happy with Mr McGowan and 34 per cent are dissatisfied. On the question of who would make a better premier, 32 per cent nominated Mr Barnett and 44 per cent chose Mr McGowan.

---- **Index References** ----

News Subject: (Campaigns & Elections (1CA25); Global Politics (1GL73); Government (1GO80); Political Parties (1PO73); Public Affairs (1PU31); World Elections (1WO93))

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**NewsRoom**

# Privatising TAB back on track

The West Australian · 2 Feb 2017 · Daniel Emerson, Gary Adshead and Dylan Caporn

The WA TAB is all but certain to be privatised after the three major parties yesterday revealed they would go to the election in support of the previously contested move.

After first being touted in 2011 and added to the State Government's assets sales list in 2014, the privatisation had fallen off the political radar until Monday when the industry described continuing uncertainty as a "noose around (its) neck".

The WA Racing Representative Group has called for a "no worse off" privatisation committing \$100 million to an infrastructure fund and guaranteeing recurrent yearly funding of at least \$193.7 million from any buyer.

After being opposed at various stages by WA Labor, the Nationals and the industry and more recently put on the backburner by the Liberals, yesterday heralded a breakthrough. Premier Colin Barnett said "the position of the Liberal Government is yes, we would sell the TAB".

Opposition Leader Mark McGowan said: "If the racing industry is united and wants to sell it, then would agree with that."

Nationals leader Brendon Grylls said the industry model would "breathe new life back into the sport of racing".

WARRG chairman Michael Grant said last night: "We look forward to working with the next State government to find a positive outcome." The timing for the on-again, off-again Ellenbrook rail link has been brought forward but could still be more than 30 years away.

The final version of the Barnett Government's long-term transport plan was released online yesterday and has shifted the timing for the link — which is a spur line to Marshall Road in Malaga — so it will be ready before Perth's population hits 3.5 million in about 2050.



# “...Racing Towards the 2017 State Election...”

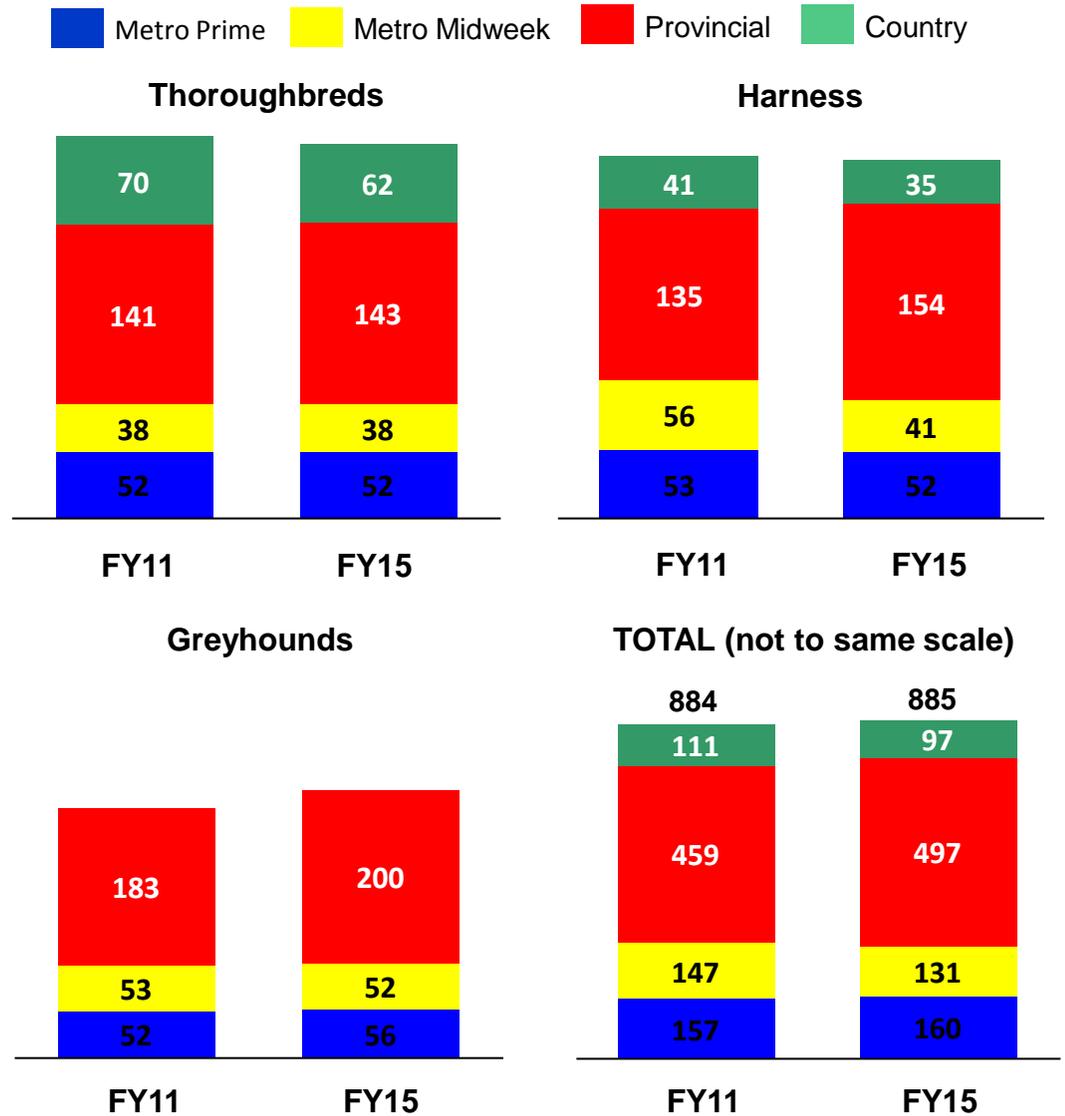
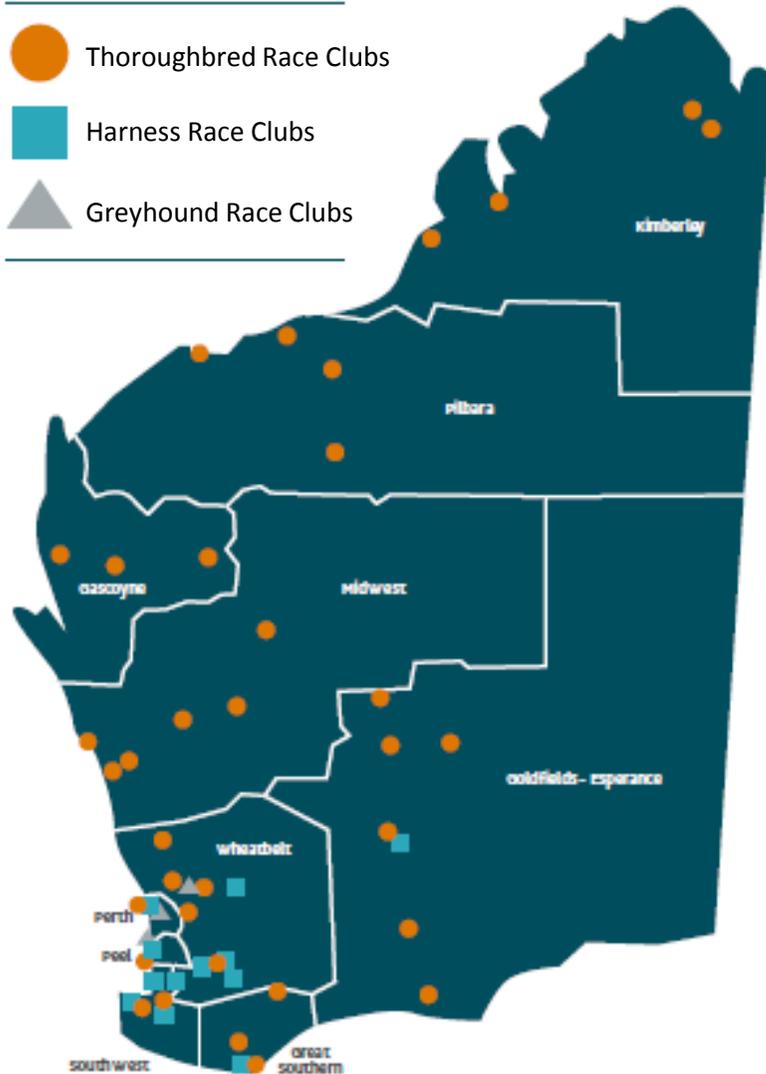
## The Racing Industry's position

The WA racing industry and its participants throughout the State call on the next elected State Government to support and invest in racing to sustain the industry and maximise the very significant economic contribution generated throughout the state

*Prepared by the Western Australian Racing Representative Group (WARRG) on behalf of the WA racing industry*

# Racing activity is conducted throughout our entire State

Provincial and country racing make up the majority of race meetings

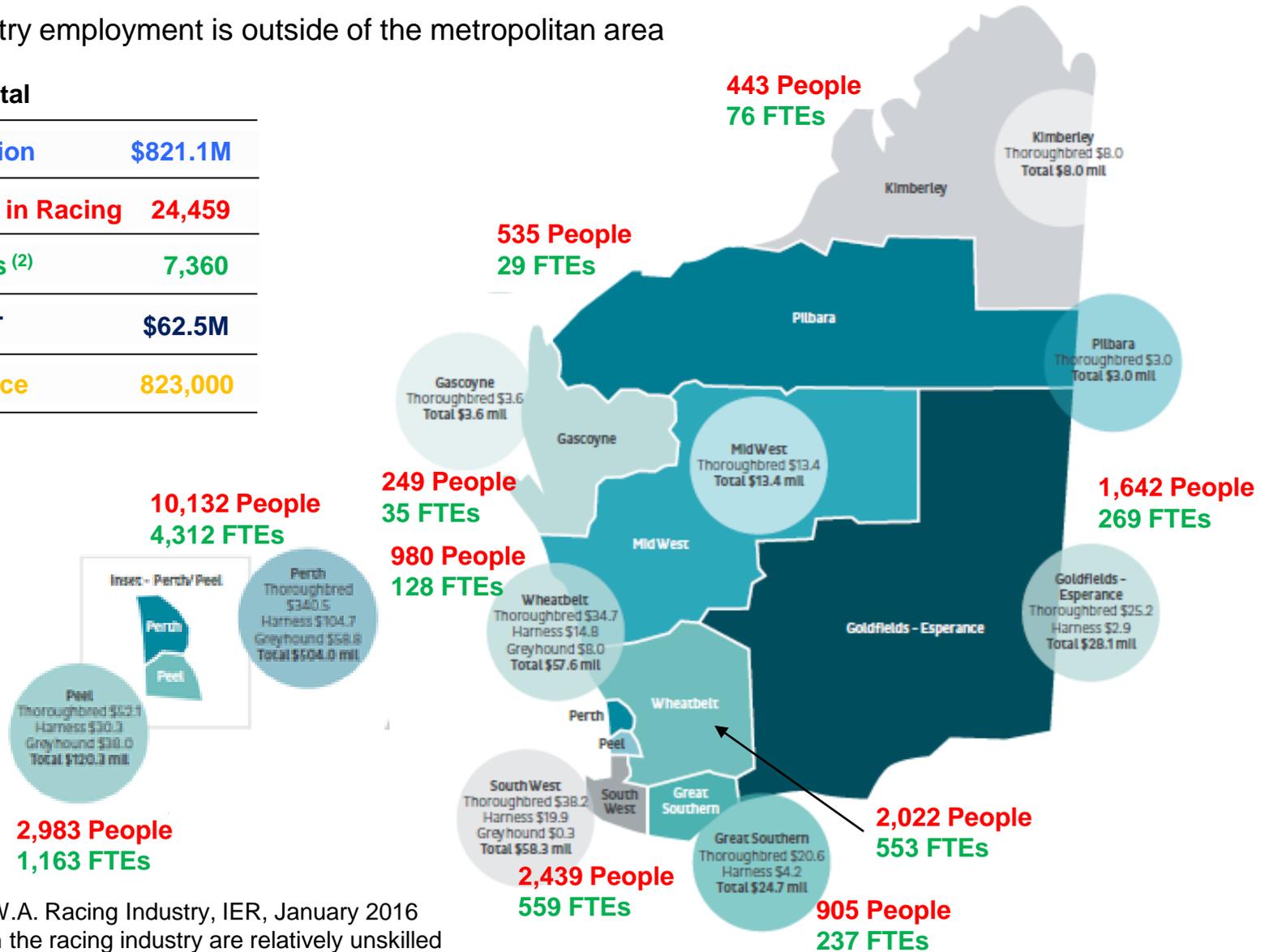


# Racing is important to WA as it provides a total economic contribution of \$821.1M each year <sup>(1)</sup>

58% of racing industry employment is outside of the metropolitan area

## Western Australia Total

|   |                 |
|---|-----------------|
| <b>Economic Contribution</b>              | <b>\$821.1M</b> |
| <b>People Participating in Racing</b>     | <b>24,459</b>   |
| <b>Full Time Employees <sup>(2)</sup></b> | <b>7,360</b>    |
| <b>Wagering Tax &amp; GST</b>             | <b>\$62.5M</b>  |
| <b>Racegoers Attendance</b>               | <b>823,000</b>  |



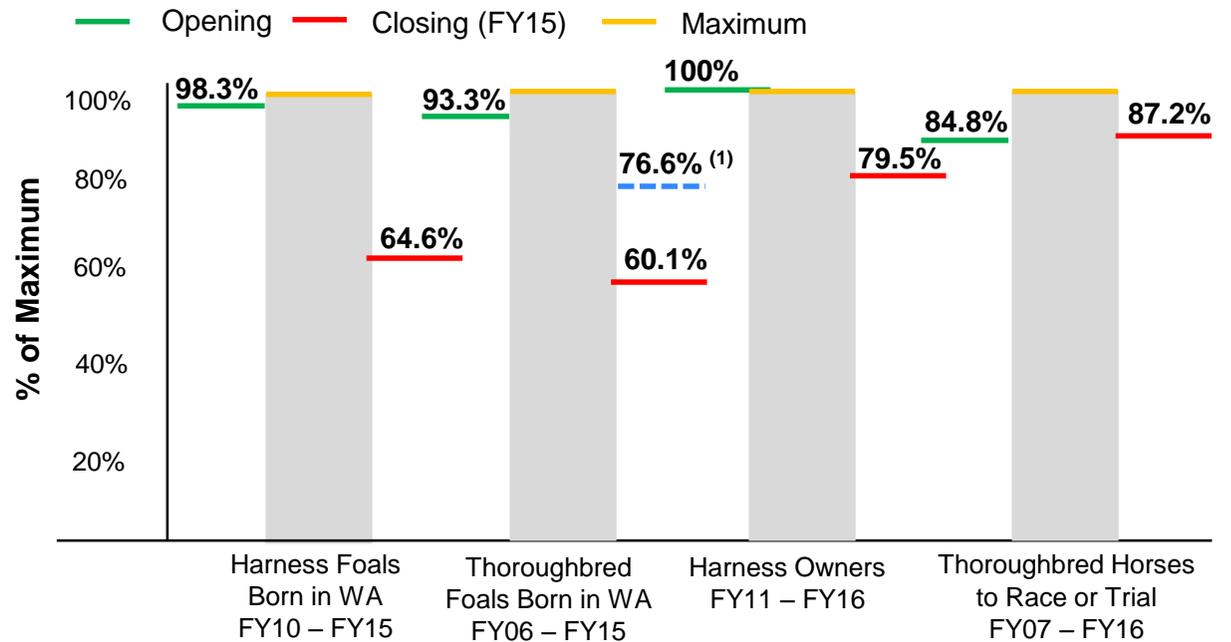
(1) Size and Scope of the W.A. Racing Industry, IER, January 2016  
 (2) Many of the FTEs within the racing industry are relatively unskilled

# Uncertainty is causing a decline in confidence and investment in thoroughbred, harness and greyhound ownership



*“The WA racing industry has a strong heartbeat but is facing more than its fair share of challenges which affects the rhythm and prosperity of the industry”*

WA’s struggling economy and uncertainty over the future of the WA TAB has impacted confidence and resulted in declining investment of up to 40% across all three codes



**RWWA and the Government have underfunded race clubs and infrastructure over the last decade which has resulted in there now being a >\$100M need for investment in infrastructure and OHS**

***The WA Racing industry seeks support from the next elected State Government to work directly with each of the Industry codes to address many of the major issues and challenges facing racing and commit the necessary financial stimulus to reinvigorate one of WA’s most significant industries***

(1) Includes interstate bred thoroughbred foals born in WA

# Policy Platform 1: Strengthen the economic, social & community impact of racing

## Policy Platform:

|                             |       |   |
|-----------------------------|-------|---|
| Metro Racing                | 1 (a) | Government to contribute investment into metropolitan racing carnivals such as the Masters Series, Ascot Autumn Racing Carnival, Inter Dominion Pacers Championship and Pacing Cup Series |
| All WA Racing               | 1 (b) | Reinstate Government infrastructure funding support to the industry (≈\$20M over 4 years) that was previously provided via the RIGP and R4R programs                                      |
| Provincial & Country Racing | 1 (c) | Government to commit to funding of \$1M per year for four years for an expansion of the Country Cups program into additional regional areas   |

## Rationale for funding commitments

Metro racing is the primary economic driver of the industry, contributing >\$500M of the \$821M economic activity. It also inspires participants to invest in the industry, generates tourism and attracts the largest attendance levels.



Funding is needed to urgently address high-priority racing infrastructure requirements, particularly to address OSH issues, track sustainability and ensure amenities reflect contemporary community standards. Without funding support some community clubs won't survive



Country Cups generates tourism and economic benefits in regional areas. Expanding the Country Cups program will enable racing to drive tourism and economic benefits in more regional areas

## Policy Platform 2: The next State Government to determine its WA TAB privatisation position in the first half of 2017



***“Indecision affects confidence”***

*Indecision surrounding the proposed privatisation of the WA TAB continues to be a noose around the industry’s neck*

The 2014/15 State Budget, released in May 2014, indicated that while no decisions had been made concerning individual assets, the Government would pursue an orderly program of asset sales overseen by the Premier. This included the Government’s continuing ownership of the WA TAB

### **Indecision about the proposed privatisation affects the WA racing industry in several ways:**

- The WA TAB loses competitiveness when investment in medium to longer-term wagering initiatives are deferred;
- The level of sustainable funding generated by the WA TAB is not being maintained in real terms;
- Industry participants have less confidence in future prizemoney levels and investment in animal ownership declines; and
- Decreases in the numbers of animals racing reduces the quality of the racing product which further affects the funding generated as a result of smaller field sizes

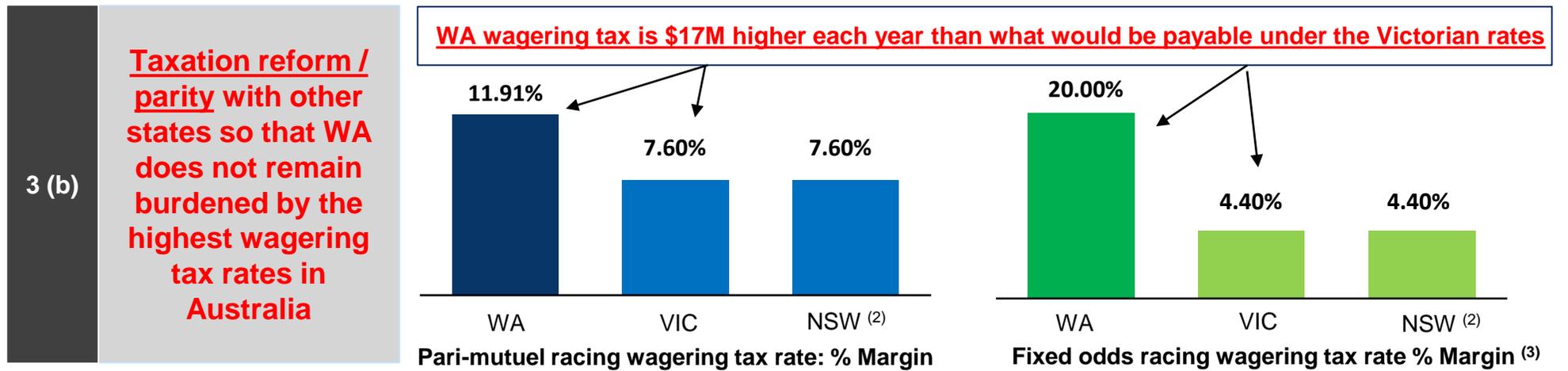
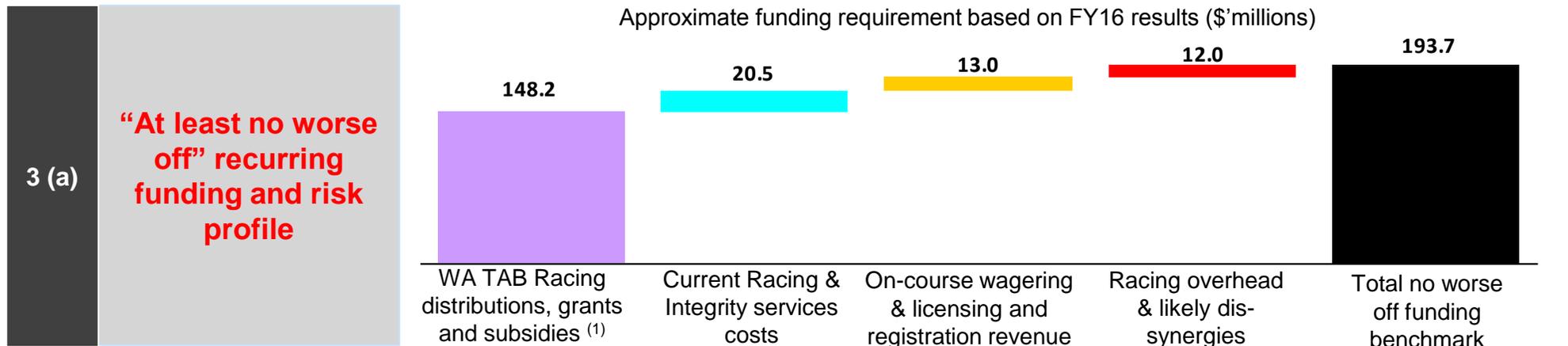
**Guiding consideration of the WA racing industry in relation to its position on post-privatisation funding arrangements**

**“Given that the WA Racing Industry has calibrated to the current funding levels, despite increased costs growing faster than returns in most cases, there is no room in the value chains for any less funding from wagering.”**

*Excerpt from: Ray Gunston (2014); Report to Western Australian Racing Representative (WARRG) On the Potential Privatisation of the Western Australian TAB*

# Policy Platform 3: The WA racing industry has formally adopted a position of conditional support of the WA TAB privatisation (1 of 3)

Components of Policy Platform 3: WA Racing will work constructively with the State Government to contribute to the development of an appropriate post-privatisation framework based upon the following:



(1) Includes race fields revenue plus the cost of race fields on other product; (2) NSW rate being progressively reduced to the VIC rate  
 (3) Assuming 10% Gross Win on fixed odds turnover

# Policy Platform 3: The WA racing industry has formally adopted a position of conditional support of the WA TAB privatisation (2 of 3)

Components of Policy Platform 3: The WA Racing industry will work constructively with the State Government to contribute to the development of an appropriate post-privatisation framework based upon the following:

3 (c)

**Guarantee of an Infrastructure fund of “at least \$100M” from the privatisation proceeds**

Racing infrastructure across the three codes and >50 clubs is ageing and requires the establishment of a significant infrastructure fund managed by the racing industry to;

- Ensure each race track is in a suitable condition for racing so as to meet product supply commitments to an acquirer
- Repair and maintain assets which are broken or past their useful life
- Renew assets such as amenities for patrons to bring to a contemporary standard

Infrastructure funding has previously been supported by access to Government grants, however, the level of funding to meet the current backlog of requirements is >\$100M and the State Government needs to commit funding from privatisation proceeds

3 (d)

**“Responsible product expansion” within the existing TAB retail footprint**

Comparison of product licences and approvals

|                                 | WA | VIC | NSW | TAS | ACT | QLD | SA | NT             |
|---------------------------------|----|-----|-----|-----|-----|-----|----|----------------|
| <b>Pair-mutuel</b>              |    |     |     |     |     |     |    | TAB Corporates |
| Racing                          | ✓  | ✓   | ✓   | ✓   | ✓   | ✓   | ✓  | ✓              |
| Sports                          | ✓  | ✓   | ✓   | ✓   | ✓   | ✓   | ✓  | ✓              |
| <b>Fixed Odds</b>               |    |     |     |     |     |     |    |                |
| Racing                          | ✓  | ✓   | ✓   | ✓   | ✓   | ✓   | ✓  | ✓              |
| Sports                          | ✓  | ✓   | ✓   | ✓   | ✓   | ✓   | ✓  | ✓              |
| Top Fluc                        |    |     |     |     |     |     |    | ✓              |
| SP                              |    |     |     |     |     |     |    | ✓              |
| Other Novelty Sports            | ✓  | ✓   | ✓   | ✓   | ✓   | ✓   | ✓  | ✓              |
| Exchange                        | ✗  | ✓   | ✗   | ✓   | ✗   | ✗   | ✗  | ✗              |
| Trackside                       | ✗  | ✓   | ✓   | ✗   | ✓   | ✗   | ✗  | ✗              |
| <b>Keno</b>                     |    |     |     |     |     |     |    |                |
| Retail                          | ✗  | ✓   | ✓   | ✓   | ✓   | ✓   | ✓  | ✗              |
| Online                          | ✗  | ✗   | ✗   | ✗   | ✓   | ✓   | ✗  | ✗              |
| <b>Tote Derivatives</b>         | ✗  | ✗   | ✗   | ✗   | ✗   | ✗   | ✗  | ✓              |
| <b>In-play Betting - Retail</b> | ✓  | ✓   | ✓   | ✓   | ✓   | ✓   | ✓  | ✗              |

Product expansion examples + new products as they come to market



Poker machines within the TAB retail network are not proposed as part of the product expansion



# Policy Platform 3: The WA racing industry has formally adopted a position of conditional support of the WA TAB privatisation (3 of 3)

Components of Policy Platform 3: The WA Racing will work constructively with the next State Government to contribute to the development of an appropriate post-privatisation framework based upon the following:

|       |   |  |
|-------|---|--|
| 3 (e) | <p><b>Appropriate operating model with acquirer and industry agreed Principal Racing Authority (PRA) e.g. RWWA governance and integrity framework</b></p> | <ul style="list-style-type: none"> <li>○ The WA racing industry will have an ongoing exposure to the revenue profile of the acquirer for the term of the WA TAB licence. The risk of future wagering performance falls completely to the WA racing industry, and given the fragile calibration of the current funding model, any future decrease in funding would have dire consequences for the overall industry and consequently the WA economy.</li> <li>○ The acquirer and the WA racing industry need an appropriate structure put in place to govern the commercial, funding and working arrangements between each other</li> <li>○ It is essential that the WA racing industry contributes to the development and implementation of commercial and funding arrangements which protect the Industry's future revenue streams and forge a mutually beneficial relationship between the acquirer and the industry for the duration of the licence</li> <li>○ The most appropriate form of new PRA structure(s), inclusive of integrity framework, to be put in place will require extensive stakeholder consultation. It requires the racing industry to carefully consider the various options and provide recommendations to Government</li> </ul> |
|-------|---|--|

|   |   |
|---|---|
| <p><b><u>Counterfactual:</u><br/>In the event the proposed privatisation of the WA TAB does not proceed</b></p> | <p><b>The WA racing industry expects to collaborate with the State Government to seek the same commitments in relation to taxation reform / parity, infrastructure funding and responsible product expansion, which remain relevant under a continuation of the current operating model</b></p> |
|---|---|

# Policy Platform 4: Committing to National Best Practice in Integrity & Animal Welfare

Strong and proactive management of integrity and animal welfare by RWWA and the racing clubs has meant WA has maintained national best practice and consequently been removed from the integrity issues experienced throughout the rest of Australia.

***Funding commitments are required to maintain national best practice in integrity and animal welfare and exceed community standards and expectations. This includes broadening the reach and effectiveness of successful existing programs such as GAP and Off the Track as well as enhancement of race day and out of competition testing and stewarding functions.***





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**January 2017**

## INDIVIDUAL LICENCED VENUE AGREEMENT - SUMMARY OF KEY TERMS & CONDITIONS

ClubsNSW has appointed CrownBet as its exclusive Official Digital Wagering Advertising Partner and Official Daily Fantasy Sports Partner. The appointment of CrownBet will ensure that clubs in the ClubsNSW network are provided with a superior digital wagering service for their members and patrons, and are provided an equitable financial return.

All clubs now have the option of engaging CrownBet to provide exclusive digital wagering services, by way of an Individual Licenced Venue Agreement (**ILVA**). The ILVA sets out the terms and conditions of the relationship between the club and CrownBet.

ClubsNSW has negotiated the commercial terms of the ILVA with CrownBet on behalf of all clubs and sought legal advice from Baker McKenzie with respect to the provisions contained in the ILVA.

The ILVA cannot be altered by CrownBet without prior consent from ClubsNSW.

A summary of the ILVA's key terms and conditions is provided below. This is a high level summary only. You should read the ILVA (and the accompanying CrownBet Guidelines) in full and ensure you understand all rights and obligations set out in the ILVA before signing anything.

|                                  |   |
|----------------------------------|---|
| <b>Term &amp; Exclusivity</b>    | An initial period of 10 years, during which CrownBet is appointed as the club's exclusive "Official Digital Wagering Advertising Partner" and "Official Daily Fantasy Sports Partner".  |
| <b>Capital Investment</b>        | There is no up-front capital outlay required by the club.   |
| <b>Impact on retail wagering</b> | <p>The engagement of CrownBet to provide digital wagering services does not prevent the club from maintaining a TAB retail wagering facility. However, in order to provide both retail and digital wagering services, it is likely that the club's current Licensed Venue TAB Distribution Services Agreement (<b>TAB Agreement</b>) will need to be terminated and replaced by a new agreement that removes any restriction on the Club promoting alternate digital wagering services to members and patrons.</p> <p>Alternatively the club can switch solely to digital wagering by terminating the TAB Agreement.</p> <p>In all cases, the Club must ensure that it fully complies with its obligations under the TAB Agreement, including, in particular, any exclusivity obligations. If the Club wishes to terminate the TAB Agreement, it must ensure that it does so strictly in accordance with the terms of the agreement, including any specified Minimum Term and any minimum period for notice of termination (typically 60 days).</p> |
| <b>Profit Share</b>              | <p>CrownBet agrees to pay the club quarterly a profit share of 30% on wagering revenue received in respect of all Attributable Customers (eg club members who register as a CrownBet customer within 45 days of any direct communication to them by the club). The profit share is calculated as follows:</p> <p style="text-align: center;"><b><i>(Net Attributable Wagering Revenue – Marketing Costs – Capital Charge) x 30% - Adjustment for Prior Period Losses<sup>1</sup></i></b></p>  |

<sup>1</sup> Refer Appendix 1 for a worked example

|   |  |
|---|--|
|   | <p>The profit share applies to all bets regardless of whether they are placed inside or outside of the club and will be payable for the lifetime of the CrownBet customer. However, if the wagering activity occurs in another participating club, that club will earn the profit share for those bets and not your club.</p>  |
| <b>CrownBet Rewards loyalty program</b> | <p>Club members and patrons will be able to participate in the CrownBet Rewards loyalty program. This will allow them to earn and redeem CrownBet Rewards points based on their CrownBet digital wagering activity. They will also be able to redeem their CrownBet Rewards points at the club, following completion of the necessary technical integration.</p> <p>CrownBet will reimburse the club, in full, for the value of any CrownBet Rewards points redeemed in the club.</p>  |
| <b>Marketing</b>                        | <p>CrownBet will work with you to develop a marketing plan to launch the digital wagering service to members and patrons, which will include electronic marketing to members. CrownBet will provide the club with all the necessary marketing materials and collateral to conduct marketing and promotional activities.</p> <p>CrownBet will also offer the following six specific marketing promotions, which have been designed to drive increased club patronage and the acquisition of customers:</p> <ul style="list-style-type: none"> <li>(a) First Matched Deposit;</li> <li>(b) Digital Corporate Bookmaker Buy Out</li> <li>(c) CrownBet Rewards 'Double Points'</li> <li>(d) CrownBet Rewards Incentive (<i>Asterix</i>);</li> <li>(e) Crown Resorts Accommodation Discount; and</li> <li>(f) One way transfer of CrownBet Rewards points to in-club redemptions</li> </ul> |
| <b>Access to CrownBet Dashboard</b>     | <p>CrownBet will provide you with access to a near-to-live self-service online 'Dashboard' reporting tool containing (at a minimum) the following key metrics on members' activity with CrownBet:</p> <ul style="list-style-type: none"> <li>(a) Net Wagering Revenue generated by CrownBet customers;</li> <li>(b) CrownBet customers acquired;</li> <li>(c) Total CrownBet Rewards points earned and redeemed by customers;</li> <li>(d) Total CrownBet Rewards redemptions made in-club;</li> <li>(e) Marketing costs;</li> <li>(f) Cost of goods sold; and</li> <li>(g) Such other information agreed to.</li> </ul>   |
| <b>Provision of equipment</b>           | <p>CrownBet will pay finance, supply, and install all of the equipment and related services necessary to offer digital wagering services in the club (i.e. television/digital screens, signage, Wi-Fi internet, sign-up stations, mobile phone charging stations, etc.) in a designated area allocated as the 'CrownBet Advertising Zone'.</p>   |

|   |  |
|---|--|
| <b>Ownership of equipment</b>           | The club does not have any title to or ownership of the equipment in the CrownBet Zone, other than equipment that has been purchased by the club.  |
| <b>Maintenance of equipment</b>         | <p>CrownBet will use reasonable endeavours to maintain and keep the equipment in good technical working order.</p> <p>The club will be required to report any technical issues to the CrownBet Account Representative.</p> <p>If the equipment is lost, stolen or damaged whilst on the premises CrownBet (or a relevant third party) will repair or replace the equipment (as applicable) entirely at your cost and expense.</p>  |
| <b>Your obligations</b>                 | <p>The club will be required, among other things, to:</p> <ul style="list-style-type: none"> <li>• send electronic direct marketing (EDMs) and other correspondence to club members in accordance with the marketing plans developed in consultation with CrownBet;</li> <li>• assist CrownBet to install equipment in the CrownBet Advertising Zone;</li> <li>• ensure sufficient power and power points are available in the CrownBet Advertising Zone;</li> <li>• ensure that the CrownBet Advertising Zone is kept clean and well presented at all times;</li> <li>• display promotional material provided by CrownBet and promote the club's association with CrownBet; and</li> <li>• display CrownBet proprietary odds data and feed on the applicable equipment (as agreed with CrownBet) at all times.</li> </ul> |
| <b>Insurance</b>                        | The club will be required to hold public and products liability insurance cover in the amount of \$20 million in respect of any one occurrence, and at least \$20 million in respect of the annual aggregate.  |
| <b>Crown Sydney and Gaming</b>          | No content or marketing collateral will be sent to clubs or members and patrons that promotes any product or service of the Crown Sydney property, or any gaming product or service. Customers will be restricted from redeeming their CrownBet Reward points on Crown Sydney offerings.   |
| <b>Data Ownership</b>                   | The club will retain ownership of all Intellectual Property Rights in its member database. After a member becomes a CrownBet customer, CrownBet will collect data in respect of that member when they register and wager with CrownBet and CrownBet will own any Intellectual Property Rights in and to that data.   |
| <b>Termination for Poor Performance</b> | CrownBet has set the club annual targets for the acquisition of new CrownBet customers. These annual targets are expressed as a percentage of the club's member database. If the club fails to meet its annual targets by 50% or more in two consecutive years, either CrownBet or the club may terminate the ILVA.  |

## Appendix 1 - Quarterly Profit Share Worked Example

| CLUBS NSW - LARGE VENUE (WORKED EXAMPLE - NOTE ALL NUMBERS ARE ILLUSTRATIVE ONLY) | Q1                  | Q2                 | Q3                  | Q4                 | YEARLY TOTAL        |
|---|---------------------|--------------------|---------------------|--------------------|---------------------|
| Licensed Venue Stake  | \$ 2,135,555        | \$ 101,523         | \$ 4,392,857        | \$ 1,910,092       | \$ 8,540,027        |
| Network GWR Margin  | 11.00%              | 9.85%              | 11.20%              | 10.85%             | 11.06%              |
| Licensed Venue Gross Wagering Revenue   | \$ 234,911          | \$ 10,000          | \$ 492,000          | \$ 207,245         | \$ 944,156          |
| <b>Cost of Goods Sold</b>   |                     |                    |                     |                    |                     |
| Product Fees  | \$ (43,459)         | \$ (1,850)         | \$ (91,020)         | \$ (38,340)        | \$ (174,669)        |
| GST   | \$ (21,377)         | \$ (910)           | \$ (44,772)         | \$ (18,859)        | \$ (85,918)         |
| Bonus Bets  | \$ (12,685)         | \$ (540)           | \$ (26,568)         | \$ (11,191)        | \$ (50,984)         |
| Loyalty   | \$ (21,142)         | \$ (900)           | \$ (44,280)         | \$ (18,652)        | \$ (84,974)         |
| Transaction fees  | \$ (7,047)          | \$ (300)           | \$ (14,760)         | \$ (6,217)         | \$ (28,325)         |
| <b>Total Cost of Goods Sold</b>   | <b>\$ (105,710)</b> | <b>\$ (4,500)</b>  | <b>\$ (221,400)</b> | <b>\$ (93,260)</b> | <b>\$ (424,870)</b> |
| <b>Net Attributable Wagering Revenue (NAWR)</b>                                   | <b>\$ 129,201</b>   | <b>\$ 5,500</b>    | <b>\$ 270,600</b>   | <b>\$ 113,985</b>  | <b>\$ 519,286</b>   |
| Marketing Costs   | \$ (10,200)         | \$ (19,300)        | \$ (10,299)         | \$ (9,659)         | \$ (49,458)         |
| Capital Charge  | \$ (3,462)          | \$ (3,462)         | \$ (3,462)          | \$ (3,462)         | \$ (13,849)         |
| <b>NAWR after Marketing &amp; Capital</b>   | <b>\$ 115,539</b>   | <b>\$ (17,262)</b> | <b>\$ 256,839</b>   | <b>\$ 100,864</b>  | <b>\$ 455,979</b>   |
| Cumulative NAWR for distribution after Marketing & Capital                        | \$ 115,539          | \$ 98,277          | \$ 355,115          | \$ 455,979         | \$ 455,979          |
| <b>VENUE CALCULATIONS</b>   |                     |                    |                     |                    |                     |
| 30% of NAWR after Marketing & Capital   | \$ 34,662           | \$ (5,179)         | \$ 77,052           | \$ 30,259          | \$ 136,794          |
| Adjustment for Prior Period Losses  | \$ -                | \$ -               | \$ (5,179)          | \$ -               | \$ -                |
| <b>Club Profit Share</b>  | <b>\$ 34,662</b>    | <b>\$ -</b>        | <b>\$ 71,873</b>    | <b>\$ 30,259</b>   | <b>\$ 136,794</b>   |
| <b>CROWN BET CALCULATIONS</b>   |                     |                    |                     |                    |                     |
| 70% of NAWR after Marketing & Capital   | \$ 80,877           | \$ (12,084)        | \$ 179,787          | \$ 70,604          | \$ 319,185          |
| Adjustment for Portion of Venue Losses  | \$ -                | \$ (5,179)         | \$ -                | \$ -               | \$ (5,179)          |
| Adjustment for Portion of Venue Repayments  | \$ -                | \$ -               | \$ 5,179            | \$ -               | \$ 5,179            |
| <b>CrownBet Carrying Position</b>   | <b>\$ 80,877</b>    | <b>\$ (17,262)</b> | <b>\$ 184,966</b>   | <b>\$ 70,604</b>   | <b>\$ 319,185</b>   |
| <b>Checksum (Club Profit Share + CrownBet Carrying Position)</b>                  | <b>\$ 115,539</b>   | <b>\$ (17,262)</b> | <b>\$ 256,839</b>   | <b>\$ 100,864</b>  | <b>\$ 455,979</b>   |

### Financial Definitions

**Gross wagering revenue (GWR)** is the venue's stake multiplied by the network gross wagering revenue margin (where the network gross wagering revenue margin represents the margin % for all ClubsNSW's venues combined)

**Net Attributable Wagering Revenue (NAWR)** is the venue's GWR less certain costs made up of:

- Bonus and promotional bets
- Product fees (fees paid to racing and sports bodies)
- Transaction fees
- GST and any other required taxes
- Licence fees
- CrownBet Rewards costs
- Customer verification fees
- Entertainment costs (within agreed budget caps)
- Affiliate costs

**NAWR after Marketing & Capital** is the venue's NAWR, less the costs of the agreed ClubsNSW marketing promotions and the capital charge. The venue will receive 30% of this value as its profit share, adjusted for any prior losses.



## WA budget: Opposition slams Western Power privatisation as business groups applaud

By Nicolas Perpitch

Updated Thu 12 May 2016, 8:08pm

**Opposition Leader Mark McGowan has slammed the West Australian Government's intention to privatise Western Power as a "disastrous" plan that the Premier himself has previously recognised was irresponsible.**

Treasurer Mike Nahan today announced the Government would take the proposed sale of Western Power to the next election and seek a mandate to sell it in the next term of government.

The Pilbara poles and wires of Horizon Power would also be sold off.

Spelling out their reaction to the budget, the peak business and mining groups expressed their strong support for privatisation as a way to pay off debt.

But unions warned they would campaign strongly against the move in the run up to next March's state election.

Dr Nahan estimated \$16 billion in revenue would be raked in from the sale of Western Power, Horizon Power and Fremantle Port.

He announced \$11 billion would be used to pay down debt and help regain the state's AAA credit rating, while \$5 billion would be placed in an infrastructure fund to pay for capital works.

### State's finances 'wrecked': Opposition

Mr McGowan labelled it a "sneaky privatisation plan of essential services".

"It's a disaster of a plan," he told reporters.

The Labor leader said Premier Colin Barnett had repeatedly said he would not sell Western Power.

"He said it was economically irresponsible to sell off those assets. He said it would damage services across Western Australia," he said.

"He said it would damage services across Western Australia. And now he's going back on his word.

"The Government has just wrecked Western Australia's finances. They've got a shaky plan to have a fire sale of important State Government assets.

"It's no way to govern Western Australia."

### Privatisation welcomed by business

But the Chamber of Commerce and Industry WA said the asset sales would wipe significant debt off the budget balance sheet.

"The sale of these assets will allow these assets to be more efficiently run in the private sector, it will improve the efficiency of government and will also allow the Government very importantly to reduce debt and set aside funds to invest in future economic infrastructure," CCI chief executive Deidre Willmott said.



PHOTO: Mr McGowan says selling assets is "a disaster of a plan". (ABC News: Andrew O'Connor)

MAP: WA

The Chamber of Minerals and Energy also welcomed the privatisation announcement.

But chief executive Reg Howard-Smith said it was not enough.

"The revenue from the sale of assets will in part assist in reducing the budget deficit which regrettably has increased in this year's budget," Mr Howard-Smith said.

"Additional reductions in State Government expenditure will be needed."

## Power sale an election campaign issue: unions

Unions were already campaigning against privatisation before the budget, and made clear today they would fight the move until polling day in March.

Electrical Trade Union state secretary Les McLaughlan said it was a "fire sale".

"And when you have a fire sale you sell off things cheap just to try and get a grab for cash," Mr McLaughlan said.

"And we will gladly take this on at the election."

He predicted the community would oppose privatisation, which he said would be the undoing of the Barnett Government.

"It's a foolish thing to do and they should back away from that before they make a huge mistake that our community will pay for for generations to come," he said.

United Voice State secretary Carolyn Smith said privatisation did not work.

"We've seen very directly what privatisation has meant with Serco at Fiona Stanley Hospital," Ms Smith said.

"It's a failed model. Why he thinks it's going to work with electricity, with ports, is absolutely beyond me."

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### From other news sites:

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- **The Sydney Morning Herald:** WA State Budget 2016: The biggest deficit in history
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**Topics:** budget, government-and-politics, wa

*First posted Thu 12 May 2016, 7:46pm*

## WA Premier softens stance on Western Power privatisation in wake of 'Mediscare' success

**Source:** ABC Premium News  
**Publication Date:** July 7, 2016  
**Country:** Australia  
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7/7/16 Austl. Broad. Corp. (ABC) News (Pg. Unavail. Online)

News

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Andrew O'Connor

Thursday, July 7, 2016

The West Australian Government softens its stance on the planned privatisation of Western Power to head off what Premier Colin Barnett predicts will be a massive scare campaign in next year's state election.

The West Australian Government has softened its stance on the planned privatisation of Western Power to head off what Premier Colin Barnett predicts will be a massive scare campaign in next year's state election.

In his first public appearance since the federal election, where the Coalition Government suffered major losses on the back of Labor's Medicare scare campaign, Mr Barnett said he would carefully evaluate the public mood.

"I think that signals to me there is no doubt the Labor Party will run a scare campaign around privatisation," he said.

"My job, if we do go down that path, I've got to get public support and at the moment I don't think that is there, but I'll be talking to people face to face over the next few months about that."

The Premier's comments represent a significant shift in the Government's commitment to its privatisation agenda, which stands as the centrepiece of its debt reduction plan.

The Barnett Government has been slammed for its financial management, with , and debt heading towards \$40 billion by 2020.

It wants to , to help to fund capital works and ease the state's growing debt, and fund future infrastructure spending.

The Government had planned to take the issue to the March 2017 election, in the hope of securing a mandate from voters to proceed with the sale.

In May, the ABC reported the Electrical Trades Union released polling that showed and diminished the Government's chances of re-election.

At the time, Dr Nahan dismissed the polls as union "propaganda", and he guaranteed the Barnett Government would stick with its policy to evaluate and consider the sale ahead of the election.

"We will map it out and we will convince the public that this is the right, once we specify what we're going to do, this is the right move to take," Dr Nahan said in May.

Public 'hesitant' on privatisation: Premier

But in the wake of the weekend federal election result and the apparent success of the 'Mediscare' campaign, Mr Barnett has shifted to a more cautious approach, leaving the door open to shelve the idea.

"I've always been a realist on privatisation. The Australian public is always hesitant about that, and will take some time to accept it," he said.

"I think you really can only privatise a major government asset if you have a sense the community is accepting of it."

Mr Barnett said he did not believe the proposal to sell off Western Power currently had that support.

"I don't think the community is particularly accepting of selling Western Power but I will, at a lot of public meetings and discussions, I will try to gauge that as best I can."

With after the Nationals opposed the deal, the Government has been left with only Western Power and the TAB as significant privatisation targets.

Mr Barnett believes there is public support for selling the TAB, but the Government needs to secure industry support.

"I don't think any sale could be completed [before the election], but I hope we can get a broad agreement, certainly with the racing industry, that it is in the racing industry's interest that the TAB be privately owned."

Premier trying to create confusion: Opposition

The State Opposition insists it will run a positive campaign built around its plan for jobs, the MetroNet public transport project.

But Opposition Leader Mark McGowan said WA Labor would be clear about the risks of privatising assets like Western Power and Fremantle Port.

He is unconvinced by the Premier's more cautious and consultative approach.

"If the Liberal Party wins the next state election they will flog off Western Power and Fremantle Port in a heartbeat. That's what will happen," he said.

Mr McGowan said the public statements on privatisation by both the Premier and Treasurer have made their support for privatisation clear.

"They can't back away from that they've said. They have made it totally clear what they plan," he said.

"Now he's trying to muddy the water and create confusion around the issue.

"But my view, and anyone who has watched their commentary, particularly Mike Nahan's, is they'll privatise, they'll sell, they'll flog for whatever price they can get, Western Power and Fremantle Port."

---- INDEX REFERENCES ----

**LANGUAGE:** English

**COMPANY:** FREMANTLE PORT AUTHORITY; METRONET PTY LTD; WESTERN POWER CORP

**NEWS SUBJECT:** Business Management (1BU42); Campaigns & Elections (1CA25); Corporate Events (1CR05); Global Politics (1GL73); Government (1GO80); Political Parties (1PO73); Privatization (1PR92); Public Affairs (1PU31); World Elections (1WO93)

**REGION:** Australasia (1AU56); Australia (1AU55); Oceania (1OC40)

**OTHER INDEXING:** (liberal party) (Mike Nahan; Colin Barnett; Mark McGowan)

**WORD COUNT:** 746

# West Australian Liberal voters oppose Western Power sale

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Almost half of Liberal voters in WA Treasurer Mike Nahan's safe seat of Riverton are opposed to the proposed privatisation of utility Western Power, according to ReachTel data.

The sale is the centrepiece of the Barnett government's asset sales plan as it strives to fix its ailing finances, and was initially expected to fetch \$15 billion but expectations were revised downwards to \$12 billion at the state budget in May.



Liberal Party's plan to sell Western Power does not seem to be supported by Liberal voters. Photo: Erin Jonasson

Premier Colin Barnett was initially opposed to the sale but Dr Nahan convinced him of the financial necessity, although he said July that public support was essential.

About 1000 people in the southern suburbs seat were canvassed last month, with 49.35 per cent of respondents who said they would vote Liberal at the March state election saying they were against privatising the electricity poles and wires operator.

Only 21.41 per cent supported it while 29.24 per cent were undecided

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12/13/2016

## West Australian Liberal voters oppose Western Power sale

Only 21.41 per cent supported it while 29.24 per cent were undecided.

"There is no doubt that the Liberal Party's plan to sell Western Power is not supported by the community, even in Dr Nahan's own electorate," opposition energy spokesman Bill Johnston told AAP on Monday.

Among Labor voters canvassed by ReachTel, 77.7 per cent were against the transaction.

Labor says the sale is a one-off, short-term 'sugar hit' that will deny the state recurrent income.

Western Power's recently released 2016 annual report shows it paid \$400.9 million in dividends to the state government during the year to June 30.

Mr Johnston said the plan was against the interests of the state economy and was clearly opposed by the community.

"It's a bad idea, and that's why WA Labor is opposed to it," he said.

Dr Nahan said on Monday the state government was finalising the privatisation options.

"We'll go through a whole range of issues in the next few weeks. We will enunciate the approach that we're going to take to the transaction," he said.

Labor leader Mark McGowan told a business forum last week that selling off monopoly assets was always fraught with danger.

"The one thing worse than a public monopoly is a private monopoly," Mr McGowan said at the time.

The proposal is being fiercely fought by the Electrical Trades Union and Australian Services Union, which cite Victoria's deadly Black Saturday bushfires as an example of why such important infrastructure should not be placed into private hands.

- AAP

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## West Australian Liberal voters oppose Western Power sale

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## Western Power: Labor escalates anti-privatisation push, vows never to sell utility

By Andrew O'Connor

Posted Mon 17 Oct 2016, 4:12pm



PHOTO: Mark McGowan says Western Power is a critical public asset. (ABC News: Andrew O'Connor)

**WA Labor is intensifying its campaign against the privatisation of Western Power, launching a public petition calling on the Barnett Government to abandon the plan.**

Labor leader Mark McGowan was joined by Labor candidates contesting seats at the March election, as they sought public support for the campaign in the centre of Perth.

"We do not want Western Power privatised. We will stand against the privatisation of Western Power and we will make this a major issue in the lead up to the next election," he said.

Western Power is the latest in a string of public assets targeted for sale by the financially-pressed Barnett Government.

After delivering record debt and deficits in the May state budget, the Government wants to use asset sales to curb spiralling debt, and fund capital works.

### Sale would be 'serious mistake'

But WA Labor argues the Western Power is a critical public asset and a source of revenue for the cash-strapped Government, and believes selling it would be a serious mistake.

Mr McGowan said the utility, which owns the poles and wires which distribute electricity across the state's south-west, is efficient, profitable and returns a dividend to the state.

**RELATED STORY:** Western Power sale plan to be revealed soon

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**MAP:** WA

"If you sell off Western Power, you will lose that ongoing dividend, that ongoing revenue to the people of the state," he said.

"I think that is a major point. If you lose \$550 million-plus in revenue, in dividends and tax-equivalent payments to the people of the state, that money has to be made up somewhere."

## 'Recycling assets' beneficial, says Treasurer

With Western Power's debt about \$8 billion, WA Treasurer Mike Nahan argues privatisation of the utility would punch a big hole in the Government's overall debt, projected to be \$33.8 billion by the end of the financial year.

Dr Nahan said the Government would be mindful of public opinion on the issue.

"We represent the public and we have gone about this very cautiously," he said.

But he said both Liberal and Labor state governments on the east coast demonstrated the value of recycling public assets which no longer needed to be in government ownership.

"The fastest growing states right now are New South Wales and Victoria, based in large part, on construction, funded in large part by the recycling of assets that they no longer need and investing in assets they do need," he said.

Mr McGowan and Labor candidates sought signatures from shoppers and lunchtime diners in Forrest Chase, in the next step what would be a five-month campaign against privatisation.

"We'll be aiming for many thousands of signatures and our candidates and members will be out there campaigning on this issue in the lead up to the next election," he said.

**Topics:** electricity-energy-and-utilities, government-and-politics, wa



## Western Power sale: Government allies draw closer to privatisation agreement

By Andrew O'Connor

Updated Tue 18 Oct 2016, 8:57pm

**The WA Liberals and Nationals are edging closer to forming a united front on the sale of state-owned electricity supplier Western Power, which is shaping as a key battleground for the state election next year.**

Treasurer Mike Nahan unveiled plans to sell the utility in the state budget in May, with funds used to retire some of the state's ballooning debt as well as fund infrastructure.

The Nationals, who form government in Western Australia with the Liberal Party, have flagged support for the idea, but only if the funds were quarantined for capital works and infrastructure.

Now less than five months out from the next state election, the Treasurer yesterday suggested the bulk of the funds from any sale of Western Power would be directed to capital works.

State Nationals leader Brendon Grylls this morning said his party was open to the idea of selling some assets, including Western Power.

"The sell-down of Western Power, to facilitate investment in infrastructure, help grow the state and keep people in jobs is critically important," he said.

Mr Grylls is also pushing for a \$5 a tonne iron ore tax on the state's biggest miners, Rio Tinto and BHP Billiton, to help pay off state debt, and indicated his party was looking for agreement with their government alliance partner on both issues.

"I'm hopeful that both on revenue and on asset sales, the Liberals and Nationals can take a policy to the election," he said.

### Partial sale on cards

WA Nationals State President James Hayward told ABC radio the party would support a partial sale of Western Power.

"Our view I think is that we'd only support half," Mr Hayward said.

"But that's still all to be worked out. There's certainly no proposal at the moment to sell Western Power."

But he said support for the sale would be contingent on a clear benefit in using the funds for other projects.

"The sale of half of Western Power could raise something like \$10 billion," he said.

"Our view is that that money should immediately [go] into large scale infrastructure programs that create jobs.

"We need to work out ways that we can get large amounts of money to build some of these state building projects."

Premier Colin Barnett said he would be seeking a shared policy position with the Nationals on Western Power.



**PHOTO:** The privatisation of Western Power is expected to raise billions of dollars. (ABC News: Andrew O'Connor)

**RELATED STORY:** Labor vows never to sell-off Western Power

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### Key points:

- Liberal Party wants to sell Western Power to pay off state debt
- Nationals flagged support but want money used to create jobs
- Labor has vowed to fight the sale as an election issue

"We will be having some discussions. The Liberal Party has its view as to what we should do. We'll be discussing that with the National Party and if there's agreement, then we'll declare that publicly," he said.

Mr Barnett said no final decision had been made on selling the utility.

He said the options for selling Western Power would first be discussed at Cabinet and then with the Liberal Party room.

The Nationals are expected to debate the issue at the party's state conference in Geraldton at the end of this month.

## Labor vows to fight privatisation bid

Labor leader Mark McGowan challenged Mr Barnett to what he described as a "town hall debate" on the possibility of selling Western Power, saying the public deserved the chance to quiz the Government.

"There are town hall meetings going on across Perth and I will meet Mr Barnett any time, any day, any place to debate this issue," he said.

"There are a lot of Western Power workers are concerned about their jobs, ordinary people in the suburbs are worried about the loss of this important public asset."

Electrical Trades Union state secretary Les McLaughlan said selling Western Power would increase the risk of bushfires around the state, claiming it would "without a doubt" lead to reduced maintenance of the poles and wires network.

"If you bring a private enterprise in, they are there to make profit for their shareholders and they will look to save money," he said.

"Where they have saved money in the past is maintenance."

**Topics:** government-and-politics, wa

*First posted Tue 18 Oct 2016, 6:42pm*

**WA:WA electricity supply at risk: Labor**

**Source:** AAP Newswire  
**Publication Date:** October 23, 2016  
**Country:** **Australia**  
**Source Type:** Newswire

10/23/16 AAP Newswire 19:36:19

News

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PERTH, Oct 23 AAP - **Privatising** WA's poles and wires utility Western Power would be a mistake that would cost the state \$550 million a year and threaten electricity supply, says state Labor leader Mark McGowan.

The Labor opposition ramped up its campaign against the **privatisation** last week - holding media events every day, including launching a public petition and visiting at a transformer manufacturing business whose contract with Western Power had been axed, costing 80 jobs.

The Liberal National government's Treasurer Mike Nahan wants to sell Western Power, Fremantle Port and the **TAB** betting agency and use a significant part of the proceeds to pay down debt.

Western Power's \$8 billion in debt represents about a quarter of government borrowings.

Mr McGowan says that as well as risking jumps in electricity prices and a fall in service quality - with the government denies will occur - the risk to supply was the most serious issue.

"Mr Nahan doesn't look at these issues based upon facts, he looks at them based upon his ideology and his ideology is extreme **privatisation**, that's what he wants to do to Western Power," Mr McGowan told reporters on Sunday.

"I think my position is the conservative position, it's the safe position - don't sell off an asset that provides an essential service in a monopoly environment when you can't connect into the other states' electricity supplies and where the asset provides a huge revenue to taxpayers."

The Barnett government fought back against Labor during the week, floating the idea of a 50 per cent-plus sale of Western Power in which it would be floated on the share market and both mum and dad investors and superannuation funds could separately buy shares.

Super funds were key players in the controversial \$16 billion Ausgrid sale in NSW, which blocked a Chinese bid.

AAP GR/EVT

---- INDEX REFERENCES ----

**LANGUAGE:** English

**COMPANY:** AUSGRID; FREMANTLE PORT AUTHORITY

**NEWS SUBJECT:** Business Management (1BU42); Corporate Events (1CR05); **Privatization** (1PR92)

**INDUSTRY:** Electric Utilities (1EL82); Electric Utilities Generation (1EL37); Electric Utilities Generators (1EL15); Energy & Fuel (1EN13); Utilities (1UT12)

**REGION:** Australasia (1AU56); Australia (1AU55); Oceania (1OC40); Western Australia (1WE82)

**OTHER INDEXING:** (Mike Nahan; Mark McGowan)

**WORD COUNT:** 304

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## Colin Barnett to sell Western Power to raise \$11b



The sale of Western Power will be a key election battleground ahead of the March poll. Erin Jonsson

by [Julie-anna Sprague](#) [Angela Macdonald-Smith](#)

The West Australian government has blacklisted foreign investors from the first stage of the \$11 billion privatisation of the state's electricity grid which it hopes will secure it a third term in office.

The Barnett government wants to float 51 per cent of Western Power in a deal that will generate \$11 billion to cut ballooning debt and pay for education and transport infrastructure.

The plan which the Labor opposition, along with unions, staunchly oppose is likely to be the key issue in the state election in March.

Premier Colin Barnett, who until this year opposed any sale, said on Wednesday he wanted to keep the asset in Australian hands and has set "indicative targets" for ownership of any shares issued in a prospectus.

In an attempt to pre-empt a potential scare campaign about foreign ownership of the electricity network, Mr Barnett said about 30 per cent of shares via the float would be allocated to Australian superannuation funds and 20 per cent reserved for "mum and dad retail investors", including Western Power employees.

But Mr Barnett said this did not mean foreigners were being blocked from owning shares in Western Power.

"Anyone can buy a share on the Australian stock exchange but the fact that is going to be 49 per cent West Australian government owned and 31 per cent Australian super

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funds means it will be an ASX listed company, it will be an Australian company," Mr Barnett said.

## Repair job

It is expected the government would raise about \$3 billion via a public offering of shares while shifting \$8 billion in Western Power debt off its balance sheet.

A sale could drastically reduce WA's \$30 billion debt load and make significant inroads toward repairing its balance sheet and regaining the triple A credit rating.

Treasurer Mike Nahan said the float structure would address any national security concerns.

Taking a leaf out of NSW premier Mike Baird's playbook, Mr Barnett promised to spend sale proceeds on infrastructure by creating a \$3 billion 'Next Generation Account'.

He said \$1 billion would be spent on schools and TAFE facilities, \$1 billion would be earmarked for transport infrastructure and about \$150 million would be used to

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Mr Barnett insisted it would not fund election promises in the lead up to the March poll.

## Withering economy

The election is on a knife edge with the Barnett government sagging in popularity as the economy withers amid the mining downturn that has conspired to push down house prices and lifted the unemployment rate to the highest in the country.

No investment bank has been mandated for the sale however UBS, Macquarie, Goldman Sachs and Rothschild have all provided input.

Western Power accounts for about \$7.4 billion of government debt, a figure expected to grow to nearly \$8 billion by 2018-19, when the government, if it wins the March poll, expects to sell the asset.

The government's valuation is based on 1.3 times Western Power's \$10.8 billion regulated asset base, valuing the company at \$14 billion.

The decision [to plump for a float over a trade sale](#) will disappoint several infrastructure investors who were expected to be keen to run the ruler over Western Power as the next "poles and wires" prize up for grabs following the NSW electricity distributors.

Spark Infrastructure chief executive Rick Francis has said that his consortium that acquired NSW transmission grid owner TransGrid could "quite possibly" be interested in Western Power.

## Foreigners blocked

Foreign investors already had their ambitions severely dented in the NSW poles and wires auction, most notably with the [Federal Treasurer's eleventh-hour blocking of](#)

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final bids for Ausgrid by Hong Kong's Cheung Kong Infrastructure and China State Grid Corporation.

Ausgrid was later snared by the all-Australian partnership IFM Investors and Australian Super in a \$16 billion deal that was negotiated outside the formal auction process.

They are among superannuation funds expected to invest in the float.

Restrictions were also placed around foreign investors in NSW government's sale of high-voltage grid owner Transgrid, although the final winning consortium includes funds from Canada and the Middle East, as well as local partners.

Foreign investors will also be limited in the stake they can apply for in the last NSW asset to be sold, Endeavour Energy, with any individual foreign bidder limited to half the 50.4 per cent stake on offer, according to sources.

Opposition leader Mark McGowan went on the attack on Wednesday saying he would fight the sale "every step of the way".



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SELLING WESTERN POWER IS NOT IN THE BEST INTERESTS OF EVERYDAY WESTERN AUSTRALIANS and does not make economic sense."

Mr McGowan argues selling the asset deprives the state of ongoing revenue.

Mr Barnett conceded his government had "a job to do" convincing the public about the merits of the sale. He hoped the electorate would welcome a partial sale as a "sensible compromise".

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# Western Australian Government's \$11bn plan to sell off Western Power

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Video Image



WA premier heckled at Western Power rally

AAP

**WESTERN Australia's power utility will be sold off under a plan which Premier Colin Barnett says he is confident will raise at least \$11 billion to repair the state's beleaguered finances.**

If the Liberal National government is re-elected — it has trailed Labor in recent polls — it will sell 51 per cent of the Western Power poles and wires utility business, keeping the rest in state hands.

The divisive issue is shaping as one of the most important of the March state election, given the Labor opposition has guaranteed it will not sell the electricity transmission and distribution company.

WA Labor leader Mark McGowan said the privatisation would be a disaster. "They have wrecked the state's finances, they have delivered us the highest unemployment

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BUT PREMIER BARNETT SAID THE \$11BN BUDGET BOOST WAS ONLY A "CONSERVATIVE ESTIMATE" OF HOW MUCH COULD BE RAISED.

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Western Power sale: Electricity poles and wires to be sold by WA Government



Western Power is to be privatised if the LNP retain power> Picture: AFP. Source:AFP

Western Power would be floated on the share market, with 31 per cent offered to Australian industry superannuation funds and 20 per cent to “mum and dad” retail investors.

The \$11 billion figure implies Western Power is worth at least \$21 billion to \$22 billion, well above past valuations such as a PwC report last month estimating a \$12 billion to \$16 million total value.

Mr Barnett and Treasurer Mike Nahan said their higher price was based on the prices paid for similar assets such as the Ausgrid and Transgrid NSW sales and their discussions with the banks involved.

“It is going to be a significant amount of money, the \$11 billion estimate is probably fair ... it is a conservative estimate,” Mr Barnett told reporters. Superannuation funds were “queuing up to buy these assets”, Mr Nahan said, given utilities were considered defensive, reliable investments.

The majority of the money — \$8 billion — will be used to wipe out Western Power’s debt making a decent dent in current government debt of \$28 billion that is forecast to grow to \$40 billion.



WA Premier Colin Barnett talks to media at announcement on sale of Western Power. Picture: Colin Murty Source:News Corp Australia

However there was a risk for the WA government in using proceeds from asset sales to pay down debt, as it had been unpopular with voters in Queensland. RBC Capital

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which would be spent on ageing schools, \$1 billion on public transport and other transport infrastructure and \$150 million on improving electricity supplies in more remote areas, which helped secure WA Nationals’ leader Brendon Grylls’ support.

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“The level of borrowings was getting uncomfortably high ... this makes our finances manageable,” Mr Barnett said, arguing that WA’s debt had only soared because it’s share of national GST revenue had fallen so low. Labor leader Mark McGowan said selling Western Power would push up prices, drive down services, lose revenue and jobs.

“Mr Grylls and Mr Barnett are financial and economic cowboys. They have wrecked the state’s finances, they have delivered us the highest unemployment in the nation and now they plan to flog off the family silver.”



WA Labor Leader Mark McGowan and members of the WA Labor team launch a petition, as part of a new campaign to stop the Barnett Liberal Government's privatisation of Western Power. Source: News Corp Australia

However, the Chamber of Commerce and Industry of WA welcomed the plan, saying it would create thousands of jobs and drive economic growth. They said it would boost business confidence and enable the state government to create jobs by investing in new infrastructure.

Mr Barnett said there was no downside for West Australians because money would now be freed up for infrastructure for a growing population. The prices Western Power charges — which he said represented 40 per cent of residents’ power bills — would not rise sharply because that, along with maintenance, safety and investment issues, were all still highly regulated. There would also be no forced redundancies at Western Power, Dr Nahan said. Notre Dame University adjunct professor of politics Peter Kennedy said the issue would be crucial to the election result, with Mr Barnett banking on the past successful floats in WA of Bankwest and Alinta.

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 THE AUSTRALIAN
 

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## WA election: Colin Barnett launches his electricity privatisation sales pitch



WA Corrective Services Minister Joe Francis, left-to-right, Mental Health Minister Andrea Mitchell, Premier Colin Barnett, Police Minister Liza Harvey and Attorney General Michael Mischin today.

PAIGE TAYLOR THE AUSTRALIAN 4:09PM February 5, 2017

West Australian premier Colin Barnett says he is not surprised most voters oppose his privatisation plan for the state's electricity poles and wires, but today launched a sales pitch for the proposal that he hopes will change their minds before the March 11 election.

A [Newspoll taken exclusively for \*The Weekend Australian\*](#) showed 61 per cent of voters oppose the Liberal-National government's key election platform; the sale of 51 per cent of Western Power, the utility that delivers electricity across the state. On [Friday, \*The Australian\* published a Newspoll that confirmed the fears of Liberal insiders: Labor is leading the Barnett government 54-46 on a two-party preferred basis.](#)

Campaigning in Perth this morning, Mr Barnett acknowledged there was widespread opposition to the partial sale of Western Power but hinted that might change.

"I think more people will think about it carefully and I'm not surprised by that figure — most people generally take an initial position of generally opposing privatisation," he said.

"But again can I remind people we are selling only 51 cent of Western Power. We are retaining 49 per cent of it in government ownership so the state government will always be the largest shareholder by a big, big margin."

Under the Liberal-National plan, 30 per cent of Western Power will be sold to Australian superannuation funds and 20 per cent will be sold to what Mr Barnett described as "mum and dad investors, small investors primarily for their own super funds".

"So it stays Australian-owned," Mr Barnett said.

He said the partial sale would raise \$11 billion — \$8 billion to wipe debt and a billion dollars each for new schools, transport and improvement to the electricity network.

Announcing compulsory rehabilitation for meth addicts and tougher sentences for dealers outside the WA Supreme Court today, Mr Barnett said it was the role of government to do the things the private sector could not.

"In day's gone by the West Australian government used to own and run hotels who would ever think about that (now)," he said.

"I don't think we need to run a betting agency (TAB) anymore — the world does move on a little bit.

Mr Barnett predicted that, after a partial sale, electricity prices would reduce as they had in other states where poles and wires were privatised.

"Remaining fully in government ownership, Western Power would have a huge call on taxpayer and community funds to fund the capital expenditure," he said.

"The biggest component of state debt is Western Power debt because our population has gone up 500,000 people in eight years — they all need power supplies right throughout the state. That's just borrowing to supply power," he said.

"So I think the government responsibility is to do the things the private sector can't help with."

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ROSIE LEWIS

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## Tabcorp rides a tidal wave of change

**Source:** Australian Financial Review  
**Publication Date:** May 6, 2013  
**Country:** Australia  
**Source Type:** Newspaper

5/6/13 Austl. Fin. Rev. 48

News

Copyright (c) 2013 Financial Review Group  
 Michael Smith and Jessica Gardner

Tabcorp's is a familiar tale of a traditional company at the heart of a massive structural shift in its industry. The corporate bookmaker is on the rise and the traditional tote operators are playing catch-up. If there was any doubt that the corporate bookmakers, once derided as the tax-avoiding cowboys of the industry, had come into their own, then Tom Waterhouse's deal with the National Rugby League last year should have put minds at rest.

Not content with ousting Tabcorp as the NRL's wagering partner, Waterhouse has his sights set on Tabcorp's AFL partnership.

So two years after spinning off its casino operations, Tabcorp has reached another inflection point as technology and politics pose fresh challenges to its long-running efforts to derisk the company. The shake-up of the Victorian gaming industry and a string of badly executed acquisitions which culminated in a demerger of the company in 2011 have forced Tabcorp to reinvent itself in recent years.

After ceasing its management of poker machines, previously a significant contributor to the group, last year, Tabcorp has been focused on diversifying its revenue base.

Chief executive David Attenborough has secured new wagering and Keno licences in Victoria and extended its Queensland Keno licence in Queensland. But he faces another big challenge in 2013. Tabcorp's licence to operate 2130 **TABs** in NSW is valid to 2097, but its exclusivity is due to expire on June 22.

Retaining exclusivity in NSW, the company's biggest wagering market where revenues topped around \$3 billion in the first nine months of 2013, is crucial because it provides certainty. The decision on exclusivity comes as the state government considers a world-first proposal to monetise royalties from the state's lotteries business.

While a plan to sell the rights to \$300 million in tax revenue only applies to NSW Lotteries at this stage, it could herald a wider look at securitising all of the state's gambling revenue. The NSW government is looking at converting this tax stream into a security that could be bought or sold in a process known as securitisation. The government could then sell these securities to the private sector to raise money.

This will form an important part of Tabcorp's argument to the NSW government when it is time to plead its case on exclusivity. While it is understood the state government has not yet canvassed the securitisation issue with Tabcorp, it is only logical the gaming group will point out the danger of tinkering with a model which provides certainty on revenues. The argument is that an exclusive licence ensures a predictable stream of revenue for the government at a time when budgets are under pressure.

A spokeswoman for NSW Treasurer Mike Baird says an investigation into the monetisation of part of future lottery revenue duties is continuing but no final decision has been made. Securitisation will be an important issue for Tabcorp and other gaming companies as they navigate the minefield of regulation governing the wagering industry.

"At the end of the day it is a pretty good revenue stream. With gambling revenue you have the ability to forecast a track record of what could be delivered over an economic cycle," says Robert Camilleri, an investment manager at Realm Investment House who specialises in securitisation. "When you securitise you need that predictability of cash flow stream."

Tabcorp holds the licence for both its 210 standalone **TAB** agencies and the 760 services in clubs and 1160 in hotels. NSW is its biggest market. The deal, which bans rivals from setting up competing services, expires in June. While there is no guarantee a major competitor would enter the market, losing exclusivity strips away the certainty Tabcorp wants for its investors.

It suffered a blow last year when the Victorian government scrapped a poker machine licence duopoly enjoyed by Tabcorp and Tatts Group. At the same time the terms of its joint venture licence with the state's racing industry was also curbed.

CLSA analysts, who believe a new entrant in NSW is "highly unlikely", expect exclusivity to cost Tabcorp more than \$80 million. Tabcorp recently paid \$410 million for 12 years in Victoria but that also included the fee for the licence, which it owns until the end of the century.

Corporate bookmaker **Sportsbet** has said it would consider opening rival wagering outlets in NSW but there are doubts about whether it would establish anything more ambitious than a handful of flagship sites.

Tatts Group could break into the market in a cost-effective fashion as it already has exclusive retail wagering licences in Queensland, South Australia, the Northern Territory and Tasmania.

Bookmakers such as Waterhouse could choose to set up flagship stores in high-profile locations which offer a modern alternative to the suburban **TAB**.

Nomura analyst Nick Berry says the probability of a new player setting up a retail network is "very low" because of the expense and difficulty in generating a return, in competition with Tabcorp's incumbency.

"In the next 10 years, you would still expect cash retail wagering to remain a major proportion of total bets, if not the majority through that period," Berry says.

"It's important to protect retail exclusivity through that period even if you think it's a remote chance of someone coming in. After that period, exclusivity probably becomes more of a moot point due to the [higher] penetration of online [betting]."

It would also be difficult for a new entrant to compete unless the government guaranteed it access to a parimutuel pool, which is an arrangement where bets are placed in a pool and winnings shared.

It is also expensive. A new competitor would have to adopt a similar tax and fee regime to Tabcorp's existing NSW licence, which would make doing business four times more expensive than operating under a Northern Territory licence. Most online corporate bookmakers are licensed in the NT to take advantage of the lower cost of doing business. "Why would a corporate bookmaker already making good margins from NSW punters agree to pay significantly more on those bets? The benefits of a retail licence do not come close to outweighing the costs," CLSA analyst Sacha Krien says.

Tabcorp had also already locked in the majority of the best sites in NSW on long-term deals. One potential competitive threat is a rival obtaining a licence to set up betting kiosks in pubs and clubs, which would be a low-cost way to enter the market.

Regulation is a huge headache for the gaming industry due to the different rules that apply in each state. Tabcorp chairman Paula Dwyer says the foundation of successful funding to the industry was a "sole retail **wagering licence** model, which is adopted by all Australian states and territories".

The other change sweeping the industry is the impact of new technology as punters migrate online, whether it is through automated kiosks in **TABs** or via smartphones and computers.

Self-service kiosks in existing retail outlets now account for 53 per cent of the turn-over in **TAB** outlets in Victoria and 41 per cent in NSW. Rival bookmakers may also be interested in the

"Betbox" concept, a potential low-cost entry point into the market. The Federal Court last year ruled against a rival introducing the technology in Victoria. The Betbox is an ATM-style machine installed in a pub or hotel which allows punters to use their credit card to place bets on screen by effectively logging into another bookmaker's website.

Tabcorp's big advantage is that it has a 25 per cent share of online gaming revenue and higher online margins than its competitors but it is hurting.

Attenborough, who inherited the top job from Elmer Funke Kupper in 2011 following the casinos spinoff, recognises the structural threat and has been rolling out new technology offerings, including the first betting apps for the iPhone and iPad.

Tabcorp's turnover from its digital operations rose 15 per cent to \$1.8 billion in the first nine months of the current financial year, while wagering revenue fell 4.7 per cent in the third quarter to \$368.6 million.

The competitive threat from bookmakers is intensifying but the company is growing its share of the wagering market. Its online corporate bookmaker, Luxbet, reported an 18.7 per cent rise in turnover for the first nine months of the financial year. This has helped underpin its share price, which hit its highest level in 22 months last week.

Michael Smith and Jessica Gardner

---- INDEX REFERENCES ----

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**OTHER INDEXING:** (Nick Berry; Luxbet; Jessica Gardner; Sacha Krien; Mike Baird; Paula Jane Dwyer; Paula Dwyer; Tom Waterhouse; Robert Camilleri; Michael Smith; Elmer Funke Kupper; David Robert Henry Attenborough; David Attenborough)

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SAVE PRINT LICENSE ARTICLE

## Channel Seven to take a big punt on racing

 **Andrew Webster**

3 comments

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Channel Seven is poised to become a major force in horse racing – to the point where the free-to-air network could angle for a wagering licence in the future.



Off and racing: James McDonald celebrates victory in this year's Golden Slipper on Mossfun. Channel Seven is expanding its involvement in racing. Photo: Anthony Johnson

Not many people want to talk about it, most likely because all the major players involved have been forced to sign confidentiality agreements to ensure the story doesn't leak out.

But this column has this week caught wind of plans for racing television channel TVN to run all of its content on one of Seven's digital channels.



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Channel Seven to take a big punt on racing



Happy days: Mick Potter and Robbie Farah front the media after the Tigers were humbled 64-6 by the Cowboys in Townsville. Photo: Getty Images

As it stands, TVN already pays Seven about \$2 million to show 28 meetings a year on 7TWO.

But the association is about to get a whole lot stronger, with the racing network keen to expand into free-to-air TV, rather than have a viewing audience of 30 per cent on subscription TV.

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We have been told the end game for Seven is the long-term view of acquiring a wagering licence: first in Western Australia and then in Victoria.

"Something like Seven-bet," is how one figure close to negotiations describes it.

We're told the deal maker behind the scenes is Gold Coast businessman Scott Perrin, who made his fortune alongside brother Matthew when they sold their stake in surfwear giant Billabong for \$490 million.

Matt spectacularly lost his \$150 million fortune because of bad business deals in China, a \$1.7 million gambling debt and an ugly divorce.

The Perrins have always been avid racing enthusiasts, champion jockey Glen Boss writing of Scott Perrin in his autobiography:

"Scottie Perrin became a mate of mine and I soon developed a high regard for the cool way he went about making the world of business sound every bit as exciting as racing."



Pair of Jacks: Garry and Kieran in 2005. Photo: Getty Images

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TVN is owned by the Australian Turf Club, Melbourne metropolitan clubs and Country Racing Victoria.

Perrin, who did not return calls, has been dealing with Racing NSW chairman John Messara and ATC vice-chairman Laurie Macri. For his part, TVN boss Bruce Mann has repeatedly denied talking with Seven, which is also keen to enhance its profile as a major player in racing.

It announced this week that it had struck a long-term deal with Magic Millions co-owners Katie Page and Gerry Harvey to broadcast the annual racing event on the Gold Coast. It already has the rights to the Melbourne Cup carnival, The Championships and Golden Slipper.

"As you have seen with this week's announcement with Gerry Harvey and our signing of the Magic Millions, we are increasing our exposure to horse racing," a Seven spokesperson said. "We love being the broadcast television partner of horse racing. It's a great partnership for our television business."

### **Sydney springs to life**

Still on racing, the ATC held an intimate lunch at The Stables at Royal Randwick on Tuesday to launch its spring carnival. Recently retired rugby league star Braith Anasta was revealed as one of the club's new ambassadors, alongside wife Jodi.

Yes, yes, it's not the monster that is the spring carnival in Melbourne, but the classy launch further strengthened the angle Sydney racing is looking for: a more elegant, refined feel than the masses who trample all over Flemington in early November.

The Sydney spring carnival is worth \$5 million in prizemoney, starting on September 13 with the Golden Rose at Rosehill Gardens.

### **100 years of hate and still going strong**

Russell Crowe showed us this week that rugby league doesn't always have to be serious. You can also have a laugh.

The Souths owner spotted Roosters patriarch Nick Politis at Sydney Airport last month.

They were both waiting at the luggage carousel. Crowe walked up and stuck out his hand.

"Contrary to popular belief among Souths fans, he only had the one head and wasn't eating babies at the time I met him," Crowe told News Corp in the lead-up to Thursday night's final round blockbuster between the foundation clubs.

Gold.

We're told the amicable exchange was only about five words, though.

Politis hasn't been a huge fan of Crowe since the Oscar-winning actor did a Commodus-like "thumbs down" during a Bunnies win over the Roosters.

Crowe's claim that the Tricolours' home base of Moore Park is in South Sydney territory also didn't go down well in Rooster land.

12/8/2016

Channel Seven to take a big punt on racing

Some officials pointed out how Crowe lives in Woolloomooloo, Souths chairman Nick Pappas lives in Vaucluse and star player Sam Burgess lives in Rushcutters Bay – right in the heart of Chooks' territory.

More than 100 years of hate and it's still going strong. Fabulous stuff.

### **The end is nigh for Potter**

Mick Potter is expected to coach his last game at the helm of Wests Tigers on Saturday night when his side takes on the Sharks.

Yes, Mad Monday cannot come quick enough for some clubs.

We're hearing the coach will not even be afforded an interview to outline why he should keep his job, which doesn't surprise given how many knives have been thrown at his back in recent months.

With the appointment of three independent directors supposedly imminent, you would expect them to speak to the head coach and ask what led to his demise.

An indication of the way the Tigers are being run came during the week when they advertised for the rather important position of "General Manager of Football" on the employment website seek.com.au.

It prompted former Tigers sponsorship manager Brett Clarke to tweet: "Why do Wests Tigers advertise a job such as the GM Football on Seek. FFS it is such a specialised role – get out and headhunt the right hire."

### **Knights look West to go forward**

In other independent director news just to hand, NRL boss Dave Smith and head of club services Tony Crawford were in Newcastle on Thursday, trying to clear the path for the embattled Knights in the post-Tinkler world.

They were meeting with the cashed-up Wests Leagues Club about taking over the running of the club.

For those of us with long memories, the irony is hard to ignore: Wests were cuddled up in bed with the Hunter Mariners during the Super League days.

Still on Smith, he has dismissed tension between the NRL and Club Land over his desire for independent directors to be parachuted onto to every board as a "miscommunication".

It is a distinctly different view from several power brokers, who have been adamant for some time that Smith wanted independent directors and chairpeople in control of every board.

"He's backflipped," reports one.

Question & Answer: Kieren Jack

We speak to the Swans star ahead of Saturday afternoon's finals match against Fremantle at ANZ Stadium.

As the son of a Balmain legend, how do you react when you hear the

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JUNE 10 2015

SAVE PRINT LICENSE ARTICLE

# Seven in the race for a wagering licence



John Stensholt

Seven West Media could bid for a wagering licence with the broadcaster set to win the rights to Victorian horse racing, which will be shown on a newly established free-to-air digital channel.

The new channel, the name of which is set to include Racing Victoria's racing.com digital brand, is forecast to be operating by August 28, in time for the first group 1 race of the spring carnival.



Seven West Media may bid for wagering licence as it is poised to win Victorian horse racing rights Photo: Vince Caligiuri

Seven's move to broaden its coverage of horse racing – it already shows top-level Saturday Victorian and NSW race meets – is subject to final confirmation from the four Victorian racing clubs and comes after administrator Racing Victoria awarded the network preferred bidder status over Tabcorp's Sky Channel.

Any move by Seven into wagering would be in the medium term. It could bid, potentially in conjunction with Racing Victoria, for a licence when Tabcorp's joint venture with the Victorian authority expires in 2024 or for the Western

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Australian TAB WA Premier Colin Barnett has signalled he wants to privatise the wagering operator.

Seven has also been approached by corporate bookmakers for a potential equity investment or joint venture. Seven would not comment on any wagering or broadcasting plans.

Tabcorp, meanwhile, announced on Tuesday it would turn off its broadcast of Victorian racing next Monday, June 15. However, it is understood Racing Victoria could offer an olive branch in the form of awarding Tabcorp international broadcast rights and also hopes to negotiate to continue showing Victorian racing on at least the Sky Racing 1 channel.



Advertisement

Should that eventuate Tabcorp may not pay a rights fee, arguing given Racing Victoria will pay at least \$10-12 million to help establish the new Seven channel it should not pay for rights that are effectively been given to Seven for no free in return.

Tabcorp earlier this year agreed to a 10-year rights deal with Racing NSW after Victoria and NSW split their rights, which had previously been aggregated under the ThoroughVision Network (TVN) brand.

The listed wagering operator had reportedly offered Racing Victoria \$30 million annually for 10 years for the broadcast rights.

But it is understood a presentation by Seven executives – including its Melbourne boss Lewis Martin, commercial director Bruce McWilliam and commentator Bruce McAvaney – two weeks ago to the Racing Victoria board swayed the vote in favour of the free-to-air network, which will cross-promote racing across its other sports and entertainment shows.

Any deal still needs to be signed off by the Victorian clubs. The Melbourne Racing Club, Victoria Racing Club, Moonee Valley Racing Club and Country Racing Victoria confirmed their boards and members will assess presentations from Tabcorp and Seven on Wednesday and Thursday. A decision is expected by the end of the week.

Racing Victoria chairman David Moodie said if Seven is successful, he hopes Tabcorp would continue to broadcast Victorian racing in tandem with the network. Tabcorp may also consider bidding for digital rights.

Corporate bookmaker Sportsbet already has an agreement to show Victorian racing, while other wagering operators such as CrownBet and William Hill are also understood to be interested in streaming vision on their websites.

Racing Victoria also shows its races online via its racing.com service, which was established last August. In May it signed a broadcast, media and data services deal with Telstra that could see race information and multiple camera angles used in future broadcasts.

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## THE AUSTRALIAN

### Rights deal bursts Michael Burn's Ascot bubble



Peter Nicholson

BEN BUTLER, CHRISTINE LACY THE AUSTRALIAN 12:00AM June 17, 2015

There'll be no bubbles at Royal Ascot this week for horse-mad Macquarie banker **Michael Burn**, who's firmly stuck down under wearing his (top) hat as chairman of the home of the Melbourne Cup, Victoria Racing Club.

While hordes of other Aussies including mining services rich lister **Kevin Maloney** have descended on an unprepared England to see four Antipodean horses go round the Ascot track this week, Burn has been locked in talks with governing body Racing Victoria over its proposed media rights deal with **Kerry Stokes'** Seven West.

The problem is not the Seven deal, which the VRC likes, but the terms under which the club will tip its rights into a pot held by Racing Victoria to then be sold to Seven.

Tabcorp's **David Attenborough** has given up on a rights deal with RVL, but is waiting for a sub-deal to get the races back on Sky Channel.

Things could get more complicated if Stokes makes a bid for the WA TAB, which is to be sold in a controversial privatisation.

That could see Victoria turn its back on its long-term wagering joint-venture partner Tabcorp when their deal ends in 2024 in favour of a Stokes-controlled TAB in the west.

Meantime, the Sky blackout and waiting for Seven's racing Channel 78 to go live has given everybody plenty of time to focus on Royal Ascot, where the first Australian horse, Shamal Wind, was due to run late last night.

Another pony, Criterion, runs late tonight — but all eyes will be on Saturday's Diamond Jubilee Stakes, which features two Australian horses — colt Brazen Beau and the **Gai Waterhouse**-trained Wandjina. Brazen Beau is the rare hayburner that's made money for its 38 owners — originally picked up for \$75,000 as a yearling, he was sold late last year for \$12m to **Sheikh Mohammed Al Maktoum's** Darley.

### **Nine's disclosure slip**

Whoops. Just when Nine chief **David Gyngell** needs to be seen by the corporate regulator to be dotting his I's and crossing his T's, the under-pressure entertainment group slips up on its disclosures.

Nine lodged a "final" notice for its share buyback yesterday, which it has enthusiastically used to prop up its shares following its recent profit downgrade. Except it wasn't the "final" notice and had to be reissued by company secretary **Rachel Launders**, who said the buy-back would continue.

This is as ASIC continues its investigation into Gyngell's share sales. Gyngell hasn't lawyered up just yet but is using Nine's in-house counsel in his dealings with the regulator.

ASIC's learned and numerate lawyer folk might compare and contrast Nine's shock June 5 downgrade — which described conditions in the free-to-air ad market in May and June as "particularly soft" — with the actual market figures just released by Standard Media Index.

SMI data shows Nine's revenue in May fell 9 per cent year-on-year, but the metro TV market grew by 0.4 per cent in the month — not quite what Gyngell told investors.

It is understood that at Nine's post-downgrade investor briefing, the company also told analysts that the TV ad market was down 5 per cent in May and was expected to be the same in June.

### **MCN jockeying**

The unification of ad sales at Network Ten and Foxtel's sales house Multi Channel Network won't be without pain as execs jostle for position in the new world order.

Manoeuvrings have already begun towards a new combined sales structure, which will result in a round of redundancies at the group.

The agreement flies in September as part of the wider deal for the **Richard Freudenstein**-led Foxtel to buy 15 per cent of Ten, currently led by **Hamish McLennan**. Ten will buy 24.99 per cent of MCN.

Even if the ACCC blocks the deal, MCN and Ten ad sales would still unite, so talk now has turned to who will achieve top-dog status.

Ten ad chief **Lou Barrett**, previously head of sales at ACP and before that at Nine, oversees revenues of more than \$600 million a year.

MCN boss **Anthony Fitzgerald**, who has been in the role for 12 years and before that was national sales director at Seven, commands revenues of \$500m a year.

That gives bold-as-brass Barrett the weight of revenues, but the Ten team is moving into MCN's offices in Sydney, Brisbane and Melbourne, leaving her to find a new bolt-hole in Fitzgerald's digs.

*butlerb@theaustralian.com.au*  
*christine.lacy@news.com.au*





## Seven and Racing Victoria Unveil Racing.com Partnership

(25 August, 2015) The Seven Network – a key business of Seven West Media, one of Australia’s leading integrated media and content creation companies – and Racing Victoria today confirmed plans for the launch of Racing.com, a new free to air television channel devoted daily to Victorian thoroughbred racing.

The new channel – Racing.com – is the only free to air channel on Australian television dedicated to broadcasting and promoting a single sport and will extend beyond broadcast television across all communication platforms to deliver horse racing to all Australians on any connected device.

The first day of Racing.com will be this Saturday with coverage of the Group 1 Memsie Stakes Day from Caulfield.

Bruce McAvaney will host this very first broadcast for Racing.com.

Racing.com today also confirmed CrownBet as its premium wagering partner for 2015 and 2016 and Ladbrokes as its Associate partner.

Details on Racing.com were announced today by Tim Worner, Chief Executive Officer and Managing Director of Seven West Media, Lewis Martin, Managing Director of Channel Seven Melbourne, and David Moodie, Chairman of Racing Victoria.

Commenting, Mr Worner said: “This is an important new partnership for our company. We are the home of horse racing on broadcast television and we are committing our company to building an increasing presence for horse racing in Victoria across our expanding presence in all forms of content delivery. Our Racing.com partnership joins our portfolio of major sports and we are looking forward to working with Racing Victoria in ensuring the future growth and success of horse racing in this state.”

Commenting, Mr Moodie said: “The launch of the free-to-air Racing.com channel achieves the goal of the Victorian thoroughbred racing industry to make our sport available to more people in more places than ever before. It is the start of a new era for Victorian thoroughbred racing and one that provides us with a foundation for growth in engagement, participation, ownership, wagering and attendance. Racing.com will showcase Victorian racing 363-days-a-year to well over 90 per cent of the Australian population. The industry’s partnership with Seven is a great result for racing fans, punters and participants and I would like to take this opportunity to thank our three Metropolitan Clubs and Country Racing Victoria for their support in achieving this.”

Building on its significant partnerships in horse racing television coverage, Seven is evolving an increasing presence in the sport as it advances plans for the delivery of a new content channel on its digital broadcast television platform.

The new joint venture – Racing.com – delivers a significant new platform for Seven and Racing Victoria as Seven continues to extend beyond broadcast television and publishing and expand its presence in the digital delivery of content and builds 1:1 direct engagement with its audiences.

Racing.com, which will broadcast race meetings from across Victoria 363 days a year, will provide the state’s thoroughbred racing industry with unprecedented and unrivalled free to air coverage.

The new partnership between Racing Victoria and the Seven Network to showcase Victorian thoroughbred racing nationally will also see the new, dedicated free-to-air channel integrated with a suite of streaming and digital services at Racing.com, where punters, fans and participants can view the broadcast on their mobile, tablet and desktop.

Channel Seven Melbourne Managing Director, Lewis Martin, said: “We are pleased to confirm that we have secured some terrific people for Racing.com and we are well-advanced in our plans to further expand our coverage of racing over the coming months. Channel Seven is looking forward to working closely with Racing.com in the promotion and marketing of this exciting new venture.”

The partnership today confirmed that joining the channel will be experienced and highly respected racing hosts Jason Richardson and Shane Anderson and astute form analysts David Gately and Warren Huntly as the key presenters on the new channel. They will

combine with former AFL footballer and racehorse owner Campbell Brown and popular Hong Kong-based form analyst Clint Hutchison.

Chief Executive Officer of Racing.com, Scott Perrin, said: "This coming Saturday is day one. We have exciting plans for the evolution and development of this partnership over the coming 12 months. Victoria has the best racing product in the country and we are thrilled to be able to promote and grow it. This is the start of a new channel and we look forward to working to build our content over the coming months. We are also proud to have CrownBet as our premier partner and I want to thank CrownBet CEO Matt Tripp for his support of this ground-breaking free-to-air channel."

Chief Executive Officer of CrownBet, Matt Tripp, said: "We're delighted that Racing Victoria and the Seven Network have chosen CrownBet as their premier wagering partner for Racing.com after a thorough and competitive tender process. This partnership will play an important role in CrownBet's growth strategy and allow us to reach a wide audience right across Australia. It will help drive our mission to become the leading operator in the sector."

The Racing.com channel will also feature three magazine programs as part of its initial content offering. Launching in early September will be the Thursday night preview show *Get On* and Sunday morning review show *Correct Weight*, whilst the weeks following will bring *The Carnival*, an entertaining and informative look at Victoria's Spring Carnival. Racing.com will detail these new programs over the coming weeks.

## **About Seven Network**

Seven is Australia's most-watched broadcast television platform. The network is expanding its presence in media, driving its leadership in the creation of content and delivering that content anywhere, anytime to the biggest audiences. The company is expanding its presence in the further delivery of its video and publishing content beyond its three digital broadcast channels and across an array of platforms, including Hybrid Broadband Broadcast Television. Seven is also expanding into SVOD with Presto, a joint venture with Foxtel in Australia.

Seven is now creating more content than at any time in its history and is expanding its presence in international content production with the formation of two new international production companies: 7Wonder and 7Beyond. These two new businesses underline a key part of its strategy for today and in the future: the expansion of our leadership in the production of content.

Seven is a key business of Seven West Media, Australia's leading multiple platform media company which has a market-leading presence in broadcast television, magazine and newspaper publishing and online. The company is the home of many of Australia's best performing media businesses – Seven, 7TWO and 7mate, Pacific Magazines, The West Australian and Yahoo!7, and the biggest content brands including My Kitchen Rules, House Rules, The X Factor, Home and Away, Sunrise, the Australian Football League, the Olympic Games, Better Homes and Gardens, marie claire, New Idea, Who, The West Australian, Presto and PLUS7.

## **About Racing Victoria**

Racing Victoria is the Principal Racing Authority in the state of Victoria overseeing the conduct of 550 thoroughbred race meetings annually across 67 racetracks. Amongst Racing Victoria's responsibilities are industry funding, integrity, equine welfare, licensing, infrastructure, racing programs and management of the annual racing calendar.

## **Seven delivers leadership in sports**

Today's announcement confirms Seven's leadership in sports.

Seven is focused on delivering the biggest sports events to all Australians. Seven's long-term partnerships confirms the company's leadership in sports television with the network continuing to dramatically expand its coverage of major sports across its three digital broadcast television channels and accelerate coverage across online, IPTV, HbbTV (Hybrid TV), mobile and other emerging forms of content delivery.

Seven is the network of the Australian Football League.

Seven's commitment to an expanding presence in sports builds on the network's unprecedented new agreement with the International Olympic Committee encompassing the Games of the XXXI Olympiad in Rio de Janeiro in 2016, the XXIII Olympic Winter Games in PyeongChang in 2018 and the Games of the XXXII Olympiad in Tokyo in 2020. Seven will also broadcast the 2016 Winter Youth Olympic Games in Lillehammer and the 2018 Summer Youth Olympic Games in Buenos Aires. Underlining this new partnership is an option which, if exercised, extends the rights to include the XXIV Olympic Winter Games in 2022 and the XXXIII Olympic Games in 2024.

Seven is also the network of the Paralympic Games in Rio in 2016 and the Commonwealth Games on the Gold Coast in 2018. Seven is also the network of the first European Games in Baku, Azerbaijan.

Seven's agreements for the Olympic Games, Paralympic Games, European Games and Commonwealth Games on the Gold Coast, and the World Swimming Championships builds on the company's long-term commitment to the National Football League, including the Super Bowl, The US Masters, Royal Ascot and Wimbledon as major international sports franchises for Seven.

Seven also has all-encompassing agreements for coverage of the Australian Football League Premiership Season, Finals Series, the Grand Final and Brownlow Medal, and the local Australian Rules Football competitions the West Australian Football League, the Victorian Football League and the South Australian National Football League, the Tottenham and Chelsea football matches in Sydney, the Bathurst 12 Hour Endurance Race, all major horse racing events including the Sydney Easter Carnival, the Melbourne Spring Carnival and the Melbourne Cup Carnival, the Sydney-Hobart Yacht Race, all major Australian golf tournaments, the Stawell Gift, the Cadel Evans Great Ocean Road Race, the New South Wales Shute Shield in Rugby, all major iron man and triathlon events, the Gold Coast Marathon and all major tennis tournaments in Australia including The Australian Open and The Davis Cup.

## DATAROOM

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EDITED BY: BRIDGET CARTER CARTERB@THEAUSTRALIAN.COM.AU GRETCHEN FRIEMANN  
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Shareholders would have bet on Cooke Major shareholders in the country's two wagering giants would have most likely lobbied for Tatts boss Robbie Cooke to take the top job had the \$9 billion-plus merger proceeded, according to sources.

Investment bankers from UBS and Goldman Sachs, advisers on the deal, were believed to have been working around the clock at the weekend to ensure the transaction came to fruition after spending several months preparing for the merger to take place.

However, the fact that Tatts was lobbying for a greater slice of the newly merged entity in exchange for Tabcorp securing management control for the business is understood to have caused negotiations to collapse.

Some believe that deal could still happen, but on the major shareholders' terms, with sources suggesting it could create a betting giant worth as much as \$11bn due to synergistic benefits.

One theory is that if major investors had their way, Robbie Cooke would become the chief executive of the newly merged entity opposed to Tabcorp boss David Attenborough.

The situation is unfolding at a time of widespread consolidation among wagering companies globally in an effort to remain profitable on the back of online betting.

This year, global betting giant Ladbrokes merged with Gala Coral, while Paddy Power joined with Betfair.

It comes as the West Australian government's anticipated privatisation of the state's **TAB** remains a point of discussion for industry participants.

The plan to privatise **TAB** is currently between the Premier and Treasurer, and it would need to be restructured before it was sold to create a profitable operation.

Currently, the **TAB** is structured in a way where the profits are returned to the racing industry, which means that the government receives no financial benefit during times of strong financial performance.

However, when the **TAB** books a loss, the responsibility is -shouldered by the government.

Adding to the logic for the state to sell the **TAB** is that it will receive a dividend of about \$90m from the federal government for embarking on the sale at a time it needs to drive down debt.

Perth media baron Kerry Stokes is seen as the logical buyer when the asset is on the market, likely to fetch a price of about \$500m.

Sources say that Premier **Colin Barnett** is unlikely to sell to Tatts or Tabcorp, given that both groups would likely collapse the option into their existing businesses and jobs would be lost as a result, which would not be politically palatable.

Mums and dads opt in Westpac closed the books on its \$3.5 billion rights issue yesterday after fund managers paid \$29.50 for entitlements not taken up by retail investors.

While persistent volatility on the stockmarkets was blamed for the narrow discount to the last traded close, the turnout from mum and dad shareholders on last month's raising was comparatively high with close to 70 per cent opting to follow their money.

In total, 23 entitlements were sold bringing the deal size of the retail shortfall bookbuild to \$678.5m. The Australian's BusinessNow blog was the first to report the final price and scale of this last leg of the raising.

Yet while Westpac succeeded in persuading most of its retail investors to participate in its rights issue - unlike Commonwealth Bank, which received a lukewarm reception from its mum and dad shareholders - many are divided about whether the stock will rally heavily and retrace the losses suffered in the past eight months. Since April, when the shares were trading at a 12 month peak of \$39.89. Westpac has slumped by close to 25 per cent.

It closed yesterday at \$30.02.

This is despite a prevailing view that Westpac has handled the tougher operating environment better than its peers, partly by its leadership in increasing mortgage rates in the face of tightening regulations, but also because of its pledge to reduce costs, sell non-core asset and pursue less risky credit growth.

According to analysts at Morgan Stanley, Westpac's CET 1 ratio - a key measure of a bank's resilience - ranks as the highest among the big four at 9.5 per cent.

Some in the market anticipate the persistent anxiety about the resources sector, combined with the high yield on offer from the banks present an attractive buying opportunity and are betting on a rally in the shares of the big four in the lead up to Christmas.

Westpac's retail shortfall represents the final act in a string of issuances from the banks. In total the big four have tapped the markets for \$19bn, still shy of the pre-financial crisis volumes but an extraordinary level in one year.

The question now is whether the banks, which have all continued to post stonking profits, have raised enough to meet the harsher regulations.

There are clear signs retail investors are tiring of the constant drains on their wallets. Commonwealth Bank, which raised \$5.1bn from investors, only persuaded half of its retail register to accept the entitlements, leaving the nation's largest bank with a larger than anticipated shortfall. While the low turnout was blamed on the difficult trading conditions, others argued the discount on the deal - at an effective 10.5 per cent rate - was too narrow.

By contrast both National Australia Bank, which raised \$5.5bn, and Westpac offered wider discounts.

Bank of America Merrill Lynch and UBS were the joint underwriters and bookrunners to Westpac's raising with Deutsche acting as a third joint lead manager.

Vocation suspended Could troubled education provider Vocation be in serious strife? The company was yesterday expected to reveal details of a financing arrangement, but instead its shares were suspended prompting fears a salvage plan had collapsed.

Several sources told DataRoom Vocation's prospects for survival were bleak. It is understood the company, which suffered a share price crash and had to divest major assets earlier this year as part of a deal with its banking syndicate, will be unable to make its next loan repayment and has been negotiating with its financiers.

Vocation's banking syndicate is made up of Westpac, Commonwealth Bank and NAB. It hoped to make an announcement but had yet to reach an arrangement. Last night Vocation chief executive Stewart Cummins, however, said it was simply a matter of the deal taking longer than expected. KordaMentha-owned 333 Group, which had assisted the company shedding assets, did

not return calls.

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## Tabcorp, Tatts may revisit deal

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News

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Section: Companies and Markets

John Stensholt

Reasons for reviving a merger are pretty compelling.

A little-known but significant milestone reached a couple of months ago goes to the heart of why a \$9 billion merger between wagering companies Tabcorp and Tatts Group may not be dead yet.

In late August, Irish bookmaking giant Paddy Power announced its results for the six months to June 30, showing that the amount wagered by punters over the internet with its Australian Sportsbet business has risen sharply to about \$1.73 billion.

A couple of weeks later, Tabcorp's annual results revealed its tab.com.au digital wagering business has turnover of \$1.65 billion in the first six months of the calendar year.

The upstart Sportsbet had surpassed the local and long-established player in Tabcorp, at least in a digital sense.

While Tabcorp's retail business turned over about \$3.16 billion in the six months, and its online business Luxbet another \$350 million, still leaving it as the nation's biggest wagering outfit, all the growth in betting is coming online.

Figures contained in an Australian Wagering Council report released this week show that while the overall wagering market is not growing markedly, there is a definite shift by punters to betting over the internet rather than in traditional retail outlets.

In the 2009 financial year, \$3.9 billion was wagered over the internet, and \$18 billion "offline" in retail shops and over the phone. In the 2014 financial year those figures were \$15.6 billion and \$11.06 billion respectively. At about the same time that the wagering figures for the first half of 2015 were revealed, Tatts Group made an approach to Tabcorp regarding a merger of equals. Talks continued for the best part of two months, with Goldman Sachs and Investec advising Tatts and UBS working for Tabcorp.

Insiders describe the reasons for the merger as compelling. A combined entity would have market capitalisation of more than \$9 billion, giving it the scale of the world's biggest wagering operators. It would diversify both businesses given the strength of the Tatts lotteries business and as advisers for both camps worked away during Melbourne's spring racing carnival a deal looked certain to happen.

There is also a belief from both parties that a merger would have benefited the horse racing industry, to which about \$25 million of the mooted \$100 million in annual synergies could flow. A merger would have also provided the chance to establish a national betting pool, allowing the combined entity to offer a better product to consumers and take the fight to the corporate bookmakers.

But after a trading update on October 29, Tabcorp's share price began to fall. By comparison, Tatts said first-quarter trading for the 2016 financial year "had a solid start" with both lotteries and wagering performing well, and though it released less information than Tabcorp, the Tatts share

price held up.

The respective share price performances ultimately scuppered the deal. Tatts said in its statement that there had been disagreement on "a nil-premium exchange ratio", while Tabcorp said the two "were unable to mutually agree acceptable terms and ... there are no further discussions taking place between the parties relating to a merger or any other form of corporate transaction."

But sources indicate another move to merge is only a matter of time.

"The deal went within a whisker of happening, and it could be game on again next year," one source said.

"We believe a deal is highly likely, but not until the Western Australian wagering licence is sold," said CLSA analyst Sacha Krien in a note to clients last week. The WA licence is expected to be privatised in mid-2016.

Given that and what is happening in a global context, where Paddy Power and Betfair, and Ladbrokes and Coral, are poised to merge and create huge combined companies in the process, some sort of move has to happen - a fact that has been exercising the minds of both the Tabcorp and Tatts boards for some time.

When the dust settles there is likely to be only a handful of huge and truly global players, which has plenty of implications for the Australian market, where the mostly overseas-owned online only or corporate bookmakers have made huge inroads in recent years, putting huge pressure on Tabcorp and Tatts in the process.

The local implications could be another round of deal-making frenzy among the corporate bookmakers, some potential new entrants and Tabcorp and Tatts either have to merge or do deals offshore in order to stay relevant in an online era and stave off intense competition. It is a case of get scale or get run over by the competition.

In the past few years in Australia alone, Paddy Power has bought Sportsbet, William Hill has acquired the Tom Waterhouse.com, Sportingbet and Centrebet brands and Ladbrokes has taken over bookmaker.com.au and Betstar. Added to that has been the entrant of former Sportsbet majority owner and chief executive Matthew Tripp with **Crownbet**, born out of the shell of the former Betezy brand, and the huge Bet365 business to the Australian market.

All have aggressively advertised their online offerings and, crucially, don't have the legacy issues of having to operate the slowly waning TAB outlets in NSW and Victoria in Tabcorp's case, and Queensland, South Australia, Tasmania and the Northern Territory for Tatts.

So where to next? The intense competition from the online upstarts should make it easier for Tabcorp and Tatts, should they rekindle their relationship, to get a deal done than in the past (the idea of a merger goes back more than a decade). Back in 2006, the Australian Competition and Consumer Commission said a merger between the country's two biggest wagering companies would reduce further competition for licences, but the rise of digital operators means the battle for market share is fiercer than ever.

Tatts shareholders could push for a divestment of its wagering arm in the hope of realising between \$1.6 billion and \$1.8 billion from a competitive bidding process that would certainly include Tabcorp, but may also include Seven West Media in concert with Racing Victoria - the two have a broadcasting joint venture in the Racing.com business - and potentially an overseas party such as Paddy Power via its Sportsbet business in Australia. Other overseas suitors such as Ladbrokes and William Hill could also be interested.

The privatisation of the **WA TAB** will also be hotly contested. Tabcorp and Tatts are thought to be natural bidders, with both Seven and its Perth-based chairman Kerry Stokes understood to be contemplating a bid.

The possible move by Seven into the wagering sector could also include a tilt at the Victorian wagering licence, held by Tabcorp until 2022. Racing Victoria and Seven executives are thought to be keen to explore a bid for the licence, having laid the groundwork for this when the licence was last up for renewal - but before the Brumby Labor state government denied it a chance to bid.

Seven and Racing Victoria could also look at a relationship with **Crownbet** in the future, though the latter has been growing aggressively by taking big sponsorship deals with the likes of the AFL and Racing.com.

**Crownbet** could look at merging with a business of similar scale such as William Hill's Australian arm or the local Ladbrokes operation, which has performed relatively strongly.

William Hill, once the Paddy Power/Betfair and Coral/Ladbrokes deals are consummated, will be a medium-sized global player and may be a suitor for a Tabcorp or Tatts in order to reach a similar size to its rivals. The newly merged Ladbrokes may also decide to focus more on the Australian market and make more acquisitions.

Furthermore, industry observers say there is a chance overseas operators such as Bwin.Party or a US casino group such as Caesars, may enter the market. Whatever happens, it is clear that when the dust settles within the next few years, the wagering industry in Australia will have changed considerably. It is now up to Tabcorp and Tatts if they want to move with the times or get left languishing.

---- INDEX REFERENCES ----

**LANGUAGE:** English

**COMPANY:** BETFAIR GROUP PLC; CENTREBET INTERNATIONAL PTY LTD; GOLDMAN SACHS GROUP INC (THE); INTERNATIONAL SPEEDWAY CORP; INVESTEC PLC; LADBROKES PLC; PADDY POWER PLC; SEVEN WEST MEDIA LTD; SPORTINGBET LTD; SPORTSBET PTY LTD; TABCORP HOLDINGS LTD; TATTS GROUP LTD; UBS AG; WILLIAM HILL PLC; BWIN PARTY DIGITAL ENTERTAINMENT PLC

**NEWS SUBJECT:** Business Management (1BU42); Corporate Events (1CR05); Corporate Groups & Ownership (1XO09); Mergers & Acquisitions (1ME39)

**INDUSTRY:** Bricks to Clicks (1BR78); Casinos (1CA80); E-Commerce (1EC30); E-Commerce Industries (1EC99); Entertainment (1EN08); Gaming Industry (1GA25); Internet (1IN27); Retail (1RE82)

**REGION:** Australasia (1AU56); Australia (1AU55); Oceania (1OC40); Victoria (1VI05); Western Australia (1WE82)

**OTHER INDEXING:** (Matthew Tripp; Crownbet; Ryan Kerry Stokes; Ryan Stokes; Sacha Krien)

**EDITION:** First

**WORD COUNT:** 1348

## Melbourne Cup star Payne set to turn heads at Randwick next month

**Source:** Sydney Morning Herald, The (Australia)  
**Publication Date:** November 23, 2015  
**Country:** Australia  
**Source Type:** Newspaper

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News

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Section: Sport  
Chris Roots

Melbourne Cup-winning jockey Michelle Payne will be honoured by the Australian Turf Club as she rides at its Randwick meeting next month.

The club has worked on finding a date to get Payne to Sydney since her history-making Melbourne Cup win on Prince Of Penzance and has confirmed Saturday, December 5 as the date.

"We have worked with her to get her up here, so that people in Sydney can have the chance to congratulate her on a remarkable achievement," ATC's Brett de Vine said. "She is going to ride on the day and bring her Melbourne Cup with her. We are working on having her brother Stevie [Prince Of Penzance's strapper] here as well.

"We had a really successful day with Jim Cassidy on Saturday and we want to give the public opportunities to see the stars of our sport." The club is working out details for the afternoon but there will be a chance for fans to meet Payne during the afternoon.

### Prizemoney push

Racing NSW will make an announcement on how the first part of tax parity funds will be distributed in Dubbo on Tuesday. Being in the seat of deputy premier and racing minister Troy Grant it is almost certain to do with prizemoney in country areas.

The Racing NSW strategic plan suggests that prizemoney should increase from \$15,000 to \$20,000 a race for country TAB meetings along with other prizemoney targets across the board.

As tax parity with Victoria will be delivered during the next five years all the prizemoney targets cannot be hit in the first year but rest assured country racing is a high priority for the government.

The ATC announcement of more than \$2 million in increases to prizemoney across nine group 1s in the autumn carnival has fulfilled another part of the strategic plan; that there should be a \$500,000 minimum stake for group1 in NSW.

### Buffering's brilliance

How good is Buffering? As an eight-year-old he is still near the top horses in the country and is loved by punters. Especially those that got \$4.40 after the barrier draw for the Winterbottom Stakes, which he won on Saturday. Robert Heathcote has done a remarkable job to keep his star sprinter at the top of his game.

Buffering's record of 31 starts for six wins, six seconds, seven thirds and six fourths would make a great career for any horse - but that's Buff's record in group 1s.

"I have never called him the WBS, [world's best sprinter] there has always been one better than him," Heathcote said. "At the start of his career we were running into Black Caviar and Hay List and happy to run third. We thought his time will come. It has but I didn't think it would go on this long."

Buffering has earned \$5.6 million and who's to say he can't add an international success to his

record if Heathcote chooses to go to Dubai and Royal Ascot next year.

#### Broadcast battles

The battle for the next broadcast and wagering deal in Western Australia is well and truly on. The vision rights to WA racing come up in 2017 and racing.com is already courting Perth officials in an effort to take over from the Tabcorp-owned Sky Channel. The privatisation of the WA TAB is also under consideration and with it would come the technology infrastructure needed should Seven West and Racing Victoria want to buy the TAB licence in Victoria sometime in the next decade.

#### ---- INDEX REFERENCES ----

**NEWS SUBJECT:** Business Management (1BU42); Corporate Events (1CR05); Privatization (1PR92)

**INDUSTRY:** Consumer Products & Services (1CO62); Entertainment (1EN08); Equestrian Events & Horse Racing (1EQ65); Horse Racing (1HO27); Luxury Items (1LU28); Sporting Events (1SP65); Sports (1SP75)

**REGION:** Australasia (1AU56); Australia (1AU55); New South Wales (1NE75); Oceania (1OC40); Victoria (1VI05); Western Australia (1WE82)

**LANGUAGE:** English

**OTHER INDEXING:** (Stevie; Prince; Michelle Payne; Jim Cassidy; Troy Grant)

**EDITION:** First

**WORD COUNT:** 584



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**Tabcorp**  
the bigger better game

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# Tatts, Tabcorp jockey to win race for last state-owned TAB

Exclusive

Perry Williams

Gaming giants Tatts Group and Tabcorp have held talks with the Western Australia government over a potential \$1 billion deal to buy Australia's last remaining state-owned betting agency as pressure grows on the state to prop up its ailing economy.

Premier Colin Barnett first raised the for-sale flag over the TAB in mid-2014 as attention focused on how the former boom state would deal with a ballooning debt crisis.

While it was officially listed for sale in the state's May budget, political squabbling and divisions within the racing industry raised questions over the timetable for a privatisation.

However, sources close to the process say intense lobbying from Australia's two largest wagering companies over the past few months suggest the timetable for a deal may accelerate.

Billionaire Kerry Stokes is also tipped as a likely suitor for the TAB as Seven West Media looks to build on a broadcasting deal struck with the Victorian thoroughbred racing industry in 2015. Seven is also thought to have been approached by corporate bookmakers for a potential equity investment or joint venture.

"This is the only remaining tote opportunity within Australia, so there is huge interest among the big wagering players as you would expect," the source said. "Tatts and Tabcorp have held dozens of meetings in the last year to position themselves for a possible sale while Stokes has the home-town advantage."

Corporate bookmakers and global betting giants eager to gain a foothold in Australia's strong market are also expected to bid should the government give the green light to a deal.

Tabcorp owns the former government TABs in NSW and Victoria while Tatts owns the TABs in Queensland, the Northern Territory, South Australia and Tasmania. The two market-leading wagering companies held merger talks last year but failed to agree on a price.

Tabcorp was the winning bidder in the 2014 privatisation of the ACT's TAB

where it received a 50-year totalisator licence, a 15-year sports bookmaking licence and approval to offer its Keno and Trackside products in Canberra pubs, clubs and betting shops.

Tatts boss Robbie Cooke confirmed in December the company would be interested in bidding for WA's TAB.

Corporate advisory firms and investment banks have held early talks about an advisory role to the government.

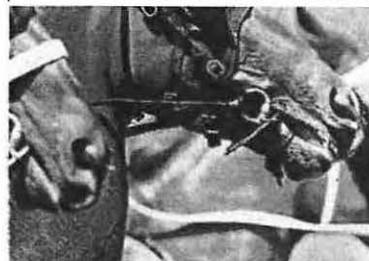
WA Liberal Treasurer Mike Nahan said in December that \$17 billion in expected revenue over the budget years had disappeared since last year's forecasts largely due to the dramatic fall in iron ore prices.

The Racing Representative Group charged to lobby on behalf of the thoroughbred, harness and greyhound codes is also looking to appoint an independent expert in the expectation a sale proceeds, and has drawn on the expertise of former Tatts finance head Ray Gunston to help the industry shape its negotiating position.

The group's representative, Michael Grant, said he was frustrated by delays in instigating the first steps of the sales process and he had not heard from the government since putting a formal

**Continued next page**

However, the consideration of a sale of the TAB provides an opportunity to address the likely challenges that will arise in the future," the website states.



There's huge interest in buying the West Australian state-owned tote.

From previous page

## Tatts, Tabcorp jockey for state-owned TAB

proposal around the possible deal in October.

"The government has made a commitment but we will only sell it if it's what the industry wanted and only if we can be sure of all the ongoing benefits to the industry," Mr Grant said.

"Make no mistake the industry is suffering a crisis of confidence in not having that surety going forward, so we need the government to move forward on this."

A government spokesman was unavailable for comment. The WA Treasury website under an asset sales heading says a deal remains on its agenda.

"The TAB has operated successfully in Western Australia, and this has resulted in a strong racing industry.

## Barnett told to sell WA TAB to pay off debt

**Source:** Australian Financial Review  
**Publication Date:** January 13, 2016  
**Country:** Australia  
**Source Type:** Newspaper

1/13/16 Austl. Fin. Rev. 18

News

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Section: Companies and Markets

Perry Williams

West Australia's leading business group has urged **Colin Barnett's** government to sell Australia's last remaining state-owned betting agency as gaming giants Tatts Group and Tabcorp prepare to battle for the potential \$1 billion deal.

The WA Chamber of Commerce and Industry said the government was not a natural owner of the asset and should include the sale as part of a privatisation push that could reduce its large debt pile.

"Gaming has evolved from the tote at the local races into a highly competitive, global online industry offering countless betting markets and the modern reality is an unnatural fit for a state government," said WA Chamber of Commerce and Industry chief executive Deidre Willmott.

Premier **Colin Barnett** first raised the for-sale flag over the **TAB** in mid-2014 and while it was officially listed for sale in the state's May budget, political divisions and issues within the racing industry have raised questions over the timetable for a privatisation.

Ms Willmott said the obvious interest from companies, which are expected to include Tabcorp, Tatts and a potential bid from billionaire Kerry Stokes meant it should be put on the market.

"The government should sell any asset where the private sector can provide the service more efficiently and in a competitive market, which is clearly the case with the **TAB** and the ongoing support of the local industry should be made a condition of the sale process."

The WA Treasury website said a deal remains on its agenda but the state's racing and gaming minister Colin Holt would not be drawn on his appetite for whether the process may move forward in 2016.

"I am focused on ensuring the racing industry in Western Australia including country racing, continues to succeed, is sustainable in the long term, and continues making a strong contribution to the economy, just as it has in the past," Mr Holt said in a statement to Fairfax Media.

Tabcorp owns the former government **TABs** in NSW and Victoria while Tatts owns the **TABs** in Queensland, the Northern Territory, South Australia and Tasmania.

Tabcorp was the winning bidder in the 2014 privatisation of the ACT's **TAB** where it received a 50-year totalisator licence, a 15-year sports bookmaking licence and approval to offer its Keno and Trackside products in Canberra pubs, clubs and betting shops.

Tatts chief executive Robbie Cooke confirmed in December the company would be interested in bidding for WA's **TAB**.

---- INDEX REFERENCES ----

**LANGUAGE:** English

**COMPANY:** FAIRFAX MEDIA LTD; TABCORP HOLDINGS LTD; TATTS GROUP LTD

**NEWS SUBJECT:** Business Management (1BU42); Campaigns & Elections (1CA25); Corporate Events (1CR05); Privatization (1PR92); U.S. Congressional Campaigns (1US07)

**INDUSTRY:** Bars & Nightclubs (1BA02); E-Commerce (1EC30); E-Commerce Industries (1EC99); Entertainment (1EN08); Internet (1IN27); Online Gambling (1ON09); Retail (1RE82)

**REGION:** Australasia (1AU56); Australia (1AU55); Australian Capital Territory (1AU58); Oceania (1OC40); Western Australia (1WE82)

**OTHER INDEXING:** (Colin Holt; Robert Michael Sean Cooke; Robbie Cooke; Deidre Willmott; Colin Barnett; Ryan Kerry Stokes; Ryan Stokes)

**EDITION:** First

**WORD COUNT:** 404

## WA TAB worth \$700 million-plus, Credit Suisse says



Tabcorp has capacity for a \$600 million debt-funded acquisition, Credit Suisse analysts said. [Jenny Evans](#)

by [Sarah Thompson](#) [Anthony Macdonald](#) [Joyce Moulakis](#)

Western Australia's TAB could be worth more than \$700 million if it is managed along the same margins as ASX-listed Tabcorp, according to Credit Suisse analysts.

The analysts told clients on Friday morning that the WA TAB generated about \$350 million revenue, which on Tabcorp's 20 per cent earnings margin would imply \$70 million annual earnings before interest, tax, depreciation and amortisation.

WA has flagged the TAB's potential sale and is consulting with the racing industry to find an industry funding structure that would enable the TAB to be sold.

The unit is expected to attract the likes of Tabcorp, listed rival Tatts Group and offshore corporate bookmakers.

Credit Suisse said Tabcorp had about \$600 million in debt-funded acquisition capacity, which would send its net debt to 2.5-times earnings before interest, tax, depreciation and amortisation.

"That may initially be above management's target balance sheet leverage ratio of 2.0x-2.5x gross debt to EBITDA; however, strong cash flow generation would see the business de-lever quickly," the analysts said.

[The comments came after Tabcorp announced a \\$97.5 million profit for the six-months to December 31, up from \\$90.9 million a year earlier.](#)

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FEBRUARY 12 2016

SAVE PRINT LICENSE ARTICLE

# WA fires starting gun on \$1b TAB sell-off



**Perry Williams**

Australia's last state-owned betting agency will be officially put up for sale by the West Australian government within weeks, in a potential \$1 billion-plus deal.

The TAB privatisation sets up the tantalising prospect of billionaire Kerry Stokes entering the wagering market for the first time and battling fierce rivals Tabcorp and Tatts Group for the rights to run the profitable betting business, while corporate bookmakers including James Packer's CrownBet may also consider a bid.



The West Australian government will end years of speculation by placing the TAB on the market in a potential \$1 billion-plus deal. Photo: Jenny Evans

The WA government will issue a request for proposal to major players in the industry in the coming weeks after Racing and Gaming Minister Colin Holt decided the state was not a natural owner of the TAB, and said it was time to test the market's appetite for the assets, which include 320 retail outlets.

"From my viewpoint, it's time to test the market now," Mr Holt told Fairfax Media in an exclusive interview. "I'm responsible to the industry and I've

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reached the conclusion we need to look at the potential privatisation of the TAB to see what opportunities it presents for the industry itself."

Depending on the value and structure of initial offers, the government may legislate to offer an exclusive retail TAB wagering licence to the successful bidder.

With Tabcorp and Tatts holding a monopoly over retail TAB outlets in every other state and territory in Australia, the mooted sale is likely to spark a frenzy of bidding for operators to gain a foothold in the market, given a dearth of opportunities in the last few years.



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Mr Holt said he had met with major players, including Tabcorp and Tatts, and expects other new entrants including Seven West Media, which created the racing.com joint venture with Racing Victoria last year, to look at the opportunity.

"I've met with some of those big players who we already know exist in Australia. And there may well be two or three others who are thinking of getting into a wagering business," said Mr Holt. "The fact racing.com has come on board has actually changed the game. Maybe one of the corporate bookies is interested and Crown may want to add a wagering business."

WA accounts for 9 per cent of Australia's wagering market, according to Macquarie Research.

## Massive corporate interest

Mr Holt spent much of last year travelling around Australia to meet with racing bodies and better understand the fast-moving wagering space. He said the experience led him to the conclusion the state must make a move to capture massive corporate interest in the sector and deliver a sale which strengthens the state's own racing industry.

"It was originally floated as an asset sale to help address our deficit issues, but in reality it will be more realistic that it is about an outcome for the industry," said Mr Holt. "The WA TAB performs really strongly; we're like a jewel in the crown, and we're the last ones to be privatised in Australia so we can obviously learn from all the potential pitfalls and opportunities that the others have been through."

Premier Colin Barnett first raised the for-sale flag over the TAB in mid-2014 as attention focused on how the mining state would deal with a ballooning debt crisis.

While it was listed for sale in the state's May budget, political squabbling and divisions within the racing industry raised questions over the timetable for a privatisation.

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Mr Holt said he has held constructive talks with the Racing Representative Group charged to lobby on behalf of the thoroughbred, harness and greyhound codes, but admits a potential sale of the TAB will not be universally welcomed.

"We're working with the WA racing industry to clearly define benchmarks for the sale and I expect we'll have some of those very shortly," said Mr Holt. "My responsibility is to the industry, and I won't be agreeing anything unless it gives a really good outcome for the industry broadly across WA."

Racing and Wagering Western Australia, the owner of the TAB, said it contributed \$165 million in funding to the state's racing and sports industry in the 2014-15 year.

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## Bankers at the barrier for WA TAB mandate



WA Racing and Gaming Minister Colin Holt will in the coming weeks seek advisers who can guide the government on the future funding needs of the state's racing industry. **Brendan Foster**

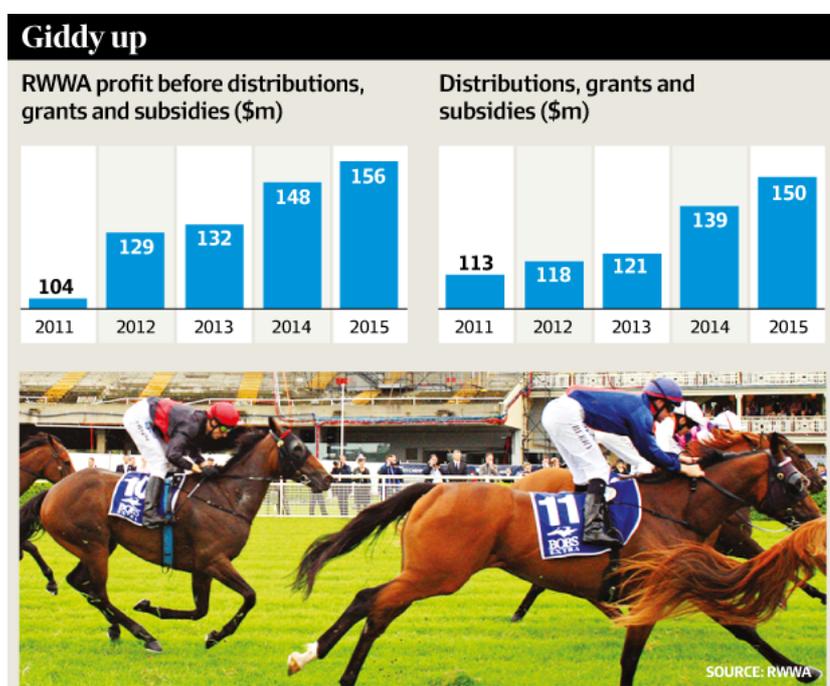
by [Sarah Thompson](#) [Anthony Macdonald](#) [Joyce Moulakis](#)

With the clock ticking on the \$1 billion privatisation of West Australia's TAB network, advisers are starting to position themselves for a plum role negotiating the sale of Australia's last state-owned betting agency.

Sources told Street Talk the request for proposal process to spark the spin-off will be split into two stages.

WA Racing and Gaming Minister Colin Holt will in the coming weeks seek advisers who can guide the government on the future funding needs of the state's racing industry.

The scoping study will focus on the potential transfer of value from the state to the new owner, the possible rationalisation of racing clubs and the structure and shape of the industry should a sale proceed.



Rothschild and Deloitte, who partnered up on the Utah Ports privatisation, will be in the running along with EY who recently advised on the Perth Market Authority sale.

Racing and Wagering Western Australia, the owner of the TAB, is understood to have held a board meeting in the last few days to discuss the sales process.

The second stage will evaluate formal expressions of interest from bidders for the TAB network and is likely to stretch into the second half of 2016.

There's little surprise that both Tabcorp and Tatts Group have already put their hands up as interested bidders and several of the corporate bookmakers including James Packer's CrownBet and Sportsbet, owned by Ireland's Paddy Power, may also take a look.

Meanwhile, Kerry Stokes' Seven West Media is expected to lever off its successful [racing.com](#) joint venture with Racing Victoria to have a crack at the wagering market. Seven West also has a strong position in WA, selling 158,000 copies of the West Australian every day.

Seven West boss Tim Worner did not rule out a potential deal on Wednesday when analysts questioned the media company about its intentions in the wagering sector.

[Credit Suisse analysts reckon WAT TAB's \\$350 million annual revenue](#) could be worth \$70 million in earnings before interest, tax, depreciation and amortisation for an industry player like Tabcorp, assuming a 20 per cent earnings margin.

## It's all about a cut in licence fees: Worner

**Source:** Australian  
**Publication Date:** February 18, 2016  
**Country:** Australia  
**Source Type:** Newspaper

2/18/16 Australian (Newspaper) 19

News

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Section: Business

JAKE MITCHELLMedia

**Seven West** Media chief executive Tim Worner has taken aim at rival media companies for "running around Canberra" and "talking their own businesses down" in the pursuit of changes to owner-ship laws.

Mr Worner told The Australian he was disappointed the sector had not presented more of a united front on the need to cut television licence fees, which are among the highest in the world.

Regional television networks WIN Corporation, Prime Media Group and Southern Cross Media Group have led a push for media -reform that has focused on abolishing the population reach rule and cross media ownership laws.

"Licence fee reductions is the reform that can actually assist the entire industry," Mr Worner said.

"Instead they're running around Canberra and running around talking their own businesses down. I think they're starting to reap what they sow." Asked whether Seven, which owns The West Australian and magazines including New Idea, had been trying to stall the progress of reform because the -removal of media ownership rules was not in its interests, Mr Worner said: "That's absolute rubbish.

"We haven't stalled anything. We just want an entire package of -reform and we want to see licence fees at the top of it." It has been speculated that Seven or chairman Kerry Stokes' 73 per cent-controlled Seven Group Holdings may be interested in bidding for the **Western Australian TAB**, which is set to be privatised. Mr Worner would not be drawn on whether Seven was interested but said the company's Racing.com joint venture with Racing Victoria was going from "strength to strength".

The media executive was speaking as Seven -reported a \$135.2 million net profit for the six months ended on -December 26, turning around a \$993.6m loss in the previous corresponding -period, which was hit by writedowns to its television, newspaper and magazine licences.

The company reported an underlying net profit of \$140.3m, which was a rise of 2.1 per cent, as a cost-cutting program helped -offset a sluggish advertising -market and structural challenges facing its assets.

Seven's revenue slipped by 4.1 per cent to \$896.7m, while earnings before interest, tax, -depreciation and amortisation fell by 8.5 per cent to \$229.3m.

Group costs were down 4 per cent to \$687.5m.

The company's top placed free-to-air television business, the Seven Network, recorded a 2.1 per cent revenue decline to \$662.9m, while earnings before interest and tax were up by 2 per cent to \$185.4m.

The latest accounts show the television operations now represent 83 per cent of the group's earnings.

Newspaper earnings of \$24m for the half year were down 22 per cent, while magazine earnings slumped 39 per cent to \$7.3m.

Macquarie Securities analyst Andrew Levy said Seven's progress in cutting costs was encouraging before the impact of the network's broadcast rights for the Rio 2016 Summer Olympics and new AFL deal.

"This is a robust result overall for Seven and demonstrates good near-term cost control," Mr Levy said.

Seven will pay an interim dividend of 4c a share. The company's shares closed on Wednesday flat at 81.5c.

JAKE MITCHELLMedia

---- INDEX REFERENCES ----

**COMPANY:** PRIME MEDIA GROUP LTD; ROWIN CO LTD; SEVEN GROUP HOLDINGS LTD; SEVEN NETWORK LTD; **SEVEN WEST MEDIA LTD**; SOUTHERN CROSS MEDIA GROUP LTD

**NEWS SUBJECT:** Business Management (1BU42); Corporate Events (1CR05); Corporate Financial Data (1XO59); Dividends (1DI76); Equity Instruments (1EQ90); Funding Instruments (1FU41); Privatization (1PR92)

**INDUSTRY:** Broadcast TV (1BR25); Entertainment (1EN08); Financial Services (1FI37); Investment Management (1IN34); Securities Investment (1SE57); TV (1TV19); TV Stations (1TV23); Traditional Media (1TR30)

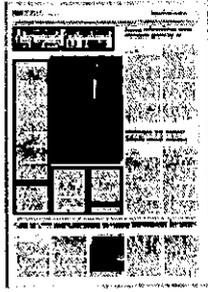
**REGION:** Australasia (1AU56); Australia (1AU55); Australian Capital Territory (1AU58); Oceania (1OC40)

**LANGUAGE:** English

**OTHER INDEXING:** (Andrew Levy; Tim Worner; Ryan Kerry Stokes; Ryan Stokes)

**EDITION:** Australian

**WORD COUNT:** 517



# CrownBet profitable, declares CEO Tripp

Sports betting

John Stensholt

CrownBet chief executive Matthew Tripp claims his upstart wagering business is now profitable, less than two years after he established the business from the remnants of the BetEzy brand.

In a wide-ranging interview, Tripp revealed CrownBet was performing ahead of his expectations and had benefited from its ties to Crown Resorts, which owns 62 per cent of the business, and its Signature Club membership and loyalty rewards program, as well as its big sponsorship deals with the AFL and Racing.com.

Tripp said he would aggressively pursue sponsorship deals in the NRL, Super Rugby and A-League, admitting that CrownBet was still too Victoria-centred, and was confident his business would emerge as one of the market's big players should another round of mergers and acquisitions take place in the wagering sector.

He also said CrownBet would pursue its own in-play betting option should the Barry O'Farrell review of the Interactive Gaming Act, due in mid-March, at least indicate in-play betting should be legalised.

Tripp said CrownBet's financial results had been improving rapidly, helped in recent months by a decision to rein in some of its television advertising spending.

"We broke even on a monthly basis in November and have kept that up every month since," Tripp said. "While that's only been four months, I think we will be profitable for the rest of the year. That is ahead of where we thought we would be."

Tripp established CrownBet in a joint venture with Crown Resorts in late 2014, after taking over the BetEzy brand the previous April after a non-compete clause after his sale of Sportsbet to Irish Giant Paddy Power expired.

CrownBet is now understood to be comparable in size to William Hill Aus-

tralia, which recently announced it made \$198.4 million net revenue from about \$2.05 billion amount wagered with it in the 2015 calendar year.

Tripp said CrownBet has about 150,000 active customers, 220 per cent up from a year ago, and 300 staff, 180 of which were hired during 2015.

A focus on AFL and horse racing has helped fuel the growth, as has the popularity of the National Basketball Association (NBA) in the United States with Australian punters.

"Basketball is at least our third-best

sport now, and probably second, though I'd expect the NRL to overtake it," Tripp said.

"We are conscious that we have to do more outside of Victoria so we will be looking at [sponsorship] deals with NRL clubs and we've been talking to rugby and soccer clubs as well."

Like others in industry, Tripp is eagerly awaiting the O'Farrell review. He said CrownBet would be ready to go should there be support for legalising in-play betting online, now banned in Australia.

"We've been ready for it for a couple of years and we're really confident that the technology we have and the offering we would put out there would be very popular.

"We are very confident about the legality of it as well, but we will wait for an

indication of where things could head from the report."

The review could also set the wagering industry down the path of more mergers and acquisitions, with Tripp predicting a shake out.

"I really think we will go from five corporate [online wagering only] companies to at least four, maybe three, within five years. And I think we will be well placed to survive that."

But Tripp said it was unlikely CrownBet would be a contender for the West Australian TAB, which the state government will move to sell later this year with a price tag of about \$1 billion.

"We would look at it, but I'm not sure

we are geared up enough at this stage to take on a retail operator as you would have to in that situation. Maybe in the future."

## Barnett to start WA TAB sale talks

**Source:** Australian Financial Review  
**Publication Date:** March 15, 2016  
**Country:** Australia  
**Source Type:** Newspaper

3/15/16 Austl. Fin. Rev. 18

News

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Section: Companies and Markets

Perry Williams

West Australian Premier Colin Barnett is poised to proceed with the \$1 billion privatisation of the state's TAB agency with talks planned this week with the racing industry.

Mr Barnett, who flagged the TAB privatisation in mid-2014, was initially due to meet the Racing Representative Group on Monday morning in Perth. However, the meeting was changed because of a delay in cabinet proceedings. It is due to be held in coming days.

The racing body, charged with lobbying on behalf of the thoroughbred, harness and greyhound codes, is expected to list its demands relating to any potential sale, including minimum funding commitments for each of the clubs it represents.

Sources said Racing Minister Colin Holt and Treasurer Mike Nahan would also attend the meeting.

It was thought Mr Nahan expressed concern last week the state needed to ensure it engineered a strong outcome for the region should the sale proceed.

That could take the form of a one-off payment by a successful bidder in addition to the minimum guarantees needed to be in place with the racing clubs.

RRG spokesman Michael Grant has previously said it is imperative to have the correct structure in place, which includes minimum undertakings and benefits to the racing industry. The group is concerned the government has yet to appoint an external adviser to guide it in the complex process.

It is thought firms including Rothschild, Investec and EY are positioning themselves for an advisory role in the privatisation process, although no formal request for the proposal has been sent to the industry.

Tabcorp, which owns the former government TABs in NSW and Victoria, and Tatts, the owner of the TABs in Queensland, the Northern Territory, South Australia and Tasmania, are logical front runners in the West Australian race.

Most in the industry expect Tabcorp to have the best chance of securing the TAB sale.

Tabcorp chief executive David Attenborough has confirmed the betting giant will likely lob in a proposal.

Tabcorp was the winning bidder in the 2014 privatisation of the ACT TAB, where it received a 50-year totalisator licence, a 15-year sports bookmaking licence and approval to offer its Keno and Trackside products in Canberra pubs, clubs and betting shops.

The two rivals, which canned \$9 billion merger talks in November, may consider resurrecting a wagering tie-up in the next few months, potentially removing a source of competitive tension in the bidding process depending on the WA government's timeline.

Alternatively, should Tabcorp or Tatts emerge as the winner in the West Australian sale, that

process might stall the momentum for a merger between the two companies.

The sale also sets up the prospect of two of Australia's highest-profile billionaires, James Packer and Kerry Stokes, entering the wagering market in the west.

Mr Stokes' Seven West Media, which created the racing.com joint venture with Racing Victoria last year, is thought to be mulling an assault on the wagering market with Western Australia an obvious entry point.

However, Mr Packer's CrownBet remains an outside chance given the large retail network footprint.

---- INDEX REFERENCES ----

**LANGUAGE:** English

**COMPANY:** ERNST AND YOUNG; INVESTEC PLC; ROTHSCHILD AND CO SCA; SEVEN WEST MEDIA LTD; TABCORP HOLDINGS LTD

**NEWS SUBJECT:** Business Management (1BU42); Corporate Events (1CR05); Privatization (1PR92)

**INDUSTRY:** Bars & Nightclubs (1BA02); Casinos (1CA80); Entertainment (1EN08); Equestrian Events & Horse Racing (1EQ65); Horse Racing (1HO27); Sports (1SP75)

**REGION:** Australasia (1AU56); Australia (1AU55); Australian Capital Territory (1AU58); Oceania (1OC40); Western Australia (1WE82)

**OTHER INDEXING:** (Racing Representative Group) (Mike Nahan; Colin Holt; Michael Grant; Colin Barnett; James Douglas Packer; James Packer; David Robert Henry Attenborough; David Attenborough; Ryan Kerry Stokes; Ryan Stokes)

**EDITION:** First

**WORD COUNT:** 509

## PNG's PM delivers for Ferrovial boss

**Source:** Australian  
**Publication Date:** April 29, 2016  
**Country:** Australia  
**Source Type:** Newspaper

4/29/16 Australian (Newspaper) 32

News

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Section: Business

MARGIN CALL WITH BEN BUTLERCHRISTINE LACY

Ferrovial boss Santiago Olivares will have PNG Prime Minister Peter O'Neill to thank for delivering takeover target Broadspectrum into the dashing Spaniards' acquisitive hands.

By late yesterday 19 per cent cornerstone investor Simon Mawhinney at fund manager Allan Gray was softening his previously steadfast stance against Ferrovial's \$1.50-a-share bid for the detention centre operator, as Broadspectrum's hopes of maintaining its PNG camp contract were dimming.

(Yesterday we said the bid was \$1.35, which was wrong.) "At this stage we are gathering as much information as possible so that we can make an informed decision before the expiry of the offer at 7pm on Monday," Mawhinney told us.

By last night Broadspectrum chair Diane Smith Gander was still telling investors to reject the bid, but was assessing whether the situation on Manus warranted a change.

Despite that the action in the PNG Supreme Court was on foot, DSG didn't think it important enough to note it in her target statement. In contrast, Immigration Minister Peter Dutton says he's been "planning for this since late last year".

Allan Gray tipping into the bid gets Ferrovial close to its 50.1 per cent minimum acceptance, the mums and dads will probably follow and the conquistadors will be locked into buying the company, regardless of how things play out on Manus.

Skala departs board Steven Skala has left the board of Deutsche Bank's main Aussie arm after 10 years, resigning his directorship of Deutsche Australia in February.

The banking veteran, who retains his broader role as vice-chairman of Deutsche Bank Australia and NZ, has left Deutsche Australia two legacies: a bumper profit and an expansive "discussion" with Chris Jordan's tax office.

The bonanza \$82 million profit in 2015, nearly three times 2014's \$28m effort, is easily explained, thanks to increased trade by fixed interest clients but long-running tea-and-biscuits with the ATO is shrouded in mystery. Annual reports disclose talks have been going on for at least five years, although the subject matter may have moved.

In 2011, they were "in relation to certain matters", but by last year the chitchat covered "the determination of the company's tax position", which could "lead to additional tax liabilities", quantum unknown. All DB will say is that it is not under audit and the chinwags do not relate to a dispute.

West beckons Perrin Millionaire Billabong founder Scott Perrin and wife Rachel are having another shot at flogging his \$30m Gold Coast home, which has been for sale for almost a year.

Perrin, who's now running Seven and Racing Victoria's Racing.com out of Melbourne, has switched agents on the little Mermaid Beach six-bedder in the hope of finally offloading it.

He's still commuting to work from up north, but might soon be looking west as WA Racing Minister Colin Holt ramps up plans to flog Australia's last government-owned wagering business, **WA TAB**.

Racing.com is mooted as billionaire boss Kerry Stokes' platform for further expansion into racing, potentially bidding for the wagering licence in his home state. It already has a hook-up with the James Packer-backed **Crownbet**. Holt's talking to industry about how he can sell the TAB to the market as a profitable enterprise - last year it made \$156m in profit but gave \$150m of that to the clubs.

Nine's breathing space Over at Nine, under-pressure boss Hugh Marks was finally able to deliver some breaking good news to his board of directors yesterday. As the Peter Costello-chaired Nine board met in Sydney, the action against the network by its Bermuda-based billionaire affiliate partner Bruce Gordon was being thrown out of court, with the judge now considering costs in the case.

Marks had already warned the market that the increase in legal costs from the WIN defence could eat into earnings this half, but if it goes away that could give the boss some headroom towards the growing list of expenses incurred from the 60 Minutes debacle in Beirut.

It was the board's first coming together since the news and current affairs scandal broke but directors, including former boss David Gyngell, Holly Kramer and Elizabeth Gaines, have been updated daily with written reports on the Levantine drama.

Nine is now saying the internal 60 Minutes review could take until mid-May. The board yesterday was not updated on the investigation. [christine.lacy@news.com.au](mailto:christine.lacy@news.com.au) [butlerb@theaustralian.com.au](mailto:butlerb@theaustralian.com.au)

MARGIN CALL WITH BEN BUTLERCHRISTINE LACY

---- INDEX REFERENCES ----

**COMPANY:** ALLAN GRAY (PTY) LTD; DEUTSCHE BANK AG; DEUTSCHE AUSTRALIA LTD; FERROVIAL SA; GOLD COAST RESOURCES INC; INFRATIL LTD; JORDANS FURNITURE INC  
**NEWS SUBJECT:** Board of Directors (1BO47); Business Management (1BU42); Corporate Events (1CR05); Corporate Groups & Ownership (1XO09); Immigration & Naturalization (1IM88); Mergers & Acquisitions (1ME39); Social Issues (1SO05); Taxation (1TA10)  
**INDUSTRY:** Accounting, Consulting & Legal Services (1AC73)  
**REGION:** Australasia (1AU56); Australia (1AU55); Oceania (1OC40); Victoria (1VI05)  
**LANGUAGE:** English  
**OTHER INDEXING:** (Steven Skala; Holly Kramer; Colin Holt; David Gyngell; Diane Smith Gander; Scott Perrin; Simon Mawhinney; Hugh Marks; Kerry Stokes; Chris Jordan; Allan Gray; Santiago Olivares Blazquez; Santiago Olivares Blazquez; BEN BUTLERCHRISTINE LACY; Bruce Gordon; Bruce Gordon; Elizabeth Gaines; Peter Dutton; Rachel)  
**EDITION:** Australian  
**WORD COUNT:** 736

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## Seven and Racing Victoria shake up horse racing with Hong Kong deal



Racing Victoria and Seven West Media's joint venture may bid for racing in other states. Vince Calligiuri

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by John Stensholt

Seven West Media and Racing Victoria's Racing.com joint venture will announce on Monday it has gained the rights to broadcast arguably the best-quality horse racing in the world from Hong Kong.

It is a small but significant step for Racing.com, one that may be the first domino to fall in what looms as a year or two of intensive broadcast deal negotiations across several states and merger and acquisition activity in the wagering sector.

Plenty of this may have Seven and Racing.com at the centre of the action and have ramifications for the established listed wagering operators such as Tabcorp and racing administrators around the country.

Racing.com's coverage of Hong Kong is likely to begin this weekend or next Wednesday evening. Its popular on-air host Shane Anderson says the coverage, shown on Seven's free-to-air Racing.com channel, on Foxtel's pay television service and online, will be "an elite product covered with elite talent", including preview and analysis shows.

Tabcorp's Sky Racing channel will still cover Hong Kong but Mr Anderson believes Racing.com's ability to showcase it as a premium product makes it a

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differentiator. At present, Hong Kong is part of a constant suite of racing, including greyhounds and harness, shown on Sky's main channel or moved to its secondary

The theory is greater exposure to horse racing on television means more people bet and more flows through to the industry in race fields fees. It can also be said that Tabcorp – which shares the spoils of tote betting – will also benefit.

But the Hong Kong deal shows the divergent paths Tabcorp is taking from Seven and Racing Victoria, which shows the crown jewels of the Spring Carnival that features races such as the Cox Plate, the Caulfield Cup and the Melbourne Cup.

Hong Kong marks the first jurisdiction outside Victoria that Racing.com will show vision of, having hastily been born in January 2015 out of the messy end to the TVN channel, which had the rights to both Victoria and NSW racing.

Back then, Victoria elected to spend about \$10 million establishing Racing.com with Seven, which then launched the free-to-air channel in July. Meanwhile, Racing NSW quickly signed a 10-year exclusive broadcast deal with Sky.

Sky covers races across other states and overseas, but that may soon change.

South Australian racing is up for renewal next year, while the rights for New Zealand racing are in play now. Queensland authorities, meanwhile, are understood to have served Sky with breach notices regarding their contract over changes it made to Victorian coverage last year (which was off-air for a short time due to a contract dispute).

Racing.com may move to poach the rights off Sky for all of those, though will then face the quandary of having to lavish attention and resources on interstate racing as it does for Victoria, and perhaps even have to sell or offer those states a shareholding.

Victorian authorities argue the Racing.com service, which is also pumped out via the corporate bookmakers website, has increased wagering turnover. It may be up by about 7 per cent this financial year, compared with a fall in Queensland and South Australia of the same figure (NSW is said to be up about 3-4 per cent), and Racing Victoria may go close to matching its bumper \$50 million record profit in 2015.

Racing.com is already profitable after about 10 months of operation, paying Racing Victoria and Seven a decent annual dividend, mostly thanks to stronger than expected advertising deals that Seven's sales team signed with corporate bookmakers

GTN has 'Eye in the Sky' on US expansion

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Cricket Australia's executive kitchen jars

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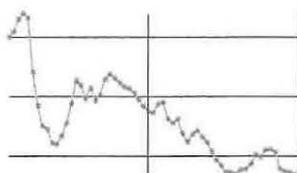
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National Media Group.

<http://www.sevenwestmedia.com.au>

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| 9/11/16 | Annual General Meeting Addresses                            |
| 7/11/16 | SWM Signs Contract to Acquire Sunday Times and PerthNow     |
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such as CrownBet, which shelled out \$5-10 million for the biggest ad package, and Ladbrokes

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"We are quietly pleased with what has already been achieved, the future performance and the potential of this business is very, very significant," Seven chief executive Tim Worner told *The Australian Financial Review*. "We have already seen what can be done. Look at the roll up to the [recent Warrnambool carnival], look at the turnover numbers. Victorian racing is positioning itself for a very interesting future and so is Seven."

When it comes to racing, however, the real money is to be made in wagering. There has already been speculation about Seven looking at a bid for the West Australian tote. Far more likely is a tie-up between Seven and an operator such as CrownBet, given the latter already advertises on Racing.com and James Packer and Kerry Stokes, former and current chairman of CrownBet's part-owner Crown Resorts and Seven respectively, are close.

Then there is the vexed issue of Tabcorp's joint venture with Victoria to deliver racing a share of tote betting losses. Tabcorp's retail monopoly is under threat from the rise of corporate bookmakers such as CrownBet and market leader Sportsbet, and Racing Victoria has made good money charging them higher race fields fees.

Both Tabcorp and Racing Victoria say the joint venture is still a fruitful one, and relations are good. The different, and competing, broadcasting strategies may mean that is not the case forever.

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## Kerry Stokes revises plan for East Perth Power Station museum

**Source:** Australian Financial Review  
**Publication Date:** September 28, 2016  
**Country:** Australia  
**Source Type:** Newspaper

9/28/16 Austl. Fin. Rev. 36

News

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Section: Features

Joe Aston and Bryce Corbett

At 76, Seven billionaire Kerry Stokes has asked himself a rather salient question: what the hell to do with all of this art?

Stokes' extensive stockpile of Picassos and Matises, and historical artefacts such as Scott of the Antarctic's sled and the Rothschild Prayerbook, ambiguously known as the Kerry Stokes Collection, is displayed at the West Perth offices of the family's private investment arm Australian Capital Equity. It is curated by seven full-time staff and has been exhibited in parts and in full at various institutions around the country.

For some time, Stokes has been looking for a permanent site to establish an eponymous public museum. Though he's scoped other Australian destinations, his ties to Perth make it city most likely. Think a MONA of the West. And if he buys the TAB from Colin Barnett, both can be funded by gambling!

ACE had submitted an Expression of Interest proposal for the East Perth Power Station, but state treasurer Mike Nahan told the WA Parliament this month that the bidders - whose number also include Mirvac and Lend Lease - "did not bid a sufficient amount, in our mind, to sell the thing".

It's understood ACE has since submitted a revised proposal. The issue for the TV and tractor baron is that while the site itself is valued at \$25.7 million, it requires another \$100 million in pre-development works (contamination, heritage, blah blah) before a sod could be turned on new works. And with iron ore at \$US55 per tonne, oil still sub-\$US50 per barrel and the media business structurally rooted, a lazy \$300 million isn't spare change to Stokes like it was five years ago, when the ore price was \$US177 a tonne and he could shoot cash out of water cannons into the Swan River. We loved those days, being bull market specialists...

Mind you, he's a determined fellow, so don't write off the project just yet. We'll watch this space, shall we?

### UBS desk gets around to downgrading Estia Health

Well it took them a while, but finally, UBS Equities has downgraded one of its favourite stocks, Estia Health. Good of them to get with the program!

Up until April 19, the desk's target price for the listed aged care player rolled up by private equity sharks Quadrant was a whopping \$8.65. On that day, it was cut to \$8.35 - both laughable in hindsight, but then isn't hindsight a beautiful thing?

In May, lead analyst Shav Bedrossian heroically dropped his EHE price target to \$8.15, still 33.2 per cent above his peers' consensus of \$6.12; the actual price then was \$5.32. And on it goes: by July, UBS was spruiking a fair price of \$6.95, by which time the stock was trading below \$4.

On Monday, UBS released new research on Estia, dropping Bedrossian from its list of analysts, a list he previously sat atop, and set a new target of \$4.10, down from that \$6.95 in one fell swoop. The shares closed at \$3.45.

Back in December 2014, when UBS' investment banking division floated Estia for Quadrant, the deal was led by Michael Stock, now at Credit Suisse. Stock is also an investor (in a private capacity) in the hedge fund VGI Partners, which holds the biggest short position in Estia and across the sector. Which way does he want the stock to go or the wind to blow?!

Mitchell book squibs on famous Bush G20 line

They were three words, attributed to the then president of the United States and leader of the free world - George W. Bush.

"What's the G20?"

A question reportedly uttered by Bush during a private phone conversation with the then Australian PM, Kevin Rudd, back in 2008. A conversation that was apparently overheard by the then editor-in-chief of The Australian, Chris Mitchell, and which formed the basis of a subsequent report in that newspaper which reverberated around the world and sent a chill through US-Australian relations at the time.

Strange then that those three simple words fail to appear in Mitchell's tome, Making Headlines (available now in all good bookstores).

In his re-telling of the infamous "phone call affair", Mitchell writes around the specifics, recording that Rudd took the call with Bush on speaker phone and "deliberately left the door open in what I concluded was a deliberate way".

"After the call, he [Rudd] came back smiling, sipped his beer and asked whether I had heard all of the conversation," Mitchell writes. "I most certainly had and was amazed and surprised that he had let me."

We asked Mitchell why, given that those famous three words were very much the crux of The Oz's explosive story, they were excised in the book version of events?

He replied: "After approving the quotes in the story as published, the PM's office later said the president did not make the comment. The reporter did not have a transcript."

But wasn't he the reporter?

"No, of course not," came the reply. "Political correspondent Matt Franklin wrote the story."

Which he did. But only after Mitchell - who was one of only two people privy to the phone call and "most certainly" had "heard all of the conversation" - briefed him on it. So we called Franklin - who declared himself distinctly uninterested in discussing the topic, beyond telling us: "I never reveal sources".

Then Mitchell contacted us to refer us to Paul Kelly's book Triumph and Demise, where, he told us, the incident is "explained in detail".

Which it is. On pages 208 and 209 to be precise. Except the detail is different to that recorded in Mitchell's own book. And here we quote Kelly: "Mitchell's recollection was that Bush had asked a question about the G20. "I'm not sure exactly what it was," he said."

So in one version he "heard all of the conversation" and in another, he was "not sure exactly" what was said.

And so we asked Mitchell the simple question: Did you or did you not hear president Bush ask, "What's the G20"?

His obtuse reply: "That is how the long discussion after the call was framed by KR. And his office ticked off on the version we ran with those quotes."

Hmmm. It's an equivocation that doesn't fill us with confidence.

---- INDEX REFERENCES ----

**COMPANY:** CREDIT SUISSE AG; EQUUS MINING LTD; LENDLEASE GROUP; MIRVAC GROUP;

STOKES LTD; VGI PARTNERS PTY LTD

**NEWS SUBJECT:** Art (1AR38); Funding Instruments (1FU41); Major Corporations (1MA93); Private Equity (1PR15)

**INDUSTRY:** Book Publishing (1BO18); Books (1BO26); Entertainment (1EN08); Financial Services (1FI37); Major Financial Services Firms (1MA21); Publishing (1PU26); Traditional Media (1TR30)

**REGION:** Australasia (1AU56); Australia (1AU55); Oceania (1OC40); Western Australia (1WE82)

**LANGUAGE:** English

**OTHER INDEXING:** (George Bush; Chris Mitchell; Kerry Stokes; Kevin Rudd; Mike Nahan; Matt Franklin; Colin Barnett; Michael Stock; Paul Kelly; Shav Bedrossian)

**EDITION:** First

**WORD COUNT:** 1044

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# FENDING OFF THE BEARS. NO BULL.

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## James Packer lays out his plan for Crown Resorts



James Packer has returned to lead Crown after stepping down as executive chairman 17 months ago. Getty Images



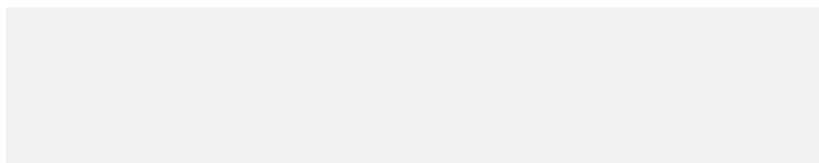
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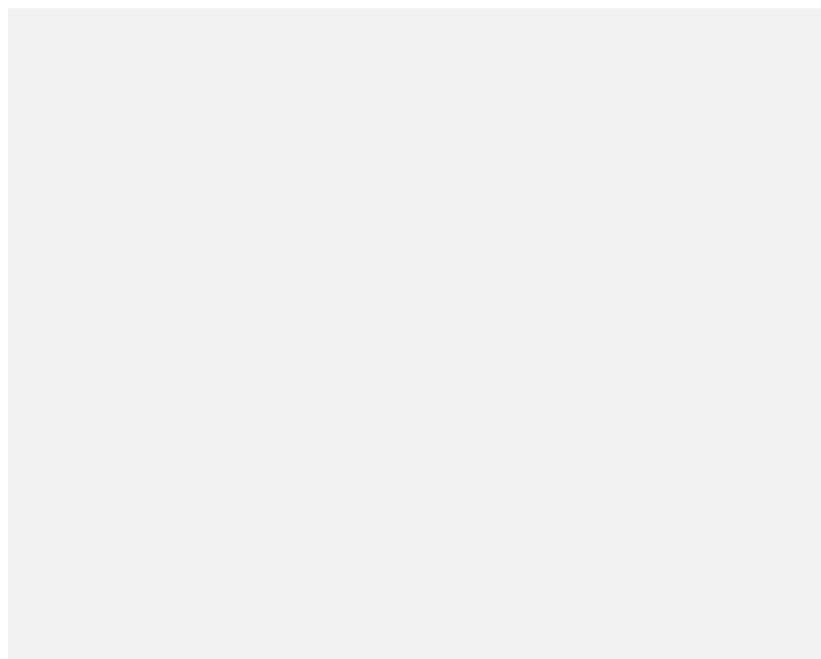
Gaming billionaire [James Packer has made an extraordinary return to the Crown Resorts board](#) as a director after only stepping down as executive chairman 17 months ago, and has laid out a strategy for the company, while also announcing the departure of chairman Robert Rankin.

Mr Packer, who is holidaying in Aspen, told *The Australian Financial Review* there were five [priorities for Crown Resorts management and board in the year ahead](#). His private company Consolidated Press Holdings owns 48.2 per cent of Crown.

Mr Rankin, also CPH's chief executive, will leave both roles from February 1 but remain on the Crown board.

Mr Packer said the first priority of Crown would be "managing through the whole China situation in a way that is respectful to China and in a way that best represents our staff". Next would be to run the Australian business in a "more lean and focused fashion".





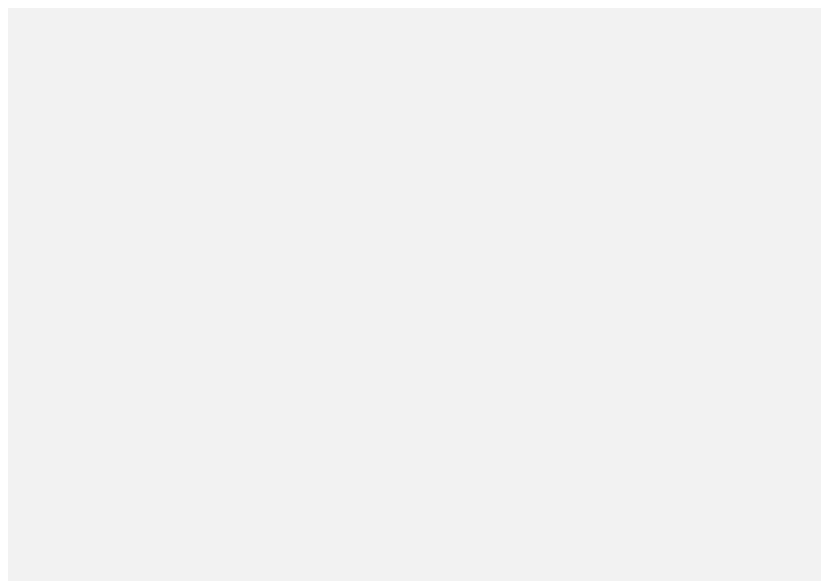
Last year 18 Crown staff, three of whom are Australian nationals including its head of international VIP gambling, were arrested in China for "gambling crimes". In China, it is illegal to promote or organise gambling activities and the arrests came amid a broader anti-corruption blitz by the Chinese government targeting money laundering and illicit money transfers offshore. One Crown employee has been released.

Mr Packer said Crown's third priority would be to continue to drive and build "a meaningful, profitable, online business" and following this would be to deliver the company's Sydney casino, which is being built at Barangaroo, "on time and on budget".

There have been market rumours of a potential deal between Crown Resorts and ClubsNSW. ClubsNSW, which has 1200 member clubs, is said to have been looking for a digital partner. Neither group has commented on the speculation.

Mr Packer said Crown management and the board's final commitment in the year ahead was "being shareholder focused in the way we do business".

Shares in Crown Resorts fell 14¢ to \$11.58 on the announcement of the board change.



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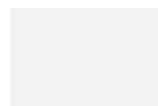
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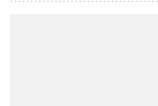
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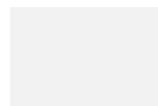
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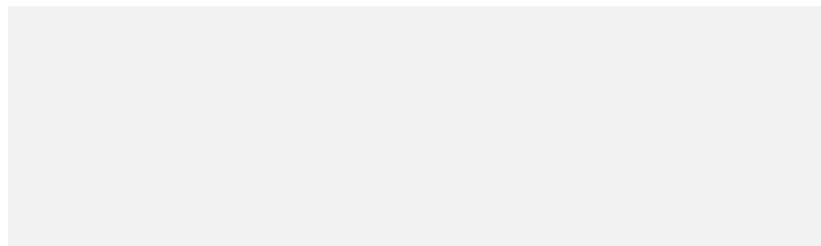
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Crown chairman Robert Rankin, also CPH's chief executive, will leave both roles from February 1 but remain on the Crown board. **David Rowe**

John Alexander, who has been a director of Crown since 2007, will replace Mr Rankin and become executive chairman of Crown Resorts. Mr Alexander is also a director on the Seven West Media board and analysts speculated that with his increased responsibilities at Crown he may step down from that role.

"Crown Resorts is and will remain one of Australia's most valuable tourism assets with its world-class resorts in Melbourne and Perth, and construction in Sydney now under way," Mr Alexander said. "I am also excited about our plans to continue building our wagering and online businesses."

Mr Guy Jalland, a long-time legal adviser to Mr Packer, was appointed chief executive of CPH. Both he and Mr Alexander have worked for years for Mr Packer, including as executives of Publishing and Broadcasting Ltd. Another former PBL executive, Michael Johnston, is also on the Crown Resorts board.

Mr Jalland will join the Crown board when a vacancy becomes available.

Sources told the *Financial Review* it was expected Mr Jalland would replace Mr Rankin on the board.

Both Mr Rankin and Mr Packer maintained that the former's departure was an amicable one. Mr Rankin said he would focus on his and Mr Packer's investment vehicle Pacific Point Partners. He said he was "excited" about the international investment opportunities for Pacific Point Partners, which began with the taking of a 19.9 per cent stake in Contango Asset Management last June.

"The next stage of development of Crown Resorts will be rightfully more focused on its outstanding [Australian] assets, and led by John Alexander. Crown Resorts has a very strong team in place to do that," Mr Rankin said.

The change to the board structure of Crown Resorts is understood to have come about after the finalisation of the company selling a portion of its shares in Macau operator Melco Crown back to joint venture partner Lawrence Ho for \$1.6 billion in December. The company has said the remainder of its Melco stake would be sold on market.

It came only days after Crown also canned its Las Vegas casino project. Both moves almost completely abandon its international business and reversed the strategy it announced in June of spinning its international assets into a separately listed vehicle. In June, Crown Resorts also unveiled plans for a hotel REIT, on which work continues to progress.

Mr Packer said following Crown's sell-down of the Melco stake it would be strategically more important to have an Australian-based chairman, hinting at what was to come. In December, Mr Alexander was with the billionaire in Argentina at his polo property Ellerstina when plans for Crown to scale back its international ambitions and sell-down most of Melco Crown were formulated. Mr Jalland is also

understood to have attended and discussions are believed to have taken place about board changes.

However, it's believed the changes with Mr Rankin, who was in Aspen last week, were only finalised in the past fortnight. Mr Rankin has homes in Hong Kong and London, where his family will now spend more time.

"Rob is a world-class chief executive who has done a very good job at CPH and Crown," Mr Packer said.

"I trust and respect him as much today as ever and we remain the closest of friends. We have had discussions about what makes the most sense for CPH and Rob personally, since the material announcements made by Crown late last year, including its sell-down in Melco Crown and its increased focus on its core Australian business.

"This realignment of corporate priorities, which Rob strongly endorsed and drove, coupled with his own professional and personal priorities based overseas, made this conversation, like all our conversations, straightforward. I look forward to working with Rob on the board of Crown."

It was Mr Rankin who worked on the deal to unwind the Melco investment.

After he left the Crown board in December 2015 as a director, Mr Packer had intended to take an executive position at Crown with a mooted annual salary of up to \$10 million, a move that was later abandoned.

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**LONG WAY TO GO FOR CROWN ONLINE**

**Source:** Australian Financial Review  
**Publication Date:** January 14, 2017  
**Country:** Australia  
**Source Type:** Newspaper

1/14/17 Austl. Fin. Rev. 13

News

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Section: Perspective  
 JOHN STENSHOLT

Former BRW Young Rich-Lister Matthew Tripp is known to rue selling his Sportsbet online bookmaker business to Irish giant Paddy Power in a \$338 million deal in 2011.

Sportsbet has gone on to become the market leader in Australia and Tripp, who teamed up with James Packer's Crown Resorts to create CrownBet, now has his old company and other rivals in his sights in the belief there's room for another big operator in an extremely competitive digital wagering market.

Crown has a 62 per cent stake in the joint venture, while Tripp and his management team own the remainder.

Tripp says he has been working more closely with Packer in recent months. "We've had great support from James and his team and believe the combination of our wagering expertise and the land-based businesses they have here means we can build a compelling and successful digital business. We want to be the number one online wagering operator here."

CrownBet has been aggressively growing its market share since forming two years ago, using its tie-up with Crown as a differentiator, including a rewards program that allows punters to accrue points based on the amount they bet. Among the items the points can be used for are restaurants, hotel rooms and other offers at Crown casinos.

The bookmaker's 2016 financial report revealed it spent more than \$80 million on marketing and its wagering revenue almost quadrupled to \$157 million.

There have been rumours CrownBet wants to make a bigger splash by acquiring the Australian operations of a rival such as William Hill and Ladbrokes.

It is also in the race with Tabcorp for a new digital partnership with Clubs NSW. A decision is due next month. W

---- INDEX REFERENCES ----

**COMPANY:** CROWN RESORTS LTD; LADBROKES PLC; PADDY POWER BETFAIR PLC; TABCORP HOLDINGS LTD

**INDUSTRY:** E-Commerce (1EC30); Entertainment (1EN08); Gaming Industry (1GA25); Internet (1IN27); Online Gambling (1ON09); Retail (1RE82)

**LANGUAGE:** English

**OTHER INDEXING:** (Matthew Tripp; James Douglas Packer; James Packer)

**EDITION:** First

**WORD COUNT:** 284

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Feb 6 2017 at 11:00 PM | Updated Feb 6 2017 at 11:08 PM

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# Crown to sign online betting deal with Clubs NSW in blow to Tabcorp



James Packer's CrownBet deal will come as a blow to Tabcorp, which still relies heavily on bets placed by customers in retail outlets. Getty-Images



by John Stensholt

James Packer's Crown Resorts' online wagering business CrownBet is set to sign a groundbreaking partnership with Clubs NSW, which will see punters in pubs and clubs able to place bets online and end the TAB's monopoly on in-venue betting.

The deal signals Crown Resorts' latest big push into [the online betting market](#), which Mr Packer told *The Australian Financial Review* was one of his main priorities for the year when he re-joined the Crown board in January.

An agreement with the clubs, which could be announced as early as Tuesday, is understood to involve the building of a special app for club patrons that will allow punters in venues to gamble on the Crownbet app.

The deal will come as a blow to rival Tabcorp, which has TAB outlets in pubs and clubs across the country and still relies heavily on bets placed by customers in retail outlets despite a big improvement in its digital wagering revenue in recent years.

It may even result in some clubs ditching TAB outlets and just offering online betting to customers via CrownBet.

Clubs in NSW will be given incentives to sign up members and will receive a commission on bets placed. The app will also tie in with the CrownBet rewards

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program, with points earned on bets able to be redeemed for offers at specific club venues and presumably at [the Crown casino complex at Barangaroo when it opens in early 2021](#).

Clubs NSW represents about 1200 clubs with 6.7 million members across the state, with many having long been unhappy about the price Tabcorp charges for venues to have TAB outlets and carry its Sky Racing broadcasting service.

The move will involve considerable capital expenditure for CrownBet, including building the app and potentially helping improve Wi-Fi at clubs and install signage.

But CrownBet management is understood to see the move as part of a big push into NSW, with the wagering company having more customers in Victoria – it has a five-year sponsorship agreement with the AFL worth almost \$10 million annually and also is a big advertiser on Racing Victoria and Seven West Media's Racing.com channel – and Western Australia.

[The deal also strikes at Tabcorp's recent move to roll out its new program incentivising pubs, clubs and other venues that contain TAB outlets to sign up customers to bet via the company's digital apps.](#)

Corporate bookmakers such as CrownBet have also complained about pending changes to the Interactive Gambling Act with the insertion of a measure they claim will easily allow the introduction of online in-play betting in TAB outlets and pubs and clubs around the country.

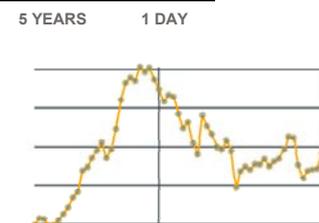
They argue it would hand Tabcorp and Tatts Group – [which in October announced an \\$11.3 billion merger](#) that will see the TAB brand replace Tatts' Ubet in Queensland and South Australia – a significant advantage by potentially being able to hand out tablets or smartphones and allow punters to bet in-play as long as they are inside a venue.

[CrownBet is 62 per cent owned by Crown Resorts, with the remaining stake owned by CrownBet chief executive and former BRW Young Rich list member Matthew Tripp and several of his executives.](#)

Mr Tripp is a former owner of Sportsbet, the biggest online bookmaker in Australia which he sold to Irish giant Paddy Power in 2011.

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\$11.65 -0.09 -0.77%  
volume 2090014 value 24353680.4



Last updated: Sun Mar 05 2017 - 2:46:51 PM

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## M E D I A   R E L E A S E



7 February 2017

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## CLUBSNSW AND CROWNBET FORM HISTORIC PARTNERSHIP

ClubsNSW and CrownBet are pleased to announce a groundbreaking partnership for the provision of digital wagering services in NSW clubs.

The agreement follows ClubsNSW's extensive wagering review and tender process which saw CrownBet clearly beat Australia's largest wagering providers through their world-class wagering products, strong commitment to responsible gambling and substantial benefits for clubs of all sizes.

"More than 90% of clubs have been losing money on their TAB facilities in recent years as more and more people switch to online wagering," ClubsNSW CEO Anthony Ball said.

"Our arrangement with CrownBet will ensure all NSW clubs get their fair share from digital bets and will help ensure the industry's long-term viability. Small and regional clubs will be the biggest winners," he said.

The CrownBet affiliation will be available to clubs today. It will not necessarily affect existing retail betting infrastructure, but it will update and modernise the in-venue wagering experience.

"We're thrilled to receive this groundbreaking endorsement from ClubsNSW. Our plan is to change the entire wagering experience for the benefit of their members and guests," CrownBet CEO Matt Tripp said.

"We're going to offer a world-class digital wagering experience for punters in clubs right across NSW," Mr Tripp said.

CrownBet will integrate its market-leading CrownBet Rewards into club loyalty programs. Club members will be able to earn and redeem points in venue, including at club restaurants and cafés or over the bar.

"This is a watershed agreement which will bring clubs into the 21<sup>st</sup> century digital economy, helping all clubs stay relevant and profitable," Mr. Ball said.

**END**



0:00 / 3:30

Tabcorp encouraging digital punting.

NSW

# James Packer-backed CrownBet will be unveiled as the official betting partner of Clubs NSW

EXCLUSIVE, NICK TABAKOFF, Editor at Large, The Daily Telegraph

February 7, 2017 12:00am

 Subscriber only

THE betting landscape in the NSW club industry will be dramatically altered as early as today, with the James Packer-backed CrownBet to be revealed as the official digital wagering partner of Clubs NSW, and a serious rival to club-based TAB outlets.

The Daily Telegraph understands that under the 10-year deal, clubs will for the first time earn commissions on bets made with an online betting operator by their members in NSW

2/9/2017

James Packer-backed CrownBet will be unveiled as the official betting partner of Clubs NSW | Daily Telegraph

venues.

The incentive for punters to bet with CrownBet will be to earn club loyalty points which can be redeemed for food and drink purchases at each venue.



 CrownBet will be the official betting partner of Clubs NSW, who in turn will earn commissions on bets made by their members. Picture: Patrina Malone

Clubs will continue to have the option of running traditional TABs with cash wagering facilities. However, the new deal will see CrownBet become a betting rival to traditional TABs in clubs, where the online gaming operator will offer cash redemption machines which allow members to withdraw their winnings.

It is the first time online betting companies have offered cash machines to take winnings directly out of their betting accounts, rather than redemption through transfers to personal bank accounts.

The deal adds weight to claims Mr Packer is refocused on growing his Australian gambling operations — after he shocked the market in 2016 by withdrawing from Macau and Las Vegas casino plays — particularly his new \$2 billion Crown Sydney casino.



📷 There are claims billionaire James Packer is refocusing his Australian gambling operations. Picture: Justin Chin/Bloomberg

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The Clubs NSW contract would likely significantly grow CrownBet's current 4 per cent stake in NSW, where it has until now been a small player.

Clubs NSW CEO Anthony Ball has estimated 90 per cent-plus of clubs are currently losing money on their physical in-club betting operations — raising questions about whether some may ditch TABs.

However, most clubs will probably continue to offer both the CrownBet and TAB offerings for members' convenience.

2/9/2017

James Packer-backed CrownBet will be unveiled as the official betting partner of Clubs NSW | Daily Telegraph



📷 CrownBet will be a serious rival for TAB. Picture: John Grainger

CrownBet has won the fiercely contested Clubs NSW digital tender from three rivals: the TAB, Sportsbet.com.au and Betting.Club. CrownBet is understood to have offered a higher commission structure for clubs, as well as a generous reward structure for members.

Clubs will not be compelled to sign up to the CrownBet offering over those of other online operators.

However, early signs are that the majority of the state's 1350 club venues will take up the offer rather than seek their own betting partner. It is the first deal Clubs NSW has conducted with an online betting operator.

**FED:CrownBet, ClubsNSW seal gaming deal**

**Source:** AAP Newswire Financial News  
**Publication Date:** February 7, 2017  
**Country:** Australia  
**Source Type:** Newswire

2/7/17 AAP Newswire Fin. News 05:57:51

News

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SYDNEY, Feb 7 - James Packer's CrownBet has made a major assault on the TAB by sealing a deal with ClubsNSW to provide digital wagering services for its 1200 clubs.

The agreement follows ClubsNSW's extensive wagering review and tender process in which CrownBet beat Australia's largest wagering providers, the companies announced in a joint statement on Tuesday.

The CrownBet affiliation will be available to clubs from Tuesday. It won't necessarily affect existing retail betting infrastructure, but will update and modernise the in-venue wagering experience.

ClubsNSW CEO Anthony Ball says more than 90 per cent of clubs have been losing money on their TAB facilities in recent years as more and more people switch to online wagering.

The change to CrownBet will lead to an upgrade in facilities.

"Our arrangement with CrownBet will ensure all NSW clubs get their fair share from digital bets and will help ensure the industry's long-term viability," he said.

CrownBet will integrate its CrownBet Rewards into club loyalty programs. Club members will be able to earn and redeem points in venue, including at club restaurants and cafes or over the bar.

"We're thrilled to receive this groundbreaking endorsement from ClubsNSW. Our plan is to change the entire wagering experience for the benefit of their members and guests," CrownBet CEO Matt Tripp said.

AAP jlw

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**LANGUAGE:** English

**NEWS SUBJECT:** Business Management (1BU42); Loyalty Marketing (1LO95); Sales & Marketing (1MA51)

**INDUSTRY:** Travel & Tourism (1TR07); Travel Bargains (1TR46); Travel Loyalty Programs (1FR52)

**REGION:** Australasia (1AU56); Australia (1AU55); New South Wales (1NE75); Oceania (1OC40)

**OTHER INDEXING:** (ClubsNSW) (Matt Tripp; James Packer; Anthony Ball)

**WORD COUNT:** 218

## Crown makes \$300m bet on NSW with Clubs deal

**Source:** Australian Financial Review  
**Publication Date:** February 8, 2017  
**Country:** Australia  
**Source Type:** Newspaper

2/8/17 Austl. Fin. Rev. 15

News

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Section: Companies and Markets

John Stensholt

James Packer's Crown Resorts has made its biggest bet on online wagering, with its corporate bookmaker CrownBet set to spend \$300 million in NSW to end Tabcorp's exclusive relationship with the powerful licensed clubs network.

As foreshadowed by The Australian Financial Review, CrownBet and Clubs NSW confirmed on Tuesday that the online bookmaker - 62 per cent owned by Crown Resorts - has signed a 10-year deal to be the clubs' official digital wagering partner.

The deal will involve considerable capital expenditure for CrownBet during the next three years, including paying for Wi-Fi and technology upgrades to almost 1140 clubs, and the building of a special app for club patrons that will allow punters to gamble on the CrownBet app on their phones or tablets and in competition with TAB outlets in the same venues.

CrownBet chief executive Matthew Tripp said the deal was the biggest he had undertaken during 20 years in the wagering industry, but signalled he could clinch similar agreements in other states.

"We could look to go up to Queensland in the future, and we are open to discussions with any other organisations where we can offer wagering services in venues where people congregate."

Mr Tripp said Mr Packer, who rejoined the Crown Resorts board in January, had been supportive of CrownBet's push into NSW after telling the Financial Review the online wagering business was one of his five main priorities for 2017.

"James has been really engaged on this and been very positive about our strategy," Mr Tripp said. "He has been very supportive through this whole process."

Crownbet will also enter into a revenue share arrangement with the NSW clubs, and will install terminals in clubs that will contain racing and sports information and betting odds. Though the terminals may in the future offer punters refund options, bets will not be able to placed through them.

Mr Tripp said CrownBet would end the 2017 financial year with more than 200,000 active customers, and estimated the deal in NSW - where the company has only about 4 per cent market share - could increase that client base 50-60 per cent during the next five years.

The deal will come as a blow to rival Tabcorp, which has TAB outlets in clubs throughout the country and still relies heavily on bets placed by customers in retail outlets.

Tabcorp chief executive David Attenborough would not comment on the specifics of the deal but said: "Tabcorp is competing vigorously in the digital space, as we have been, to very good effect. We have made big strides in that area and think we have a very good digital wagering product."

He also pointed to Tabcorp's own recent deal to incentivise retail operators, including pubs and clubs, to share in digital TAB wagering revenue. Tabcorp is also seeking an \$11.3 billion merger with Tatts Group.

Clubs NSW chief executive Anthony Ball said about 95 per cent of clubs in the state were losing money on operating a TAB outlet in their venues and added that the clubs needed to undertake a digital wagering deal to stay relevant to members.

---- INDEX REFERENCES ----

**COMPANY:** CROWN RESORTS LTD; TABCORP HOLDINGS LTD; TATTS GROUP LTD

**NEWS SUBJECT:** Business Management (1BU42); Corporate Events (1CR05); Corporate Groups & Ownership (1XO09); Mergers & Acquisitions (1ME39)

**INDUSTRY:** Bars & Nightclubs (1BA02); E-Commerce (1EC30); E-Commerce Industries (1EC99); Entertainment (1EN08); I.T. (1IT96); Internet (1IN27); Online Gambling (1ON09); Palmtop Computing (1PA77); Retail (1RE82)

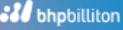
**REGION:** Australasia (1AU56); Australia (1AU55); Oceania (1OC40)

**LANGUAGE:** English

**OTHER INDEXING:** (Matthew Tripp; Anthony Ball; Anthony Ball; James Douglas Packer; James Packer; David Robert Henry Attenborough; David Attenborough)

**EDITION:** First

**WORD COUNT:** 509

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OPINION | Feb 7 2017 at 8:27 AM | Updated Feb 7 2017 at 9:08 AM

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## Crown Resorts deal with Clubs NSW shows why Tabcorp must win Tatts Group



Crown Resorts' push into the pubs and clubs of NSW underlines why Tabcorp can't afford to lose the battle to takeover Tatts. Ironically, the Crown plan might just help them do that. [Adam McLean](#)



by [James Thomson](#)

Crown Resorts' push into the pubs and clubs of New South Wales underlines why Tabcorp can't afford to lose the battle to takeover Tatts Group. And ironically, the Crown plan might just help them do that.

The deal, [revealed by \*The Australian Financial Review\*](#), would lead to the creation of a special app for club patrons allowing them to bet online while they are in the venue – the very venues where Tabcorp's existing TAB outlets and terminals have been operating exclusively for decades.

The pubs and clubs get a commission on bets placed, Crown Resorts' Crownbet subsidiary gets access to a new group of customers and Tabcorp sees its monopoly over retail wagering diminished.

Tabcorp could – and probably will - justifiably complain that the Crown model is against the spirit of its retail wagering monopoly.

But many would see this as an extension of the trend towards online betting that has swept the racing industry over the past decade. Go to any pub, club, TAB and race

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Crown Resorts deal with Clubs NSW shows why Tabcorp must win Tatts Group | afr.com

track on a Saturday and you'll see a good proportion of punters using their smartphones to bet.

It could be argued that the Crownbet plan is simply a more formal extension of this – and one that actually gives venue operators a chance to recover some of the revenue they are losing when a punter spends an afternoon in the sports bar without physically placing a bet.

If there's one positive for Tabcorp from the Crown plan it is that it gives Tabcorp more ammunition to shoot down competition concerns about its \$11 billion takeover of Tatts Group.

That deal would have Tabcorp merge its TAB operations in Victoria, Tasmania and New South Wales with Tatts' retail monopolies in South Australia, Queensland and the Northern Territory.

[Not surprisingly, Australian Competition and Consumer Commission](#) chair Rod Sims has made noises about the deal, although he has noted the competition from online wagering players.

Surely the Crown deal will allow Tabcorp to show it's not just facing online competition, but also competition at a retail level.

But the deal also shows why Tabcorp cannot afford to lose out in the fight for Tabcorp.

Late last year a powerhouse consortium – including Macquarie Group (a 10 per cent stake), private equity firm KKR (a 30 per cent stake), Morgan Stanley's infrastructure wing, North Haven Infrastructure Partners (30 per cent), and local superannuation investor First State Super (30 per cent) – [lobbed a rival bid for Tatts, which was subsequently rejected by the Tatts board](#).

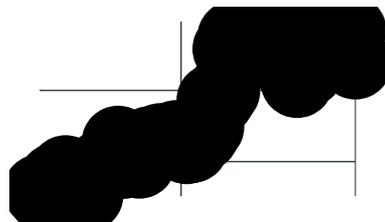
The consortium was most keen to get its hands on Tatts' lotteries business, which offers a stable, predictable source of cash and growth. But Tabcorp is just as keen to grab the business, which is really the jewel in the Tatts crown.

Deals like the Crown one show that the competition for the wagering dollar is only going to get more intense. And who knows, perhaps those retail wagering monopolies could one day come to an end.

Grabbing Tatts will give Tabcorp an important new revenue stream and one that, at least to this point at least, has proven relatively resistant to digital disruption.

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## Company Profile

The provision of gambling and other entertainment services. The company has wagering and media, gaming services, and Keno operations.

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The consortium has gone quiet on its intentions for Tatts, with most expecting it will wait until Tatts has delivered its interim earnings on February 20 before making its next move.

Tabcorp remains the favourite in the tussle – its bid has been accepted by the board, and, unlike the consortium, it actually wants to buy Tatts wagering division. Tabcorp investors will be hoping it keeps the whip hand.

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## CrownBet deal sidesteps casino

**Source:** Australian  
**Publication Date:** February 8, 2017  
**Country:** Australia  
**Source Type:** Newspaper

2/8/17 Australian (Newspaper) 21

News

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Section: Business

DAMON KITNEY, GAMING

James Packer's business partner in online wagering business CrownBet has rejected speculation a deal with ClubsNSW to provide digital wagering services for its 1200 clubs will allow rewards redeemable by mass-market gamblers at Crown's new Barangaroo casino complex.

Under the deal announced yesterday, punters in pubs and clubs in NSW will be able to place bets online, ending the Tabcorp-owned TAB's monopoly on in-venue betting.

A betting app will be rolled out for club patrons allowing them to gamble on the CrownBet platform, which will tie in with the CrownBet rewards program.

But CrownBet chief executive Matt Tripp said points earned on bets would only be redeemable on offers at specific club venues, not at Barangaroo.

There has been speculation that while the NSW government has said it would not allow Barangaroo to have poker machines, the deal with ClubsNSW could provide Crown with a mass market clientele as its target high-roller market has become more challenged following the arrests of its employees in China.

The minimum bet on tables at Barangaroo will be \$30.

"Barangaroo cannot be marketed to any of these attributed clubs customers. Points earned through the clubs association cannot be redeemed at Barangaroo," Mr Trip said yesterday.

"I own 38 per cent of CrownBet — I have no vested interest in promoting Barangaroo. We are looking to drive revenue for clubs and this is a win-win for them." The deal is a challenge to Tabcorp as it works through approvals for its merger with Tatts.

Mr Tripp said NSW clubs had "put up with wagering being a loss leader at their venues for decades". "TAB comes with a whole bunch of overheads the clubs can't afford," he said, noting that under the new deal CrownBet would carry the costs of new capital expenditure at clubs, including signage and WiFi.

Tabcorp chief David Attenborough would not be drawn on the specifics of the ClubsNSW deal, but said it had already moved to reward TAB venues in Victoria and pub TABs in NSW the commissions on bets placed digitally in those venues. "It is already equivalent to 2 per cent of retail turnover," Mr Attenborough said. "We are integrating the digital and retail experience. The venues (are) paid commission on the overall turnover on their venue so the returns to venues will go up."

---- INDEX REFERENCES ----

**COMPANY:** CROWNBET PTY LTD; TABCORP HOLDINGS LTD

**INDUSTRY:** Bars & Nightclubs (1BA02); Casinos (1CA80); E-Commerce (1EC30); Entertainment (1EN08); Gaming Industry (1GA25); Internet (1IN27); Online Gambling (1ON09); Retail (1RE82)

**LANGUAGE:** English

**OTHER INDEXING:** (Matt Tripp; Trip; James Douglas Packer; James Packer; David Robert Henry Attenborough; David Attenborough)

EDITION: Australian  
WORD COUNT: 393

## Bet on gaming battle royale

**Source:** Daily Telegraph (Sydney, Australia)  
**Publication Date:** February 9, 2017  
**Country:** Australia  
**Source Type:** Newspaper

2/9/17 Daily Tel. (Sydney) 3

News

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Section: News

ANDREW CLENNELL

PLANS by an online bookmaker to install cash withdrawal machines in clubs across NSW has led to a -declaration of war by rival gaming giant Tabcorp.

As revealed in yesterday's Daily Telegraph, the James Packer-owned CrownBet revealed its ATM-style withdrawal machines was part of a 10-year deal signed with Clubs NSW.

But the plan yesterday sparked Tabcorp — which has its own betting machines located in the state's pubs and clubs — to write to hundreds of clubs across NSW warning them they may be in breach of the law if they install CrownBet machines in their clubs.

The letter from Tabcorp comes after CrownBet announced a deal with Clubs NSW for clubs to earn commissions on bets made with the online betting operator by their members in NSW venues.

Under the proposal, the incentive for punters to bet with CrownBet will be to earn club loyalty points which can be -redeemed for food and drink purchases at each venue.

In a statewide-first, the online gaming operator will also offer cash -redemption machines which allow members to withdraw their winnings, rather than transfer them to personal bank accounts.

But a letter from Tabcorp Chief Executive David Attenborough (pictured) to club chief executives yesterday insists the TAB "is the sole wagering provider that is entitled to provide gambling services (including digital wagering) off-course in NSW, by virtue of its wagering licence and New South Wales wagering legislation".

The letter goes on: "Tabcorp is reviewing the proposed CrownBet service and considering options, including whether the combination of features that comprise that service cause CrownBet (or would cause the owner or occupier of a New South Wales venue facilitating that service) to contravene various sections of the Unlawful Gambling Act.

"We note that s31 of that Act prohibits an owner or occupier of a premises from knowingly allowing the premises to be used for, or in connection with, bookmaking carried on by or on behalf of a person who is not a licensed bookmaker.

"Tabcorp's strong understanding is that CrownBet is not a licensed bookmaker for the purposes of the UGA.

"We encourage you to evaluate the CrownBet proposal in light of the legal risks as well as Tabcorp's commercial offering." Tabcorp paid \$75 million to the NSW government for a 20-year exclusivity deal with the clubs and pubs in 2013. A spokesman for Gaming and Racing Minister Paul Toole said yesterday: "Liquor & Gaming NSW will examine the (CrownBet/Clubs) arrangements to ensure they are consistent with regulatory requirements."

---- INDEX REFERENCES ----

**COMPANY:** CROWNBET PTY LTD; TABCORP HOLDINGS LTD

**INDUSTRY:** ATMs & Networks (1AT57); Bank Operations (1BA31); Banking (1BA20); Bars & Nightclubs (1BA02); Casinos (1CA80); E-Commerce (1EC30); Entertainment (1EN08); Financial Services (1FI37); I.T. in

Banking (1IT59); I.T. in Financial Services (1IT24); Internet (1IN27); Online Gambling (1ON09); Retail (1RE82)

**REGION:** Australasia (1AU56); Australia (1AU55); New South Wales (1NE75); Oceania (1OC40)

**LANGUAGE:** English

**OTHER INDEXING:** (Paul Toole; David Robert Henry Attenborough; David Attenborough)

**EDITION:** Telegraph

**WORD COUNT:** 423

## Clubs take a punt on CrownBet

**Source:** Australian  
**Publication Date:** February 15, 2017  
**Country:** Australia  
**Source Type:** Newspaper

2/15/17 Australian (Newspaper) 21

News

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Section: Business

Sarah-Jane Tasker EXCLUSIVE

The James-Packer backed CrownBet will use its new deal with ClubsNSW to increase its push to limit wagering advertising and focus its marketing efforts on engaged punters.

As opposition to gambling advertising grows and politicians warm to the idea of further reform of the industry, CrownBet said the deal with ClubsNSW meant the company could speak directly to a wagering audience in venues across the state. "We want to avoid scattergun gambling ads that are out of step with community expectation and have clearly harmed our industry," CrownBet chief executive Matt Tripp said.

"The ability to speak directly to millions of NSW club members is the centrepiece of our affiliation with ClubsNSW and will be key to its success." The 10-year deal will allow clubs to earn commissions on bets made with CrownBet by their members in NSW venues. The agreement will also see CrownBet have the ability to install its ATM-style machines in clubs to allow members to withdraw their winnings rather than transfer them to personal bank accounts.

Under the proposal, the incentive for punters to bet with CrownBet will be to earn club loyalty points which can be -redeemed for food and drink purchases at each venue.

The Australian understands that Clubs Queensland and British wagering giant Ladbrokes looked at a similar deal but a final agreement wasn't reached.

Tabcorp, which also bid for the digital partnership with ClubsNSW, hit out at the deal and wrote to hundreds of clubs across the state warning them they could be in breach of the law if they installed CrownBet machines.

ClubsNSW chief executive Anthony Ball said the only people questioning the legality of the deal was Tabcorp.

"It's predictable Tabcorp would come out and challenge the offering but we are confident in the legality of it," he said.

"We have said to our clubs assess this deal on its merits. We believe CrownBet offers them the best wagering service." Clubs now have to register their interest and the technology will soon be tested in clubs, with the general roll out expected to be well underway by midyear.

Mr Ball said CrownBet beat the opposition because of the strength of its offering, not just the economics of wagering but their ability to enable clubs in the digital world. He said the wagering company was also chosen because of the strength of its harm minimisation program.

"They are the leader among digital wagering companies. They never engaged in micro betting or live betting in-play," Mr Ball said.

"Online and bricks and mortar gambling are merging and we feel minimisation strategies need to do the same and we are now positioned to build that system." Mr Ball added that community expectations had risen and that the groups had to meet those -expectations.

"It is being actively debated in parliaments around the country but also around the kitchen table," Mr Ball said. "Since Tom Waterhouse was non-stop on our TVs people have been worried about the exposure of children to betting advertising and odds." CrownBet, to their great credit, is prepared to take action there and respond to those concerns."

---- INDEX REFERENCES ----

**COMPANY:** CROWNBET PTY LTD; LADBROKES PLC; TABCORP HOLDINGS LTD

**INDUSTRY:** Bars & Nightclubs (1BA02); Casinos (1CA80); E-Commerce (1EC30); Entertainment (1EN08); Gaming Industry (1GA25); Internet (1IN27); Online Gambling (1ON09); Retail (1RE82)

**LANGUAGE:** English

**OTHER INDEXING:** (ClubsNSW) (Matt Tripp; Anthony Ball; Tom Waterhouse)

**EDITION:** Australian

**WORD COUNT:** 527

## Concern over Demetriou links in \$300m deal

**Source:** Age, The (Australia)  
**Publication Date:** February 15, 2017  
**Country:** Australia  
**Source Type:** Newspaper

2/15/17 Age (Austl. Full Text) 19

News

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Section: Business

Heath Aston

The deal was presented as another win for billionaire deal maker James Packer, with his online gambling business CrownBet breaking into the lucrative NSW betting market through a "digital partnership" with the state's 1200 registered clubs.

But questions have now emerged around the process that ended with ClubsNSW choosing CrownBet over bitter rivals Tabcorp - the traditional betting provider in clubs - Sportsbet and Betting.club.

The focus of industry concern is former AFL supremo Andrew Demetriou, whose sports and marketing company Beyond Boundaries Group ran the tender process on behalf of ClubsNSW.

Mr Demetriou is also a board member of both CrownBet and Mr Packer's flagship company Crown Resorts, which owns 62 per cent of CrownBet.

Beyond Boundaries, which Mr Demetriou founded with former Football Federation Australia boss Ben Buckley last year, is a boutique consultancy with a small team of 12 executives.

Mr Demetriou is overseas and did not return calls but in a statement to Fairfax Media, ClubsNSW said it was "aware of a potential conflict of interest in relation to Andrew Demetriou".

"We sought, and received, the necessary undertakings to manage the conflict. Andrew Demetriou was not involved in the process," said a ClubsNSW spokesman.

In a statement, Mr Buckley, who is chief executive of Beyond Boundaries, said "strict processes" had managed any potential conflicts.

"At all times any potential conflicts were divulged in advance to ClubsNSW and tabled for discussion and approval by their board. ClubsNSW sought the technical expertise provided by Beyond Boundaries Group and in consultation with the two parties agreed on strict processes that were put in place to manage any potential conflicts," he said.

Fairfax Media has spoken to figures involved in the losing tenders and found anger at the close links to CrownBet in the process.

Kelly Signell, the chief executive of Betting.club, which is owned by three large NSW clubs - Mounties, Campsie RSL and Club Rivers - raised the prospect of some clubs opting out of the deal altogether.

"We are disappointed in the outcome, but it's business as usual for us," she said.

"The Crownbet-ClubsNSW announcement is simply an endorsement - not a mandatory rollout for clubs. Clubs across NSW and Australia have a choice of who they partner with."

A source familiar with one of the other two losing bids said: "There is no way this would pass the pub test." "The optics aren't great: a firm run by Andrew Demetriou awards deal to company he is a board member of."

The \$300 million deal is seen as a blow to the TAB because participating clubs will spruik for CrownBet to sign up patrons to its betting app and provide loyalty rewards and cash-out facilities on premises. Clubs offer a 6.7 million strong membership and participating clubs will hand over that customer database to CrownBet.

Mr Demetriou's long-time right-hand man Andrew Catterall - who is listed on Beyond Boundaries' website as its chief operating officer - ran the process.

But questions have also been raised around Mr Catterall's involvement.

On December 8, almost two months before CrownBet's win was announced, Mr Catterall was announced as the new chief executive of Racing.com, the free-to-air thoroughbred broadcaster in Victoria.

Racing.com's betting partner, including the presentation of live odds, is CrownBet.

---- INDEX REFERENCES ----

**COMPANY:** CROWN RESORTS LTD; CROWNBET PTY LTD; FAIRFAX MEDIA LTD; GOLDEN PATRIOT CORP; INTERNATIONAL SPEEDWAY CORP; SPORTSBET PTY LTD; TABCORP HOLDINGS LTD

**NEWS SUBJECT:** Business Management (1BU42); Corporate Events (1CR05); Corporate Groups & Ownership (1XO09); Executive Personnel Changes (1EX23); HR & Labor Management (1HR87); Mergers & Acquisitions (1ME39)

**INDUSTRY:** Bars & Nightclubs (1BA02); E-Commerce (1EC30); E-Commerce Industries (1EC99); Entertainment (1EN08); Internet (1IN27); Online Gambling (1ON09); Retail (1RE82)

**REGION:** Oceania (1OC40)

**LANGUAGE:** English

**OTHER INDEXING:** (ClubsNSW; James Packer; Mr Packer) (Andrew Catterall; Kelly Signell; Ben Buckley; Packer; Andrew Demetriou)

**EDITION:** First

**WORD COUNT:** 543

## Government will examine \$300m clubs betting deal with CrownBet

**Source:** Sydney Morning Herald, The (Australia)  
**Publication Date:** February 16, 2017  
**Country:** Australia  
**Source Type:** Newspaper

2/16/17 Sydney Morning Herald (Austl.) 3

News

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Section: News

Heath Aston Political correspondent

The NSW government will investigate the \$300 million digital gambling deal struck by ClubsNSW with James Packer's online betting business CrownBet.

Racing Minister Paul Toole said officials from the state's betting regulator, Liquor & Gaming NSW, would review the deal which opens the door to more than 1200 registered clubs and their 6.7 million members for Melbourne-based CrownBet.

On Tuesday Fairfax Media revealed bad blood in the online betting industry over the way in which CrownBet beat off rivals Tabcorp, Sportsbet and Betting.club to stitch up a lucrative digital partnership that would encourage club patrons to sign up to CrownBet's betting app in return for loyalty rewards and cash-out facilities on club premises.

The digital deal is a significant blow to the TAB, which provides physical outlets in clubs.

Controversy centres on the tender process in which sports marketing consultancy Beyond Boundaries Group, owned and chaired former AFL boss Andrew Demetriou, recommended CrownBet as the winning bid.

Mr Demetriou is a board member of CrownBet and Mr Packer's Crown Resorts.

ClubsNSW and Beyond Boundaries have both acknowledged the potential conflict of interest but insisted Mr Demetriou took no part in the tender.

The NSW government, which oversees the clubs sector, was not required to approve the deal but a spokesman for Mr Toole said: "Liquor & Gaming NSW will examine the arrangements to ensure they are consistent with regulatory requirements."

The deal has angered certain senior figures in the club sector, with some large clubs likely to opt out of proceeding with CrownBet, Fairfax Media understands.

Questions have also been raised about the timing of the completion of the tender process because the Beyond Boundaries executive involved in assessing the bids, Andrew Catterall, signed on as chief executive of Racing.com months before the losing tenderers were informed.

Racing.com, which broadcasts Victorian thoroughbred racing, has a cornerstone live odds partnership with CrownBet.

ClubsNSW said Mr Catterall's involvement had wrapped up before he was awarded the job on December 8, but stories in Fairfax Media as far back as October identified him as the "frontrunner" for the job.

On Wednesday, ClubsNSW confirmed a group of chief executives from large clubs met with CrownBet before the decision was revealed.

"A group of club CEOs travelled to Melbourne recently to visit the CrownBet facility and receive a briefing on the digital wagering offer," said a spokesman.

---- INDEX REFERENCES ----

**COMPANY:** CROWN RESORTS LTD; CROWNBET PTY LTD; INTERNATIONAL SPEEDWAY CORP;  
SPORTSBET PTY LTD; TABCORP HOLDINGS LTD

**NEWS SUBJECT:** Business Management (1BU42); Corporate Events (1CR05); Corporate Groups &  
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**INDUSTRY:** E-Commerce (1EC30); E-Commerce Industries (1EC99); Entertainment (1EN08); Equestrian  
Events & Horse Racing (1EQ65); Horse Racing (1HO27); Internet (1IN27); Internet Media (1IN67); Online  
Gambling (1ON09); Retail (1RE82); Sports (1SP75)

**REGION:** Australasia (1AU56); Australia (1AU55); Oceania (1OC40); Victoria (1VI05)

**LANGUAGE:** English

**OTHER INDEXING:** (Betting) (Andrew Catterall; Paul Toole; James Douglas Packer; James Packer; Andrew  
Demetriou; Andrew Demetriou)

**EDITION:** First

**WORD COUNT:** 396

1 of 1 results

## NewsRoom

2/28/17 Courier-Mail (Austl.) 15  
2017 WLNR 6170955

Courier Mail (Australia)  
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February 28, 2017

Section: News

## Interstate bookie deals off table for Clubs Queensland

TRENTON AKERS

CLUBS Queensland has ruled out making any retail gaming deals with interstate **corporatebookmakers** similar to counterparts in NSW.

Clubs NSW shocked wagering partner **Tabcorp** earlier this year when it signed a multimillion-dollar deal with the James Packer-owned CrownBet that will see patrons encouraged to sign up to their website and offered lucrative reward points and cash-out facilities, despite **Tabcorp** signing exclusive rights.

Despite conceding they had "considered" the idea several years ago, Clubs Queensland chief executive Doug Flockhart said there would be no such deal in Queensland. "We saw no merit in it at all."The NSW Government is currently investigating the deal, which opens the door to more than 1200 registered clubs and their 6.7 million members for Melbourne-based CrownBet. It would be the first time online betting companies would offer cash-out machines to take winnings directly out of their accounts, rather than through personal bank transfers. Tatts Group, the operators of UBET, currently hold exclusive retail licences in Queensland, South Australia, Tasmania and the Northern Territory.

### ---- Index References ----

Company: **TABCORP HOLDINGS LTD**; TATTS GROUP LTD

Industry: (E-Commerce (1EC30); Internet (1IN27); Online Gambling (1ON09); Retail (1RE82))

Region: (Australasia (1AU56); Australia (1AU55); Oceania (1OC40); Queensland (1QU50))

Language: EN

Other Indexing: (Clubs Queensland) (Doug Flockhart)

Edition: CourierMail

Word Count: 173

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**NewsRoom**

# Channel Seven to take a big punt on racing



Andrew Webster

3 comments

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Channel Seven is poised to become a major force in horse racing – to the point where the free-to-air network could angle for a wagering licence in the future.



Off and racing: James McDonald celebrates victory in this year's Golden Slipper on Mossfun. Channel Seven is expanding its involvement in racing. Photo: Anthony Johnson

Not many people want to talk about it, most likely because all the major players involved have been forced to sign confidentiality agreements to ensure the story doesn't leak out.

But this column has this week caught wind of plans for racing television channel TVN to run all of its content on one of Seven's digital channels.



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12/8/2016

Channel Seven to take a big punt on racing



Happy days: Mick Potter and Robbie Farah front the media after the Tigers were humbled 64-6 by the Cowboys in Townsville. Photo: Getty Images

As it stands, TVN already pays Seven about \$2 million to show 28 meetings a year on 7TWO.

But the association is about to get a whole lot stronger, with the racing network keen to expand into free-to-air TV, rather than have a viewing audience of 30 per cent on subscription TV.

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We have been told the end game for Seven is the long-term view of acquiring a wagering licence: first in Western Australia and then in Victoria.

"Something like Seven-bet," is how one figure close to negotiations describes it.

We're told the deal maker behind the scenes is Gold Coast businessman Scott Perrin, who made his fortune alongside brother Matthew when they sold their stake in surfwear giant Billabong for \$490 million.

Matt spectacularly lost his \$150 million fortune because of bad business deals in China, a \$1.7 million gambling debt and an ugly divorce.

The Perrins have always been avid racing enthusiasts, champion jockey Glen Boss writing of Scott Perrin in his autobiography:

"Scottie Perrin became a mate of mine and I soon developed a high regard for the cool way he went about making the world of business sound every bit as exciting as racing."



Pair of Jacks: Garry and Kieran in 2005. Photo: Getty Images

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TVN is owned by the Australian Turf Club, Melbourne metropolitan clubs and Country Racing Victoria.

Perrin, who did not return calls, has been dealing with Racing NSW chairman John Messara and ATC vice-chairman Laurie Macri. For his part, TVN boss Bruce Mann has repeatedly denied talking with Seven, which is also keen to enhance its profile as a major player in racing.

It announced this week that it had struck a long-term deal with Magic Millions co-owners Katie Page and Gerry Harvey to broadcast the annual racing event on the Gold Coast. It already has the rights to the Melbourne Cup carnival, The Championships and Golden Slipper.

"As you have seen with this week's announcement with Gerry Harvey and our signing of the Magic Millions, we are increasing our exposure to horse racing," a Seven spokesperson said. "We love being the broadcast television partner of horse racing. It's a great partnership for our television business."

### **Sydney springs to life**

Still on racing, the ATC held an intimate lunch at The Stables at Royal Randwick on Tuesday to launch its spring carnival. Recently retired rugby league star Braith Anasta was revealed as one of the club's new ambassadors, alongside wife Jodi.

Yes, yes, it's not the monster that is the spring carnival in Melbourne, but the classy launch further strengthened the angle Sydney racing is looking for: a more elegant, refined feel than the masses who trample all over Flemington in early November.

The Sydney spring carnival is worth \$5 million in prizemoney, starting on September 13 with the Golden Rose at Rosehill Gardens.

### **100 years of hate and still going strong**

Russell Crowe showed us this week that rugby league doesn't always have to be serious. You can also have a laugh.

The Souths owner spotted Roosters patriarch Nick Politis at Sydney Airport last month.

They were both waiting at the luggage carousel. Crowe walked up and stuck out his hand.

"Contrary to popular belief among Souths fans, he only had the one head and wasn't eating babies at the time I met him," Crowe told News Corp in the lead-up to Thursday night's final round blockbuster between the foundation clubs.

Gold.

We're told the amicable exchange was only about five words, though.

Politis hasn't been a huge fan of Crowe since the Oscar-winning actor did a Commodus-like "thumbs down" during a Bunnies win over the Roosters.

Crowe's claim that the Tricolours' home base of Moore Park is in South Sydney territory also didn't go down well in Rooster land.

12/8/2016

Channel Seven to take a big punt on racing

Some officials pointed out how Crowe lives in Woolloomooloo, Souths chairman Nick Pappas lives in Vaucluse and star player Sam Burgess lives in Rushcutters Bay – right in the heart of Chooks' territory.

More than 100 years of hate and it's still going strong. Fabulous stuff.

### **The end is nigh for Potter**

Mick Potter is expected to coach his last game at the helm of Wests Tigers on Saturday night when his side takes on the Sharks.

Yes, Mad Monday cannot come quick enough for some clubs.

We're hearing the coach will not even be afforded an interview to outline why he should keep his job, which doesn't surprise given how many knives have been thrown at his back in recent months.

With the appointment of three independent directors supposedly imminent, you would expect them to speak to the head coach and ask what led to his demise.

An indication of the way the Tigers are being run came during the week when they advertised for the rather important position of "General Manager of Football" on the employment website seek.com.au.

It prompted former Tigers sponsorship manager Brett Clarke to tweet: "Why do Wests Tigers advertise a job such as the GM Football on Seek. FFS it is such a specialised role – get out and headhunt the right hire."

### **Knights look West to go forward**

In other independent director news just to hand, NRL boss Dave Smith and head of club services Tony Crawford were in Newcastle on Thursday, trying to clear the path for the embattled Knights in the post-Tinkler world.

They were meeting with the cashed-up Wests Leagues Club about taking over the running of the club.

For those of us with long memories, the irony is hard to ignore: Wests were cuddled up in bed with the Hunter Mariners during the Super League days.

Still on Smith, he has dismissed tension between the NRL and Club Land over his desire for independent directors to be parachuted onto to every board as a "miscommunication".

It is a distinctly different view from several power brokers, who have been adamant for some time that Smith wanted independent directors and chairpeople in control of every board.

"He's backflipped," reports one.

Question & Answer: Kieren Jack

We speak to the Swans star ahead of Saturday afternoon's finals match against Fremantle at ANZ Stadium.

As the son of a Balmain legend, how do you react when you hear the

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JUNE 10 2015

SAVE PRINT LICENSE ARTICLE

# Seven in the race for a wagering licence



John Stensholt

Seven West Media could bid for a wagering licence with the broadcaster set to win the rights to Victorian horse racing, which will be shown on a newly established free-to-air digital channel.

The new channel, the name of which is set to include Racing Victoria's racing.com digital brand, is forecast to be operating by August 28, in time for the first group 1 race of the spring carnival.



Seven West Media may bid for wagering licence as it is poised to win Victorian horse racing rights Photo: Vince Caligiuri

Seven's move to broaden its coverage of horse racing – it already shows top-level Saturday Victorian and NSW race meets – is subject to final confirmation from the four Victorian racing clubs and comes after administrator Racing Victoria awarded the network preferred bidder status over Tabcorp's Sky Channel.

Any move by Seven into wagering would be in the medium term. It could bid, potentially in conjunction with Racing Victoria, for a licence when Tabcorp's joint venture with the Victorian authority expires in 2024 or for the Western

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Australian TAB WA Premier Colin Barnett has signalled he wants to privatise the wagering operator.

Seven has also been approached by corporate bookmakers for a potential equity investment or joint venture. Seven would not comment on any wagering or broadcasting plans.

Tabcorp, meanwhile, announced on Tuesday it would turn off its broadcast of Victorian racing next Monday, June 15. However, it is understood Racing Victoria could offer an olive branch in the form of awarding Tabcorp international broadcast rights and also hopes to negotiate to continue showing Victorian racing on at least the Sky Racing 1 channel.



Should that eventuate Tabcorp may not pay a rights fee, arguing given Racing Victoria will pay at least \$10-12 million to help establish the new Seven channel it should not pay for rights that are effectively been given to Seven for no free in return.

Tabcorp earlier this year agreed to a 10-year rights deal with Racing NSW after Victoria and NSW split their rights, which had previously been aggregated under the ThoroughVision Network (TVN) brand.

The listed wagering operator had reportedly offered Racing Victoria \$30 million annually for 10 years for the broadcast rights.

But it is understood a presentation by Seven executives – including its Melbourne boss Lewis Martin, commercial director Bruce McWilliam and commentator Bruce McAvaney – two weeks ago to the Racing Victoria board swayed the vote in favour of the free-to-air network, which will cross-promote racing across its other sports and entertainment shows.

Any deal still needs to be signed off by the Victorian clubs. The Melbourne Racing Club, Victoria Racing Club, Moonee Valley Racing Club and Country Racing Victoria confirmed their boards and members will assess presentations from Tabcorp and Seven on Wednesday and Thursday. A decision is expected by the end of the week.

Racing Victoria chairman David Moodie said if Seven is successful, he hopes Tabcorp would continue to broadcast Victorian racing in tandem with the network. Tabcorp may also consider bidding for digital rights.

Corporate bookmaker Sportsbet already has an agreement to show Victorian racing, while other wagering operators such as CrownBet and William Hill are also understood to be interested in streaming vision on their websites.

Racing Victoria also shows its races online via its racing.com service, which was established last August. In May it signed a broadcast, media and data services deal with Telstra that could see race information and multiple camera angles used in future broadcasts.

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# THE AUSTRALIAN

## Rights deal bursts Michael Burn's Ascot bubble



Peter Nicholson

BEN BUTLER, CHRISTINE LACY THE AUSTRALIAN 12:00AM June 17, 2015

There'll be no bubbles at Royal Ascot this week for horse-mad Macquarie banker **Michael Burn**, who's firmly stuck down under wearing his (top) hat as chairman of the home of the Melbourne Cup, Victoria Racing Club.

While hordes of other Aussies including mining services rich lister **Kevin Maloney** have descended on an unprepared England to see four Antipodean horses go round the Ascot track this week, Burn has been locked in talks with governing body Racing Victoria over its proposed media rights deal with **Kerry Stokes'** Seven West.

The problem is not the Seven deal, which the VRC likes, but the terms under which the club will tip its rights into a pot held by Racing Victoria to then be sold to Seven.

Tabcorp's **David Attenborough** has given up on a rights deal with RVL, but is waiting for a sub-deal to get the races back on Sky Channel.

Things could get more complicated if Stokes makes a bid for the WA TAB, which is to be sold in a controversial privatisation.

That could see Victoria turn its back on its long-term wagering joint-venture partner Tabcorp when their deal ends in 2024 in favour of a Stokes-controlled TAB in the west.

Meantime, the Sky blackout and waiting for Seven's racing Channel 78 to go live has given everybody plenty of time to focus on Royal Ascot, where the first Australian horse, Shamal Wind, was due to run late last night.

Another pony, Criterion, runs late tonight — but all eyes will be on Saturday's Diamond Jubilee Stakes, which features two Australian horses — colt Brazen Beau and the **Gai Waterhouse**-trained Wandjina. Brazen Beau is the rare hayburner that's made money for its 38 owners — originally picked up for \$75,000 as a yearling, he was sold late last year for \$12m to **Sheikh Mohammed Al Maktoum's** Darley.

### **Nine's disclosure slip**

Whoops. Just when Nine chief **David Gyngell** needs to be seen by the corporate regulator to be dotting his I's and crossing his T's, the under-pressure entertainment group slips up on its disclosures.

Nine lodged a "final" notice for its share buyback yesterday, which it has enthusiastically used to prop up its shares following its recent profit downgrade. Except it wasn't the "final" notice and had to be reissued by company secretary **Rachel Launders**, who said the buy-back would continue.

This is as ASIC continues its investigation into Gyngell's share sales. Gyngell hasn't lawyered up just yet but is using Nine's in-house counsel in his dealings with the regulator.

ASIC's learned and numerate lawyer folk might compare and contrast Nine's shock June 5 downgrade — which described conditions in the free-to-air ad market in May and June as "particularly soft" — with the actual market figures just released by Standard Media Index.

SMI data shows Nine's revenue in May fell 9 per cent year-on-year, but the metro TV market grew by 0.4 per cent in the month — not quite what Gyngell told investors.

It is understood that at Nine's post-downgrade investor briefing, the company also told analysts that the TV ad market was down 5 per cent in May and was expected to be the same in June.

### **MCN jockeying**

The unification of ad sales at Network Ten and Foxtel's sales house Multi Channel Network won't be without pain as execs jostle for position in the new world order.

Manoeuvrings have already begun towards a new combined sales structure, which will result in a round of redundancies at the group.

The agreement flies in September as part of the wider deal for the **Richard Freudenstein**-led Foxtel to buy 15 per cent of Ten, currently led by **Hamish McLennan**. Ten will buy 24.99 per cent of MCN.

Even if the ACCC blocks the deal, MCN and Ten ad sales would still unite, so talk now has turned to who will achieve top-dog status.

Ten ad chief **Lou Barrett**, previously head of sales at ACP and before that at Nine, oversees revenues of more than \$600 million a year.

MCN boss **Anthony Fitzgerald**, who has been in the role for 12 years and before that was national sales director at Seven, commands revenues of \$500m a year.

That gives bold-as-brass Barrett the weight of revenues, but the Ten team is moving into MCN's offices in Sydney, Brisbane and Melbourne, leaving her to find a new bolt-hole in Fitzgerald's digs.

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*christine.lacy@news.com.au*





## Seven and Racing Victoria Unveil Racing.com Partnership

(25 August, 2015) The Seven Network – a key business of Seven West Media, one of Australia’s leading integrated media and content creation companies – and Racing Victoria today confirmed plans for the launch of Racing.com, a new free to air television channel devoted daily to Victorian thoroughbred racing.

The new channel – Racing.com – is the only free to air channel on Australian television dedicated to broadcasting and promoting a single sport and will extend beyond broadcast television across all communication platforms to deliver horse racing to all Australians on any connected device.

The first day of Racing.com will be this Saturday with coverage of the Group 1 Memsie Stakes Day from Caulfield.

Bruce McAvaney will host this very first broadcast for Racing.com.

Racing.com today also confirmed CrownBet as its premium wagering partner for 2015 and 2016 and Ladbrokes as its Associate partner.

Details on Racing.com were announced today by Tim Worner, Chief Executive Officer and Managing Director of Seven West Media, Lewis Martin, Managing Director of Channel Seven Melbourne, and David Moodie, Chairman of Racing Victoria.

Commenting, Mr Worner said: “This is an important new partnership for our company. We are the home of horse racing on broadcast television and we are committing our company to building an increasing presence for horse racing in Victoria across our expanding presence in all forms of content delivery. Our Racing.com partnership joins our portfolio of major sports and we are looking forward to working with Racing Victoria in ensuring the future growth and success of horse racing in this state.”

Commenting, Mr Moodie said: “The launch of the free-to-air Racing.com channel achieves the goal of the Victorian thoroughbred racing industry to make our sport available to more people in more places than ever before. It is the start of a new era for Victorian thoroughbred racing and one that provides us with a foundation for growth in engagement, participation, ownership, wagering and attendance. Racing.com will showcase Victorian racing 363-days-a-year to well over 90 per cent of the Australian population. The industry’s partnership with Seven is a great result for racing fans, punters and participants and I would like to take this opportunity to thank our three Metropolitan Clubs and Country Racing Victoria for their support in achieving this.”

Building on its significant partnerships in horse racing television coverage, Seven is evolving an increasing presence in the sport as it advances plans for the delivery of a new content channel on its digital broadcast television platform.

The new joint venture – Racing.com – delivers a significant new platform for Seven and Racing Victoria as Seven continues to extend beyond broadcast television and publishing and expand its presence in the digital delivery of content and builds 1:1 direct engagement with its audiences.

Racing.com, which will broadcast race meetings from across Victoria 363 days a year, will provide the state’s thoroughbred racing industry with unprecedented and unrivalled free to air coverage.

The new partnership between Racing Victoria and the Seven Network to showcase Victorian thoroughbred racing nationally will also see the new, dedicated free-to-air channel integrated with a suite of streaming and digital services at Racing.com, where punters, fans and participants can view the broadcast on their mobile, tablet and desktop.

Channel Seven Melbourne Managing Director, Lewis Martin, said: “We are pleased to confirm that we have secured some terrific people for Racing.com and we are well-advanced in our plans to further expand our coverage of racing over the coming months. Channel Seven is looking forward to working closely with Racing.com in the promotion and marketing of this exciting new venture.”

The partnership today confirmed that joining the channel will be experienced and highly respected racing hosts Jason Richardson and Shane Anderson and astute form analysts David Gately and Warren Huntly as the key presenters on the new channel. They will

combine with former AFL footballer and racehorse owner Campbell Brown and popular Hong Kong-based form analyst Clint Hutchison.

Chief Executive Officer of Racing.com, Scott Perrin, said: "This coming Saturday is day one. We have exciting plans for the evolution and development of this partnership over the coming 12 months. Victoria has the best racing product in the country and we are thrilled to be able to promote and grow it. This is the start of a new channel and we look forward to working to build our content over the coming months. We are also proud to have CrownBet as our premier partner and I want to thank CrownBet CEO Matt Tripp for his support of this ground-breaking free-to-air channel."

Chief Executive Officer of CrownBet, Matt Tripp, said: "We're delighted that Racing Victoria and the Seven Network have chosen CrownBet as their premier wagering partner for Racing.com after a thorough and competitive tender process. This partnership will play an important role in CrownBet's growth strategy and allow us to reach a wide audience right across Australia. It will help drive our mission to become the leading operator in the sector."

The Racing.com channel will also feature three magazine programs as part of its initial content offering. Launching in early September will be the Thursday night preview show *Get On* and Sunday morning review show *Correct Weight*, whilst the weeks following will bring *The Carnival*, an entertaining and informative look at Victoria's Spring Carnival. Racing.com will detail these new programs over the coming weeks.

## **About Seven Network**

Seven is Australia's most-watched broadcast television platform. The network is expanding its presence in media, driving its leadership in the creation of content and delivering that content anywhere, anytime to the biggest audiences. The company is expanding its presence in the further delivery of its video and publishing content beyond its three digital broadcast channels and across an array of platforms, including Hybrid Broadband Broadcast Television. Seven is also expanding into SVOD with Presto, a joint venture with Foxtel in Australia.

Seven is now creating more content than at any time in its history and is expanding its presence in international content production with the formation of two new international production companies: 7Wonder and 7Beyond. These two new businesses underline a key part of its strategy for today and in the future: the expansion of our leadership in the production of content.

Seven is a key business of Seven West Media, Australia's leading multiple platform media company which has a market-leading presence in broadcast television, magazine and newspaper publishing and online. The company is the home of many of Australia's best performing media businesses – Seven, 7TWO and 7mate, Pacific Magazines, The West Australian and Yahoo!7, and the biggest content brands including My Kitchen Rules, House Rules, The X Factor, Home and Away, Sunrise, the Australian Football League, the Olympic Games, Better Homes and Gardens, marie claire, New Idea, Who, The West Australian, Presto and PLUS7.

## **About Racing Victoria**

Racing Victoria is the Principal Racing Authority in the state of Victoria overseeing the conduct of 550 thoroughbred race meetings annually across 67 racetracks. Amongst Racing Victoria's responsibilities are industry funding, integrity, equine welfare, licensing, infrastructure, racing programs and management of the annual racing calendar.

## **Seven delivers leadership in sports**

Today's announcement confirms Seven's leadership in sports.

Seven is focused on delivering the biggest sports events to all Australians. Seven's long-term partnerships confirms the company's leadership in sports television with the network continuing to dramatically expand its coverage of major sports across its three digital broadcast television channels and accelerate coverage across online, IPTV, HbbTV (Hybrid TV), mobile and other emerging forms of content delivery.

Seven is the network of the Australian Football League.

Seven's commitment to an expanding presence in sports builds on the network's unprecedented new agreement with the International Olympic Committee encompassing the Games of the XXXI Olympiad in Rio de Janeiro in 2016, the XXIII Olympic Winter Games in PyeongChang in 2018 and the Games of the XXXII Olympiad in Tokyo in 2020. Seven will also broadcast the 2016 Winter Youth Olympic Games in Lillehammer and the 2018 Summer Youth Olympic Games in Buenos Aires. Underlining this new partnership is an option which, if exercised, extends the rights to include the XXIV Olympic Winter Games in 2022 and the XXXIII Olympic Games in 2024.

Seven is also the network of the Paralympic Games in Rio in 2016 and the Commonwealth Games on the Gold Coast in 2018. Seven is also the network of the first European Games in Baku, Azerbaijan.

Seven's agreements for the Olympic Games, Paralympic Games, European Games and Commonwealth Games on the Gold Coast, and the World Swimming Championships builds on the company's long-term commitment to the National Football League, including the Super Bowl, The US Masters, Royal Ascot and Wimbledon as major international sports franchises for Seven.

Seven also has all-encompassing agreements for coverage of the Australian Football League Premiership Season, Finals Series, the Grand Final and Brownlow Medal, and the local Australian Rules Football competitions the West Australian Football League, the Victorian Football League and the South Australian National Football League, the Tottenham and Chelsea football matches in Sydney, the Bathurst 12 Hour Endurance Race, all major horse racing events including the Sydney Easter Carnival, the Melbourne Spring Carnival and the Melbourne Cup Carnival, the Sydney-Hobart Yacht Race, all major Australian golf tournaments, the Stawell Gift, the Cadel Evans Great Ocean Road Race, the New South Wales Shute Shield in Rugby, all major iron man and triathlon events, the Gold Coast Marathon and all major tennis tournaments in Australia including The Australian Open and The Davis Cup.

## DATAROOM

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EDITED BY: BRIDGET CARTER CARTERB@THEAUSTRALIAN.COM.AU GRETCHEN FRIEMANN  
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Shareholders would have bet on Cooke Major shareholders in the country's two wagering giants would have most likely lobbied for Tatts boss Robbie Cooke to take the top job had the \$9 billion-plus merger proceeded, according to sources.

Investment bankers from UBS and Goldman Sachs, advisers on the deal, were believed to have been working around the clock at the weekend to ensure the transaction came to fruition after spending several months preparing for the merger to take place.

However, the fact that Tatts was lobbying for a greater slice of the newly merged entity in exchange for Tabcorp securing management control for the business is understood to have caused negotiations to collapse.

Some believe that deal could still happen, but on the major shareholders' terms, with sources suggesting it could create a betting giant worth as much as \$11bn due to synergistic benefits.

One theory is that if major investors had their way, Robbie Cooke would become the chief executive of the newly merged entity opposed to Tabcorp boss David Attenborough.

The situation is unfolding at a time of widespread consolidation among wagering companies globally in an effort to remain profitable on the back of online betting.

This year, global betting giant Ladbrokes merged with Gala Coral, while Paddy Power joined with Betfair.

It comes as the West Australian government's anticipated privatisation of the state's **TAB** remains a point of discussion for industry participants.

The plan to privatise **TAB** is currently between the Premier and Treasurer, and it would need to be restructured before it was sold to create a profitable operation.

Currently, the **TAB** is structured in a way where the profits are returned to the racing industry, which means that the government receives no financial benefit during times of strong financial performance.

However, when the **TAB** books a loss, the responsibility is -shouldered by the government.

Adding to the logic for the state to sell the **TAB** is that it will receive a dividend of about \$90m from the federal government for embarking on the sale at a time it needs to drive down debt.

Perth media baron Kerry Stokes is seen as the logical buyer when the asset is on the market, likely to fetch a price of about \$500m.

Sources say that Premier **Colin Barnett** is unlikely to sell to Tatts or Tabcorp, given that both groups would likely collapse the option into their existing businesses and jobs would be lost as a result, which would not be politically palatable.

Mums and dads opt in Westpac closed the books on its \$3.5 billion rights issue yesterday after fund managers paid \$29.50 for entitlements not taken up by retail investors.

While persistent volatility on the stockmarkets was blamed for the narrow discount to the last traded close, the turnout from mum and dad shareholders on last month's raising was comparatively high with close to 70 per cent opting to follow their money.

In total, 23 entitlements were sold bringing the deal size of the retail shortfall bookbuild to \$678.5m. The Australian's BusinessNow blog was the first to report the final price and scale of this last leg of the raising.

Yet while Westpac succeeded in persuading most of its retail investors to participate in its rights issue - unlike Commonwealth Bank, which received a lukewarm reception from its mum and dad shareholders - many are divided about whether the stock will rally heavily and retrace the losses suffered in the past eight months. Since April, when the shares were trading at a 12 month peak of \$39.89. Westpac has slumped by close to 25 per cent.

It closed yesterday at \$30.02.

This is despite a prevailing view that Westpac has handled the tougher operating environment better than its peers, partly by its leadership in increasing mortgage rates in the face of tightening regulations, but also because of its pledge to reduce costs, sell non-core asset and pursue less risky credit growth.

According to analysts at Morgan Stanley, Westpac's CET 1 ratio - a key measure of a bank's resilience - ranks as the highest among the big four at 9.5 per cent.

Some in the market anticipate the persistent anxiety about the resources sector, combined with the high yield on offer from the banks present an attractive buying opportunity and are betting on a rally in the shares of the big four in the lead up to Christmas.

Westpac's retail shortfall represents the final act in a string of issuances from the banks. In total the big four have tapped the markets for \$19bn, still shy of the pre-financial crisis volumes but an extraordinary level in one year.

The question now is whether the banks, which have all continued to post stonking profits, have raised enough to meet the harsher regulations.

There are clear signs retail investors are tiring of the constant drains on their wallets. Commonwealth Bank, which raised \$5.1bn from investors, only persuaded half of its retail register to accept the entitlements, leaving the nation's largest bank with a larger than anticipated shortfall. While the low turnout was blamed on the difficult trading conditions, others argued the discount on the deal - at an effective 10.5 per cent rate - was too narrow.

By contrast both National Australia Bank, which raised \$5.5bn, and Westpac offered wider discounts.

Bank of America Merrill Lynch and UBS were the joint underwriters and bookrunners to Westpac's raising with Deutsche acting as a third joint lead manager.

Vocation suspended Could troubled education provider Vocation be in serious strife? The company was yesterday expected to reveal details of a financing arrangement, but instead its shares were suspended prompting fears a salvage plan had collapsed.

Several sources told DataRoom Vocation's prospects for survival were bleak. It is understood the company, which suffered a share price crash and had to divest major assets earlier this year as part of a deal with its banking syndicate, will be unable to make its next loan repayment and has been negotiating with its financiers.

Vocation's banking syndicate is made up of Westpac, Commonwealth Bank and NAB. It hoped to make an announcement but had yet to reach an arrangement. Last night Vocation chief executive Stewart Cummins, however, said it was simply a matter of the deal taking longer than expected. KordaMentha-owned 333 Group, which had assisted the company shedding assets, did

not return calls.

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## Tabcorp, Tatts may revisit deal

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News

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Section: Companies and Markets

John Stensholt

Reasons for reviving a merger are pretty compelling.

A little-known but significant milestone reached a couple of months ago goes to the heart of why a \$9 billion merger between wagering companies Tabcorp and Tatts Group may not be dead yet.

In late August, Irish bookmaking giant Paddy Power announced its results for the six months to June 30, showing that the amount wagered by punters over the internet with its Australian Sportsbet business has risen sharply to about \$1.73 billion.

A couple of weeks later, Tabcorp's annual results revealed its tab.com.au digital wagering business has turnover of \$1.65 billion in the first six months of the calendar year.

The upstart Sportsbet had surpassed the local and long-established player in Tabcorp, at least in a digital sense.

While Tabcorp's retail business turned over about \$3.16 billion in the six months, and its online business Luxbet another \$350 million, still leaving it as the nation's biggest wagering outfit, all the growth in betting is coming online.

Figures contained in an Australian Wagering Council report released this week show that while the overall wagering market is not growing markedly, there is a definite shift by punters to betting over the internet rather than in traditional retail outlets.

In the 2009 financial year, \$3.9 billion was wagered over the internet, and \$18 billion "offline" in retail shops and over the phone. In the 2014 financial year those figures were \$15.6 billion and \$11.06 billion respectively. At about the same time that the wagering figures for the first half of 2015 were revealed, Tatts Group made an approach to Tabcorp regarding a merger of equals. Talks continued for the best part of two months, with Goldman Sachs and Investec advising Tatts and UBS working for Tabcorp.

Insiders describe the reasons for the merger as compelling. A combined entity would have market capitalisation of more than \$9 billion, giving it the scale of the world's biggest wagering operators. It would diversify both businesses given the strength of the Tatts lotteries business and as advisers for both camps worked away during Melbourne's spring racing carnival a deal looked certain to happen.

There is also a belief from both parties that a merger would have benefited the horse racing industry, to which about \$25 million of the mooted \$100 million in annual synergies could flow. A merger would have also provided the chance to establish a national betting pool, allowing the combined entity to offer a better product to consumers and take the fight to the corporate bookmakers.

But after a trading update on October 29, Tabcorp's share price began to fall. By comparison, Tatts said first-quarter trading for the 2016 financial year "had a solid start" with both lotteries and wagering performing well, and though it released less information than Tabcorp, the Tatts share

price held up.

The respective share price performances ultimately scuppered the deal. Tatts said in its statement that there had been disagreement on "a nil-premium exchange ratio", while Tabcorp said the two "were unable to mutually agree acceptable terms and ... there are no further discussions taking place between the parties relating to a merger or any other form of corporate transaction."

But sources indicate another move to merge is only a matter of time.

"The deal went within a whisker of happening, and it could be game on again next year," one source said.

"We believe a deal is highly likely, but not until the Western Australian wagering licence is sold," said CLSA analyst Sacha Krien in a note to clients last week. The WA licence is expected to be privatised in mid-2016.

Given that and what is happening in a global context, where Paddy Power and Betfair, and Ladbrokes and Coral, are poised to merge and create huge combined companies in the process, some sort of move has to happen - a fact that has been exercising the minds of both the Tabcorp and Tatts boards for some time.

When the dust settles there is likely to be only a handful of huge and truly global players, which has plenty of implications for the Australian market, where the mostly overseas-owned online only or corporate bookmakers have made huge inroads in recent years, putting huge pressure on Tabcorp and Tatts in the process.

The local implications could be another round of deal-making frenzy among the corporate bookmakers, some potential new entrants and Tabcorp and Tatts either have to merge or do deals offshore in order to stay relevant in an online era and stave off intense competition. It is a case of get scale or get run over by the competition.

In the past few years in Australia alone, Paddy Power has bought Sportsbet, William Hill has acquired the Tom Waterhouse.com, Sportingbet and Centrebet brands and Ladbrokes has taken over bookmaker.com.au and Betstar. Added to that has been the entrant of former Sportsbet majority owner and chief executive Matthew Tripp with **Crownbet**, born out of the shell of the former Betezy brand, and the huge Bet365 business to the Australian market.

All have aggressively advertised their online offerings and, crucially, don't have the legacy issues of having to operate the slowly waning TAB outlets in NSW and Victoria in Tabcorp's case, and Queensland, South Australia, Tasmania and the Northern Territory for Tatts.

So where to next? The intense competition from the online upstarts should make it easier for Tabcorp and Tatts, should they rekindle their relationship, to get a deal done than in the past (the idea of a merger goes back more than a decade). Back in 2006, the Australian Competition and Consumer Commission said a merger between the country's two biggest wagering companies would reduce further competition for licences, but the rise of digital operators means the battle for market share is fiercer than ever.

Tatts shareholders could push for a divestment of its wagering arm in the hope of realising between \$1.6 billion and \$1.8 billion from a competitive bidding process that would certainly include Tabcorp, but may also include Seven West Media in concert with Racing Victoria - the two have a broadcasting joint venture in the Racing.com business - and potentially an overseas party such as Paddy Power via its Sportsbet business in Australia. Other overseas suitors such as Ladbrokes and William Hill could also be interested.

The privatisation of the **WA TAB** will also be hotly contested. Tabcorp and Tatts are thought to be natural bidders, with both Seven and its Perth-based chairman Kerry Stokes understood to be contemplating a bid.

The possible move by Seven into the wagering sector could also include a tilt at the Victorian wagering licence, held by Tabcorp until 2022. Racing Victoria and Seven executives are thought to be keen to explore a bid for the licence, having laid the groundwork for this when the licence was last up for renewal - but before the Brumby Labor state government denied it a chance to bid.

Seven and Racing Victoria could also look at a relationship with **Crownbet** in the future, though the latter has been growing aggressively by taking big sponsorship deals with the likes of the AFL and Racing.com.

**Crownbet** could look at merging with a business of similar scale such as William Hill's Australian arm or the local Ladbrokes operation, which has performed relatively strongly.

William Hill, once the Paddy Power/Betfair and Coral/Ladbrokes deals are consummated, will be a medium-sized global player and may be a suitor for a Tabcorp or Tatts in order to reach a similar size to its rivals. The newly merged Ladbrokes may also decide to focus more on the Australian market and make more acquisitions.

Furthermore, industry observers say there is a chance overseas operators such as Bwin.Party or a US casino group such as Caesars, may enter the market. Whatever happens, it is clear that when the dust settles within the next few years, the wagering industry in Australia will have changed considerably. It is now up to Tabcorp and Tatts if they want to move with the times or get left languishing.

---- INDEX REFERENCES ----

**LANGUAGE:** English

**COMPANY:** BETFAIR GROUP PLC; CENTREBET INTERNATIONAL PTY LTD; GOLDMAN SACHS GROUP INC (THE); INTERNATIONAL SPEEDWAY CORP; INVESTEC PLC; LADBROKES PLC; PADDY POWER PLC; SEVEN WEST MEDIA LTD; SPORTINGBET LTD; SPORTSBET PTY LTD; TABCORP HOLDINGS LTD; TATTS GROUP LTD; UBS AG; WILLIAM HILL PLC; BWIN PARTY DIGITAL ENTERTAINMENT PLC

**NEWS SUBJECT:** Business Management (1BU42); Corporate Events (1CR05); Corporate Groups & Ownership (1XO09); Mergers & Acquisitions (1ME39)

**INDUSTRY:** Bricks to Clicks (1BR78); Casinos (1CA80); E-Commerce (1EC30); E-Commerce Industries (1EC99); Entertainment (1EN08); Gaming Industry (1GA25); Internet (1IN27); Retail (1RE82)

**REGION:** Australasia (1AU56); Australia (1AU55); Oceania (1OC40); Victoria (1VI05); Western Australia (1WE82)

**OTHER INDEXING:** (Matthew Tripp; Crownbet; Ryan Kerry Stokes; Ryan Stokes; Sacha Krien)

**EDITION:** First

**WORD COUNT:** 1348

## Melbourne Cup star Payne set to turn heads at Randwick next month

**Source:** Sydney Morning Herald, The (Australia)  
**Publication Date:** November 23, 2015  
**Country:** Australia  
**Source Type:** Newspaper

11/23/15 Sydney Morning Herald (Austl.) 42

News

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Section: Sport  
Chris Roots

Melbourne Cup-winning jockey Michelle Payne will be honoured by the Australian Turf Club as she rides at its Randwick meeting next month.

The club has worked on finding a date to get Payne to Sydney since her history-making Melbourne Cup win on Prince Of Penzance and has confirmed Saturday, December 5 as the date.

"We have worked with her to get her up here, so that people in Sydney can have the chance to congratulate her on a remarkable achievement," ATC's Brett de Vine said. "She is going to ride on the day and bring her Melbourne Cup with her. We are working on having her brother Stevie [Prince Of Penzance's strapper] here as well.

"We had a really successful day with Jim Cassidy on Saturday and we want to give the public opportunities to see the stars of our sport." The club is working out details for the afternoon but there will be a chance for fans to meet Payne during the afternoon.

### Prizemoney push

Racing NSW will make an announcement on how the first part of tax parity funds will be distributed in Dubbo on Tuesday. Being in the seat of deputy premier and racing minister Troy Grant it is almost certain to do with prizemoney in country areas.

The Racing NSW strategic plan suggests that prizemoney should increase from \$15,000 to \$20,000 a race for country TAB meetings along with other prizemoney targets across the board.

As tax parity with Victoria will be delivered during the next five years all the prizemoney targets cannot be hit in the first year but rest assured country racing is a high priority for the government.

The ATC announcement of more than \$2 million in increases to prizemoney across nine group 1s in the autumn carnival has fulfilled another part of the strategic plan; that there should be a \$500,000 minimum stake for group1 in NSW.

### Buffering's brilliance

How good is Buffering? As an eight-year-old he is still near the top horses in the country and is loved by punters. Especially those that got \$4.40 after the barrier draw for the Winterbottom Stakes, which he won on Saturday. Robert Heathcote has done a remarkable job to keep his star sprinter at the top of his game.

Buffering's record of 31 starts for six wins, six seconds, seven thirds and six fourths would make a great career for any horse - but that's Buff's record in group 1s.

"I have never called him the WBS, [world's best sprinter] there has always been one better than him," Heathcote said. "At the start of his career we were running into Black Caviar and Hay List and happy to run third. We thought his time will come. It has but I didn't think it would go on this long."

Buffering has earned \$5.6 million and who's to say he can't add an international success to his

record if Heathcote chooses to go to Dubai and Royal Ascot next year.

#### Broadcast battles

The battle for the next broadcast and wagering deal in Western Australia is well and truly on. The vision rights to WA racing come up in 2017 and racing.com is already courting Perth officials in an effort to take over from the Tabcorp-owned Sky Channel. The privatisation of the WA TAB is also under consideration and with it would come the technology infrastructure needed should Seven West and Racing Victoria want to buy the TAB licence in Victoria sometime in the next decade.

#### ---- INDEX REFERENCES ----

**NEWS SUBJECT:** Business Management (1BU42); Corporate Events (1CR05); Privatization (1PR92)

**INDUSTRY:** Consumer Products & Services (1CO62); Entertainment (1EN08); Equestrian Events & Horse Racing (1EQ65); Horse Racing (1HO27); Luxury Items (1LU28); Sporting Events (1SP65); Sports (1SP75)

**REGION:** Australasia (1AU56); Australia (1AU55); New South Wales (1NE75); Oceania (1OC40); Victoria (1VI05); Western Australia (1WE82)

**LANGUAGE:** English

**OTHER INDEXING:** (Stevie; Prince; Michelle Payne; Jim Cassidy; Troy Grant)

**EDITION:** First

**WORD COUNT:** 584



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**Tabcorp**  
the bigger better game

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## Tatts, Tabcorp jockey to win race for last state-owned TAB

Exclusive

Perry Williams

Gaming giants Tatts Group and Tabcorp have held talks with the Western Australia government over a potential \$1 billion deal to buy Australia's last remaining state-owned betting agency as pressure grows on the state to prop up its ailing economy.

Premier Colin Barnett first raised the for-sale flag over the TAB in mid-2014 as attention focused on how the former boom state would deal with a ballooning debt crisis.

While it was officially listed for sale in the state's May budget, political squabbling and divisions within the racing industry raised questions over the timetable for a privatisation.

However, sources close to the process say intense lobbying from Australia's two largest wagering companies over the past few months suggest the timetable for a deal may accelerate.

Billionaire Kerry Stokes is also tipped as a likely suitor for the TAB as Seven West Media looks to build on a broadcasting deal struck with the Victorian thoroughbred racing industry in 2015. Seven is also thought to have been approached by corporate bookmakers for a potential equity investment or joint venture.

"This is the only remaining tote opportunity within Australia, so there is huge interest among the big wagering players as you would expect," the source said. "Tatts and Tabcorp have held dozens of meetings in the last year to position themselves for a possible sale while Stokes has the home-town advantage."

Corporate bookmakers and global betting giants eager to gain a foothold in Australia's strong market are also expected to bid should the government give the green light to a deal.

Tabcorp owns the former government TABs in NSW and Victoria while Tatts owns the TABs in Queensland, the Northern Territory, South Australia and Tasmania. The two market-leading wagering companies held merger talks last year but failed to agree on a price.

Tabcorp was the winning bidder in the 2014 privatisation of the ACT's TAB

where it received a 50-year totalisator licence, a 15-year sports bookmaking licence and approval to offer its Keno and Trackside products in Canberra pubs, clubs and betting shops.

Tatts boss Robbie Cooke confirmed in December the company would be interested in bidding for WA's TAB.

Corporate advisory firms and investment banks have held early talks about an advisory role to the government.

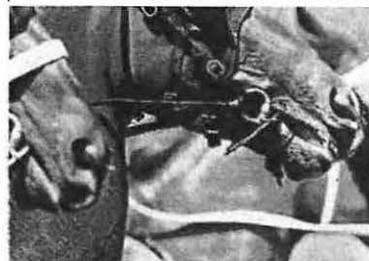
WA Liberal Treasurer Mike Nahan said in December that \$17 billion in expected revenue over the budget years had disappeared since last year's forecasts largely due to the dramatic fall in iron ore prices.

The Racing Representative Group charged to lobby on behalf of the thoroughbred, harness and greyhound codes is also looking to appoint an independent expert in the expectation a sale proceeds, and has drawn on the expertise of former Tatts finance head Ray Gunston to help the industry shape its negotiating position.

The group's representative, Michael Grant, said he was frustrated by delays in instigating the first steps of the sales process and he had not heard from the government since putting a formal

**Continued next page**

However, the consideration of a sale of the TAB provides an opportunity to address the likely challenges that will arise in the future," the website states.



There's huge interest in buying the West Australian state-owned tote.

From previous page

### Tatts, Tabcorp jockey for state-owned TAB

proposal around the possible deal in October.

"The government has made a commitment but we will only sell it if it's what the industry wanted and only if we can be sure of all the ongoing benefits to the industry," Mr Grant said.

"Make no mistake the industry is suffering a crisis of confidence in not having that surety going forward, so we need the government to move forward on this."

A government spokesman was unavailable for comment. The WA Treasury website under an asset sales heading says a deal remains on its agenda.

"The TAB has operated successfully in Western Australia, and this has resulted in a strong racing industry.

## Barnett told to sell WA TAB to pay off debt

**Source:** Australian Financial Review  
**Publication Date:** January 13, 2016  
**Country:** Australia  
**Source Type:** Newspaper

1/13/16 Austl. Fin. Rev. 18

News

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Section: Companies and Markets

Perry Williams

West Australia's leading business group has urged **Colin Barnett's** government to sell Australia's last remaining state-owned betting agency as gaming giants Tatts Group and Tabcorp prepare to battle for the potential \$1 billion deal.

The WA Chamber of Commerce and Industry said the government was not a natural owner of the asset and should include the sale as part of a privatisation push that could reduce its large debt pile.

"Gaming has evolved from the tote at the local races into a highly competitive, global online industry offering countless betting markets and the modern reality is an unnatural fit for a state government," said WA Chamber of Commerce and Industry chief executive Deidre Willmott.

Premier **Colin Barnett** first raised the for-sale flag over the **TAB** in mid-2014 and while it was officially listed for sale in the state's May budget, political divisions and issues within the racing industry have raised questions over the timetable for a privatisation.

Ms Willmott said the obvious interest from companies, which are expected to include Tabcorp, Tatts and a potential bid from billionaire Kerry Stokes meant it should be put on the market.

"The government should sell any asset where the private sector can provide the service more efficiently and in a competitive market, which is clearly the case with the **TAB** and the ongoing support of the local industry should be made a condition of the sale process."

The WA Treasury website said a deal remains on its agenda but the state's racing and gaming minister Colin Holt would not be drawn on his appetite for whether the process may move forward in 2016.

"I am focused on ensuring the racing industry in Western Australia including country racing, continues to succeed, is sustainable in the long term, and continues making a strong contribution to the economy, just as it has in the past," Mr Holt said in a statement to Fairfax Media.

Tabcorp owns the former government **TABs** in NSW and Victoria while Tatts owns the **TABs** in Queensland, the Northern Territory, South Australia and Tasmania.

Tabcorp was the winning bidder in the 2014 privatisation of the ACT's **TAB** where it received a 50-year totalisator licence, a 15-year sports bookmaking licence and approval to offer its Keno and Trackside products in Canberra pubs, clubs and betting shops.

Tatts chief executive Robbie Cooke confirmed in December the company would be interested in bidding for WA's **TAB**.

---- INDEX REFERENCES ----

**LANGUAGE:** English

**COMPANY:** FAIRFAX MEDIA LTD; TABCORP HOLDINGS LTD; TATTS GROUP LTD

**NEWS SUBJECT:** Business Management (1BU42); Campaigns & Elections (1CA25); Corporate Events (1CR05); Privatization (1PR92); U.S. Congressional Campaigns (1US07)

**INDUSTRY:** Bars & Nightclubs (1BA02); E-Commerce (1EC30); E-Commerce Industries (1EC99); Entertainment (1EN08); Internet (1IN27); Online Gambling (1ON09); Retail (1RE82)

**REGION:** Australasia (1AU56); Australia (1AU55); Australian Capital Territory (1AU58); Oceania (1OC40); Western Australia (1WE82)

**OTHER INDEXING:** (Colin Holt; Robert Michael Sean Cooke; Robbie Cooke; Deidre Willmott; Colin Barnett; Ryan Kerry Stokes; Ryan Stokes)

**EDITION:** First

**WORD COUNT:** 404

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FEBRUARY 12 2016

SAVE PRINT LICENSE ARTICLE

# WA fires starting gun on \$1b TAB sell-off



**Perry Williams**

Australia's last state-owned betting agency will be officially put up for sale by the West Australian government within weeks, in a potential \$1 billion-plus deal.

The TAB privatisation sets up the tantalising prospect of billionaire Kerry Stokes entering the wagering market for the first time and battling fierce rivals Tabcorp and Tatts Group for the rights to run the profitable betting business, while corporate bookmakers including James Packer's CrownBet may also consider a bid.



The West Australian government will end years of speculation by placing the TAB on the market in a potential \$1 billion-plus deal. Photo: Jenny Evans

The WA government will issue a request for proposal to major players in the industry in the coming weeks after Racing and Gaming Minister Colin Holt decided the state was not a natural owner of the TAB, and said it was time to test the market's appetite for the assets, which include 320 retail outlets.

"From my viewpoint, it's time to test the market now," Mr Holt told Fairfax Media in an exclusive interview. "I'm responsible to the industry and I've

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reached the conclusion we need to look at the potential privatisation of the TAB to see what opportunities it presents for the industry itself."

Depending on the value and structure of initial offers, the government may legislate to offer an exclusive retail TAB wagering licence to the successful bidder.

With Tabcorp and Tatts holding a monopoly over retail TAB outlets in every other state and territory in Australia, the mooted sale is likely to spark a frenzy of bidding for operators to gain a foothold in the market, given a dearth of opportunities in the last few years.



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Mr Holt said he had met with major players, including Tabcorp and Tatts, and expects other new entrants including Seven West Media, which created the racing.com joint venture with Racing Victoria last year, to look at the opportunity.

"I've met with some of those big players who we already know exist in Australia. And there may well be two or three others who are thinking of getting into a wagering business," said Mr Holt. "The fact racing.com has come on board has actually changed the game. Maybe one of the corporate bookies is interested and Crown may want to add a wagering business."

WA accounts for 9 per cent of Australia's wagering market, according to Macquarie Research.

## Massive corporate interest

Mr Holt spent much of last year travelling around Australia to meet with racing bodies and better understand the fast-moving wagering space. He said the experience led him to the conclusion the state must make a move to capture massive corporate interest in the sector and deliver a sale which strengthens the state's own racing industry.

"It was originally floated as an asset sale to help address our deficit issues, but in reality it will be more realistic that it is about an outcome for the industry," said Mr Holt. "The WA TAB performs really strongly; we're like a jewel in the crown, and we're the last ones to be privatised in Australia so we can obviously learn from all the potential pitfalls and opportunities that the others have been through."

Premier Colin Barnett first raised the for-sale flag over the TAB in mid-2014 as attention focused on how the mining state would deal with a ballooning debt crisis.

While it was listed for sale in the state's May budget, political squabbling and divisions within the racing industry raised questions over the timetable for a privatisation.

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Mr Holt said he has held constructive talks with the Racing Representative Group charged to lobby on behalf of the thoroughbred, harness and greyhound codes, but admits a potential sale of the TAB will not be universally welcomed.

"We're working with the WA racing industry to clearly define benchmarks for the sale and I expect we'll have some of those very shortly," said Mr Holt. "My responsibility is to the industry, and I won't be agreeing anything unless it gives a really good outcome for the industry broadly across WA."

Racing and Wagering Western Australia, the owner of the TAB, said it contributed \$165 million in funding to the state's racing and sports industry in the 2014-15 year.

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## Bankers at the barrier for WA TAB mandate



WA Racing and Gaming Minister Colin Holt will in the coming weeks seek advisers who can guide the government on the future funding needs of the state's racing industry. **Brendan Foster**

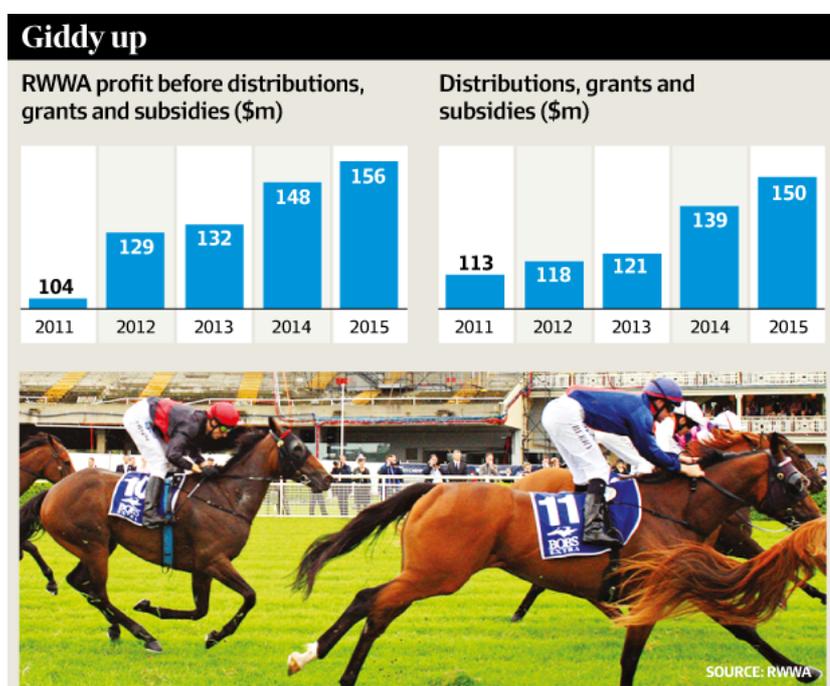
by [Sarah Thompson](#) [Anthony Macdonald](#) [Joyce Moulakis](#)

With the clock ticking on the \$1 billion privatisation of West Australia's TAB network, advisers are starting to position themselves for a plum role negotiating the sale of Australia's last state-owned betting agency.

Sources told Street Talk the request for proposal process to spark the spin-off will be split into two stages.

WA Racing and Gaming Minister Colin Holt will in the coming weeks seek advisers who can guide the government on the future funding needs of the state's racing industry.

The scoping study will focus on the potential transfer of value from the state to the new owner, the possible rationalisation of racing clubs and the structure and shape of the industry should a sale proceed.



Rothschild and Deloitte, who partnered up on the Utah Ports privatisation, will be in the running along with EY who recently advised on the Perth Market Authority sale.

Racing and Wagering Western Australia, the owner of the TAB, is understood to have held a board meeting in the last few days to discuss the sales process.

The second stage will evaluate formal expressions of interest from bidders for the TAB network and is likely to stretch into the second half of 2016.

There's little surprise that both Tabcorp and Tatts Group have already put their hands up as interested bidders and several of the corporate bookmakers including James Packer's CrownBet and Sportsbet, owned by Ireland's Paddy Power, may also take a look.

Meanwhile, Kerry Stokes' Seven West Media is expected to lever off its successful [racing.com](#) joint venture with Racing Victoria to have a crack at the wagering market. Seven West also has a strong position in WA, selling 158,000 copies of the West Australian every day.

Seven West boss Tim Worner did not rule out a potential deal on Wednesday when analysts questioned the media company about its intentions in the wagering sector.

[Credit Suisse analysts reckon WAT TAB's \\$350 million annual revenue](#) could be worth \$70 million in earnings before interest, tax, depreciation and amortisation for an industry player like Tabcorp, assuming a 20 per cent earnings margin.

## It's all about a cut in licence fees: Worner

**Source:** Australian  
**Publication Date:** February 18, 2016  
**Country:** Australia  
**Source Type:** Newspaper

2/18/16 Australian (Newspaper) 19

News

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Section: Business

JAKE MITCHELLMedia

**Seven West** Media chief executive Tim Worner has taken aim at rival media companies for "running around Canberra" and "talking their own businesses down" in the pursuit of changes to owner-ship laws.

Mr Worner told The Australian he was disappointed the sector had not presented more of a united front on the need to cut television licence fees, which are among the highest in the world.

Regional television networks WIN Corporation, Prime Media Group and Southern Cross Media Group have led a push for media -reform that has focused on abolishing the population reach rule and cross media ownership laws.

"Licence fee reductions is the reform that can actually assist the entire industry," Mr Worner said.

"Instead they're running around Canberra and running around talking their own businesses down. I think they're starting to reap what they sow." Asked whether Seven, which owns The West Australian and magazines including New Idea, had been trying to stall the progress of reform because the -removal of media ownership rules was not in its interests, Mr Worner said: "That's absolute rubbish.

"We haven't stalled anything. We just want an entire package of -reform and we want to see licence fees at the top of it." It has been speculated that Seven or chairman Kerry Stokes' 73 per cent-controlled Seven Group Holdings may be interested in bidding for the **Western Australian TAB**, which is set to be privatised. Mr Worner would not be drawn on whether Seven was interested but said the company's Racing.com joint venture with Racing Victoria was going from "strength to strength".

The media executive was speaking as Seven -reported a \$135.2 million net profit for the six months ended on -December 26, turning around a \$993.6m loss in the previous corresponding -period, which was hit by writedowns to its television, newspaper and magazine licences.

The company reported an underlying net profit of \$140.3m, which was a rise of 2.1 per cent, as a cost-cutting program helped -offset a sluggish advertising -market and structural challenges facing its assets.

Seven's revenue slipped by 4.1 per cent to \$896.7m, while earnings before interest, tax, -depreciation and amortisation fell by 8.5 per cent to \$229.3m.

Group costs were down 4 per cent to \$687.5m.

The company's top placed free-to-air television business, the Seven Network, recorded a 2.1 per cent revenue decline to \$662.9m, while earnings before interest and tax were up by 2 per cent to \$185.4m.

The latest accounts show the television operations now represent 83 per cent of the group's earnings.

Newspaper earnings of \$24m for the half year were down 22 per cent, while magazine earnings slumped 39 per cent to \$7.3m.

Macquarie Securities analyst Andrew Levy said Seven's progress in cutting costs was encouraging before the impact of the network's broadcast rights for the Rio 2016 Summer Olympics and new AFL deal.

"This is a robust result overall for Seven and demonstrates good near-term cost control," Mr Levy said.

Seven will pay an interim dividend of 4c a share. The company's shares closed on Wednesday flat at 81.5c.

JAKE MITCHELLMedia

---- INDEX REFERENCES ----

**COMPANY:** PRIME MEDIA GROUP LTD; ROWIN CO LTD; SEVEN GROUP HOLDINGS LTD; SEVEN NETWORK LTD; **SEVEN WEST MEDIA LTD**; SOUTHERN CROSS MEDIA GROUP LTD

**NEWS SUBJECT:** Business Management (1BU42); Corporate Events (1CR05); Corporate Financial Data (1XO59); Dividends (1DI76); Equity Instruments (1EQ90); Funding Instruments (1FU41); Privatization (1PR92)

**INDUSTRY:** Broadcast TV (1BR25); Entertainment (1EN08); Financial Services (1FI37); Investment Management (1IN34); Securities Investment (1SE57); TV (1TV19); TV Stations (1TV23); Traditional Media (1TR30)

**REGION:** Australasia (1AU56); Australia (1AU55); Australian Capital Territory (1AU58); Oceania (1OC40)

**LANGUAGE:** English

**OTHER INDEXING:** (Andrew Levy; Tim Worner; Ryan Kerry Stokes; Ryan Stokes)

**EDITION:** Australian

**WORD COUNT:** 517

## Barnett to start WA TAB sale talks

**Source:** Australian Financial Review  
**Publication Date:** March 15, 2016  
**Country:** Australia  
**Source Type:** Newspaper

3/15/16 Austl. Fin. Rev. 18

News

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Section: Companies and Markets

Perry Williams

West Australian Premier Colin Barnett is poised to proceed with the \$1 billion privatisation of the state's TAB agency with talks planned this week with the racing industry.

Mr Barnett, who flagged the TAB privatisation in mid-2014, was initially due to meet the Racing Representative Group on Monday morning in Perth. However, the meeting was changed because of a delay in cabinet proceedings. It is due to be held in coming days.

The racing body, charged with lobbying on behalf of the thoroughbred, harness and greyhound codes, is expected to list its demands relating to any potential sale, including minimum funding commitments for each of the clubs it represents.

Sources said Racing Minister Colin Holt and Treasurer Mike Nahan would also attend the meeting.

It was thought Mr Nahan expressed concern last week the state needed to ensure it engineered a strong outcome for the region should the sale proceed.

That could take the form of a one-off payment by a successful bidder in addition to the minimum guarantees needed to be in place with the racing clubs.

RRG spokesman Michael Grant has previously said it is imperative to have the correct structure in place, which includes minimum undertakings and benefits to the racing industry. The group is concerned the government has yet to appoint an external adviser to guide it in the complex process.

It is thought firms including Rothschild, Investec and EY are positioning themselves for an advisory role in the privatisation process, although no formal request for the proposal has been sent to the industry.

Tabcorp, which owns the former government TABs in NSW and Victoria, and Tatts, the owner of the TABs in Queensland, the Northern Territory, South Australia and Tasmania, are logical front runners in the West Australian race.

Most in the industry expect Tabcorp to have the best chance of securing the TAB sale.

Tabcorp chief executive David Attenborough has confirmed the betting giant will likely lob in a proposal.

Tabcorp was the winning bidder in the 2014 privatisation of the ACT TAB, where it received a 50-year totalisator licence, a 15-year sports bookmaking licence and approval to offer its Keno and Trackside products in Canberra pubs, clubs and betting shops.

The two rivals, which canned \$9 billion merger talks in November, may consider resurrecting a wagering tie-up in the next few months, potentially removing a source of competitive tension in the bidding process depending on the WA government's timeline.

Alternatively, should Tabcorp or Tatts emerge as the winner in the West Australian sale, that

process might stall the momentum for a merger between the two companies.

The sale also sets up the prospect of two of Australia's highest-profile billionaires, James Packer and Kerry Stokes, entering the wagering market in the west.

Mr Stokes' Seven West Media, which created the racing.com joint venture with Racing Victoria last year, is thought to be mulling an assault on the wagering market with Western Australia an obvious entry point.

However, Mr Packer's CrownBet remains an outside chance given the large retail network footprint.

---- INDEX REFERENCES ----

**LANGUAGE:** English

**COMPANY:** ERNST AND YOUNG; INVESTEC PLC; ROTHSCHILD AND CO SCA; SEVEN WEST MEDIA LTD; TABCORP HOLDINGS LTD

**NEWS SUBJECT:** Business Management (1BU42); Corporate Events (1CR05); Privatization (1PR92)

**INDUSTRY:** Bars & Nightclubs (1BA02); Casinos (1CA80); Entertainment (1EN08); Equestrian Events & Horse Racing (1EQ65); Horse Racing (1HO27); Sports (1SP75)

**REGION:** Australasia (1AU56); Australia (1AU55); Australian Capital Territory (1AU58); Oceania (1OC40); Western Australia (1WE82)

**OTHER INDEXING:** (Racing Representative Group) (Mike Nahan; Colin Holt; Michael Grant; Colin Barnett; James Douglas Packer; James Packer; David Robert Henry Attenborough; David Attenborough; Ryan Kerry Stokes; Ryan Stokes)

**EDITION:** First

**WORD COUNT:** 509

## PNG's PM delivers for Ferrovial boss

**Source:** Australian  
**Publication Date:** April 29, 2016  
**Country:** Australia  
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4/29/16 Australian (Newspaper) 32

News

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Section: Business

MARGIN CALL WITH BEN BUTLERCHRISTINE LACY

Ferrovial boss Santiago Olivares will have PNG Prime Minister Peter O'Neill to thank for delivering takeover target Broadspectrum into the dashing Spaniards' acquisitive hands.

By late yesterday 19 per cent cornerstone investor Simon Mawhinney at fund manager Allan Gray was softening his previously steadfast stance against Ferrovial's \$1.50-a-share bid for the detention centre operator, as Broadspectrum's hopes of maintaining its PNG camp contract were dimming.

(Yesterday we said the bid was \$1.35, which was wrong.) "At this stage we are gathering as much information as possible so that we can make an informed decision before the expiry of the offer at 7pm on Monday," Mawhinney told us.

By last night Broadspectrum chair Diane Smith Gander was still telling investors to reject the bid, but was assessing whether the situation on Manus warranted a change.

Despite that the action in the PNG Supreme Court was on foot, DSG didn't think it important enough to note it in her target statement. In contrast, Immigration Minister Peter Dutton says he's been "planning for this since late last year".

Allan Gray tipping into the bid gets Ferrovial close to its 50.1 per cent minimum acceptance, the mums and dads will probably follow and the conquistadors will be locked into buying the company, regardless of how things play out on Manus.

Skala departs board Steven Skala has left the board of Deutsche Bank's main Aussie arm after 10 years, resigning his directorship of Deutsche Australia in February.

The banking veteran, who retains his broader role as vice-chairman of Deutsche Bank Australia and NZ, has left Deutsche Australia two legacies: a bumper profit and an expansive "discussion" with Chris Jordan's tax office.

The bonanza \$82 million profit in 2015, nearly three times 2014's \$28m effort, is easily explained, thanks to increased trade by fixed interest clients but long-running tea-and-biscuits with the ATO is shrouded in mystery. Annual reports disclose talks have been going on for at least five years, although the subject matter may have moved.

In 2011, they were "in relation to certain matters", but by last year the chitchat covered "the determination of the company's tax position", which could "lead to additional tax liabilities", quantum unknown. All DB will say is that it is not under audit and the chinwags do not relate to a dispute.

West beckons Perrin Millionaire Billabong founder Scott Perrin and wife Rachel are having another shot at flogging his \$30m Gold Coast home, which has been for sale for almost a year.

Perrin, who's now running Seven and Racing Victoria's Racing.com out of Melbourne, has switched agents on the little Mermaid Beach six-bedder in the hope of finally offloading it.

He's still commuting to work from up north, but might soon be looking west as WA Racing Minister Colin Holt ramps up plans to flog Australia's last government-owned wagering business, **WA TAB**.

Racing.com is mooted as billionaire boss Kerry Stokes' platform for further expansion into racing, potentially bidding for the wagering licence in his home state. It already has a hook-up with the James Packer-backed **Crownbet**. Holt's talking to industry about how he can sell the TAB to the market as a profitable enterprise - last year it made \$156m in profit but gave \$150m of that to the clubs.

Nine's breathing space Over at Nine, under-pressure boss Hugh Marks was finally able to deliver some breaking good news to his board of directors yesterday. As the Peter Costello-chaired Nine board met in Sydney, the action against the network by its Bermuda-based billionaire affiliate partner Bruce Gordon was being thrown out of court, with the judge now considering costs in the case.

Marks had already warned the market that the increase in legal costs from the WIN defence could eat into earnings this half, but if it goes away that could give the boss some headroom towards the growing list of expenses incurred from the 60 Minutes debacle in Beirut.

It was the board's first coming together since the news and current affairs scandal broke but directors, including former boss David Gyngell, Holly Kramer and Elizabeth Gaines, have been updated daily with written reports on the Levantine drama.

Nine is now saying the internal 60 Minutes review could take until mid-May. The board yesterday was not updated on the investigation. [christine.lacy@news.com.au](mailto:christine.lacy@news.com.au) [butlerb@theaustralian.com.au](mailto:butlerb@theaustralian.com.au)

MARGIN CALL WITH BEN BUTLERCHRISTINE LACY

---- INDEX REFERENCES ----

**COMPANY:** ALLAN GRAY (PTY) LTD; DEUTSCHE BANK AG; DEUTSCHE AUSTRALIA LTD; FERROVIAL SA; GOLD COAST RESOURCES INC; INFRATIL LTD; JORDANS FURNITURE INC  
**NEWS SUBJECT:** Board of Directors (1BO47); Business Management (1BU42); Corporate Events (1CR05); Corporate Groups & Ownership (1XO09); Immigration & Naturalization (1IM88); Mergers & Acquisitions (1ME39); Social Issues (1SO05); Taxation (1TA10)  
**INDUSTRY:** Accounting, Consulting & Legal Services (1AC73)  
**REGION:** Australasia (1AU56); Australia (1AU55); Oceania (1OC40); Victoria (1VI05)  
**LANGUAGE:** English  
**OTHER INDEXING:** (Steven Skala; Holly Kramer; Colin Holt; David Gyngell; Diane Smith Gander; Scott Perrin; Simon Mawhinney; Hugh Marks; Kerry Stokes; Chris Jordan; Allan Gray; Santiago Olivares Blazquez; Santiago Olivares Blazquez; BEN BUTLERCHRISTINE LACY; Bruce Gordon; Bruce Gordon; Elizabeth Gaines; Peter Dutton; Rachel)  
**EDITION:** Australian  
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## Seven and Racing Victoria shake up horse racing with Hong Kong deal



Racing Victoria and Seven West Media's joint venture may bid for racing in other states. Vince Calligiuri

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by John Stensholt

Seven West Media and Racing Victoria's Racing.com joint venture will announce on Monday it has gained the rights to broadcast arguably the best-quality horse racing in the world from Hong Kong.

It is a small but significant step for Racing.com, one that may be the first domino to fall in what looms as a year or two of intensive broadcast deal negotiations across several states and merger and acquisition activity in the wagering sector.

Plenty of this may have Seven and Racing.com at the centre of the action and have ramifications for the established listed wagering operators such as Tabcorp and racing administrators around the country.

Racing.com's coverage of Hong Kong is likely to begin this weekend or next Wednesday evening. Its popular on-air host Shane Anderson says the coverage, shown on Seven's free-to-air Racing.com channel, on Foxtel's pay television service and online, will be "an elite product covered with elite talent", including preview and analysis shows.

Tabcorp's Sky Racing channel will still cover Hong Kong but Mr Anderson believes Racing.com's ability to showcase it as a premium product makes it a

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differentiator. At present, Hong Kong is part of a constant suite of racing, including greyhounds and harness, shown on Sky's main channel or moved to its secondary

The theory is greater exposure to horse racing on television means more people bet and more flows through to the industry in race fields fees. It can also be said that Tabcorp – which shares the spoils of tote betting – will also benefit.

But the Hong Kong deal shows the divergent paths Tabcorp is taking from Seven and Racing Victoria, which shows the crown jewels of the Spring Carnival that features races such as the Cox Plate, the Caulfield Cup and the Melbourne Cup.

Hong Kong marks the first jurisdiction outside Victoria that Racing.com will show vision of, having hastily been born in January 2015 out of the messy end to the TVN channel, which had the rights to both Victoria and NSW racing.

Back then, Victoria elected to spend about \$10 million establishing Racing.com with Seven, which then launched the free-to-air channel in July. Meanwhile, Racing NSW quickly signed a 10-year exclusive broadcast deal with Sky.

Sky covers races across other states and overseas, but that may soon change.

South Australian racing is up for renewal next year, while the rights for New Zealand racing are in play now. Queensland authorities, meanwhile, are understood to have served Sky with breach notices regarding their contract over changes it made to Victorian coverage last year (which was off-air for a short time due to a contract dispute).

Racing.com may move to poach the rights off Sky for all of those, though will then face the quandary of having to lavish attention and resources on interstate racing as it does for Victoria, and perhaps even have to sell or offer those states a shareholding.

Victorian authorities argue the Racing.com service, which is also pumped out via the corporate bookmakers website, has increased wagering turnover. It may be up by about 7 per cent this financial year, compared with a fall in Queensland and South Australia of the same figure (NSW is said to be up about 3-4 per cent), and Racing Victoria may go close to matching its bumper \$50 million record profit in 2015.

Racing.com is already profitable after about 10 months of operation, paying Racing Victoria and Seven a decent annual dividend, mostly thanks to stronger than expected advertising deals that Seven's sales team signed with corporate bookmakers

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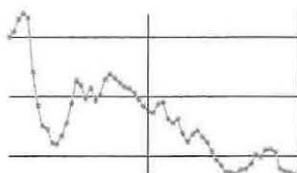
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| 9/11/16 | Annual General Meeting Addresses                            |
| 7/11/16 | SWM Signs Contract to Acquire Sunday Times and PerthNow     |
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such as CrownBet, which shelled out \$5-10 million for the biggest ad package, and Ladbrokes

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"We are quietly pleased with what has already been achieved, the future performance and the potential of this business is very, very significant," Seven chief executive Tim Worner told *The Australian Financial Review*. "We have already seen what can be done. Look at the roll up to the [recent Warrnambool carnival], look at the turnover numbers. Victorian racing is positioning itself for a very interesting future and so is Seven."

When it comes to racing, however, the real money is to be made in wagering. There has already been speculation about Seven looking at a bid for the West Australian tote. Far more likely is a tie-up between Seven and an operator such as CrownBet, given the latter already advertises on Racing.com and James Packer and Kerry Stokes, former and current chairman of CrownBet's part-owner Crown Resorts and Seven respectively, are close.

Then there is the vexed issue of Tabcorp's joint venture with Victoria to deliver racing a share of tote betting losses. Tabcorp's retail monopoly is under threat from the rise of corporate bookmakers such as CrownBet and market leader Sportsbet, and Racing Victoria has made good money charging them higher race fields fees.

Both Tabcorp and Racing Victoria say the joint venture is still a fruitful one, and relations are good. The different, and competing, broadcasting strategies may mean that is not the case forever.

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## Kerry Stokes revises plan for East Perth Power Station museum

**Source:** Australian Financial Review  
**Publication Date:** September 28, 2016  
**Country:** Australia  
**Source Type:** Newspaper

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News

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Section: Features

Joe Aston and Bryce Corbett

At 76, Seven billionaire Kerry Stokes has asked himself a rather salient question: what the hell to do with all of this art?

Stokes' extensive stockpile of Picassos and Matises, and historical artefacts such as Scott of the Antarctic's sled and the Rothschild Prayerbook, ambiguously known as the Kerry Stokes Collection, is displayed at the West Perth offices of the family's private investment arm Australian Capital Equity. It is curated by seven full-time staff and has been exhibited in parts and in full at various institutions around the country.

For some time, Stokes has been looking for a permanent site to establish an eponymous public museum. Though he's scoped other Australian destinations, his ties to Perth make it city most likely. Think a MONA of the West. And if he buys the TAB from Colin Barnett, both can be funded by gambling!

ACE had submitted an Expression of Interest proposal for the East Perth Power Station, but state treasurer Mike Nahan told the WA Parliament this month that the bidders - whose number also include Mirvac and Lend Lease - "did not bid a sufficient amount, in our mind, to sell the thing".

It's understood ACE has since submitted a revised proposal. The issue for the TV and tractor baron is that while the site itself is valued at \$25.7 million, it requires another \$100 million in pre-development works (contamination, heritage, blah blah) before a sod could be turned on new works. And with iron ore at \$US55 per tonne, oil still sub-\$US50 per barrel and the media business structurally rooted, a lazy \$300 million isn't spare change to Stokes like it was five years ago, when the ore price was \$US177 a tonne and he could shoot cash out of water cannons into the Swan River. We loved those days, being bull market specialists...

Mind you, he's a determined fellow, so don't write off the project just yet. We'll watch this space, shall we?

### UBS desk gets around to downgrading Estia Health

Well it took them a while, but finally, UBS Equities has downgraded one of its favourite stocks, Estia Health. Good of them to get with the program!

Up until April 19, the desk's target price for the listed aged care player rolled up by private equity sharks Quadrant was a whopping \$8.65. On that day, it was cut to \$8.35 - both laughable in hindsight, but then isn't hindsight a beautiful thing?

In May, lead analyst Shav Bedrossian heroically dropped his EHE price target to \$8.15, still 33.2 per cent above his peers' consensus of \$6.12; the actual price then was \$5.32. And on it goes: by July, UBS was spruiking a fair price of \$6.95, by which time the stock was trading below \$4.

On Monday, UBS released new research on Estia, dropping Bedrossian from its list of analysts, a list he previously sat atop, and set a new target of \$4.10, down from that \$6.95 in one fell swoop. The shares closed at \$3.45.

Back in December 2014, when UBS' investment banking division floated Estia for Quadrant, the deal was led by Michael Stock, now at Credit Suisse. Stock is also an investor (in a private capacity) in the hedge fund VGI Partners, which holds the biggest short position in Estia and across the sector. Which way does he want the stock to go or the wind to blow?!

Mitchell book squibs on famous Bush G20 line

They were three words, attributed to the then president of the United States and leader of the free world - George W. Bush.

"What's the G20?"

A question reportedly uttered by Bush during a private phone conversation with the then Australian PM, Kevin Rudd, back in 2008. A conversation that was apparently overheard by the then editor-in-chief of The Australian, Chris Mitchell, and which formed the basis of a subsequent report in that newspaper which reverberated around the world and sent a chill through US-Australian relations at the time.

Strange then that those three simple words fail to appear in Mitchell's tome, Making Headlines (available now in all good bookstores).

In his re-telling of the infamous "phone call affair", Mitchell writes around the specifics, recording that Rudd took the call with Bush on speaker phone and "deliberately left the door open in what I concluded was a deliberate way".

"After the call, he [Rudd] came back smiling, sipped his beer and asked whether I had heard all of the conversation," Mitchell writes. "I most certainly had and was amazed and surprised that he had let me."

We asked Mitchell why, given that those famous three words were very much the crux of The Oz's explosive story, they were excised in the book version of events?

He replied: "After approving the quotes in the story as published, the PM's office later said the president did not make the comment. The reporter did not have a transcript."

But wasn't he the reporter?

"No, of course not," came the reply. "Political correspondent Matt Franklin wrote the story."

Which he did. But only after Mitchell - who was one of only two people privy to the phone call and "most certainly" had "heard all of the conversation" - briefed him on it. So we called Franklin - who declared himself distinctly uninterested in discussing the topic, beyond telling us: "I never reveal sources".

Then Mitchell contacted us to refer us to Paul Kelly's book Triumph and Demise, where, he told us, the incident is "explained in detail".

Which it is. On pages 208 and 209 to be precise. Except the detail is different to that recorded in Mitchell's own book. And here we quote Kelly: "Mitchell's recollection was that Bush had asked a question about the G20. "I'm not sure exactly what it was," he said."

So in one version he "heard all of the conversation" and in another, he was "not sure exactly" what was said.

And so we asked Mitchell the simple question: Did you or did you not hear president Bush ask, "What's the G20"?

His obtuse reply: "That is how the long discussion after the call was framed by KR. And his office ticked off on the version we ran with those quotes."

Hmmm. It's an equivocation that doesn't fill us with confidence.

---- INDEX REFERENCES ----

**COMPANY:** CREDIT SUISSE AG; EQUUS MINING LTD; LENDLEASE GROUP; MIRVAC GROUP;

STOKES LTD; VGI PARTNERS PTY LTD

**NEWS SUBJECT:** Art (1AR38); Funding Instruments (1FU41); Major Corporations (1MA93); Private Equity (1PR15)

**INDUSTRY:** Book Publishing (1BO18); Books (1BO26); Entertainment (1EN08); Financial Services (1FI37); Major Financial Services Firms (1MA21); Publishing (1PU26); Traditional Media (1TR30)

**REGION:** Australasia (1AU56); Australia (1AU55); Oceania (1OC40); Western Australia (1WE82)

**LANGUAGE:** English

**OTHER INDEXING:** (George Bush; Chris Mitchell; Kerry Stokes; Kevin Rudd; Mike Nahan; Matt Franklin; Colin Barnett; Michael Stock; Paul Kelly; Shav Bedrossian)

**EDITION:** First

**WORD COUNT:** 1044

2009

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## Parliament of Tasmania

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JOINT STANDING COMMITTEE

# ENVIRONMENT, RESOURCES AND DEVELOPMENT

INTERIM REPORT

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## Sale of the TOTE

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### Members of the Committee

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Mr Bryan Green MP  
Hon Greg Hall MLC (Chair)  
Hon Tania Rattray-Wagner MLC

Mr Kim Booth MP  
Mr Peter Gutwein MP  
Hon Paul Harriss MLC  
Hon Jim Wilkinson MLC

*Secretaries: Mrs Sue McLeod, Dr Colin Huntly & Mr Nathan Fewkes*



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## **INTRODUCTION**

### **APPOINTMENT AND TERMS OF REFERENCE**

The Joint Standing Committee on Environment, Resources and Development was established for a trial period from 7 April 2004 and was re-established on 30 May 2006 following the State Election on 18 March that year. The Committee as at the date of this Report was re-established by Order of the Legislative Council on 4 March 2008, agreed to by resolution of the House of Assembly on 5 March 2008.

At a regularly constituted meeting on 5 February 2009, the Committee resolved to inquire into -

- (a) the proposed sale of the TOTE. Tasmania by the Government of Tasmania; and
- (b) any other matters incidental thereto.

In announcing the Committee, the Hon. Greg Hall MLC said:

“The Committee does believe that this issue is one of great significance to the State, and it is essential that all Members of Parliament are fully briefed on the circumstances surrounding the proposed sale before we are asked to vote on it.”<sup>1</sup>

The membership of the Committee currently comprises four members of the Legislative Council – Mr Hall (Chairman), Mr Harriss, Mrs Rattray-Wagner and Mr Wilkinson; and four members of the House of Assembly – Mr Best, Mr Booth, Mr Green and Mr Gutwein.

The Committee has general jurisdiction over the following areas: Government Business Enterprises; regulation of business, commercial and industrial relations; economic and finance development; environment and land use planning; natural resources – forestry, mining and fisheries; energy; tourism; transport; and primary industry.

This is an interim report in relation to the sale of the TOTE.

As at the date of this Interim Report the Committee is still awaiting receipt of a number of documents which were the subject of summonses and addressed to the Secretaries for the Department of Treasury and Finance and the Department of Infrastructure, Energy and Resources. Once these outstanding issues have been resolved, this Committee will table its Final Report on the Sale of the TOTE.

---

<sup>1</sup> Hall, Hon. Greg MLC, Media Release, January 20 2009.

## PROCEEDINGS

Advertisements were placed in the three regional daily newspapers on 7 February 2009.

19 witnesses gave verbal evidence to the Committee in Hobart and are listed in Appendix 1. 15 documents received into evidence are listed in Appendix 2. Transcripts of all public hearings are attached in Appendix 3.

The Committee held public hearings in Hobart on 6 and 19 March 2009.

## **EXECUTIVE SUMMARY**

### Timeline

The following timeline is adapted from one that appeared in the Mercury on 7 March 2009:

- “May 7, 2008:            Treasurer Michael Aird first approached Treasury to provide advice about sale of TOTE Tasmania.
  
- November 12, 2008:    Legislation for the restructure of the racing industry is introduced to State Parliament. Mr Aird says the restructure is not about preparing TOTE for sale.
  
- November 19, 2008:    Treasury provides a Cabinet brief to Treasurer Michael Aird recommending the sale of TOTE. The brief is not signed.
  
- November 20, 2008:    Jim Cox says during debate about the racing amendment Bill: “There is no intention at this stage that TOTE is for sale.”
  
- November 24, 2008:    Deloitte Corporate Finance begins pre-paring advice on the restructure of TOTE and possible options for its sale.
  
- December 4, 2008:     Mr Aird tells a Legislative Council Government Business Enterprise committee he is “not aware” of rumours he planned to sell TOTE.
  
- December 19, 2008:    A second Cabinet document recommending the sale of TOTE is prepared for Treasury, including advice from Deloitte.
  
- December 22, 2008:    Cabinet approves the sale.
  
- January 8, 2009:        The sale of TOTE is announced.”<sup>2</sup>
  
- January 20, 2009:     Mr Greg Hall MLC suggested a review of the sale to the Joint Standing Committee on the Environment, Resources and Development.
  
- February 5, 2009:     The review was approved.

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<sup>2</sup> Stedman, Michael, “Aird denies TOTE lie”, *The Mercury*, 7 March 2009, p. 5.

This Interim Report contains information that has been gathered by the Committee to date which may assist Honourable Members of both Houses in their consideration of the proposed sale of the TOTE.

The Committee reports without recommendation.

**April 2009**

**Greg Hall MLC  
Chairman**

## **THE GOVERNMENT CASE FOR SALE OF THE TOTE**

### **TOTE Tasmania (Sale) Bill 2009 Fact Sheet**

The *TOTE Tasmania (Sale) Bill 2009* provides for:

- the Treasurer to have the necessary authority and powers to divest the whole or any part of TOTE Tasmania. This will provide certainty to potential bidders during the sale process.
- the Treasurer to sell the shares in TOTE Tasmania or the business of TOTE Tasmania;
- the Treasurer to have regard to the achievement of a fair and reasonable sale price;
- the Treasurer to facilitate the sale by entering in to contracts, giving directions to TOTE and amending the constitution of TOTE;
- the protection of employee entitlements in respect of long service leave and the RBF contributory scheme;
- transitional arrangements for the business and arrangements for employees if the business is sold;
- part of TOTE Tasmania or part of a subsidiary of TOTE Tasmania to be transferred into Crown ownership upon sale completion if they are not sold;
- the Auditor-General to review the sale of TOTE after completion and report to Parliament on this review;
- TOTE Tasmania and the Government to disclose all information to bidders, and ensures that existing commercial documents are not terminated as a result of the sale process; and
- normal governance arrangements to apply to the business until the sale is completed.

Passing the Bill will provide Parliamentary support for divestment of TOTE Tasmania and will also facilitate the sale process and provide certainty to all the parties involved.

## **TOTE Tasmania (Sale) Bill 2009**

### **Second Reading Speech**

Madam President

The Government is committed to ensuring the Tasmanian community's assets are put to their best use. In this context, the Government has reviewed its equity investment in TOTE Tasmania to determine whether it is in the public interest to retain, or whether the equity could be put to better strategic use.

The purpose of this Bill is to provide for the sale of TOTE Tasmania. This is part of the Government's reforms of TOTE Tasmania and its regulatory environment.

Honourable Members will recall that in November 2008 Parliament approved the separation of the racing and wagering operations of TOTE, with the creation of the Tasmanian Racing Board from 1 January 2009. This has enabled the TOTE to operate solely as a wagering business.

The second part of the reforms is to provide a modern regulatory framework for TOTE that is consistent with the regulation of other wagering and gaming businesses already operating in Tasmania. The Gaming Control Amendment Bill 2009 will provide such a framework.

Madam President

TOTE Tasmania currently provides funding support to the newly formed Tasmanian Racing Board, for the benefit of the Tasmanian racing industry. The Government is replacing these funding arrangements with a legally binding Funding Deed between the Government and the Tasmanian Racing Board.

The Deed provides for the Government to fund the Tasmanian Racing Board to meet its operational expenses. The Funding Deed will also provide funding for capital expenditure upon the successful sale of TOTE. I have provided details about this Deed during the Council's debate on the Gaming Control Amendment Bill.

Madam President

Let me be very clear on this point. The sale of the TOTE will not disadvantage the racing industry. On the contrary, it will provide \$40 million of funding for capital expenditure that would not otherwise have been available. These arrangements while guaranteeing the Tasmanian Racing Board's future, also place it in a clear commercial context with responsibility for improving its own performance.

TOTE Tasmania has successfully operated since 2000 as a State-owned Company in an increasingly aggressive and dynamic market. If it is to remain competitive it needs to be able to continue to expand its business both interstate and overseas and be capable of dealing with the rigours of national and international competition. There is no longer any justification for retaining the TOTE in Government ownership. Indeed there are very persuasive reasons why it should not continue to be owned by the Government.

All jurisdictions other than Western Australia and the ACT have sold their TABs. The wagering product has subsequently been successfully provided by the private sector. There is no need for the Government to continue to hold equity in a business that can be provided by the private sector.

Secondly, it is the Government's intention to reinvest the net proceeds from sale, after provision for Tasmanian Racing Board funding and sale costs, into other state assets for the benefit of the wider Tasmanian community.

Thirdly, the sale of TOTE will benefit the community and taxpayers through reduced financial risk. The Australian wagering industry is highly competitive and subject to rapid technological change. This environment presents a number of ownership risks, which are better suited to private ownership, where the business can grow without the constraints of Government ownership. These constraints include the lack of access to capital and lack of scale economies. The Government does not consider that it is either prudent or responsible to continue its ownership of the TOTE within such an environment.

The Government has retained independent expert financial and legal advisers to ensure that the State's interests are properly protected. A probity adviser has also been retained to ensure that the sale process is conducted fairly and openly.

Madam President

TOTE Tasmania currently has a successful business model and has demonstrated significant earnings growth over the last two years. Despite prevailing economic conditions, I am confident that a sale in the near future will attract significant buyer interest and yield an attractive sale price.

Both the Board and the management of the TOTE fully support its sale. The Board and the management have concluded that there are considerable constraints and commercial difficulties associated with continued government ownership of what is a successful and profitable commercial enterprise anxious to expand its business interstate and overseas.

The sale will only proceed if it is in the best interests of the State. The Bill requires the Treasurer to have regard to the achievement of a fair and reasonable price for TOTE Tasmania. The Bill also provides for the Auditor-General to review the sale of TOTE Tasmania and report to Parliament within four months on the outcome.

The community has an expectation that the sale of TOTE Tasmania will occur in a manner that:

- is administratively efficient and transparent;
- maximises financial and economic returns to the State; and
- ensures employees are treated fairly.

The *TOTE Tasmania (Sale) Bill* ensures these factors will be achieved.

Madam President.

Potential bidders for TOTE Tasmania must have certainty about the sale process and, importantly, must have the assurance that the time and resources they devote to the process will be on the basis that a sale can occur. Bidders also require the assurance that there can be timely and swift execution of the sale. The market place needs to know, particularly in the current political and economic environment, that the Parliament has authorised the sale.

This Sale Bill provides the Treasurer, on behalf of the Crown, authority to enter into negotiations for the sale of TOTE Tasmania against a framework of certainty and within defined boundaries.

The Bill provides flexibility to enable the sale of the whole, or any part of TOTE Tasmania and establishes the mechanism to transfer any remaining elements of the business back to the Crown. These provisions, which are consistent with the approach taken in other Government business sales – will enable the Government to maximise the outcome for the State.

The Bill specifies provisions that will guide the sale process, including transitional arrangements such as the treatment of existing business contracts and protection for employee entitlements.

Madam President

The Bill also defines the alternative sale structures available for conducting a sale with a proponent. Under either approach, the objective is that TOTE Tasmania is sold as a going concern.

The first approach is to sell the shares in TOTE Tasmania.

The second is to sell some or all of the assets and liabilities of TOTE Tasmania and transfer employees to the purchaser. The Bill provides for any remaining business assets and liabilities to then be transferred to the Crown.

The availability of two options is to provide bidders with the flexibility to consider their most preferred approach to the purchase of the business. This ensures that the best possible sale value is achieved.

Madam President

The Bill clearly provides for the minimum of disruption to employees arising

from the sale process. The Bill broadly provides for the maintenance of employment terms and conditions for transferring employees and the ongoing recognition of service. It also provides a clear framework within which any potential redundancies arising from the sale of the TOTE business will be managed.

The sale of TOTE Tasmania makes sense, both from the perspective of the business and the Tasmanian community. It opens the way for the involvement of the private sector in an area in which it can appropriately contribute and enables the Government to better address the State's emerging needs.

The TOTE Tasmania (Sale) Bill provides the enabling mechanism for this strategy to be implemented. It ensures that the sale will occur in a manner that ensures the greatest chance of financial and economic returns to the State being maximised, that employees are appropriately treated and that the sale process is administratively efficient.

Madam President

I commend the Bill to the Council.

## **TOTE Tasmania (Sale) Act 2009**

### **Notes on Clauses**

#### **PART 1            PRELIMINARY**

- Clause 1            Short Title.
- Clause 2            The *TOTE Tasmania (Sale) Act 2009* commences on the day it receives Royal Assent.
- Clause 3            This clause interprets key terms used in the Bill.
- Clause 4            This clause defines the business of TOTE Tasmania. It also allows the Treasurer to exclude a part of the business of TOTE, or a TOTE subsidiary from this Act or a provision of this Act. This provides the Treasurer with flexibility to sell part of the business.

#### **PART 2            AUTHORITY OF TREASURER TO SELL TOTE TASMANIA**

- Clause 5            This clause provides authority for the Treasurer to sell the shares in TOTE Tasmania and its subsidiaries, or the business of TOTE Tasmania and its subsidiaries. This clause also provides that the Treasurer must have regard to achieving a fair and reasonable price in exercising this power of sale.
- Clause 6            This clause provides the Treasurer with powers to facilitate the sale process.
- Clause 7            This clause provides that the Treasurer may direct TOTE Tasmania to take certain actions that would facilitate the sale. This is consistent with existing powers under the Constitutions for State-owned Companies and the *Government Business Enterprises (Sale) Act 2003* and removes doubt about this power of direction.
- TOTE or its Board must comply with the direction provided by the Treasurer.
- Clause 8            This clause allows the Treasurer to amend the Constitution of TOTE Tasmania and its subsidiaries. This provision allows for the constitution to be amended without tabling the amendments in Parliament as required under the *TOTE Tasmania Act*, which will allow for the sale to be expedited.
- Clause 9            This clause provides the Treasurer with the power to exempt from State tax a document prepared for the sale of TOTE Tasmania or the transfer of any unsold parts of the business to the Crown. This is consistent with the *Government Business Enterprises (Sale) Act 2003*.

### **PART 3            SALE OF SHARES IN TOTE TASMANIA OR TOTE SUBSIDIARY**

This Part contains similar provisions to those in the Government Business Enterprises (Sale) Act 2003 relating to long service leave and superannuation.

Clause 10            This clause specifies that Part 3 of the Bill relates to the sale of the shares in TOTE Tasmania and its subsidiaries.

Clause 11            This clause provides a formula for uplifting the long service leave entitlements of TOTE Tasmania employees covered by the *Long Service Leave (State Employees) Act 1994* when the sale of shares is completed. Its intent is to ensure that employees' current long service leave entitlements are not diminished as a result of sale.

The clause specifies that employees are not covered by the *Long Service Leave (State Employees) Act 1994* after the sale of shares is completed.

Clause 12            This clause provides that, if the Treasurer agrees to sell the shares in TOTE Tasmania or its subsidiaries, the Minister administering the *Retirement Benefits Act 1993* is to declare the sale agreement a prescribed arrangement for the purposes of the *Retirement Benefits Regulation 1994*. Declaration of the sale as a prescribed arrangement provides for a more favourable superannuation outcome for employees who are members of the RBF Contributory Scheme than would otherwise be the case. It allows them to receive a redundancy benefit if their membership ceases as a result of a prescribed arrangement.

### **PART 4            SALE OF BUSINESS OF TOTE TASMANIA OR TOTE SUBSIDIARY**

This Part contains similar provisions to those in the Government Business Enterprises (Sale) Act 2003 relating to the sale of a business.

Clause 13            This clause specifies that Part 4 of the Bill relates to the sale of the business of TOTE Tasmania and its subsidiaries.

Clause 14            Clause 14(1) defines transferring business.

Clause 14(2) provides that, when the business is sold, unless otherwise agreed, the purchaser assumes full legal responsibility in respect of the business sold, including any legal documents and proceedings.

Clause 14(3) provides that TOTE Tasmania is, after the sale day, discharged from any liabilities and obligations that are transferred to the purchaser on the sale day.

Clause 15      Clause 15(1) defines transferred employee.

Clause 15(2) provides that the Treasurer may transfer the employment of a person employed by TOTE Tasmania or a subsidiary to the purchaser. The Treasurer may also terminate the employment of a person employed by TOTE Tasmania, on conditions the Treasurer considers appropriate, provided that any termination is in accordance with any contract, award or agreement.

Clause 15(3) provides that before transferring or terminating the employment of a person, the Treasurer is to consult with the person in any manner the Treasurer considers appropriate including, but not limited to, consultation with representatives of the person or employee organisations to which the person belongs.

Clause 15(4) provides that any termination must be subject to and in accordance with any relevant contract, awards or agreement.

Clause 15(5) provides that each person whose employment is transferred or terminated is to be given written notice of the transfer or termination.

Clause 15(6) provides that if the employment of a person is transferred to the purchaser, that person becomes the employee of the purchaser and ceases to be an employee of TOTE Tasmania.

Clause 15(7) makes provision for any transferred employee to be employed by the purchaser for the same remuneration as was received immediately before the transfer. It also provides that except where an award, agreement or law otherwise provides, a transferred employee retains all existing and accrued rights and is entitled to claim those rights against the purchaser.

Clause 15(8) provides that an award or agreement applying to a transferred employee before transfer will continue to apply upon and after transfer except where another award, agreement or law provides otherwise.

Clause 15(9) provides that the period of service of an employee with TOTE Tasmania or its subsidiaries is taken to be service with the purchaser.

Clause 15(10) clarifies that the terms of employment of a transferred employee may be altered by an award, agreement or law after the employee becomes a transferred employee.

Clause 15(11) provides that where the employment of an employee of TOTE Tasmania is terminated, that employment is terminated immediately before the business of TOTE Tasmania is sold or on the day specified in the order. The employee is not entitled to any compensation or other payment in respect of termination except as provided by the Retirement Benefits Act 1993 or the Public Sector Superannuation Reform Act 1999, any other law, award, agreement or conditions determined by the Treasurer.

Clause 15(12) provides that the order transferring the employee under section 2 is not a statutory rule

Clause 16 This clause provides a formula for uplifting the long service leave entitlements of TOTE Tasmania employees covered by the *Long Service Leave (State Employees) Act 1994* if their employment is transferred to the purchaser. Its intent is to ensure that employees' current long service leave entitlements are not diminished as a result of sale.

The clause specifies that employees are not covered by the *Long Service Leave (State Employees) Act 1994* after the sale of shares is completed.

Clause 17 This clause provides that in the event the Treasurer makes an order under Section 15(2)(a) the agreement for sale is to be declared by the Minister administering the *Retirement Benefits Act 1993* a prescribed arrangement for the purposes of the *Retirement Benefits Regulation 1994*. Declaration of the sale as a prescribed arrangement provides for a more favourable superannuation outcome for employees who are members of the RBF Contributory Scheme than would otherwise be the case. It allows them to receive a redundancy benefit if their membership ceases as a result of a prescribed arrangement.

- Clause 18
- Clause 18(1) defines for the purposes of Division 3 the terms "transfer day" and "transferring business".
- Clause 18(2) provides that the Treasurer, if only part of the business of TOTE Tasmania or a subsidiary is sold, may transfer the whole or any part of the remaining business to the Crown and to specify conditions relating to that transfer. The transfer is to occur by order published in the gazette.
- Clause 18(3) provides that this transfer may occur before the sale is completed.
- Clause 18(4) provides that the business of TOTE or a TOTE subsidiary, other than a liability, vests in the Crown. It also provides for a liability specified in the transferring order to become the responsibility of the Crown.
- Clause 18(5) provides that on and after the transfer day the Crown assumes full legal responsibility in respect of the transferred business.
- Clause 18(6) provides that if any dispute arises in respect of a transferring employee, the Treasurer may resolve the matter and will provide TOTE Tasmania or its subsidiary with written advice.
- Clause 18(7) provides that the Treasurer's determination under clause 18(6) is final and binding.
- Clause 18(8) provides that an order under subsection (2) is not a statutory rule.
- Clause 19
- Clause 19(1) defines the transfer day as specified in the Treasurer's order in 18(2).
- Clause 19(2) provides that the Treasurer may terminate the employment of a person if the business of TOTE Tasmania or a subsidiary is transferred to the Crown under clause 18.
- Clause 19(3) provides that any termination must be in accordance with any relevant contract, award or agreement.
- Clause 19(4) provides that each person whose employment is terminated is to be given written notice of the termination.
- Clause 19(5) provides that terminated employees are not entitled to compensation or other payments except as provided by the *Retirement Benefits Act 1993* or the *Public Sector Superannuation reform Act 1999*, or any other law, an award, an agreement or any conditions determined by the Treasurer.

Clause 20 This clause provides for the de-registration of TOTE Tasmania and its subsidiaries if the respective businesses are sold. This is because these companies will still exist, without assets or liabilities, and will need to be wound up under the Corporations Act.

## **PART 5 MISCELLANEOUS**

Clause 21 Clause 21(1) defines a potential purchaser.

Clause 21(2) provides for relevant parties involved in the sale to disclose information, including confidential information to each other and to potential purchasers, their directors, employees, agents and advisors in order to facilitate the sale.

Clause 21(3) provides that a person who receives information under clause 21(2) must not disclose that information to parties other than those specified in this clause. It also provides for a penalty if the person discloses this information to unauthorised parties.

Clause 22 This clause provides that the obligations of TOTE Tasmania and its subsidiaries are not guaranteed by the Crown.

Clause 23 This clause provides for the proceeds of the sale to be paid into the Consolidated Fund.

Clause 24 This clause provides that the Auditor-General is to review a sale under clause 5 after the sale has completed and is to report to each House of Parliament within 120 days of the sale or the deregistration of TOTE Tasmania. This clause also provides that the Auditor-General must be given access to all information that the Auditor-General considers relevant to the report.

Clause 25 This clause provides protection for acts done or omitted under the Act if the act or omission is done in good faith. It protects contracts and agreements from being terminated and claims that confidentiality has been breached as a result of the sale.

Clause 26 This clause provides for matters to be excluded from the Corporations Act 2001. For example, this includes a sale under clause 5 and the amendment of TOTE's constitution under clause 8. This is a fairly standard provision for the sale of State owned Companies.

Clause 27 This clause provides for the Treasurer, by an order published in the Gazette, to exclude sale contracts from the *Trade Practices Act 1974* and the *Competition Policy Reform (Tasmania) Act 1996*.

- Clause 28 This clause provides that TOTE Tasmania or its subsidiaries or any person concerned in the management of TOTE Tasmania or a TOTE subsidiary be convicted separately of an offence unless they had no knowledge of the offence or they used all due diligence to prevent the act or omission.
- Clause 29 This clause empowers the Governor to make regulations for the purposes of this Act.
- Clause 30 This clause provides that the administration of the Act is assigned to the Treasurer.
- Clause 31 This clause provides for the Auditor-General to conduct an audit for the financial year prior to the sale. It also requires the Treasurer to table TOTE's annual report in parliament. It provides for a penalty if TOTE does not provide the necessary information to the Auditor General.
- Clause 32 and schedule 1 This clause provides for the repeal of the Portfolio legislation once all the shares in TOTE are sold, or TOTE has been deregistered and the Governor has made such a proclamation on the recommendation of the Treasurer.
- This clause also provides for section 23 of the TOTE Tasmania Act 2000 to be repealed on Royal Assent. Section 23 does not permit the company to sell its assets or main undertaking unless the sale or disposal is approved by both Houses of Parliament.

# CONFIDENTIAL

## Funding Deed

The Crown in Right of Tasmania Government  
Tasmanian Racing Board TRB

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**Funding Deed dated**

**Parties**                    **The Crown in the Right of Tasmania (Government)**  
                                       **Tasmanian Racing Board (TRB)**

**Background**

- A.        The TRB is responsible for the corporate governance, strategic direction and funding of the Tasmanian thoroughbred, harness and greyhound racing and breeding industries.
- B.        The Government has agreed to provide funding to the TRB for the promotion and development of the Tasmanian thoroughbred, harness and greyhound racing and breeding industries and for capital works to Tasmanian racing venues.
- C.        This deed represents the terms and conditions on which funding is granted.

**Operative provisions**

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**1.        Definitions and interpretation**

**1.1      Definitions**

In this deed:

**Adjustment Amount** has the meaning given in paragraph (a) of the definition of "Operational Amount";

**Business Day** means a day that is not a Saturday, Sunday or public holiday and on which banks are open for business generally in Hobart;

**Capital Amount** means SX;

**Capital Funding Condition** means each condition specified in clause 2.2;

**Capital Funding End Date** means 30 June 2010 or such later date as may be notified by the Government to the TRB;

**Commencement Date** means the latter of 1 July 2009 and the first Business Day after all Operational Funding Conditions are satisfied or waived;

**CPI figure** means the Consumer Price Index: Average All Capital Cities published by the Australian Statistician under the *Census and Statistics Act 1905* of the Commonwealth, or, if the index is no longer published, an alternative index reflecting the average cost of living in all capital cities of Australia as determined by the Government;

**CPI year 0** means the average of the CPI figure for the four (4) Quarters ending 30 June in respect of the Financial Year preceding CPI year 1;

**CPI year 1** means the average of the CPI figure for the four (4) Quarters ending 30 June in respect of the Financial Year immediately preceding the Financial Year in which the Operational Amount is to be paid;

**CPI indexation factor** means CPI year 1 divided by CPI year 0;

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**Financial Year** means the 12 calendar months commencing on 1 July in any year and ending on 30 June of the following year;

**Funding Term** means the Original Funding Term plus any extension pursuant to clause 3.2;

**Indexation Factor** means the CPI Indexation factor less 0.01;

**Insolvency Event** means in respect of the TRB, the occurrence of any of the following:

- (a) the TRB, or any person for or on its behalf, disposes of all, or substantially all, of its assets and/or undertakings;
- (b) the TRB ceases to carry on business;
- (c) an administrator is appointed or a resolution is passed or any steps are taken to appoint, or to pass a resolution to appoint, an administrator to the TRB;
- (d) a receiver, receiver and manager, official manager, trustee, administrator, other controller, as defined in the Corporations Act, or similar officer is appointed, or steps are taken for such appointment, over any of the assets or undertaking of the TRB;
- (e) the TRB proposes or takes steps to implement a scheme of arrangement or other compromise or arrangement with its creditors or any class of them;
- (f) the TRB is or becomes unable to pay its debts when they are due, or is otherwise insolvent;
- (g) the TRB suspends payment of its debts generally;
- (h) an application or order is made for the winding-up, dissolution or deregistration of the TRB or a resolution is passed or any steps are taken, including to pass a resolution in connection with, the winding-up or dissolution of the TRB;
- (i) the TRB is declared or taken under any applicable law to be insolvent;
- (j) a notice under section 601AB of the Corporations Act is given to, or an application under section 601AA is made by, or in respect of the TRB or, where the TRB is an incorporated association, any steps are taken in connection with the cancellation of its incorporation; or
- (k) a person appointed under a power of attorney or other instrument or arrangement with the TRB or the TRB's financiers becomes entitled to manage the business or affairs of the TRB or to perform obligations of the TRB;

**Minister** means the Minister for Racing in Tasmania;

**Operational Amount** means, subject to clause 5.3:

- (a) in respect of the first Financial Year or part thereof during the Funding Term, \$X million less the amount of any moneys received under any Previous Funding Arrangement in respect of that Financial Year (**Adjustment Amount**) whether such money is received before or after the commencement date;
- (b) for each subsequent Financial Year during the Funding Term, the amount paid by the Government in respect of the immediately preceding Financial Year in accordance with clause 5.1(a) multiplied by the Indexation Factor;

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**Operational Funding Condition** means each condition specified in clause 2.1;

**Operational Funding End Date** means 30 September 2009 or such later date as may be notified by the Government to the TRB;

**Original Funding Term** means the period as provided in clause 3.1;

**Previous Funding Arrangement** means any funding or other financial arrangement in relation to the TRB or any thoroughbred, harness and greyhound racing or breeding organisation or part of an organisation under any legislation or any arrangement with TOTE Tasmania Pty Ltd or the Government in existence before the Commencement Date;

**Sale** means the sale of the shares in and/or the assets of TOTE Tasmania Pty Ltd to a private interest.

## 1.2 Interpretation

In this deed:

- (a) headings are for convenience only and do not affect interpretation;
- and unless the context indicates a contrary intention:
- (b) an obligation or a liability assumed by, or a right conferred on, 2 or more persons binds or benefits them jointly and severally;
  - (c) "**person**" includes an individual, the estate of an individual, a corporation, an authority, an association or a joint venture (whether incorporated or unincorporated), a partnership and a trust;
  - (d) a reference to a party includes that party's executors, administrators, successors and permitted assigns, including persons taking by way of novation;
  - (e) a reference to a document (including this deed and the Treasurer's Instruction *GBE 07-44-01 Investments*) is to that document as varied, novated, ratified or replaced from time to time;
  - (f) a reference to a statute includes its delegated legislation and a reference to a statute or delegated legislation or a provision of either includes consolidations, amendments, re-enactments and replacements;
  - (g) a word importing the singular includes the plural (and vice versa), and a word indicating a gender includes every other gender;
  - (h) a reference to a party, clause, schedule, exhibit, attachment or annexure is a reference to a party, clause, schedule, exhibit, attachment or annexure to or of this deed, and a reference to this deed includes all schedules, exhibits, attachments and annexures to it;
  - (i) if a word or phrase is given a defined meaning, any other part of speech or grammatical form of that word or phrase has a corresponding meaning;
  - (j) "**includes**" in any form is not a word of limitation; and
  - (k) a reference to "**S**" or "**dollar**" is to Australian currency.

**CONFIDENTIAL****2. Conditions Precedent****2.1 Conditions relating to Operational Amount**

Clauses 3, 4.1, 4.3, 5.1(a), 7 and 8 do not become binding on the parties and have no force or effect unless and until each of the conditions listed below has either been satisfied or waived in accordance with clause 2.4:

- (a) the Minister's Order transferring assets and liabilities to the TRB from TOTE Tasmania Pty Ltd under the *Racing Regulation Amendment (Governance Reform) Act 2008* (Tas) is published in the *Tasmanian Government Gazette*; and
- (b) sections 42 and 46 of the *Gaming Control Amendment Bill 2009* or their equivalents are proclaimed.

**2.2 Conditions relating to Capital Amount**

Clauses 4.2 and 5.1(b) of this deed do not become binding on the parties and have no force or effect unless and until:

- (a) each Operational Funding Condition is satisfied or waived in accordance with clause 2.4; and
- (b) the Government receives the funds which are due and payable on the completion of the Sale.

**2.3 Notice in relation to satisfaction of Conditions**

Each party must within 1 Business Day after becoming aware of the satisfaction of any Operational Funding Condition or any Capital Funding Condition, notify the other party of the satisfaction of that condition and provide reasonable evidence that the condition has been satisfied.

**2.4 Waiver of Conditions**

The Government may in its absolute discretion waive an Operational Funding Condition and/or a Capital Funding Condition by giving notice to the TRB.

**2.5 Failure of Operational Funding Conditions**

If any Operational Funding Condition has become incapable of satisfaction and is not waived in accordance with clause 2.4 within 10 Business Days of the date the incapacity became evident, then the parties will negotiate in good faith an alternative funding agreement.

**2.6 Failure of Capital Funding Condition**

If:

- (a) at any time before the Capital Funding End Date the Capital Funding Condition has become incapable of satisfaction and is not waived in accordance with clause 2.4;
- (b) at any time after the Capital Funding End Date the Capital Funding Condition has not been satisfied or waived in accordance with clause 2.4; or
- (c) the Government gives notice to the TRB that it is no longer pursuing the Sale;

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clauses 4.2 and 5.1(b) shall be deemed severed from this deed and this deed shall be read as though clauses 4.2 and 5.1(b) did not exist.

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**3. Funding Term****3.1 Original Funding Term**

The terms and conditions specified in this Deed commence on the Commencement Date and cease on 30 June 2014.

**3.2 Extension of Original Funding Term**

Subject to clauses 3.3 and 9.1 this deed, with the exception of clauses 4.2 and 5.1(b), will automatically be extended for a period of one Financial Year at the beginning of each Financial Year, commencing from the second year after the Commencement Date.

**3.3 Funding term**

The terms and conditions in this funding agreement cease to have effect on 30 June 2029.

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**4. Funding****4.1 Operational Funding**

The Government will, in order to fund operational expenses, pay to the TRB the Operational Amount during the Funding Term.

**4.2 Capital Funding**

In addition to the amount payable under clause 4.1, the Government will, in order to fund capital expenditure, pay to the TRB the Capital Amount during the Funding Term in accordance with clause 5.1(b).

**4.3 No other funding**

The TRB acknowledges that in respect of the Funding Term, the amounts payable by the Government under this deed are the only amounts that the Government will contribute to the TRB and the Tasmanian thoroughbred, harness and greyhound racing and breeding industries and the TRB will not seek any additional funding or financial assistance from the Government.

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**5. Payment of Operational Amount and Capital Amount****5.1 Payment of Operational Amount and Capital Amount**

- (a) The Government will pay to the TRB the Operational Amount within 10 working days of the beginning of each financial year provided that where the Commencement Date is after 1 July 2009, the amount of the first instalment will be reduced by the Adjustment Amount; and
- (b) The Government will pay to the TRB the Capital Amount on the day that is 10 Business Days after the date on which the Government receives the funds due and payable to it on the completion of the Sale. The Capital Amount must only be used to fund capital expenditure.

**CONFIDENTIAL****5.2 Withholding Payment**

Notwithstanding clause 5.1 the Government may without liability withhold the whole or part of any payment due to the TRB under this deed whilst ever the TRB is not in full compliance with any Tasmanian legislation.

**5.3 Reduction/Set-Off of Double Payment Amounts**

If the TRB receives any amount of funding or financial assistance under a Previous Funding Arrangement which relates in whole or part to any period occurring during the Funding Term (or in the case of capital funding or assistance, which relates to projects or purposes to which the Capital Amount would otherwise relate) the amounts which would be otherwise payable by the Government to the TRB under this deed shall be reduced by the amount of such funding.

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**6. Self Generated Funding****6.1 Self Generated Funding**

Nothing in this deed shall be taken as preventing or restricting the TRB from generating through its own activities income from sources other than Government.

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**7. Distribution of and Agreements Relating to Distribution of Funds****7.1 Distribution**

The Operational Amount and Capital Amount must only be distributed or used by the TRB:

- (a) in the best interests of the Tasmanian thoroughbred, harness and greyhound racing and breeding industries;
- (b) in a manner which promotes the development of an efficient and effective racing and breeding industry that accords with industry best practice;
- (c) in accordance with the TRB's obligations under the *Racing Administration Act 2004* and any other Tasmanian legislation relating to the TRB;
- (d) for the purpose for which it was provided; and
- (e) in relation to the Capital Amount, in accordance with any requirements under clause 5.1(b).

**7.2 Reporting**

The TRB must report to the Minister the amount of the Capital Amount received and spent on capital expenditure projects undertaken in each Financial Year during the Funding Term in the applicable annual report of the TRB.

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**8. Investment of Funds**

To the extent that the TRB is not obliged to distribute or expend funds received which comprise Operational Amount and/or the Capital Amount immediately, the TRB may invest such funds, provided that it does so through the Tasmanian Public Finance Corporation (Tascorp) and in doing so must comply with Treasurer's Instruction *GBE 07-44-01 Investments*.

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**9. Termination****9.1 Termination by Government**

The Government may terminate this deed:

- (a) if the TRB breaches any provision of this deed and fails within 30 Business Days of receiving notice of the breach to remedy the same;
- (b) if the TRB fails to comply with its obligations under the *Racing Regulation Act 2004* (Tas);
- (c) the TRB ceases to exist or its functions are substantially changed;
- (d) the TRB ceases to be the controlling body for all three codes of racing (thoroughbred harness and greyhound); or
- (e) if an Insolvency Event occurs in relation to the TRB.

**9.2 Effect of Termination**

If this deed is terminated then:

- (a) the provisions of this deed shall cease to have effect except for the provisions of clauses 9 and 10.
- (b) each party retains the rights it has against the other in respect of any breach of this deed occurring before the termination.

**9.3 Adjustment on Termination**

The TRB must repay within 10 Business Days of termination that part of any amounts paid to it under this deed prior to the termination date which relate to any period occurring after the termination date.

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**10. General**
**10.1 Damages**

The Government will have no liability in respect of any claim or action for any indirect or consequential loss or damage arising from or in connection with any breach of this deed by the Government.

**10.2 Notices**

Each communication (including each notice, consent, approval, request and demand) under or in connection with this deed:

- (a) must be in writing;
- (b) must be addressed as follows (or as otherwise notified by that party to each other party from time to time):

**CONFIDENTIAL****Government**

Name: **Department of Infrastructure, Energy and Resources**  
 Address: 10 Murray Street, Hobart, TAS, 7000  
 Fax:  
 For the attention of: Secretary

**TRB**

Name: **[insert relevant contact]**  
 Address:  
 Fax:

- (c) must be signed by the party making it or (on that party's behalf) by the solicitor for, or any attorney, director, secretary or authorised agent of, that party;
- (d) must be delivered by hand or posted by prepaid post to the address, or sent by fax to the number, of the addressee, in accordance with clause 10.2(b); and
- (e) is taken to be received by the addressee:
  - (i) (in the case of prepaid post) on the third day after the date of posting;
  - (ii) (in the case of fax) at the time in the place to which it is sent equivalent to the time shown on the transmission confirmation report produced by the fax machine from which it was sent; and
  - (iii) (in the case of delivery by hand) on delivery,

but if the communication is taken to be received on a day that is not a working day or after 5.00 pm, it is taken to be received at 9.00 am on the next working day ("working day" meaning a day that is not a Saturday, Sunday or public holiday and on which banks are open for business generally, in the place to which the communication is posted, sent or delivered).

**10.3 Governing law**

This deed is governed by and must be construed according to the law applying in Tasmania.

**10.4 Jurisdiction**

Each party irrevocably:

- (a) submits to the non-exclusive jurisdiction of the courts of Tasmania, and the courts competent to determine appeals from those courts, with respect to any proceedings that may be brought at any time relating to this deed; and
- (b) waives any objection it may now or in the future have to the venue of any proceedings, and any claim it may now or in the future have that any proceedings have been brought in an inconvenient forum, if that venue falls within clause 10.4(a).

**CONFIDENTIAL****10.5 Taxes, Charges, Rates, etc**

The TRB:

- (a) must pay all relevant state and local taxes, duties, levies, rates, charges and the like and any related fines and penalties in respect of this deed, the performance of this deed and each transaction effected by or made under this deed; and
- (b) indemnifies the Government against any liability arising from failure to comply with clause 10.5(a).

**10.6 Variation**

This deed may be varied by a deed executed by or on behalf of each party.

**10.7 Waiver**

- (a) Failure to exercise or enforce, or a delay in exercising or enforcing, or the partial exercise or enforcement of, a right, power or remedy provided by law or under this deed by a party does not preclude, or operate as a waiver of, the exercise or enforcement, or further exercise or enforcement, of that or any other right, power or remedy provided by law or under this deed.
- (b) A waiver or consent given by a party under this deed is only effective and binding on that party if it is given or confirmed in writing by that party.
- (c) No waiver of a breach of a term of this deed operates as a waiver of another breach of that term or of a breach of any other term of this deed.

**10.8 Further acts and documents**

Each party must promptly do all further acts and execute and deliver all further documents (in form and content reasonably satisfactory to that party) required by law or reasonably requested by another party to give effect to this deed.

**10.9 Assignment**

A party cannot assign, novate or otherwise transfer any of its rights or obligations under this deed without the prior consent of the other party.

**10.10 Counterparts**

This deed may be executed in any number of counterparts and by the parties on separate counterparts. Each counterpart constitutes the deed of each party who has executed and delivered that counterpart.

**10.11 No representation or reliance**

- (a) Each party acknowledges that no party (nor any person acting on a party's behalf) has made any representation or other inducement to it to enter into this deed, except for representations or inducements expressly set out in this deed.
- (b) Each party acknowledges and confirms that it does not enter into this deed in reliance on any representation or other inducement by or on behalf of any other party, except for representations or inducements expressly set out in this deed.

**CONFIDENTIAL****10.12 Entire deed**

To the extent permitted by law, in relation to its subject matter, this deed:

- (a) embodies the entire understanding of the parties, and constitutes the entire terms agreed by the parties; and
- (b) supersedes any prior written or other deed of the parties.

**Executed as a Deed**

**Signed, Sealed and Delivered** by the Minister for Racing for and on behalf of **The Crown in the Right of Tasmania** in the presence of:

\_\_\_\_\_  
Signature of witness

\_\_\_\_\_  
Signature of Minister for Racing

\_\_\_\_\_  
Name of witness in full

\_\_\_\_\_  
Name of Minister for Racing

**Signed, Sealed and Delivered** for and on behalf of **The Tasmanian Racing Board** by its authorised signatory in the presence of:

\_\_\_\_\_  
Signature of Witness

\_\_\_\_\_  
Signature of Authorised Signatory

\_\_\_\_\_  
Name of Witness in full

\_\_\_\_\_  
Name of Authorised Signatory



## **Gaming Control Amendment Bill 2009 Fact Sheet**

- The Gaming Control Act Amendment Bill amends the *Gaming Control Act 1993*, to enable the regulation of TOTE Tasmania's gaming and wagering activities. The Bill also repeals the *Racing (Totalizator Betting) Act 1952* and the *TOTE Tasmania (Racing Regulation) Act 2004*.
- It also abolishes the current funding arrangements between the TOTE and the Tasmanian racing industry. The new Tasmanian Racing Board will be funded directly by the State Government through a separate Funding Deed.
- The amendments provide for the regulation and financial arrangements of the TOTE or its purchaser. Specifically, amendments to the Gaming Control Act:
  - establishes a new endorsement under a Tasmanian Gaming Licence (TGL) for totalisator betting with an annual fee of 350 000 fee units (\$448 000), waived for the TOTE or its purchaser;
  - establishes an agent endorsement to allow TGL holders to participate in an agent arrangement with an external (third party) gaming or wagering provider for which it receives a commission. An annual licence fee of 5 000 fee units (\$6 400), will apply to an agent endorsement, waived for the TOTE or its purchaser;
  - provides that the holder of a totalisator endorsement must pay a fixed wagering levy of 4.7 million fee units (\$6 million per annum);
  - deems TOTE to hold a Tasmanian gaming licence with totalisator, race wagering (fixed odds), sports betting, and an agent endorsements;
  - deems TOTE's existing agent arrangements to be allowable under the endorsement. New arrangements will be subject to disallowance by the Tasmanian Gaming Commission;
  - deems TOTE's equipment (software and hardware) to be compliant for 24 months and control systems (manuals) for 6 months;
  - deems TOTE's special employees to be licensed for 12 months;
  - enables a second exclusive totalisator licence, subject to the Treasurer's written approval, to be granted by the Tasmanian Gaming Commission if the TOTE is sold;
  - establishes a period of exclusivity of 15 years after the new operator's totalisator endorsement commences;
  - sets the term of the Tasmanian gaming licence for the new

- operator to be 50 years then renewable for 49 years while the operator holds a totalisator endorsement;
- deems the new operator's equipment (software and hardware) to be compliant for 12 months and control systems (manuals) for 6 months;
  - deems the new operator's special employees to be licensed for 12 months;
  - provides that the TOTE or new operator can establish wagering rules under the licence that are allowed unless disallowed by the Tasmanian Gaming Commission;
  - provides that commission can be deducted, dividends are rounded and the fractions retained by the TOTE or the new operator;
  - authorises commission rates (take out rates) set out in operators rules are subject to maximum rates as determined by the Tasmanian Gaming Commission.
  - waives the race wagering, sports betting and agent endorsement fees for the TOTE or its purchaser while a totalisator endorsement is held;
  - limits the maximum fee payable for multiple endorsements held by any other operators (ie without a totalisator endorsement) at 450 000 fee units per annum (\$576 000);
  - abolishes the current tax on sports betting from of 0.25 per cent of turnover and race wagering (fixed odds wagering) of 1.0 per cent of turnover;
  - limits the fees for the holder of both sports betting and race wagering endorsements to 200 000 fee units (\$256 000);
  - provides that a totalisator, or any other Tasmanian gaming licence holder, may operate as an agent for a third party gaming or wagering operator external to Tasmania, for which the Tasmanian based operator receives a commission;
  - provides that unclaimed monetary prizes or dividends be paid to the Treasurer after six months;
  - provides that a totalisator operator may use retail outlets as an agent to accept wagers on its behalf;
  - provides that the actions of an outlet agent are taken to be the actions of a licence holder;
  - introduces penalties for serious offences by the outlet agents, such as allowing a minor to gamble, the outlet agent will also be held

responsible;

- contains transitional and savings provisions in respect of the operations of the TOTE and the TOTE's agents, employees and technicians as they come under the control of the Act;
- allows employees to wager on their employer's wagering activity only when off duty; and
- provides for an adjustment of the product levy payable to Tasmania by Betfair where it is also required to pay race-fields publishing fees, product fees, or levies to racing authorities for the same event.

## **Gaming Control Amendment Bill 2009 Second Reading Speech**

Madam President

The *Gaming Control Amendment Bill 2009* can be considered in three distinct parts. Firstly, it provides for the regulation of TOTE Tasmania's gaming and wagering activities under the Gaming Control Act and the repeal of legislation currently governing the operation of the TOTE, namely the *Racing (Totalizator Betting) Act 1952* and the *TOTE Tasmania (Racing Regulation) Act 2004*. This is achieved by creating a new Tasmanian Gaming Licence totalisator endorsement, for the conduct of pari-mutuel wagering. This is the same process that was used to provide for betting exchanges.

Secondly, it provides for a new totalisator operator, if the TOTE is sold, to be licensed and regulated under the Gaming Control Act. There are also changes to the endorsement fees and tax rates for sports-betting and fixed odds wagering that will facilitate the attraction to Tasmania of corporate bookmakers. The Government is confident that this will help to make the sale of TOTE more attractive.

Thirdly, the Bill addresses several unrelated matters that have been raised by Betfair. These matters have arisen out of administering the regulatory and tax arrangements specific to its betting exchange activities.

Madam President

Since the original TOTE operations were established, the world has changed substantially and the gaming and wagering industry in particular is now more complex and commercially oriented than ever before. At present, a self-regulatory framework is in place for totalisator operations. This essentially means two things. First, the business itself is responsible for regulatory oversight of its wagering activities. Second, in responding to new market opportunities, the TOTE is often reliant on the Government or Parliament either to approve changes to the rules under which it operates, or for legislative change to introduce new products or services. Given that the commercial world requires quick assessment and fast response times, the current arrangements

can be a cumbersome and time consuming process. This can inhibit product development. It is also the case that Government, through the relevant Minister, and Parliament, should not be involved in normal commercial decisions of TOTE. In fact, in the absence of any need for policy change, this is not an appropriate role for either. In those cases where there is a relatively low level of change required, and changes in wagering rules is a good case in point, the Gaming Commission is more technically equipped to make such decisions.

Furthermore, as the Government intends to sell TOTE Tasmania to a private sector operator, this cannot be done while the current regulatory arrangements are in place. This would open the Government to unnecessary risk in terms of accountability. It would also look to be treating other gaming providers in the State differently to have a situation in which the self-regulation model was permitted to transfer from a Government-owned entity to a new owner.

Therefore, sale or no sale, the current arrangements for regulatory oversight are no longer appropriate.

Madam President

The Bill before the House will bring TOTE under the same regulatory framework as other gambling providers in Tasmania, such as Betfair and lottery providers.

This will introduce a number of new requirements on the TOTE in relation to probity and the management of problem gamblers and consumer protection. On balance, these requirements will be no more or less burdensome for the TOTE as they are for other licensed Tasmanian-based gaming providers.

There are key regulatory considerations that have been applied to the wagering business model and these are contained in the Bill. For example, under the Gaming Control Act the TOTE will:

- have certain key employees and technicians licensed;
- establish the ability for its customers to self-exclude, or for third party exclusion;
- enable its registered customers to be able to pre-commit loss limits;

- have all its wagering equipment and systems independently tested; and
- have independent oversight of its wagering rules, its agent agreements, and the operation of its retail outlets.

Madam President

The Gaming Control Act currently provides for a Tasmanian gaming licensee to hold endorsements separately for the activities of: sports betting; fixed odds wagering; major lotteries; simulated gaming; and betting exchanges.

The amendments in this Bill provide for a new totalisator endorsement and the necessary financial and regulatory provisions needed to govern this activity. However, while other endorsements are non-exclusive, the totalisator endorsement will be provided on an exclusive basis, this being consistent with the exclusivity of licensing totalisator operations in other jurisdictions.

Bringing the TOTE activities directly under the regulatory control of the Gaming Control Act does not require significant change to the way in which TOTE activities are governed at present. However, it does need to remove some key inconsistencies between current TOTE practices, and the way other gaming providers are regulated. Bearing this in mind, the Bill provides for some transitional arrangements so that the main changes required of the TOTE, for example the validation of its systems, or the licensing of its employees where required, won't have to be in place immediately the new licence takes effect.

Madam President

Along with its totalisator activities, the TOTE currently offers fixed odds (race wagering) and sports betting products. The Bill provides for TOTE to initially be deemed to hold a Tasmanian Gaming Licence to enable it to operate its full current range of wagering activities. This deemed licence will be for an indefinite period while held by the TOTE.

TOTE also offers racing products on behalf of third parties that are licensed in other jurisdictions. TOTE offers these third party products under agency agreements, which are very similar in nature to a franchise. For example, the TOTE currently participates

in agreements with the operators of South African and Swedish international totalisator pools.

In order to deal with these agency arrangements the Bill provides for the establishment of what will be referred to as an agent endorsement. This will allow for the continued participation of TOTE in its current third party-agent arrangements.

Given that the TOTE does not conduct these activities itself, rather it is an agent under an agreement with the primary licensed operator, the annual licence fee for an agent endorsement will be set lower than other endorsements. The fee will be 5 000 fee units per annum (which is currently equivalent to \$6 400), to reflect the lesser regulatory oversight required for this type of activity.

These arrangements have also been accommodated because they are relatively common in the wagering industry and in recognition of this these endorsements will be made available to other licensed operators.

Madam President

The Bill provides for the current use of retail outlets, most of which are not actually owned by TOTE, to continue to be operated in the same way. This includes stand-alone totalisator retail outlets (that is the TOTE branded shops); retail outlets in licensed premises (such as in hotels); and retail outlets at various race courses.

Rather than licence each outlet and its employees, the actions of the outlet owner will be taken to be the actions of the primary licence holder.

However, certain disciplinary provisions will apply directly to these owner/agents for breaches of conduct, such as allowing minors to gamble, for providing credit betting; for not enforcing wagering rules as may required by the Gaming Commission; and for not complying with player exclusion requirements.

Madam President

Transitional arrangements will apply for the certification and testing of systems and equipment. This will be achieved by deeming the TOTE's existing systems and equipment to be fully compliant for an initial two-year period. This will allow time for the progressive

independent validation of the TOTE's IT infrastructure and any non-compliance issues to be addressed during that period.

Key TOTE employees requiring a special employee licence will be given a 12 month period to apply for a licence, during which time they will effectively be deemed to be licensed. Similar transitional arrangements will be given to the purchaser of TOTE, with 12 months for the testing of equipment and 12 months for the licensing of special employees.

Consistent with current practice, unclaimed winnings are held for 6 months by the TOTE. However after this period, the unclaimed winnings will be paid to the Treasurer as unclaimed monies, rather than kept by the TOTE, as currently occurs.

This requirement for the payment of unclaimed winnings to the Treasurer will also apply to all Tasmanian gaming licence holders.

Also, consistent with current business practices of TOTE, the amendments provide for the deduction of commissions from bets and for the rounding of dividends.

The roundings from dividends, which amounted to \$4.4 million in 2007-08 for the TOTE, are to be retained by the totalisator operator.

Madam President

Country race meetings remain an important part of the racing industry in all jurisdictions, but particularly in Tasmania and we need to continue to have totalisator services at those meetings. While not profitable services for the TOTE to provide, the amendments in this Bill will require that where a Tasmanian racing club needs a totalisator to operate at a programmed race meeting, or betting only meeting, the TOTE (or its successor) will be required to conduct the totalisator on behalf of that club.

This ensures that the current arrangement continues whereby the TOTE conducts the totalisator on behalf of the club. However, the Government must strike a balance between the expectations of the community and the commercial viability of the TOTE, or its successor. There cannot be an expectation by clubs that they will be able to request totalisator arrangements for any number of meetings they may wish to conduct. Therefore a limit of 40

meetings has been set that must be conducted by the TOTE or the new operator.

This is 10 more Tasmanian race meetings than the total number currently conducted by the TOTE.

Madam President

I have detailed the key changes required to bring the TOTE under the regulatory oversight of the Tasmanian Gaming Commission. However, there are some issues that the Government has considered, which are of direct relevance to the sale of TOTE. I will now deal with those matters.

Once the TOTE is sold there will need to be a new licence to the new operator. The amendments in this Bill provide in the first instance for the TOTE to be deemed to hold an exclusive endorsement to cover totalisator operations in Tasmania; and this will not be transferable to the new operator. Therefore the new operator will need to be licensed in its own right by the Gaming Commission.

Potential purchasers of the TOTE will, therefore, need to apply for a Tasmanian Gaming Licence so that they can be tested against Tasmania's strict probity tests. The licence endorsed for totalisator betting can only be granted by the Tasmanian Gaming Commission with the approval of the Treasurer. Therefore, this will ensure that only the successful bidder is granted the licence endorsed for totalisator betting and this licence will be granted for an exclusive period of 15 years after the TOTE is sold.

In addition to being exclusive for 15 years, the new operator's licence will be for a term of 50 years, renewable for a further 49 years while the operator holds a totalisator endorsement and continues to meet the probity standards required of all Tasmanian-based gaming operators. In return, the Government will be requiring that the new owner establishes a corporate presence here in Tasmania for the period during which it holds the exclusive licence endorsement.

The licence term I have outlined is consistent with licences granted to totalisators in other jurisdictions.

Madam President

The tax arrangements for the new operator have been difficult to establish. On the one hand the Government wants to be able to demonstrate to the community that this wagering opportunity is valuable and can support the commitment to directly fund the Tasmanian racing industry. However, we also need to recognise that a tax-free environment will potentially generate the greatest sale value in the TOTE business. The balance must also take into account that the tax environment here in Tasmania for totalisator activities will need to remain broadly aligned with totalisator tax regimes in other jurisdictions.

Therefore, the Government has decided that a fixed annual levy, rather than a tax on turnover, will provide the right balance. The holder of the totalisator endorsement will be required to pay a fixed annual wagering levy of 4.7 million fee units (currently about \$6 million per annum). No tax in respect of the turnover of its totalisator activities will be required.

By using a fixed levy, this will allow growth activities now and into the future to be effectively tax free. This means that the incentives will be right for the operator to grow the TOTE business.

Madam President

In addition to conducting a totalisator, potential new purchasers of the TOTE will most likely also wish to conduct the same or similar sports betting, fixed odds and other related third party race products as the TOTE currently does.

Sports betting, race wagering and agent endorsements will therefore be available to the purchaser of TOTE, but in recognition of the fixed annual levy the fees associated with these additional endorsements will be waived while these endorsements are held in conjunction with the totalisator licence.

Madam President

In preparation for the sale of TOTE I have been made aware of the possibly synergies in having corporate bookmakers establish in Tasmania alongside our totalisator operator. Corporate bookmakers are potential major customers for the TOTE through the use of TOTE to lay-off substantial bets on their books.

With corporate bookmakers basing their operations here in the State, this would enable further opportunities for joint business

arrangements between the TOTE (or its successor) and corporate bookmakers.

However, since the introduction of fixed odds and sports betting licences under the Gaming Control Act there have been no applications for such licences because of Tasmania's uncompetitive taxation regime.

Currently, the most competitive taxation regime in the nation for these activities is in the Northern Territory, where the majority of fixed odds and sports betting operators are located.

Therefore, to make Tasmania the most competitive jurisdiction for corporate bookmakers, the proposed amendments abolish the current tax rates on race wagering of 1 per cent of turnover; and sports betting of 0.25 per cent of turnover.

In addition, the endorsement fees where both a sports betting and race wagering endorsement is held will be 200 000 fee units (\$256 000) in total for both endorsements. In return, the Government will be requiring that corporate bookmakers that are licensed in Tasmania will need to establish their risk management teams in Tasmania so that the State gets the employment benefits associated with the concessions made on fees and taxes.

Madam President

Members will be aware that new governance arrangements for the Tasmanian racing industry, which came into effect in January 2009, transfer the TOTE's racing development functions to the new Tasmanian Racing Board – the TRB

By separating the TOTE from the governance of the racing industry, the proposed amendments in this Bill sever the long-standing funding nexus between the TOTE and the Tasmanian racing industry.

The current requirements for the TOTE to directly fund the Tasmanian Racing Board under the *TOTE Tasmania (Racing Regulation) Act 2004* will, therefore, be abolished. The amendments also abolish the need for tax and product levy fee

revenue from Betfair to be appropriated to the TOTE under the Gaming Control Act and then passed-on to the racing industry.

The racing industry will now enjoy funding certainty through the Deed with Government and have growth revenue opportunities to it through sponsorship arrangements and the revenue it raises directly through product fees or race-fields levies.

Madam President

As I have said, a separate funding Deed will be finalised shortly between the Government and the TRB to directly fund the Tasmanian racing industry and I am pleased to inform Honourable Members that the that it has in-principle support from the TRB. I have tabled a draft of the Deed.

Under the Deed, which will have an initial term of 20 years, the TRB will receive at least \$27 million in annual recurrent funding, and this will be indexed, together with a one-off capital payment of \$40 million. The capital funding will become payable after the sale of TOTE has been completed.

There will also be a requirement in the Deed that the TRB must not reduce stakes money.

The new funding arrangements under the Deed will commence on repeal of the current funding arrangements under section 152 the Gaming Control Act and Division 3 of Part 2 of the *TOTE Tasmania (Racing Regulation) Act 2004*.

Madam President

The other matters the Bill addresses are as follows.

Since the licensing of Betfair, race-fields publishing fees have been introduced in some jurisdictions, including Tasmania, as a means for the industry to directly receive payment from wagering operators for the use of racing products.

There is currently no nationally consistent race-fields publishing regime. Therefore, it is not possible to adjust the rate of product levy payable to the State Government by Betfair to accommodate the payment of any race-fields publishing fee paid to racing authorities in other jurisdictions. At present, our arrangements are in effect double taxing Betfair. This issue came to light on the

introduction of the race-fields legislation in NSW. Betfair have raised this with me and I have agreed to address it.

The proposed amendments will adjust the tax base applying to Betfair to take into account the actual payment of publishing fees, product fees or levies in each jurisdiction, including where they may be required under Tasmania race-fields legislation. A head of power in the Gaming Control Act will enable the product levy tax base to be defined in a regulation. This will give flexibility to deal with unforeseen but legitimate needs for change as the racing environment and the use of direct product fees evolves further.

It is also recognised that for existing Tasmanian gaming licence holders (such as Betfair) or potential licence holders that may in the future require multiple endorsements, the total endorsement fees can be substantial (up to \$1.5 million per annum for four or more endorsements). This can be a disincentive for establishing operations in Tasmania, or to expand existing activities.

The endorsement fees are largely in place to cover the substantial costs of regulating these activities, such as: requests to approve product changes; have approved and introduce new products; and validation of operator systems and financial controls. However, if the trend in future is for fewer licensed operators to increase the breadth of their gaming activities through holding multiple endorsements, there will be some economies of scale in regulating the same firm for multiple activities, compared with regulating different firms for individual endorsement activities.

In recognition of this it is, therefore, proposed to cap the total amount of endorsement fees to 450 000 fee units (\$576 000 per annum) for any one licence holder with multiple endorsements.

Madam President

Bringing the TOTE under the Gaming Control Act will expand the scope of the Tasmanian Gaming Commission to include the regulation of totalisator betting.

This will increase the regulatory work-load of the Tasmanian Gaming Commission. The increased regulatory costs of the Commission will be recovered from the wagering levy and licence fees from wagering operators.

Madam President

In conclusion, the TOTE operating environment has changed significantly from when its activities were first established and licensed. This, together with the Government's intention to sell the TOTE, makes it important that the TOTE, or a new operator, is appropriately regulated. The community needs the confidence that all of our wagering and gaming activities under licence here in Tasmania are conducted to the high standards of regulation and probity for which this state has gained significant recognition. The Government, on behalf of the community, will want the peace of mind that the regulation of the totalisator operator falls under the independent scrutiny of the Gaming Commission. The Government also wants the confidence that the risks associated with its activities in an increasingly complex and rapidly expanding commercial environment fall to the owners of the business. They are, after all, best placed to manage those risks.

The racing industry also wants certainty. It wants certainty in its funding streams so that it can confidently plan future development of the Tasmanian racing product. This will avoid it having to rely on the revenue risks associated with a direct reliance on the performance of TOTE and various tax revenue streams.

Madam President

The Gaming Control Amendment Bill will achieve these outcomes.

Let me finish by advising Honourable members that consultation has been undertaken with the TOTE in the development of the new regulatory framework and the TOTE supports the transition to regulation under the Gaming Control Act provided by this Bill.

Madam President

I commend the Bill to the House.

## Gaming Control Amendment Bill 2009 Notes On Clauses

- Clause 1      Short title.
- Clause 2      The Act will commence on a day to be proclaimed to allow time for the Tasmanian Gaming Commission to put in place systems and process to be able to regulate the TOTE.
- Clause 3      Provides that the *Gaming Control Act 1993* is the principal Act.
- Clause 4      Provides for a range of new definitions required in the Act which among other things, provide for the TOTE (or its purchaser) to be able to conduct its current wagering business.
- Clause 5      An associate includes someone who has a financial interest in the licensed gaming or wagering operator under the Act.
- This amendment to section 4 is required to ensure that a customer is not taken to be an associate, and therefore subject to investigation, by reason only that the totalizator has provided the customer with a rebate or discount on the normal commission taken out by the totalizator operator.
- Clause 6      Amends section 76B to remove the current exemption of TOTE Tasmania from requiring a Tasmanian gaming licence.
- The TOTE will now require a Tasmanian gaming licence under the Act.
- Clause 7      Clarifies that the endorsement on the licence must show where the wagering activity occurs (i.e. the equipment and infrastructure that facilitates the wagering activity) and that such activity can only be located at an approved location.
- This is achieved by reference to an approved location.
- Clause 8      A grammatical improvement only to an existing provision.
- Clause 9      Clarifies that a sports betting endorsement is required for the conduct of sports betting (as opposed to being just an agent).
- Omits the reference to "Tasmania" as the current drafting is unclear and potentially prevents a sports betting operator from offering sports bets on events held outside Tasmania (such as the Australian Tennis open) to persons physically present at the operator's Tasmanian premises (approved location).

- Clause 10 Replaces the term “fixed odds” wagering endorsement with “race wagering” endorsement. This enables a broader definition than fixed odds to be covered under this endorsement.
- However the definition of race wagering in section 3 excludes brokered wagering (betting exchange) or totalizator wagering which are covered under other endorsements.
- Ensures that a race wagering endorsement is required for the conduct of race wagering (as opposed to being just an agent).
- Clause 11 Fixes an omission in section 76V to a reference to paragraph (e).
- Clause 12 Creates new section 76VB to establish a new totalizator endorsement for the conduct of totalizator betting, and the accepting of wagers from approved outlets.
- Creates a new section 76VC to establish an agent endorsement. This allows Tasmanian gaming licence holders to enter into agent arrangements with third party gaming and wagering providers based outside of Tasmania.
- For example, providing an internet portal from the Tasmanian gaming licence holder’s web site to the business partner’s website. An agent endorsement can be disallowed by the Gaming Commission if the business partner is considered to be an unsuitable person to be associated with.
- An agent endorsement is not required for arrangements with third party gaming or wagering operators based in Tasmania because the third party operator will already be licensed under the Gaming Control Act.
- Clause 13 Amends section 76W to clarify that a prescribed endorsement cannot be used to conduct an activity that would require a totalizator endorsement.
- Clause 14 This amendment clarifies that a licence can be for a longer term than 5 years under section 76Z, if it is provided for elsewhere in the Act (i.e. under s76ZEE). – this is the second totalizator endorsement only, which will be issued to the purchaser of the TOTE.
- Clause 15 This provides that in the case of the TOTE, it is authorised to transfer its licence to a wholly owned subsidiary of the TOTE. This may be a necessary step before the TOTE is sold, i.e. its subsidiary is sold.

Clause 16 This is required because the current legislation does not provide a process for varying an existing licence, only the conditions of a licence.

The Gaming Commission currently has to cancel and reissue a licence if a variation such as a change of address is needed.

Clause 17 This provides that when the Tasmanian gaming licence with the second totalizator endorsement (the licence issued to the purchaser of the TOTE) ends under section 76ZEE, the Gaming Commission cannot refuse to renew the licence unless there has been no breaches and the holder of the licence or its associates are suitable.

This is to give greater certainty for potential purchasers of the TOTE as the normal renewal process set out in section 76ZC does not state the reasons a licence would not be renewed.

Clauses 18,19,20 Repeals definitions and sections that relate to registered player exclusions for betting exchange operators and will now be incorporated into a broader "TGL exclusion" process in Div 7, subdivision 2 of this part, (i.e. the exclusions provisions will include all Tasmanian gaming licence holders such as a totalizator).

Customers that wish to self exclude from a venue (including a totalizator customer) can still do so under the existing exclusions provisions under Part 5 Div 3.

Clause 21 Inserts a new Part 4A, Division 5A relating to totalizator operations. The Division applies to a Tasmanian gaming licence with a totalizator endorsement.

Provides that on “changeover day” (the day the amendment Act commences) that the TOTE is deemed to hold a Tasmanian gaming licence (“the transitional licence”) with the initial and only totalizator endorsement. The TOTE is also deemed to hold an agent endorsement, a race wagering endorsement and a sports betting endorsement [s76ZED(1)].

Provides that the TOTE can transfer its licence to a wholly owned subsidiary of the TOTE with the approval of the Minister. (This may be required as part of the sale process). [s76ZED(2)]

Clarifies that the holder of the initial and second totalizator endorsement is not required to be a registered as a bookmaker and pay taxes under the *Racing Regulation Act 2004*.

Provides that upon a “terminating event” (the TOTE or its subsidiary is sold either by shares or as a business), a second totalizator endorsement can be granted by the Gaming Commission with the written approval of the Treasurer [s76ZEE(1)].

The second totalizator endorsement is for a 15 year exclusivity period. ( i.e. only one totalizator endorsement is granted for a period up until 15 years after the terminating event).

Clause 21 The exclusive totalizator endorsement is authorised under the Act for the purposes of the *Trade Practices Act 1974* and the *Competition Policy Reform (Tasmania) Act 1996*.  
(cont)

The Tasmanian gaming licence with a totalizator endorsement is granted for 50 years renewable for a further 49 years [s76ZEE (2)].

Provides for special conditions to apply to a totalizator endorsement similar to conditions that apply to a betting exchange endorsement that relate to the management of wagering funds, establishment of wagering rules and which rules can be disallowed by the Commission.

Provides that a totalizator operator must conduct programmed race meetings for race clubs (as currently occurs by TOTE as a service to clubs to enhance their special race meetings). A limit of 40 meetings is set, about 10 more than currently required. [s76ZEF(L)].

Provides for the holder of a totalizator endorsement to be entitled to commission (the take out rate from each totalizator pool) in respect of totalizator betting, up to a maximum rate as the Commission authorises. [s76ZEG]

Provides for the calculating and paying of dividends, and for the rounding of dividends as is current practice in all jurisdictions. [s76ZEH]

For example, under section 76ZEH(2), a dividend of \$1.32 has a fraction of 2 cents so the fraction becomes zero i.e. dividend rounded to \$1.30. A dividend of \$1.35 has a fraction of 5 cents so the fraction becomes 5 cents, i.e. dividend rounded to \$1.35. A dividend of \$1.38 has a fraction of 8 cents so the fraction becomes 5 cents i.e. dividend rounded to \$1.35.

In 2007-08, the amount of fractions retained by the TOTE under this method was \$4.4 million.

Provides that certain key employees and technicians of the TOTE or the purchaser of the TOTE are deemed to hold special employees or technicians licences for an initial 12 month period. [s76ZEI and s76ZEJ]

Provides for the TOTE's existing wagering equipment and systems to be compliant for an initial two year period and its control systems (operating manuals) for six months, or longer as prescribed. [s76ZEK and s76ZEL].

For the purchaser of the TOTE, the deeming period is 12 months for equipment and six months for control systems. A shorter period applies as the expectation is that the new operator will have existing systems that is likely to have already been assessed by another regulator.

- Clause 22 Inserts new heading Part 4A, Division 7, Sub-division 1 “General Protection”.
- Clause 23 Registered players of a Tasmanian gaming licence holder can establish self limits on the amount wagered. This is already in place for registered players of Betfair. [s76ZK]
- This provision gives the TOTE or its purchaser a transitional period of 12 months to establish the necessary software and systems changes before this requirement takes effect.
- Clause 24 Replaces the current exclusions provisions for Tasmanian gaming licence holders in the Act that currently apply only to registered players of betting exchanges [s76ZDH to s76ZDK] with the general provisions that will apply to registered players of any holder of a Tasmanian gaming licence, including a totalizator. [sub div 2 s76ZNA to s76ZNG]
- This provision gives the TOTE or its purchaser a transitional period of 6 months to establish the necessary software and systems changes before this requirement takes effect [s76ZNG].
- Customers that wish to self exclude from a retail outlet can do so under existing provisions under Part 5 Div 3.
- Clause 25 As an account can still be active even if no wager has been made for 2 years e.g. monies deposited or withdrawn. “If no wager has been recorded” is replaced with “if no activity is recorded”.
- Clause 26 Amends section 76ZR to define “prize” as including winnings so as to include, for example, wagering winnings from a totalizator.
- Clause 27 Inserts new section 76ZRA which requires unclaimed monetary prizes or dividends in respect of a Tasmanian gaming licence holder to be paid monthly to the Treasurer after a period of 6 months.

Clause 28 Inserts new sections 76ZZ, 76ZZAAA and 76ZZAAB to allow a Tasmanian gaming licence holder with a totalizator endorsement to establish approved outlets (i.e. TOTE's retail agencies such as in a hotel or a standalone shop) to accept wagers on behalf of the licence holder.

Rather than licence the outlets, the actions of an agent are taken to be the actions of a licence holder unless the licence holder has acted in good faith.

Disciplinary action under the Act that would apply to licence holder may also be brought against the agent for such matters "prescribed offences" i.e. providing credit, not enforcing rules, not complying with player exclusions provisions or accepting bets from a minor.

Approved outlets are allowed unless disallowed by the Commission (for example if the outlet or the agent is considered to be unsuitable). It will be a requirement to give 10 days notice to the Commission of an intention to open or close an outlet. A totalizator operator will have to give 3 days notice if there is a change in occupation of the premises.

Clause 29 Extends the ability to operate a trading account with debit and credit balances to a totalizator operator. [s76ZZAA]

Trading accounts are generally used by large customers that need to make large wagers at short notice to lay off bets for example.

The licence holder accepts any financial risk of enabling a large customer to operate a trading account.

Approval from the Gaming Commission is required to operate a trading account.

Clause 30 This provision clarifies that a licensed provider (which includes a totalizator) can give its registered players discounts.

Registered players are players that operate a wagering account with the operator.

Volume discounts are given to large customers of the TOTE on the take out rate (commission on turnover).

- Clause 31 Amends section 76ZZC to clarify a prohibition on special employee wagering only in the course of that employment applies only while the employee is on duty. Thereby allowing the employee to wager with its employer when off-duty.
- TOTE employees can already bet with TOTE whilst off duty and there are no grounds to restrict this under the Gaming Control Act.
- This is also consistent with employees of a licensed premises gaming licence holder (i.e. a hotel with gaming machines or Keno) where there is no restriction on gaming staff gaming while off duty. [s56(3)]
- Clauses 32 & 33 This provision requires that gaming equipment and control systems used by Tasmanian gaming licence holders must comply with gaming machine standards as set by the Gaming Commission. [s76ZZG and s76ZZI]
- Clause 34 Clarifies that the holder of a foreign games permit cannot conduct the activities authorised by a Tasmanian gaming licence.
- That is, a foreign games permit does not allow the permit holder to conduct a totalizator for which a Tasmanian gaming licence would be required with a totalizator endorsement. [s77J]
- Clause 35 Amends section 77V to expand the existing provision for the approval of certain contracts by the Commission to include licensed providers (any Tasmanian gaming licence holder's contracts including totalizator contracts).
- Approval is required to ensure fairness, probity and to ensure that any of the contract requirements would not be in breach of Act.
- This would cover contracts between the TOTE and its retail agents.
- Clause 36 Amends section 91 to expand the coverage of the Commission's power to establish rules to include any licensed gaming or wagering operator (including a totalizator).
- Clause 37 Amends section 92 to expand requirements relating to availability of rules to include licensed providers (any Tasmanian gaming licence holder including a totalizator).

- Clause 38 Expands the existing provision enabling the removal of persons from a venue by a venue operator to include retail outlets of a totalizator operator or an approved location of a Tasmanian gaming licence holder. [s99]
- This will cover approved outlets such as a TOTE retail outlet.
- Clause 39 Expands the existing provision enabling the detention of suspected persons in a venue by an inspector to apply to retail outlets of a totalizator operator or an approved location of a Tasmanian gaming licence holder. [s100]
- This will cover approved outlets such as a TOTE retail outlet.
- Clause 40 Expands the coverage of existing restrictions relating to minors under section 113 to include retail outlets of a totalizator operator or an approved location of a Tasmanian gaming licence holder.
- Clause 41 Amends section 125 to expand the functions and powers of the Commission to include the regulation of wagering activities.
- Clause 42 Expands the coverage of the existing provisions under section 127A relating to inspectors to include retail outlets of a totalizator operator or an approved location of a Tasmanian gaming licence holder.
- Clause 43 Amends section 130 relating to the entry onto premises by police officers or Gaming Commission inspectors to include retail outlets of a totalizator operator or an approved location of a Tasmanian gaming licence holder.
- Clause 44 Expands the coverage of the investigation of complaints under section 132 from patrons at a venue or premises to include retail outlets of a totalizator operator or an approved location of a Tasmanian gaming licence holder.
- Clause 45 Expands the coverage of the powers of inspectors under section 133 to include retail outlets of a totalizator operator or an approved location of a Tasmanian gaming licence holder.
- Clause 46 Expands the coverage of offences relating to inspectors under section 135 by including “wagering” in addition to gaming.
- Clause 47 Expands the provision that enables a betting exchange operator to keep records at a place other than at an approved location (for example in another jurisdiction if there are other premises outside of Tasmania) to all Tasmanian gaming licence holders (including a totalizator).

Clause 48 Corrects an incorrect reference section 77 should read section 77V.

Clause 49 Replaces the reference to a “fixed odds endorsement” to a “race wagering endorsement”.

Establishes an annual endorsement fee of 350 000 fee units (\$448 000 in 2008-09) for a totalizator endorsement.

Establishes an annual endorsement fee of 5 000 fee units (\$6 400 in 2008-09) for an agent endorsement.

Establishes a limit of 200 000 fee units (\$256 000) where both a sports betting and race wagering endorsement is held. This is to be competitive with other states in respect of corporate bookmaker licence fees.

In other cases other than above where multiple endorsement fees are held the endorsement fees are capped at 450 000 fee units (\$576 000).

For example:

Sports betting only - 200 000 fee units under s148A(a)

Sports betting and race wagering - 200 000 fee units (instead of 400 000 fee units) under s148A(f)

Sports betting and race wagering and agent - 205 000 fee units under s148A(f) and (dc)

Sports betting, race wagering, betting exchange and agent - 450 000 fee units (instead of 755 000 fee units) under s148A(g)

Waives the requirement to pay totalizator, race wagering, sports betting and agent endorsement fees in the case of the TOTE or its purchaser while a totalizator endorsement is held. [s148A(5)]

Clause 50 Repeals provisions relating to unclaimed winnings of Tasmanian gaming licence holders as this is now dealt with under section 76ZRA.

Clause 51 Amends section 150A by clarifying that taxation only applies where the section so provides. This clarifies that in the case of totalizator, race wagering and sports betting endorsements where no tax will be levied, section 150A does not apply.

Abolishes current taxation provisions relating to fixed odds and sports betting. (1.0 per cent of turnover for fixed odds and 0.25 per cent of turnover for sports betting).

Clause 52 Provides that betting exchange commission that is subject to the payment of the 20 per cent product levy under section 150AC is to be determined in regulations.

This is required to adjust the commission that is subject to the 20 per cent product levy in the case where the betting exchange operator is required to also pay a product fee or race fields publication fee to a racing authority for the same event.

Regulations are being prepared to commence when the Gaming Control Amendment Bill commences.

Clause 53 Establishes the requirement that a totalizator operator pay a fixed wagering levy of 4.7 million fee units or \$6.016 million per annum. (a fee unit is \$1.28 for 2008-09).

Payment of the wagering levy is each financial year.

The levy is pro rata if the operator commences the licence, or the licence ends, part way through a financial year.

If a licence with a totalizator endorsement is surrendered the Treasurer may provide a partial refund.

Clause 54 Repeals section 152 so it removes the requirement that revenue from a betting exchange operator is appropriated to the TOTE to fund the Tasmanian racing industry.

This severs the nexus between TOTE revenues and racing industry funding under the Gaming Control Act. A separate deed between the Government and the new Tasmanian Racing Board will be established for the Government to directly fund the industry.

Clause 55 Amends section 153A by replacing the reference to a “fixed odds endorsement” to a “race wagering endorsement” in respect of a gaming and wagering guarantee.

Exempts the requirement to pay a wagering guarantee by the TOTE while the TOTE is a government owned business.

A wagering guarantee is required in the case of race wagering and sports betting as there is a potential risk the operator can make losses on these products.

Clause 56 Repeals the regulation making powers relating to the guarantee provided by a betting exchange operator to make up any shortfall in funding to the racing industry because of the impact of the betting exchange operations on TOTE's funding.

This regulation is not required as funding will no longer be provided by TOTE, rather be provided directly by the Government.

Provides for regulations to deal with any transitional arrangements if required (such as in connection with bringing TOTE under the Gaming Control Act).

Clause 57 Inserts in Schedule 5 of the Act a transitional provision that deems a Tasmanian gaming licence with betting exchange endorsement to also hold an agents endorsement.

This allows Betfair to continue participation with any existing agent arrangements on commencement of this Act.

Clause 58 Repeals the *Racing (Totalizator Betting) Act 1952*. The Act that currently regulates TOTE's wagering activities; and

Repeals the *TOTE Tasmania (Racing Regulation) Act 2004*. That Act sets out TOTE's current funding obligations to the Tasmanian Racing Board.

## **APPENDIX 1**

The Committee took evidence from the following:

- Mr Tony Murray, General Manager, Racing Services, DIER
- Mr Paul Bullock, former Chair of Greyhound Racing Tasmania
- Mr Max Walker, former Deputy Chair of Greyhound Racing Tasmania
- Ms Denise Fysh, Chair, Hobart Greyhound Racing Club
- Mr Colin Howlett
- Mr Don Challen, Department of Treasury and Finance
- Hon. Michael Aird MLC, Treasurer and Minister for Racing
- Mr Kevin Ring, Secretary, Australian Jockeys' Association (Tas)
- Mr Terry Clarke, former CEO, TOTE Tasmania
- Mr Craig Coleman, CEO, TOTE Tas
- Ms Robyn Whishaw, Armidale Stud, Carrick
- Mr Kevin Neilson, Manager, Tasmanian Racing Board
- Mr Philip Swinton, President, Thoroughbred Breeders Tasmania
- Mr Graeme Russell, Former Chairman of the DRC
- Mr Walter McShane, President, Australian Trainers Association (Tas)
- Mr Tony Jeffries, North-West Coast Harness Racing
- Mr Robert Biffin, CEO, Tasmanian Turf Club
- Mr Neil Herbert, Chairman of TTC
- Mr Geoff Harper, Chairman, Tasmanian Racing Club

and a number of other witnesses who gave evidence privately.

## **APPENDIX 2**

The following papers were tabled:

- Sale of the Dampier to Bunbury Natural Gas Pipeline
- Dampier to Bunbury Pipeline Act 1997

Bullock, Walker, Fysh

- Newspaper Article – *‘Racing industry “misled” over Tote sale decision*
- Tote Tasmania – Industry Funding

Mr Howlett

- Letter to Hon Minister of Racing dated 12/1/09

Ms Whishaw

- Australian Racing Board – *study on the size and scope of the Australian Thoroughbred Racing industry*
- Economic Impact of the Tasmanian Racing Industry – October 2007 – Final Report

Mr Jeffries

- Racing industry representation to the Legislative Council – 27 February 2009

Mr Harper

- Tatts Group – *TOTE Tassie for sale Research Paper*
- Oaths Act 2001 – *Statutory Declaration by Hon Michael Hodgman QC MP 17/3/09*

Mr Craig Coleman

- Report - Review of the Tasmanian Racing Industry’s Governance Structure – 31/10/08

Various private emails and letters.

### **APPENDIX 3**

#### **THE JOINT STANDING COMMITTEE ON ENVIRONMENT, RESOURCES AND DEVELOPMENT MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART, ON FRIDAY 6 MARCH 2009.**

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**Mr ANTHONY MURRAY**, GENERAL MANAGER, RACING SERVICES, DEPARTMENT OF INFRASTRUCTURE, ENERGY AND RESOURCES, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** (Mr Hall) - Tony , I think that you have given evidence to parliamentary committees before so you are aware of privilege so I do not need to go through that. Thank you very much for appearing today. You have our terms of reference which is to inquire into the proposed sale of TOTE Tasmania by the Government of Tasmania and the old catchall of any other matters incidental thereto. I would like to invite you to make a presentation to the committee and then I would ask committee members to ask any questions they feel relevant.

**Mr MURRAY** - Mr Chairman, I have very little to say in my opening other than to clarify my role. I am the General Manager of Racing Services Tasmania. I am also appointed to the statutory role of Director of Racing under the Racing Regulation Act. My primary role is that I am in charge of, responsible for, the integrity of racing in Tasmania.

**CHAIR** - That is all you would like to say at this stage?

**Mr MURRAY** - Yes.

**CHAIR** - Are there questions from members of the committee to Mr Murray?

**Mr HARRISS** - In those roles which we understand you hold, Tony, in terms of integrity, probity and the like, can you describe to the committee what your beliefs are as to the sale of TOTE versus retaining TOTE in public ownership and the impacts that might have from your perspective one way or the other?

**Mr MURRAY** - From my role under the act, that is the integrity of the racing industry, I have no direct jurisdiction over the operations of a wagering operator such as TOTE. So I have no real opinion in terms of the integrity in terms of the sale because it does not currently come under my jurisdiction. Regardless of if there is a sale or not it still would not come under my jurisdiction so it will not affect the manner in which I do my business or my area of responsibility.

**Mr HARRISS** - So what cross-pollination, if any, then between your roles, your organisation, as to probity/integrity do you have with TOTE particularly given that wagering is one of the areas within any racing industry, no matter what code, that can be compromised?

**Mr MURRAY** - Under the act I have no responsibility or jurisdiction under TOTE. The only way there would be some cross-pollination is, for example, stewards from time to time may seek some information from a wagering operator in relation to activities on a particular race. If the question is the cross-pollination between my role as director of racing and the governance of TOTE, there is no cross-pollination

**Mr GUTWEIN** - Just to clarify that, in regard to matters of integrity with TOTE as it currently stands, you have no role or responsibility whatsoever?

**Mr MURRAY** - No, I do not.

**Mr GUTWEIN** - Who does?

**Mr MURRAY** - At this stage I think it is better asked of Mr Coleman. My understanding is that it falls within the realm of a cross between self-regulation and some form of relationship with Treasury, although I think the minister has indicated that TOTE may well come under the Gaming Control Act - I think he is looking at that into the future. That is more appropriately a matter for the minister.

**Mr BOOTH** - Have you had discussions with the minister, the Treasurer or anyone in government regarding the proposed sale?

**Mr MURRAY** - In relation to the proposed sale, no.

**Mr BOOTH** - So no-one has talked to you about it at all?

**Mr MURRAY** - No, the only discussion I had was when the minister called me aside at the Devonport Cup this year - which, from memory, was 7 January - and advised me that the next day he was going to announce the sale of TOTE. That is the first and only conversation he has had with me in relation to the sale of TOTE.

**Mr WILKINSON** - How long have you been involved with TOTE, Tony, in your current position?

**Mr MURRAY** - I was appointed in August 2003, so five-and-a-half years.

**Mr WILKINSON** - How long have you been involved in the racing industry?

**Mr MURRAY** - I have been involved in the racing industry for 23 years. Up until now it has been a regulatory role in New South Wales across the Department of Gaming and Racing. I was a TAB agent for a little while and I worked in Harness Racing New South Wales as racing manager and deputy CEO. I have worked generally in racing regulation for a period of approximately 23 years.

**Mr WILKINSON** - So it would be fair to say that you have a good understanding of the racing industry?

**Mr MURRAY** - I would hope so.

**Mr WILKINSON** - Was that understanding of the racing industry at all tapped into by the Government in order to ask whether they should or shouldn't sell TOTE?

**Mr MURRAY** - No.

**Mr WILKINSON** - Not at all?

**Mr MURRAY** - No.

**Mr WILKINSON** - Were you aware of any conversations prior to, say, 4 December in relation to selling the TOTE?

**Mr MURRAY** - We went through a restructure process last year, from August through to November or December. During that restructure process the matter of the sale of TOTE was raised at the forums we conducted.

**Mr WILKINSON** - When were the forums?

**Mr MURRAY** - There were two main workshops: one was at Bellerive on 26 September and one was at Launceston on 1 October at the racetrack, so we had two workshops for the whole of the industry.

**Mr WILKINSON** - And part of the workshop time was spent on whether TOTE should or shouldn't be sold?

**Mr MURRAY** - No, the workshop was involving the restructure of the industry. There was a presentation by myself on integrity matters, a presentation by Mr Coleman on commercial matters. It was facilitated by Global Value Management and they had various sessions within the workshops. One of them was about the issues confronting the industry at the moment and some persons at each workshop raised the possible sale of TOTE.

**Mr WILKINSON** - Was the Treasurer there?

**Mr MURRAY** - No, he was not.

**Mr WILKINSON** - When whoever it was raised the possible sale of TOTE obviously that was spoken about, whether it should or shouldn't be sold.

**Mr MURRAY** - There was some general discussion. Mr Coleman was looking after the integrity matters and in his response - and again I am only going from memory - he said something along the lines of 'TOTE is not currently for sale'.

**Mr WILKINSON** - Are you aware of any business case that has been prepared in relation to the sale of TOTE?

**Mr MURRAY** - No.

**Mr WILKINSON** - Have you seen any business case?

**Mr MURRAY** - No, I have not.

If I may, Mr Chairman, I didn't finish Mr Booth's question. He asked me had I had any conversations and I was discussing those workshops. During those workshops and during the consultation the issue of TOTE being sold was raised and was also raised in the media. At that time I had a private conversation with Mr Coleman and asked him, 'What is going on here?' and he said words to the effect, 'It has always been my belief since taking over the role that TOTE would

be better in private hands'. He also made a comment to the effect, 'TOTE could be sold regardless of this restructure'. Then we followed up from there and basically said this restructure is not about the sale of TOTE. I asked him that question privately and he said no, the restructure is about a whole range of other issues and challenges facing the industry. We returned to the focus of progressing with the consultation for the restructuring ultimately to make a recommendation to the minister. That is the only conversation I had in terms of the sale of TOTE.

**Mr WILKINSON** - Does the restructuring make it easier to sell TOTE?

**Mr MURRAY** - Mr Coleman's advice to me was no.

**Mr BOOTH** - Did you get the impression that Mr Coleman's view was that it would be sold regardless?

**Mr MURRAY** - No, from my recollection I cannot recall him saying that, no.

**Mr BOOTH** - When the Treasurer told you on 7 January that it was to be sold, can you detail that conversation?

**Mr MURRAY** - He just called me aside and said, 'Just to let you know I am going to announce tomorrow the intention to sell TOTE'.

**Mr BOOTH** - What was your reaction to that?

**Mr MURRAY** - I said to him words to the effect, 'The perception of the industry will be the restructure was about the sale of TOTE'. He responded to me with words to the effect, 'Well, it wasn't, Tony, it was to do with all these other issues we had to deal with'. I said to him, words to the effect, 'That is my understanding and I approached the restructure along the lines it was needed for the racing industry and had nothing to do with the sale of TOTE'.

**Mr BOOTH** - Did you ask him what day he woke up in the morning and decided to sell TOTE, like what that process was?

**Mr MURRAY** - No, I did not, it was a very brief conversation.

**Mr BOOTH** - You must have been somewhat shocked, without putting words in your mouth.

**Mr MURRAY** - I do not think that shocked is the word. I have worked for government for the last 23 years and governments of the day of whatever political persuasion are entitled to make policy decisions. I have seen governments of all persuasions make all sorts of decisions, so I really have no reaction to it other than to appreciate the fact that he had told me before it was publicly announced.

**Mr BOOTH** - Given the undertakings that they had made during the consultation in Hobart and Launceston, it is completely opposed to what people were advised at those meetings. Is that correct?

**Mr MURRAY** - At those meetings, as I said, Mr Coleman, answered the questions along the lines TOTE was not for sale. My understanding is that at that time it was not for sale. Again, it is probably a question to ask Mr Coleman.

**Mr BOOTH** - Yes, I am just trying to see if there was any other indication of how long they had been intending or what the process was, whether there was some other consultation.

**Mr MURRAY** - Not with myself and not to my knowledge.

**Mr GUTWEIN** - Mr Murray, with regard to the conversation, you indicated that you had a private conversation with Mr Coleman during the process that was occurring last year. Was either on either of those dates, the 26 February the forum in Hobart or the October one in Launceston?

**Mr MURRAY** - It was separate to those two. It was when the matter became quite relevant within the media.

**Mr GUTWEIN** - Can you think roughly when that was?

**Mr MURRAY** - Some time between those two dates. I cannot put dates on it but there was some front page back page news/allegations about it and it was at that stage that we had a private conversation.

**Mr BOOTH** - You saw those reports so did you phone him?

**Mr MURRAY** - I did not specifically make an appointment to see him it was just at the time were we preparing for the next presentation or meeting I raised it with him. My concern was it was taking the focus off what we were trying to do. This restructure was really important for the future of the Tasmanian industry. My concern was that the media attention on TOTE and the focus on TOTE were taking away from the real purpose of the restructure.

**Mr GUTWEIN** - Whether you are prepared to answer this or not, you said, I think, that you have around 23 years' experience in the racing industry?

**Mr MURRAY** - That is correct.

**Mr GUTWEIN** - Do you have an opinion as to whether or not the sale of TOTE, taking it away from government ownership and placing it in private hands, would be a good thing or a bad thing for the industry?

**Mr MURRAY** - From a professional viewpoint my role is that of integrity, regulation. I do not have the full facts or the full knowledge of what it would possibly bring to the industry. From a professional viewpoint, I do not think that I have enough information to make an informed comment. From a personal viewpoint, I will make two comments. As I said earlier, I believe the Government of the day is entitled to make decisions in relation to assets, but I also think the racing industry of the day, under these circumstances, is entitled to seek some guarantees from government in terms of future funding.

**Mr BOOTH** - What about from a probity point of view? You mentioned that you do not have and role in probity arrangements within TOTE and its currently government enterprise. From that point of view, I guess the implication is that you are satisfied or you do not, in fact, have to look. Do you see that there is a threat in the future, or even currently, in terms of the potential for race rigging or other probity issues, particularly if it fell into private hands, that an owner could get inside information about the size of the pools or other information that would

not be generally available or to manipulate races by the commissions and so forth?

**Mr MURRAY** - Race rigging in itself would not fall under the domain of TOTE. A wagering operator's pools, for example, are public knowledge. Anyone can go into the Internet at any stage. If we are rigging, stewards are in charge of race meeting. That is my area of expertise. We look after the integrity of racing, and whether TOTE be in private or public hands would not impact on the way that we ensure that racing is conducted with the highest level of integrity.

**Mr BOOTH** - Would you not see that integrity or probity issues would be any different whether it was in private hands or in the current arrangements?

**Mr MURRAY** - Not for the conduct of racing, no.

**Mr GUTWEIN** - I am wondering, Mr Murray, if you have a view on the type or length of guarantee that might be required under a sale. Obviously the industry benefits to the tune of tens of millions of dollars. In fact, I think the chairman's report indicated \$23 million to \$25 million in the last year alone. If a sale were to proceed, those guarantees, what time frame would you think was reasonable?

**Mr MURRAY** - I think that is a matter properly for the racing industry itself. I would not offer a view. One could argue a whole variety of time periods, but it is not a matter for which I have the current knowledge or expertise to offer a fully informed opinion.

**Mr WILKINSON** - You did mention your personal view was that if it was to be sold there should be some guarantees. What guarantees should be given?

**Mr MURRAY** - I said my personal view, just for clarity, was that the racing industry should be able to negotiate some form of guarantee in terms of future funding levels. I would assume the racing industry needs some guarantees for surety into the future. Then I suppose you come back to the current situation. They already have some guarantees through the legislation of what TOTE has to pay the industry and so it comes down to what guarantees they would have under a sale as opposed to without a sale.

**Mr WILKINSON** - Are you throwing the ball by saying that there should be guarantees? I am trying to find out what guarantees. I know you are probably in a difficult position.

**Mr MURRAY** - It is not my area of responsibility or expertise. Things we are talking about are stake money, breeding schemes and programming race dates. None of that is under my current area of jurisdiction or responsibility. I do not think it is appropriate that I make a comment because I do not have all the information and I am not fully informed.

**Mr WILKINSON** - Who do we ask?

**Mr MURRAY** - I would suggest that Mr Coleman or the racing industry itself obviously is appearing before the committee, so I am sure they will have some ideas to provide the committee.

**Mr BOOTH** - Given your experience in the industry outside of the probity arrangements, your history in the industry and as a personal comment, not in

your role as director, what would you say could be the consequences on the industry if there were not those guarantees, hypothecated, if you like, or part of the legislation in terms of sale inquiry requiring some prescribed levels of support? For example, if an owner decided to simply not provide any support, what would the consequences be in your view?

**Mr MURRAY** - Obviously the racing industry depends on funding but we need to understand that the change in the landscape of wagering throughout Australia and internationally means that racing has to become more self-sufficient. We need to be exploring other market to sell our products - for example, Asian markets. The racing industry traditionally has relied upon guarantees, upon handouts through TABs and arrangements through governments more so than ever before. The racing industry must learn to fend for itself and seek other sources of revenue. That is one part of the revenue and the guarantee but they also need to go out and source other areas of revenue. That is what this restructure was all about and that is why I think it is really important to go through the reason for the restructure. The racing industry has never faced so many challenges. We look at corporate bookmakers, betting exchanges, race fields legislation, the breakdown of the gentleman's agreement - traditional sources of revenue are being usurped by new sources of revenue through race fields legislation, selling your product overseas, trying to gain sponsorship and so on. There is a whole range of things facing the racing industry. The guarantee through a TAB or government is but one area. The racing industry must learn to be more self-sufficient. This restructure about taking away from the three code councils and putting into one professional Tasmanian racing board was about meeting the challenges facing the industry and being able to promote and maximise the revenue back to the industry, which wasn't possible under the old structure.

**Mr WILKINSON** - The restructure was done with consultation with all the bodies in the industry, wasn't it?

**Mr MURRAY** - Yes. As I said, Mr Coleman and I held two workshops, one in the north and one in the south. We met with the three code councils, we held individual meetings with clubs and associations as required, so there was an extensive consultation before we went through.

**Mr WILKINSON** - So there was extensive consultation with the industry itself before it went through?

**Mr MURRAY** - Yes, there was.

**Mr WILKINSON** - And you believe that that was important?

**Mr MURRAY** - Yes, it was essential.

**Mr WILKINSON** - Why do you believe it was important?

**Mr MURRAY** - I think in any sphere of endeavour, whether it be government or private, you need to take the views of your stakeholders into account before you make any significant changes to a structure.

**Mr WILKINSON** - Would you suggest that there is a significant change in that now TOTE, if it is to be sold, is going out of the hands of government into the private sphere?

**Mr MURRAY** - No, I don't think it makes any difference. My concern with the talk about the TOTE sale during the restructure was that it was going to take the industry's eye off the real issues. The restructure, certainly from my viewpoint, had absolutely nothing to do with the sale of TOTE.

**Mr WILKINSON** - I hear what you're saying. You may have misunderstood the question. I accept what you are saying, that there was extensive consultation had with the industry prior to the restructure. Let's give it a tick. The reason for that is because it was necessary to keep the stakeholders informed as to what was taking place. In relation to the proposed sale of TOTE, would you accept that the stakeholders weren't spoken to, weren't kept in the loop, as they were kept in the loop with the restructure?

**Mr MURRAY** - They are two separate issues. In terms of the restructure, which was under my joint control, we made sure that there was extensive consultation. I am not aware of any consultation the minister has or has not had. All I am aware of is his announcement of the proposal to sell TOTE. I am also aware that that is dependent upon being passed by both Houses of Parliament, hence this committee will be given the opportunity to hear the views of industry. I am not aware; I can't sit here and say I am aware of the consultation that has taken place.

**Mr WILKINSON** - But you would be aware whether some consultation had taken place? I have had an extensive involvement in sport in a number of different fields. When I was in one field I was aware of what was taking place in another field just with the general conversation that flows. When I was in charge of Football Tasmania, I was aware of what the players were thinking because of general conversations that take place after a game or in the world of football at the time, likewise cricket or swimming. Are you really saying that you are so insulated in your position that you are not aware whether conversations were taking place with stakeholders in relation to the sale of TOTE or not?

**Mr MURRAY** - I am not aware of any conversations with stakeholders in relation to the sale of TOTE.

**Mr BOOTH** - I am not actually conceding that there was agreement in full knowledge by the industry codes to the racing restructure but setting that aside, is it a fair thing to say that the agreement that you achieved ultimately for a restructure was based on the understanding of all of those participants in the consultation processes that in fact TOTE would not be sold? Had the Treasurer announced they were going to sell TOTE during that consultation, what I am suggesting is that the outcome might have been different in terms of an agreement.

**Mr MURRAY** - That is a hypothetical question, which is difficult to answer. All I can say is that when we went to the workshops there were a number of issues raised and within the report of the workshops the sale of TOTE was but one of a number of issues. I think even in the report it prioritised the issues in terms of the ranking from the opinions of the workshop. Again, from memory, TOTE certainly wasn't high on the list; it wasn't number one, from memory. My point is that there was a whole range of other issues which the industry acknowledged - and I went through them before. Hypothesising, it is difficult to know whether the industry would have been any different. I think what they were seeking at the workshops was some assurance of future funding if TOTE was sold rather than questioning whether TOTE should be sold.

**Mr BOOTH** - Who owned it, basically?

**Mr MURRAY** - The future funding. What they were saying as an issue at the workshops was - and again this is just from memory - not will TOTE be sold or not, but what guarantees will we be provided if TOTE was sold? So to hypothesise and answer on the basis that there are some guarantees for future funding if TOTE was to be sold, I don't think it would have changed the opinion of the industry in supporting the restructure.

**Mr BOOTH** - However, I suppose then a corollary of that is that any sale would need to provide exactly the same levels or greater support into the future indefinitely than they already get through the current arrangements. Submissions that people have put to me are generally based around the culture of racing being destroyed as a result of changed arrangements. The Asian racing situation, for example, is raising some serious concerns in regard to the culture of racing.

**Mr MURRAY** - In my 23 years in racing the most difficult thing to do in the racing industry is to change culture. The racing industry are the most wonderful people you can ever come across but they're very much traditionalists and racing is very much based on tradition and that is how it should be. It is very hard to change the culture of people. I would think, hypothesising, if TOTE was sold and the guaranteed levels of funding met with the approval of the industry and were at least as good as would have been the case if TOTE were not sold, I think the industry would move on fairly quickly and focus on what the real issues are and that is the challenges facing the industry.

**Mr BOOTH** - So you would see that important, that the funding arrangements be locked into a sale arrangement effectively, some form of support guarantee?

**Mr MURRAY** - I don't know in which form it would come. I think the industry is entitled to some guarantee of future funding.

**Mr BOOTH** - But whether it comes through government or a sale arrangement -

**Mr MURRAY** - I can't really offer an opinion.

**Mrs RATTRAY-WAGNER** - Mr Murray, do you believe that had the Government of the day - and I appreciate you said they have every right to make policy decisions - waited until the new structure of the racing industry was bedded down, so to speak, this would have been a more palatable proposed sale?

**Mr MURRAY** - I will be very selfish and say I would have preferred a greater period of time. The restructure was about putting a structure in place to quickly face the challenges and get resolutions on a number of issues. It is a really important time for racing. This is a very personal and selfish view because I think the restructure was very important in its own right. I repeat: the Government of the day has its right to make an announcement and make a decision on any matter under its area of responsibility, so I am certainly not criticising the timing, I am just stating my personal view.

**Mrs RATTRAY-WAGNER** - Do you believe that the new board format has had time to settle into its new role?

**Mr MURRAY** - They are on a very steep learning curve, there's no doubt about that. They are doing a very good job initially. They are out there consulting with the industry. The chairman of the new board, Don Abell, in my opinion is doing an excellent job. He is engaging the industry, he is understanding the industry. It is early days but I have nothing but optimism for the future of the role of the new board.

**Mrs RATTRAY-WAGNER** - So with that board engaging with the stakeholders and industry players obviously this particular process is taking away from what they might well be concentrating on?

**Mr MURRAY** - I would have thought that they are just moving ahead with the job at hand. That is as they should be. In terms of the transitional arrangements under the restructure, the funding, the budget is as it was previously up until 30 June. No doubt they are developing their strategic plan and their future budgets and all those types of things. My understanding is and my belief would be that it would be business as usual from their viewpoint.

**CHAIR** - Are there any further questions to Mr Murray?

**Mr BEST** - In camera I would like to ask some questions.

**CHAIR** - The committee will now move in camera. I would ask everybody apart from the committee and people involved if they would move to out the back again and we will proceed as soon as that is done.

**Mr PAUL BULLOCK**, FORMER CHAIR, GREYHOUND RACING TASMANIA, **Mr MAXWELL WALKER**, FORMER DEPUTY CHAIR, GREYHOUND RACING TASMANIA, AND **Ms DENISE FYSH**, CHAIR, HOBART GREYHOUND RACING CLUB, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

**CHAIR** (Mr Hall) - Thank you very much. I understand you are all appearing on behalf of the greyhound industry and I do not know whether any of you have given evidence before a parliamentary committee before. However, I will talk about privilege and restrictions on reporting so that you are clear on that. Everything you say to this committee is protected by parliamentary privilege. This is to allow you to speak freely. However, once you have left this committee room I must advise you not to specifically discuss your written or verbal evidence with anyone until the committee has made its report to the Legislative Council. You are free to speak generally about any issue to anyone but please do not refer specifically to anyone about the evidence you give to the committee until a report has been published on this.

I now invite you, whoever is the spokesperson, to talk and remind you to keep in the back of your minds all the time that we have specific terms of reference and that is the proposed sale of the TOTE Tasmania by the Government of Tasmania and any other matter incidental thereto.

**Mr BULLOCK** - Mr Chairman, first of all I would like to thank you very much for hearing us today because I was not available next week and to your secretary for fitting us in today. Thank you very much.

**CHAIR** - It is a pleasure.

**Mr BULLOCK** - I know some of the members, particularly Peter Gutwein. I have known Peter a long time, since he was a kid playing football. It is nice to see one familiar face here.

I will give a bit of the background because I don't reckon many people really know me. I started in racing in the early 1950s with my father working horses on St Marys Pass, which was gravel - the road from St Marys to Conara then was gravel, so it was a long time ago. Racing has always been part of my life. Unfortunately I did not have enough money to get into horses so I got into the next best thing, which was greyhounds. It was a pleasure to get involved with greyhound racing and the people in the industry. I owned, trained and bred for a period of 40 years and then I got involved in the administration in 1989 with the Launceston Greyhound Racing Club and was chairman in 1990. I then worked for the Racing Authority, as it was in those days when Michael Martin came from New Zealand, as the racing manager for greyhound racing. I looked after the Hobart club when they had their licence taken off them. I also took over Devonport when they handed theirs in. Mr Caylee became the chairman of the authority and we were worried about Devonport continuing. My suggestion to the authority at that time was to convert to a day meeting and get Sky Channel, if possible, and to race every week of the year if possible.

Around 1999 or 2000 I was elected to the greyhound council and I have been a member for the last nine years. Three of those years I was deputy chairman to my colleague, Max, and the last three years and when the council was wound up

on 31 December 2008 I was chairman. One of the things that the council has done with the clubs - Denise is here today and is the chairman of Hobart - we have made sure that the clubs through the council are viable. Each club has received somewhere between \$76 000-\$80 000 a year to make sure they have made a profit at the end of the year.

When I went to the work meetings that the Director of Racing, Mr Murray, and the CEO of TOTE, Mr Coleman, presided over, along with John Lennon from his organisation, we were given a guarantee that TOTE would definitely not be sold. When the announcement came some seven days after the councils had been wound up, I am certain that people such as Bruce Freeland, Dick Bertram, Doug Martin - who were the instigators of the Tasmanian Totalisator Board which came into effect in 1973 - probably turned over in their graves.

For those who aren't racing minded, if they go back through the history of racing in New South Wales and Victoria, TAB was introduced to wipe the SP bookmaker in the local pub out of business, if possible. In New South Wales the result was enormous because they have a large population, and so has Victoria. The bookmakers, in my opinion - and I worked for two or three of them in Launceston over a period - were leeches. They took everything and put nothing back. Here we had an opportunity to have something for Tasmania that was going to put something back into racing. I can still remember the late Bruce Freeland saying at the time, 'This will really be good because we are going to appoint the Premier as one shareholder and the Treasurer as the other'. That has been the ploy ever since 1973. I believe that the Director of Racing and the CEO of TOTE either didn't know that the minister had intentions of selling TOTE or were accomplices for the workshops of getting rid of the councils to enable them to sell TOTE. I would say our code, and having spoken to the other two codes at recent meetings in Launceston in two previous weeks, it has got to the stage now that we don't trust the minister. That is a pretty defaming statement, I know, but we don't trust the minister.

One of the problems we have had with all of it is that there has been no consultation with the three codes, no consultation with racing and we have not seen a business plan. Anyone running a business usually has a business plan. This bloke just says sell. We might get \$30 million from somewhere and in today's economic climate we do not think that is on. So we are very disappointed, we have an industry where there are 3 000 people involved, we have a greyhound industry where we race three times a week and distribute probably \$40 000 a week in stake money and if we have not got that \$30 million, and it is no good saying we have a guarantee, because that money might not be there with the economic climate we have at the moment.

We are going to be up so and so in the boat. It will just be damn hopeless. We have got a milking cow in what is now TOTE Tasmania because of the change in the name sometime back but at the moment they are almost guaranteeing us an income for racing.

We do not wish to go to the Government of the day and say look we know you have got education and we know you have health and we know you have got roads and we know that you have got police et cetera, but we really want \$30 million.

Because the Government are likely to say to us sorry this year you can only have \$21 million. Or only \$18 million. With TOTE Tasmania we have got at

least a guarantee at this stage of having enough money to do what we are doing at the moment.

The greyhound industry at this moment, and this is only from my point of view and I may be biased because I am the former chairman of the council, we have three clubs with \$200 000 each in their bank account, we have a council that gave the new racing board around about \$200 000 to do the job plus another \$55 000 for promotion.

I wish the new person replacing me at the Tasmanian Racing Board all the very best. He has a huge job in front of him to represent greyhound racing with very little knowledge of administration but very good on welfare. They have dropped him really in the soup because I do not think that the new board knows where they are going.

That is with all due respect to those seven people that have been appointed. I really believe that if we want to do our best we need to retain TOTE Tasmania. Otherwise I can see racing being shot in the foot. The spin-off from racing is huge.

We race three times a week which means people travel three times a week, they pull into service stations three times a week, there are a new set of tyres three times a week, there is a mechanic somewhere that needs to work on their car. It is a huge employer. We look after the farmers with disposal of stock et cetera.

If we have not got TOTE and we have not got the income to race for what we are racing for now people will drop out of the game. The other thing is that if there are less meetings, if trainers can only race once a week like the gallops do half the people in our industry will drop out simply because they need to be able to compete twice a week and by having three meetings a week there is a chance that you can race twice a week and get an income.

Otherwise we are dead in the water. If you people cannot see that maybe you should not do the job you are doing. I will pass over to my Deputy Chairman.

**CHAIR** - I might just ask you a question first. I hear what you are saying and I will be the devil's advocate first up. In other jurisdictions, that is in other States, TOTE has been privatised. In South Australia I understand it has been done rather poorly, in Victoria it is working quite well and it has opened up new opportunities. Now if the industry, such as yourselves, were enshrined in legislation some guarantees how would you view it then?

**Mr BULLOCK** - Mr Chairman, if you listen to the chairman of the thoroughbred breeders in Victoria, in 2012 they will be \$40 million to \$80 million worse off. And they have all the guarantees in the world.

**Mr BOOTH** - It is pokie guarantees, isn't it?

**Mr BULLOCK** - Yes, it is pokies and Tattersalls who aren't allowed to have the licence anymore. If another body put their hand up and say, 'Yes, we want to take it over', the first thing people want is the money for their shareholders. It is not really good when you pick up the *Examiner* and you read that Tattersalls have made \$143 million profit and they are looking at buying TOTE Tasmania. When it has not been through Parliament, it has not been discussed with the

industry, there is no business plan and you say, 'Please put your hand up and support it' it is not on!

**Mr BOOTH** - Thank you, Paul. I want to drill down into what you said that you were guaranteed at the meetings. Presumably that was the Hobart one on 26 September and Launceston on 1 October. Are they the meetings?

**Mr BULLOCK** - Yes, and there was a follow-up meeting at Campbell Town which I could not go to but Max did go to and the guarantee was given again.

**Mr BOOTH** - In what form was that guarantee given?

**Mr BULLOCK** - It was given in writing. In the last handout that was given out at Campbell Town it was given out in writing that TOTE will not be sold.

**Mr BOOTH** - Do you have a copy of that which you can give the committee?

**Mr BULLOCK** - No, but I am certain that the place and people who have put together a nice brochure for the MLCs have got it and will supply it at a later date, but it is available.

**Mr BOOTH** - Would the greyhound racing industry, in your view and the combined view perhaps here, have supported the industry restructure had you known that TOTE was going to be sold?

**Mr BULLOCK** - There is nothing wrong with change. Getting change right is the problem. Personally and I do not speak on a personal level, Kim, because we have not discussed it, I was quite pleased to not be involved anymore because I have just had a quadruple bypass and I was looking to lay down the tools. But we had a survey back in October that we put out to see how the industry felt. I do not have that with me today but the industry was 50/50 whether we should have the council or not. I do not think the majority of our code or the other two codes understood exactly what their code councils were doing and that is probably our fault rather than the industry's fault.

You are aware with the people you have dealt with in all codes, but we have a lot of people in each code that their education is not the greatest. Some of the kids who work as stable hands and kennel attendants et cetera, do not want to go to school. It is the only place they can find a niche in life. So therefore their education standard is not greatest and they say, what do we have these people for? It is like me saying, what do we have the Legislative Council for. I am pleased they are there but a lot of people are not.

*Laughter.*

**Mr WILKINSON** - Keep talking.

**Mr GUTWEIN** - The lower House shares your view.

**Mr BULLOCK** - They probably do, Peter. But, seriously, I have been involved in a couple of organisations, and Peter knows only too well that I started the Junior Football Association in Launceston back in 1973. I used to write a page, and this is digressing a bit, for the *Sunday Evening Express* and I had a cartoon drawn up by one of the guys. We had the kids in around playing with a big steel fence around with the parents outside and sometimes you feel the same about

greyhound racing. I wish we could keep them out there and just race the dogs because you really struggle at times to understand the mentality of some people.

From my point of view, the council did its job. It was not always liked by everybody but we did our job to the best of our ability.

**Mr GUTWEIN** - You said that, under TOTE, you are guaranteed income each year. How does that work and what arrangements are currently in place?

**Mr BULLOCK** - We get 16.9 per cent of the profit and whatever else is dished out by Betfair. TOTE, of course, handle the Betfair money. Last year there was \$4.75 million of Betfair money distributed to the three codes and then they must have done a little bit better than people thought because we received another \$93 000, probably a couple of months into the season. We had a reduction previously because we thought the previous Premier, Mr Lennon, handled the money badly when he gave so much to the interdominion and just about robbed harness racing right throughout Australia. This made it very difficult, where at one carnival that was in South Australia they had to hold a whole lot of heats in Melbourne, otherwise they could not afford it.

The money that we have received every year has increased slightly. It has been by CPI. Last year I think we received \$48 000 from TOTE out of the TOTE profit, additional to what we had previously. We received another \$93 000 from the Betfair money which was additional. Then TOTE paid a \$125 000 bonus to each code. I can give you the figures for that because, unfortunately, the greyhound council in 2006 through freedom of information applied to get the actual figures from TOTE because they didn't want to give them to us. I can give you a copy of that today.

We have done our very best to pay out as much as possible. In the last 12 months we had paid out 79.81 per cent of our allocation. We had used about 20 per cent for administration. Everything that could possibly be pay out to the industry and the participants has been paid out. We have never had a problem with TOTE as such as they say, 'This is your lot'. We have to work with what we have. We have never been in a position to argue that we want a bigger share. We have told them on several occasions we want 19.6 per cent, or 20 per cent if we can get it, but we have always finished up with around 16.9 per cent of the total pool. This year we will pay out about \$2 360 000, including our administration.

The clubs themselves - and Denise is very heavily involved with the Hobart club and is doing a very good job - with the administration of the money et cetera are in a situation where they get 3.55 per cent of TAB on-course and off-course turnover of a Thursday night. The clubs get somewhere between \$80 000 and \$90 000 because the council has always paid the salary of the racing manager, which is around \$56 000. He manages all three clubs and does all their bookwork, works with the accounts and makes absolutely certain that every dollar that is spent is accounted for.

**Mr GUTWEIN** - How many people are involved in dogs in the State?

**Mr BULLOCK** - I can't give an exact figure, Peter, but there are 600-odd involved registered, but of course we have a lot of hangers-on as well. There are a lot of people involved as silent partners in greyhounds, as they are in horses et cetera.

We have a lot of people who help out at home who aren't registered. My guess would be there are somewhere between 700 and 1 000 people involved.

**Mr WILKINSON** - When you say 'involved', what do you mean?

**Mr BULLOCK** - Helping with training, cleaning kennels, cleaning yards. A lot of people are voluntary and help catch dogs. A lot of people go to maybe Brighton or the straight track at Mowbray - they can't go there any more because TOTE controls it - but we have always had people put their hand up to help out somewhere. Racing is a social industry and people forget that racing is really about bringing people together. The Launceston Cup carnival might not have been as good as it has been in the past but it gets people together and it is a day out. Greyhound racing is a very social industry. We just had the greyhound dinner at Mowbray in February and there were 190 people there. Getting 190 people to anything of a night socially is very difficult, as we all know. You have been involved in football, it has dropped off a bit to what it used to be. I have been involved in football with North Launceston and Beauty Point. It is not quite what it could be today but racing is very social. All three clubs have their social side of living in hand and care about it.

**Mr WALKER** - I have been involved since 1971, trying to train and breed dogs. In the late 1970s I became chairman of the Greyhound Owners, Trainers and Breeders Association. Back in those days it had a bit of punch, we conducted things for the Hobart Thousand. There was always a bit of feeling between the owners and trainers and the HGRC because if they blackballed you you couldn't become a member. They had a bit of power then. I left the Hobart area and went to Dover so I wasn't so involved with administration but I became involved in the late 1990s by becoming the Deputy Chairman of the Racing Council for three years. I came back on as chairman for three years and, at that time, I represented Tasmania on the Greyhounds Australasia which meant meeting every three months, overseas, in New Zealand or each of the other States and from time to time. I stepped down from that job and let Paul have a crack at it, and I have been the deputy chairman since that time.

I, like Paul, became involved with greyhound racing because, while I was always a bit of a punter, it was too costly for me to be involved in horses, and I thought I had given up football, which I didn't, but I needed the exercise for another 10 or 12 years. I have always taken the position of an underdog and I think that fits our situation very well because we have been the underdog in the three codes for quite a while.

One thing that Paul probably did not stress as much as he could have is the fact that we do not trust the administration. One of the reasons we do not trust them is the fact that back in 1999 Paul Lennon came to us and said, 'Look, get rid of your so-and-sos running this show and we will put some extra dollars in your pocket'. What was done was we dropped from 19.7 per cent to 16.9 per cent out of the total allocation. It went on from there.

**Mr GREEN** - When was that?

**Mr HARRISS** - In 1999.

**Mr WALKER** - We have been battling from that every since. When the Betfair money came around, we went from 16.9 per cent to 9 per cent for a time. When the big trots episode was on, we were duded again. We were able to prove our

case, I thought, and they said, 'Oh well, yes, we can bridge you up to 19.7 per cent but it has to be new money. We can't take it off the other codes'. We have been told lies along the way.

Tony Murray said today that they had two meetings - we had three meetings. It was supposed to be consultation. The first two might have been. We had agreed to meet on a Friday, what happens? They want to put us on on a Thursday night when they know jolly well that people couldn't attend because they have their dogs to race on a Thursday night so two of us went to Campbell Town. Therese Kingston, who was my co-speaker at the time, asked Mr Murray, 'Why are we meeting on a Thursday night? We'd been promised a Friday when everyone could come'. His reply was, 'Well, I'm sorry, Therese, but most of them couldn't come on Friday', so he put it on Thursday night. She had the audacity to get up and ask, 'Who at this meeting can't attend tomorrow?'. There was one fellow out of the whole meeting.

We have been duded all the way through and so it is easy for us to understand why we think that we are getting shunted again. We do not believe Michael Aird for one minute. We were told on 15 December there would be no sale - this is members of TOTE, of course - and we find three weeks later, 'Oh, she's up for sale, fellas'. We cannot believe him for a minute.

I am happy to answer any questions.

**CHAIR** - Thanks. We might move on to Denise, if you want to have a few words and then we will ask questions.

**Ms FYSH** - I have only been in the administration of the club for about six years, but I would like to go back to the question that Mr Booth asked of whether we would have had the same thoughts to splitting racing and wagering had we known in the beginning, that TOTE was for sale. I know from my perspective we would not have supported it until a great deal of discussion was had on the sale of TOTE.

I believe that the industry was deceived by the Government during those workshops inasmuch as it seems obvious now that TOTE was going to be sold at the time of those workshops because the only way you could achieve the sale of TOTE was to separate wagering and racing. I believe that we were deceived that it was better for the industry should that be divided when in fact it was done so TOTE could be sold. Otherwise the announcement would not have been seven days after the new board started.

So I agree, and I think that the industry as a whole agrees that we have been deceived by this Government, that we have no trust in this Government and any guarantees that the Government at this point is going to say they will give, we have no trust in.

I think that there are a lot of areas that need to be brought forward. It cannot be done because nothing has been discussed with the industry re the sale of TOTE. We have to look at our breeding, we have to look at our training facilities, we have to make sure that in the long term these things are going to be addressed; that enough money is there to make sure that the facilities can grow so that the industry across the three codes can grow. But until there is some discussion with the industry I do not think that the Government would ever get any support for the sale of TOTE Tasmania.

**Mrs RATTRAY-WAGNER** - I am aware that there is an agreement that when the Betfair fund exceeds \$5 million that the greyhound arm of racing will actually get up to that 19.7 per cent. Can you tell me what sort of agreement, is it a written agreement?

**Mr BULLOCK** - There is not an agreement in writing. We discussed it with the acting CEO of the new racing board, Mr Lottering, at the time, and Van Ransley who does not work there anymore. We discussed it with them and they said we will consider the 19.6 per cent. A lot of things that are done in racing are not exactly written all the time.

I am probably at fault but I have always taken peoples word on a handshake. Obviously it does not work a lot of the time. And after one person who is in this room was on ABC Radio at 10.45 a.m. I do not believe him either. Because he treated today as a joke. A great laughing point for Mr Best on radio. The sale of TOTE at 10.45 this morning.

**Mrs RATTRAY-WAGNER** - So there is not an actual written agreement?

**Mr WALKER** - There was an understanding given, Tania, that that would take place and as I said earlier it was to be on any new money not the allocation that would have gone back. So if TOTE makes a heap of money we were promised 19.7 per cent of the surplus of what they would have considered normal and anything from Betfair as well.

**Mrs RATTRAY-WAGNER** - But not what you would consider a formal agreement as well.

**Mr GUTWEIN** - In regard to any consultation since 7 January with your industry by the Government has any occurred?

**Mr BULLOCK** - None whatsoever.

**Mr GUTWEIN** - Has anybody spoken to you at all about any consultation coming forth?

**Mr BULLOCK** - Not from the Government's point of view. The three codes met in Launceston three weeks ago today and Chester Bullock and Joel Wallace from the pacing, Pam Cassidy and myself from greyhound racing and Mrs Wishaw from Armidale Stud had a meeting on the Friday. We had a follow-up meeting with five of the MLCs who live in the northern part of the State last Friday re the sale. And if you want their names I am quite happy to provide those. There was Don Wing -

**CHAIR** - We are aware of those.

**Mr BULLOCK** - We have had a couple of meetings. I was very impressed with Mrs Wishaw's soapbox in the *Examiner*. For those people who have not read it, there is a copy available here if you require it. That is it in a nutshell. The whole industry, it is not just greyhound racing, the whole racing industry is absolutely disgusted with the contempt that the Minister for Racing has shown towards the industry.

**Mr GUTWEIN** - May I ask you a question? You have said that you do not trust the minister -

**Mr BULLOCK** - I do not trust the minister, Peter, because not only has he lied and said TOTE will not be sold, but the people who are out there -

**CHAIR** - Order. Have to be careful about casting aspersions there in that regard.

**Mr BULLOCK** - I believe that the minister has lied. That is me. Sorry, I say it as I see it and I believe that the people who were working for him, the Director of Racing and the CEO of TOTE who done the workshops et cetera, if they knew TOTE was going to be sold, they lied. If they did not know, they were led astray by the minister.

**Mr BEST** - For fear of leading with the chin.

**Mr BULLOCK** - No, I am not.

**Mr BEST** - No, me, not you. I am interested and there is no double edge here. With your code, how often do you meet, just together, do not worry about the political aspect of it, just as a group to discuss issues?

**Mr BULLOCK** - We meet every month as a council right up until the end of December. Since then, as far a statewide thing goes, no, we have not. Gary Sutton from Devonport and Pam Cassidy from Launceston were in Launceston with the MLCs. Denise, unfortunately, was not there and Denise's partner trains greyhounds and it is not easy to get everywhere you want to be at certain meetings. I reckon she has done it pretty hard to get here this morning.

**Mr BEST** - No, that is fine. I am interested, though, because we have heard quite a bit about the views of interest versus business and the social aspect you spoke quite in depth about. As a code you must have some policies about some of these issues that you have written down?

**Ms FYSH** - What issues?

**Mr BEST** - Issues about how you see, moving forward, how you see yourselves in terms of business and how you see the social aspect?

**Mr BULLOCK** - One of the things that happens, and Max and Denise are in the same position as I am, I go to two greyhound meeting a week most of the time. Over a period of nine years I think I know almost everybody in the industry by their first name and they all know me. If they have a concern they have usually come to me when I was deputy chairman of the council and expressed their opinion and I have taken it back to a meeting where it has been discussed with the council and the clubs. We have had club and council meeting in Campbell Town et cetera to get the feel of the industry. That is personal consultation. That is the best we can do and I think that is the way it should be done in this instance and it has not been done.

**Mr BEST** - Finally, what is the collective view that you take?

**Mr BULLOCK** - The collective view of greyhound racing is not to sell TOTE.

**Mr BEST** - Okay.

**Mr BULLOCK** - The other issue is, had we had some consultation and a business plan we may not think that way but we have had nothing.

**Mr GREEN** - It flows on pretty well from what was just said really because what we are talking about today is the potential sale of TOTE and knowing that sale of TOTE has to go through both Houses of Parliament. So, consultation with respect to business plans and all of the other things associated with that will have to satisfy members of Parliament prior to it being sold.

The issue that I want to put to you is whether or not, given that it is likely that a position to ensure that the industry is looked after financially into the future, would be legislated and if it was, would the code then be satisfied that the industry therefore would be looked after on into the future and could look to build on the existing infrastructure et cetera that you have?

**Mr BULLOCK** - My answer is that irrespective of what happens we are prepared to look at anything but, for God's sake, please present something. Talking to accountants is probably the right thing to do in a business to sell it if it is worth money. Knowing the fickle industry of racing and the present Government we have, of which you are a member, we do not know.

**Mr GREEN** - It is fair enough for you to suggest that, and you have every right to do so, but I would say that from the Government's point of view we are taking industry very seriously and have always tried to ensure that the industry moves forward. If the sale of TOTE ensures that the industry has the opportunity to move forward, would the code be satisfied with that and focus on the issues associated with racing, et cetera, and doing all the other things that you enjoy doing?

**Mr BULLOCK** - I could not exactly answer for the industry.

**Ms FYSH** - It would also depend on how that was structured and where we sat within it, and what was available within that for future development of the racing industry. I would like to ask, was that decision to sell TOTE a knee-jerk decision that happened overnight because I just find it incredible that a government could do that? Is it good business practice to make a knee-jerk reaction overnight to sell TOTE Tasmania?

**Mr GREEN** - You are not asking me that question because I am not in a position to answer the question. What I am trying to put back to you is that if all of the things that you are concerned about with respect to the longevity of your particular code were satisfied as part of this process overall, would your code move on and concentrate on all of the things that you are good at, concentrating on running the greyhound meetings and so on?

**Ms FYSH** - I do not think we are going to have an option there. The alternative is what - that you will not sell TOTE?

**Mr GREEN** - We may not and we may not get the price, who knows?

**Mr WALKER** - What is the price?

**Mr GREEN** - I don't know.

**Ms FYSH** - Exactly. We do not seem to know a great deal except that the Government wants to sell it.

**Mr WILKINSON** - Am I right in saying that the real concern I can see over the last half hour is the lack of communication and that things were said which turned out to be not correct, that is that the Government was not selling then suddenly it was? I suppose it is a bit like being put on a plane and not knowing where you are going to. If you knew where you are going to you might say, 'Yes, I like that place, that's where I want to be', or, alternatively, 'No, I don't. We're going to get into trouble if we finish up landing there'.

**Ms FYSH** - But if you knew where you were going you may never have boarded the plane to begin with.

**Mr WILKINSON** - Yes, that is what I am saying.

**Mr BEST** - Sorry to interrupt, my question was really about the plane that you want to get on.

**Mr BULLOCK** - It would be absolutely lovely, Brenton, to have a look and say, 'Yes, we do' or 'No, we don't'. Seriously, most organisations that I have been wrapped up in do that first and then ask you for an answer, not say, 'We're going to do it' and then we have to argue about it.

**Mr BEST** - I take that point and I have that message loud and clear. What I am interested in is how you, as an organisation, see yourself moving forward. I hear what you have said, you do not want the sale of TOTE, but I am keen to know what strategies you see that will enhance, say, the interests, business end and the social end for yourselves. That is what I am keen to know about.

**Mr BULLOCK** - This is a difficult one. I think Craig Coleman, since he has been the CEO of TOTE, has done an outstanding job by getting the Betfair deal on-line with turnover, et cetera. I do not have a problem there. They are not bad people and I am not against them personally, but the whole issue is - and this is the bottom line all the time for me but it may not be for the other two people who are here because we have not been coerced to give you the one answer - there has been no consultation, there is no business plan, no-one wants to talk about it. It does not matter which politician you ring at home, 'Look, there's going to be a hearing in Hobart'. What is the problem? Let us talk about it because we will never get it fixed if we do not talk about it. What Jim says about communication is correct.

**Mr BOOTH** - What I am interested in is you have clearly said that you are opposed to the sale, is that because you think the culture of your industry will collapse, basically be ruined, if it proceeds? Is that the risk that in fact you will lose your industry as a result of the sale?

**Ms FYSH** - It is definitely a risk but until we see something on paper we do not know how big that risk is or where on the ladder the greyhound industry is going to sit. How far under the other two codes are we going to sit? South Australia is a glaring example of how to get it wrong. They have fought for 10 years to get back on their feet.

**Mr BOOTH** - Are there other intangible benefits that flow as a result of government ownership of TOTE at the moment that are not included in the stakes and

bonuses and so forth, so whatever you provided to the industry that would be part of that like access to the training facilities, say, or facilities generally that might be taken away by a private operator or a charge imposed?

**Ms FYSH** - We are still trying to get our head around the new structure. We are very early into the new structure and trying to get our head around who now has responsibility for this trial track or that race track or where to go for particular funding. We are still trying to get our heads around this. On top of that, there is this. It is difficult to bring the two together.

**Mr BULLOCK** - There are a lot of issues in our industry that need attention. I believe, and according to some administrators, there is a problem with the Brighton training track that part of it is going to be taken away for soccer. I do not think there is a lease to the place. I know that the Launceston Greyhound Racing Club still has not signed heads of agreement for Mowbray and they have been there since 2004, that is five years ago.

**Ms FYSH** - Hobart has not either.

**Mr BULLOCK** - These are all little administration issues that no-one seems to get to because they do not want to discuss it.

**Ms FYSH** - And no-one knows whose job it is.

**Mr BOOTH** - Is it a lot more than just the stakes?

**Mr BULLOCK** - Yes, a lot more.

**Ms FYSH** - It goes a lot deeper.

**Mr BULLOCK** - The stakes are part of it and that is thing that concerns us with the sale of TOTE, but there is maintenance and track maintenance.

**Mr GREEN** - What about Sky Channel?

**Mr BULLOCK** - It is a huge problem, Bryan, because at the moment I think TOTE and Sky Channel have signed an agreement up to the end of June. There is some doubt about Hobart staying on Thursday nights because it has become first track of the pay packet when everything can come in for nothing. It is where Sky Channel and the two major players, Victoria and New South Wales, once again, can get a product in that is not costing them anything, race field legislation and fees for buying their product. Tas TOTE will have to buy from New South Wales and Victoria what they are going to bet on. It is a whole changing world. Mind you, some of this was created by Greyhound Racing Authority of New South Wales originally -

**Mr GREEN** - Does it have an impact on potential dividends?

**Mr BULLOCK** - Yes, it does.

**Mr GREEN** - Changes on Sky can impact on your dividends overnight.

**Mr BULLOCK** - That's right.

**Ms FYSH** - Even down to how much time they allot you. If they do not give you a couple of minutes running into your race your turnover can be down \$10 000 or \$20 000 and you are talking a minute.

**Mr BULLOCK** - The other issue is that you are getting to is that if Hobart was taken off Thursday night and put on Tuesday morning there is going to be a huge downturn -

**Mr GREEN** - There is.

**Mr BULLOCK** - in TAB turnover. I understand that fully. I have discussed it with Sky Channel, I have discussed it with TOTE Tasmania.

**Mr GREEN** - Does Sky make those decisions or is it part of the -

**Mr BULLOCK** - I think Sky are dictating to the industry everywhere in Australia.

**Mr GREEN** - Yes.

**Mr BULLOCK** - The other issue with that is it is only New South Wales by Tabcorp. They always show the New South Wales races irrespective thereof and the rest are fill-ins. It is interesting to note that Victoria and New South Wales have the same number of programs on each occasion, the other States are just -

**Mr BEST** - I am interested in that you know a lot more about greyhound racing -

**Mr BULLOCK** - No, I do not.

**Mr BEST** - Where would be the top three or four places in the world for greyhound racing? Are we one of them?

**Mr BULLOCK** - Australia is one of them.

**Mr BEST** - How would you rate it if, as you said, Australia is one?

**Mr BULLOCK** - There is no doubt.

**Mr BEST** - What are the others?

**Mr BULLOCK** - Ireland, United Kingdom, America, Macau, Vietnam, Sweden and New Zealand. I went to New Zealand about 12 months ago and could not believe how far in front of us they are with stake money. The minimum stake in New Zealand is \$2 900 and they are there by default with their screening of a Sunday afternoon. No-one wanted to race Sunday afternoons so they did and their TAB turnover went up something like 78 per cent. Just as now everybody wants to get on Thursday nights and Sundays in Australia with Sky Channel, the little people are getting forced out of the game.

The other thing is, since the mines have folded in Western Australia, TAB turnover has gone down something like 43 per cent in the last two months and people in Western Australia were buying greyhounds from the eastern States, to race over there, that were miners and those miners have either lost their job or they have come back to the eastern States and some of those dogs have gone by the wayside.

**Mr BEST** - So out of that, just a quick answer. Where would be the most turnover or the most betting out of those places that you have named?

**Mr BULLOCK** - I think, population wise, probably the United Kingdom.

**CHAIR** - Thank you very much for presenting. You have done that with passion and I think we have heard it loud and clear. I must just remind you again, though, that what you have said in here is protected by parliamentary privilege. However, it is a different matter outside that door. Thank you very much to the three of you and we will keep going with our hearings.

**Mr BULLOCK** - Once again, Mr Chairman, thank you for hearing us today because I would not have been available next week.

**THE WITNESSES WITHDREW.**

**Mr COLIN HOWLETT WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.**

**CHAIR** (Mr Hall) - Colin, you are aware of our terms of reference. I think you may have given evidence to a parliamentary committee before, and you heard what I read out in regard to parliamentary privilege. Are you okay with that?

**Mr HOWLETT** - I understand, Mr Chairman.

**CHAIR** - Okay. I will ask you to make a presentation.

**Mr HOWLETT** - Mr Chairman, unlike my former colleagues, I will read most of my notes. Unfortunately I do not have enough money to own a greyhound, a harness racer or a galloper. So that is my position.

**Mr GREEN** - I fly pigeons.

**Mr HOWLETT** - I am thinking about flying pigeons, Bryan. If you tolerate me reading this, it is in two parts.

**CHAIR** - That is fine.

**Mr HOWLETT** - I have written a letter to the Minister for Racing which I would certainly like to share with you.

Objection to the sale of TOTE Tasmania. The three racing codes in Tasmania provide significant employment to a broad range of individuals involved in small businesses, including tourism, in this State. Historically, the three codes of racing provide socioeconomic benefits to rural communities who are unable to provide the diverse job opportunities in more populated areas.

We wish to submit that private enterprise's first obligation is to its shareholders and not to the individual owners providing the product. Many examples exist where governments have forced transfers of ownership of publicly-owned enterprises and pledged its intervention would provide improved economic and customer service.

In many instances when governments decide to sell a public profitable enterprise it has a pecuniary interest to prop up a poorly managed budget. We wish to submit that in the case of the proposed sale of TOTE Tasmania the Government must be accountable to the industry shareholders and in any sale contract must make provision for realistic, long-term finance (indexed) for the infrastructure, breeding and prize money.

**Mr GREEN** - Excuse me Colin, when you say 'we' who are you talking about? Are you talking about the general public?

**Mr HOWLETT** - I am talking about many people in the greyhound industry and I am talking about -

**Mr GREEN** - But you say 'we must' as if you are representing a committee or somebody else. Are you on your own?

**Mr HOWLETT** - I am representing life members of the greyhound industry; I am representing many people who are unable to come along and attend the meeting today.

**Mr GREEN** - You are saying that we must be satisfied -

**Mr HOWLETT** - Do you want to discredit my attendance?

**Mr GREEN** - Not at all. I am asking the question whether you are representing yourself or representing another group because it sounded as though you were talking about a committee or somebody else who -

**Mr HOWLETT** - I am talking about the racing code and if you let me go through the entire process, you will probably learn more of where I am coming from.

**Mr GREEN** - Fair enough, Colin, go right ahead. I was only trying to help.

**Mr HOWLETT** - There is a little heading 'Sustainability for the greyhound industry'. Historically the greyhound industry has been treated as the poor relation by governments over many years. And I have heard that repeated and inferred many, many times this morning.

The TCA on the Hobart Domain accommodated greyhound racing and training activities for a long period of time until the racing authority/Government needed additional reasons to spend significant funds to upgrade the harness racing track at the Royal Showgrounds at Glenorchy.

The racing authority was keen to secure funds for the harness racing and training facility at the Royal Showgrounds, however, they needed additional justification to obtain government funds. Eventually all greyhound activities accommodated at the TCA ground were transferred to the Royal Showgrounds.

No say, similar to what is proposed at the moment. The transfer of greyhound racing to the Royal Showgrounds presented many challenges linked to infrastructure and many difficulties relating to the shared facilities.

People who are in the operational side of greyhound racing would be able to share those challenges with you with lures breaking down, boxes not working properly, track disintegrating to the point where race meetings had to be postponed and all those sort of challenges. And that is the intent and the spirit of what I am saying about challenges.

Subsequent to the greyhound racing and training being transferred to the Royal Showgrounds the southern Tasmanian component of the greyhound industry incrementally lost its independence and became more reliant on outside influence.

That statement is purely focused towards the Government. The greyhound code had more sustainability at the old TCA grounds because they had an independent lease arrangement with the principle of the TCA and in many respects people would argue that they had more future there had they not been manipulated and taken away from their principle home.

For numerous reasons some greyhound participants preferred to use privately-owned training facilities. However, over time the privately owned facilities in

southern Tasmania disappeared. Thirty years ago there would have been 10 to 12 privately-owned training facilities for greyhounds, some of which were registered with the national body. My family had the first semi-circular track at Richmond registered during Mr Morgan's administration at the TCA ground. You had to go through a process there to go the tracks registered but that was one particular track. Many others were registered under the national greyhound regime.

Greyhound Owners, Trainers and Breeders Association was active in asking the Government to provide funding to commission and operate a much needed straight and circle greyhound training facility. Again, we were unsuccessful in obtaining funding. However, the GOTBA was mindful that the racing authority was starving the industry of infrastructure facilities and without alternative training facilities the greyhound industry would not be sustainable.

The following events have been documented and are in a separate briefing covering the GOTBA and the Howlett family providing funding for developing two training tracks on crown land at Brighton. The events over the past 23 years regarding the intent and spirit of the industry, which was intended to be a 99-year lease occupancy for the greyhound code, of approximately - and there is debate about whether it is 11 hectares or 12 hectares, but it is in that area of ground - 11 or 12 hectares of ground at Brighton which adjoins the horse training facility at Brighton. It is on the south-eastern end of the trialling facilities for harness racing and gallopers. Our understanding is that it is still under the one title. Historically the greyhound industry has not had the influence of other codes and in many respect has been handicapped from the provision of sustainable infrastructure. The racing authority, to the best of our knowledge, has not put money into training facilities other than on the proper principal racecourse venue.

Sometimes under difficult circumstances our participants have struggled to remain in the industry, which makes a significant contribution to the Tasmanian economy. Following large sums of money being spent on the horse training complex at Brighton, TOTE Tasmania is currently mowing grass on the straight greyhound track at Brighton. To the best of the greyhound code industry that is about the only dedicated money off the racing track proper that has been provided.

Employment and downstream benefits - racing authorities must recognise that the three codes of the racing industry provide significant employment throughout rural Tasmania.

Financial support for the other industries - historically governments have provided financial support for industry employment, however there is little evidence of the three industry codes receiving recognition in the same way. In fact, it is extremely difficult to access individual greyhound industry infrastructure programs which would support sustainability.

Essential tools required for a sustainable future for the greyhound industry - to provide sustainability the Government must enter into a legal contract providing a 20-year blueprint plan acknowledging that greyhound racing is an industry and future allocation of funds to be indexed to CPI for the provision of infrastructure, stake money, which must be fair and equitable and be performance-based.

The reason we say that is that is the greyhound, as I understand at this very moment, from a betting point of view, is producing a very significant amount of

betting revenue to TOTE Tasmania. In fact, it is getting very close to the galloping code.

The greyhound code must be provided with a fair percentage of revenue produced from betting turnover which must be divided into infrastructure, development and stake money. The allocation of funds must be tied, indexed and distributed to an independent group delegated by the code to represent the entire participants.

The Joint Standing Committee on Environment, Resources and Development are requested to reject the sale of TOTE Tasmania, based on not being in the best interest of the industry and the Tasmanian economy.

I certainly would like to be questioned on some of these things but, in the end, I thank the committee for providing me with the time to produce this.

**CHAIR** - Thank you, Colin.

**Mr HOWLETT** - I have a letter here that went to the minister.

**CHAIR** - Do you want to table that?

**Mr HOWLETT** - Do you want me to table it rather than read it?

**CHAIR** - Yes, you can table that, if you wouldn't mind.

**Mr HOWLETT** - This deals entirely with the Brighton fiasco with land. Mr Chair, there are two or three additional copies here if any individual member would like one.

**CHAIR** - Thank you.

**Mr GUTWEIN** - Colin, I am sorry I missed the first couple of minutes of your presentation. You mentioned that the greyhound code needs a 20-year blueprint and that under that there would be provision made for infrastructure spending for stake money etcetera. You said that it needed to be performance-based; I am wondering what you meant by that and how that fits in.

**Mr HOWLETT** - The reason we say that is simply that governments will say that they cannot guarantee revenue from government to government. In our view, it would be quite simple if it was performance-based, providing the Government is not permitted to run down an industry and that is the way it appears at the moment. As I said, and I am repeating myself, the greyhound code has no influence, politically or otherwise, or it doesn't appear to have had any influence over the years that I have been involved.

I was a long-life member of the Greyhound Owners, Trainers and Breeders Association and some 23 years ago I had seven or eight years involved with the association. That is how my family and I became involved with Brighton because we knew it was absolutely essential. If it is performance-based, and the Government is not allowed to run down the code, which it appears it is doing at this very moment, providing that is treated fairly from a performance-based point of view, I think we are talking about revenue earned from betting. At the moment the greyhound industry is producing very close to the amount of money that the gallopers are producing, well in excess of the harness racing. I think it could be very close to a photo finish between the amounts of money that the galloping

code and the greyhound code are producing in revenue. The argument would be that if they do not perform and they are treated fairly - and that will have to change because they have never been treated fairly - they would be quite happy to have it performance-based on betting turnover.

**Mr GUTWEIN** - That is fair enough.

**Mr HARRISS** - I want to go from the back of that. I want to know, Colin, do you have the statistical data to support that statement that you are getting close to the contribution that the gallopers make?

**Mr HOWLETT** - I do not have it here but I am sure I can access it for the committee.

**CHAIR** - If you could do that, thank you. You can provide that to the secretary when you can.

**Mr BOOTH** - Colin, thank you for your statement so far. What do you see as the threats if TOTE were privatised? Where do you see the greyhound industry being in the future?

**Mr HOWLETT** - Without being facetious, at the moment we getting our grass mowed on the straight track, which was provided by private money, and the Government absolutely did not, to my knowledge, put one cent into that. So the pluses are, at the moment, that TOTE Tasmania has been good enough to have the grass mowed on the straight trialing track at Brighton. That is a plus. We have made the evaluation that there is a better risk that TOTE Tasmania will treat the industry fairer; if we can prove to the politicians that we are not being treated fairly, we think there is a better proposition with the TOTE.

Needless to say, at the moment, at the Brighton Council the Government seems to be running a coordinated effort to incrementally squeeze the greyhounds out of the Brighton trialing facility. It is questionable whether, in fact, what the Brighton Council is doing is fair and reasonable from a planning perspective because, as I understand, that entire 11-12 hectares that we speak about is annexed as one title to the Brighton training complex. When the straight track went in there and the circle track was put in there, we were told that we did not have a planning problem because that section of ground, that 12 hectares, was already zoned for training purposes.

**CHAIR** - Colin, I think we need to move back to the core issue that we are here for today and it is about the sale of TOTE. I understand that is an issue that you have.

**Mr HOWLETT** - With the greatest respect, Chair, it is linked very closely to the sale of TOTE. If you rule differently I will have to accept that but I would think you are being a bit hard on me if you say it is not linked.

**Mr BOOTH** - Chair, for confirmation, it was following from a line of questioning about the effect of the sale. What Colin is detailing is a general support in the industry, off-track and on-track. I think it is relevant in terms of what I asked him.

**Mr HOWLETT** - The facility up there is extremely important for the future sustainability of the industry, for training, for people who want to use the facility to get the best performance out of their product for race nights. A lot of people do not like training their product on the track on which they race. I do not

understand the technicalities but they will tell you and I can provide that information if you so desire. It is absolutely imperative that the racing code does not lose that 12 hectares of land that was originally intended.. We were duded. I have heard comments here earlier where I believe the industry was duded, because when we went in there the intent and spirit was that we had a 99-year lease on that 11 or 12 hectares of land, which was growing white wattles at the time.

**CHAIR** - Okay, I understand the nexus.

**Mr BOOTH** - Do you think the total aggregated industry as whole would be able to come up with a blueprint for the future in terms of your funding needs, support, and infrastructure to maintain your present culture?

**Mr HOWLETT** - I am absolutely certain they could come up with a business plan. The answer to that is, yes, we can. But on past performance, I would not like our chances.

**Mr BOOTH** - So there is a lack of trust in what the Government -

**Mr HOWLETT** - There is a local trust. As I say, it is unfortunate but the greyhound racing code has never had the interest, really. Geoff Pearsall was the only elected member that I can remember who took an interest in greyhound racing. It was about the time he was minister that this took place at Brighton - 23 or 24 years ago.

**Mr BOOTH** - In terms of a privatisation and sale of TOTE, the areas that you would lose out on would be generally the off-track support that you are currently getting, off the racing track support?

**Mr HOWLETT** - Private enterprise is generally interested in bottom lines and unless there is a very robust legal contract, there is no way. You only have to cast your mind back to other public enterprises that have been sold. It is always said it has been for the benefit of the customer but it generally does not turn out that way. There is the lack of trust. There is the lack of previous support. There is the lack of private money being spent to provide these facilities that are now being eroded.

**CHAIR** - Thank you. Are there any further questions to Colin? Do you have a closing statement, Colin?

**Mr HOWLETT** - I thank the committee for hearing me. I plead with members of the Legislative Council not to pass this bill to sell TOTE Tasmania unless there are long-term legal and binding contractual arrangements to protect us. In my view, the galloping code will be okay. They have the right doors to open and they will be okay. I am very concerned about, to a lesser degree, the harness racing and the greyhounds, and the greyhounds are the ones that always miss out.

**Mr BEST** - A long-term contract for funding for the codes; is that what you are saying?

**Mr GUTWEIN** - That is a blueprint you are talking about, is it?

**Mr HOWLETT** - I am talking about a proper strategic plan with objectives to keep the industries, with particular reference to the greyhounds, vibrant and robust and producing revenue for the State of Tasmania.

**Mr BOOTH** - You feel that the obligation of Government, before they consider a sale, is to make sure they consult with you, get that blueprint, look at it and factor in whatever arrangements are made?

**Mr HOWLETT** - Absolutely.

**CHAIR** - Thank you.

**THE WITNESS WITHDREW.**

**Mr DON CHALLEN**, DEPARTMENT OF TREASURY AND FINANCE, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** (Mr Hall) - Welcome, Mr Challen. Don, you are well aware of our terms of reference and that is the proposed sale of TOTE by the Government of Tasmania and any other matters incidental thereto. I will hand over to you if you would like to make a statement and then you can take some questions from the committee.

**Mr CHALLEN** - I thought it might help if I made a brief statement outlining the structure and process that the Government has in mind in relation to the restructuring of the industry around TOTE and the sale. Members of this committee would be aware that some legislation has already been before the Parliament last year, and is now in place, that had the effect of separating the funding of the racing industry from the gaming operations of TOTE. That legislation established the Tasmanian Racing Board, which is now in place. It has left the TOTE as a business that is entirely focused on its gaming activities. Apart from that, the status quo hasn't changed and in particular the nexus that exists in the existing legislation between the income of the TOTE business and the funding of the racing industry has not changed.

The Government has in mind to bring two further pieces of legislation before the Parliament. One will be a set of amendments to the Gaming Control Act and the other will be a piece of legislation authorising the sale of the TOTE business. The amendments to the Gaming Control Act will break the funding nexus between the income of the TOTE and the racing industry. That will be replaced by a direct funding arrangement under which it is proposed there would be a funding deed, a legally-binding agreement between the Crown and the Tasmanian Racing Board. That will become the basis for the funding of the racing industry in the future. In addition, these amendments to the Gaming Control Act will provide for the licensing of the totalisator activity that is undertaken by the TOTE at present and bring the TOTE within a regulatory framework that is identical to the framework that other operators in the gaming industry are currently subject to. The mechanism we have in mind to do that would be the creation of a new totalisator endorsement under a Tasmanian gaming licence. If you are familiar with the Gaming Control Act, it creates a number of endorsements under Tasmanian gaming licences. There will be a new one for a totalisator licence and the TOTE will initially be deemed to hold one of those. Obviously there will be the usual structures of taxes and fees that go with the endorsements under the act but beyond that the entire suite of regulatory infrastructure that applies to all other gaming activities will then apply to the TOTE, or ultimately after the sale to a private operator of the TOTE. So we are moving from a regulatory framework in which the TOTE has been subject only to self-regulation to bring them under exactly the same regulatory model that applies to all other operators.

The legislation for the sale of the TOTE will be pretty familiar to you; it will just have the standard requirements that are necessary for us to get a business sold. And once we have the suite of legislation in place the plan is then to go through a very conventional sale process for the sale of the TOTE, pretty much along the lines of the one that we used for the sale of Hobart International Airport Proprietary Limited in the course of last year.

We have engaged some advisors to help us with this process. We have a financial advisor who initially we engaged to help us with some of the industry aspects of the restructuring. Their contract also provides for them to advise us in relation to the sale. We have engaged legal advisors and we have also engaged a probity adviser.

With that Mr Chairman, I am happy to hand over to the committee for any questions you would like to ask.

**CHAIR** - Don, I might ask the first question of you. Can you give any indication of when any of those particular pieces of legislation might come before the Parliament?

**Mr CHALLEN** - It is probably a matter best addressed to the Treasurer whom I understand will be with you later this afternoon.

**CHAIR** - Okay. When did Treasury start analysing this proposed sale? Can you recall that?

**Mr CHALLEN** - Yes. We first began work on options in relation to the restructuring and the sale on 7 May in 2008.

**CHAIR** - Okay. And a business case for the sale, has that been prepared?

**Mr CHALLEN** - A business case for the sale, no.

**Mr WILKINSON** - Don, if I might. You have said that Treasury began work on the restructuring and sale -

**Mr CHALLEN** - Options for.

**Mr WILKINSON** - Options for, yes, in May. Is that the same with all GBEs?

**Mr CHALLEN** - I do not understand the question.

**Mr WILKINSON** - What I am asking is do you always look at options in relation to all GBEs as to whether they should or should not be sold?

**Mr CHALLEN** - Always is probably putting it a little strong. Let us say that we have the government's business portfolio under regular review and there are various trigger points at times that occur like changes of government and changes of minister where we might have a fresh look at the government's business portfolio. But Treasury has been providing advice to Treasurers probably for more than a decade that we felt that the TOTE business was not one that any longer sat very well inside a government business portfolio. Our reviews of the government business portfolio would have had it in a category that had it available for sale if a government was of a mind to do that.

In this particular case we had a discussion with the Treasurer around 7 May which led to me internally commissioning some work that has ultimately grown in advice to government that has led to a decision that the Treasurer announced on 8 January 2009, as I recall. Which has ultimately led to these announcements.

**Mr WILKINSON** - At the start of December 2008, how far were you down the track of giving that final advice to the Treasurer to allow him to make a decision with obviously the rest of government to sell?

**Mr CHALLEN** - We were well advanced. We had provided a series of discussion papers to the Treasurer on what needed to be done to restructure the business and ultimately sell it; about how you would go about a sale if the government was of a mind to do that. We had provided advice to the Treasurer that if he so chose he could take to Cabinet to seek approval for the sale.

I emphasise that at that stage no decisions had been made.

**Mr WILKINSON** - Do you know when that went to Cabinet?

**Mr CHALLEN** - Yes, I do. The Treasurer approved the cabinet minute for transmission to Cabinet on 19 December. I am not authorised, Mr Chairman, to reveal the next piece of information but I have specific approval in this case. Cabinet approved the sale of the TOTE on 22 December, which is my birthday, Mr Chairman - very auspicious.

**Mr WILKINSON** - That is right, I will remember that. That has thrown me off what I was going to ask as a matter of fact. I will defer.

**Mr GUTWEIN** - So that we are clear, Mr Challen, prior to early December - in fact I know it was 4 December - in an upper House committee Mr Aird said that there was no intention to sell TOTE at that stage. In the lower House a couple of weeks earlier, on 20 November, Mr Cox spoke, on behalf of the Treasurer and Minister for Racing, and he said numerous times that TOTE is not for sale. Had the advice received by the Treasurer or by government prior to 20 November on the recommendation to sell TOTE, been received?

**Mr CHALLEN** - No.

**Mr GUTWEIN** - On what date was that received by government?

**Mr CHALLEN** - It would have been in a minute we provided to the Treasurer on 19 November.

**Mr GUTWEIN** - My question was, was the advice received before 20 November?

**Mr CHALLEN** - The day before, yes.

**Mr GUTWEIN** - So it was?

**Mr CHALLEN** - I do not know when it was received. It was signed by me and left the Treasury on 19 November. Often, these things take at least 24 hours to get to the Treasurer's office.

**Mr WILKINSON** - Don, the question I was going to ask concerned the restructuring and the selling. Did the TOTE have to be restructured or the racing legislation that we had before us towards the end of last year in relation to restructuring, did that have to take place for the sale?

**Mr CHALLEN** - Yes. The restructuring could take place without the sale, but you could not have sold that business in the form it was prior to that restructuring.

**Mr WILKINSON** - Was the restructuring partially done in order to allow it to be placed for sale?

**Mr CHALLEN** - The restructuring was done because it was a good thing to do. It was in the TOTE's interest and in the interests of the racing industry. One of the things the restructuring has done is to much improve the focus of the TOTE as a business and I think it has positioned us to put the funding of the racing industry on a much better and more secure, more certain footing going forward. All those things were a good idea, but you could not have sold the TOTE business without doing the restructuring. Decisions were made that government would proceed with the restructuring and bring the legislation that came to Parliament late last year forward a long time before any decisions were made in relation to the sale.

**Mr WILKINSON** - What I am wondering is, was the sale always part of the reasoning behind the restructure? I understand the argument that was used -

**Mr CHALLEN** - It depends in whose mind. In my mind, yes, because I was advising the Government to proceed with the sale all along. In the Government's mind you will have to ask the Treasurer because the Government considered the issues in sequence. It considered the advisability of proceeding with the restructuring and did not give the sale any particular attention. Then late last year, as you know, it turned to consideration of whether they would proceed with the sale. On 22 December Cabinet made a decision that they would and the Treasurer announced that publicly on 8 January.

**Mrs RATTRAY-WAGNER** - Mr Challen, can I take you back to February 2003 - and I know that is quite a way back. There is a document called 'Government Business Divestment' which states in a table that TOTE would be an unlikely candidate for a sale. Can you tell me what happened between 2003 until when you arrived at the decision that TOTE was a good thing to sell? I need to understand how things have changed quite significantly.

**Mr CHALLEN** - I would have to review that document and the circumstances of it, but it no doubt reflects the thinking of the time. It probably reflects the thinking of the minister and the Government of the day that they were not interested in selling the TOTE. We prepare assessments like that of the government business portfolio from time to time and they reflect the realities of government policy of the day.

For instance, if you saw a document like that today, you would not see the three electricity businesses listed in a column for sale because the government policy of today is definitely not to sell those businesses. One thing that changes is a willingness on the part of government to consider selling certain businesses and the other is changes in market conditions. In 2003 not as many Australian governments had sold their government-owned totalisator businesses as now have. It is just that circumstances change through time.

**Mrs RATTRAY-WAGNER** - It also states that the divestment of any business should not occur until a thorough due diligence process has been conducted. Do you consider that that has happened?

**Mr CHALLEN** - We have just about completed that. We are in the process of doing it at the moment.

**Mrs RATTRAY-WAGNER** - Is there no actual final due diligence material that we could look at at this point in time and say that is the right thing to do and so the sale should proceed?

**Mr CHALLEN** - With respect, I do not think you should look at that due diligence material ever. I think for that to get into your hands would seriously put at risk the price that we might get for that business. I would certainly counsel you not to ask for it.

**Mr BOOTH** - Chair, I was going to ask that the committee order the disclosure of all those documents, including the due diligence reports. In fact, I am somewhat concerned from what I have just heard that the decision to sell TOTE may have been made well before both Houses of the Parliament were advised. In order to get to the bottom of that, we are going to need to look at the contract regarding the restructure which is also advising the sale. Was that with Clayton Utz?

**Mr CHALLEN** - No, the advisers are Deloitte. Clayton Utz are our legal advisers. Mr Chairman, this committee summonsed me to produce a wide range of documents, which I have with me.

**CHAIR** - Did you say you have these documents with you?

**Mr CHALLEN** - I have them in my briefcase. I am proposing to pass them to the committee, after I have made a statement in relation to the material, at a convenient time to your committee and the contract that Mr Booth is referring to is in that folder.

**CHAIR** - Would you like to make that statement now or Kim, have you finished your questioning?

**Mr BOOTH** - Certainly, either way, Chair, I am happy for Mr Challen to make that statement. I have not finished this line of questioning.

**CHAIR** - Okay. We will do that in camera when you give that.

**Mr CHALLEN** - It might be convenient to do this at a later stage of the hearing.

**Mr GREEN** - Yes, that is exactly right. I was going to say that they are going to do that in camera.

**Mr BOOTH** - What date was the contract about the restructuring and advising of the sale that was made with Deloitte? You did mention it before but I didn't get that.

**Mr CHALLEN** - The contract with Deloitte was signed on 11 December. They started work for us before that. They were advised on 24 November 2008, that they had won the mandate and they began work for us on that date but we did not sign the contract until 11 December 2008.

**Mr BOOTH** - But weren't they contracted to do the restructure advice?

**Mr CHALLEN** - Not to us.

**Mr BOOTH** - I made a note that you said you had a contract for advice with someone and I think you said it was Deloitte at the time - the same people to do with giving advice about the restructuring of the industry.

**Mr CHALLEN** - But they were only commissioned to start that work on 24 November.

**Mr BOOTH** - After the restructuring had been passed through Parliament.

**Mr CHALLEN** - No, the restructuring had not been passed through Parliament at that stage.

**Mr BOOTH** - November last year?

**Mr CHALLEN** - I don't think so.

**Mr BOOTH** - The industry restructure regulations went through on 23 November.

**Mr CHALLEN** - In any event, that is when they commenced -

**Mr BOOTH** - I am somewhat confused here. You contracted Deloitte to advise on an industry restructure, from what you have said -

**Mr CHALLEN** - No, not on the industry restructure, on the restructure of the TOTE.

**Mr BOOTH** - Did they give you advice about the restructure of the industry itself?

**Mr CHALLEN** - Not prior to that, no.

**Mr BOOTH** - At the date it went through the House, sometime at the end of November, you engaged with Deloitte to give you advice about how to sell TOTE?

**Mr CHALLEN** - We engaged with them to give us some advice in relation to restructuring TOTE. A second part of the contract goes on to give advice in relation to the sale, but in fact they have hardly done anything under the second part of that yet. Most of the work that has been done to date has been on the structure of the business, what you have to do to make sure it is a viable business going forward. They have been doing a due diligence exercise for us as part of that contract.

**Mr BOOTH** - Will you be tabling that contract and the documents?

**Mr CHALLEN** - Yes.

**Mr GUTWEIN** - I have two questions and one is in regard to due diligence. On 24 November you contracted Deloitte to look at the restructuring of TOTE, including the due diligence required for a sale?

**Mr CHALLEN** - Yes.

**Mr GUTWEIN** - That is one month almost to the day before Cabinet approved the sale of TOTE. Would that be normal to be as pre-emptive as that?

**Mr CHALLEN** - We needed the work done.

**Mr GUTWEIN** - Even if there wasn't going to be a sale?

**Mr CHALLEN** - You will see when you see the contract that it is structured in such a way that there are two distinct bodies of work - they are quite separate - and I don't have to proceed with the second body of the work - and I don't want to - if the Government did not proceed to approve the sale. I structured the contract in such a way that the restructuring of the TOTE business advice I could get and then I could get the adviser to go on and give me the advice in relation to the sale.

There is something I would like to add, Mr Chairman, but I don't want to say it in public. I can add it later, if you like. I will explain to you why I structured the contract that way.

**CHAIR** - I accept that advice. We'll keep that until later.

**Mr GUTWEIN** - The other question is in regard to the decision-making process of government. I think you were asked a question earlier about whether or not a business case had been prepared for the sale of TOTE and you said that it hadn't.

**Mr CHALLEN** - Yes.

**Mr GUTWEIN** - On what basis did you provide advice then to government that it should proceed with the sale if the business case wasn't prepared? On what basis would Cabinet have made a decision to proceed with the sale of TOTE if there wasn't a business case prepared?

**Mr CHALLEN** - I don't understand this interest in a business case. It is not normal to do a business case when you are going to sell something. It is next to impossible to do that until you know what you can get for selling it. The reality is that, as part of the sale process itself, the final step before you recommend to the Government that it proceeds to sell to the selected bidder, is that you provide advice that the outcome of the sale will produce a preferable outcome to maintaining ownership of the business. I don't understand the interest in a business case.

**Mr GUTWEIN** - Could you explain the basis of the advice because perhaps that included the information that might be included in the business case?

**Mr CHALLEN** - The advice was around whether a totalisator business was something that was a good thing to have in the government business portfolio. Our view is, and has been for some time, that there is no particular reason for a government to own a totalisator business. Why would you? We had some connections between our totalisator business and the funding of the racing industry that provided a bit of an attachment within some quarters inside the public sector intending to own the TOTE, but that was a bit of an oddity. When you take that away and replace it with something that provides better and more certain funding to the racing industry, you are then left with a business that has no particular reason for being within the government business portfolios, in the same category as the Printing Authority. Why would you own a printing authority?

**Mr GUTWEIN** - In regard to that advice and using the Printing Authority as an example, any business has, hopefully, a profit at the end of the year. It would

provide either dividend to government or tax equivalents. The TOTE, quite separate to the functions of the Printing Authority, provides a much greater benefit to Tasmania than what it simply declares in profits or the dividends to government or tax equivalents.

**Mr CHALLEN** - Does it? What benefit is that?

**Mr GUTWEIN** - The Chairman of Racing indicates that TOTE in the last 12 months has paid around \$23 million to the Tasmanian racing industry and that would be a benefit to Tasmania, would it not?

**Mr CHALLEN** - If the racing industry gets the \$23 million from somewhere else, there is no particular benefit from having the TOTE to the racing industry. The only benefit is that a racing industry needs a certain level of funding.

**Mr GUTWEIN** - Mr Challen, that goes to where my question was going, if I could finish. That advice to government and that provided advice as to how that sort of benefit to the Tasmanian racing industry might be protected under any sale.

**Mr CHALLEN** - Yes. What we have proposed and what I understand the Treasurer is proposing to do is to put in place a funding deed with the Tasmanian Racing Board in which the funding to the racing industry would come directly from the government budget. So the racing industry, instead of having an uncertain stream of income coming from the TOTE, subject to the vagaries of how the TOTE business performs, will have a certain stream of revenue like other things that are funded by the Government.

**Mr GUTWEIN** - Are the parameters of that deed in the document you are going to share with us or not?

**Mr CHALLEN** - No, they are not.

**Mr GUTWEIN** - Are you at liberty to share the parameters of Treasury's view in regard to that deed?

**Mr CHALLEN** - No, these are matters that are under policy discussion at the moment and that question is best put to the Treasurer.

**Mr WILKINSON** - I suppose one question could be, Don, was the advice received? Is it classed as ideological or philosophical advice or based on hard-nosed accounting and economic analysis?

**Mr CHALLEN** - It is definitely hard-nosed and it is definitely based on analysis. I do not think it is ideological or philosophical. But what businesses governments need to own are subject to a bit of fashion. Fifty years ago there were different views around about what were good things to be in government business portfolios and life is different now. Totalisator businesses were owned by probably all State and Territory governments in Australia up until a decade ago and now we are amongst the last to get rid of them. Likewise, 50 years ago I imagine every government had a construction business like our old department of construction and probably they all had government printers as well but now nobody does. You could say it is, in part, subject to a bit of fashion.

**Mr WILKINSON** - Why now? Is it because -

**Mr CHALLEN** - Sorry, if I may just finish that bit.

**Mr WILKINSON** - Yes.

**Mr CHALLEN** - Our view is that governments are not bright at being business owners and they are better off to confine their ownership of businesses to things that really need to be inside the government business portfolio.

Why now? We think this is a good time. The TOTE business has been performing well and there is no certainty that the business will continue to perform well. It is a very cut-throat, competitive business that it is operating in. So why wouldn't you exploit an opportunity to sell it when its value is probably at a relative high?

**Mr BOOTH** - Do you have a formal analysis of that or is that just a personal opinion?

**Mr CHALLEN** - It was a personal opinion based on, I confess, not huge expertise of the industry, but we have subsequently taken advice on that from expert industry advisers which confirms it.

**Mr WILKINSON** - Without sitting from outside in the upper House, Don, one could argue that the economy has been travelling well over the last x amount of years. Tasmania is still doing well, it would seem, as opposed to other States and certainly countries. But there are going to be difficulties with the budget as a result of GST and as a result of duties, payroll tax maybe, et cetera. Was the major reason for the sale in order to allow the Government to continue to fund things which they would not have otherwise have been able to fund if they do not sell the TOTE?

**Mr CHALLEN** - The decision was not directly made around particular budget pressures that existed at a point in time. But for a few years, the Government has been putting a particular priority on infrastructure spending, one I strongly support. The experience with the airport sale demonstrated the benefit that you can get from divesting yourself of a business that you do not really need to own in terms of having some money available to put into significant pieces of infrastructure - our irrigations schemes, our transport hub, road upgrades and the like. So selling a business that is ripe for sale is attractive when we can put the funds to good use, particularly on infrastructure.

If you hold the view, as I do, that the Government does not need to own this business, why would you keep it? Why wouldn't you put it into public infrastructure?

**Mr BOOTH** - It is not for the benefit of the industry that it is being sold, then? It is clearly to grab the cash and put it into something else?

**Mr CHALLEN** - I would not characterise it like that, Mr Booth. But no, it is not for the benefit of the industry, though I think that the industry will be better off as a result of these arrangements. It is an act of faith that the TOTE business is going to continue performing well. If I was a member of that industry I would be very happy to have my uncertain revenue stream tied to the fortunes of the TOTE replaced by a very certain and secure income stream coming directly from the Budget.

**Mr BOOTH** - I am intrigued in regard to what you said about the business case and your view that in fact it would not require a business case in this regard because you are simply selling the business on. I do not think I'm in conflict with what the Auditor-General's evidence was this morning that clearly you should have a business case prepared that takes into account all of the aspects, both social and economic, of the value of TOTE to the industry as a whole and that you would actually have to look at that. From a probity point of view that would be the appropriate thing to do. What have you got to say about that?

**Mr WILKINSON** - Certain evidence was in camera.

**Mr CHALLEN** - It doesn't matter; I do not know what he said so I cannot react to something I did not hear. Let me reiterate; I do not agree that it is necessary or appropriate to do a business case before you make a decision about whether you sell a business like this. You need to do what you would do in a business case at the final stage when you know what the market value of it is. How would we have done a business case for the airport sale, for instance. What price would you put on it to decide whether it was better sold or retained?

**Mr GUTWEIN** - That is ridiculous, Mr Challen. You must have had a bottom-line figure that a business case would support to say, 'Well, okay, if we do not get that price then we will not go to market'.

**Mr CHALLEN** - Indeed, but that is the retention value.

**Mr GUTWEIN** - So have you done a business case on that basis for the TOTE?

**Mr CHALLEN** - No, I have already answered that question. We have not done a business case for the sale of the TOTE. We will at the final stage before we recommend that the Government goes ahead and sells it. We will show them what the analysis looks like and compare the sale price that is available to the chosen bidder with the retention value of the business. If the sale price exceeds the retention value then we will recommend selling it and if it doesn't we won't.

**Mr GUTWEIN** - Then how can you justify the money that is obviously involved to this point in going through the process in engaging Deloitte's to look at his and do due diligence before taking it to the market to know whether or not? If indications early on through the process are that  $x$  can be achieved but you know that you need to get  $y$  to even make it worthwhile going forward, how do you put in place those sort of decision-making deal-breakers, if you like, that would stop you going right through to the end of a sales process where you actually get to a point where  $x$  price is achieved and you say, 'Well, gee, it has taken us six months but no, that is not going to do the job for us. I wish we had pulled out earlier'? That is a ridiculous proposition.

**Mr CHALLEN** - With respect, I do not think that any of my propositions are ridiculous.

**Mr GUTWEIN** - Well, I think that one was.

**Mr CHALLEN** - I do not think that it was and I take offence at being told my propositions are ridiculous. We have done some analysis on what the range of possible proceeds from a sale is and that analysis gives us a degree of confidence that the proceeds of the sale will exceed the retention value of the business. But that is not a business case; that is just a bit of analysis that gives

you some confidence that a recommendation to government that this business is suitable for sale is a good recommendation.

As I have said twice now, when we get to the end of this process we will have to give a recommendation to government on whether they proceed knowing then that the final bid price either exceeds or does not exceed the retention value. It is possible we will get all that way down the track and find that the offered sale price does not exceed the retention value, in which case we will say to the Government, 'Do not proceed'. I think that is a fairly unlikely outcome in view of the analysis that we have done and the advice that we have received from our expert advisers.

**Mr HARRISS** - I think it is important to keep developing this point as people are going because I was going to go down the business case path.

**Mr BOOTH** - Do you not think, Mr Challen, that there should be a social licence to sell something like this. The sale of a GBE that provides a lot of ephemeral benefits beyond just the raw dollars that come back into the Government needs to be considered, which is what the business case, one would have thought, should have assessed - the actual contribution that TOTE makes, not just revenue flows to the Government but industry support. A lot of that, from what we have heard, is ephemeral, intangible. It creates community, it maintains the culture of racing and it keeps the people that provide the product alive and sustained and so forth. There is a huge amount of concern out there in the different industry codes that TOTE's sale could destroy the culture of racing and the culture of their industries and associations, because that is the picture that has occurred since the tri-co-location and in fact even earlier than that. The people that provide the products are going to be losing their social activities and culture and microeconomic activities that flow from that big family of people involved in racing. Therefore, why is it that you seem only to have a focus on the actual dollars that flow to the Government, the retention value of TOTE based on dollars alone?

**Mr CHALLEN** - The operations of the TOTE provide two sorts of benefits. They provide a flow of funding that at the moment goes to the racing industry and they provide employment and payments to contractors and so on, so they have a place in the overall economy. It does not matter who owns the business; if the business is here and is operating then all those other benefits, other than the flow of funding to the racing industry, will continue. Government does not have to own it. Look at the airport. The Government does not own the airport anymore but planes still land, people park their cars, the shops sell goods, people at the airport are still employed.

**Mr BOOTH** - With respect, sure the airport has changed. They are now a business and you are paying twice as much to park your car than you used to so there has actually been, I would argue, quite a detriment to the average person who goes out to the airport. They might be able to get a better cup of coffee, perhaps, or something like that through privatisation but what about something as complex as an industry which has been based around something like TOTE for a fair while? What I am putting to you is that there are a lot of things that are difficult to actually assess, unless you analyse it with some sort of social impact study at least. You can do the economic stuff in terms of the value of the airport itself in terms of income streams to the Government, but the economic and social activity around TOTE at the moment and around the industry needs to be analysed to make sure that you are getting the full social licence to sell the business off

because it is a lot more than just the income stream. Unless you protect that and know what it is then it could have a detriment on the industry.

**Mr CHALLEN** - I just have to say I do not agree with you. Putting aside the benefit that the racing industry gets from funding - and we have an alternative way, a better way of doing that - apart from that, all of the benefits that you get socially or economically from the existence of the TOTE will continue with somebody else other than the Government owning it. I do not think there are ephemeral benefits. I think the culture of the industry and the way it relates to communities and so on comes from the racing industry and the funding that comes to the racing industry. It has nothing to do with the TOTE at all. The connection between the TOTE and the racing industry is just an accident of history.

**Mr BEST** - With the tracks, the ownership of the venues, who owns them?

**Mr CHALLEN** - Those bits that were previously owned by the TOTE, under the legislation that has already been passed by the Parliament, will go to the Tasmanian Racing Board. It has not actually happened yet. There is a transfer notice that is in the process of being sorted out so the mechanics of getting the old racing assets and liabilities that were with the TOTE into the hands of the Tasmanian Racing Board has not happened. As I understand, it is being worked on at the moment, but it will happen.

**Mr BEST** - At the moment, although I do not expect you to be able to answer this in detail, who owns the tracks? Are some owned by TOTE and some not?

**Mr CHALLEN** - Mr Best, I do not know in detail. I understand in concept that TOTE owned some of the infrastructure and some of the infrastructure was owned by racing clubs. Nothing will change, apart from the fact that those bits that were owned by the TOTE will become owned by the Tasmanian racing industry but beyond that, this is not my field.

**Mr BEST** - This might be commercial-in-confidence here, but is that part of the deed, looking after those facilities?

**Mr CHALLEN** - The deed is about funding. It is about how much money the industry is going to have for its recurrent funding and its capital works. The ownership of assets has already been dealt with in the legislation that Parliament passed last year and all that remains is just a little bit of mechanical stuff to move the assets from TOTE's books onto TRB's books. A rather simple thing in concept but a bit messy in practicality.

**CHAIR** - Members, I am aware that we have probably a considerable amount of work to do in camera and we are down to about 18 minutes or so to go for Mr Challen.

**Mr HARRISS** - Don, just going back to your comments about 7 May last year when you first started assessing options. You said something to the effect that you had a discussion with the Treasurer around that time about the possible sale. Who initiated that discussion?

**Mr CHALLEN** - That particular discussion I do not recall, Mr Harriss. There had been conversations going on around these issues since Mr Aird became Treasurer. He became Treasurer in March 2006, if I remember rightly, and I have been having conversations with him around the government business portfolio and around things like the airport and the Printing Authority and other

businesses since then. So there would have been a conversation that took place a couple of days before and you will see in this pile of information I am going to leave with you some e-mail exchanges with Mr Aird's office in which I was given authority to commence some work, and I commenced work. You will see e-mails from me to my staff asking them to do various things to get stuff under way.

**Mr BOOTH** - With regard to the TOTE at the moment, there is no dividend coming back to the Government, I believe, and it has not come back for a few years, is that correct?

**Mr CHALLEN** - We have arrangements for a special dividend in place that has been suspended. I would have to check, Mr Booth, I do not recall off the top of my head.

**Mr BOOTH** - Yes, I thought legislation went through that absolved them of a couple of years of non-payment and, in fact, the legislation was that no-one had to pay a dividend. I may be wrong but I thought that is what we passed.

**Mr CHALLEN** - It does not ring a bell but I would have to take the question on notice.

**Mr BOOTH** - But in terms of cash, you do not think there has been a dividend coming back and after years suspended or otherwise, a special dividend?

**Mr CHALLEN** - My understanding is, and I would have to check, but I do not think there has been any direct benefit to the budget from the operations of the TOTE for some time.

**Mr BOOTH** - So if it were to be sold, if that was the decision that it was sold, where would the extra fat come for the person who bought the business if they are already incapable of paying a dividend? Isn't that going to rack up the race day charges? They have to get an income stream somehow, so how are they going to do it?

**Mr CHALLEN** - They are not capable of paying a dividend to government because they are paying all of their income to the racing industry. They are still a very viable, profitable business. It is just that everything that comes out of the TOTE business ends up in the racing industry.

**Mr BOOTH** - As far as the public are concerned, we own TOTE and the budget is all out of the public purse. So let us say the net return at the moment might be going from TOTE to the racing industry. Are you saying, sell it and then transfer that obligation back to the budget, consolidated revenue?

**Mr CHALLEN** - Yes.

**Mr BOOTH** - So, somewhere, the person who is buying TOTE is going to want to make more than the current return to the industry otherwise they are not going to buy it, are they?

**Mr CHALLEN** - They, I expect, will look at the opportunities for growing the business with synergies with their existing businesses, all the usual things. People will see it as a desirable asset simply because it provides a good, steady return. There is an awful lot of superannuation money around at the moment just

desperately looking for good yield and secure businesses. So that is one of the reasons we think that is an attractive business to sell at the moment.

**Mr BOOTH** - But if that yield was available in that business, it ought to be coming into it now and flowing back to the racing industry.

**Mr CHALLEN** - But it is flowing to the racing industry, that is the point.

**Mr BOOTH** - If it is going to be of no net benefit then, other than allowing a privatised operator to bring in additional revenue -

**Mr CHALLEN** - The net benefit is, we are going to get the sale proceeds.

**Mr BOOTH** - But I think the detriment will be to the race day participants, the people that park their cars. All sorts of things are going to happen as a result of a privatised TOTE.

**Mr CHALLEN** - No, because those things depend on the funding of the racing industry and they have nothing to do with the TOTE.

**Mr BOOTH** - With respect, that is not correct. I am talking about in terms of the globalised pool of money, whether it be a public asset owned by TOTE or whether it be consolidated revenue. If there is a cost shift from the support of the racing industry, away from TOTE and back to consolidated revenue, unless we get that back as a benefit somehow through some taxation on TOTE turnover or something, I cannot see this isn't going to result in increased charges, like at the airport.

**Mr CHALLEN** - I find your thought process a bit obscure.

**Mr BOOTH** - I am sorry that you can't understand those complex issues.

**CHAIR** - We seem to be going around and around in circles here. At this stage we only have 15 minutes left. We need to move in camera. Therefore I would ask that people clear the room.

**THE HONOURABLE MICHAEL AIRD, TREASURER, WAS CALLED AND EXAMINED.**

**CHAIR** (Mr Hall) - Thank you for appearing before the committee, Michael. Obviously being a minister of the Crown, you do not have to be sworn in. At this stage I will invite you, Treasurer, to make a brief statement to the committee and then I will open it up for questions.

**Mr AIRD** - I think there are a number of issues in play at the one time and my view is that we have, on one hand, a racing industry and, on the other hand, a wagering industry and I have always had a view that I did not think it was a government function to run a wagering industry but it was a government function to support the racing industry. So from very early on in my time as Treasurer I had a view that I thought TOTE should be in a position where it could be divested at some stage. Obviously that takes in a lot of judgment and a lot of information in terms of understanding the markets and where we can go from there.

I think it is fair to say that over a period of time, initially, I did not think TOTE had enough value in it to be an asset which was suitable for divestment. I now believe the time is right and that is why we announced that we are prepared to divest TOTE.

Obviously there has been some concern about the racing industry and the funding model for that, and I think that is a legitimate concern for them and I am working with the Tasmanian Racing Board to put in place a funding model which should be in place for the duration of 20 years. There are two components for that funding model.

One would be in terms of capital expenditure and the other would be on the operational expenditure, and I have said that the racing industry will be no worse off than it is now in terms of its funding. We have not concluded our discussions about that but I believe we will be able to get to an agreed position. It is my intention to sign a deed with the Tasmanian Racing Board which will give allocations over a time frame. With the model that I am looking at the deed would endure for 20 years. There would be initial allocations for four or five years on a rolling basis and we would negotiate the sixth year within the second year, if you can understand the methodology. That would allow us plenty of time to understand how we would make those allocations and obviously that would have to be transferred by virtue of the Consolidated Fund.

With the wagering issue, the principle is whether TOTE is part of core government business. If you say it is, obviously there is a difference of opinion about that. The other question is whether this is the right time? I have satisfied myself over a period that now is the right time and -

**Mr BOOTH** - How did you satisfy yourself of that?

**Mr AIRD** - A number of different things. Basically after observing what is occurring with wagering industries generally around Australia and what is happening in Victoria, I think we can extract optimum value out of TOTE now, considering that it has had a 30 per cent growth in turnover. In any divestment you have to in a data room show the data that will encourage someone to offer the optimum price. If you compare TOTE's revenue performance with that of similar wagering

operations you will see that they are out-performing them in terms of turnover and that -

**Mr BOOTH** - Have you advice as to that? Did you actually get formal advice or -

**Mr AIRD** - There is a range of areas of advice and one is my knowledge of those potential organisations that might be interested in this type of asset.

**Mr BOOTH** - Personal knowledge?

**Mr AIRD** - Yes, personal knowledge. In the end, this is a judgment call. We took some advice from Deloitte about the appetite of the market, the potential bidders and whether they had enough capital to actually buy it.

**Mr BOOTH** - So you actually sought advice from Deloitte as to whether you should sell or not?

**Mr AIRD** - I know there has been some discussion generally about it. Deloitte were engaged for two parts really. They were engaged in terms of the separation of the wagering from Racing Services and I also sought preliminary advice from them in terms of the market at the time, if you like, if I wanted to support the divestment. So Deloitte were engaged at that level and by the time that I had signed off on a cabinet submission on 19 December I had had advice in terms of that information from Deloitte.

**Mr BOOTH** - For the market appetite?

**Mr AIRD** - Yes.

**Mr WILKINSON** - When was that?

**Mr AIRD** - That was part of the cabinet submission.

**Mr WILKINSON** - What was the date?

**Mr AIRD** - In terms of?

**Mr WILKINSON** - One, when you asked for that advice from Deloitte and, two, when you got it?

**Mr AIRD** - I need to go back and check the actual dates, but I do know that I wanted commentary from Deloitte in preparing the cabinet submission, so it would been probably around the 19th - I actually know that on 19th I had that information.

**Mr WILKINSON** - The 19th of?

**Mr AIRD** - December.

**Mr BOOTH** - Can you table any advice for us?

**Mr AIRD** - It is a cabinet submission.

**Mr BOOTH** - You can table that.

**Mr AIRD** - No, I cannot.

**Mr BOOTH** - We might have a different view on that.

**CHAIR** - Can you give the committee any indication on when the legislation might be tabled?

**Mr AIRD** - We are preparing basically three pieces of legislation. I had hoped today to give you a draft of the TOTE sale bill. It is still in draft form. I will give it to the committee when I am satisfied that it is a closer final draft than it is at the moment. There are bits that I am not satisfied actually give a true indication about what we intend to do and how we intend to divest that.

**Mr GUTWEIN** - I was wondering what part, if any, the Commonwealth's mid-year financial report might have played. It would have been released, I think from memory, in early November or thereabouts, and it showed that we would lose around \$300 million over this year in the forward Estimates with GST funding.

**Mr AIRD** - No. Let me be very clear about this. The time frame for making a decision was not affected by our fiscal position. It is true that through a successful sale we will gather some capital and that would be put to good use but that would be a transparent process in any event, it will not be part of this budget. It will not be factored in.

**Mr GUTWEIN** - Mind you, the problems that we face are going to be more far reaching than this budget as you well know.

**Mr AIRD** - I think it is a legitimate question. I am not saying that it had a capacity to affect; it is not going to affect our operational balance in that sense. The allocation will be in terms of investing in asset and therefore it will not be affecting our current expenditure to that degree.

The methodology will be that it will probably come in into the operating balance and affect the income of that and it will go to the Consolidated Fund to the operating balance and then it would be allocated in a way that would be identified in the various accounts it would be put to and that would affect most probably the fiscal balance but not the operating balance per se.

In other words, it is a bit similar that in the budget sense some of the allocations to nation building and so on it can throw artificial surpluses that do not represent your underlying business and how we are actually operating and what the ongoing operating costs are. Those types of events, in terms of transfers, will come in and affect your operating surpluses. To be quite frank, I would not sell the airport now in the current atmosphere.

**Mr BOOTH** - The superannuants would probably sell it back to you.

**Mr AIRD** - I did not say that as a provocative statement, I am just using it as an example.

**Mr BOOTH** - They would be pretty happy to get their cash back because what you are saying is it is not worth what you got for it now.

**Mr AIRD** - No, well -

**Mr BOOTH** - That's the corollary of what you are saying.

*Members interjecting.*

**CHAIR** - Order.

**Mr AIRD** - In fairness, let me finish what I was intending to put forward to you. We sold that at the peak market, no doubt about that. That was a timing issue. I believe that now is the time to sell TOTE. I know there is a strong appetite. There may be some local appetite to be a bidder and I know there will be some national and there could be some international as well and that is what I want to ensure occurs because I want a good competitive process to ensure we extract the optimal value from it.

**Mr GUTWEIN** - We heard this morning from the greyhound industry.

**Mr AIRD** - I heard they were very complimentary.

**Mr GUTWEIN** - I think it would be worth watching television tonight. I don't think I need to explain - you'll catch up in about an hour-and-a-half about what they had to say.

Obviously, one of the key issues that we have is the racing industry and their concerns about being supported. You've mentioned that there'll be a mechanism and a deed. I don't think that was something that we discussed in camera; I think that is something we can talk about. We know from the annual report that somewhere between \$20 million and \$30 million was paid to the racing industry last year. In fact, I think the chairman says in his annual report that last year it was \$23.5 million or something, in funding, that went to the racing industry. Will the deed reflect that type of amount?

**Mr AIRD** - Yes.

**Mr GUTWEIN** - The other question I have in regards to what you said about the rolling five years; I'm presuming that you get to year two, you renegotiate another five years which takes you through to six years so you're actually going to have 14 or 15 renegotiations of the deeds throughout the 20-year period?

**Mr AIRD** - That's the thing; you can have any variation of that if you like. If you go into four-year time frames, basically, we would be in the forward estimates, we think, in four-year terms but it could be five years. There's a bit of a mythology about the funding relationship now because everyone says that TOTE's a cash cow for the racing industry, but there's no guarantee of that. What we're saying is that we're prepared for a 20-year deed to wear any risk and we guarantee for the first time ever a 20-year funding model. I can give you an indication; I think that there should be an allocation of around \$40 million capex. The Tasmanian Racing Board would then deal with the allocations from that; they would work out the priority.

**Mr GUTWEIN** - So, \$40 million over the 20 years?

**Mr AIRD** - No. This would be dependent upon the sale. There are two ways to do it. You could just have a capital injection of \$40 million straightaway and they could have the benefit of that or you could have a phased approach over the term of the original four-year allocation. I haven't determined the proper model because I haven't completed my discussions with the TRB. Basically, the racing service's

costs are, in totality, whatever the allocation of the different funds going in, round about \$32 million. What I'd be prepared to do is to provide a guaranteed amount in the deed for x dollars and allow some avenue for the TRB to capture the sponsorship and the race field's revenue that is going to be generated in the future. That gives them a growth path for their own revenue but this underwrites the basic requirements that they have -

**Mr GUTWEIN** - And you've indexed that through?

**Mr AIRD** - Yes, we've indexed that through and we have thought about that a bit. We think, in terms of CPI, that we would try to get a fixed percentage to try to flatten out CPI variations. We are in interesting times -

**Mr GUTWEIN** - We are in interesting times.

**Mr AIRD** - And perhaps the best way to do that would be to settle on a percentage rather than just CPI so then they can plan with some certainty rather than just have the variations of CPI. We don't know when the Reserve Bank is going to come back and say CPI is important.

**Mr GUTWEIN** - And then it is back out of the bottle again.

**Mr WILKINSON** - We are jumping all over the shop, but we started off by asking about the time frames; is it fair to say that you received advice from Treasury that TOTE should have been sold or should be sold either 19 or 20 November of last year?

**Mr AIRD** - That would be about right. I think there was a brief that came through from Treasury around that time.

**Mr WILKINSON** - At that time, had there been any information that you'd seen from Deloitte or any other body suggesting that it should or shouldn't be sold?

**Mr AIRD** - Not that I can recall, no. In terms of making an assessment the annual report really highlights the financial performance of TOTE.

**Mr WILKINSON** - I can see over the last four years, from 2005 onwards, it has increased dramatically - well, not dramatically but certainly significantly and I can see it would be a good time to sell. But one could also argue the opposite, that it is a long-term one, and I suppose that is the argument.

**Mr AIRD** - Okay.

**Mr WILKINSON** - But in relation to 19 November or 20 November, there was advice that you were aware of at about that time that TOTE should be sold?

**Mr AIRD** - Yes. I have a time line that says 19 November, a minute to me with EEO, a cabinet minute for approval.

**Mr WILKINSON** - So was it at that stage that you would have spoken to others in relation to putting a proposal to Cabinet that it should be sold? Is that the way it goes?

**Mr AIRD** - When you say 'others'?

**Mr WILKINSON** - Other members of the Government maybe, or members of TOTE.

**Mr AIRD** - I did not canvass this very widely and you will notice here that even as late as 19 November when I got the original minute I did not approve it. I was satisfied that by that stage it should be sold but until then, until you sign off, it is not for sale. I was prepared then, as I am now, to back my judgment with the right information. I know that TOTE is a good business, I know there is an appetite for it and I also know that there are changes afoot within the industry that I think are going to be an interesting challenge, and I do not think government should be involved in that.

**Mr GUTWEIN** - In the wagering industry?

**Mr AIRD** - Yes, the wagering industry.

**Mr WILKINSON** - In relation to the restructuring of the industry which, as you know, occurred with final legislation around about November of last year, was part of the reasoning behind that that certainly it made it easier to sell, as you would be aware, and it makes it cleaner to be for sale, as you would be aware or should be aware?

**Mr AIRD** - As I started out by explaining, there are two parts here. It is true that they may have converged or crossed over at various stages but it was always my view as Minister for Racing that I wanted three distinct parts of TOTE - that is, the radio station, the wagering business and the racing business. In terms of being organised for divestment, that was a key decision in how we can separate those things. The other determinant was that it was always my intention to bring TOTE under the Gaming Commission and bring it under the Gaming Control Act, and we are going to do that in any event.

While the separation was never a motivation, I think you needed to have the separation in any event. To be quite frank with you, until you make a decision to divest you have not divested. I think the separation was important for good accountability and regulatory reasons. I think that indicates my belief that we needed to have the Gaming Control Act as a way of regulating the wagering business.

**Mr WILKINSON** - In relation to the knowledge now that you are wishing to sell, what is the difference between this year and last year? Some might well argue that with the GST down, as was stated by Peter, with stamp duties obviously going to be down, maybe payroll tax et cetera, there is going to be a hole in the budget and this is one way of filling that hole.

**Mr AIRD** - It does not actually, though.

**Mr WILKINSON** - It won't fill it completely. Does it fill it at all?

**Mr AIRD** - I will be quite frank with you. In relation to the operating costs, the ongoing recurrent, it does not fill the hole in terms of the pressure on the operating balance. It can assist in the allocations of capital works and infrastructure and so on - that is true - but it is not a direct fiscal mechanism, and that is why I was drawing the example. That, really, nearly is a coincidence. In my view, if I did not think there were a strong appetite and a strong competitive position relating to the sale, I would not be proceeding with it.

**Mr WILKINSON** - So you are saying the major difference now between January 2009 as opposed to January 2008 is the fact that you believe now is the right time as opposed to 2008, because there was still an increase in 2008, as you know? You could still argue the same questions that your view, and other people's views perhaps in government, was that the Government should not be involved with a TOTE. It would just appear to be thoroughly coincidental that here we are, hard times, let's sell.

**Mr AIRD** - That is very simplistic assessment.

**Mr WILKINSON** - Yes, it is. It is one that can be made though, is it not?

**Mr AIRD** - There are people around who will make these assessments, including politicians, and I understand they can make that judgment. If you look at the value in TOTE, you will see that the growth is there and the potential is there, and there are other aspects of the industry you have to put in international and national context.

**Mr GUTWEIN** - And the fact that we have a hole in the budget is just convenient timing.

**CHAIR** - Order.

**Mr AIRD** - But it is not going to go to the budget.

**Mr GUTWEIN** - But at the end of the day it is going to be able to be spent. It will become taxpayers' funds. Let us not muck about with it.

**Mr AIRD** - I agree with that.

**Mr GUTWEIN** - And I understand it will not hold up the operational problems that we have.

**Mr AIRD** - Of course. We believe that the results of the sale will be put to good use. In a political sense we will make judgments about that, the same way as you will or Mr Booth will say that it's a waste, or that we could do better with that, or whatever. I think that is a legitimate argument. I am quite happy to have that argument and we will have it.

**Mr GUTWEIN** - It is a reasonable debate.

**CHAIR** - Mr Wilkinson has the floor.

**Mr WILKINSON** - You can see the growth in TOTE over the last four years, and the last year especially. One could argue that in hard times betting increases - there is evidence to suggest that wagering increases - therefore the value could increase by January 2010, and if that is the case one could well argue why sell now. Why sell now when people wanting to purchase the TOTE may not have the same amount of money available now as they might have next year, or vice versa.

**Mr AIRD** - No, it could be worse.

**Mr WILKINSON** - You are saying it could be worse?

**Mr AIRD** - It could be worse. In assessing those types of opportunities and risks, my firm belief is that we will extract maximum value out of TOTE now.

**Mr BOOTH** - But you do not have any advice to that effect. It is a gut feeling.

**Mr AIRD** - No, we have advice, as I indicated, from Deloitte to say that the market is right for this.

**Mr WILKINSON** - That was going to be my last question. In relation to that, the only way you could make that decision, I want to suggest, is if you had independent professional advice to suggest yes, now is the time to sell, and are you saying that is what you got?

**Mr AIRD** - No, what I am saying is this: it is same judgment I made with the selling of the airport.

**Mr BOOTH** - So that was a gut feeling as well?

**Mr AIRD** - No. You know, you talk to people, you understand what's going on in the market. There are people involved in the industry, there are people involved in banks, there are people involved and -

**Mr BOOTH** - With respect, as the Treasurer, surely you'd actually seek broader counsel than the old mate at the pub, surely.

**Mr AIRD** - I did seek advice from Deloitte who gave preliminary advice to say the market was there.

**Mr BOOTH** - When was that?

**Mr GUTWEIN** - What date was that?

**Mr AIRD** - I've mentioned it before. That advice was incorporated in the cabinet submission that I signed on the 19th.

**Mr BOOTH** - But the advice was sought prior to that, obviously?

**Mr AIRD** - Yes.

**Mr GREEN** - With respect to some of the questions that were asked about the industry itself and the racing board, a lot of the discussion you've briefly answered a moment ago but the various codes, of course, are concerned about the proportion that they get from those funds. Is it then entirely up to the racing board and their ability to lobby through the racing board to achieve the best outcome for their particular code or is there some other mechanism that is being considered?

**Mr AIRD** - No-one was really satisfied with the old model. I believe that the new model allows for the best opportunity in the fact that all the codes have to meet with the board at various stages to put their view. Yes, it is up to the TRB to make their decision about how they allocate the resources. My job is to say, 'Here's \$40 million cap ex. You make your judgments about how best to spend that'. I base that \$40 million on a reasonable understanding about what are going to be the future developments in the racing -

**Mr GREEN** - That's capital expenditure but I'm talking about stakes money and -

**Mr AIRD** - Yes, and in turn the TRB will be making decisions about that and we will be ensuring that they won't be any worse off as they are -

**Mr GREEN** - But if the revenue were coming from TOTE, as it does now, the same position would exist; that is, that they would still make decisions about how that allocation goes.

**Mr AIRD** - Under the old model -

**Mr GREEN** - Yes.

**Mr AIRD** - TOTE would make those decisions.

**Mr GREEN** - So if it is never sold, if we don't get the right price for it and it's not sold?

**Mr AIRD** - Under the model now, we are saying that we can give greater security to the funding of the racing industry than ever before by signing a deed.

**Mr GREEN** - If a new entity buys it, it will be regulated?

**Mr AIRD** - We haven't quite determined the regime that will be in place in terms of taxation or licence fee and so on. We haven't determined that. To be quite frank, we need to get through this exercise we are talking about now but I am thinking about the model and obviously Parliament will have to consider that.

**Mr GREEN** - But the expectation is obviously that there are funds coming back to the Government as a result of their operation.

**Mr AIRD** - There will be some returns back to the Government, yes.

**Mr GREEN** - Yes. Some of the line of questions is that it is gone forever and that you don't get anything back at all.

**Mr AIRD** - No, what I am saying is that under the present arrangement with TOTE there's no guarantee of any of the funding. What I am actually providing is greater long-term security than they've ever had before. If you were relying on TOTE, you are relying on a wagering industry. I just make this point: the racing industry here contributes 6.5 per cent to the total TOTE turnover. That's why there needed to be a separation. This is a very serious wagering business and you can see where the growth factor is in its wagering business and really that's what we are trying to capture now, the value in that and put it to work for the Tasmanian people. That includes a very substantial commitment to the racing industry.

**Mr BOOTH** - There is something I do not understand here in your theory. You have this plum tree at the moment with TOTE which is at the moment looking after the industry, providing for the industry. It is like an internalised cash or income stream that is used by the industry to keep itself going. You are proposing to get rid of that plum tree, sell it to someone else. You are going to get the cash that you get out of that sale and you will put that back into some capital expenditure to improve some of the tracks and facilities that they need now but from that point on, once you have expended the value of TOTE which may or may not exceed that amount - we do not know what it is going to bring - you may have

the benefit of a bit more cash in consolidated revenue that has come back from the sale, surplus from the cap ex, Effectively, but from that point on that is no longer going to make a yield specifically that you could hypothecate across to the racing industry itself. Isn't that then going to shift the yearly cost back to consolidated revenue, which will be seen as a grab out of public cash to compete against the hospitals and schools and all of those sorts of things, and be subject to a more politicised outcome rather than the industry being seen to be self-supporting through the current ownership of TOTE as a GBE model?

**Mr AIRD** - Quite frankly with regard to TOTE, only 6.5 per cent of the industry is contributing to the revenue here. It is growing in other areas of wagering. Quite obviously we have over 10 years assiduously assisted the industry, and not without some criticism.

**Mr BOOTH** - That is the point I am making.

**Mr AIRD** - We are prepared to make a long-term commitment to the industry to satisfy their interests and other legitimate interests. They are a legitimate business and they are a generous stakeholder in providing that assistance. No, they will not be subject to the bidding of the Consolidated Fund because we will have a legally binding deed that will determine the level of funding. That will be the obligation that we will have to fulfil in terms of the Consolidated Fund.

**Mr BOOTH** - Just moving on; I realise we are going to run out of time and I cannot follow that any further so thank you.

In answer to a question I asked in the House yesterday, I think, you got back to me and said that Claytons was contracted on 6 January to prepare sale documentation. When did you start negotiations with Claytons to give them the brief that they could accept a contract on anyway?

**Mr AIRD** - I do not have that detail but it would have been some time prior to that. I can try to find it.

**Mr BOOTH** - Can you provide that for us?

**Mr AIRD** - Yes.

**Mr BOOTH** - The other point, just fairly quickly, in terms of the advice; we had that exchange previously in regard to whether or not you just got it from the old mate down at the pub. Are you saying that, basically, generally if you are going to sell a GBE, whoever the Treasurer is at the time and I suppose you cannot talk about other treasurers, you would be content to go on your personal understanding of the industry and gut feeling in talking to various people to confirm whether or not it is a good idea to sell it or not?

**Mr AIRD** - I was supported by Deloitte. They provided the advice.

**Mr BOOTH** - You said that was preliminary advice.

**Mr AIRD** - Deloitte are involved. We will continue an association with Deloitte.

**Mr BOOTH** - Will you provide that advice from Deloitte?

**Mr AIRD** - I am not going to be providing advice, and I do not mean any disrespect. This has been the subject of some discussion with people here. My responsibility, basically, is to ensure that I don't, and neither should anyone here, jeopardise any potential optimum sale; that is the obligation. I will give you the information that I can as long as we understand that I am not going to provide dollar figures or anything that could actually artificially influence the market. With regard to the first part of your question, I think my judgment in making the call has been pretty good in terms of the divestment of asset. Some people were sceptical about the value we would get from the airport. I was never ever sceptical and I am not sceptical here.

**Mr BOOTH** - You thought you would get \$40 million according to the *Age*.

**Mr AIRD** - No, that is not right.

**Mr BOOTH** - The headline says '\$40 million from airport expected' and you got \$350 million so your judgment could be a fair way out.

**Mr AIRD** - That article is not right.

**Mr GREEN** - Obviously some members are going to want to ask some questions in camera.

**CHAIR** - Yes, they are. We are down to about 15 minutes or so left so I had Mr Gutwein's one last question.

**Mr AIRD** - Can I just say that I really want this to be pretty thorough. If you want to go beyond 15 minutes I am happy to cooperate with the committee. I want to make it clear. I can indicate to the committee I am happy to come back.

**CHAIR** - At the end of the day we will be fixing another time and place so we can finish it off.

**Mr AIRD** - Well, perhaps you want to give me some questions on notice, Mr Gutwein.

**CHAIR** - Today we have a priority to finish.

**Mr GUTWEIN** - Just so I am clear, I will just run you through some of the dates that we have. On 19 November there was advice provided by Treasury to you that we should proceed with the sale, is that right?

**Mr AIRD** - Yes.

**Mr GUTWEIN** - On 22 December Cabinet looked at that Treasury advice plus advice that was included in the Treasury minutes from Deloitte, is that correct?

**Mr AIRD** - There was an initial minute to me that I did not approve. Then there was a revised cabinet minute sent to me reflecting the changes that I required and that I signed on 19 December and I took it to Cabinet on 22 December.

**Mr GUTWEIN** - That included the advice from Deloitte?

**Mr AIRD** - Yes.

**Mr GUTWEIN** - Due diligence is under way now, is that right?

**Mr AIRD** - I will be quite frank - I will put everything on hold until we have continued this. I did not want to be seen to be presumptuous.

**Mr BOOTH** - We would never suggest that.

**Mr GUTWEIN** - I will remind you of that at some other stage.

**Mr AIRD** - When I am.

**Mr GUTWEIN** - Are Clayton Utz still preparing the sales documents?

**Mr AIRD** - Yes.

**Mr GUTWEIN** - So that is not presumptuous.

**Mr AIRD** - I do not know what information -

**Mr GUTWEIN** - No, that is all right.

**Mr AIRD** - but in fact there is no -

**Mr GUTWEIN** - I am just playing with you there.

**Mr AIRD** - I would prefer it if you did not play with me, Mr Gutwein.

**Mr GUTWEIN** - The question I do have is do you have a business case that supports the sale?

**Mr AIRD** - No, there is no such animal, to be quite frank. A multiplier and all those types of things come into play and people will make some judgments. Until you get this information to a data room and you know that there is some contestability and some serious bidders that is of concern, it is going to be the market that determines the business case. It is not something you put in the front window of a shop and say, 'Here it is, go buy it'.

**Mr GUTWEIN** - I would have thought, though, that to support a sale like this you would have a figure in mind, that you would be able to say, 'If that is achieved, we know that we can achieve our aims. If that figure is achieved we can support the racing industry, we can do the other things we want to do'. I would have thought as a matter of course that you would have had some understanding as to what that was before you would proceed to go to the point where you are going to throw it to the market.

**Mr AIRD** - Yes.

**Mr GUTWEIN** - So you have that figure. I am not going to ask you, I just want to know whether you have it.

**Mr AIRD** - Yes, I have a figure in my head here.

**Mr GUTWEIN** - In your head?

**Mr AIRD** - I am not going to put anywhere, any time, a figure. People can make judgments about figures and it would be a judgment call because you are trying

to anticipate. Some bidders will seek greater value than others because it will have facets of the operation of TOTE that they want to get hold of.

**Mr GUTWEIN** - With the greatest of respect, you have provided to the committee today some figures, that is, capital expenditure of \$40 million. We know that there needs to be support to the racing industry on an annual basis and we know what's being currently provided. You don't need to be a genius to work out a present value of what lump sum you might require to be able to provide that support. So, in providing those details, you've actually probably provided sufficient information to anybody that actually wants to work through that and say, 'We can work out what the bottom-line figure is to the Tasmanian Government', with the greatest of respect.

**Mr AIRD** - That's okay; you don't have to say that - greatest respect. The fact is that I have to satisfy some interests here in terms of the racing industry; I have to provide some certainty and I am prepared to put those figures there to satisfy them. That means that when we put forward a deed, or whatever, of understanding, we wear the risk.

**Mrs RATTRAY-WAGNER** - I'd just like to get clear in my mind, Treasurer, why you couldn't have shared some of your thoughts about the sale of TOTE when you were doing the restructuring. What was so secretive that you needed not to share it with the industry and I guess also why you couldn't share it with the scrutiny committee back in early December?

**Mr AIRD** - Well, I hadn't determined that it was for sale.

**Mrs RATTRAY-WAGNER** - But if there had been some processes going on, could you not have said, 'We're doing some really light work on this'?

**Mr AIRD** - Well, that could have an effect upon a range of players, including the staff of TOTE. There are 300-odd employees in TOTE. When we made the announcement on the Thursday, having made the decision on the Monday, we put in a very serious communication strategy with the employees to make sure that they understood the nature of the process. Similarly, there are a whole range of things that you might consider or prepare for or get preliminary information on that you don't want to go on with. If Deloitte had come back and said, 'Hey, this is not going to work for you', I'd have to really consider that and ask why. I would have really quizzed them. But they didn't say that. Therefore, the issue of making a decision only occurred on 22 December and whatever thoughts or considerations that I may have might have ended up being nothing. It is only after you conclude the deliberations and thoughts about what is going on that you can make a decision.

**Mr WILKINSON** - People have stated, and stated in these hearings we've had today, that they were receiving assurances that TOTE wouldn't be sold pretty well up until the time that there was a sudden, as they call it, backflip. What's your comment about that?

**Mr AIRD** - If you look at all my statements about this, I've always said that I was casting my eye over assets and I'm sure you've gone back. I've always said that, as Treasurer, I am looking at assets and I'm looking at their core function to government and -

**Mr GREEN** - We've bought one - the power station.

**Mr AIRD** - Yes, well that's true; part of one. That aside, I have always been open about that and we've had discussions in the Legislative Council about it and I've said it in answers to questions; I've said it, in fact, in answer to the honourable member for Apsley.

**Mr BOOTH** - But didn't you specifically say that it's not going to be sold?

**Mr AIRD** - No.

**Mr BOOTH** - But you led people to believe before -

**Mr AIRD** - No.

**Mr BOOTH** - Well, certainly our House was led to believe that TOTE would not be sold.

**Mr AIRD** - No, I didn't.

**Mr BOOTH** - Well, what -

**Mr AIRD** - I know you've referred to things in the past, to the second reading speech that was made in terms of the separation. If you read that speech in the context of that bill, you will see that that is entirely consistent because we were saying that the separation of the wagering organisation, the racing services, was not about the sale, and it wasn't. People can make a judgment about does it help or not but I can tell you the motivation is not that. That separation would have occurred whether we proceeded with the sale or not.

**Mr BOOTH** - When you gave that assurance, when people asked you the because they wanted to know whether TOTE was sold, whether that was part of it, at they felt deluded into supporting the industry restructure because they had the assurance that TOTE would not be sold. Have you not effectively misled those people, at least by omission, by not saying, 'Okay, you want to know if it is going to be sold. Today I have not made the decision but tomorrow I probably will because I have made up my mind that clearly I will.

**Mr AIRD** - You cannot say you probably will make a decision. You either make a decision or you don't. If you look at my statements they have always reflected that as Treasurer I was casting my eye over the assets, and I have said that quite consistently.

**CHAIR** - Okay, thank you. We have now cut ourselves very short of time so we will now move in camera. I would ask that everybody else vacate the room. Thank you very much for your attendance this afternoon.

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THE JOINT STANDING COMMITTEE ON ENVIRONMENT, RESOURCES AND DEVELOPMENT MET IN COMMITTEE ROOM 1, PARLIAMENT HOUSE, HOBART, ON THURSDAY 19 MARCH 2009.

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**Mr KEVIN THOMAS RING** WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** (Mr Hall) - Thank you, Kevin. Please focus just on the main term of reference, which is the proposed sale of TOTE by the Tasmanian Government, and just give your opinion, particularly coming from your perspective as representing jockeys and having been a jockey.

**Mr RING** - Our association has spoken in depth about this. In fact we had a meeting last week about the subject of the sale of TOTE. Our members are not against the sale of TOTE. What our members are worried about is whether the jockeys and racing will be looked after in the same way as previously, and whether the Government will have a declaration in place that will be binding even with changes of government and changes over the years so that the same percentage of money, if not more hopefully, will be given back to racing. That is the jockeys' biggest fear with what is happening.

**CHAIR** - Yes, future sustainability.

**Mr RING** - We have all been reading about the sale of TOTE and the for and againsts in different articles and comments, but we have not heard a comment yet from the minister as to safeguards on racing, especially the financial aspects, and that is a concern. There are a lot of rumours as to who is buying et cetera, and until it is actually resolved we won't know who it is.

**CHAIR** - No, we have no idea.

**Mr RING** - It is just speculation at the moment. We hope it will result in the same situation as before, if not better, and wonder whether anything will be put in place to safeguard racing.

**Mr HARRISS** - Flowing from that then, Kevin, can I conclude that your association has not been engaged by the Government in any negotiation? You have said you have heard the Treasurer or the minister making comment, so is that a reasonable conclusion?

**Mr RING** - That is a reasonable conclusion.

**Mr HARRISS** - What is your feeling about that as an association?

**Mr RING** - As an association we like to think that we are fairly important in the whole scheme of racing in this State. We are a sub-branch of the Australian Jockeys Association as of last year. If our State association was not informed we would have liked our Australian Jockeys Association to have been informed. We think that this whole sale is very important to everyone and we feel we are a big part of that, and that the jockeys should be aware of what is happening. We have a small number of jockeys at the moment compared to previous years and if they are unsure as to how things are going I think we will lose more.

**Mr HARRISS** - Have they made an approach to the Government?

**Mr RING** - No, they have not made an approach.

**Mr HARRISS** - Yet the sale is on our doorstep. The Treasurer would, I presume, be desirous of having legislation in front of the Parliament fairly shortly. I suppose one could then argue that if your association, your jockeys, are not properly taken account of and the sale proceeds but you have no assurances before the sale, you would be a little concerned. Would you?

**Mr RING** - We have concerns. We have not made an approach, but thought as a courteous thing that the Government would have made an approach to us, even in writing.

**CHAIR** - Has there been nothing at all?

**Mr RING** - Nothing at all.

**CHAIR** - You have had no consultation.

**Mr RING** - No consultation. That is a concern to us. As I said, there has been no information as to the long-term stability of racing in this State financially.

**Mr WILKINSON** - Kevin, it seems to me from over the last couple of weeks asking a few questions around the place that people in your situation, not only the jockeys but other people in your situation, are saying you do not know whether it is a good thing or not as yet because you do not know what certainty there is going to be for the racing industry if TOTE is sold. Is that right?

**Mr RING** - That is right.

**Mr WILKINSON** - Am I right in saying that you are not really against it, it is only a lack of communication that leads you to not knowing whether to agree with it or not?

**Mr RING** - That is right. We are not against it because we can see that if handled right this could be good for racing in general in this State financially. We have always been of the view that, especially over the last 10 years, there has been a lack of race meetings in this State for our members. That is one of the reasons for the shortage of jockeys here. If there can be an input of more finances through the sale of TOTE then that would be good, but we do not know.

**Mr WILKINSON** - You obviously have plenty of experience in the industry. Have you any idea as to what has happened interstate where TOTEs have been sold, how their industries are going?

**Mr RING** - I think South Australia is a fairly good example. There are problems at the moment but they are only minor compared to what has happened over the last few years with the sale of racetracks et cetera. Their industry, from our association's point of view, has halted.

**Mr WILKINSON** - If - and I do not know yet because we are in the same position to some degree as you are - TOTE were to be sold, what would be a way of, in your opinion, ensuring that the industry would have the same if not better return than it has had over the last few years?

**Mr RING** - I am not an expert on it but I honestly think there should be a greater percentage of money returned to racing. I have always thought that. Racing is a very good industry for this State, financially for the Government. People from TOTE will tell you things are always being put in place to try to earn extra money for TOTE and the Government. I would like to see a little bit more put back in. We have great prize money for our big races but I would like to see the board put more money in over a 12-month period to create more money especially for our members, and also more race meetings.

**Mr WILKINSON** - It would seem to me that with any proposed sale the Government would need to ensure that whoever purchased TOTE would have to give some type of agreement in writing, in a contract, to say that they would be willing to put back into the industry a figure not less than whatever they decide is appropriate.

**Mr RING** - That is right. There has to be a guarantee as far as we are concerned and it has to be a binding guarantee that if there is a change of government and a change in the status quo then that money percentage-wise has to keep coming back in, if not more over the years. There has to be something in place.

**Mr WILKINSON** - Because you could say there is uncertainty if it is left with government to decide how much money you are to get. In hard economic times there is going to be an argument around the cabinet table, I suppose, or the treasury tables as to how much racing can get as opposed to health, education et cetera.

**Mr RING** - I would like to see something where the new racing board was able to have an input and have a binding contract. Not so much keeping government away from that aspect but have a binding contract with the Tasmanian Racing Board that will stay for years to come.

**Mr GUTWEIN** - Over what period of time, Kevin?

**Mr RING** - I would say a 20-year period. To me that would be fair. Then it can be readdressed in that period. Anything could happen in 20 years. It could be sold again. But there has to be something that is binding. I think a 20-year period would be very good.

**Mr BOOTH** - Kevin, are you concerned then in terms of long-term future stability and support of the industry that, by selling TOTE and leaving the stake money and support for the industry coming directly from government, politics will get in the road of industry during that 20 years? Guarantees are only worth the paper they are written on, as you know. Does that concern your industry? It certainly concerns me and people who have made submissions to me have stated that they do not want it to be taken out of TOTE because at the moment it is actually an industry that is self-supporting, whereas if it comes back then it is seen as a dividend from the public purse, that politics are getting in the way of the industry being sustainable.

**Mr RING** - My opinion is that politics have gotten in the way of racing for a fairly long time. I came to this State in 1989. Racing was going very well in the early 1990s. To me, over the last 10 years - or maybe a little bit longer - politics have gotten in the way of racing. Racing is a very large industry and it is a sport. Politics and sport do not really go hand in hand. It has been proven in other

sports. I think politics may get in the way of this too much. I think it needs to be handled by the businesspeople who will be buying TOTE and the racing board.

**Mr BOOTH** - Just to clarify that, you do not have a concern either way, if TOTE was sold and then the Government put money into racing rather than TOTE putting money into racing as it does now, that then politics might get in the road of the future of that money coming directly from government to racing? At the moment it appears to be a bit more at arm's length.

**Mr RING** - I have a concern that it may get in the way. The Government gets their percentage out of racing and I think they should leave it at that. They should not interfere in the process of it, especially between TOTE and the racing board, as far as their percentage goes. The racing board - now different to how it used to be - controls all three codes. They should be allowed to handle them as they see it, with no interference. But they should be funded the same as it is at the moment, if not better over the period of years once TOTE is sold. These security things should be put into place to make sure it is. To me, over the 10 years racing has declined in this State. Some of our carnivals are quite big. The mainlanders love it, prize money-wise. But as for the general local racing population, it is declining as far as I am concerned. The chances of our jockeys earning a reasonable living - especially from our association's point of view - has declined with the declining numbers as well.

**Mr BOOTH** - You speak as though there is an inevitability of the TOTE being sold. Would you rather have the support coming from TOTE to the industry or from the public purse to the industry in the future?

**Mr RING** - I think the public purse would be a more concrete step rather than the sale of TOTE. That's not saying we are against it, we just think from the public purse. For what is put into the TOTE over the years percentage-wise I think it has been fairly good but from the top down it hasn't been handled in a way that look's after the industry's people.

**Mr BOOTH** - So if that distribution was handled properly, the TOTE model funding the industry and TOTE being owned by the Government as it is at the moment is better than TOTE being sold and the money coming from the public purse?

**Mr RING** - We don't know until something is put in place, until the minister tells us what is happening if it is sold, what guidelines will be put in place and what will be put in place to look after the people in the industry. At the moment we are only guessing.

**Mr GUTWEIN** - Your association is a sub-branch of the Australian Jockeys Association. What has been the situation in, say, South Australia or Victoria where it has been privatised? Has it been better for jockeys or worse? Could you explain why in either case?

**Mr RING** - Victoria has been terrific for jockeys. If I was 30 and still riding I wouldn't be here, I would be in Victoria where you have a chance to ride every day of the week. Even if you are a battling rider, you can ride on a Saturday at non-TAB meetings or on Mondays, Tuesdays - which is very average but you can pick up some rides. But, apart from that, you can make a good living riding barrier trials. Their fees are better, there are more of them. Even race riding, they are \$160 a ride, whereas here we get \$130 and they are riding them every day of the week if they can. In trials they are getting over \$50 a ride and you could ride 10, 15,

maybe 20 trials at Cranbourne, for instance, and earn a week's wages just riding trials, plus you are riding track work. There is a young rider over there at the moment, Dean Larson, who battled here but he has done well over there, not through getting a lot of race rides or winners but making a good living. He now owns two houses and I think he's got a little business going as well, just from that. From a jockey's perspective, Victorian racing has been terrific.

**CHAIR** - It is more a function of economies of scale, Victoria being a bigger State rather than the way the organisation is?

**Mr RING** - Yes, numbers and population betting-wise, but it has been handled very well. Racing is still in a very good position financially. Then you go to South Australia -

**CHAIR** - You mentioned South Australia and I just want to follow up on that. You mentioned that is a bit of a dog's breakfast at the moment, but you also talk about tracks being sold off. That was a separate issue from what happened since the TOTE had been privatised there, was it?

**Mr RING** - Yes, it's a separate issue to what has been going on at the moment. For instance, David Hayes, one of the leading trainers in Australia, has scaled down his team at Lindsay Park in South Australia. He has even sent horses over to Western Australia to be trained because their racing is going well. He has scaled things down to the point where he is not training horses at Lindsay Park anymore. He does have runners in South Australia - and David Hayes is a very good businessman - but from that point of view he's even set up a place at Euroa in Victoria because he knows that's the place to be. Western Australia and Victoria are the places he wants to be; they are the places he knows he's going to earn the money.

**CHAIR** - The model Western Australia currently operates under is the model we have here in Tasmania.

**Mr RING** - It is, it is very similar. That was discussed last year at the forums for the new board.

**CHAIR** - So would you go down the track of saying, 'If it ain't broke, don't fix it', or not?

**Mr RING** - That is right, to be honest. This new board is new. They are feeling their way. But I think it will be very good in the long-term, but with the sale of TOTE, that is a different ball game.

**Mrs RATTRAY-WAGNER** - Kevin, you talked about the restructure from last year. What input did your organisation have in that restructure and also, would you mind telling the committee whether you asked the question whether the restructure had anything to do with the potential sale of TOTE and whether it would have made any difference to your support?

**Mr RING** - I asked the question a few times. Once was at one of those forums at Mowbray Racecourse and it was also asked by a member of the AWU because all our jockeys are members of the AWU. It was asked at the forum at Bellerive as well. I also asked at some meetings at the Thoroughbred Racing Council whether the TOTE was going to be sold and the answer was always no, and it was a very straight no. It is felt in the industry a bit that the new board was set

up so they could separate TOTE and the board because previously TOTE had a lot of input into the racing part of it, especially tracks and maintenance and things like that. Whether it is correct, the feeling was that the new board was set up to separate TOTE so that it then could be put on the market and sold.

**Mrs RATTRAY-WAGNER** - Would your association's support for the restructure have remained the same had you known that?

**Mr RING** - If we had known that there was to be a sale of TOTE we would have asked why it was being sold and we would have asked at the time whether there was a guarantee that the same set-up would be in place for the financial reasons for racing. We would not have been against it as long as it was known that everything would remain the same financially.

**Mrs RATTRAY-WAGNER** - In your opinion, is your industry disappointed at the fact that the Government and the minister have chosen not to take the industry and your association along for the ride in the sale?

**Mr RING** - Yes, we are. We would have liked to have known last year, and we would like to know now what guidelines will be in place as far as the racing the concerned.

**Mr BOOTH** - Kevin, how definite was this no when you asked the question a number of times? Was it an equivocal or an unequivocal no?

**Mr RING** - There was no thought put into it. It was straight off and done.

**Mr BOOTH** - Were you left with any impression that it was being considered or that there was a process in place?

**Mr RING** - We always thought it was going to happen. It was no surprise when we read at the start of this year that the TOTE was being sold. I think it was in the media within a week after the new board started. It was no surprise to us, let's put it that way.

**Mr BOOTH** - Basically you did not believe them when they told you no, then, or did you believe them when you asked them?

**Mr RING** - I do not think anyone believed it, to be honest. That is the opinion of a lot of people I have spoken to in racing. I don't think anyone believed them. You hear a lot of rumours, and especially in racing, but if it is said often enough you start to think it is true; and it was said plenty of times.

**Mr GUTWEIN** - Kevin, I want to bring you back to a point Mr Booth raised earlier in regard to the level of consultation. My understanding of what you said was that there had been no contact with the Jockeys' Association regarding the possible proposed sale of TOTE, nor have you been contacted since to provide input in regard to concerns or suggestions you might have about the proposed sale of TOTE. Is that correct?

**Mr RING** - The minister and the Government say they want to sell TOTE and that is fine, but we are disappointed that they did not let everyone know. They should do it officially in writing and give the reasons to the racing groups. As far as the running of racing is concerned, which has been put to me by the Racing Board, it is separate from the TOTE, especially now with the new board. It has been put

to me by the board that we cannot tell the Government that we don't think they should sell TOTE because that is the business of the Government. But it is also the business of the people that make a lot of money for the Government through racing as well; as far as we are concerned, racing depends on TOTE.

The TAB was set up as an agency years ago to fund racing, but it also helps fund a lot of capital programs as well for hospitals and things like that but it was also set up to make sure that racing survived. Therefore we think that we should have some say or be informed, at least, about what is happening.

**Mr WILKINSON** - Kevin, you were saying that you do not believe that racing is as good now as it was when you first arrived in 1989. Secondly, you say that you do not know whether it is a good idea, it would seem, to sell TOTE because you do not know what the price would be and what racing would get out of it, and that there is no certainty for you. And, as I understand it, you say that there has to be more improvement in racing, more race meets, more this, that and one thing and another as you have described over the last half-hour. How are we going to do that, we might ask, if there is not a change in the ways things are dealt with?

**Mr RING** - One of the things that has been discussed by trainers, jockeys and owners is that we do not need the big prize money for those cups, not as big anyway. Money can be evenly disbursed over the year, with more minor race meetings, say mid-week, and we used to have a fair amount of mid-weeks years ago.

The jockeys, trainers and owners would be quite happy for those mid-weeks to have less prize money than, say, a Sunday meeting. At least it gives everyone a chance to earn some money and make a decent living out of it. The money needs to be spread across the board more evenly, and not just for those January and February race meetings.

**Mr WILKINSON** - So whether TOTE is sold or not, your major concern is as you have just described?

**Mr RING** - Yes. It has been explained to us by TOTE and the board also that they want quality, and that is fine. These people in business are talking about quality, but you have to have quantity to get quality and we are not doing that with the number of race meetings we have. There are fewer owners coming into the racing and there are fewer horses about because of a lack of chances to earn a living and a reasonable amount of money. So they are either getting out of racing or going interstate.

**Mr WILKINSON** - You are saying, aren't you, that the bigger the base of the pyramid the higher it goes?

**Mr RING** - Yes. I can understand that they want quality but the quality that we are getting over that two-month period when we have so much prize money is all coming from the mainland. People will certainly bet on them and that is what TOTE are trying to do and I can understand that; people will bet on them a lot more because they know the horses. Fifteen years ago we had some very good horses in this State that were able to go to Melbourne and win cups and reasonable races and we have not had those horses for a number of years because of the decline in racing in this State, as far as I'm concerned.

**Mr BOOTH** - Kevin, from your understanding of the Treasurer's proposal to sell TOTE, do you think that it is being done for the good of the industry or for the good of Treasury?

**Mr RING** - I cannot answer that until I get more information, but as it stands from just sitting back and hearing and reading and different things, I think that it is for the good of Treasury at the moment.

**Mr BEST** - Just quickly, Mr Chair, I was a bit late this morning as it was a 5 a.m. start at Liffey Falls, so I am sorry. First of all Kevin, congratulations on all the work that you have done with workers compensation for jockeys and other gains. I am sure that other committee members would be aware of the fine work that you have done there for jockeys. If we were to dot some of the key recommendations that you are making about quantity, where do you think that could take the industry over the next 10 years?

**Mr RING** - I think we could end up with more jockeys here and more owners, but it will take time. In the first five years, say, over a 10-year period it is not going to improve a lot because people are going to be a bit dubious about investing here, but I think it will improve. There is a decline in jockey numbers across the board across Australia but I think the decline in this State is very low; we have a higher percentage than anywhere. I think with some of the suggestions I have put forward today that eventually we will have more owners, more horses, more jockeys and even more trainers - probably more professional trainers.

**CHAIR** - Kevin, our time has expired, unfortunately. Thank you very much. The information you have given to the committee has been very informative. We have about 12 witnesses today so we have to keep rocking along.

**Mr RING** - You'd better drink lots of water.

*Laughter.*

**CHAIR** - Thank you very much. We appreciate your coming in.

**THE WITNESS WITHDREW.**

**Mr TERRY EDWARD CLARKE WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.**

**CHAIR** (Mr Hall) - Terry, you have been before parliamentary committees before and so you are aware of privilege and all those sorts of things.

**Mr CLARKE** - Yes.

**CHAIR** - Obviously you are aware of our terms of reference, which is to inquire into the sale of TOTE and whether that is a good thing, bad thing or whatever. What I would invite you to do is to give your evidence to the committee, make some opening statements if you like, and then give the committee a chance to ask questions, bearing in mind that we are on a very tight time frame of 30 minutes per witness.

**Mr CLARKE** - I will make some opening observations, Mr Chairman, and then I would like to deal with a number of issues which have been stimulated by this decision by Cabinet to sell TOTE Tasmania.

Up until December 2008 there were two States in Australia where the racing industry, in my opinion, was set to really develop and had a good base. Those industries were in Western Australia and Tasmania and both were operated by combined wagering and racing bodies. In the other States, where privatisation has occurred in one shape or form, they are all in some trouble regarding their future funding - and I will come back to that later.

It appears to me - and I am making observations at the moment - that this decision is driven by two issues. One is that there is some value in the TOTE now that was not there years ago, so let's jump in and grab it before it disappears, and the threat of expulsion from SuperTAB might well be the driving motivation there.

The other one is an ideology that governments should not own gambling businesses, and I would like to challenge that later as well. The solution is, 'Well, let's fix the racing industry up. We'll put them on a budget and they won't need to complain anymore because they've got a guaranteed income - but hang on, there was no mandate to do that'. If I take Mr Aird's evidence at face value, I don't claim to be the world's best mathematician, but that tells me that the citizens of Tasmania need to fund something over \$900 million in the next 20 years. They were not asked whether they wanted to do that, so there has been no public interest test as to whether or not this is a good decision. That is in stark contrast to when the Labor Party came to power in 1998 when they had a mandate to merge racing and wagering.

The second issue is that the Tasmanian racing industry now, whether they like it or not, is exposed to sovereign risk. If we do not think sovereign risk is real for the industry we only have to look at Melbourne and what happened to Tabcorp and Tattersalls, who were encouraged into privatisation on the basis they would get back some \$600 million for their licence fee if they were not reallocated the licence in 2012. But the Government there has come in and said, 'No, we are not honouring that pledge; you can take us to the courts if you do not agree'.

The second thing is that without the TOTE, this organisation that has been created, the Tasmanian Racing Board, will effectively be going to the market with one hand tied behind its back. It will have very little power or ability to win its way compared to now with the TOTE, and I'm talking nationally and globally. The other thing that should be worrying people if they're interested in public finance is what incentives will there be for the Tasmanian Racing Board - I don't care whether it's a State-owned company or GBE - where are the market forces that are going to drive efficiency, or is it just going to roll back up to the Government and get caught up in the negotiating for each annual budget?

They are my observations. I think there are issues of public finance principles that are being violated here. I don't understand how a submission can go through Cabinet without the consultation section being filled in, without the economic and social impact, without the licence fees for the new operator having been determined, or the period or the licence. Worse still, if we listen to Mr Aird's evidence, we're just negotiating the deal with the racing industry now, so how did the Government take a decision to sell the TOTE? Where or when was the economic or public benefit test done?

I will now address a few issues that come out of this which I think might be of interest to the committee. TOTE Tasmania effectively provides half of the economic stimulus. In 2005-06, that was estimated to be \$74 million, so if you sell off the TOTE to some company that takes it out of this State, you're looking at effectively impacting half of the impact on GDP in this State. As I said, if you take the face value figures given in evidence, that suggests something like \$900 million is going to be paid out of the coffers to run racing for the next 20 years.

By the way, the new owner won't have any real necessity to put money back into Tasmania because with the product fee regime, if the Tasmanian racing is not of a quality that fits the new owner's perspective as far as offering product to the wagering punters - and they are the ones who in the end will determine what the new owner bets on - then he has no obligation unless it's part of the deal to put product fees back into Tasmania. If it's part of the deal, then it's going to impact the price.

As to the relationship between TOTE and racing, Mr Challen, I note, said that his decision was a personal one, 'based on, I confess, not huge expertise of the industry' - so again, he got some experts to help him. I would like to ask the committee, what do Japan, France, Ireland, South Africa, Sweden, Norway, Hong Kong, Macau and Singapore have in common? Why is the British Government trying to sell its TOTE to the racing industry? The one thing in common globally with all the major racing industries is that it is one organisation. Racing and wagering is the supply and demand side of the equation.

When the Western Australian Government review was under way into the future administration of that industry, I met the chairman and he told me that the Tasmanian model was the best they had identified after a widespread review. That is what they implemented, apart from the fact that they put probity into the organisation, whereas we argued it was the public good and should be funded for the wider public benefit.

**Mr WILKINSON** - Terry, what year was that review, please? Can we be provided with a copy of it?

**Mr CLARKE** - I think Craig might be able to help with that; I don't have that with me here.

Subsequent to the WA decision, New Zealand went the same way, combining racing and wagering into one organisation. In contrast, the most recent example of the privatisation of the TAB in Australia was the sale of SA TAB. Not only did the government there have a massive early return on its purchase price, but it also lost taxation on \$80 million of wagering that we got here at TOTE Tasmania. That's because the punters want to stay in the big pool, and the same thing is going to happen here if you move out of the SuperTAB pool. More importantly, it's brought South Australian racing to its knees because the relationship with UNiTAB has not delivered the amount of revenue and income that they need. I understand recently the tax rates have been adjusted to acknowledge that.

Mr Aird quotes that activities in Victoria are a factor in his decision to sell TOTE. From my work with the industry in that State, the racing industry is very unhappy about being prevented from bidding for the parimutuel licence post-2012, and I can tell you from contact within the Government that the industry has tried hard to convince the minister to change his mind and let them bid for the licence. Racing and wagering are inextricably linked; they are the supply and demand sides of the one industry. By separating the wagering from racing and selling off the TOTE, the industry's bargaining power will be significantly impacted, such that the Tasmanian Racing Board, in my opinion, will have little capacity to achieve the targets for selling this racing nationally and globally that Mr Coleman has announced as part of the justification for the split in the administration. It is a suboptimal outcome and the decision to do this in Tasmania is not going with the trend nationally or globally, it is actually going against it.

Indeed, I recently had a phone call from the managing director of one of the two major thoroughbred transport companies in Australia, and I quote him. He said:

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'What is going on down there? Have people got rocks in their heads selling off the TOTE?'

The third issue is the impact of funding racing from consolidated revenue. At the time of the incorporation of TOTE Tasmania, an investment bank was engaged to define the options for an appropriate financial relationship between the industry, government and TOTE. The consultants were critical of the option of direct funding of racing, noting it would make the allocation of funds largely a recurrent political issue, based around lobbying and negotiations which would tie up resources that could be better used elsewhere, as there is no direct interactive economic relationship between the Government and the racing industry. The consultants considered it difficult to conceive that a proper incentive structure could be established in such circumstances. Even more importantly - and I see you have had the head of Treasury giving you evidence - in their 2003 Regulatory Impact Statement to the National Competition Commission, the following is what the Treasury said five years ago:

'Retention and exclusivity for TOTE Tasmania's parimutuel wagering activities is the best model for providing stable, long-term and reliable sources of funding for the racing industry. This view is because the interests of TOTE Tasmania and the racing industry are aligned. This nexus creates market incentives for both the

TOTE and the racing industry to maximise outcomes for both parties.

The TOTE has a direct interest in maximising funding for the racing industry to make it more appealing to the public as a betting product and likewise, the racing industry has an incentive to provide the appropriate racing product mix and quantity demanded by the public to maximise betting opportunities and therefore funding by the TOTE.'

Again, quoting:

'This market would not exist if the Government rather than TOTE funded the racing industry as it would no longer share the TOTE's success.'

I ask, what has changed the Treasury's stated position? Has someone been leaned on?

Mr Challen claims the connection between the TOTE and the racing industry is just an accident of history. The connection between racing and the TAB was never an accident of history. It was because of the racing industry that governments established a TAB in all States.

In Victoria the industry claimed ownership rights over the TAB and this was tested in the High Court at the time of its privatisation with the case being based on the fact of the funding of the assets of the TAB from profits withheld from the industry.

In a debate over the TOTE Tasmania Bill 2000 the then Minister for Racing, Paul Lennon, said in his second reading debate response, quote:

'We are enabling the industry to capitalise its assets for the first time in history, whilst at the same time continuing the government guarantee which underpins the industry now ... We are moving it to a State-owned company under this legislation, and on our way through, are recognising' -

The Government is saying this -

'what the High Court recognised during the sale of the Victorian TAB, that there is in fact some ownership right of the racing industry in the TAB. This legislation is better than what the Victorian racing industry gets in terms of its share of the profits of the privatised Tabcorp.

They get a profit. Here we are giving them earnings before interest, tax, depreciation and amortisation and that is quite unusual ... They get it off the top and that maximises the amount ... they get 25 per cent there ...'

It is worth noting the member of the Legislative Council responsible for taking this bill through the upper House was none other than Mr Aird. I believe therefore, and I want the committee to take this in, the industry should now argue that whatever the sale price is for TOTE Australia, 25

per cent of the proceeds should be provided to the TAB and this is in addition to the funds that the Treasurer has already identified he is prepared to give.

A minor issue in Mr Aird's evidence was that he said that he needed to separate out the three assets of the TOTE; the radio station, the TOTE and the racing business. The radio station loses about \$700 000 a year. There are probably two logical buyers - Radio Sport 927 and UNiTAB, if they are a buyer. Whichever way it goes, if that was a separate issue it would be a fire sale.

That indicates a misunderstanding of the importance of the integrated nature of the industry; without that radio station some 40 per cent of the business would potentially be at risk. If it is going to be sold as a statewide radio network then you would simply undermine the value on that basis of the licence.

Another issue which Mr Aird raised, is there are changes within the industry that I think will be an interesting challenge and I do not think the Government should be involved in that. Any potential buyer would be well aware of what those issues are and would already have discounted the price. He knew that is was likely because a proportion of the business only exists because TOTE co-mingles its board with SuperTAB. That is what we lost. Also it is widespread industry knowledge that most of TOTE's growth since 2007 has been attracted by rebates to punters to improve their returns and a potential buyer would clearly discount this business if it is not prepared to offer the same rebates.

The major characteristics of a successful TAB are strong local racing, access to a betting pool of more than \$1 billion, a competitive taxation regime and position against other forms of gambling and state-of-the-art IT equipment and software. All this would suggest to me that, unless it is a strategic buy and that seems unlikely without the buyer having access to one of the three Australia pools, the buyer may seek to pay the purchase price over a period on an earn-out basis, no doubt frustrating the Government's reinvestment plans; albeit, we do not know what assets they are going to put that money in and how it is going create more benefit than the existing arrangement.

The seventh issue is, another reason for selling a State-owned company is that it is not performing or could be perceived to perform better in the private sector. Since the establishment of the current arrangement, funding to racing has increased by more than 90 per cent and the organisation has never called on the Government to fund its operational activities. Because of its expertise and experience it has become the fastest-growing TAB in Australia.

In 1997, KPMG did a report for the Government and there were consultants who looked at the ACT about the same time. Both consulting groups could not see how the TAB could survive in the then turmoil in the market. It has, 12 years on and it is stronger than ever. I reject completely therefore, the ideologically-driven view that governments should not own TABs. Providing the racing wagering are operated together, and I am sure the Western Australian Government reached this view, the public benefits test will mean the overall social and economic benefits will outweigh the risks to the Government of the gambling business. If it is operated as an incorporated company, it is operated properly and ministers keep out of the day-to-day business, then they should have no reason to be concerned that is it going to come back and bite them.

**CHAIR** - Terry, I am aware that we are down to about 10 minutes, so if you can just encapsulate what you have to say.

**Mr CLARKE** - I can finish there, Mr Chairman. I do have another point to make later.

**CHAIR** - Yes, thank you. You gave us a multitude of information at 100 miles an hour, so we are probably still all absorbing that. That was good.

**Mr CLARKE** - I am happy to provide it to you as a paper, if you wish.

**CHAIR** - It is on *Hansard*. If you want to table that it would be handy.

**Mr BEST** - We have the picture; you are not happy.

**Mr CLARKE** - As a citizen I am a bit concerned when someone whacks \$900 million on the budget and we were not asked, as people, whether or not we wanted that to happen. It is a very convenient way to say, 'Don't worry about the risk, I'll look after it. I am sorry, I do not agree. As we saw with Tabcorp and Tattersalls, sovereign risk is just that, it is sovereign risk and it exists in western governments as it exists in any other form of government.

**Mr BOOTH** - Terry, in your previous role with TOTE, was the sale of TOTE ever discussed before, at any level?

**Mr CLARKE** - No, it was not.

**Mr BOOTH** - When did you first become aware of it?

**Mr CLARKE** - I will put it to you this way, since I left TOTE as far back as in January 2008, I asked if I was to roll up with the right amount of money to do a MBO, how would I go? I was told it would be well received.

**Mr BOOTH** - Who did you ask?

**Mr CLARKE** - I prefer not to comment.

**Mr BOOTH** - Not the Treasurer?

**Mr CLARKE** - No, it was not the Treasurer and I guess I have then picked up things through the press and I knew that despite the Treasurer saying on WIN Television, on 10 November, it was not on their mind, I know that at the Oaks on 6 November there was discussion in the committee room with the VRC. Amongst people who had been invited there was just the Treasury in the sale of the TOTE. Clearly, it was on people's minds before 10 November.

**Mr BOOTH** - They had been invited to assist.

**Mr CLARKE** - To assist the Treasury in the sale of TOTE.

**Mr BOOTH** - Who were those people?

**Mr CLARKE** - Again, I am happy to give you that name in camera.

**Mr BOOTH** - Perhaps the Chair or someone can ask that in camera in regard to that just to clarify it.

**Mr WILKINSON** - Will we take that opportunity at the end of this session?

**CHAIR** - If it is quick we can do that.

**Mr BOOTH** - Just to clarify, what you are saying at the moment is that the industry is supported okay through TOTE and that model could take it in the future, whereas it becomes then a political risk and an argument every year for funding and support of the industry.

**Mr CLARKE** - It goes further than that because not only is the industry caught up in the machinations of the budgets, you actually weaken the organisation that runs racing because it no longer goes to the table with the ability to talk across the full range of wagering. If you are going to try to sell Tasmanian wagering into Asia, for example, it would certainly assist if you had the TAB there who is buying product on the other side. That is an issue which I know is part of the process to justify the separation and selling of Tasmanian product into Asia. The fact is that up until 2014, 2016 Sky Channel control all the vision rights of Racing Tasmania. So anything you sell you are going to get half-rights for it anyhow. So you are going to have to sell a hell of a lot of product, for example, if you wanted to economically justify putting lights on at Mowbray.

**Mr GUTWEIN** - You mentioned right at the end of the presentation - and if I can just commend you on that, I thought that was very well presented - that ministers should keep their hands off the day-to-day running of the business. Implicit in that is that in the past that has not been the case?

**Mr CLARKE** - That is absolutely the case. TOTE and the racing industry reaches out so far into the community that in my experience - 10 years at the head of it - you are in daily conflict because people do not get enough money or this dog had not been listed - a whole range of issues that all of you are well aware of. They go to the minister and they lobby the minister. The minister's support staff think they better get involved. A classic case with the current arrangement with people here is with the hotel down in the Channel. There was clearly no economic case for putting a TAB in there and yet we have spent weeks and weeks arguing because someone in the minister's office had that view. This is not consistent with operating a State-owned company. If you set up a company, you set up the board. It operates under Corporations Law and, as far as government is concerned, it should restrict its input to the strategic plan and the policies. If you are going to go around trying to solve every minor complaint from the racing industry and the betting public then you are effectively, instead of walking away and saying that this is a matter for the TOTE to solve, getting involved needlessly. In those circumstances I can understand why you probably would want to get rid of it, get it off the book.

**CHAIR** - The committee will now move in camera for a couple of minutes. Would you switch off any recording devices. We will not be long and then Mr Craig Coleman will be the next witness.

**Mr CRAIG COLEMAN** WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** (Mr Hall) - Mr Coleman, you are aware of the privilege issues that run as you have given evidence before. For the benefit of members of the gallery and the committee, Mr Coleman may wish to give some evidence in camera as well, but we will start off in open committee. Craig, I would ask you to make an opening statement, if you would, please.

**Mr COLEMAN** - First of all, I would like to thank the committee for the opportunity to appear before you today and to provide some comments.

Understandably there has been a great deal of interest in the sale of TOTE Tasmania within the Tasmanian racing industry. As I perceive it, the concern is about the continuity of funding, and certainly they were remarks that were echoed this morning by Kevin Ring in his presentation from the industry, and I think that is an entirely valid concern. The Tasmanian racing industry for the past 10 years has received a substantial increase in funding and, as Terry Clarke, the previous witness, indicated, that increase has been in the order of 90 per cent over that time. The profits that are generated by TOTE Tasmania and paid to the racing industry - this is my position - are a distribution of government funds. The Government owns the business, it was set up by the Government and it has chosen, as it did when it formed the company in 1999 and then formed the State-owned company in 2001, to distribute all its profits to the Tasmanian racing industry. So what we are actually getting in the Tasmanian racing industry is government funds.

The Tasmanian racing industry, in addition to the government funds, is provided with considerable other concessions in the form of dividend holidays. I know that has been of considerable debate in other committees and forums within the Parliament. It gets money from Betfair and direct capital injections from the Government, the most recent being the \$22.6 million that was paid to the industry in 2002. Operational funding for racing from TOTE Tasmania alone this year is \$23.8 million. The Tasmanian industry has seen the success of TOTE Tasmania in recent years and is understandably nervous about its future funding and the impact if TOTE Tasmania is sold. I consider this a strong vote of confidence in the management of TOTE Tasmania and for that I would like to acknowledge the fine work of the board and the management team of TOTE Tasmania. I suppose, in many respects, this probably makes it the right time now to sell the company.

Funding from TOTE Tasmania is but one form of investment in the Tasmanian racing industry. Many Tasmanians invest in the industry through ownership of horses, dogs and, more importantly, through investment in properties dedicated to breeding and training of horses and dogs. For some the investment is motivated by passion for the industry; however, it is important that an appropriate economic return must be considered for those individuals. In my view, the certainty of future funding by government, either through TOTE Tasmania or directly, is an important key element in encouraging that ongoing private sector investment in the racing industry. In this regard, I note the Minister for Racing has already committed the Government to a long-term funding deed, and he spoke of that when he appeared before the committee a couple of weeks ago. That funding deed, as I understand it, will be for 20 years and has agreed

amounts of funding with the Tasmanian Racing Board, which accords exactly with the requirements of Mr Ring this morning.

As I understand it, the industry has been guaranteed a level of funding independent of the commercial operations of TOTE Tasmania, and that is a very important point I'll come back to in a moment. This resolves many of the concerns expressed about what private ownership of TOTE Tasmania may mean to the local industry, and I will touch on some of those concerns as they were referred to by Mr Clarke in his evidence, particularly on the sale of the South Australian TAB. The committee received evidence on the first day of the hearing that the sale of the South Australian TAB was a significant cause of the decline of the racing industry in that State. By way of contrast to TOTE Tasmania, when SA TAB was sold it was returning a loss to the operator. It was virtually stripped of all its profits by the Government of the time. Indeed, following the sale, turnover decreased further, and Mr Clarke referred to that in his evidence this morning. Funding for racing in South Australia is directly - and I emphasise 'directly' - related to the turnover of the TAB in that State, so as the turnover increases or decreases so too does the funding for racing in that State.

I can fully understand that the racing industry would be concerned if the Government was to implement a funding model similar to that model in South Australia, but this is not what the Government is proposing. I understand that the Government is proposing to enter into a long-term deed with the Tasmanian racing industry, which would provide a level of certainty of funding independent of and separate to the turnover of TOTE Tasmania. I encourage that approach because at least the industry will have some form of certainty about its funding model.

I would also like to address some of the comments that were made at the committee on the first day of hearings. The former chairman of the Tasmanian Greyhound Racing Council, Mr Bullock, raised two issues of concerns to him and his former council with respect to the guaranteed levels of funding for the greyhound code. The second matter was in respect to the potential sale of TOTE Tasmania during the industry consultation. Again, that matter was referred to by Mr Ring this morning, so I will address those two points.

It has been asserted that TOTE Tasmania advised the greyhound council that it would increase the level of funding for that code received from funding from Betfair in excess of \$5 million; however, TOTE Tasmania did not formalise its commitment in writing. I have here in evidence copies of several letters which passed between the code council and Mr Bullock and TOTE Tasmania which refer specifically to that guarantee. Mr Bullock further asserted that in written documents handed out during industry forums, and in particular the industry forum at Campbell Town, there was a commitment that TOTE would never be sold. On this point I will read from the document - and there is a copy of this document incorporated in the papers that I've handed the committee this morning.

The comment was made that as TOTE Tasmania is not on the market, therefore there is no provision in the proposed legislation dealing with any hypothetical future sale. That falls well short of saying that TOTE will not be sold. Indeed, on a number of occasions during the consultation process, when asked about this question, I expanded my comments to say that the Tasmanian racing industry could never be guaranteed that the TOTE would not be sold. This Government, or indeed any future Labor or Liberal governments, may well decide to sell TOTE

Tasmania, so there's no guarantee in future. To rely on an organisation for the bulk of your funding appears to me to be madness. You need to broaden your income base so that the industry has a good and sustainable future well beyond the single-point sensitivity of TOTE Tasmania. I made that point quite clear at a number of those forums.

I also want to make comment as to why I was so motivated to see the implementation of the industry restructure which was approved by the Parliament last year. There are several papers here which refer to the documented process that we went through there, including board papers from the TOTE Tasmania board when the formation of the Tasmanian Racing Board was first raised and pursued in July and August 2003, almost some six years ago now. So this has been on the agenda for the company for several years and was first raised in public forums in 2004, but didn't proceed at that time for a number of reasons.

I again raised the prospects with the TOTE board in July 2008, and the process of the formation of the Tasmanian Racing Board as a governance model started in July 2008, well before any consideration of the sale of TOTE Tasmania was on the agenda. I, along with a number of other executives, developed that model within the company, and we were firmly of the view that we needed a model which took a one-industry approach to promoting the industry in Tasmania, and wasn't caught up in the fracturing of the three codes competing for their own individual positions, which was the case previously.

There are a number of people within the industry and I received lots of comments through the process. Indeed, I received a copy of a survey done for the greyhound code where 57 per cent of the constituents expressed a vote of no confidence in the old code structure. They were the motivations for me to take forward the industry restructure, it had nothing to do with the sale. Indeed, I would have said that TOTE Tasmania could have been sold regardless of whether the restructure occurred.

As the Minister for Racing indicated last week - and referred to by Mr Clarke this morning - we have restructured the company into three entities: a media entity, a racing entity and a wagering entity; not ostensibly to sell, but because of the efficiencies of running the business in that way. Any one of those entities could have been hived off from the business and could have proceeded forward without the other two. That is all I would like to say about that at this time, but I may have a further comment on that later, Mr Chairman. In conclusion, in my view, the restructuring of the Tasmanian racing industry has nothing to do with the sale of TOTE Tasmania.

**CHAIR** - Okay. Any questions?

**Mr BOOTH** - When did you first become aware that the Government was interested in selling TOTE?

**Mr COLEMAN** - I have made no secret over the last four or five years that I have had an interest in seeing the TOTE pass into private ownership. I have raised those observations with a number of people, including the Government, over that time. So when did I first have those discussions with the Government? Maybe three, four or five years ago.

**Mr BOOTH** - So with this current proposal to sell, when did you start discussing with the Government the prospect of its being sold? Not from your position in the

past that you thought it was a good idea, but with the Government specifically to do with selling it?

**Mr COLEMAN** - The first discussions I would have had on the possibility for sale would have been in May or June 2008.

**Mr BOOTH** - What form did those discussions take?

**Mr COLEMAN** - 'Is it worth considering?' - it was no more than that. Of course I was very keen on the notion of it being worth considering.

**Mr BOOTH** - In your mind, when did you believe the Government would proceed or was seriously considering the sale?

**Mr COLEMAN** - I really had not formed a view on that. There needed to be some consideration about the appropriate process. There needed to be advice on that and ultimately it is not for me to sell the TOTE, it is for the Government to sell it. I am part of what gets sold but they make those decisions.

**Mr BOOTH** - Was it in your understanding that it would be sold back in October last year, for example, or prior to that, prior to November last year?

**Mr COLEMAN** - That it would be sold, no, it was not my understanding. My knowledge of it being sold would have come in late December.

**Mr BOOTH** - How were you advised of that?

**Mr COLEMAN** - I was advised that it had been to Cabinet and that Cabinet had considered the sale of TOTE.

**Mr BOOTH** - Did you know it was going to Cabinet?

**Mr COLEMAN** - No.

**Mr WILKINSON** - Was there an increase in activity? Proposed sales do not drag along at snail's pace. If there is to be a sale or a decision to sell there is a bit more activity just prior to that happening. What I am suggesting is that you would have noticed that increase in activity, in terms of discussions with you, looking at business plans et cetera.

**Mr COLEMAN** - No, there were none of those discussions.

**Mr WILKINSON** - None with you?

**Mr COLEMAN** - None with me.

**Mr WILKINSON** - And you were not aware of any?

**Mr COLEMAN** - I was not aware of any, no.

**Mr BOOTH** - Were you shocked when you heard that it was going to be sold?

**Mr COLEMAN** - Pleasantly surprised or pleased.

**Mr WILKINSON** - I am not in government so I do not know, Craig, but I have been involved in private enterprise for a number of years and the Legislative Council for a number of years. People know what is going on around them. Are you saying that this was so cloak and dagger that you did not have any idea as to what was going on around you?

**Mr COLEMAN** - No, it is not fair to say that. In response to the question, did I know that TOTE was going to be sold? No, I did not know that TOTE was going to be sold until December. Was I aware of any consideration of the potential value of the TOTE over that time? The answer is yes, I was. Was I directly involved in any activity? No.

**Mr WILKINSON** - You were not aware that that activity was increasing. Can I take that to be -

**Mr COLEMAN** - I do not know that that is a fair characterisation of what actually occurred.

**Mr WILKINSON** - That is what I am trying to find out, you see?

**Mr COLEMAN** - My understanding is consultants, Deloitte, were engaged to give advice on the structure of the company under the Gaming Control Act and they were subsequently engaged to give advice on whether it was appropriate to sell the company. If that is an increase in activity, I was aware of that.

**Mr BOOTH** - Did they approach TOTE at all in regard to that then? Deloitte were engaged to consider selling the TOTE off, so surely they must have approached TOTE and discussed the business operation, model and the finances of it - what you owned, what you didn't?

**Mr COLEMAN** - All of those discussions occurred subsequent to the announcement of the sale of TOTE.

**Mr GUTWEIN** - Mr Coleman, are you telling us that the Cabinet made a decision to sell TOTE without there being any direct involvement by yourself, the CEO of TOTE, in regards to the value that might be ascribed to that asset should it go to sale?

**Mr COLEMAN** - I think we need to be clear on the decision the Government has made. The decision is the Government has an intention or a desire to sell TOTE given the right circumstances. Those circumstances have yet to be identified and finalised, so saying that TOTE is on the market today is wrong, it is not. Indeed, one of the key processes that needs to be dealt with is the passage of legislation through both Houses of Parliament and a price will need to be achieved which satisfies the Treasurer and the Government in particular. To say it will be sold, there are a lot of things -

**Mr GUTWEIN** - I said the decision had been made to sell TOTE by Cabinet which I think was certainly how the decision by Cabinet was portrayed; that the Government had decided that they would sell the TOTE. It seems a little strange that as CEO you were not involved in providing any advice to either Deloitte's or to Government about the potential value of TOTE prior to Cabinet making that decision.

**Mr COLEMAN** - If we are going to get into some of those questions I would rather answer them -

**CHAIR** - Any further questions? If not, we will have a short time in camera again.

**Ms ROBYN LOUISE WHISHAW WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.**

**CHAIR** (Mr Hall) - Thank you very much for coming along. What I might do is just read a couple of lines on parliamentary privilege, Robyn, because you may not have given evidence to a parliamentary committee before.

**Ms WHISHAW** - No, I have not.

**CHAIR** - Basically what it says is that everything you say to this committee today is protected by parliamentary privilege. This is to allow you to speak freely. However, once you have left the committee room, I must advise you not to specifically discuss your written or verbal evidence with anybody until the committee has made its report to the Parliament. You are free to speak generally about the issue to anyone, but please do not refer specifically to anyone about the evidence you give the committee until the report has been published. Our main term of reference is the proposed sale of TOTE by the Government of Tasmania, so I will let you make some remarks.

**Ms WHISHAW** - Firstly I would like to introduce myself. For those of you who don't know me, most of you, my name is Robyn Whishaw. I am a manager and part-owner of Tasmania's oldest and largest stud, Armidale, at Carrick in northern Tasmania. I have been involved in breeding and racing horses for over 30 years. My children, the eldest of whom is now home working full-time in the business, are fourth-generation farmers and third-generation horse-breeders. Our business currently employs six full-time staff, with 12 part-time staff during our busier times of year. We also provide a large amount of work for an equine vet, two farriers, two transport companies, a chaff supplier, a fencing contractor, a hay-making contractor and an irrigation company, as well as numerous others.

I would like to make the following points regarding the proposed sale of TOTE, and also ask you the following questions. How do we know just what we are being asked to comment on when the Government has not consulted with our industry at all about this proposed sale and, furthermore, has not given any indication at all of how the sale will work and how the industry will be funded? Amazingly, they did not even consult the TOTE chairman, Craig Coleman, on the sale of TOTE. How can Premier Bartlett possibly claim to have an open, transparent and accountable government?

In December 2007 Mr Michael Aird released a study showing the importance of the racing industry to Tasmania's economy, and I have a copy here. It found that the industry generates more than \$74.1 million output for the economy, directly employs over 2 500 people, and many more indirectly and part-time. A study done in 2000 by the Australian Racing Board - and I also have a copy of that - had that figure at nearly 5 000 in Tasmania being full-time employed. It also generates a total construction contribution of over \$73 million. It is a most valuable industry for Tasmania and one that has shown significant growth trends in recent years.

TOTE turnover was up substantially last year, from \$387 million to \$498 million in just 12 months, a growth rate of 30 per cent. The racing industry is labour-intensive and provides employment for a subset of people with unique labour

skills who may struggle to find work elsewhere. Over 50 per cent of those employed are from rural areas. The employment levels have continued to grow as the industry grows, and the industry largely has not been dependent on government subsidies.

It is very important to note that TOTE was formed to fund the racing industry, to maximise return to stakeholders, and to free the Government from having to fund racing. TOTE was developed to make sure the industry and all the stakeholders were able to progress and reinvest in the future of building a better industry, and this has been very successful. Consider that England, with its wonderful racing, steeped in tradition, bets over twice as much in dollars as Australia, yet it races for less than a third of the prize money. Why? Because Australia has had the best betting and funding system in the world, and that is TOTE. Remember that. Australian racing is the envy of many overseas countries, certainly the envy of the English.

Sadly, other States that have sold their TOTE to private enterprise are starting to suffer. You only have to talk to the administrators in New South Wales, Victoria and South Australia to hear of their grave concerns for the future funding of racing, yet both Western Australia and the ACT, who still have government-owned TOTES, are booming. Has our Government taken the time to look at Western Australia and how their TOTE works to see if their model would be appropriate for Tasmania? In fact, Mr Clarke said earlier that Western Australia based their model on Tasmania with a few changes. It is working brilliantly.

What options has our Government explored? If they have explored any options they certainly have not told us. It is difficult not to be cynical about the timing of the announcement of the sale. Just as the Government has totally changed the structure of the administration of racing, taking it away from TOTE and the race clubs and has formed a new Government-appointed board, it announces suddenly the time is right for TOTE to be sold, right when racing's voice has been disbanded and the new Government board has barely had time to meet. We can be certain the new board members are not going to question the Government's timing in the sale of TOTE now, are they?

I do not doubt that private enterprise would run TOTE more efficiently. But private enterprise will have an obligation to shareholders to maximise their returns. Where will the profit go? It is most likely that an interstate buyer, or an overseas buyer indeed, would be interested in buying our TOTE. They therefore will take the profits out of the State. This will in turn have an enormous negative impact on the State's economy. The way it is at the moment, the profit from TOTE goes back into the State, is spent in the State on building the industry, on employment, and tourism and all the other things that the industry generates. I am asking you if an outsider buys it, where will the profits go and how will this affect our economy? Has the Government done a study on this? It would be nice to see if it had. Remember why TOTE was set up in the first place: to fund the industry.

Aren't we - those that have invested long, hard hours and financial commitment to the racing industry over many years and for my family over three generations - the shareholders of TOTE? For as we work hard to grow our industry and employ more and generate more money, so TOTE too has profited and grown. This in turn has kept the growth spiral onwards and upwards. What I would like to know is how our Government is going to offer protection to our industry and to the livelihoods of all those people and families who have worked so hard to build

a viable racing and breeding industry in Tasmania. Without that huge effort and financial commitment by so many the Government would have no TOTE to sell.

It is rather sad to think that we have been so successful in building such a vibrant industry and TOTE that our Government has now forgotten the fundamental reason it was developed in the first place and can only see the dollars it can get from the income of selling it. I think it is important to consider that we must also be aware that governments cannot promise things in perpetuity. Mr Aird may well talk about 20-year promises. I am sorry, but that is all it is: it is only talk. Besides, for me, 20 years is nothing. My youngest son, who aspires to come back to the stud and assist in running the business, will only be in his 30s in 20 years' time. Mr Aird most likely will be long gone but my children will be in their 30s. Twenty years is not long enough, I am sorry.

I challenge our Government to provide a funding model that is not static, that can grow as racing grows as TOTE has done; a model that is sensitive to the needs of the industry and can guarantee us a strong, growing and progressive industry into the future; an industry that can continue to be a major economic and social contributor to our wonderful State of Tasmania. They need to provide us with a model that is better than TOTE. I believe that the racing industry would prefer to stay in the commercial world rather than be dependent on a government for future funding. That is what will happen if TOTE is sold: the Government will have to fund it. I have done the maths and I was alarmed to hear Mr Clarke say that that is the equivalent of \$900 million over 20 years.

Finally, I would like to strongly recommend that this committee make a recommendation that the sale of TOTE be put on hold until a proper transparent inquiry can be held to allow thorough investigation of the pros and the cons, and most importantly to allow for public input from those who rely on the industry for their livelihood and income. Thank you.

**CHAIR** - Thank you, Robyn. I understand the passion you have for the industry and how long you have been in it. You made some very good points. I put a question to you hypothetically, in response to a statement towards the end of your deliberation that you would rather see the racing industry take their chance with the commercial world rather than having a funding model, and you were rather sceptical about the 20-year time line. What happens if there are other commercial pressures which really impact upon TOTE, and they couldn't deliver what they've been delivering in the past? Would it not be better then hypothetically - I am being the devil's advocate here - to have a funding model which delivers some certainty, even though it's for only 20 years?

**Ms WHISHAW** - I can see your point, yes. I think TOTE has performed well, and it's properly managed - and I would say that the management has been good; you only have to look at the growth of TOTE. In fact, someone was saying there has been 90 per cent growth over 10 years, is that right? It has grown enormously. Obviously, we face a lot of challenges with gambling, and someone like Mr Clarke or Mr Coleman would be in a much better position than I to understand the complexities of those. But from talking to the people in the industry and being reliant on the industry myself, I would think we would rather compete in the marketplace than rely on a government which ostensibly is also competing in the marketplace to get its funds to supply the industry.

I would much prefer that, I would prefer to compete in the marketplace as we have. I think TOTE can continue to grow with good management, and we

obviously need to look to Asia for markets, but we have the right personnel to do that. Also, it will force our industry to continue to upgrade and be competitive.

**Mr BOOTH** - Thanks for the evidence; it is pretty unequivocal that what you're saying is that you don't want it sold. You are representing Armidale Stud, but do you have a broader connection, do you think that what you're saying is broadly what your industry wants?

**Ms WHISHAW** - I talk to a lot of people in the industry, obviously, through my clients. This is something that a lot of people in the industry are very alarmed about. Certainly the way it's been done has been very alarming because there's been no consultation at all, and yet we have a government saying they are going to. Why wouldn't you go to the industry, why wouldn't you go to the Chairman of the TOTE and asked him about it? It seems farcical that he wasn't asked, but I am not a politician. Talking to the people that I talk to, and I wrote an article in the *Examiner* which was published on Launceston Cup day and I had a number of calls regarding that; people are very concerned.

**CHAIR** - That article certainly raised some interest. Soapbox, I think it was called, wasn't it?

**Ms WHISHAW** - Yes. I am sorry, people don't trust the Government in that we know a government's promise will only last as long as that government is in, and then it can be changed. The industry feels that it has experienced good growth over the years that TOTE's been formed; it has made good progress, so why change? States that have changed are in trouble. In the States and the countries sticking with this model, racing is very sound and growing. All right, when the economy is tough it will not grow as quickly, that is life. We will go through a tough time now, but I think when times are good, if people put in the hard work then we have had the growth and that's exactly what TOTE has done.

I think the general feeling that I get from grassroots - and I certainly can't speak for the whole industry - is that they're very alarmed, that the Government cannot come up with a model which can't be changed, can't be taken away from us, that can cope with growth - and I can't see how they can come up with a model that's flexible enough, but I'm not that smart so perhaps they can - as TOTE has. As we've grown, TOTE's grown, they feed off one another. Can they come up with a model like that?

**CHAIR** - Following what you were saying, for instance you were going on a line there, I understand the recent yearling sales were less than satisfactory.

**Ms WHISHAW** - Disastrous. We certainly expected they would be down.

**CHAIR** - Obviously an economic downturn comes into play there as well. What percentage do you think can be attributed to the uncertainty around the sale? Some trainers have said to me it was all to do with that.

**Ms WHISHAW** - We'd all have to guess at exactly what it was to do with. We certainly expected a downturn based on other sales figures around Australia. You would have expected a 25 per cent to 30 per cent downturn. I think there's certainly a lot of uncertainty in the industry and unrest about this sudden proposal. One minute TOTE is not for sale and the next minute it is for sale. One minute we have a say in our industry, the next minute there is a new

government-appointed board who are not going to stand up and fight against this because they have been appointed by the Government.

We feel that no-one is representing us. Who have we to speak out? The industry feels very uncertain but there is no way that you could guess how that influenced the sales. I think that it was a negative impact but of what amount I do not know.

**Mr BOOTH** - Why do you think the Treasurer is selling it then?

**Ms WHISHAW** - I would like to look inside his head and be able to answer that. It would appear on the surface for someone naive and ignorant like myself that perhaps he is a little bit short of funds. If he looked at it long term and what it is going to take to fund the industry over the next 20 years, \$900 million is a lot of money and that probably does not even allow for growth. I am sure that it would not be based on the 30 per cent growth we have had in the last year or the 90 per cent growth we have had in the last 10 years. I think that figure is probably just what we are at now, plus the CPI index.

**Mr BOOTH** - Would you have accepted effectively the assurances prior to the announcement that it was for sale, but in fact it was not for sale?

**Ms WHISHAW** - Yes. Why should we do otherwise? The question was repeatedly asked. I must admit, though, being a bit of a cynic, that as soon they started to separate TOTE from the administration of racing a lot of us in the industry were saying that the next thing they would be saying is that TOTE was for sale. I was talking about it with a vet back in October; we were joking about it, saying we would hear TOTE was for sale.

**Mr BOOTH** - Do you feel that the industry has been misled by the Government?

**Ms WHISHAW** - Definitely. And I do not think the industry trusts the Government at all, if, face to face, they cannot answer you honestly.

**Mr GUTWEIN** - So absolutely no contact with the industry throughout last year?

**Ms WHISHAW** - None whatsoever that I know of. I am only a State's leading breeder; why would they ask me?

**Mr GUTWEIN** - You have also been quite prominent in your public statements on this and in Letters to the Editor as well.

**Ms WHISHAW** - Well, if I don't, who else is going to?

**Mr GUTWEIN** - Have you have been contacted after making those public statements?

**Ms WHISHAW** - Yes, I have and perhaps I might need to say something in camera regarding that. I have been contacted by a lot of the industry too.

**Mr GUTWEIN** - Just before we go in camera, are you aware of any other contact being made with anyone else in the industry or any formal process being put in place because obviously it appears over the last month to six weeks a lot of concerns have been raised, a lot of people out there are raising issues. Are you

aware of any formal process that has been put in place by government or any other body to actually begin to engage?

**Ms WHISHAW** - This is the only formal process that I know of where some public have been asked to comment. I imagine I was asked to comment because I made a noise. Many people have stopped me in the street and rung me up. Some have written to me and e-mailed me to say good on you for being brave enough to speak out; we need someone to speak out for the industry because we have no-one now because they have just disbanded our voice.

**Mrs RATTRAY-WAGNER** - Robyn, obviously the new structure has taken away what you perceive as your voice, but do you still as an industry stakeholder meet on a regular basis?

**Ms WHISHAW** - No, not as a group. We have been trying to. Since this has happened I have been trying to form a group of stakeholders so that we can have a voice so that when issues like this happen someone, an elected person, can speak for the industry. It is very hard, the Government has just disbanded it, the new board only came into being on 1 January and then this is thrown on us, so it takes a little bit of time.

We are in the process of trying to get a body together because we feel that the new racing board, being all government appointees - I am not saying that they do not have the interest of racing at heart because I think that they will have - they cannot be seen as going against government policy otherwise they will be asked to move on down the road and someone else will fill the seat.

**Mrs RATTRAY-WAGNER** - Thank you.

**CHAIR** - We will go in camera. We will be short.

**Mr KEVIN NEILSON** WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** (Mr Hall) - Kevin, are you au fait with parliamentary privilege and all that sort of thing?

**Mr NEILSON** - I have read the documents. I think I am fairly familiar with it.

**CHAIR** - Okay, I will not go through it again.

Kevin, thank you very much for appearing. You are the manager of the Tasmanian Racing Board - or TRB - therefore I will invite you to make a statement if you would like and then open up the proceedings for members to ask some questions. Thank you.

**Mr NEILSON** - I need to clarify my position. I am not the manager of the Tasmanian Racing Board.

**CHAIR** - Aren't you? That is what is said on the running sheet.

**Mr NEILSON** - No, I am the Manager of Harness with the Tasmanian Racing Board.

**CHAIR** - Okay, thank you.

**Mr NEILSON** - The original request for me to appear before this committee was in my capacity as CEO of Harness Racing Tasmania. As a result of the legislative change Harness Racing Tasmania ceased to exist from 1 January 2009 and the roles and responsibilities simply were taken over by the Tasmania Racing Board. My current position, as I said, is Manager of Harness with the TRB. When I was asked to appear before the committee I reviewed the minutes of Harness Racing Tasmania board meetings for any indication of the position of HRT concerning the possible sale of TOTE Tasmania.

As the racing restructure consultation leading to the abolition of the co-councils and the formation of TRB was announced in August 2008, I checked the minutes from then to 1 January 2009, and there was no reference to any HRT position on the sale of TOTE Tasmania. That is not a surprise because the sale was announced on 9 January, after Harness Racing Tasmania ceased to exist. During the racing restructure consultation I do recall some individuals making aside comments such as, 'This looks as if it may be set up for sale', but those comments were sort of there one moment and gone the next. At least one HRT council member made a similar comment and said it was just a one-liner. So I suppose, in conclusion, HRT has never had a position on the sale of TOTE Tasmania as the notification of that sale was made after the entity ceased to exist.

**CHAIR** - Thanks, Kevin. Questions from the committee to Kevin?

**Mr GUTWEIN** - Do you have a position on the sale of TOTE Tasmania?

**Mr NEILSON** - Do I personally, Peter?

**Mr GUTWEIN** - Yes.

**Mr NEILSON** - No, I do not. The reason for that is that in my current role as Manager of Harness I am concerned about the day-to-day running of harness racing in the Tasmanian racing industry. I know that the Tasmanian Racing Board is working with the minister at the moment to put in place a funding model for the future. I am leaving the Tasmanian Racing Board to do their job while I go ahead with my job, so I do not have a personal position on the sale of TOTE Tasmania. I do not understand the reasons it is being put up for sale. I have not researched them. I genuinely do not have a position on it.

**Mrs RATTRAY-WAGNER** - What about your industry, though? Do you think there is any position generally from people you know and speak with, other than the people who have said, 'This could well be a set-up for a sale' prior to the restructure?

**Mr NEILSON** - There is a two-part answer to that. I am aware that there is an entity that has got together and canvassed clubs and put a petition forward objecting to the sale of TOTE Tasmania. I have not seen that bit of paper. I do not know what the wording is.

The second part of that answer is that I am sure that what the industry wants is security of funding. The minister has given an undertaking that he would look at a 20-year plan in regard to the funding of the racing industry. The racing industry has had secure funding in the past. If you go back to about 2000 when TOTE Tasmania came in and the legislation required that x number of units were paid back to the racing industry to sustain that industry.

In fact, TOTE exceeded that by a long way in the subsequent years from 2000 to 2008. They initially were sole provider of funding for racing. As we went through the early 2000s, entities such as AAMI, Wrest Point Casino and other sponsors came on board and provided a minimal amount of funding for racing - a very important amount but minimal. Then, of course, with 2006 the licensing of Betfair came in and, as such, funding flowed to the racing industry from Betfair. That is about 25-28 per cent of our funding. So the climate is changing in regard to where funding for racing comes from but TOTE still provides an enormous amount of funding. Into the future, I think the industry just wants surety as to the funding into the future and I do not think they care where it comes from, as long as it is secure.

**Mr GUTWEIN** - Kevin, whilst you might not have a personal opinion about the sale of TOTE, obviously the outcome of the sale is very important for harness racing. If the outcome was not as good as it currently is, would the sale of TOTE be a good thing?

**Mr NEILSON** - It is a hypothetical question.

**Mr GUTWEIN** - I can understand your reasons for not wanting to have a personal position in this room, but in the position that you hold, obviously the outcome of any sale is going to have a direct and material impact on harness racing in Tasmania in some way. Either it is going to be better for the industry, it is going to be the same or it might be worse. From what you understand of what is going forward, is the sale going to be better or worse for the industry, and if it were to be worse but perhaps better for the other codes, would you be supporting it?

**Mr NEILSON** - First of all, I have confidence in the Government in regard to how they have handled racing in the last eight to 10 years. They have put us on a very high pedestal, comparatively speaking, as far as stake money is concerned, and especially the support that they have given harness breeding through their funding and also through TOTE Tasmania has been sensational. I obviously would not condone anything which reduced the funding to racing into the future. It is a hypothetical question, but if TOTE was sold and the funding went down, in hindsight, obviously I would not support it.

**Mr GUTWEIN** - Fair enough.

**Mr NEILSON** - But there is a lot of hypothetical in that.

**Mr BOOTH** - Just following on from Peter's question, are you concerned then that the funding at the moment effectively is being taken out of the political domain to a fair degree, because TOTE exists as a racing entity that funds its stakes and so forth, whereas if it was transferred back directly from consolidated revenue to support the stakes that a strong political argument would occur each Budget as to what the public would see as the public purse paying for the racing industry, and therefore be subject to the whims of whatever was in - the political pressure?

**Mr NEILSON** - I think no matter whether it is health, education or racing, it is always at the whim of the Government at the time in regard to the support for it.

**Mr BOOTH** - Yes, but that is the point I am making at the moment. If you are queuing up for a hospital bed, you are not necessarily going to look at what money TOTE puts back to support stakes, whereas if it is a direct Treasury contribution from consolidated revenue, budgetary and portionary, that goes to support that industry, then you are competing, aren't you, more directly? That is the point I am making.

**Mr NEILSON** - Yes, let us get this clear. The current funding is through until the end of this financial year. With the restructure, the funding that the code councils have has been transferred across to the Tasmanian Racing Board and the funding is secure until 30 June. As I mentioned before, I know at the moment that the TAB's main priority in the past two month has been to work with the minister to get a funding model up and going, and I believe that process is almost complete now. Again, I refer to the statement that Mr Aird made to this committee at the first sitting when he said he was looking for long-term surety, and I had noticed the figure of 20 years was mentioned. Does that answer the question?

**Mr BOOTH** - Well, you have answered it how you want to. The question I was really concerned about was whether, in fact, from an industry point of view you would have more security if you funded through the yield from the racing industry itself, which is effectively and directly hypothecated, if you like, back into the industry rather than Treasury having to grab for cash, selling off the TOTE and putting that into consolidated revenue, and then hooking up a deal that gives you 20 years of certainty in the sense that it becomes a political issue if you get funding. That is the point that I am making.

**Mr NEILSON** - In regard to the funding from TOTE Tasmania, or an entity like TOTE Tasmania, their performance has been outstanding in the last couple of years. We all know the figures, so I will not go through those again. Who knows what

will happen with regard to the racing industry in Tasmania, or worldwide what will happen with betting and so on? It is really a hypothetical, again. As I said, I want a funding model that is guaranteed, whether from the racing industry itself or from consolidated revenue through the government budget each year. To me it does not particularly matter and I do not know which one is better at the moment but I have a lot of faith in what the Government has done in the last eight to 10 years.

**Mr BOOTH** - Do you think the industry should have a plebiscite with all three codes to decide whether TOTE should be sold?

**Mr NEILSON** - My answer to that would be, provided all the information is given to them about why the sale of TOTE is proceeding, yes. But I do not think a plebiscite is much good unless people have all the information in regard to why the sale has been put up and so on.

**Mr BOOTH** - Do you know why it is being sold?

**Mr NEILSON** - No, I do not.

**Mr BOOTH** - The Government should be transparent about why it wants to sell it?

**Mr NEILSON** - I do not know what the processes have been with other entities that have been sold, like the Hydro and so on. I do not know what the process is in regard to how much information is given out.

**Mr GUTWEIN** - We tried with the Hydro. I think Tony Rundle would be appalled.

**Mr NEILSON** - Sorry, had the wrong one there.

**Mr GUTWEIN** -How are your members reacting at the moment? One of the concerns that I am hearing from the industry more broadly than we have heard to date and Robyn Whishaw, concerns the lack of consultations concerning them. Do you believe that former members of Harness Racing Tasmania, as they exist now, are concerned about the sale? If so, what could be done?

**Mr NEILSON** - I understand that you are interviewing one of those former members this afternoon, Tony Jeffries. Tony would be able to give you a straight-from-the-horse's-mouth answer to that, I would suggest. The industry wants security of funding into the future. That is my summary of what the industry thinks about it.

**Mr BOOTH** - In regard to that, when the pokie licence was given out and a lot of betting money went into pokies there was a lot of concern at the time that that money should have been hypothecated straight back into the industry. It did not happen to the detriment of the industry. I did not support that contention myself. Do we not have a similar situation where the business that supports the industry at the moment by being set up over the years partially through government support but effectively through industry self-generation is now to be plundered by the Treasury, but unless there is absolute guarantee, there is 100 per cent hypothecation, then you might end up in the same situation as when the pokies were set up which stripped away a lot of the gambling money?

**Mr NEILSON** - When the pokies were set up there was a concern in regard to the lack of funding coming back to racing, but time has shown that the Betfair model

and also the performance of TOTE Tasmania, I believe, well and truly made up for any perceived shortfall.

**Mr BOOTH** - There was \$200-odd million lost on pokies. There are a couple of hundred million coming out of the gambling pools for poker machines. It is a fair bit when you consider the \$23 million that goes back to TOTE from the State.

**Mr NEILSON** - I answer that question on the basis of the stake money available to participants in Tasmania. While we would all like it to be higher, it stacks up very well compared with other States in Australia and that is the base on which I say it has turned out pretty well.

**CHAIR** - Kevin, thank you very much for your time.

**THE WITNESS WITHDREW.**

**Mr PHILIP GEOFFREY SWINTON WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.**

**CHAIR** (Mr Hall) - I invite you to give some evidence or make an opening statement and then let the committee ask you some questions.

**Mr SWINTON** - First, my position is Secretary of the Devonport Racing Club and also President of Thoroughbred Breeders Tasmania. In those two capacities I have a strong interest in the sale of TOTE Tasmania.

**CHAIR** - You are a mixed grill.

**Mr SWINTON** - I suppose so. Both organisations are looking for a good future for thoroughbred racing in the State. I will make a statement from each of those entities. First, the Devonport Racing Club has enjoyed a very good association with TOTE Tasmania and has handed over staffing responsibilities and so forth to them over the last three or four years. We have seen a lot improvements to the track and, having seen Launceston come on line, we are looking for more improvements for that racecourse moving into the future and for racing on the north-west coast.

As far as thorough bred breeders are concerned, once again we have enjoyed a very good relationship with TOTE Tasmania. TOTE is a wonderful supporter of the thoroughbred yearling sales, which have gone from strength to strength over the last few years with the advent of Magic Millions coming on board. We owe a lot to TOTE for high average prices for a lot of breeding studs. Robyn spoke to you earlier, she runs one of the largest studs in the State, along with Graeme McCulloch, ourselves and Bowthorpe. We have all seen a lot of improvement in the breeding side of things and we are all investing quite heavily in the industry. Obviously when the sale of TOTE Tasmania was first mooted in early January, we were all seeking some long-term surety as to the future in which we were going. Both organisations, the Devonport Racing Club and Thoroughbred Breeders Tasmania were, I suppose, taking a position of opposition to the sale of TOTE simply because we did not have information as to a long-term funding model.

We are not saying it is necessarily a bad thing, but until we are given that sort of information it is difficult for us to make a positive comment towards it. The sale of TOTE to private hands could be a great thing for the racing industry in Tasmania. As we all know a private operator tends to run that type of business more efficiently. However, we would need to see a long-term funding model before we could support it.

**Mr BOOTH** - Philip, you mentioned that it could deliver potentially better outcomes if it was run by private enterprise, but are some of those efficiencies and things that the industry would then lose as a result of it no longer being a government business intangible? After all, a government business is seen to be a public facility which does, by its very nature, have to deliver certain other benefits that are non commercial directly.

**Mr SWINTON** - Yes, that is very true, Kim. I suppose one of the things with TOTE at the moment being a government business is that it is quite easy for us to justify

the fact that TOTE is putting in \$27 million or whatever it is to racing because you can say that has been generated by TOTE Tasmania.

Having spoken to the Treasurer who said, eventually the money is coming out of one big pool anyway, it does not matter which organisation is generating that money. But obviously it is a far easier model for everybody to relate to if they know that is where it is coming from, it is funding racing. We have had some great increases in stakes and so forth in the past. If that is no longer there we will be competing with every other entity in the State money out of the consolidated revenue. It is going to be far more difficult to justify, I would have thought, than the model we have at the moment. But, once again, if it is run very efficiently and generates more turnover then it could be a positive in the industry if there is a funding model in place that the industry benefits from.

**Mr BOOTH** - Where do you see those efficiency gains occurring? That is where I was saying in terms of the intangibles that are provided.

**Mr SWINTON** - TOTE Tasmania is probably entering a difficult phase at the moment where they have lots of legislation issues with other States that they need to deal with. I know that they have been very proactive overseas and that is a big growth area. Depending on who was to buy the business they would need to find some niche markets, but that is not my area of expertise.

**Mr BEST** - Thank you very much for your contribution today. We heard earlier from representative jockeys of their view about quality being important but also quantity. I am just interested in your view. Could that be solved with more funding so that there could be more events? Maybe I could simplify the question by simply asking what would be the key features that you would be looking for in a funding-model agreement?

TOTE Tasmania and Magic Millions going forward with a very successful sale has brought a lot of new people into the industry, which in turn has helped the local economy. It has brought a larger pool of horses coming through. From a thoroughbred perspective, there have been insufficient races for those horses to compete in. I know that there is a view in some quarters that we need to get quality instead of quantity and there are various ways to do that. We are doing some work at the moment on some modelling for that. Going from approximately 68 to 78 race meetings per year would probably satisfy the demand and supply issues we have at the moment. Whilst that would require some extra funding, we believe that there are other areas that we could get funding from - some of the larger races and so forth. No matter which funding model we look at, we have to constantly be increasing our stakes pool because, whilst I heard Mr Neilson say earlier we have done very well in comparison with Victoria and New South Wales in their country racing, we have to keep growing because otherwise we will stagnate and fall behind. The industry is very vibrant at the moment and we need to continue that.

**Mr BEST** - Is there a set percentage? Is it CPI? How do you work out how the increments need to keep adjusting?

**Mr SWINTON** - The benchmark that we have been working on is Country Racing Victoria. We were about 85 per cent of their stakes money and I believe that we are about 100 per cent of it at the moment. We are getting interest now from Victoria with people bringing horses over here or trainers relocating from Victoria, and that is all a good thing for our industry. We need that positive vibe

to continue. An issue that we have had just recently is that unfortunately our sales this year were 41 per cent down in late February, just before the Launceston Cup. Obviously the economic climate has contributed to that but also I think the uncertainty in the local industry with the announcement of the sale of TOTE without any model as to where we are moving in the future has probably caused some of our local buyers and trainers to be a little apprehensive this year and to stand back to see where the industry is going.

**Mr BEST** - When you said 'pool of horses coming through' you were talking Tasmanian, is that right?

**Mr SWINTON** - Yes.

**Mr BEST** - When we are talking about the funding model, what are you proposing there? Are you suggesting that the funding model needs to be worked out and decided upon well in advance of any proposed sale of TOTE?

**Mr SWINTON** - It would certainly be very difficult to go backwards from what we have at the moment. Once again, as I said, if it goes into private hands it becomes more profitable. It could be a huge winner for the State, it really could, as long as we have some surety from the industry that some of that money will be going back into the industry to benefit in the long term.

**CHAIR** - Philip, you talked about, and I think we may have had some prior evidence that there need to be more race meetings in the State. There was always a bit of a contrary view that we have a very small pool of jockeys here and that some horses have gone to the knackery in the last few months. I think you were painting a bit more of a positive picture, saying that there are trainers coming in and wanting to train horses here.

**Mr SWINTON** - That is right, yes.

**CHAIR** - In a general overview of the racing industry, are more race meetings required within the State at this stage? Is that something that you would support?

**Mr SWINTON** - Yes, they are. I have spoken to Don Abell in regard to this. Whilst he did not know which way it would be he said to come forward with the proof. We are actually working on some modelling at the moment that shows that that is in fact the case.

**CHAIR** - The other thing you talked about was the performance of TOTE and how they had performed quite well in the last few years. Given the very competitive commercial environment that they operate in and there may be external forces which may impact in the future upon their viability and therefore that would deliver less return to the Tasmanian people and obviously to the racing industry, is that a concern, you being within the industry? I know that's a bit of a hypothetical. Is that something you would be concerned about, you would prefer to have a guaranteed funding model from consolidated revenue rather than from TOTE itself?

**Mr SWINTON** - It is a hypothetical question, but I suppose you can only go back on their performance over the last few years, which has been very strong. You would hope that in any competitive environment, which hasn't no doubt been the

case over the last few years, they have performed very well. So as an industry, we would hope that would continue to happen.

**CHAIR** - So you are not aware of any things that might be looming on the horizon in terms of pressures that may diminish their performance?

**Mr SWINTON** - Certainly race fields legislation, which you are probably well aware of, which means we need to buy our product and sell our product well. I believe they have done very well, especially with their Internet side of the business with looking at opportunities outside of Australia, and so forth, so the industry I think would be very positive in all their aspects in respect to TOTE Tasmania.

**Mrs RATTRAY-WAGNER** - Just following on from the Chair's line of questioning, there obviously was evidence earlier today from a person saying that too few get too much, and the stakes are not evenly spread. Obviously the Hobart and Launceston cups are examples of that, and then there's not enough for the smaller race meetings. Do you support that theory?

**Mr SWINTON** - It's an interesting idea. Certainly leading up to the thoroughbred sales this year, first, second and third in the majority of our larger races all went out of the State, so that was a negative for the State. However, if we have a horse good enough, we will take it to the mainland and try to win their prize money, don't worry about that. It's quite difficult for us to limit the opportunities of mainland competitors to come over here. It's a good thing when they come over here because hopefully it raises standards that we need to have in Tasmania, but I think there's probably a balance.

I think at the moment maybe we do have some of our races a little too high, and some of that money could be directed to minor races. I don't think it would make a lot of difference if we were to take a percentage off most of those larger races; it wouldn't affect the horses who came over, it wouldn't affect our fields, but it certainly would help the local industry here 52 weeks a year.

**Mrs RATTRAY-WAGNER** - That was the message that I was getting out in the public as well. You said your particular organisation is working with the minister to look at a funding model. Has that happened only since the announcement's been made for the proposal to sell TOTE?

**Mr SWINTON** - No, it was Mr Neilson who said that; we haven't been working with the minister on that at the moment. We've had meetings as a group with Don Abell, and we are developing a plan at the moment to send to the racing board that will show that the facts and figures as to why we need more race meetings.

**Mrs RATTRAY-WAGNER** - You haven't had any direct conversations or meetings with the minister in regard to -

**Mr SWINTON** - Not formally, no.

**Mrs RATTRAY-WAGNER** - What about informally?

**Mr SWINTON** - Yes, I have spoken to him informally about it.

**Mr BOOTH** - I am intrigued just in regard to your comments that if TOTE was sold into private enterprise then it would do a lot better, there is more potential. Given that it is a government business enterprise supposed to work on a corporate

model, implicit in that, then, is that TOTE isn't performing to capacity or there's some undetermined or undisclosed capacity that they should be going into. What are those areas, or is that just a generalisation?

**Mr SWINTON** - It is only a generalisation, I think that probably comes just from dealing with businesspeople in general. I suppose if you're out there in the private sector then you could probably run a little bit leaner and meaner. As far as the industry is concerned, I suppose we are very pleased with the way that TOTE has performed, but for it to go to private enterprise then there may be other opportunities that come with that.

**Mr BOOTH** - Correct me if I'm wrong, but I'm assuming that would mean that if it went better, the Government would have to have some sort of taxation model in place to take some of the funding back out of that increased pool or better performance, that business, that would somehow then be redistributed back to the industry.

**Mr SWINTON** - Certainly it's difficult for us to comment on it at the moment because we haven't seen any funding model at all.

**Mr BOOTH** - So at this point of time, where you are sitting, is it a fair assumption that the decision to sell TOTE is in fact a Treasury-driven imperative as a grab for cash rather than for the good of the industry? Or do you think it is taken for the good of the industry?

**Mr SWINTON** - I thought the timing of it was interesting in that on 11 November there was an announcement that there was a new era in racing and the board was selected and announced on 28 December and then the sale was announced on 8 January. That seemed probably to a lot of people that it was something that had been considered beforehand. I suppose it is hard to know. I mean, we have not been told the reasons for TOTE's sale, so any answer to that would only be a guess.

We have spoken a lot about ongoing funding with stakes, but another really important issue to look at is infrastructure. Whilst Launceston has just had a major track upgrade and it is an unfortunate situation that we have Launceston, Devonport, Brighton and Hobart all probably needing new tracks all at the one time, another very important thing to look at as we move forward is where that infrastructure money is going to come from.

**Mr BOOTH** - Just one question in regard to the funding model in the future which you are looking at if the TOTE was sold. Doesn't it concern you that you would be queuing up for money, even if it was a long-term commitment? I mean, there is no such long-term commitment with football, for example, or pogo-stick riding or any other activity that occurs. Doesn't that then put the industry at risk of the whims of politics each budgetary session, and it becomes an election issue?

**Mr SWINTON** - It certainly does.

**Mr BOOTH** - I have been very critical of the Government in the past in terms of their prioritisation of funding streams to the racing industry when you have issues with health and education and road infrastructure, all sorts of things, and that is an argument that has been perennial, it keeps coming up, whereas at the moment with the TOTE funding the industry directly you do not have that white noise coming across each budget. Nobody looks at it and says racing is getting all this

money because it is actually seen to be a self-generating thing which to me, from the industry perspective, is much more desirable. Is that a fair comment?

**Mr SWINTON** - It is a fair comment, yes. From my dealings with people in other States, I sit on the board of Thoroughbred Breeders Australia and there are a number of studs that have been looking at opportunities in Tasmania and I think they are probably sitting back now and waiting to see what happens before making any commitment, but certainly the industry is seen as being very vibrant down here at the moment and I would hate to see that go backwards.

**CHAIR** - Thank you very much, Philip, for your presentation. We will no doubt talk again.

**Mr SWINTON** - We will, thank you.

**THE WITNESS WITHDREW.**

**Mr GRAEME JOHN RUSSELL WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.**

**CHAIR** (Mr Hall) - Mr Russell, we invite you to introduce yourself and make a statement and then we will ask you some questions.

**Mr RUSSELL** - My name is Graeme Russell, I am Vice-Chairman of the Devonport Racing Club and an ex-committee member of the Thoroughbred Racing Council which, as you aware, no longer exists. So I am here to represent the racing club of Devonport and see where everything goes.

**CHAIR** - We have given our terms of reference, the proposed sale of TOTE. Do you have an opinion or has the club formed an opinion as to whether it is a good or bad thing?

**Mr RUSSELL** - I have not really formed an opinion and, I guess, listening to a lot of the others as well - because we have not had a lot of information on the conditions of sale of the TOTE and all the other things that are going on - it is really a 'not knowing' situation as yet. We have spoken at our committee meetings and it all comes out the same - 'Give us some information on why it is going to be sold and what the conditions will be when it is sold'.

**CHAIR** - Has it created some anxiety within the club?

**Mr RUSSELL** - I think it has because even a lot of our committee members have backed off on buying horses at the yearling sales. I settled for one. I do not have a race horse at the moment because I have just held back because I am not sure -

**CHAIR** - You might be saving money.

*Laughter.*

**Mr RUSSELL** - Or making money. Until the decision has been made to either sell or not to sell, and with the new racing council as well, nobody really knows what is happening in the industry.

**CHAIR** - So I suppose the sooner that Parliament make a decision in that respect so we know which way we are going, it could be an advantage to the industry.

**Mr RUSSELL** - That is exactly right.

**Mrs RATTRAY-WAGNER** - Graeme, in your mind, had this proposed sale been held off, say, for 12 months while the new racing structure is bedded down, so to speak, do you believe that would have been more beneficial and your part of the industry may have had more time to digest what was going to happen?

**Mr RUSSELL** - I think it probably would have been a good idea to move the industry forward a little slower than it is. It seems that everything is trying to happen right at the one time and when you talk to a lot of the trainers and owners they all ask the same question, 'What the hell is happening at TOTE? What's going on with the industry?'. There are a lot of 'don't knows' at the moment.

**Mr BOOTH** - Drilling down on what you said in regard to buying horses at the sale, for example, you said you no longer have any horses yourself. Had the sale not been announced, would you have proceeded in the same environment as pre the announcement and bought horses?

**Mr RUSSELL** - I probably would have. If I went to the sale I probably would have bought two but I decided not to go because I am a bit of a sucker when I go to an auction - I seem to put my hand up.

*Laughter.*

**Mr RUSSELL** - So, yes, I possibly would have looked at buying, but just at the moment the industry is in a little bit of an unsure situation so I thought maybe I would just hold off for 12 months.

**Mr BOOTH** - So is it a reasonable thing to extrapolate from that then that the industry is concerned that the sale or privatisation of TOTE might be detrimental to the industry?

**Mr RUSSELL** - I do not know. This is going back to what I said a while ago, but I think it is just that the industry does not know. I think if the industry was told that the conditions of sale would be that the money would go straight back into the racing industry it would be different. If we have to sit and look at our money for racing coming out of consolidated revenue, maybe there is going to be a lot of public reaction out there that we are taking money away from hospitals and education and all the rest of it, whereas now, you still read in the media that we still have a few problems like that, but at least now we know that the money for racing is coming from racing.

**Mr BOOTH** - So do you see a need to sell to privatise TOTE under the current arrangements? Is there any reason that you see why it ought to be sold?

**Mr RUSSELL** - Not particularly, unless of course the conditions and whatever comes out of the sale make a big improvement to our racing industry. If we can get more race meetings and improve the balloting system - and the only way I believe we can improve that is by having more race meetings - I believe the sale would be a good idea, but the timing of it is probably not just quite right.

**Mr BOOTH** - From where you sit in the industry, and given the positions that you hold and have held, there has been a lot of white noise about the potential for a sale, which was denied; in fact it was unequivocally stated that it wasn't going to be sold. Were you shocked when you heard that it was going to be sold?

**Mr RUSSELL** - I was actually, because we were told at, I think it was our last or second-last Thoroughbred Racing Council meeting, that there was no intention of TOTE being sold.

**Mr BOOTH** - When was that?

**Mr RUSSELL** - That was probably a month before the Tasmanian Racing Board took over. Whether it was a quick decision after that or not, it's -

**Mr BOOTH** - Do you feel you were misled in regard to this?

**Mr RUSSELL** - Probably a little, yes, but by whom we don't quite know.

**Mr BOOTH** - Do you think that the industry should have a plebiscite on the sale, all codes, an industry-wide plebiscite in terms of whether the industry accepts it should be sold or not?

**Mr RUSSELL** - I don't think you could do that until, as I say, the information gets out and things are a little more transparent about how it's being sold, maybe who the contenders are for buying, and that sort of thing.

**Mr GUTWEIN** - How much capital might be required to bring some of the other racetracks up to scratch, so to speak? We've heard this morning that money has been spent in recent years, on Launceston for example, but Devonport particularly?

**Mr RUSSELL** - I reckon for Devonport we'd be looking at \$12 million to \$15 million to bring it up to scratch. I probably believe Launceston is a fantastic track now with the new StrathAyr. We're looking at some prospects at the moment so that when the board comes to us and tells us they're going to spend a heap of money at Devonport, we can say, 'This is what we'd like' or 'This is not what we'd like', instead of being able to say, 'Oh, we don't know'. We are looking at a StrathAyr against the other tracks like Geelong has, the synthetic tracks. We are getting some information together as a club for that.

**Mr GUTWEIN** - Over what sort of time frame do you think that upgrade would occur, or is it important that something is done with Devonport relatively quickly?

**Mr RUSSELL** - I think it's very important that in the next two or three years something's done at Devonport. We found a problem last year when Launceston was closed, and the racing industry really struggled to have enough because our track's not up to scratch enough to race through the winter. We had two or three meetings cancelled, so more horses get balloted out, owners get frustrated and trainers are crabby. Yes, it becomes very important, I think, that we have the three tracks up and running.

**Mr BOOTH** - Are you concerned that there might be a strategy for a two-track model in Tasmania?

**Mr RUSSELL** - I don't believe so. A lot of people talk about that, but I don't believe it's possible that you could run Tasmanian racing on two tracks. I think it's important that if we had to have two tracks we'd never survive.

**Mr BEST** - Pretty much from my reading of what you're saying is that your view in relation to the sale of TOTE really would be dependent upon what might be the situation in the funding model. If you could see that, then you could actually probably give the committee a firm view either way, couldn't you?

**Mr RUSSELL** - For sure, yes. As I said before, it could be a wonderful thing for racing, but it's probably like a motor car that no-one's ever seen.

**Mr BEST** - In that, there are some matters that have been raised about things that people would like to see in a funding model. Do you have anything other than what's been said today, or would you like to enforce some of the things that may have been said today?

**Mr RUSSELL** - Not really, no. I think from what I've heard from two or three speakers today, everyone's is of virtually the same opinion. We need some transparency and to find out what the reasons are and what the conditions of sale are, then we can sit down and make a fair assessment.

**Mrs RATTRAY-WAGNER** - Graeme, it was said previously today that for your particular part of the racing industry to grow and have more opportunity for the horses to race, so from your perspective do you believe that Devonport needs to be upgraded for that to happen?

**Mr RUSSELL** - Definitely.

**Mrs RATTRAY-WAGNER** - In your mind, does there need to be a commitment for that \$12 million to \$15 million to be committed before that next part could well and truly take place.

**Mr RUSSELL** - Yes, definitely. I do not believe there has been money spent on Devonport in a major upgrade for probably 15 to 20 years. I am not sure. The track at the moment requires really heavy maintenance all the time just to keep it up and running so that we can race on it.

**Mrs RATTRAY-WAGNER** - That is at the level that you already race at. That is not being able to extend out those opportunities for racing people?

**Mr RUSSELL** - That is right.

**Mrs RATTRAY-WAGNER** - To get equal coverage across the State, Devonport would need that \$12 million to \$15 million, in your mind?

**Mr RUSSELL** - In my mind, I am sure it would, yes.

**Mrs RATTRAY-WAGNER** - Are you supported by the rest of your organisation on this issue?

**Mr RUSSELL** - Yes. It was stated by TOTE before all this happened that they were verbally guaranteeing that Devonport would be the next upgrade. But now this is all happening it all up in the air again.

**Mrs RATTRAY-WAGNER** - Ahead of Launceston lights?

**Mr RUSSELL** - No, Launceston lights would be going ahead and the next major restructure would be Devonport.

**Mr BOOTH** - In terms of the politics, you make it clear that, if it were to be funded out of consolidated revenue, how would you feel going out and competing against football, health, education and so forth for an annual support for stakes and so forth?

**Mr RUSSELL** - I guess it would make it much harder, wouldn't it? You are also competing against football, hospitals, health and all the rest of it, but you are also competing against the public because of the look of it, more than anything. Even though maybe the money is going into Consolidated Revenue and then coming out and going into racing.

**Mr BEST** - Your money would be going into it.

**Mr RUSSELL** - Yes, but it probably does not look quite as good if it is coming straight from racing back into racing.

**CHAIR** - Graeme, thank you very much for your evidence. We appreciate your coming down and wish you all the best. Have a safe trip back.

**Mr RUSSELL** - Thank you.

**THE WITNESS WITHDREW.**

**Mr WALTER McSHANE** WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** (Mr Hall) - You are aware of the issues that surround privilege and that sort of thing?

**Mr McSHANE** - Yes.

**CHAIR** - You are au fait with that?

**Mr McSHANE** - Yes.

**CHAIR** - You do not need me to explain those to you?

**Mr McSHANE** - No.

**CHAIR** - Thank you very much for coming along. You know what our term of reference is. I will just read that to you again - we propose to inquire into the proposed sale of TOTE by the Government of Tasmania and any other matters incidental. I would invite you to make an opening statement if you like and then we will ask you some questions.

**Mr McSHANE** - Paul Lennon did a great job when he designated a lot of money to the racing industry because it is a very important industry, as racing is all over Australia. He engendered a lot of confidence in racing when he put as much money aside as he did - albeit much of that money was misspent - not his fault, he cannot do everything. A lot of that money was misdirected and had it been given to the racing industry it would have been spent ever so much better, but that is not the way it all happened.

I consider racing very much as a confident sport and business. From my point of view it is a business and a sport. What has happened since Mr Aird took over and misled us has destroyed one heck of a lot of confidence right throughout the industry from the breeders to the owners to the trainers and perhaps jockeys because we cannot get jockeys to stay in this State.

We are in a shocking situation where we are flying jockeys in every Sunday to ride horses, then on a Monday we go looking for people to train our horses for the other six days of the week. People are not here and they won't come and stay here because our industry is a little bit too small. We have asked for more racing to make it more viable for all of us but this has not happened, the money was not available.

We were pretty comfortable with TOTE and our spin-off from TOTE to keep the industry in a reasonably sound situation. We thought we knew where we were going. We were promised by Paul Lennon that we would be looked after and that all the legislation was in place to maintain the racing industry and when the word came out that the racing industry and TOTE were to be split we were pretty quick to work out why. I was in the room when we put the question to Mr Aird as to whether that was going to be the case, no less than three times in one session. He denied it thrice, and there was no cock there to crow after he said it.

**Mr GUTWEIN** - When was that?

**Mr McSHANE** - I cannot tell you the date. It was in his rooms in the Executive Building.

**Mr GUTWEIN** - Can you give an indication of which month?

**Mr McSHANE** - I have a shocking memory. I have had a lot of falls off horses and my short-term memory is non-existent. Someone else that you will possibly have in this room today could tell you; it was in the spring.

**Mr BOOTH** - Well before the racing restructure bill went before the House.

**Mr McSHANE** - Yes it was. The writing was on the wall and when we put it to him directly he denied it three times at least so we thought maybe it was not going to happen. We read in the press that he said it was not happening, it was not happening until he signed the sale, or the whatever it was - the bill for the future sale of it. And that is when it happened, he said.

But it happened nine months before that when took the racing administration out of the hands of TOTE, or he put it in train. Confidence went and, as we have seen in the yearling sales a couple of weeks ago, it was not the economic recession that caused the fall in prices, it was not that, because Tasmania is rather a small industry but we need x number of horses to run our racing industry.

It seemed that we had too many horses because we did not have enough races for the horses that we had bred here so when it came to the sales we were expecting a little bit of a downturn but not to the extent that it happened. Now we have a glut of horses, we have service fees and studs that are going to feel a huge impact and it has been caused by indecision and by lack of confidence. The confidence has gone because we do not know where our funding is coming from.

We are told by the man that denied it thrice, to believe him, he will make sure that we are funded. We cannot believe that, nobody in their right mind could believe that anymore. Whether we are going to be correctly funded or not we do not know.

We already have the problem in the industry that we do not have enough racing, and we have a shortage of personnel. I have 15 horses in work at the moment. On Monday morning I had no riders. A couple did not turn up and the rider that I had been using is back in Melbourne riding track work over there for somebody who won't give him rides during the week.

They want to live in Melbourne, they want to live in the big smoke; they will not come and live in Tasmania because we are a backwater to them but they do not mind coming on Sunday and taking our money and going back to Melbourne, but we do not have a big enough industry here for them to want to be here.

With the lack of confidence we have with the sale of TOTE, should it happen, we feel in a very precarious situation.

**CHAIR** - Even prior to this mooted sale of TOTE these issues existed under the existing regime, then? There were not enough race meetings and there was a lack of personnel in terms of jockeys and everything else even before this?

**Mr McSHANE** - These were pre-existing issues. We were hoping for an improvement. We have been fighting to get the two big cups put back where they should be.

**CHAIR** - To reduce the prize money and then spread that more equitably.

**Mr McSHANE** - Spread it throughout the industry, put on more race meetings. We have worked out that by bringing the two cups back to \$300 000 and \$250 000 instead of \$400 000 and \$300 000, we could put on another four race meetings. That would help quite a bit.

**CHAIR** - Would they still attract quality fields even if you reduced both of them?

**Mr McSHANE** - Oh, yes. We have a meeting next Tuesday and one on Wednesday. We have 213 horses nominated, and that's in two days. Then there's another race meeting the following Sunday which will attract probably another 110 or 120 nominations. Quite a few of those horses will be balloted out because some of them are concentrated too much in the maiden and the lower grades. There is quite a big number of horses here, but if we are not on Sky Channel they don't want us. Our local administration are not keen to spread money around midweek if we're not on Sky Channel. That's where we're left, with a huge glut of horses to be balloted out, a breeding industry that's hit the wall. A lot of horses went home to the studs after the sale, and they'll be more or less given away; people will be trying to give them away to trainers so that they cut their own costs back because it's costing them to take them home when they expected to sell them.

**CHAIR** - So there is not a shortage of horses, that's not an issue?

**Mr McSHANE** - No, it's the personnel. We're not training our own personnel here anymore. They're going to Melbourne.

**CHAIR** - Are you concerned in terms of future funding and capex for the courses, capital works? Is that another issue? We know Launceston has been done.

**Mr McSHANE** - There was a lot of money spent at Elwick, in one silly place: the grandstand that's used once a year. Yet our tracks that people all over Australia see on Sky Channel every week are in a shocking condition and they are quite stupid because one of them is so narrow that you can only have 10 horses running on it. A spit of rain and you have all sorts of problems and biases where horses tear up the outside fence, or into the inside fence or somewhere, and people over Australia look at it and say, 'What the ... are you doing out there, why are they out there, and why are they in there, why are they all crowding in there?' It's because the track is just not good enough. All the money was spent on the grandstand which is empty on race day, and nothing was spent where it should have been spent on the tracks, where the horses are and where the betting was done that gives the TOTE its funding.

**CHAIR** - Could you argue that perhaps a new privatised entity might have done that better than what's been done in the past?

**Mr McSHANE** - Yes - if only they'd listened, but I am afraid they would not listen. TOTE was given a job that they had no expertise in whatsoever. None. They spent the money exactly how they felt like spending it.

**CHAIR** - That's turning the argument around a bit, isn't it, if you had the devil's advocate and the funding was secure? I know Mr Booth raised the issues of competing against health, and all those sorts of issues, and that is a real problem as well.

**Mr McSHANE** - That was a problem at the time, no doubt, but the funding was there. The way it was spent was another issue.

**Mr BOOTH** - To clarify this, are you saying that you hold the current minister responsible to a large degree for the collapse of the yearling sales?

**Mr McSHANE** - To quite a big extent, yes. The confidence of the industry went straight down when he said that he was not selling TOTE and then he did a backflip and said, yes, he was. Then he told us to believe him. No-one could or would believe him after that and so where the funding was coming from has been a question in everyone's mind ever since. Confidence has gone rock bottom again.

**Mr BOOTH** - Do you think the industry would like a new minister in that regard to restore some sort of confidence?

**Mr McSHANE** - If TOTE was left as our benefactor, I am quite sure that confidence would be restored.

**Mr BOOTH** - If TOTE remained in public hands?

**Mr McSHANE** - If it remained in the hands of -

**Mr BOOTH** - As a GBE, yes, under the Government.

**Mr McSHANE** - Yes.

**Mr BOOTH** - To get this straight, with regard to the long-term future of the industry, your view is that you prefer TOTE not to be sold but to be managed, setting aside the management issues with TOTE, but you would prefer the TOTE to remain in Government ownership rather than being sold.

**Mr McSHANE** - Correct. The change in administration will possibly be quite okay. That will not be a big issue. It is just about in place and ready to work but the funding is the problem that everybody feels is dangerous. We are in a precarious position with no-one telling us where funding is coming from.

**Mr BOOTH** - If the TOTE was sold and the Treasurer says - and you have said that you cannot believe him, but setting that aside - a funding model was set up with some capital expenditure and so forth, would you still be concerned that you were competing with health, education and so forth every year in a budget rather than it coming straight across from TOTE? Is that fair to say?

**Mr McSHANE** - That is quite fair to say, yes. I do not know that Treasury is all that rapt in the racing industry, even though they should be. I do not know that they are all that keen because there are a heck of a lot of votes coming from other directions.

**Mr BOOTH** - Do you see the danger you spoke about in terms of funding as being that it would then become a political issue rather than it just being within the industry?

**Mr McSHANE** - Yes, and a lot of those politics would not be conducive to the person in racing because there is a lot more weight thrown to education and health. People perceive racing to be a sport of the rich but it is not. It is an industry for people across the board and it employs one heck of a lot of people.

**Mr BOOTH** - Yes, it is a huge engine-driver of the economy, there is no doubt about that.

**Mr McSHANE** - Yes, I am in all its areas; the feed business, the breeding business and the training business. I know how many people are dependent on it.

**Mr BEST** - If you had a good funding model and, say, there was some arrangement and whatever the outcome was that there was a move towards more events, an expanded amount of money being invested and some surety with some agreement as to what the funding model would be, what would your thoughts be about that? Would you not be interested in that, rather than have it stay as it is?

**Mr McSHANE** - At this point we have had no funding model put to us. We have no idea what is in Mr Aird's mind except that there will be an amount of money coming from Treasury. We have had Mr Challen look at us before and he is not all that keen on racing. Should it be Treasury's decision as to what sort of money would be given to racing, we would be very scared of that situation. But if a model, as you say, was put to us with some surety -

**Mr BEST** - Yes, I think that is probably a bit of a reserve aim in a sense that if you had an organisation that was keen and very dependent on having a successful racing industry in Tasmania, you would have to have a good funding agreement, otherwise people are just not going to put horses into races and things like that. We will see the things that you are talking about continue while this hiatus exists. So there would have to be some common interest at some stage.

**Mr McSHANE** - Yes, if we could see it -

**Mr BEST** - That is right; it needs to be seen.

**Mr McSHANE** - and we could restore some confidence then we would sit a little bit more comfortably, but at the moment there is no comfort at all. There are people who would have gone to those yearling sales and bought another yearling who did not go - and refused to go - because there is not enough racing and their horses were being balloted out. We have Mr Aird's - well, we will not call it a lie but there is no other word for it; you cannot say one thing and then completely reverse it. It is just not on.

**Mr HARRISS** - Walter, I think a common thread coming from most industry participants is that, as Brenton has just visited, if there was the notion of a guaranteed funding model, then the industry might be relaxed about things. I hear what you are saying about lack of trust and so on in the current Racing minister, but it occurs to me - and I have discussed it with Kim and Peter as the day has gone on - that if the racing minister was to produce a model which had a perpetual fund flowing to the industry, and I am thinking particularly of when the Trust Bank was sold and there was an amount of money hived off, untouched by

Treasury, which generates interest every year, and the interest from that capital fund goes to community funding untampered with by the Government of the day - you would not be subject to the whims of the Government of the day - it occurs to me that if they get a sufficiently high price for TOTE the Government could say that they are immediately going to put a capital fund into a special account which generates a perpetual revenue stream straight to the industry, with no politics involved in it, how would that appeal to you?

**Mr McSHANE** - That appeals to me no end.

**Mr BEST** - But you need to see that, don't you? And that is the problem you have at the moment.

**Mr McSHANE** - Yes, that is right.

**Mr BEST** - You are saying there is nothing to see, is there?

**Mr McSHANE** - It has to be more than written.

**Mr BEST** - You have to see that. I do appreciate that.

**Mr HARRISS** - It could be, as the Trust Bank sale process was, built into the legislation. Once it is in there no governments in the future can do anything about it unless they come back to the Parliament to tamper with it. So if the Racing minister is not keen to build in such a process to this legislation when he introduces it to the Parliament, and if the sale of TOTE is a reasonable proposition, but if the guaranteed revenues for him is what is necessary to the industry and the Parliament amends the Treasurer's legislation, too bad for him if he does not accept it.

**Mr McSHANE** - That is the sort of thing we need put before the racing industry right now - without question.

**Mr HARRISS** - That is the clear common thread that is coming from the majority of people who presented to us, that the funding stream needs to be guaranteed and you need to be able to trust what you are being told.

**CHAIR** - Clearly that is something that, as representatives of yourselves, the Parliament will have to make a decision on one way or the other, given certain information we may get from the Treasury.

**Mr HARRISS** - We might ask the Treasurer this afternoon why he has not produced a model such as that. Is it too simple? We will ask him this afternoon.

**Mr McSHANE** - To be in racing you must realise that everybody trusts everybody to a degree, until it comes to race day, when tactics and competition are very, very strong. When we walk away from the racecourse we still all trust one another. Owners trust the trainers and trainers try to trust the jockeys as much as they possibly can -

Laughter

**Mr McSHANE** - and we go home and lick our wounds or count our few bucks, whatever we can do, and get ready for the next week.

**CHAIR** - It is a bit like farming, isn't it?

**Mr McSHANE** - Yes, exactly the same.

**Mr BOOTH** - Put a jockey on your cow.

**Mr McSHANE** - I reckon farmers are the best owners any trainer can have because they are used to relying on rainfall and markets and everything else to survive, and that is what we do in racing. We have to rely on the whole game for our dollar, so confidence is what we need and if we can have confidence in our funding structure I am sure we can pick ourselves up and go ahead.

**Mr BOOTH** - Had it not occurred that the Treasurer suddenly woke up one morning and announced it was going to be sold, did you have confidence prior to that that the TOTE model was delivering reasonable returns, apart from the way it was being run internally, with the income stream coming back in terms of stake money and so on?

**Mr McSHANE** - Yes, we felt pretty confident. We felt that TOTE was ours. We know it isn't but we felt that TOTE was ours and we were supplying the product and were getting some of that return back to the industry. It was a good union.

**Mr BOOTH** - So there is no way that you could say that the decision to sell TOTE had anything to do with the industry deciding it should be sold?

**Mr McSHANE** - No, none whatsoever.

**Mrs RATTRAY-WAGNER** - Mr McShane, thank you for your honest and frank assessment. I am interested to know what would be your view - and I appreciate what Mr Harriss has said about a secure funding model - but do you feel that a secure funding model would assist you and the industry in the infrastructure requirements that are obviously required, because the tracks are not up to complete standard. Launceston is fine but I hear that Devonport needs upgrading and there were some issues with Tattersalls Park as well out at Elwick, so do you feel that that secure funding model would be enough to secure your support for the sale of TOTE without some sort of firm commitment from the government of the day about future funding for infrastructure?

**Mr McSHANE** - Well, I would feel that would have to be written into the agreement because it is integral that there must be capital works taken on every year to keep all the courses and training tracks et cetera up to standard. That would need to be built in as well.

**Mrs RATTRAY-WAGNER** - So there would need to be some consultation and discussion with industry stakeholders about what they see would be required into the future. Would that be a fair assessment?

**Mr McSHANE** - That is fair, and I think the new racing board that has been set up would be quite capable of producing those sorts of figures to go along with stake money.

**Mr BEST** - It was put to us that Country Racing Victoria has a formula based on funding and that we were at 100 per cent same formula for funding here?

**Mr McSHANE** - Yes, we were.

**Mr BEST** - Do you agree with that model?

**Mr McSHANE** - Yes, I think that is our standard for Tasmania. I will just put one little thing to you. The southern club wanted the Hobart Cup to be \$500 000 - that is what they want next - which is quite stupid. At \$400 000 the Hobart Cup was a group 3 race, yet at \$300 000 the Adelaide Cup is group 2. Can you work that out? I can't.

**Mr BEST** - No. Why do you think?

**McSHANE** - Why are we \$400 000 for a start? We shouldn't be because we are just - there is a term but I won't use it.

**Mr BEST** - But you do not have a theory on that?

**Mrs RATTRAY-WAGNER** - Too few are getting too much.

**Mr McSHANE** - No, we are above ourselves; we are above our own population and our standard, so we are inviting Melbourne to come over here and take it and I realise we need Melbourne horses to come here and lift our cup profile, and they do, but it has become a little bit too much that they come and take all the prize money out of the State. How can we as an industry benefit from that? When all that money is gone, what are we going to spend on getting better horses; where do we get them from? There is no money here, it has all gone, the big money is gone, and we are left to buy cheap horse because we cannot afford dear ones. We are told to go out and get better horses so we can compete, but what are we going to buy them with? If we do not have a vibrant industry here, where does the money come from?

**CHAIR** - Thank you very much, Walter, that was very good. We appreciate your coming. You obvious have had a diverse range of interests within the industry over a long time so we appreciate the benefit of your knowledge. Thank you very much.

**Mr McSHANE** - Thank you.

**THE WITNESS WITHDREW.**

**Mr TONY JEFFRIES** WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** (Mr Hall) - Thank you very much for coming down, Tony. Are you aware of privileges and restrictions on reporting, and all that sort of stuff?

**Mr JEFFRIES** - Yes. I shouldn't open my mouth outside the inquiry if there's anything of controversy.

**CHAIR** - Yes; basically you're covered by privilege here, but outside you're not. So the bottom line is don't refer specifically to anyone about the evidence you give to the committee until the report has been published.

**Mr JEFFRIES** - No, I'm pretty calm, pretty cool.

**CHAIR** - Thanks, Tony. What I would invite you to do is to make a statement if you would like, particularly related to our terms of reference on the sale of TOTE.

**Mr JEFFRIES** - I have a written submission which I will read, and if there are questions as we go, fine; if not, I can answer the questions after. I will just give a bit of background to myself. My name is Tony Jeffries, and I have been involved in the harness racing industry for over 40 years as a breeder and owner. I have held the following positions in the administration of harness racing at different times. I have been the secretary-treasurer of the North West Light Harness Association; I have been president of the Ulverstone Pacing Club; secretary, treasurer and president of the Burnie Harness Racing Club; and a member of the Tasmanian Harness Racing Council, which was recently disbanded after the TRB was brought to bear. I also currently am a member of the North West Light Harness Association, a member of the Devonport Harness Racing Club, a member of the Burnie Harness Racing Club, a member of the Tasmanian Breeders, Owners, Trainers and Reinspersons Association and also a member of the Launceston Pacing Club.

**CHAIR** - Is that it?

*Laughter.*

**Mr JEFFRIES** - And I have recently retired from Westpac Banking Corporation after 40 years' service, with the past 25 years involved in commercial and business banking as a manager.

I now want to talk about the sale of TOTE Tasmania. As I understand it, TOTE was originally set up some 40 or 50 years ago for the benefit of racing in Tasmania. Some gentlemen by the name of Bruce Freeland, Dick Bertram and Doug Martin were the early committee members who lobbied the industry to convince them that TOTE would be a long-term winner for the whole industry, which it has been. Last year, TOTE contributed some \$30 million or thereabouts to cover stakes and infrastructure for all codes.

TOTE Tasmania is a company whose shares are held by the Treasurer and the Minister for Racing in trust for the Crown - and, hopefully, the racing industry. The constitution of the company is a schedule to the TOTE Tasmania Act and can only be amended by a special resolution passed by both Houses of Parliament. TOTE Tasmania is operating as a successful business and is

charged with promoting the development of the racing and breeding industry, and promoting Tasmanian racing and wagering on it.

Why would you sell an asset that generates \$30 million for the racing industry? I would suggest that last May, when Treasury became aware of the global financial crisis about to arrive, Mr Don Challen looked in the cupboard to see what would generate substantial cash to help balance the Budget, and there was TOTE Tasmania. Challen, who is a numbers man, has given no thought to the industry participants or their families, or the 2 700 people directly employed and the many others indirectly employed. He has gone to the minister and said, 'The TOTE has to go', and the minister and his advisers have misled the industry on the pending sale and also actually misled the Parliament of Tasmania, especially the upper House.

I go back to the question: why would you sell a major asset which generates \$30 million per year, funding the racing industry without any call on consolidated revenue? At the moment TOTE covers the cost. Why would you sell it when we are experiencing the biggest global financial crisis in the past 50 years? Why would you sell anything that is worth a lot of money at this stage? Why would you sell when the expected price - and there have been many mentioned or bandied about - is virtually a fire sale price, from the figures that I have heard. At this time, would we not be better to hold onto TOTE Tasmania until the markets settle down and we have better times?

The minister has failed to produce a business plan for the sale of TOTE. How will the industry be funded going forward? Will the Minister for Racing have to go to Treasury along with Health, Housing and Education for funding? Where will racing fit in those priorities? Where will racing be next year when the recession sets in and the money is tight and hospital patients are in the streets? They are having a few problems in Launceston.

What long-term guarantees will the racing industry have? There is talk of a 20-year funding program being set up; I think the minister mentioned that. What happens when money is tight; what happens with a change of government? How can the industry and its participants plan for the future if something is not set in concrete? What will happen to participants' families, who are looking to set up their children for a future in the racing industry? Do they stay in Tasmania or do they go somewhere else?

Barry Rattray is a prime example. He has four young fellows, one of them representing the Australian harness racing industry driving in Onslow, I think - it is overseas - but what will those kids of participants now do in the future? Why would you sell a business that generates \$30 million per year to cover the costs of racing to then have to take your cap in hand to Treasury for your funding in the future? Where are the guarantees? Who will cover the costs of upgrades and maintenance of all tracks, facilities, grandstands et cetera? We have a current situation today where the following facilities are in need of upgrade or maintenance basically now. One of them, Brenton, is Spreyton racecourse's thoroughbred track, where major works are required to bring it up to date.

**Mr BEST** - Yes, \$12 million to \$15 million.

**Mr JEFFRIES** - At the Devonport harness racing track the lights are 30 years old now, unreliable and need to be replaced. Light towers are under investigation as to safety, and the grandstand needs a major upgrade. I understand the Brighton

training complex is in urgent need of upgrade and maintenance. I am also aware that part of the complex is constructed on land not even owned by TOTE Tasmania, so I am pretty sure there are a few problems there. As to the Hobart harness racing track, even though we spent \$16 million there recently or even more, I understand that the top and bottom corners are in need of major works due to the camber being out of kilter.

These four items need many millions to bring them up to date or up to standard. Who will pay for this? I understand the Tasmanian Racing Board, in the legislation, can borrow money. That is very handy, but if they have to borrow money, who is going to pay it back or how are we going to pay it back?

I think you may have this. A recent article in the *Examiner* newspaper dated 17 March by one of Australia's most experienced racing administrators has urged that we look at what has happened upon the sale of TOTEs in other States.

**CHAIR** - Yes, we have that.

**Mr JEFFRIES** - We need to do some research to ensure Tasmania does not end up like South Australia after their foray into selling their TOTE. They are on the bones of their knees and selling assets to try to maintain their industry. If we finish up dependent on the Government of the day to cover our annual operating revenue we could be going back to the 1970s and racing for \$1 000 per race, the breeding industry could be devastated and 2 700 employees looking elsewhere for jobs. Why would you sell a business that generated \$30 million per year without touching consolidated revenue and put us in a position where we rely on Treasury at each budget to fund the racing industry? I would implore this committee to look very closely at this sale; short-term gain for long-term pain.

This industry employs 2 700 people directly and many others indirectly. I suggest that the TOTE be left alone and allowed to get on with its charter promoting the development of the racing and breeding industry, and promoting Tasmanian racing. I am sorry I have repeated myself several times throughout this, but remember this industry employs 2 700 people directly, and many indirectly, is funded by TOTE Tasmania and generates \$30 million per annum. Why sell and then rely on funding from consolidated revenue which is under pressure, the most pressure it has seen in 50 years.

I also have - and I think Mr Gutwein might have a copy of this - the racing industry representation. This was to the Legislative Council on 27 February. The greyhound racing industry, thoroughbred racing industry, harness racing industry, and so on all signed this particular piece of paper suggesting that we totally oppose the sale of TOTE. If that's not officially in, I would like to present it. I think that you have a copy of this, an appropriate reference from Ms Whishaw.

**CHAIR** - Yes, we have that one as well.

**Mr JEFFRIES** - I suppose that is my concern. The minister does not have or has not mentioned a business plan, he hasn't mentioned a funding plan. I think from May last year they've said, 'TOTE is about the best thing we have to sell, we have no debt on it. Let's put it to the market and let's see how we go'. I have heard figures bandied about, and you guys would have heard most likely from \$100 million to -

**CHAIR** - Yes, I think that's something we'll leave alone.

**Mr JEFFRIES** - I am seriously saying that we really should not sell the TOTE unless we have complete guarantees. I don't know what guarantees we can put in place. In the last 20 years we have had an election every four years, I think, there's going to be one soon. Various different things are happening, we need to build some hospitals, and all sorts of things. How can the minister guarantee the same funding we've been getting with annual increments, and so forth?

**CHAIR** - Thanks very much for that presentation, Tony. Obviously you asked us a lot of questions that we can't answer; we don't know because we're not the Government. If the Treasurer or the racing minister came up with a set of guarantees, if you like, that might persuade this committee or the Parliament, and we think it's in the best interests of the industry, how would you feel about that?

**Mr JEFFRIES** - I think that the industry and the guys I have been speaking to, and the people I am involved with, and so on, are fearful. If we are given a guarantee and gets rid of the TOTE, there are also other areas that rely on consolidated revenue for funding and where may racing sit in the pecking order? I know Don Challen doesn't think about racing, in fact I am led to believe that he is suggesting no more racing in Tasmania, we'll just bet on Melbourne and Sydney and elsewhere.

I just fear that even if they do give us guarantees and so on, how will they ensure that for the next four or five elections that will be \$50 million which will increase by CPI each year, and so on, and all the way through, when a change of government can throw it out? I don't know. Obviously we need to obtain from Treasury, from the minister, an idea of what his plans are. What is he going to do?

**Mr GUTWEIN** - Tony, I do not want to put words in your mouth but is the first step that needs to be taken in all this that information needs to be provided? Is it as simple as that? The sense that I get is that you are in exactly the same situation as I am and other members on this committee are to a large degree. That is, currently there is no detail in the public arena in regards to what was being proposed and how the racing industry may benefit. It is obviously very difficult for the racing industry to say, 'Yes, that will be very good for us' or 'No, it would be very bad for us'.

**Mr JEFFRIES** - That would be a start. I think the minister and the Treasury have to come clean and put us in the picture. It could well be that TOTE Tasmania have discovered that Sky Channel is going to abandon them and that their foray into South-East Asia and other things that were sold to us at the original TRB set-up may have fallen in a hole. It may well be that we have to get as much money for the TOTE as quickly as possible. I do not know, but no-one is coming forward to tell us why.

**Mr GUTWEIN** - Following that through, has there been any approach to any of the clubs - you are involved in a multitude of them - or organisations by anyone from government or anyone in a position to provide some information on this situation?

**Mr JEFFRIES** - As far as I understand, no. Back when the TRB was being instigated and so forth the legislation went to the upper House first on Christmas Eve, I

think. People like myself were grasping to get a hold of the legislation to have a look at it, we were trying to interrupt members of the Legislative Council when they were debating it. That was brought on very quickly. We said, 'This has all been set up for the sale of TOTE'. 'No, definitely not'. Since the announcement of the sale of TOTE, that has been it. If it were not for, I suppose, people contacting other people and so forth this committee may not have existed. There might not have been the opportunity here to put our case or to try to understand or find out why we are selling the TOTE. What is the benefit for the racing industry?

**Mr BOOTH** - Are you saying, Tony, that you were informed that TOTE was not going to be sold?

**Mr JEFFRIES** - That was put, I think, in the first few days after it came out, that the board was going to be rehashed. I know in Harness Racing we had problems where, I think at one stage the minister appointed a member for the council without even going to the people to get a vote and so forth. That may be part of our fault because we did not nominate anyone. There were a few things going on there. The whole idea in having the Tasmanian Racing Board was to clean that up. Lo and behold, when you think back it was to set the TOTE up for sale.

**Mr BOOTH** - Do you think that you were misled?

**Mr JEFFRIES** - I am very sure that we were misled. Why? It was asked in the Parliament and the minister denied that the TOTE was for sale. He told the Parliament - or his representative did; I think it may have been Mr Cox.

**Mr BOOTH** - Now that the councils no longer exist, how would you get a plebiscite if the members of the industry - as we have heard evidence from yourself - have not been involved in any consultation, there has been no information released, there is no business plan but you would have to look at it if it were provided? How would you, in your view, be able to make a satisfactory response to the industry if such information was provided? Or is that not possible?

**Mr JEFFRIES** - When the TRB was set up we had forums and so forth. I am very sure that, if something was put on the table and we could see where we were going and so forth, the industry would consult and talk with one another - all three codes - and go forth from there. The minister would need to put a very good case to the industry based on the fact that we are in a global financial crisis. I do not know but I assume that the Government is suffering fairly substantially from a lack of money, GST receipts et cetera are all going to be down the drain and next year TOTE might be sold and we would have to go to the Government and ask for money to maintain our industry. South Australia, New South Wales and Victoria are currently having major discussions about where their future funding will be coming from, and I have already mentioned that South Australia is in diabolical strife. If we sell the TOTE we are going to rely on consolidated revenue and then we are going to be saying we need hospitals, we have an ageing community and we need to look after education and so on and so forth. It is a big fear.

**Mr BOOTH** - With your experience in the commercial banking field that you spoke of, and the Treasurer has said that they are talking about a 20-year model, what sort of dollars would this involve? Thirty million dollars today in 20 years' time would be what? What do you anticipate you would be wanting?

**Mr JEFFRIES** - I'm not positively sure about \$30 million, but I think that there was \$27 million in stake money, there was a lot of infrastructure and they covered the cost of that. Say, \$30 million plus. What is inflation now - 4 per cent? Over a 20-year period you would be talking \$40 million times 20, which equals \$800 million.

**Mr BOOTH** - But if you got \$30 million support in 20 years' time that would be -

**Mr JEFFRIES** - TOTE are currently trading very well. We have been led to believe that they are branching off into South-East Asia, that they have all these markets that may be coming on line. TOTE could be generating for the racing industry \$100 million to \$200 million. We are talking billions of gambling dollars in South-East Asia where they are looking at the moment.

It would be marvellous. If someone can buy the TOTE for a fire-sale price and they continue to go down the track that they are it would be a great windfall for someone.

**Mr BOOTH** - Irrespective of what TOTE can generate and if someone is going to buy it, they are not going to buy it to lose money, they are going to buy it to generate money and income. We have heard in evidence that it is going to penetrate the Asian market and generate more returns et cetera, but in terms of the support today, is it fair to say the industry at the moment is fairly happy with TOTE providing the support for the industry for the stakes and so forth?

**Mr JEFFRIES** - At this stage stake money is good. Mind you, the other States are catching up on us pretty quickly so there is definitely a need for some minor adjustments to stake money, I think some increases. But at the moment it is going along fairly well.

**Mr BOOTH** - So if TOTE's business model improved over the years you would expect more money would flow to the industry and so it would be a symbiotic sort of relationship.

**Mr JEFFRIES** - Absolutely.

**Mr BOOTH** - Were there to be a sale of TOTE then the support package that would have to replace that, looking 20 years down the track, you would not be looking at \$30 million in 20 years' time, you would be looking at more like \$200 million?

**Mr JEFFRIES** - Definitely not. Ball park figures. You can throw as many figures around as you like but \$100million would not be unrealistic.

**Mr BOOTH** - In other words, if it was a funding model that locked you into an annual thing of \$30 million for the next 20 years, in 20 years' time you would just be bankrupt.

**Mr JEFFRIES** - There would definitely have to be the rises and falls and so on. You talk about CPI and those things; you all know about that and they would have to be put in there. I do not know how you can predict 20 years out but if you are only going to be in government for the next 12 months we can bandy around as many figures as you like.

**Mr BOOTH** - Setting aside the fortunes of governments and the fact then that you would have political pressure every year on the budget to get your funding, if there was a model put in place that in fact took it away from the political pressure, and I am not entirely sure how you would do that, but were you able to set up a structure that was exempt from political machinations every budget, that model would have to guarantee -

**Mr JEFFRIES** - It would be preferable and you have to use your commonsense a bit here also. Down the track what is going to be more important? We have an ageing population, we have pressures on our hospitals already, we have different aspects of education being brought along now which are going to cost money, all these things affect the budget situation. Racing it depends entirely on -

**Mr BOOTH** - To keep it level pegging now there would have to be a substantial increase in dollar terms.

**Mr JEFFRIES** - If they come up with a 20-year plan that can be put in concrete that cannot be affected by a change of government, that cannot be affected by the fact that we need a new hospital here and we need to do something with the LGH and so on and so forth, then definitely industry, I would consider, would be keen to look at it.

**Mr BOOTH** - It would have to meet at least today's level of support in 20 years' time..

**Mr JEFFRIES** - We are talking about infrastructure as well. I mean, in 20 years' time the infrastructure could be falling down. You need to continually upgrade your infrastructure and you continually need to maintain it as well.

The facilities at Hobart need to be upgraded to a certain degree, and I mentioned the harness racing track. I don't know about Spreyton and Devonport harness racing. There is some talk of a try situation there. Who knows? It could cost \$50 million to build something like that so there are plenty of things that need to be addressed now as well as in the future.

**Mr BOOTH** - If the codes were able to have more interaction with TOTE in terms of the outcomes to the industry, is the TOTE model the preferred one over the years?

**Mr JEFFRIES** - TOTE has been good to racing. Every relationship has its ups and downs and so forth but at this stage I think we are on a winner.

**Mr BOOTH** - Are there other more ephemeral things than just stake money that are important to maintain TOTE, to maintain the culture of racing, for example?

**Mr JEFFRIES** - Exactly. Some people might say it only employs 2 700, we could do without it, but the community involved in racing in the country areas and those sorts of places is a sort of folklore. You have families who have been involved in the racing industry for years, be it all three codes and so forth, and some of those are looking to the future to establish a future in racing and so forth.

If we do not have a solid, concrete model going forward there are a lot of people that would be affected. The older people who are involved can manage but the youngsters coming through - trainers, owners, drivers, jockeys, and we have a shortage of jockeys - would want to ensure that they have a future.

**Mr BOOTH** - A TOTE model with some change. I am not saying it is perfect as it is but basically a TOTE model.

**Mr JEFFRIES** - TOTE has been supporting racing for the last number of years and they have been able to improve the product. They have different things coming on board now - first four and first six, there are different betting entities and betting types coming on board that will help keep them solvent. I go back to the fact that the possibilities with South-East Asia and those places are phenomenal.

One thing I have not mentioned in the whole of this is Betfair. Betfair have come into the racing game as well and they have put some funds in so the relationship there should be fostered as well.

**CHAIR** - I am just being the Devil's advocate here. I think you mentioned before that whilst TOTE have done a very good job they are in a very competitive environment.

**Mr JEFFRIES** - Absolutely.

**CHAIR** - There may be some issues out there that you and I do not know about and -

**Mr JEFFRIES** - Absolutely. Wouldn't it be lovely to know, Greg, that we have hit a great big bump, we have a problem or this has not worked out or this won't work out or our computer systems are out of date and we have to spend millions and millions of dollars. If that were the case, fine, but no-one has come forward with any of this information. They may well have done a good job. We had the equine influenza last year and they were able to get through that, recover, increase their turnover and increase their income so I think TOTE is not doing too bad.

**CHAIR** - Are there any further questions from the committee?

**Mr BEST** - I think Tony has put it pretty well. Obviously there are some matters we are going to have to follow up later this afternoon.

**Mr JEFFRIES** - There is so much concern out in the community and I know the racing industry involves gambling and can be construed by many of the do-gooders as an evil thing. It is not evil - it employs 2 700 people and the industry needs to know from the Government what they are at.

**CHAIR** - Thank you very much, Tony.

**Mr JEFFRIES** - Thank you very much for the time.

**CHAIR** - It's a pleasure; you have a long and broad interest in the industry.

**Mr JEFFRIES** - Exactly, and I think we need to know that if this is for a short-term gain because there's a big black hole and so on, why sell it at a bad time? Keep it for 12 months and see where we go.

**Mr BOOTH** - So in your view, the decision that has been announced isn't necessarily for the good of the industry.

**Mr JEFFRIES** - As we understand it, definitely not but, as I said, there may be a massive statement this afternoon from Treasury that may put us in the picture.

**Mr BOOTH** - Do you know anyone who's been consulted in the industry about the sale of TOTE?

**Mr JEFFRIES** - Not as far as I know, but, as I said, I don't know about thoroughbreds or greyhounds. I'm pretty sure from the greyhound man that there hasn't been much consultation there. I mean, TOTE was originally set up for the benefit of racing, but the bean counters have said, 'Gee whiz, look at this! We've got no debt on this business, it's going well, things are looking good. What can we get for this?'

**Mr BOOTH** - Do you think that depoliticises the whole deal as well, the fact that TOTE's there generating its own income? Is that valuable for the racing industry?

**Mr JEFFRIES** - As I said, don't throw the baby out with the bathwater because we will go from an industry or an asset that's generating income to service that particular industry. If we sell that, okay, we might get \$1 billion or \$2 billion, who knows, but that will be gone into consolidated revenue, and then we'll be going cap in hand to Treasury saying, 'We're the racing industry and we need our money this year. How are we going to go?'. They will say, 'Oh, look mate, we've got hospitals, we've got education, we've got all sort of things that need money. You fellows are sort of down here, so we can only do so much'. Why sell an asset at this very stage, when the global financial crisis is still coming? I'd say Mr Challen is an intelligent man, and he has picked it up back in May and said, 'We need to be prepared to cover the shortfall and so forth'. Why sell something at a fire sale price that can generate this sort of income going forward, when maybe in 12 or 18 months or two years it could be worth twice as much?

**CHAIR** - Okay, thanks very much, Tony. Have a safe trip.

**Mr JEFFRIES** - Thanks a lot. I'll have my ear to the ABC news at about five o'clock tonight.

THE WITNESS WITHDREW.

**MR ROBERT BIFFIN AND MR NEIL HERBERT WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.**

**CHAIR** (Mr Hall) - Welcome, Mr Biffin and Mr Herbert and thank you for coming along. You both understand the rules of parliamentary privilege and are au fait with all that. I do not know how you are going to do your presentation but if you would like to make an opening statement with particular reference to the sale of TOTE and then we will allow the committee members to ask questions. We have only a 30-minute time slot so it must be fairly short.

**Mr HERBERT** - We were advised TOTE Tasmania was not on the market and therefore there was no provision in the new Tasmanian Racing Board legislation dealing with any future sale, hypothetically or otherwise. We want to know whether there was any stakeholder input. On 8 January we received a letter from the Treasurer, the Honourable Michael Aird, advising of the Government's intention to sell TOTE. The letter stated, 'This will improve TOTE's competitiveness'. We cannot see how that can be when it has had a negative impact on all the other States.

Under the new proposal of the Tasmanian Racing Board, the Director of Racing, the Racing Appeals Board and the Integrity Assurance Board will all be funded from the State Budget. It also stated, and I quote, 'I can guarantee that the Tasmanian racing industry will not be worse off with these arrangements'. Shouldn't the guarantee state that we would be better off? The letter also states that the proceeds of the sale will be reinvested into other State assets. I point out that the privatisation of the TAB in South Australia has been a disaster and that State now has unfunded capital works and low prize money. It beggars belief how the minister can guarantee future funding arrangements from future governments. With changes to social and economic circumstances we would be competing with all other submissions to Treasury including health, hospitals, schools, housing et cetera.

May I remind the committee that the TRB legislation was passed with no business plan, no cost-benefit study, no funding formulas for prize money or maintenance, and at the moment I think the new Tasmanian Racing Board is in negotiation with the Government for funding. To me, you have sold the farm and now you are trying to negotiate some cattle back onto it.

There are questions that I believe should be answered. There has been no study on the impact of racing. Will the new owner want input into the time slots in allocating Sky Channel when product goes overseas? Will the current number of TOTE outlets remain? Will Tasmania benefit in racing funding tied to growth in turnover globally? New owners may not care, as 94 per cent of turnover is generated from products outside the State now; their interest may only be in obtaining a licence. Also, the Betfair agreement is due for renewal in 2011. Will they still be in Tasmania? As it is half-owned by the Packer Group, they may wish to move it to Sydney or overseas, and they are not liable to put in \$5 million a year if that happens. Also the current Sky Channel arrangements end in 2012. At this stage, we pay them to take our products.

So in summary, if a sale is pursued then the industry needs concrete arrangement, specific clarification, transparency, integrity protection for stake money tied to growth and capital expenditure with long-term sustainability, not words, which is all these things are at the moment.

**Mr BIFFIN** - I know under the present model that levels of funding are not guaranteed, but I thought I read somewhere that this would provide surety of income. I am not quite sure what that means, but that is a concern. I guess with the minister's commitment or statement that the racing industry will not be worse off, we need to make sure that that actually is carried out and the racing industry is not worse off. I am not sure how we do that. What does the term 'worse off' mean? Does 'worse off' allow for reasonable growth? Who decides what 'worse off' is? These are things I do not understand. The statement was also made that the sale of TOTE would provide opportunities to increase funding to the Tasmanian racing industry. I would like to see what those opportunities are, how significant they are and the time lines for when they would be introduced. The funding model would have been mentioned by everybody who has come in and we would like to see a funding model which details how we will not be worse off, how we will grow and how we will maintain confidence in the industry.

There are a lot of participants in the industry who have put a huge amount of money into infrastructure, just to mention one Alwyn Shaw. How do we guarantee these people that they can have a five or 10-year plan and continue to spend the millions of dollars they are currently investing? That relates to a lot of the participants. There is a huge amount of money tied up. At the moment there is a lot of concern about future funding and whether it is worthwhile staying in the industry and they should continue to commit funds. This all seems to be taking place during the latest restructure transition period for the Tasmanian Racing Board, although I am not sure that they even know what they are doing at this stage.

It seems to me there is unreasonable rush to get this through. The timing to me is very surprising. I would have thought that the Tasmanian Racing Board would have been giving advice to the industry but I do not know whether they can or cannot. But they certainly are not in a position to do that at the moment and there is no-one advising the racing industry on the ramifications of this whole thing. There are a lot of questions being asked. There is a lot of negativity. A lot of people are frightened. They are worried about their future and they want to see more concrete information.

**CHAIR** - Thank you very much.

**Mr GUTWEIN** - You raised a number of issues. We heard from a witness earlier today that the current concern in the industry had contributed to the very poor result at the yearling sales. Would that be your view as well? I think it was suggested that nationally sales were down 15-25 per cent but in Tasmania we took a 41 per cent fall. I am wondering whether or not that negativity in the industry played any part in that and what your view might be on that.

**Mr BIFFIN** - I think that it may be one of many things that may have formed a part. I do not think that it was necessarily the biggest part. It would depend on who you were speaking to and which part of the industry they belong to. Certainly that would have been in the mix of things as it was a national trend. We are linked to the national economy and apparently a planeload of buyers never made it to

Tasmania. There were quite a few different things and that could have been part of it.

**Mr GUTWEIN** - Following on from that in regard to time frame, there is legislation to go before Parliament and the Government has to provide information on a range of matters. How critical is it of the industry or the bodies that you represent that the Government provides information in a timely fashion and how long would the industry stand for the current status quo to remain that is no information before it before it starts to have a very detrimental effect on the industry? How soon do you need to know what is going on?

**Mr HERBERT** - Obviously as soon as possible. With the introduction of legislation we need the information as quickly as we can possibly get it. As you say, the negativity at the moment is because of unknown quantities which I stress from everything that we have seen you could say are words. There is nothing that is concrete evidence about whatever will happen, or may happen, with the exception of the minister saying that we will not be disadvantaged. Unfortunately I do not think it is good enough to evaluate anything in that light.

As far as we were concerned, the TOTE was established to provide funding to this industry. If you sell it without any of this information, we do not know and nobody knows where that could end up in three years' time. We could be sitting around this table and going to turn the key in the front door and then we all go home. You cannot expect the studs to look at investing when they do not know where they are going and the industry in general. It has probably been said that the industry employs around 3 000 people. You take that on board. There is a lot of negativity in the industry full stop. I do not know where you would want to invest. I just made reference to a new owner hypothetically with the board room in Sydney or Hong Kong or wherever. They are obligated as directors to make as much profit for their new organisation so they may decide in two years' time to close all the TOTE outlets as a business risk. There are a lot of people - I do not know how many outlets there are, probably 70 or 80 in Tasmania - and those people would be unemployed.

**Mr BIFFIN** - We are not saying that the sale of TOTE is a bad thing. We do not have the information to have an opinion, I think. Is one of the reasons the fact that the Government is looking for money to pay off other debts or to source other projects? What came first?

**CHAIR** - We cannot answer some of those questions because we are not the Government.

**Mr HERBERT** - They are the questions being asked of us.

**CHAIR** - Of course, yes. I realised that.

**Mr BOOTH** - From an industry point of view, can either of you give us a single reason it would be a good thing to sell TOTE? Given that you did not know it was going to happen, was it something that you were thinking in your own minds, 'Gee, they should sell TOTE. That would be good for the industry.'?

**Mr BIFFIN** - From my personal opinion, I think TOTE has been motoring along beautifully in the last couple of years. Turnover has been increasing. I must give credit to the new CEO, Craig Coleman. Everything was positive and it seemed that turnover was up, they were on top of things and competing very

well against the other States and TOTE companies. From my personal point of view I was surprised. But I do not have the information. I do not know whether it is good or bad. We just desperately want information.

**Mr BOOTH** - Does it sound satisfactory for a racing minister to be so disengaged from the industry that it appears that there is no trust in what they are saying?

**Mr HERBERT** - Because of the boutique nature of Tasmania, as I said earlier, TOTE was established as a funding stream for that situation. It is an obvious situation that if that goes offshore or to anywhere, there are board rooms which have to be satisfied. It is as I mentioned with Betfair. The contract that they had here for five years to put in \$5 million a year will be finished in 2011. They could pick that up and put it in England. They have their licence now so they could put it in any State of Australia. When they could not they used Tasmania to get the licence.

**Mr BOOTH** - I want to drill down a bit on that because it is something that has been troubling me but you are the first person who has raised it in the committee. The problem is that it may be that somebody may purchase TOTE simply to get the licence. What implications do you think that may have in terms of the future of all racing codes in Tasmania were somebody to purchase it for the licence? Where do you see that could lead potentially?

**Mr HERBERT** - I am flying a kite at the moment but by the same token if they have a licence to operate TABs or TOTE or whatever they wish to call it, the thing that I am nervous about, because of our boutique nature, is do they have then the effort of putting our product globally and saying to Sky Channel and to this industry here, 'For us to make money and everything else we want you to race on Monday from 6 o'clock until 10 o'clock in the morning.'? That is a hypothetical, I know. But where is our control? We have absolutely no control over it whatsoever.

**Mr BOOTH** - Could it lead potentially to a sort of teletrack-type situation or maybe them buying product off others around the world?

**Mr HERBERT** - I think, being realistic, that will probably halfway happen anyway, because to go global you have to race at certain times. We actually support our industry going global to generate income.

**Mr BOOTH** - I do not know the answer to this so I am in the dark with regards to what one could do with that licence, but is it possible hypothetically for a person, a company or an organisation to purchase TOTE, therefore purchase a licence and then simply decide to take the product from wherever they want?

**Mr HERBERT** - They could go to the Northern Territory and set up to bet on racing as such everywhere but they would make commercial decision on whether it was worth it.

**Mr BOOTH** - So what you are saying then in answer to that - and it is hypothetical - is that potentially they could have no Tasmanian product if they wanted to?

**Mr HERBERT** - At a board level they could make that decision quite easily.

**Mr BOOTH** - They would make those decisions in the interests of the company.

**Mr HERBERT** - Of their shareholders, that's right.

**Mr BOOTH** - So there would no longer be any imperative for a new owner to do anything in terms of making sure there were plenty of races happening in Tasmania then? That is your view?

**Mr HERBERT** - Yes, as I said earlier, I find it very difficult to know how a government of the day can guarantee what will happen to a government in 10 year's time.

**Mr BOOTH** - Absolutely. You cannot rule from the grave, so to speak, if you are not the government.

**Mr HERBERT** - That is right.

**Mr BOOTH** - My concern is that apart from the effect on the culture of racing it actually puts the funding of racing into a political domain so that each year you have to go with your begging bowl.

**Mr BIFFIN** - Exactly, and that is one of our big concerns.

**Mr HERBERT** - That is our big concern.

**Mr BOOTH** - Further to that, from what you have said and if the licence was sold and somebody decided that they could make more money out of camel racing than running races here, it could ultimately mean that the industry could collapse in terms of the racing industry because the people who provide the product would be here but they no longer have anywhere to put their product. Is that a reasonable assumption?

**Mr BIFFIN** - Well, that should not happen because isn't the minister guaranteeing that the industry won't be worse off?

**Mr BOOTH** - But do you believe him?

**Mr BIFFIN** - Well, we do not want to say we disbelieve him but we want to see the cold, hard facts. If the purchaser is successful in operating what he has purchased or if he is not, my understanding is that it will not affect the money that will go to the racing industry because we will be negotiating separately from that, so we will not know whether it is successful or not so really it shouldn't have any effect on the funding of the Tasmanian racing industry, but that is where I have trouble understanding that too.

**Mr HERBERT** - I have trouble in understanding exactly what you said. If we get into that situation the industry would be with everybody else in negotiating State budgets and all sorts of situations.

**Mr BOOTH** - And even if the money went into the industry, if the people who owned the licence decided not to put it through SuperTAB or some other system, where would your stakes come from?

**Mr BIFFIN** - The minister.

**Mr BOOTH** - He would just provide the -

**Mr BIFFIN** - Well, that is all we can understand at this stage.

**Mr BOOTH** - So were a sale to be considered by the industry it would be something you would need to see in the legislation that said that an owner of that licence would have to support product provided by the Tasmanian racing industry to the level it is now at least or presumably growing. Would that be a reasonable summation?

**Mr HERBERT** - We would want that, and growing. The fact is that if you stand still you go backwards in any situation, so we are looking at a growth where we may accept some of our races going tele-track, hypothetically, to generate income as we have to move to that thing.

The only reason I raised the licence situation was that there could be corporations that are looking at a licence, and I don't want to go back to Betfair but they came here so they could get a licence and they have got into Australia now, so they could move that offshore here tomorrow morning and we'd get nothing, so that is why I raised the licence. If an international company in Europe sought the licence and then after three or four years' time looked at the returns sitting around the boardroom, they could say, 'We don't need this'.

**Mr BOOTH** - To support the industry that you are talking about in terms of racing, even if it were tele-track, you would want that to be here, not camel racing in the Northern Territory.

**Mr HERBERT** - Oh yes, of course.

**Mr GUTWEIN** - On one hand a 20-year deed in regard to providing surety of funding for the racing industry moving forward has been talked about, so that is obviously something that you guys would definitely require information on, but then in regard to any new purchaser, as part of one of the conditions of sale would it be important that a certain amount of Tasmanian racing product was always going to be a part of what they were doing?

**Mr HERBERT** - Yes.

**Mr GUTWEIN** - You would be looking for that sort of guarantee.

**Mr HERBERT** - We would be looking for something in that light, and I don't know how you tie that in because the more conditions, for want of a better word, that you put into the contracts, hypothetically I would suggest that the more it would bring the price down.

**Mr GUTWEIN** - Well, it normally would.

**Mr HERBERT** - Yes, and if you try to tie into all these guarantees that they have to take Tasmanian product and they have to do this and that, one would assume that the price would come down. That might still suit them if they just want the licence.

**Mr GUTWEIN** - You gentleman obviously know a lot more about racing than I do - and hesitate to say it, but a number of other people on this committee as well. Are there any threats that you can see on the horizon to TOTE as it currently operates at the moment? You have both said that TOTE has been doing wonderfully well the last couple of years and that has certainly been echoed by other participants in the industry. Are there any threats that you can see to

TOTE and its current operations as it currently stands, whether on an interstate or an international basis from your understanding of the industry?

**Mr HERBERT** - Without looking at the international thing, as Robert and I and the industry have said, we have been very happy with the progress and where TOTE has been heading. We had really been looking forward to going international, globally and so forth, until it raised its ugly head that we might be selling it. We were really looking forward to moving forward the industry and TOTE, to be quite truthful.

**Mr BIFFIN** - I would have thought the product would have been something that would have concerned them.

**Mr GUTWEIN** - Is that Sky Channel?

**Mr BIFFIN** - Yes, it is. The Sky Channel coverage would have been the main problem on their minds but they seem to be reasonably confident that they could come out the other side of that pretty positively.

**Mr GUTWEIN** - How much sway does Sky Channel have in regard to the timing of your race day events? How much of the dog do they wag, so to speak?

**Mr HERBERT** - Well, it is a large slice at the moment; that is why TVN, which was New South Wales and Victoria, started their own. The fact is that we all need to get our product locally, interstate and overseas, so we need Sky Channel. Obviously they have a very big input into it and they are looking for 24-hour, seven-day-a-week operations so they can put it around the world. So, yes.

**Mr BIFFIN** - At the moment we have a binding contract but that only has a few years to go and then they will be -

**Mr HERBERT** - To 2012.

**Mr BIFFIN** - looking at us very closely because it is a commercial decision on their behalf so they will be looking where best to position us to maximise their turnover.

**Mr GUTWEIN** - I am trying to get an understanding. Post-2012, how realistic or unrealistic is it that Sky Channel might put a proposition to Tasmanian racing? You said before that it might be a 6 a.m. Monday morning start because you need to meet the needs of some other international market. What sort of chance is there of that actually occurring?

**Mr BIFFIN** - There'd be a fair chance, I would think.

**Mr HERBERT** - I reckon there'd be a very good chance.

**Mr BIFFIN** - They would want us to go off Sunday racing to some sort of mid-week racing.

**Mr GUTWEIN** - And even sometimes during the night, to fall in line with the time frames?

**Mr HERBERT** - It could be, which is probably not a bad time frame if at night we are to go to places like Singapore and into Asia, and maybe even to North America

on those time frames. But what we were saying there was that it would depend on who acquired it and whether they had the clout to go to Sky and say, 'We can make millions more if we race in the 6 to 10 a.m. time slot on a Monday morning'. I do not know where we stand to negotiate in that situation.

**Mr BOOTH** - Even if you were to consider a 20-year deal, setting aside that I am not entirely sure how you would even do that or if you would get a plebiscite of your industry, but hypothetically, if this deal came down the line, what then? Does it concern you that if a 20-year deal were made, what happens in year 21?

**Mr BIFFIN** - Twenty years is not a lot of time.

**Mr HERBERT** - Twenty years is not a lot of time. Betfair was great - five years - but that is up and there is nothing stopping them taking their bat and ball and going anywhere in the world now they have their licence.

**Mr BIFFIN** - Personally, I find 20 years a disappointing period.

**Mr HERBERT** - Because we are trying to build.

**Mr BIFFIN** - We are talking about a massive industry and you are giving them 20 years, so the panic will start to set in after seven or eight years and then you have 10 years of people losing confidence and getting out of the industry because they need surety.

**CHAIR** - Thank you, gentlemen, for your input. I wish you a safe journey back up the highway.

**THE WITNESSES WITHDREW.**

**Mr GEOFFREY ALLAN HARPER WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.**

**CHAIR** (Mr Hall) - I invite you to make a statement to the committee on where you see things with regard to our term of reference - that is the sale of TOTE - and then members will ask you some questions.

**Mr HARPER** - I am Chairman of the Tasmanian Racing Club. I have also acted for and owned a company which made a bid to buy TOTE Tasmania some two years' ago. I am also a part of the consortium, which includes the Tasmanian Racing Club, which is putting forward that it would like to make an offer to buy TOTE Tasmania, if it is for sale. There is a number of issues which I am across but I believe I can give a fairly broadbased and informed opinion as to why I think that TOTE Tasmania, under the current circumstances, should not be sold.

**CHAIR** - As long as we do not get into figures concerning commercial confidentiality.

**Mr HARPER** - I will quote figures which have been gleaned out of TOTE annual reports and one out of a Merrill Lynch annual report which probably does not carry much weight since they have just had a \$10 billion bailout and \$15 billion loss in three months. If these are the people that have been quoted around the place there is probably not a lot of credibility floating around. The consultation with respect to dividing TOTE in the industry was an absolute sham. We arrived with Global Value Management at Bellerive. I talked to the minister's representative at the time who said, 'The legislation has already been drafted. This is just window-dressing'. I left about three-quarters of the way through. It was an absolute waste of time. If this is what it is about it -

**Mr HARRISS** - When was that, Geoff?

**Mr HARPER** - On 26 September, with Global Value Management. I sat next to the representative of the minister at the table and said, 'Do you have the legislation prepared?' He was very reticent about saying it. I persevered with the point and he said, 'The draft legislation has been prepared'.

**Mr GUTWEIN** - That was for the restructuring of the industry?

**Mr HARPER** - That is for the restructured industry and the separation of TOTE Tasmania from the racing industry. In real terms was there consultation? In my opinion, no. The confusing issues for all in the racing industry are, what are the terms and conditions of the sale? Does the TOTE merely manage the industry on behalf of the Government? I would like to put forward in the papers which I will leave today the statutory declaration from the Honourable Michael Hodgman which makes the point that Totalisator started it all in about 1890 and has historically been there over a number of years. The Government was approached to manage the totalisator industry on behalf of the Government. They were never given ownership of it, never indeed contributed any capital to start off the industry. There is an argument to ask, who owns TOTE Tasmania?

**CHAIR** - Are you saying you would like to table that statutory declaration?

**Mr HARPER** - Yes, I would. Thank you. The confusing issue for the industry is, what are the terms of sale? Second, what level of licence fee does the

Government propose to charge, if any? The minister's statement to this committee in the first instance is known to the Tasmanian Racing Club. What is currently for sale? The current date to provide this is totally insufficient to allow any decision on what is for sale, the revenue to be charged and what is required. Their contact point was Mr David Willingly, a partner at Deloitte Corporate Finance and I requested information on the sale. I rang him, e-mailed and got an immediate response. The close of expressions of interest was for the 16 January. When I contacted him since then, apart from the fact that he does not return his e-mails or his phone calls now, I was told that there would be no information available until the end of March; the Government did not know whether it was selling.

**Mr BOOTH** - Can I just clarify that. Are you saying that you received information by 16 January and that was the close of expressions of interest?

**Mr HARPER** - In the Merrill Lynch papers here there is a description of Tattersalls and Tabcorp wishing to buy TOTE and it says expressions of interest close on 19 January 2009.

**Mr BOOTH** - Was the announcement to sell was made publicly on 6 January?

**Mr HARPER** - Yes, on 6 January. Through the racing club, having contacted Deloitte to ask what was for sale I was told they would not know what was for sale until the end of March, as the Government had not decided.

**Mr BOOTH** - That is extraordinary.

**Mr HARPER** - It is unbelievable.

**Mr BOOTH** - So you had two weeks and you had to read an ad in the paper and technically that would have been the only means to find out. It was only because you sought out Deloitte that you knew when they were closing, or was there an ad in the paper?

**Mr HARPER** - This popped up on a Merrill Lynch web site and that is when we were told the expressions of interest were closing. According to this, 'the Government of Tasmania has announced their intention to sell TT in a competitive bidding process by 30 June 2009 and expressions of interest are due on Friday 16 January.'

**Mr BOOTH** - What date was that? Is there a publication date?

**Mr HARPER** - It's dated 22 January 2009.

**Mr GUTWEIN** - Just for clarification, what document is that?

**Mr HARPER** - It is a Merrill Lynch proposal which relates to TOTE Tassie being for sale and it goes through the likely buyers for TOTE Tasmania and what their current interests would be judging by the current level of capital purchases within the industry, for example Tabcorp is involved in the redevelopment of the casino in Brisbane, so they might not have the capital to bid for it.

I want to make the point that clearly it said, there are two logical options to sell TOTE Tasmania. I would say that the Tasmanian Racing Club and the entities it is dealing with would be the third, but it really boils down to there being really

only one entity in the market place that would be interested, Tattersalls. That is the conclusion that they come back with.

**CHAIR** - Would you be able to table that document, Geoff?

**Mr HARPER** - I am certainly happy to leave a copy and table that document, yes. I do not need to quote from that so I will leave that with you now.

In the divesting by TOTE of the racing assets and its assets within the balance sheet which would be the leases on the Tasmanian Racing Club and others, it has now put itself in the situation of being a trading company. It does not particularly own any assets apart from intellectual property, leasing and some property which it has no asset holding on. It may hold other small parcels but then you go to the balance sheet and there is nothing significant there. Anyone buying it is buying a trading company based on the licences which it currently has. I think it is important to understand that.

What has not been accounted for is if it is sold to an interstate company, what would they be looking for? If you sell TOTE on its 2006 turnover figures and you are only selling it based on turnover with no asset input, it is worth somewhere between \$800 000 and \$1.3 million. We have a certified valuation from a licensed valuer. As I said, we looked to buy the company at that stage. If you are buying TOTE licences only, without any capital infrastructure that goes with it, that is about the price.

**Mr BOOTH** - What date is that?

**Mr HARPER** - That is the 2006 valuation and it was valued on 22 December 2006 by Horton International accountants. Unfortunately because of the information within that I am not prepared to divulge it but I am happy to discuss any access to figures.

**Mr BOOTH** - What prompted you to get a valuation in 2006? Was it to put in a bid to buy it or was there some process happening there?

**Mr HARPER** - We had excellent relationships with Racing Victoria at the time and it was about the Belfair time as well. Racing Victoria had come back and said that if TOTE Tasmania was for sale they recognised that Tabcorp in Victoria's licence was coming up in 2011. What they did not have was a vehicle to run a TAB wagering business out of. The integration of Racing Victoria and Racing Tasmania and having the TOTE licence that they could utilise to begin with would be advantageous to the Victorian industry and the Tasmanian industry. With that they linked to us a certain number of guarantees, which have been made public previously, that it would be advantageous to go down that path as far as prize money, capital investment and continuity were concerned.

They have certainly continued on since then with apprentice training and others while giving those things FOC back to the Tasmanian racing industry as well. The potential of having only a retail company to asset strip the services on the ground and just leave Tasmania bare of any TAB is an absolute realism.

The lower the tax regime the more the economic value of TOTE Tasmania is, but then industry becomes reliant on State budget allocation. The value and determination of the economic net worth of TOTE is dependent upon the customer mix. These are not old figures but they are fairly close to the mark.

Twenty people provide approximately 40 per cent of TOTE turnover and 60 per cent of that is electronic in nature and will ultimately stay with current TAB pool destination.

When you look at the balance of dividends paid throughout Australia, the market is so sophisticated and so computerised that people are able to transfer money around on each race they want to bet on to get the best results on punting throughout Australia. You may find a horse in, say, Queensland paying \$6 on the TOTE and it is paying \$3 in Victoria. You will find by the end of the jump of the race it is still paying \$3 in Victoria but it is paying \$4, \$3.50. These people know how much money to put on and what is required to get it down and still make a commensurate return on where it is.

You are talking about a very sophisticated market. If we are looking at potential purchasers of TOTE you have to be able to punt into a new pool. As an example, if Tattersalls were interested in buying it they still have to be able to punt in the Victorian pool but the Victorian pool is not going to let them punt into that and not let them have that outlet.

You have to be in a position to ensure that the current levels of turnover, the percentages of money coming out of Tasmania, are allocated evenly across the distribution pools. You will not get that by getting any other purchaser apart from Tabcorp.

The problem with Tabcorp is sitting back there knowing that if it does nothing in 2011 it is going to get all that money anyway. Forty per cent of the local turnover, which is bulk punters, has to go into that pool because it is the only way they get a dividend. You have 60 per cent of punters sitting out there who contribute very little to the bottom line and yet if the professional punter moves out and punts in Victoria, 60 per cent of the punters are going to be carrying 100 per cent of the overheads.

There is real concern there for the genuine buyers in the marketplace for TOTE. When you sit back and listen to the history of what has been said, there are clearly only two players in the Australian marketplace capable of fitting TOTE into their pool. One is Tabcorp and the other is UNiTAB.

Why would Tabcorp do anything? And they have tried it before and the information is provided, they tried to move Tasmania out of their pool, which automatically gives them 40 per cent of TOTE's major turnover having to be punted into their pool because they are the only ones that hold enough money to do anything with, So Tabcorp can sit back and do nothing - they will get 40 per cent of Tasmania's business in 2011 and they will get that on the bulk users' benefit. When you are servicing 20 to 30 people and providing 40 per cent of the turnover it has to be a great business acumen. If Tabcorp happen to want to buy here they would, in my opinion, buy, take the 40 per cent and cut the other 60 per cent loose. The other 60 per cent is either going to make phone calls to them to get into their business or they are going to drop off the punting market. That is the problem I see with the current marketplace situation at the moment.

The contracts with Tasmania come up, I believe, in about the year 2011, whether the contract for TOTE is to remain with Tabcorp comes up at that stage. That is, incidentally, about the time that the Sky contracts and the product supply agreements with the Tasmanian racing industry come into negotiation again. So

there is some real sort of note there to be had whether or not these things are going to be fulfilled.

Tabcorp have already made it known - they said they did not want Tasmania in the pool and fortunately for Tasmania we have a contract which allows us to stay - I think it is to 2011, which has certainly been a real advantage. Otherwise we would finish up like other TABs of South Australia, Northern Territory and Western Australia, having to move off into a smaller market.

Tasmania is the victim by TOTE of its own success. Tasmania has done particularly well in getting professional punters here and working the system legally really well and I think they are to be commended for that. Where does the Tasmanian racing industry go in its value? If you sell TOTE off you have to lose intrinsically half its value or half its net worth. If the figures being quoted around, figures that are quoted in that report - maybe \$115 million, maybe it is worth \$120 million - if you have to pay a royalty back to the Tasmanian racing industry commensurate with its current needs it is probably about \$1 million - \$1.5 million.

But in relation to the payments required by the racing industry, you are looking to sell a \$300 million to \$400 million investment to get the returns that TOTE is currently getting out of that. When you look through the numbers of what TOTE's efficiency is - and these are numbers which were provided by our accountants on the basis of a valuation we have had done - TOTE Tasmania's collection of revenue is 10 times less efficient than the Victorian industry's.

I have raised the issue previously at the meeting in Campbell Town about the need for TOTE to go through the self-examination process with external people to make sure that we are getting the best value for dollar. That has never been looked at and never been followed through but you can't get away from the numbers that are in the paperwork. The numbers say that TOTE is inefficient and should be looked at and whether it is a new management structure - I think some of the people on the management team are outstanding but there are inherent systems in place which may not be in the best interests of racing.

The idea of offering a 20-year deed back to industry on funding, when you look at that in depth the first four years' funding is guaranteed, the next four years you are in the mix with health and all the other industries within the State. But again, if TOTE is paying industry in excess of \$20 million a year in output, for a 10 per cent return on asset you are talking \$200 million, so TOTE has to be valued at \$350 million to \$400 million and if they get \$350 million to \$400 million there is some sort of relativity to say - and I would be one saying it - sell.

But to look at amounts less than \$250 million it is just laughable, it really is in the light of return on investment. Commercially it would not be a good proposition to sell TOTE unless you are in the \$300 million to \$450 million range. With only one potential bidder in the marketplace that is all you have to go on because if TOTE Tasmania goes the way it is currently going and is sold to, let us say, UNiTAB, then the turnover or the money that UNiTAB is getting to punt back into Victorian Tabcorp is not going to exist so they are not going to have the same sized pools around for local punters to invest in to get similar returns, so automatically those punters have to get out of the UNiTAB pool and get into the Victorian pool and that is where the strength and the weight of the money is. That is where we really sit with it.

In my opinion, there is not a lot to be offered by the sale. Also too, and I think this is really important, the minister made a statement to the committee that he believes he can negotiate a satisfactory outcome on capital and prize money with the new Tasmanian Racing Board. This is the board that he recommended to Cabinet; he signed the appointment papers for it. Isn't that the ultimate conflict of interest? He is asking a board that he has appointed himself to tick off a 20-year funding deal for the racing industry, which in real terms is only four years because after four years you go back to renegotiating what is the current budget structure within Tasmania.

I think if you do the numbers on TOTE it clearly demonstrates that the worst position we could be in is to sell to TOTE for less than \$350 million-\$400 million. If you sell it for that there is some relativity of saying it is a good purchase, but to do anything else, the income that is currently being derived from TOTE does not warrant selling it for less, and I believe when you only have one player in the marketplace capable of wanting to buy it, that is it. Paul said it would be nice to get an overseas person in to buy it, but to me there is no reality there. There is no Asian company, no British company, there is no-one out there - or North American companies as well - that would be interested in buying it. The marketplace, according to the documentation which I tendered, clearly says that that is an Australian-based marketplace with either Tattersalls or Tabcorp.

**Mr BOOTH** - Setting aside its value, in terms of the best interests of the racing industry in Tasmania for all codes, do you think it is in the best interests of the industry to sell TOTE and therefore fall victim to your own current funding arguments and accept whatever deal they try to stitch up for 20 years, or is it in the best interests in the industry to keep TOTE as a funding stream going sideways back into the industry?

**Mr HARPER** - I think there is only clearly one answer to that. It would be absolute lunacy to sell TOTE Tasmania when you have a negotiation coming up with a major corporation such as Tabcorp in the year 2011. Tabcorp have already indicated that they want Tasmania out of the pool. That would be absolutely catastrophic for the Tasmanian racing industry. The Tasmanian Government, through TOTE, is the only body that can negotiate with Tabcorp on a level playing field. I would not want any other entity in Australia, whether it be UNiTAB in New South Wales or whatever, trying to negotiate Tasmanian racing staying in a large pool such as Tabcorp, which is the only pool to be in. It has the best racing, the best quality of money flying in and out of there, and the best-managed dollar - a dollar spent is a dollar rewarded. It is by far the best way to go.

There is no reason to want to go anywhere but the Tasmanian Government and TOTE Tasmania, in my opinion, are the only ones who can guarantee that we will stay in. I would rather be sitting in front of the High Court with the Tasmania Government and TOTE Tasmania in front of a united racing industry arguing that we should be back in the pool and that it is a State rights issue of discrimination against a smaller State, than selling the place off, because if you sell it off you walk away from it.

**Mr BEST** - Mr Harper, you mentioned that you had some discussions about your interest in purchasing TOTE.

**Mr HARPER** - Yes, that is right.

**Mr BEST** - When would that have been? When did you first become interested, so to speak?

**Mr HARPER** - In 2006. We then approached Michael Aird and we also approached the Premier, Paul Lennon, at the time about our interest in it and were told categorically that TOTE was not for sale.

**Mr BEST** - Can I just ask or is it commercial-in-confidence - I do not want to put you in a bad position and we can go in camera if you like - what has been your interest in purchasing TOTE? It is okay if you do not want to answer.

**Mr HARPER** - No, no, I am more than happy to say. I have been involved in the racing industry for 40 years. I have done very well in my own business interests and I have had so much enjoyment out of racing that I believe there is a lot more that business and the business community can give back. The contacts I have made through racing have been excellent, both in my business and others. The interest in buying TOTE Tasmania was purely on behalf of the industry, because at the end of the day, you have a locked-in supply of money at 4 per cent and you have the ability to take out the Tabcorps and the UNiTABs of the world, who are 10 per cent returners to their shareholders; they have a large 'other expenses'. Tasmanian racing, managed under an efficient TOTE structure, should be able to return 10 per cent to 15 per cent more money to the racing industry and possibly 5 per cent to 10 per cent into government revenue than any industry owned by UNiTAB, Tabcorp or any private enterprise.

**Mr BEST** - Yes. We did hear from some witnesses about other key matters that they thought would be important in the overall context of some sort of a funding agreement, if one were to exist. We heard also that the formula being used in Country Racing Victoria has been a funding formula. I am just interested in your views about that. Do you see that as a good funding model to base something upon? Would you like to make other comments about what could be constituted as good funding models that we could consider?

**Mr HARPER** - I do not think Tasmania has the maturity and I do not know why they have not because the question has been asked several times. Tasmania has a unique business model and that business around Saturday and Sunday racing and other feature race days tying into a national and an international grid.

We have never done a business plan which is for the betterment of the racing industry. We know that certain races have better prize money and TAB turnover is better on some race meetings than others, it is better at different times. There is an array of things that should be put in place. It will never be done if TOTE Tasmania sits out there - this is not a criticism of TOTE - and the new racing board sits here. The new racing board is trying to program races that can be contrary to the best interests of the TAB. The TAB structure with the racing industry under it was the best, most efficient corporate entity that Tasmania has had in my 25 years managing racing. That is not to say it was perfect -

**Mr BEST** - No.

**Mr HARPER** - There is a lot of improvements on both sides, the racing industry and others.

**Mr BEST** - What do you think the best structure would be? You could say that one, or do you have a better one in mind?

**Mr HARPER** - The best structure I believe we could go to is one where TOTE took control of the racing industry again but there was greater representation and maturity on the racing board that represented racing Tasmania interests, not the sectionalised clubs or anything like that. The corporate law in Australia has now changed so much and I am sure we have all served on certain boards where people say, 'Directors on the other board I sit on have told me to vote for this'. That has been illegal in Australia for the last 10 or 15 years, and yet it still goes on in every lower board you sit on. TOTE Tasmania's board should be able to rise above that level and introduce a system of punting and turnover, feature races and governance within the Tasmanian racing industry which would be an absolute role model and advantage.

Why would it be? First, because it would be efficient. People at the club level give their time free of charge so there is a saving there. Second, TOTE Tasmania would not be paying 10 to 15 per cent, other taxes to shareholders and living or dying on the stock exchange. At the end of the day, TOTE was established to provide the racing industry with funding; it was not to provide the Government with the whim of being able to sell it when they felt like it. It was a revenue stream. What is the problem here? The revenue stream has become too good and people are looking at us and saying we are short of money for here, we are short of money for there. We are not attuned to paying out a direct share of taxes on where we are going, but we have a business where - these figures might not be accurate - about \$20 million a year roughly gets paid out in the way of stake money and prize money, and \$10 million or \$15 million is being taken out in capital investment within the industry.

Based on the current TOTE turnover, and that turnover has improved exponentially from where it was, this is a great business giving a great return both to the State and to the racing industry. If someone comes up and says, 'We are able to get a return on that and sell it off so we are going to finish up with a yield of 15 to 20 per cent so therefore it makes sense out of - let's say - selling it for \$100 million, we can pay the racing industry \$20 million a year and another \$15 million in capital investment'. What you are saying is the first year, as I read these papers, we are looking to pay \$35 million out of the \$100 million the Government collects and four years down the track the racing industry is going to be negotiating with the new racing board and the racing board with the Government saying, 'We need more funds'. They are saying they have decided to build the new hospital on a greenfields site and they need the funds for that. It is going to be a drip-fed industry.

At the end of the day, if you want Tasmania to prosper there have to be businesses that do well and employ people. I think if you look at the racing industry it is the best employer of the unemployable people within Tasmania and it is a real grassroots movement which interlinks society, from corporates right down to stable hands and others. I think a successful racing industry, as they have anywhere else, is a real underpinning of society and where it is going.

**Mr BOOTH** - Do you see the sale of TOTE being detrimental to the long-term interests of the racing industry?

**Mr HARPER** - If the sale of TOTE achieves the \$400 million to \$500 million being mooted, I would seriously say it is probably not a bad deal.

**Mr BOOTH** - But how would you see that supporting the industry in the future?

**Mr HARPER** - If TOTE were to be sold, and there is an argument about who actually owns TOTE anyway, for \$500 million I would want to be sitting down with government saying, 'We do not have a deed for 20 years, we actually have a contract or a contractual deed for 20 years which details the funding and the progression of funding out of the \$500 million grant which we have given back to government'. TOTE can generate around \$35 million to \$40 million on the \$450 million turnover, which was the last turnover I saw, so they have to be generating somewhere about \$35 million to \$40 million.

I want to go back because you raise a good point there. I asked the honourable Michael Hodgman to ask the question in Parliament two years ago along the line of how much the State Government raised out the TAB in the 1990s by way of revenue to go to consolidated revenue. In the years, I think 1992-98, the State Government collected \$92 million in funding out of TOTE and out of the racing industry that went directly to consolidated revenue.

The point I ask and raised before is, there needs to be an inquiry into the running of TOTE and the cost in how it is managed to ensure that what we are selling is actually what we believe is in the balance sheet. As I said earlier if the ratio was 10 times less efficient than Tabcorp, and there is certainly a scale of economy there, then we are possibly selling something whose economic value we really don't know.

**Mr BOOTH** - It could be worth a lot more than it appears at the moment.

**Mr HARPER** - Absolutely. To round it up, if \$30 million is coming out of TOTE to go to the racing industry, a \$300 million investment at 10 per cent is a great return in the market place at the moment. To buy an investment that returns \$30 million, what is it really worth? To sell it for anything less than \$450 million to \$500 million is just throwing money away.

**Mr BOOTH** - Moving on from that, the question is, what in 20 years' time? If you have a deal, and we have talked about the vagaries of different political machinations as to funding streams even in the last 20 years, but even if you have a watertight contract, what then?

**Mr HARPER** - From what I understand of the ministers statement to the committee, it is not that. He has clearly stated that the funding will be locked in place for four or six years and at the end of the fourth year we are going to sit down and renegotiate or negotiate what the level of funding would be. From the industry's position in the first six years you know where you are. At the end of the fourth year you will be told in the seventh year what you will get. That puts you back into the level of where the State Government is and what its budgetary requirements are.

**Mr GUTWEIN** - We will need to get that clarified and we have Mr Aird coming in. I must admit my understanding was that rolling five-year contracts would be negotiated on an annual basis so that you would have surety moving forward on a five-year basis. I would need to look at that but that was my understanding of it to be fair to him. That would mean that in your second year you were actually negotiating out to your sixth year and then third year and so on.

**Mr HARPER** - The seventh - continually.

**Mr GUTWEIN** - But by doing it that way you roll across election periods.

**Mr HARPER** - To me it does not matter if it rolls over election periods or not, it is only as good as the contract that is actually put in place and quite frankly I think we have no confidence. If you look back at the abalone industry and see how the deeds changed from what the original deed was, it is alright to talk about short-term contracts, but when you are talking about things in the long term society changes, everything changes so much, you would not want to be locked into something like that.

**CHAIR** - Geoff, unfortunately we have gone over time. Thank you very much for your valuable input today.

**THE WITNESS WITHDREW.**

**THE HONOURABLE MICHAEL AIRD, MINISTER FOR RACING, WAS RECALLED AND FURTHER EXAMINED.**

**CHAIR** (Mr Hall) - We will start this last segment. It has been a long day and we have the most important player of the lot, the honourable Treasurer. Welcome, Treasurer. We will have a short session in open committee, and then we'll move into closed, if that's okay with you. Is there anything you'd like to say just to start off with?

**Mr AIRD** - Mr Chairman, there appear to be three threshold questions that the committee is considering, but you may correct me. The questions appear to be: do you believe there is good reason to divest TOTE from public ownership; do you believe the processes that were undertaken to achieve that decision which I took, along with the Government, were appropriate in the circumstances; and does this allow for security of funding, a sustainable funding model of some sort into the future?

Obviously, I have answered the first question; that's why I am here. In answer to the second question, I am satisfied, given all the circumstances, all the stakeholders including the employees, principally, that I've handled the process appropriately and have engaged in proper process, but the committee may make a different judgment because I understand there has been some evidence put forward in committee which has been a bit critical, surprise, surprise.

**CHAIR** - You got off pretty lightly today.

**Mr AIRD** - No-one defamed me? I am not going to defame myself, but I just hope there's some restraint amongst members here.

Then you get to the other question of how you satisfy the racing industry's funding model. I put forward a model before. I have a slight variation to that model in that I would proceed with the deed whether or not we had a sale of TOTE. The advantage of a deed is that it does give security. There is no funding model in Australia now that actually provides security to the racing industry; there are models that have provided a level of assistance to the racing industry over a period of time but there is no guarantee per se. A deed overcomes some of the concerns about the vagaries of political interference and, depending on the terms and conditions of the deed, would get to, I think, a reasonable position of security for the racing industry and allow for proper management of the racing industry that I think is essential.

That is the proposition that I would bring to the table. A deed would be signed with the Tasmanian Racing Board which would secure funding for the racing industry. I have indicated before the committee and publicly that the industry should not be worse off or disadvantaged from the present funding arrangements, therefore there would be some level of indexation. The only part of the deed which would have a condition precedent would be the capital injection into the racing industry, but that would have to be subject to the sale.

Other than that, in terms of what exists now, we could ensure that the deed could be sustained whether or not there was a sale of TOTE. That is a variation really to the proposition I put before; I remember having a discussion with the committee in terms of linking the sale to a deed. I believe under any particular

situation you'd be able to have a deed which would sustain the long-term interests of the racing industry.

**CHAIR** - Thank you. Are there any questions of the Treasurer on those points he has made?

**Mr GUTWEIN** - I was wondering how far down we can drill or whether we wait until we go in camera. Just in regard to a couple of things I think you said last time and certainly clarified something that was discussed this afternoon, still on the rolling five-year basis?

**Mr AIRD** - That was the initial proposition, and if there was a variation of that which led to a similar outcome but didn't lead to a huge distortion. I think we have to understand that the racing industry actually contributes to a turnover of about 6.5 per cent. That is understood in terms of the wagering industry. The racing industry has some claim to the benefits of the sale of TOTE probably beyond that 6.5 per cent, but nonetheless I think we can work out a model that is a long-term sustainable guarantee model of the deed. That is not subject to any political interference once it's signed. A deed can be varied by a consent of parties, of course, and I think that would be the most secure.

To be quite frank with the committee, I have looked for a way where I could provide the greatest level of security under the provisions, and the most secure model in terms of the legal position of a deed is, I think, the most secure way and legal way of supplying security and sustainability to the racing industry.

**Mr BOOTH** - Minister, you said that you've engaged in proper process in regard to this. Who did you consult with in the industry before you decided to announce the sale of TOTE?

**Mr AIRD** - As I explained before, my position is that while they are the beneficiaries of a wagering industry and their interests need to be satisfied with the process, if I had gone through that process I would have caused a lot of instability within TOTE and there are about 300 employees to be considered. I had to satisfy myself that we could get value out of the sale of TOTE and ask whether it was necessary for it to be in State hands, and whether we could provide some security back to the racing industry. I believe I can do those things and I am satisfied in terms of my decision making that I have engaged in a proper process.

**Mr BOOTH** - Who did you consult with then? We have not had a single person from the industry who has expressed any confidence in you whatsoever, and none of them had been consulted. You are talking about an industry, but I cannot quite reconcile proper process with not consulting with anyone. But setting that aside

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**Mr AIRD** - Let us not set it aside. What we are selling is a wagering industry. We are selling a wagering business, not a racing business. The interest of the racing industry is to secure funding - bottom line. I understand that. I think that we will be able to do that and satisfy the industry. Those who have been critical of the process are concerned about their future. I understand that.

**Mr BOOTH** - Who did you consult with?

**Mr AIRD** - We went through this last time. I am not going to do that again.

**Mr BOOTH** - With respect, I am asking you a question. It is not up to you to say you are not going to deal with anything in here if somebody wants to ask a question.

**Mr AIRD** - I do not want to waste the committee's time.

**CHAIR** - We went through those questions last time. The Treasurer gave the answers with regard to stakeholders. A lot of them have criticised the process, others have said it depends on what the Treasurer comes up with.

**Mr BOOTH** - In regard then to the deed, you said that you will prepare a deed whether you sell TOTE or not. When did you decide that you will prepare a deed?

**Mr AIRD** - I had discussed with the committee before that I thought a deed would be an estimate of securing funding for the industry.

**Mr BOOTH** - Yes, but when did you decided that you would do that? You discussed it with the committee before that you would prepare a deed to guarantee the future of the industry on the sale of TOTE.

**Mr AIRD** - I do not have a date in my head so I cannot answer that.

**Mr BOOTH** - It is just that you said that you think you should have a deed whether we sell TOTE or not.

**Mr AIRD** - That is right. Before I was saying that it would be a condition precedent in terms of the sale. I reflected upon the conversation I had with the committee. I said to the committee then that I would go away and think of the attitudes put forward by the committee. I have done that and I think by creating the opportunity for a deed to be signed, whether TOTE is sold or not, handles the issue of security or whatever.

**Mr BOOTH** - Is that something on which you have come to a conclusion since you appeared before the committee the first time?

**Mr AIRD** - I have firmed in my view that that is the best way of securing a long-term, sustainable funding model for the industry. That was following on from the committee's deliberations.

**Mr GUTWEIN** - On another matter, although there are a number of issues I want to drill down on the deed so I do not want to get away from that, but we will do that in camera. Today we heard an interesting criticism of the way that you and the Government have handled it and that the recent yearling sales, which I understand around the country were down by between 18 and 25 per cent but in Tasmania took a 41 per cent hit. Criticism has been raised today that the uncertainty in regards to the TOTE sale had an impact and exacerbated the situation, making it worse in Tasmania than it was in the other States. Would you accept that as a valid criticism? Importantly it appears from every witness that we have heard today that everybody is concerned about the lack of information that is available to them. What process will you be undertaking to ensure that the industry is informed to remove any perception of uncertainty in regards to going forward?

**Mr AIRD** - There are a couple of questions. One, I could be held responsible for a lot of things but I do not think the downturn in yearling sales can be directly attributable to that. It is more to do with the broader economic climate that we are in rather than any decision made by the Government. That is my observation. No-one has ever raised that issue with me before other than -

**Mr GUTWEIN** - As I say, it was raised in a couple of -

**Mr AIRD** - If it was raised here, that is fine but I think it is stretching things to attribute this to me or the Government's decision. There has been a drop in sales around the country. Everyone knows about that in terms of the returns that people are getting from their stock. I think the variation is more to do with the market than any influence that we brought to bear by this decision on the market. In answer to the other part of the question, what I would tend to do is to produce two pieces of legislation, one to amend the Gaming Control Act and the other a TOTE sale act and, at the same time, I would table the deed.

**Mrs RATTRAY-WAGNER** - Minister, you indicated that you thought that the process was appropriate leading up to the announcement of the sale and you highlighted the fact that you were concerned about unrest with the 300 TOTE employees. Can I put it to you that the 2 700 people within the racing industry are probably as concerned about their future? Do you acknowledge that they are just as important?

**Mr AIRD** - In terms of legitimate stakeholders to this they are a legitimate stakeholder in the racing industry. What we are divesting here is a wagering industry and my interest is to ensure that the general community can benefit from the assets that are held, not just the racing industry, this is a broader view. This is a view that I have about the community not just the racing industry. This sale has the potential to benefit every Tasmanian not just the racing industry. The racing industry is not the only stakeholder in terms of the value that we could extract from the sale of TOTE. I expect that we would be able to invest in other assets which will benefit the whole community.

No-one has been more supportive of the industry than I have and this Government. In fact, when we came into government the industry was on its knees and we have managed to build and sustain it. You think of the resistance we had with Betfair.

**Mrs RATTRAY-WAGNER** - Praise has been given today to the former Premier.

**Mr AIRD** - That is fine. I do not mind where it goes but it has to be acknowledged that we have built up the industry. We do not intend to do anything that is going to negatively affect it.

**Mrs RATTRAY-WAGNER** - Moving on, and I am probably fortunate that I am not making the decisions that you are making I had not thought about the process I would take but I think that I would probably have engaged some more consultative means. That is my view. We have heard an opinion today that any conditions attached to the sale of TOTE to secure funding for the industry, may diminish the value of TOTE. Do you agree that that could be the case?

**Mr AIRD** - It depends what the conditions are. I do not know. Most sales have conditions on them and some of those conditions can affect the sale depending

on the nature of the conditions. There could be a range of conditions, and some of them may affect the value.

**Mrs RATTRAY-WAGNER** - Have you thought about what some of those conditions may be?

**Mr AIRD** - Yes, I have thought about some of them but I have not concluded any of them yet.

**Mrs RATTRAY-WAGNER** - But they may diminish the price or they may not.

**Mr AIRD** - Some of them may be worthwhile in terms of the overall benefit to the Tasmanian community and the industry generally. We will be making a judgment about that in terms of what we say will be conditions precedent if we get Parliamentary approval to sell. Obviously we will go through other stages to work out what other conditions we want to impose.

**Mr BEST** - I have some key feedback from some things put to the committee in relation to any funding model you might be thinking about being to continue to attract new people into the industry, the pool of horses coming through. They wanted to go from 68 to 78 races a year. I do not know how achievable some of that is. There is also a view that I think they want to canvass and that is how the stakes might eventuate between the two larger cups of the year and how that could be shared across with more race meetings? I do not know how achievable that is, but that is some of the feedback. From what I have gauged in evidence here, people seem fairly comfortable with the formula that has been used from the Country Racing Victoria but there could be some special circumstances with those two cups et cetera.

One of the big issues has been what might be included in some arrangement regarding infrastructure. I am from Devonport and I have heard of some upgrading needs in the Devonport area of \$12 million to \$15 million.

**Mr AIRD** - That is true, I acknowledge that.

I have views about the capital expenditure that needs to be invested into various racetracks around Tasmania. I think Spreyton does need to be upgraded. Whether it needs to be an all-weather track or a synthetic track I do not know; that is why we have a racing board to deal with that.

I am not here to micro-manage, in fact this highlights the issue that we have put a Tasmanian racing board in place. The intention is that it will become a State-owned company, that it will determine the outcomes of the racing industry and that racing people will take control of racing. They will be determining the level of capital that they wish to put into various racetracks around Tasmania.

My responsibility is to ensure that there is a level of capex available to the board, that there will be an injection of an amount that needs to go to the board and I am prepared to do that at the conclusion of the sale. I cannot find the amount of capital to invest in that from the circumstance we are in at the moment so, in answer to your question, those decisions will be made.

In terms of race meetings, already we have announced with TOTE that there are lights going in at the TOTE racing centre and Launceston will create more meetings, probably around about 11 more, which will open up another part of the

market for us. There are other aspects that I think can create avenues for us to fill niche markets in terms of racing but a simple answer to your question is that most of those decisions should be made by the Tasmanian Racing Board. The discussion here is about how we put the resources to the Tasmanian Racing Board so it can make those decisions.

**Mr BEST** - Just finally on that, from what I have picked up there have been people who have been pretty aggressive and heated about the situation -

**Mrs RATTRAY-WAGNER** - Did you find that?

**Mr BEST** - Just slightly.

When you start drilling down with this in discussion, mostly it is around the context of what the funding agreement might be, I suspect, and how that works out.

**Mr AIRD** - I think that is right.

**Mr BEST** - I realise there are two separate issues at stake.

**Mr AIRD** - I understand that and I am keen to address that issue.

**Mr BOOTH** - Just to be clear for the committee, Treasurer, you are not selling the racing business, you are selling the wagering business -

**Mr AIRD** - That is correct.

**Mr BOOTH** - and you are doing it for the benefit of the whole of the State, not just the racing industry?

**Mr AIRD** - That is correct.

**Mr BOOTH** - Implicit in that then is that the racing industry would be better off retaining TOTE?

**Mr AIRD** - No.

**Mr BOOTH** - How can it be that this is better for the Tasmanian population?

**Mr AIRD** - One does not negate the other.

**Mr BOOTH** - How is that?

**Mr AIRD** - It does not negate it. I am putting forward a model that guarantees them a future in terms of funding. In terms of long-term sustainability they will be out of the political hurly-burly, they will not have to do any lobbying, they will not have to anything other than get about their business running the racing industry the way they want to do it.

**Mr BOOTH** - So they will be better off?

**Mr AIRD** - In my view they will be a lot better off. They will be better off than any other funding model anywhere else in Australia.

**Mr BOOTH** - How will the Tasmanian community be better off than any other? You cannot have it both ways.

**Mr AIRD** - Of course you can, because the amount we will get from the sale will be able to benefit Tasmania so we can invest in other assets.

**Mr BOOTH** - The overall sale price will give you enough money to do both you say? So the wagering business in itself will be worth a lot of money?

**Mr AIRD** - I am not going to be drawn into price or -

**Mr BOOTH** - No, I am not asking for the price.

**Mr AIRD** - Obviously if I did not think I could do all that I would not be putting it on the market, would I?

**Mr BOOTH** - So why didn't you tender out the pokie licence? I mean, if it is a wagering -

**Mr BEST** - Mr Chairman, relevance.

**Mr BOOTH** - No, that is a reasonable question. If the pokie licence in fact was not for the benefit of the community, and that money was got by selling the licence, why is it that this wagering business has to be sold off but the pokie licence was given away?

**Mr AIRD** - It is two totally different -

**Mr BOOTH** - They are both wagering businesses, aren't they?

**Mr AIRD** - They are different types of businesses. There are a lot of reasons for renewing a deed - I don't know if you want me to keep on going with this but I am happy to - there are a lot of advantages in having a deed. In fact there is another committee investigating this matter so I don't know if it is entirely reasonable to go into this. The Public Accounts Committee is looking at this, isn't it?

**Mr BOOTH** - I do not know.

**Mr AIRD** - As far as I know they are.

**Mr BOOTH** - You do not want to answer this.

**Mr AIRD** - No, in any event there can be real advantages in ensuring that you have a strong industry. The fact that you do not have competitive pressure in terms of a deed can lead to advantages to the operator and to the community generally. We are addressing that issue and I will make a further announcement about that tomorrow.

**Mr BOOTH** - Could you not then extrapolate that to say that the racing industry would have been better off maintaining the TOTE for what it was set up for in the first place, which was to support the racing industry and therefore be able to not have to go to that auction every year for funding through consolidated revenue?

**Mr AIRD** - The TOTE's business is a wagering business. It has changed dramatically as a business. Only 6.5 per cent of its revenue is generated out of Tasmanian

racetrack activity. TOTE has been built up as a large business by virtue of the activities of TOTE as a wagering business, not as a racing services business.

**Mr BOOTH** - Are you saying TOTE was not set up to look after the racing industry?

**Mr AIRD** - What I am saying is the nature of the business has changed dramatically and the benefits to the industry have changed dramatically. Under the model we are putting forward they will still have access to sponsorship money at racefields. There was no such thing as racefields before, no such thing; there is a new stream of resources going to the racing board that they would never have had before. We now have Betfair, and they get the benefit of that, so the whole nature of wagering has changed in Tasmania and indeed in Australia.

**Mr BOOTH** - How would you propose they would be funded beyond the 20 years then?

**Mr AIRD** - Twenty years seems to me a reasonable threshold. You can put aspects into the deed if you wanted to work out renegotiation renewal clauses. There are ways of doing that if you wanted to.

**Mr BOOTH** - Is that contemplated?

**Mr AIRD** - I think there has to be some provision, and I think 20 years is reasonable. Whether you have a renewal period at, say, year 15 or year 10 and then beyond that, the next 10 years, I do not know, but we will certainly be addressing that issue.

**CHAIR** - If there are no further questions, thank you very much for your attendance. We will move to camera, Treasurer.



## Tatts buys Tote Tasmania

**Source:** Australian  
**Publication Date:** December 2, 2011  
**Country:** Australia  
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12/2/11 Australian (Newspaper) 21

News

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Section: Finance

**ACQUISITIONS:** Tatts Group has agreed to buy the Tasmanian TAB (Tote Tasmania) for \$103 million as the company seeks to expand into the state

The acquisition would be funded from existing loan facilities and cash, Melbourne-based Tatts said

Tote Tasmania provides Tatts Group's wagering subsidiary, TattsBet, with access to the Tasmanian racing and sports wagering market

The business would become part of the TattsBet pooling and fixed price wagering systems in Queensland, Northern Territory and South Australia

The transaction is subject to various regulatory approvals, including ACCC approval

Premier Lara Giddings said the transaction was fair and reasonable given the significant commercial risks associated with the business

"This sale is a great outcome for the people of Tasmania and will mean the state will no longer be directly exposed to the significant risks associated with ownership of a betting agency in an increasingly competitive wagering market," Ms Giddings said

The state will also continue to receive the annual wagering levy from Tote of more than \$6.5m per annum (indexed to the Hobart CPI)

The Tasmanian Racing Industry funding arrangements will be unaffected by the sale of Tote as there are no direct funding links between the Tote and the Tasmanian Racing Industry. However, as part of the transaction, the state has negotiated an agreement with Tatts to maintain certain service obligations, including the provision of ongoing access to the TattsBet pool, wagering on Tasmanian racing and a free-to-air racing radio service

Ms Giddings said Tatts had a strong track record as a leading wagering and lotteries operator. The transaction is expected to complete by the end of March.

---- INDEX REFERENCES ----

**COMPANY:** TATTS GROUP LTD; TATTSBET LTD

**INDUSTRY:** Entertainment (1EN08); Sports (1SP75); Equestrian Events & Horse Racing (1EQ65); Telecom Services (1TE09); Casinos (1CA80); Auto Racing (1AU97); Telecom Service Pricing (1TE06); Horse Racing (1HO27); Telecom (1TE27)

**REGION:** Tasmania (1TA12); Australasia (1AU56); Oceania (1OC40); Australia (1AU55)

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**EDITION:** 1 - All-round Country

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# The West Australian

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## Trainer warns of TAB sale

Steve Butler - The West Australian on May 22, 2014, 5:25 am



Picture: Hollands Graphics

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### Veteran South Australian racehorse trainer Leon Macdonald has sent warnings of dire consequences to the WA Government if it decides to sell the TAB.

As WA racing officials forged a united front yesterday at Belmont Park, calling on the Government to include them in negotiations on any proposed sale of the valuable utility, Mr Macdonald painted a bleak picture of the fallout from a similar sell-off in the State where he has plied his trade for the past 45 years.

"I'd be saying, 'Just don't do it,'" the Caulfield Cup and Victoria Derby-winning trainer said.

Mr Macdonald said the 2001 sale of the SA TAB for \$43.5 million to what was then known as TAB Queensland, had been devastating for the SA industry. TAB sales in Queensland and Tasmania have also caused industry heartache.

"It was detrimental to SA racing, all the profits went to Queensland and it stagnated our prize money," he said.

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Trainer warns of TAB sale - The West Australian

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WA Racehorse Trainers Association president Michael Grant told yesterday's meeting that the WA industry was geographically the world's biggest racing jurisdiction and contributed more than \$590 million a year to the local economy.

Perth Racing chairman Ted van Heemst said he supported an investigation into selling the TAB but said there was a current information gap which had left the industry "dealing in the dark".

He accused the Government of ignoring a strong contributor to its annual coffers.

Shadow racing and gaming minister Mick Murray said selling the TAB would be akin to killing the goose that is laying the WA racing industry's golden eggs.

**The West Australian**

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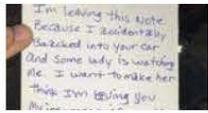


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12/8/2016

Trainer warns of TAB sale - The West Australian

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📷 Trainers and breeders fear the racing industry will not survive if indexation of stakes is stopped.

Local sport

# Racing reeling after stakes setback

SIMEON THOMAS-WILSON, Mercury

July 11, 2015 12:00am

**CUTBACKS** to stakes money risk leaving the Tasmanian racing industry on the brink of collapse, leading figures say.

The industry has been rocked by news Racing Minister Jeremy Rockliff will ignore their pleas to continue the indexation of stakes money.

One of the state's top thoroughbred trainers David Brunton said racing could not afford for stakes money to no longer rise in line with CPI.

"If they do that they will kill racing," Mr Brunton said.

Fellow trainer and prominent thoroughbred breeder Graeme McCulloch said there had to be another way savings could be found.

12/12/2018

Racing reeling after stakes setback | The Mercury

"We can't survive on any less than what we've had at the moment ... the industry cannot afford to go backwards," Mr McCulloch said.

Mr Rockliff has reconvened a meeting of the Racing Industry Working Group, which prepared a report into the sustainability of the Tasmanian racing industry, later this month.

Industry sources said he had called the meeting to tell them stakes would not continue to rise with CPI.

The Government has refused to release the report, which is understood to recommend indexation continues.

Mr Rockliff would not directly address the industry's concerns yesterday.

"As I've made clear on numerous occasions, we will not provide additional funding for the industry given the Budget circumstances we inherited and our commitment to reinvesting in health, education and public safety," he said.

"The Government will make an announcement about our response to the well-known challenge the industry is facing later this month."

Mike Jones, treasurer of the Tasmanian Pacing Club and secretary of Light Harness Tasmania, said stakes needed to be increased so the industry could keep up with the yearly rise in costs.

"The industry needs stakes to survive, how can you keep up with your costs?" he said.

Stakes are the lifeblood of racing, an industry that returns \$104 million to the Tasmanian economy each year and provides 1000 full-time equivalent jobs.

The former Labor government devised a funding model for racing after its sale of TOTE Tasmania in 2011. The industry had been largely self-funded by TOTE revenues previously.

The central plank of this model is a 20-year funding deed that is indexed annually at a rate of CPI less 1 per cent and is now close to \$30 million, and includes a stakes allocation of more than \$22 million.



📷 Racing Minister Jeremy Rockliff.

12/12/2016

Racing reeling after stakes setback | The Mercury

But there has been strong evidence to suggest this funding and Tasracing's other revenues are not enough to sustain the industry.

Opposition racing spokesman Scott Bacon said if stakes weren't increased it would be a broken promise by the Government.

"A February 26 press release said 'boosting stakes across all three racing codes will be a priority for a majority Liberal Government, as this is the key to driving growth in the industry'," he said.

"Presumably the Liberals' announcement this month will be an increase in stakes money. Anything else would amount to another broken promise."

A 2013 Tasracing discussion paper identified saving strategies that included not increasing stakes by CPI, reducing feature race stakes and reducing base stakes.

# Racing Queensland facing 'financial disaster'



Amy Remeikis

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The state's racing body is standing on the precipice of financial disaster, with Racing Minister Bill Byrne pointing to an "overly optimistic" and even "naive" culture which has left Racing Queensland on track for a \$28 million loss.

Mr Byrne said he was not interested in playing "the blame game" and was instead looking at how the industry can move forward.



Racing Minister Bill Byrne and interim Racing Queensland chief executive Ian Hall Photo: Amy Remeikis

The issues were not uncovered until the MacSporran report, which was ordered in the wake of the live-baiting greyhound scandal.

Mr Byrne, who was sworn in as Racing Minister the same day the ABC aired its investigation into live-baiting in the greyhound industry, said he had "no inkling" of any issues until KPMG was sent in.

"And that is one of the reasons perhaps why I am not so inclined to be accusing the previous government of lack of attention here," he said.

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"Right up to the point of when Ian [Hall] went into Racing Queensland, I was completely unaware of the financial issues facing Racing Queensland.

"So if there is any upside to the greyhound inquiry, it has revealed these matters to me, which I was completely unaware of."

Opposition spokeswoman on racing Jann Stuckey said the government should be ashamed of the way it had treated Racing Queensland and its former board members.

"Today we hear of a consultation process to get racing back on track, but this is too little too late," Ms Stuckey said.

"... In Parliament today the Minister broadcast a range of accusations about the management practices of RQ yet former members of the board were denied any opportunity to consult the Government on these matters.

"Stakeholders have echoed these sentiments, reading about industry developments in the media because Labor is focussed on tearing down and shaming an entire industry rather than fostering a co-operative environment."

The [Crime and Corruption Commission has also been called in to investigate four people](#) over matters involving Racing Queensland.

Mr Byrne would not expand on who was involved or what the investigation was in relation to.

"By process of deduction, people might draw the wrong conclusions," he said.

"Let's just say they are not being referred to CCC for matters associated with tiddly winks. We are talking about substantive serious issues and that is the way they are being treated.

"But it is entirely counter-productive to the interests of the individuals or the interests of anybody else to start naming them or speculating on what the substance [of the allegations are]."

Betting trends moving away from corporate agencies and not planning for wet weather were among the issues which has left Racing Queensland in the red for five successive years, with the majority of its revenue sourced from wagering.

Interim Racing Queensland chief executive Ian Hall said 61 per cent of the body's revenue was spent on prize money.

It would now begin consultation with the industry on how it addressed the issue.

"The plan is over the next three months, we'll have consultation with the industry, get ideas, see what we can do better as an industry," he said.

"To bring the industry together. That seems to be one of the messages I am getting from talking to people, is that the industry hasn't before all got together to work together, they have all had their own particular points of view.

"My intention is to bring the industry together to work through

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this to come up with a solution together.

"The government plans on having its new way forward in place by early next year."

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MARK McGOWAN

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WA LABOR LEADER

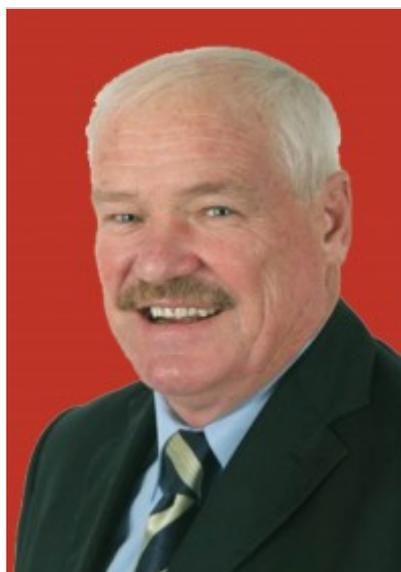
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### Racing Queensland 'haemorrhaging funds' under privatised TAB

Wednesday 22 Jul 2015

#### Fast facts:

- False pre-privatisation funding assumptions have left Racing Queensland in crisis
- Queensland Government has had to intervene to save loss-making racing authority
- Colin Barnett and Treasurer Mike Nahan announced in the 2015-16 State Budget that they will pursue privatisation of WA's TAB



[\(/images/blog/Mick Murray.jpg?zc=2\)](/images/blog/Mick Murray.jpg?zc=2)

The Barnett Government must heed warnings from Queensland about the dire condition of its racing industry under a privatised TAB.

Racing Queensland announced last week it was burdened with "mounting and unsustainable losses" which the Queensland Government blamed on false assumptions about racing funding made pre-privatisation.

Queensland Racing and Gaming Minister Bill Byrne told his state's racing industry last week that pre-privatisation "revenue assumptions from the past were wrong" and "built on rivers of gold that didn't exist".

Racing Queensland, said by Mr Byrne to be "haemorrhaging funds", posted a \$12 million loss for 2014-15 and will register a \$28 million deficit for 2015-16. Queensland's TAB was privatised in 1999.

Shadow Minister for Racing and Gaming Mick Murray said the Queensland case should act as a stark warning to the Barnett Liberal-National Government that WA's TAB must remain in public hands.

Comments from Shadow Minister for Racing and Gaming Mick Murray:

"I can't imagine a more clear warning about where WA racing may be in 10 or 15 years if Colin Barnett decides to sell the TAB.

"The numbers don't lie and Queensland's Racing and Gaming Minister has now had to intervene to try and restore some sort of workable future for their industry.

"Colin Barnett will be out of public life in 10 or 15 years' time so similarly it would be left to a future minister to clean up any mess he makes of the TAB.

"Former Victorian Premier Jeff Kennett said last year that Victoria had about five years before their industry became completely unsustainable and now we have an even more blunt warning from Queensland.

"This development will make it very difficult for the WA racing industry and race followers to have any faith in any assurances the Barnett Government makes about industry funding under privatisation,

"The WA racing industry is universally opposed to privatising the TAB and it is only because of the Barnett Government's disastrous, self-inflicted financial situation that we are seeing the TAB put up for sale."

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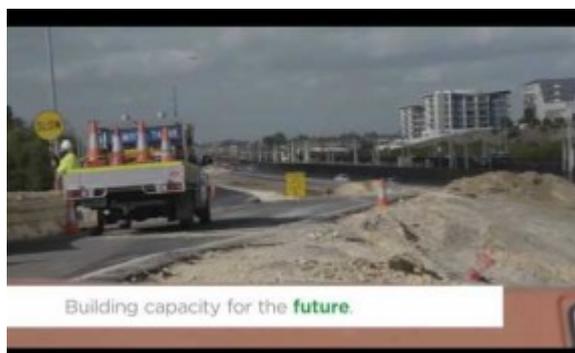
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## Fears Tasmanian racing professionals will leave state after Government delivers blow to prize money

By Ellen Coulter

Updated Sun 26 Jul 2015, 2:43pm

**There are concerns racing industry professionals will leave Tasmania after a decision by the State Government that will result in reduced prize money for the industry.**

Under a 20-year funding deed, Tasracing is required to maintain industry prize money in real terms each year.

But the State Government is now removing that indexation requirement, saying the industry needed more flexibility to become sustainable.

Tasracing has proposed spreading the reduction across the three codes, with thoroughbreds losing \$1.6 million, harness racing \$791,000 and greyhounds \$564,000.

The body plans to implement the changes from October but will endeavour to provide a CPI increase to prize money from 2016-17.

Racing Minister Jeremy Rockliff said the industry needed to grow and prosper.

"Unfortunately, the model set up under the previous government was simply not sustainable," he said.

"So we've had to make some difficult decisions to get this racing industry up on a sustainable footing.

"We want a self-sustaining racing industry without having to take money from health and education in order to prop up that industry."

### Government has broken its promise, says Opposition

Opposition racing spokesman Scott Bacon said the Liberals promised to increase stakes money before the election.

"And now they've effectively done exactly the opposite," he said.

Mr Rockliff said the previous government relied on band-aid measures to address Tasracing's funding gap, which was \$3-5 million.

"I won't wear any criticism at all from the Labor party, who were warned back in 2009 - so, six years ago - that the model that they set up was simply not sustainable," he said.

Light Harness Tasmania secretary Mike Jones said the decision was disappointing.

"This is another blow that's going to really make people sit down and think now, 'Am I getting a fair return for my effort?'" he said.

"I would suspect that people will start to walk away.

"We've only got maybe a dozen professional trainers and they're going to seriously sit down and think, 'How can I survive on this?'"

Topics: government-and-politics, horse-racing, tas

First posted Wed 22 Jul 2015, 9:09pm

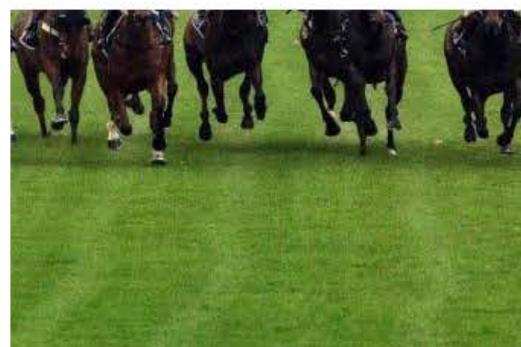


PHOTO: There are fears new rules will prompt racing professionals to quit Tasmania. (Getty Images: Robert Cianflone, file photo)

MAP: TAS



***JOINT STANDING COMMITTEE ON  
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WAGERING WESTERN AUSTRALIA  
ACTS***

**INQUIRY INTO THE RACING AND  
WAGERING WESTERN AUSTRALIA  
ACTS**

**Report No. 2  
in the 38<sup>th</sup> Parliament**

**2010**

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JOINT STANDING COMMITTEE ON THE REVIEW OF THE RACING AND WAGERING WESTERN AUSTRALIA ACTS

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**INQUIRY INTO THE RACING AND  
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**Report No. 2**

Presented by:

**Mr J.E. McGrath, MLA and Hon A.K. Hayden, MLC**

Laid on the Table of the Legislative Assembly and Legislative Council  
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## COMMITTEE'S FUNCTIONS AND POWERS

Section 122 of the *Racing and Wagering Western Australia Act 2003* requires a review of the operation and effectiveness of the Act by a Joint Standing Committee of both Houses of Parliament as soon as practicable after 5 years from the Act's commencement. A Joint Standing Committee was established on 24 September 2009 pursuant to Section 122, but also taking into consideration the *Racing and Wagering Western Australia Tax Act 2003*. The Committee's functions and powers were agreed to between the Houses and are reflected in the Terms of Reference that follow.



## INQUIRY TERMS OF REFERENCE

- (1) Pursuant to section 122 of the Racing and Wagering Western Australia Act 2003, and also taking into consideration the Racing and Wagering Western Australia Tax Act 2003 (“the Acts”), a joint standing committee be appointed by the Legislative Assembly and the Legislative Council.
- (2) The joint standing committee will review the operation and effectiveness of the Acts and is to consider and have regard to -
  - (a) the effectiveness of the operations of Racing and Wagering Western Australia (RWVA);
  - (b) the need for the continuation of the operations of RWVA; and
  - (c) any other matters that appear to the joint standing committee to be relevant to the operation and effectiveness of these Acts.
- (3) The joint standing committee will consist of three members appointed by the Legislative Assembly and three members appointed by the Legislative Council.
- (4) The standing orders of the Legislative Assembly relating to standing and select committees will be followed as far as they can be applied.
- (5) The committee shall report by 30 June 2010.<sup>1</sup>

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<sup>1</sup> On 20 May 2010 the Legislative Assembly and Legislative Council agreed to extend the Committee’s reporting date to 15 October 2010.



## CHAIRMAN'S FOREWORD

The Racing Industry, in one form or another, has been a part of Western Australia's diverse culture for more than 150 years. From the glitz and glamour of Perth Cup Day, a night at the trots at Gloucester Park, a visit to the greyhounds at Cannington, a day out at a country cup meeting or simply having a bet at the TAB, the excitement of a close finish has always been an attraction to those who participate.

This experience would not be possible without the backing of an industry that contributes significant economic and social benefits to the State. It is an extremely complex industry that requires a huge workforce and input from a diverse range of stakeholders.

Without the effort of trainers, jockeys, drivers, handlers, stewards, tote staff, float drivers, barrier attendants, ambulance officers, veterinarians and a host of other workers, the race-day experience would not be available. The links in the chain extend ever further back, to breeders, primary producers and suppliers of stockfeed, and to those involved in the manufacture of all kinds of racing and wagering equipment.

The racing industry has huge potential, with largely untapped benefits to Western Australian tourism through the promotion of major Perth racing carnivals and country cup meetings that are held across the length and breadth of the State.

For this to happen the industry requires sound administration, the highest integrity and a proper funding model. It also requires a funding source that will enable it to carry out an array of necessary infrastructure projects at racetracks across the State. The recommendations of this report are geared to help the industry achieve these outcomes.

The significance of this Parliamentary Inquiry, of which I am privileged to be chair, is discussed at length in the main body of the report. However, it is fair to say that it has come at a time when the industry is facing challenges that were not foreshadowed when the *Racing and Wagering Western Australia Act 2003* and *Racing and Wagering Western Australia Tax Act 2003* passed through Parliament.

Since the inception of the Totalisator Agency Board (operated by Racing and Wagering Western Australia since 2003), most of the racing industry's funding has been derived from on and off-course wagering. While in RWWA's early years wagering revenue in this State soared on the back of the mining boom, those increases were soon eroded by the impact of the Global Financial Crisis and an unexpected outbreak of Equine Influenza in the Eastern States of Australia that drastically reduced the number of race meetings.

Other factors to impact on RWWA's revenue stream have been the increased cost of participating in a pool-sharing arrangement with Tabcorp and the introduction of product fees, under which wagering operators are required to pay a fee to race clubs. While this has helped ensure that the integrity of WA's wagering industry remains intact, it is still cost negative to RWWA given that WA is a net importer of "product" from the more populated racing states.

JOINT STANDING COMMITTEE ON THE REVIEW OF THE RACING AND WAGERING WESTERN AUSTRALIA ACTS

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Meanwhile, corporate bookmakers, having negotiated licenses with the Northern Territory Government at a lower rate of taxation than all other states, continue to substantially increase their share of the wagering/sports betting market. Other forms of internet gambling have also become more popular.

These challenges for RWWA, and others facing the racing industry in general, are all discussed at length in the main body of the report.

The Committee has made a number of recommendations based on evidence and feedback provided by industry stakeholders at hearings and briefings held around the State. The Committee also held briefings in Victoria and Queensland, where information was sought from industry stakeholders and administrators from those states.

On behalf of the Committee I would like to thank all stakeholders for their input to the Inquiry especially members of race clubs across the State, many of whom are volunteers so their time was particularly appreciated.

The board of RWWA and the executive are to be commended for the frank and open way in which they responded to questioning from the Committee and the timely manner in which written information was provided. This enabled the Committee to have a more thorough understanding of the operations of RWWA.

I would like to thank the members of the Committee for the time and effort that they put into the Inquiry. Finally, I would like to thank Ms Dawn Dickinson, Principal Research Officer, and Ms Renée Gould, Research Officer, for their professionalism and commitment to producing this report.

Of course, this report will be judged by the effectiveness with which the State Government responds to the recommendations.



MR J.E. McGRATH, MLA  
CHAIRMAN

## ABBREVIATIONS AND ACRONYMS

|           |   |
|-----------|---|
| “ACCC”    | Australian Competition and Consumer Commission                  |
| “AGM”     | Annual General Meeting  |
| “AHA”     | Australian Hotels Association                                   |
| “ANAO”    | Australian National Audit Office                                |
| “ASX”     | Australian Securities Exchange                                  |
| “AVGRA”   | Avon Valley Greyhound Racing Association                        |
| “BOTRA”   | Breeders Owners Trainers and Reinspersons Association of WA Inc |
| “CEO”     | Chief Executive Officer   |
| “COAG”    | Council of Australian Governments                               |
| “CRA”     | Country Racing Association                                      |
| “DPMC”    | Department of the Prime Minister and Cabinet                    |
| “DRGL”    | Department of Racing, Gaming and Liquor                         |
| “DSR”     | Department of Sport and Recreation                              |
| “DTF”     | Department of Treasury and Finance                              |
| “EAC”     | Economic Audit Committee  |
| “EI”      | Equine Influenza  |
| “FOI”     | Freedom of Information  |
| “FOI Act” | <i>Freedom of Information Act 1992</i>                          |
| “FTE”     | Full Time Employee  |
| “GRCG”    | Greyhound Racing Consultative group                             |
| “GTE”     | Government Trading Enterprise                                   |
| “HRCG”    | Harness Racing Consultative Group                               |
| “HROAWA”  | Harness Racing Owners Association of WA Inc                     |
| “IAC”     | Integrity Assurance Committee                                   |
| “OIP”     | Owners Incentive Payment  |
| “RAWG”    | RWWA Animal Welfare Group                                       |

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 JOINT STANDING COMMITTEE ON THE REVIEW OF THE RACING AND WAGERING WESTERN AUSTRALIA ACTS
 

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| “RBH”            | Ratings Based Handicapping   |
| “RPAT”           | Racing Penalties Appeal Tribunal   |
| “RDT”            | Racecourse Development Trust   |
| “RWWA Act”       | <i>Racing and Wagering Western Australia Act 2003</i>  |
| “RWWA Tax Act”   | <i>Racing and Wagering Western Australia Tax Act 2003</i>  |
| “RWWA”           | Racing and Wagering Western Australia  |
| “SCI”            | Statement of Corporate Intent  |
| “SDP”            | Strategic Development Plan   |
| “SWA”            | Sports Wagering Account  |
| “TAB”            | Totalisator Agency Board   |
| “the Act”        | <i>Racing and Wagering Western Australia Act 2003</i>  |
| “the Acts”       | <i>Racing and Wagering Western Australia Act 2003 and the Racing and Wagering Western Australia Tax Act 2003</i> |
| “the Committee”  | Joint Standing Committee on the Review of the Racing and Wagering Western Australia Acts                         |
| “the Commission” | The Gaming and Wagering Commission   |
| “TRCG”           | Thoroughbred Racing Consultative Group   |
| “WABBA”          | West Australian Bloodhorse Breeders Association  |
| “WACHRA”         | Western Australian Country Harness Racing Association  |
| “WAEIIG”         | The Western Australian Equine Influenza Industry Group   |
| “WAGBOTA”        | Western Australian Greyhound Breeders, Owners and Trainers Association   |
| “WAGRA”          | Western Australian Greyhound Racing Association  |
| “WAPTRA”         | Western Australian Provincial Thoroughbred Racing Association  |
| “WAROA”          | Western Australian Racehorse Owners Association  |
| “WARTA”          | Western Australian Racing Trainers Association   |
| “WASBA”          | Western Australian Standard Breeders Association   |
| “WATA”           | Western Australian Trotting Association  |
| “WATC”           | Western Australian Turf Club   |

## GLOSSARY

|                                 |  |
|---------------------------------|--|
| “betting exchange”              | means by which parties stake money on opposing outcomes of a future event like a horse race. They differ from traditional forms of wagering in Australia (with bookmakers or totalisators) because customers are able to bet that a particular outcome will or will not occur. That is, a customer can back something to lose. |
| “board”                         | the board of directors of RWWA.  |
| “bookmaker”                     | a person licensed by RWWA to conduct betting on-course; that is, being present at a race meeting.  |
| “CEO”                           | means the person holding the office of chief executive officer of RWWA created under section 20 of the RWWA Act 2003.  |
| “committee”                     | in relation to a racing club, includes the governing body of the club or a body constituted by the club to make determinations on behalf of the club.  |
| “Director”                      | means a director appointed, nominated or selected under section 8 of the RWWA Act 2003.  |
| “eligible person”               | means a person who is eligible to be appointed, nominated or selected as a director of RWWA.   |
| “field”                         | the horses or greyhounds in a race.  |
| “fixed odds wager”              | means a wager where a fixed amount that will be won if the wager is successful is determined before the wager is accepted.   |
| “gambling”                      | means wagering or gaming [definitions below].  |
| “gambling operations”           | the business of RWWA referred to in section 50(1)(b) of the RWWA Act 2003.   |
| “gaming”                        | the playing of a game of chance for winnings, whether any person playing the game is at risk of losing any money or not.   |
| “greyhound racing”              | the racing, in competitive pursuit of an artificial lure, of greyhounds registered with the Australian Stud Book maintained by Greyhounds Australasia or with a registration authority approved by RWWA.   |
| “Government Trading Enterprise” | distinguished from other parts of the public sector by the fact that GTEs charge for the goods and services they provide and are in most cases self-financing.   |
| “Handicapping”                  | where varying amounts of weight are added to an animal prior to a race in an attempt to even out the competition for that race.  |
| “harness racing”                | the racing of horses registered with Harness Racing Australia, or otherwise eligible to race, under the Australian Rules of Harness Racing, and includes pacing and trotting.  |

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| “industry participants” | includes RWWA board members, executive and general employees, breeders, trainers, jockeys, reinspersons, on-course bookmakers, TAB franchisees, PubTAB and ClubTAB licensees, racing clubs and any wagering customer (see punter).  |
| “off-course wager”      | a wager made on a horse or greyhound race; and included in an off-course totalisator, that is made through or with RWWA under the RWWA Act 2003.  |
| “on-course wager”       | wagering through totalisators on racecourses and bookmakers licensed under the <i>Betting Control Act 1954</i> .  |
| “pari-mutuel”           | see totalisator(tote) wagering.   |
| “principal club”        | Or Principal Racing Authority, is a body, statutory or otherwise, that has the control and general supervision of racing for a code within a State or Territory of Australia.   |
| ‘punter’                | someone who places a bet.   |
| “race”                  | a thoroughbred race, a harness race or a greyhound race.  |
| “racecourse”            | a venue used for races.   |
| “race meeting”          | a meeting at which races are held.  |
| “racing club”           | means a body of persons that promotes or holds, or is formed to promote or hold, a race meeting.  |
| “racing industry”       | the thoroughbred racing industry, the harness racing industry and the greyhound racing industry, associated industries, or any of those industries.   |
| “racing codes”          | Refers to thoroughbred, harness and greyhound racing.   |
| “rules of racing”       | rules made under section 45 of the RWWA Act 2003.   |
| “rules of wagering”     | rules made under section 120 of the RWWA Act 2003.  |
| "stewards"              | the persons appointed as such by RWWA who ensure that the Rules of Racing (under section 45 of the RWWA Act 2003) are adhered to. Stewards are responsible for the conduct of race meetings throughout the State in addition to the conduct of all persons registered in varying capacities in the various racing codes.  |
| “the Turner Report”     | In late 2000, the state government initiated a review into the racing industry in Western Australia. The review was conducted by an independent committee chaired by Mr Ray Turner AM and tabled a final report in October 2001. The establishment of RWWA as the governing body for each racing code and the TAB reflected the recommendations of this report. |
| “the Uhrig Report”      | the <i>Review of the Corporate Governance of Statutory Authorities and Office Holder</i> , authored by Mr John Uhrig, AC, was released by the Federal Government on 12 August 2004, and has led to an   |

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|                               | intensive review process of the governance of approximately 170 statutory authorities and agencies.  |
| “thoroughbred racing”         | means the racing of horses registered with the Registrar of Racehorses, or otherwise eligible to race, under the Australian Rules of Racing.   |
| “totalisator (tote) wagering” | comprises any totalisator pool scheme conducted by RWWA. Bets placed on the Tote form the "pool" so the odds fluctuate as bets are placed (the more a horse is bet on, the lower the dividend). All the money that is wagered is divided up among those who have winning tickets, after taxes and other deductions are made by RWWA. |
| "Warned off" "Warning off"    | A person warned off a racecourse is one who is not permitted to enter a racecourse under the control of RWWA.  |
| “wagering activities”         | Comprises off-course (TAB) wagering in Western Australia; on-course totalisator wagering and fixed odds wagers in relation to races and certain sporting and other events. <sup>2</sup>  |

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<sup>2</sup> For consistency, wherever possible these definitions are based either on Section 3 of the Racing and Wagering Western Australia Act 2003 (WA), Section 3 of the Gaming and Wagering Commission Act 1987, or from information contained on the RWWA website.



## EXECUTIVE SUMMARY

The *Racing and Wagering Western Australia Act 2003* established Racing and Wagering Western Australia (RWWA) as a statutory authority with roles of governance for the thoroughbred, harness and greyhound racing codes and ownership of the principal off-course wagering operator in Western Australia. Until RWWA was established, each racing code was governed by its respective principal club with wagering the responsibility of the Totalisator Agency Board (TAB). Competition for limited funds between codes and the TAB was undermining the viability of the industry thereby prompting the state government in 2000 to initiate a review, eventually leading to the establishment of RWWA in 2003. At the time, the creation of a single controlling body for the three codes was seen to be crucial for overcoming vested interests within the industry. Absorbing the functions of the TAB into RWWA was also viewed as an essential mechanism for achieving greater overall cohesion and a means of enabling the industry to be more self-regulating and capable of achieving long-term viability.

Seven years on from the establishment of RWWA, the Western Australian racing industry's totalisator wagering arm turns over approximately \$1.6 billion and continues to support an extensive network of participants directly engaged in the industry (including owners, breeders, trainers, jockeys and bookmakers among others) and in various support services (including veterinary services, farriers, stock feed providers). Each year RWWA has distributed wagering profits to the racing industry in the form of stake money, capital grants, subsidies and participant payments. While annual distributions increased in the years following RWWA's establishment, this has not been the case in the last two years. RWWA, and by extension the industry, is facing a number of challenges including a net increase in wagering product fees and pooling costs, and increased competition for wagering services as a consequence of tax rate disparities between states and the entrance of corporate bookmakers and betting exchanges onto the wagering market.

As required by the *Racing and Wagering Western Australia Act 2003* (RWWA Act), the Joint Standing Committee on the Review of the Racing and Wagering Western Australia Acts ('the Committee') was established on 24 September 2009 to review the operation and effectiveness of the Act. Also included in the scope of the Inquiry was the *Racing and Wagering Western Australia Tax Act 2003* (RWWA Tax Act) which defines the rate of tax payable by RWWA on moneys received by it in respect of wagers made. Although a requirement of legislation, the statutory review is timely given the current challenges confronting the racing industry as it provides a means of ensuring that the Western Australian industry is equipped to address current pressures and is in a strong position going forward. The Committee's Inquiry process involved detailed consideration of submissions made by industry participants and stakeholders, and extensive consultation in the form of public hearings across Western Australia and briefings with racing industry stakeholders in Queensland and Victoria.

### ***Evaluating the need for the continuation of the operations of Racing and Wagering Western Australia***

The main body of this report (Chapter 2) examines the effectiveness of the operations of RWWA and the need for the continuation of the operations of RWWA. The report finds that overall the

establishment of RWWA has benefited the industry and RWWA's operations have largely achieved the intended outcomes and have therefore been 'effective'. Further, it is essential for the Western Australian racing industry that the operations of RWWA continue, however, mechanisms are identified throughout the report which are required for RWWA to achieve greater operational effectiveness. The discussion of these mechanisms is structured into a number of major themes which were repeatedly highlighted in evidence to the Inquiry:

### **Governance** (Chapter 2.2)

Governance concerns how an organisation performs its activities within the context of its management, corporate and administration structures, and the policies and strategies used to assist an organisation to achieve probity, openness and accountability. Governance constitutes a significant theme throughout the report since it underpins the success or otherwise of an organisation's activities and is therefore critical to any discussion on operational effectiveness. While there is not a universal model of governance which can be applied to RWWA, the governance functions and powers prescribed by the RWWA Act are assessed against a number of best practice principles which characterise 'good governance'.

The report shows that the majority of industry participants support the whole-of-industry governance approach embodied by RWWA, however operational and structural changes within some components of RWWA's governance structure are necessary. The existing composition of the RWWA board comprising the Chairman appointed by the Minister for Racing and Gaming, three code nominees and four non-code directors is appropriate and should remain. Although some stakeholders argued the contrary, the retention of code representation on the board is justified as it enables the board to understand and effectively respond to the complex needs of the racing industry.

A number of amendments are recommended to the RWWA Act to improve country and wagering representation. In the first instance, it is recommended that Section 8(2) of the RWWA Act is amended to more appropriately capture the requirement for the board to reflect knowledge of, and experience in, country racing. In relation to the latter, a recommendation is made to increase wagering input into the nomination and selection of board members. Additional mechanisms are explored to encourage board renewal over time and ensure that nomination and selection processes continue to capture a high calibre of candidates. Changes to the RWWA Act are recommended to enable a more open, structured and broad selection and nomination process for the board. A more regular renewal of membership on the panel responsible for selecting board members will also contribute to a more robust board nomination and selection process.

A number of mechanisms are also suggested to improve transparency, including amendments to the RWWA Act to delineate the roles of the RWWA board and executive, and require greater disclosure of written delegations by RWWA. A change to the structure of RWWA board committees is recommended to establish a separate risk committee and audit committee which might assist RWWA to become more responsive to changing market conditions. The report also briefly reviews the recommendations of the WA Government's recent Economic Audit Committee Final Report which will be relevant to the future governance of RWWA.

### **Objectives of RWWA (Chapter 2.3)**

Diverse views from industry participants demonstrate that there is ambiguity within the industry surrounding what it is RWWA should be trying to achieve. In the absence of a statement of objectives within the RWWA Act, there is a lack of agreement on RWWA's role although an overriding objective can be inferred by Section 35. An explicit statement of objectives will provide a clear framework within which RWWA can operate and make decisions. An objectives statement should be separate from the administrative day to day functions detailed in Section 35 and it is recommended that a stand alone objective be established within the RWWA Act which builds upon the wording of Section 35(1)(b).

### **Accountability (Chapter 2.4)**

As part of overall governance the examination of accountability focuses on the requirement for RWWA to prepare a Strategic Development Plan and a Statement of Corporate Intent. It is evident that industry participants perceive a lack of transparency with respect to RWWA's decision making processes, which will risk undermining its operational effectiveness unless rectified. Changes to RWWA's practices would assist in this regard, including disclosure by RWWA of its overarching decision making procedures, and facilitation of race clubs' awareness of relative financial performance. Industry participants support RWWA remaining accountable to government and in this regard, it is appropriate for the current level of Ministerial involvement in RWWA's accountability framework to continue. The Strategic Development Plan and Statement of Corporate Intent are critical accountability measures and in order to increase their effectiveness, it is recommended that the RWWA Act be amended to allow the Treasurer to have greater say in the preparation of the draft Strategic Development Plan and that content requirements of both documents be reviewed to ensure that both remain useful to industry, to RWWA, and to the government.

### **Appealing decisions by RWWA (Chapter 2.5)**

While RWWA has primary responsibility for the control, supervision and regulation of the three racing codes as well as prescribed wagering functions in WA, other bodies also play an integrity assurance role with respect to racing and gambling operations in the state and have a bearing on appeals. Greater clarification is required on the part of RWWA and the Department of Racing, Gaming and Liquor with respect to external appeal pathways available to industry participants since there seems to be a lack of awareness in this regard.

With the exception of matters that are covered by external appeal bodies, RWWA's decisions are otherwise subject to internal review. Small clubs in particular have indicated a sense of powerlessness at not being able to appeal to a body other than RWWA in relation to decisions by RWWA which significantly impact on the viability of a club. This is particularly evident in relation to RWWA's decisions to close the Geraldton Harness Racing Club and reduce meetings at the Mt Barker Turf Club. In terms of enhancing the appeals process, it would not be appropriate to introduce an avenue of appeal to the Minister as this would compromise RWWA's operational independence. More broadly, it is essential that RWWA engages in a more consultative and transparent approach regarding any decisions that will impact significantly on a racing club or code. In relation to the specific instance of RWWA's decisions to close a club or significantly

reduce meetings that will affect a club's long-term viability, it is recommended that the RWWA Act is amended to enable clubs to make representation to the RWWA board.

### **Consultation** (Chapter 2.6)

The report reproduces substantial evidence suggesting inadequacies in RWWA's consultation practices. Comments point mainly to a feeling among industry participants of a lack of meaningful input into RWWA's decision making process and that information is provided to industry consultative groups as a fait accompli. RWWA is already making changes to its consultation procedures including the introduction of an outreach program to regional areas and proposals for an AGM-style meeting coupled with an industry-wide conference, which are intended to facilitate greater stakeholder input. These initiatives should be developed and implemented as a priority to raise the standard of consultation, transparency and accountability within the industry. Other mechanisms identified for improving consultation include amending the RWWA Act to enable RWWA to consult more widely, and for representative industry groups to meet prior to consultative group meetings to widely canvass industry issues.

### **Distribution of Funds** (Chapter 2.7)

Sections 105 and 106 of the RWWA Act detail how RWWA is to allocate wagering profits to each of the three racing codes. Until 31 July 2005, Section 105 of the RWWA Act required RWWA to distribute wagering profits to thoroughbred, harness, and greyhound racing in proportions defined in the Act with any profits exceeding \$50 million to be distributed at the discretion of RWWA. From 1 August 2006, Section 106 took effect providing RWWA with the discretion to distribute wagering profits among the three codes.

Extensive industry comment is cited in the report highlighting various deficiencies in RWWA's funding model including: meeting fee and stake money discrepancies between metropolitan and non-metropolitan areas; RWWA's suspension of the Owners' Incentive Payment; and distributions that do not reflect contributions to turnover. In relation to RWWA's distribution of capital grants, there is extensive evidence of critical need across the industry for infrastructure funding, a specific subset of which relates to training facilities. While RWWA is in the process of refining its funding distribution model to address certain matters such as meeting fee discrepancies and funding of training facilities, other matters such as differences in basic and feature stake funding remain contentious.

Notwithstanding evidence from certain sectors of the industry suggesting a return to set percentage code distributions, the distribution of funding to the racing codes should not be determined by set percentages prescribed in the RWWA Act. Actual distributions to the codes more closely reflect wagering performance than historical formulae but even so, radical departures have not been made from historical percentages. In keeping with the original intent of the legislation it is important that the Western Australian racing industry has the means to continue to develop and this can best be achieved if RWWA retains the discretion to distribute funds as provided for under Section 106 of the RWWA Act.

RWWA is required to fund infrastructure under the RWWA Act but has largely directed revenues towards increases in race stakes in order to achieve adequate returns to industry participants.

Ageing club infrastructure and a large gap between required and actual infrastructure expenditure means that approximately \$70 million is required over the next five years to meet critical infrastructure needs across the racing industry. Government grants alone will not be sufficient to meet all the infrastructure needs and RWWA's capacity to fund infrastructure will continue to be exceeded under current returns from wagering. It is not desirable to reduce stake money levels as this will compromise the ongoing development of the industry and as such, it is essential that the industry receives a guaranteed stream of infrastructure funding. A long-term infrastructure fund to be administered by RWWA is the most suitable mechanism to achieve a sustained funding stream for infrastructure and would be in keeping with RWWA's statutory obligation to fund infrastructure.

### **Taxation** (Chapter 2.8)

Section 102 of the RWWA Act requires RWWA to pay tax on moneys it receives in respect of wagers made in accordance with the RWWA Tax Act. Sections 4 and 5 of the RWWA Tax Act establish the rate of tax for totalisator and fixed odds wagers respectively. The report incorporates evidence from RWWA and industry participants in favour of taxation relief to bring Western Australia in line with other states and to assist RWWA to be more competitive. The report establishes that: it is appropriate for wagering activities to be taxed; that a review of the rates of taxation for totalisator and fixed odds betting is warranted; and that in the long-term, a cooperative national approach to wagering taxation would help to address destructive tax competition between the states. Given that other states around Australia have already committed to reducing rates of taxation on wagering, the Western Australian racing industry cannot remain competitive without a similar reduction. It is recommended that the Minister for Racing and Gaming in conjunction with the Treasurer reviews the rates of tax for totalisator and fixed odds betting in the RWWA Tax Act with a view to enabling RWWA to compete more effectively in the wagering market. It is also recommended that the Minister for Racing and Gaming pursues a coordinated national approach to the taxation of wagering through the appropriate national forum.

The report examines a number of other tax related issues with a view to improving RWWA's operational effectiveness. While scope is identified for a more equitable rate of taxation for on-course totalisator and fixed odds wagering conducted by racing clubs, elsewhere it is appropriate to maintain the status quo, for example, in relation to arrangements for administering the Sports Wagering Account.

Continuing the discussion on a RWWA-administered infrastructure fund, the report establishes that a special purpose account for racing industry infrastructure should be put in place. The infrastructure fund should be funded through a percentage of RWWA's profit margin at a rate sufficient to address critical infrastructure needs. Based on RWWA's estimates for 2009-10, a mandated figure of between 8% and 9% of the profit margin would yield between \$13 million and \$15 million a year. For this method not to impact adversely on RWWA's distribution to the codes (and stakes in particular), the infrastructure fund could only be established following a reduction in wagering tax, the scale of which would need to be determined as part of the taxation review. The anticipated benefits to the industry of such an infrastructure fund justify this approach especially if sufficient transparency measures can be instituted at the same time. In this regard, it would be appropriate for a forward looking infrastructure plan to be backed up by a legislative

requirement to incorporate proposed infrastructure spending in RWWA's Statement of Corporate Intent.

### **Wagering Revenues** (Chapter 2.9)

The importance of RWWA's wagering operations stem from the application of profits to the industry in the form of distributions. The report notes evidence suggesting that RWWA needs to increase its revenues but accepts that programming more race meetings is not the answer from an industry profitability perspective. As well as establishing that taxation rates should be reviewed to ensure that RWWA can compete more effectively with the providers of wagering services in other jurisdictions, the report evaluates stakeholder suggestions for RWWA to broaden its product range and/or expand the wagering distribution network in order to increase revenues. Notwithstanding evidence received to the contrary, it is recommended that virtual racing and Keno should not be expanded into TABs and licensed premises. Further, RWWA would need to prepare a strong case for government to support expansion of its wagering sales network into alternative locations. This report does not investigate the merits of RWWA providing credit to clients. Given the potential risks associated with credit betting however, it is appropriate for this issue to be progressed through the Council of Australian Governments and in the interim, credit betting should not be offered by RWWA.

### **Structure of RWWA** (Chapter 2.10)

The RWWA model of a whole-of-industry governing body with ownership of the TAB is unique in Australia. While privatisation of the TAB has occurred in most other states, there is no long-term benefit for the industry if it happens in Western Australia. Although the governance and ownership of RWWA may be examined as part of a broader state government review in the future, the weight of evidence supports the existing structure and ownership of RWWA under which the one body operates both the wagering arm and racing administration and it is recommended that this continues.

### ***Other matters relevant to the operation and effectiveness of the Acts***

Chapter 3 of the report examines other matters relevant to the operation and effectiveness of the Racing and Wagering Western Australia Acts. In relation to racing matters, stakeholder views regarding ratings/handicapping systems for the horseracing codes are briefly examined (Chapter 3.2) with the general consensus being that these systems require review. It is recommended that RWWA reviews ratings/handicapping systems with a view to producing balanced and competitive race fields and to remedy the inequities between city, provincial and country racing for thoroughbred and harness codes.

Liquor licensing requirements are examined (Chapter 3.3) due to extensive evidence from industry participants that this issue is impacting on the functioning and viability of race clubs. The report establishes that past enforcement practices have impacted severely on the viability of major race days in country centres and there is still some evidence of unnecessary compliance demands being placed on race clubs in relation to security at race meetings. It is disappointing also that family events such as the New Year's Eve race meeting at Gloucester Park no longer operate. A more common-sense approach to liquor enforcement activities would be beneficial to race clubs and

country communities and it is recommended that the Minister for Racing and Gaming reviews liquor licensing and enforcement requirements for major race meetings.

The report examines a number of RWWA's powers in relation to: directing clubs; racing in extraordinary circumstances (Chapter 3.4); and disciplinary powers (Chapter 3.8(i)). It would improve RWWA's operational effectiveness if the RWWA Act is amended to enable RWWA to direct clubs and allied bodies where there is a severe threat to the welfare of racing, provided clubs may make representation to RWWA in the event of any sanctions being applied for non-compliance. Existing powers under the RWWA Act are sufficient to cover most contingencies from the perspective of ensuring race continuity. It is also important that RWWA, wherever possible, supports the management efforts of all race clubs. Thus an expansion of powers is unnecessary with respect to dissolving club committees, appointing administrators and conducting race meetings in extraordinary circumstances. With respect to disciplinary powers, there is no case for amending Section 34 of the RWWA Act to expand the definition of a person associated with racing. Scope is identified however for amending Section 44 of the RWWA Act and Regulation 72 of the RWWA Regulations in order to clarify RWWA's warning off powers.

Meeting allocation, race programming, and Sky Vision coverage are examined in the context of ensuring the long-term viability of country racing clubs (Chapter 3.5). Country and community race clubs are essential in terms of the social benefits they deliver to their communities and importance for the grass-roots of the industry. Evidence suggests that clubs currently lack sufficient input into the race programming process and receive insufficient notice of race date allocations. While improved consultation processes may address the former, it is recommended that in order to assist clubs with planning for future seasons, RWWA provides them with a more informative programming outline. While it is acknowledged that elements of securing vision coverage are beyond RWWA's control, RWWA should wherever possible assist race clubs to secure Sky Vision access and coverage.

In relation to wagering issues, the report establishes that a conflict of interest exists in RWWA's role as currently legislated since RWWA has prescribed functions which affect the activities of direct competitors in the wagering market (Chapter 3.6). In this respect it is appropriate for any regulatory functions prescribed under Sections 50 and 120 of the RWWA Act which may limit RWWA's ability to conduct a wagering business to be removed and vested with the Gaming and Wagering Commission. The Minister for Racing and Gaming will need to review the most appropriate manner in which this should occur. The report identifies other wagering related matters that RWWA needs to address in order to sustain its retail TAB network including the issue of territorial rights for full retail TAB agents (Chapter 3.8(ii)), and commission rates for full retail TAB agents and ClubTABS/PubTABS (Chapter 3.8(iii)).

The final section of Chapter 3 lists a number of challenges confronting the industry which RWWA will need to monitor and/or address over the coming years to ensure the ongoing prosperity of the industry. Further to stakeholders' concerns already mentioned above in relation to racing and wagering matters, another issue which RWWA will need to give due consideration to is Racing Radio (Chapter 3.8(iv)), which is inadequate and a cause of frustration for industry participants. Animal welfare issues (Chapter 3.8(v)) and breeding incentives (Chapter 3.8(vi)) are also briefly discussed. Committee observations are presented in Chapter 3.8(b) in the context of future

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directions for the industry. The report presents a brief discussion of the importance of RWWA remaining competitive in a challenging wagering market, racing/training facilities into the future (including the issues of thoroughbred racing/training facilities, metropolitan racetracks, and synthetic tracks), and the benefits of a national totalisator pool.

Reflecting that the primary purpose of this report is to review the Racing and Wagering Western Australia Acts, Chapter 4 of the report collates all recommended amendments to the RWWA Act and the RWWA Tax Act identified in Chapters 2 and 3 as well as various miscellaneous administrative amendments.

## FINDINGS

Page 9

### **Finding 1**

Examining the governance structure of Racing and Wagering Western Australia will help to establish the effectiveness of its operations.

Page 10

### **Finding 2**

There is no single model of good corporate governance that can be applied to Racing and Wagering Western Australia.

Page 14

### **Finding 3**

The *Racing and Wagering Western Australia Act 2003* prescribes appropriate financial controls upon the operations of Racing and Wagering Western Australia.

Page 19

### **Finding 4**

The majority of industry participants support a whole-of-industry governance approach for the racing and wagering industry.

Page 19

### **Finding 5**

There is scope for operational and structural change within some components of Racing and Wagering Western Australia's governance structure.

Page 22

### **Finding 6**

Country racing is integral to the viability of the industry in Western Australia.

Page 23

**Finding 7**

There is little evidence to show that members of the Racing and Wagering Western Australia board are directly engaged with regional and country based stakeholders.

Page 25

**Finding 8**

There is insufficient country representation at Racing and Wagering Western Australia board level.

Page 25

**Finding 9**

Section 8(2) of the *Racing and Wagering Western Australia Act 2003* does not capture the requisite skills for country and community racing needs to be adequately represented to the Racing and Wagering Western Australia board.

Page 27

**Finding 10**

There is insufficient representation of wagering in the selection of the Racing and Wagering Western Australia board.

Page 30

**Finding 11**

The Committee supports retention of code representation on the Racing and Wagering Western Australia board.

Page 32

**Finding 12**

The Racing and Wagering Western Australia board should develop an appropriate governance framework to encourage board renewal.

Page 34

**Finding 13**

It is necessary for the selection and nomination process of board members to be open, structured and appropriately broad to attract a strong calibre of candidates.

Page 36

**Finding 14**

The role of the Racing and Wagering Western Australia board and executive should be clearly delineated and publicly disclosed.

Page 36

**Finding 15**

Any written delegations pursuant to Section 33(3) of the *Racing and Wagering Western Australia Act 2003* should be publicly disclosed.

Page 37

**Finding 16**

The disclosure and explanation of governance principles to stakeholders is essential for good governance to be achieved.

Page 40

**Finding 17**

There is merit in the establishment of a board Risk Committee separate from the Audit Committee and as board committees in their own right.

Page 42

**Finding 18**

Racing and Wagering Western Australia should consider the potential or real impact of recommendations in the Western Australian Government's Economic Audit Committee Final Report on its current and future governance arrangements.

Page 50

**Finding 19**

Industry participants have varied opinions as to what priorities or objectives Racing and Wagering Western Australia should be trying to achieve, which has the potential to impact on the effectiveness of its operations.

Page 50

**Finding 20**

An explicit statement of objectives for Racing and Wagering Western Australia defined in legislation would provide an effective framework within which it can make decisions to best achieve its long term goals.

Page 56

**Finding 21**

Racing and Wagering Western Australia is subject to external accountability requirements which involve considerable reporting and administrative demands.

Page 58

**Finding 22**

Industry participants perceive a lack of transparency with respect to Racing and Wagering Western Australia's decision making processes, which if not addressed as a matter of priority will risk undermining its operational effectiveness.

Page 59

**Finding 23**

Evidence suggests that in terms of forward planning it would be advantageous if race clubs are made aware of their financial performance compared with other clubs.

Page 61

**Finding 24**

Racing and Wagering Western Australia should be accountable to government and it is appropriate for the Minister for Racing and Gaming to retain the current level of involvement in the accountability framework.

Page 63

**Finding 25**

The preparation of a Strategic Development Plan and subsequent tabling of a Statement of Corporate Intent is a necessary accountability measure for Racing and Wagering Western Australia.

Page 68

**Finding 26**

There is significant industry concern regarding Racing and Wagering Western Australia's decision to close the Geraldton Harness Racing Club, particularly with regard to a perceived lack of consultation, support, and consideration of other pertinent factors.

Page 68

**Finding 27**

Racing and Wagering Western Australia's failure to negotiate for Sky Vision coverage gave the Geraldton Harness Racing Club no chance to improve its immediate viability.

Page 70

**Finding 28**

It is critical that Racing and Wagering Western Australia adopts a more consultative and transparent approach regarding any decisions that will impact significantly on a racing club or code.

Page 70

**Finding 29**

Many small clubs feel powerless at not being able to appeal to a body other than Racing and Wagering Western Australia against a decision by Racing and Wagering Western Australia to reduce a club's meetings or to close a club. This was particularly evident in the cases of the Mt Barker Turf Club and the Geraldton Harness Racing Club.

Page 72

**Finding 30**

With some exceptions including club closure and reduction in meetings, there are other appeal pathways available for industry participants through bodies including the Racing Penalties Appeals Tribunal and the Gaming and Wagering Commission.

Page 74

**Finding 31**

Introducing a mechanism of appeal to the Minister would compromise the operational independence of Racing and Wagering Western Australia.

Page 75

**Finding 32**

Race clubs should have the opportunity to make representations to the Racing and Wagering Western Australia board in instances of club closure or a significant reduction in meetings that will affect that club's long-term viability.

Page 81

**Finding 33**

Racing and Wagering Western Australia presents information to industry consultative groups as a *fait accompli*.

Page 81

**Finding 34**

Racing and Wagering Western Australia should provide stakeholders with the opportunity to have input into major decisions that may affect them.

Page 83

**Finding 35**

There is a need for representative industry groups to meet prior to consultative group meetings so that all major issues concerning the industry can be raised.

Page 93

**Finding 36**

There is extensive evidence of critical infrastructure need across the racing industry in Western Australia.

Page 98

**Finding 37**

The disparity in basic and feature stake funding by Racing and Wagering Western Australia of metropolitan, provincial and country race clubs remains contentious.

Page 99

**Finding 38**

Meeting fee discrepancies between midweek metropolitan race meetings and provincial/country areas remain an issue for Racing and Wagering Western Australia.

Page 100

**Finding 39**

The Owners' Incentive Payment is important to the sustainability of country racing and should be considered by Racing and Wagering Western Australia in its funding distribution model.

Page 105

**Finding 40**

The distribution of funding to the racing codes should not be determined by set percentages prescribed in the *Racing and Wagering Western Australia Act 2003*.

Page 105

**Finding 41**

Despite evidence from certain sectors of the industry suggesting a return to set percentage code distributions, the Committee supports continuation of Racing and Wagering Western Australia's discretionary funding model with a view to maintaining the viability of the codes.

Page 110

**Finding 42**

Government grants alone will not be sufficient to meet all the infrastructure needs of the Western Australian racing industry. A mechanism is required that will enable a more flexible and sustained approach to infrastructure funding.

Page 112

**Finding 43**

There is overwhelming support for a dedicated racing industry infrastructure fund.

Page 120

**Finding 44**

The rate of tax applicable to fixed odds betting should be reviewed.

Page 120

**Finding 45**

Any review of wagering tax should examine rates applicable to both totalisator and fixed odds betting.

Page 120

**Finding 46**

Given that other states have already committed to reducing rates of taxation on wagering, the Western Australian racing industry cannot remain competitive without a similar reduction.

Page 121

**Finding 47**

A cooperative national approach by the states and territories to wagering taxation would be beneficial.

Page 122

**Finding 48**

The basis and rates of wagering taxation cannot be imposed in regulation and must remain within the *Racing and Wagering Western Australia Tax Act 2003*.

Page 123

**Finding 49**

The principle of equitable taxation rates for on-course totalisator and fixed odds wagering conducted by racing clubs is supported.

Page 125

**Finding 50**

Administration of the Sports Wagering Account should continue to be the responsibility of the Gaming and Wagering Commission as per Section 110A of the *Gaming and Wagering Commission Act 1987*.

Page 125

**Finding 51**

It would not be appropriate for Racing and Wagering Western Australia's payments of wagering tax on sporting events and payments to the Sports Wagering Account to be combined into a single payment.

Page 130

**Finding 52**

Provided the rate of wagering tax is reduced, a special purpose account for racing industry infrastructure should be put in place.

Page 130

**Finding 53**

The infrastructure fund should be funded through a percentage of Racing and Wagering Western Australia's profit margin at a rate sufficient to address critical infrastructure needs. Based on Racing and Wagering Western Australia estimates for 2009-10, a mandated figure of between 8% and 9% of the profit margin would yield between \$13 million and \$15 million a year.

Page 130

**Finding 54**

Accountability and reporting requirements need to be put in place by Racing and Wagering Western Australia to ensure that funds from the special purpose account are used only for infrastructure.

Page 139

**Finding 55**

Notwithstanding evidence received by the Committee (including Racing and Wagering Western Australia) supporting the expansion of virtual racing and/or Keno into TABs and licensed premises, the Committee finds no case for expansion.

Page 139

**Finding 56**

Racing and Wagering Western Australia would need to prepare a strong case for government to support expansion of its wagering sales network into alternative locations such as newsagencies and popular retail areas. Any expansion would impact on existing TAB outlets.

Page 140

**Finding 57**

The principle of allowing Racing and Wagering Western Australia to offer wagering services through electronic agents is supported.

Page 142

**Finding 58**

The Committee received evidence that Racing and Wagering Western Australia should offer credit betting facilities. Credit betting is to be considered by the Council of Australian Governments.

Page 143

**Finding 59**

The use of debit and/or credit cards for wagering transactions cannot be supported.

Page 148

**Finding 60**

While privatisation of the TAB has occurred in most other states, there is no long-term benefit for the industry in Western Australia. There is extensive industry support for the existing structure and wagering ownership arrangements under Racing and Wagering Western Australia to continue.

Page 150

**Finding 61**

Overall, the operations of Racing and Wagering Western Australia have been effective but the mechanisms identified here will contribute to greater effectiveness.

Page 150

**Finding 62**

It is essential for the Western Australian racing industry that the operations of Racing and Wagering Western Australia continue.

Page 150

**Finding 63**

Another review of the *Racing and Wagering Western Australia Act 2003* may be required in the future with any such timing to be determined by the responsible Minister.

Page 157

**Finding 64**

Past practices with regard to liquor licensing enforcement have impacted severely on the viability of major race days in country centres.

Page 157

**Finding 65**

It is extremely disappointing that family events such as the New Year's Eve meeting at Gloucester Park no longer operate.

Page 157

**Finding 66**

A more common-sense approach to liquor enforcement activities would be beneficial to race clubs and country communities.

Page 157

**Finding 67**

Evidence suggested that where clubs have been able to negotiate satisfactorily with local police, more appropriate outcomes were achieved.

Page 161

**Finding 68**

Racing and Wagering Western Australia currently has limited powers in situations where a race club is unable to conduct its affairs.

Page 162

**Finding 69**

It is imperative that Racing and Wagering Western Australia supports the management efforts of race clubs to sustain their own ability to effectively exercise their functions.

Page 163

**Finding 70**

Racing and Wagering Western Australia should not conduct race meetings on its own behalf.

Page 164

**Finding 71**

It would not be appropriate for Racing and Wagering Western Australia to have powers to dissolve a club committee, appoint administrators or conduct race meetings in extraordinary circumstances.

Page 166

**Finding 72**

The long-term continuity of country racing clubs is essential for the industry, hence race programming and Sky Vision coverage are important factors for these clubs to remain viable.

Page 168

**Finding 73**

Evidence from racing industry participants suggests that clubs currently lack sufficient input into the race programming process.

Page 168

**Finding 74**

Improvements to Racing and Wagering Western Australia's overall consultation processes will assist in relation to race programming issues.

Page 169

**Finding 75**

More timely notice from Racing and Wagering Western Australia of race date allocations would assist clubs with their planning for race meetings, including the securing of sponsorship.

Page 171

**Finding 76**

It is important that Sky Vision coverage is maximised to as many country race clubs as possible.

Page 173

**Finding 77**

There is a conflict of interest in Racing and Wagering Western Australia's role in regard to wagering as it is currently prescribed in the *Racing and Wagering Western Australia Act 2003*.

Page 174

**Finding 78**

Any regulatory function prescribed under Section 50 or Section 120 of the *Racing and Wagering Western Australia Act 2003* that may limit Racing and Wagering Western Australia's ability to carry on a wagering business should be removed from the *Racing and Wagering Western Australia Act 2003*.

Page 174

**Finding 79**

It is appropriate that the Gaming and Wagering Commission, with the approval of the Minister for Racing and Gaming, assumes responsibility for performing any regulatory functions in relation to wagering that are removed from Racing and Wagering Western Australia.

Page 176

**Finding 80**

Existing Freedom of Information provisions are appropriate and additional protections for Racing and Wagering Western Australia are not warranted.

Page 177

**Finding 81**

It is important that the legal implications of repealing Racing and Wagering Western Australia's requirement for a common seal under Section 118 of the *Racing and Wagering Western Australia Act 2003* are understood before the matter is progressed.

Page 180

**Finding 82**

Maintaining the integrity of racing activities is crucial for the ongoing viability of the industry.

Page 181

**Finding 83**

Amending Section 34 of the *Racing and Wagering Western Australia Act 2003* to include individuals 'with influence on racing activities' is too broad for a determination to be made on its merit. If Racing and Wagering Western Australia wishes to pursue this matter it should present a case to the Minister in regard to the application of this proposed amendment prior to any change being considered.

Page 183

**Finding 84**

Racing and Wagering Western Australia's disciplinary powers in relation to warning-off should be clarified in legislation and should be reinforced with greater transparency measures.

Page 186

**Finding 85**

The consultation and communication between Racing and Wagering Western Australia and its (SL1) full retail TAB agents should identify potential opportunities and incentives for the continued business development of the Racing and Wagering Western Australia retail TAB network.

Page 188

**Finding 86**

Racing Radio coverage is a very important service to industry participants throughout the state and evidence suggested that current coverage is inadequate and a cause of frustration for industry participants.

Page 190

**Finding 87**

Racing and Wagering Western Australia must make every effort to broadcast local racing product on the racing radio network.

Page 194

**Finding 88**

It is important that Racing and Wagering Western Australia supports a vibrant and sustainable breeding industry across all racing codes.

Page 197

**Finding 89**

Racing and Wagering Western Australia should take a long-term approach to the provision of training facilities for the metropolitan area.

Page 198

**Finding 90**

The current level of racing within the metropolitan area warrants the continuation of two thoroughbred racetracks.

Page 198

**Finding 91**

Racing and Wagering Western Australia should work with the Western Australian Trotting Association to ensure that the harness racing industry has the best possible facility for metropolitan racing.

Page 199

**Finding 92**

The introduction of a national totalisator pool would be beneficial for Western Australia.



## RECOMMENDATIONS

Page 25

### Recommendation 1

That Section 8(2) of the *Racing and Wagering Western Australia Act 2003* be amended to replace 'regional development' with 'country racing' to more appropriately capture the requirement for knowledge of, and experience in, country racing.

Page 25

### Recommendation 2

That Racing and Wagering Western Australia implements a structure under which regional and country clubs will have formal access to the administration through existing or new regional and industry groupings.

Page 27

### Recommendation 3

That the Western Australian TAB Agents' Association be represented in the nomination and selection of board members with respect to Section 8(1)(e) of the *Racing and Wagering Western Australia Act 2003*.

Page 33

### Recommendation 4

That Section 12 of the *Racing and Wagering Western Australia Act 2003* be amended to stipulate that the process by which eligible bodies are to be determined, and the publication of eligible bodies be specified in regulation.

Page 34

**Recommendation 5**

That pursuant to Section 9 of the *Racing and Wagering Western Australia Act 2003* the Minister for Racing and Gaming clarifies the nomination and selection procedures for directors to include:

- that any pending board vacancy be advertised widely; and
- that all clubs and industry associations be given notice through appropriate mediums of pending board vacancies to be distributed to their members; and
- that individual candidates are able to nominate themselves for consideration for the position of director under section 8(1)(b), (c) or (d) or section 8(1)(e) of the Act.

Page 34

**Recommendation 6**

That any member of the selection panel nominated under section 11(2)(c), (d) or (e) of the *Racing and Wagering Western Australia Act 2003* should not be eligible to stand for consecutive terms under section 11(8) of the Act.

Page 36

**Recommendation 7**

That Racing and Wagering Western Australia should delineate and publicly disclose the role of the board and executive and disclose any written delegations pursuant to Section 33(3) of the *Racing and Wagering Western Australia Act 2003*.

Page 36

**Recommendation 8**

That the *Racing and Wagering Western Australia Act 2003* be amended to insert a clause explicitly preventing the same individual from holding the positions of Chief Executive Officer and Chair of the Racing and Wagering Western Australia board concurrently.

Page 38

**Recommendation 9**

That Racing and Wagering Western Australia clarifies and publicly discloses any governance procedures that it has in place.

Page 40

**Recommendation 10**

That Racing and Wagering Western Australia, pursuant to Section 16 of the *Racing and Wagering Western Australia Act 2003*, reviews the committee framework of the board to establish whether a board risk committee separate from the audit committee would be beneficial to its operations.

Page 51

**Recommendation 11**

That the *Racing and Wagering Western Australia Act 2003* be amended to insert the following specific statement of objective for Racing and Wagering Western Australia in relation to racing in general:

*That Racing and Wagering Western Australia is to foster the development, promote the welfare and ensure the integrity of metropolitan and country thoroughbred racing, harness racing and greyhound racing. In undertaking these objectives, Racing and Wagering Western Australia is to recognise the unique characteristics of each racing code so as to maximise the sustainability of racing in Western Australia.*

Page 59

**Recommendation 12**

That Racing and Wagering Western Australia publicly discloses its overarching decision making procedures to provide greater transparency to the industry.

Page 59

**Recommendation 13**

That Racing and Wagering Western Australia introduces transparency measures to facilitate greater awareness among race clubs of relative financial performance.

Page 64

**Recommendation 14**

That, in order to expedite the approval process of Racing and Wagering Western Australia's Strategic Development Plan, Section 74 of the *Racing and Wagering Western Australia Act 2003* be amended to allow the Treasurer to impose some direction on the draft Strategic Development Plan.

Page 65

**Recommendation 15**

That the Minister for Racing and Gaming reviews the content requirements of Racing and Wagering Western Australia's Strategic Development Plan and Statement of Corporate Intent.

Page 65

**Recommendation 16**

That content requirements of Racing and Wagering Western Australia's Strategic Development Plan and Statement of Corporate Intent be specified in regulation.

Page 65

**Recommendation 17**

That section 85 of the *Racing and Wagering Western Australia Act 2003* be amended to include a reasonable timeframe within which notice of financial difficulty must be given by Racing and Wagering Western Australia to the Minister.

Page 72

**Recommendation 18**

That Racing and Wagering Western Australia, in conjunction with the Department of Racing, Gaming and Liquor, publishes guidance material for racing industry stakeholders and participants on how to lodge complaints and/or appeals.

Page 75

**Recommendation 19**

That appeals to the Minister against Racing and Wagering Western Australia board decisions should not be established.

Page 75

**Recommendation 20**

That the *Racing and Wagering Western Australia Act 2003* be amended to include a new provision for a club to make representations to the board in instances of club closure or a significant reduction in meetings that will affect a club's long-term viability.

Page 84

**Recommendation 21**

That Section 82 of the *Racing and Wagering Western Australia Act 2003* be amended to include the statement that nothing in Section 82(2) precludes Racing and Wagering Western Australia from consulting outside of the prescribed bodies in relation to the operations of Racing and Wagering Western Australia or a subsidiary.

Page 85

**Recommendation 22**

That Racing and Wagering Western Australia makes its consultation procedures widely known throughout the industry.

Page 86

**Recommendation 23**

That as a priority, Racing and Wagering Western Australia continues to develop and implement the following changes to the way it consults with stakeholders:

1. an outreach program to regional areas;
2. the convening of an Annual General Meeting; combined with
3. the establishment of an industry wide conference.

Page 99

**Recommendation 24**

That Racing and Wagering Western Australia resolves meeting fee discrepancies within its funding distribution model as a matter of priority.

Page 106

**Recommendation 25**

That the *Racing and Wagering Western Australia Act 2003* be amended to delete Section 105 and that consequential amendments be made to remove references to Section 105.

Page 112

**Recommendation 26**

That a dedicated racing industry infrastructure fund, to be administered by Racing and Wagering Western Australia, is established.

Page 121

**Recommendation 27**

That the Minister for Racing and Gaming in conjunction with the Treasurer reviews the rates of tax for totalisator wagers and fixed odds wagers in sections 4 and 5 respectively of the *Racing and Wagering Western Australia Tax Act 2003* with a view to enabling Racing and Wagering Western Australia to compete more effectively.

Page 121

**Recommendation 28**

That the Minister for Racing and Gaming pursues a coordinated national approach to wagering taxation through the appropriate Council of Australian Governments forum.

Page 130

**Recommendation 29**

That the *Racing and Wagering Western Australia Act 2003* be amended to establish a special purpose account for the infrastructure fund.

Page 130

**Recommendation 30**

That the percentage of Racing and Wagering Western Australia's profits, fixed by regulation at a rate sufficient to address critical infrastructure needs is quarantined annually into the infrastructure fund.

Page 131

**Recommendation 31**

That Section 77(2) of the *Racing and Wagering Western Australia Act 2003* be amended to require the inclusion of proposed infrastructure spending in the Statement of Corporate Intent for Racing and Wagering Western Australia.

Page 139

**Recommendation 32**

That virtual racing and Keno should not be expanded to TABs and licensed premises.

Page 140

**Recommendation 33**

That Section 63 of the *Racing and Wagering Western Australia Act 2003* be amended to enable Racing and Wagering Western Australia to offer wagering services through electronic agents.

Page 149

**Recommendation 34**

That Racing and Wagering Western Australia continues to operate as a statutory authority with roles of governance for all three racing codes and ownership of the principal off-course TAB business in Western Australia.

Page 153

**Recommendation 35**

That Racing and Wagering Western Australia reviews, in consultation with the Thoroughbred and Harness Racing Consultative Groups, the ratings/handicapping systems for each code, with a view to producing balanced and competitive race fields; and to address the perceived handicapping inequities between city, provincial and country racing.

Page 159

**Recommendation 36**

That the Minister for Racing and Gaming urgently reviews liquor licensing and enforcement requirements for major race meetings.

Page 161

**Recommendation 37**

That the *Racing and Wagering Western Australia Act 2003* be amended to include the power for Racing and Wagering Western Australia to direct clubs and allied bodies where there is a severe threat to the welfare of racing.

Page 161

**Recommendation 38**

That the *Racing and Wagering Western Australia Act 2003* be amended to ensure Racing and Wagering Western Australia cannot impose sanctions for not complying with a direction without those clubs and allied bodies first making representation.

Page 169

**Recommendation 39**

That Racing and Wagering Western Australia prepares a more extensive forward looking plan with indicative race dates in order to assist clubs with planning and provide greater surety to clubs with respect to ongoing survival.

Page 171

**Recommendation 40**

That wherever possible Racing and Wagering Western Australia should assist race clubs to secure Sky Vision access and coverage.

Page 171

**Recommendation 41**

That the Minister for Racing and Gaming initiates communications with the Commonwealth Government to expedite the roll-out of the National Broadband Network to race clubs in country Western Australia.

Page 175

**Recommendation 42**

That the Minister for Racing and Gaming reviews the most appropriate manner in which any prescribed function of Racing and Wagering Western Australia that conflicts with its prescribed functions to carry out its wagering business under Sections 50 and 120 of the *Racing and Wagering Western Australia Act 2003* be removed and subsequently vested with the Gaming and Wagering Commission.

Page 177

**Recommendation 43**

That Section 118 of the *Racing and Wagering Western Australia Act 2003* be amended to remove the requirement for a common seal provided alternative document execution requirements can be applied.

Page 178

**Recommendation 44**

That Section 63 of the *Racing and Wagering Western Australia Act 2003* be amended to remove references to wagers and payments by letter sent through the post, and that consequential amendments in this regard are made to the *Racing and Wagering Western Australia Regulations 2003*.

Page 178

**Recommendation 45**

That Section 86 of the *Racing and Wagering Western Australia Act 2003* be amended to remove any provisions which duplicate the *State Records Act 2000*.

Page 179

**Recommendation 46**

That Section 22(3)(a) and (b) of the *Racing and Wagering Western Australia Act 2003* be amended to reflect applicable legislative requirements defining the minimum remuneration and other terms of conditions of employment of staff.

Page 179

**Recommendation 47**

That Section 3(1) of the *Racing and Wagering Western Australia Act 2003* be amended to replace:

- ‘Australian and New Zealand Greyhound Association’ with ‘Greyhounds Australasia’; and
- ‘Australian Harness Racing Council’ with ‘Harness Racing Australia’.

Page 183

**Recommendation 48**

That Section 44 of the *Racing and Wagering Western Australia Act 2003* be amended to include the explicit function to allow Racing and Wagering Western Australia to warn-off, and lift a warning-off, and that this function be carried out in accordance with Regulation 72 of the *Racing and Wagering Western Australia Regulations 2003*.

Page 183

**Recommendation 49**

That consequential amendments be made to Regulation 72 of the *Racing and Wagering Western Australia Regulations 2003* including:

- that any warning-off notice must have a prescribed time limit;
- the conditions by which Racing and Wagering Western Australia can impose additional notices; and
- the process by which the recipient can apply to Racing and Wagering Western Australia to have a warning-off notice lifted.

Page 183

**Recommendation 50**

That section 44(1)(e) of the *Racing and Wagering Western Australia Act 2003* be amended to include a maximum time limit and:

- Any requirement that this section be enacted in accordance with Regulation 72 of the *Racing and Wagering Western Australia Regulations 2003* be repealed; and
- New procedures be set out in the *Racing and Wagering Western Australia Regulations 2003* that prescribe the ‘short term’ incidences to which this section should apply.

Page 188

**Recommendation 51**

That Racing and Wagering Western Australia reviews the commission rates payable to operators of SL1 and SL2 TAB Licences to help ensure the maintenance and potential growth of the retail wagering sales network.

Page 199

**Recommendation 52**

That Racing and Wagering Western Australia continues to investigate the viability of synthetic tracks for training purposes.

Page 199

**Recommendation 53**

That the Minister for Racing and Gaming and Racing and Wagering Western Australia pursue any avenue available to achieve a national totalisator pool.

## **MINISTERIAL RESPONSE**

In accordance with Standing Order 277(1) of the Standing Orders of the Legislative Assembly, the Joint Standing Committee on the Review of the Racing and Wagering Western Australia Acts directs that the Minister for Racing and Gaming and the Treasurer reports to the Assembly as to the action, if any, proposed to be taken by the Government with respect to the recommendations of the Committee.



## CHAPTER 1 INTRODUCTION

### 1.1 Background

In late 2000, the state government initiated a review into the racing industry in Western Australia. The review was conducted by an independent committee chaired by Mr Ray Turner AM and tabled a final report in October 2001. Included in the recommendations were calls for a whole-of-industry governing body to be established by statute, and for the Totalisator Agency Board (TAB) of Western Australia to be abolished and its functions absorbed by the new governing body.<sup>3</sup> The rationale given for this recommended restructure was as follows:

*The framework of governance recommended by the Review Committee is designed to provide the racing industry in Western Australia with greater cohesion and the capability to develop strategic directions. It is also designed to make the industry less directly reliant on Government and more self-regulating. It is hoped that with such a re-orientation it will be better positioned to address issues relating to its long-term viability.*<sup>4</sup>

In May 2002, the state government committed to restructuring the governance arrangements of the racing industry. Reflecting the recommendations of the Turner Report, the restructure involved establishing a new body with control of the three racing codes<sup>5</sup> in Western Australia and incorporating the functions of the Western Australian TAB.<sup>6</sup> The *Racing and Wagering Western Australia Act 2003* ('RWWA Act') commenced operation in the following year. The RWWA Act establishes Racing and Wagering Western Australia (RWWA)<sup>7</sup> and defines its functions with respect to racing and gambling.

RWWA's specialised functions in relation to racing are largely defined within Part 4 of the RWWA Act. In summary, these racing related functions can be described as follows:

- *Control, supervise and regulate the conduct of thoroughbred, harness and greyhound racing in Western Australia, including the responsibility for steward and drug testing activities;*
- *In conjunction with national rule making authorities, make rules for the conduct of racing in WA and, in all respects, perform the role of principal club;*
- *Register racing clubs and racing animals and license race meetings, race venues and participants;*

<sup>3</sup> Western Australian Racing Industry Review Committee, *Future Governance of the Western Australian Racing Industry. A Report to the Minister for Racing and Gaming*, Western Australia, October 2001, ppi, 1. Available at: [www.rgl.wa.gov.au/ResourceFiles/Publications/Reports/2001/warir-october-2001.pdf](http://www.rgl.wa.gov.au/ResourceFiles/Publications/Reports/2001/warir-october-2001.pdf) Accessed on 25 June 2010.

<sup>4</sup> Ibid., pi.

<sup>5</sup> This refers to thoroughbred, harness, and greyhound racing codes.

<sup>6</sup> Hon. Nick Griffiths, MLC, Minister for Racing and Gaming, *State Government announces reform of WA's racing industry*, Media statement, Government of Western Australia, Perth, 21 May 2002.

<sup>7</sup> Section 4 *Racing and Wagering Western Australia Act 2003* (WA).

- *Foster the development, promote the welfare and ensure the integrity of metropolitan and country thoroughbred, harness and greyhound racing in the interests of the long term viability of the racing industry in WA;*
- *Undertake and manage industry strategic planning, promotion, marketing, sponsorship and administration. (Racing clubs will undertake these roles where it is club specific.);*
- *Supervise racing clubs and their affairs;*
- *Make loans or grants to racing clubs and allied bodies (for racecourse development purposes);*
- *Set race dates and determine the race meetings on which RWWA will conduct off-course wagering;*
- *Undertake handicapping;*
- *Establish policies for, and manage the provision of, programs for apprenticeship jockey, trainee driver and other industry training requirements (such as stake money levels and race conditions and programs);*
- *Endeavour to ensure that racing industry issues such as insurance, broadcasting of race meetings and the establishment and maintenance of training facilities are carried out in an appropriate and adequate manner; and*
- *Liaise with government and other authorities, whether in or out of Western Australia, with respect to, and represent the interests of, the racing industry in WA.<sup>8</sup>*

Specialised functions in relation to gambling are defined by Part 5 of the RWWA Act. In summary, these functions include:

- conducting off-course (TAB) wagering in Western Australia;
- conducting on-course totalisator wagering on behalf of racing clubs where engaged to do so;
- ensuring compliance of on-course wagering by bookmakers and racing club totalisators with the *Betting Control Act 1954* and rules of wagering;
- setting, accepting and making fixed odds wagers in relation to races and certain sporting and other events;
- making rules relating to on-course totalisator wagering, off-course wagering and fixed odds wagering (with the approval of the Gaming and Wagering Commission); and
- developing and implementing a scheme for the distribution of net profits and negotiating funding arrangements with individual racing clubs.<sup>9</sup>

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<sup>8</sup> Racing and Wagering Western Australia, 'Responsibilities', 2007. Available at: [www.rwwa.com.au/home/responsibilities.html](http://www.rwwa.com.au/home/responsibilities.html) Accessed on 25 June 2010.

<sup>9</sup> Section 50 and Section 120 *Racing and Wagering Western Australia Act 2003 (WA)* and Racing and Wagering Western Australia, 'Legislation and Rules', 2007. Available at: [www.rwwa.com.au/home/legislation-and-rules.html](http://www.rwwa.com.au/home/legislation-and-rules.html) Accessed on 25 June 2010.

Section 122 of the RWWA Act requires ‘a review of the operation and effectiveness of [the] Act ... by a Joint Standing Committee of both Houses of Parliament appointed for the purposes of this section as soon as is practicable after the expiration of 5 years from its commencement...’<sup>10</sup> Pursuant to Section 122 of the RWWA Act, the Joint Standing Committee on the Review of the Racing and Wagering Western Australia Acts (‘the Committee’) was duly established on 24 September 2009. It should be noted that the *Racing and Wagering Western Australia Tax Act 2003* (‘RWWA Tax Act’) is included in the scope of the Inquiry. This Act defines the rate of tax payable by RWWA on moneys received by it in respect of wagers made.

Although the Committee was required under its terms of reference to report to Parliament by 30 June 2010, the Legislative Assembly and Legislative Council agreed to extend the reporting deadline until mid-October 2010. The extension was granted in May 2010 to allow the Committee extra time to undertake travel for the purpose of consulting with regional stakeholders.

## 1.2 How the Inquiry was conducted

Advertisements inviting submissions to the Inquiry were placed in *The West Australian* and *The Countryman* newspapers on Saturday 24 October 2009 and Thursday 29 October 2009 respectively. Submissions were also invited from RWWA, metropolitan and non-metropolitan thoroughbred, harness, and greyhound racing clubs, racing and wagering industry associations, and other relevant stakeholders.

In total, the Committee received 48 submissions. These are listed in Appendix One. A total of 48 public hearings were conducted in Perth and around the state between 19 February 2010 and 20 August 2010 taking evidence from 111 witnesses. Witnesses who gave evidence at public hearings are detailed in Appendix Two. In addition to public hearings the Committee received 14 briefings. A list of briefings is provided at Appendix Three.

The Committee undertook investigative travel to Queensland and Victoria in April 2010 in order to observe the models of racing administration in these states. Victoria was selected due to its reputation as the leading racing industry in the country. Queensland was nominated due to parallels with the Western Australian industry in terms of geographical spread of clubs and also because governance arrangements for the three racing codes in that state were in the process of reform.<sup>11</sup> Meetings were held with racing industry stakeholders including relevant state government departments and control bodies for the three racing codes. The trip was beneficial as it afforded the Committee an insight into alternative governance models, highlighted valuable initiatives in other states to foster the racing industry, and also restated a number of universal challenges confronting the industry going forward.

The Committee also conducted extensive regional travel around Western Australia between 12 March 2010 and 16 May 2010 for the purpose of conducting public hearings with country and

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<sup>10</sup> Section 122(1) *Racing and Wagering Western Australia Act 2003* (WA).

<sup>11</sup> It should be noted that the three code control bodies in Queensland amalgamated into a single entity, Racing Queensland Limited on 1 July 2010.

provincial race clubs and industry associations. Hearings were held in: Mt Barker; Albany; Kalgoorlie; York; Northam; Geraldton; Bunbury; Pinjarra; Wagin; Narrogin; and Carnarvon.

It should be noted that the Committee received a number of individual grievances during the course of the Inquiry however these matters have not been pursued except where these have been indicative of a more general issue affecting the industry.

### 1.3 Significance of the Inquiry

The Inquiry is important not only because it fulfils a requirement of the legislation for a statutory review, but because it presents an opportunity to take stock of the vigour of the racing industry in Western Australia. The recommendations in this Report aim to strengthen the RWWA Act and ensure it is sufficiently well equipped to sustain the industry into the future.

The Western Australian racing industry involves not only direct participants such as owners, breeders, trainers, jockeys, reinspersons, bookmakers and operators of TAB agencies (among others) but an extensive network including: farriers and stock feed providers in the agricultural sector; professional services like land rental and agistment providers in the business sector; track and facilities maintenance providers from within construction and building sectors; equine dental and veterinary services within the community sector and medical doctors and ambulance staff within local health service sectors. The extensive reach of the industry was acknowledged during debate on the Racing and Wagering Western Australia Bill 2003:

*It is probably worth reflecting on the number of people and commercial interests involved in the racing industry. I refer to those who breed and maintain gallopers, trotters and dogs, the owners of studs that provide them, and the people who work on studs fencing them and building dog cages. The staff associated with all three codes [are also users of] veterinary services, stockfeed suppliers, freight and transport. The industry employs trainers, strappers, grooms, dog handlers, builders of horse floats, stewards, jockeys, drivers, attendants, ticket sellers and so on.*<sup>12</sup>

It was also recognised that ‘the racing industry is worth in excess of \$1 billion to the Australian economy’.<sup>13</sup> From a Western Australian perspective, a study completed in 2004<sup>14</sup> estimated that the net income generated by the racing industry in WA was \$124 million for the 2002-2003 financial year. This figure increased to approximately \$175 million if indirect taxes were included in the estimation, representing 0.21 per cent of Gross State Product.<sup>15</sup> The most recent estimates

<sup>12</sup> Mr J.P.D. Edwards, MLA (Member for Greenough), Western Australia, Legislative Assembly, *Parliamentary Debates* (Hansard), 8 April 2003, p6361.

<sup>13</sup> *Ibid.*

<sup>14</sup> The Allen Consulting Group and IER Pty. Ltd, *Size and Scope of the Western Australian Racing Industry*, Perth, July 2004.

<sup>15</sup> The Allen Consulting Group and IER Pty. Ltd, *Size and Scope of the Western Australian Racing Industry*, Perth, July 2004, p4.

from RWWA indicate that total annual totalisator wagering turnover in Western Australia is approximately \$1.6 billion for the 2009/10 financial year.<sup>16</sup>

RWWA has identified a number of significant issues and trends that are placing pressure on the Western Australian industry including a net increase in wagering product fees and pooling costs and increased market pressure as a result of greater interstate competition and the entrance of corporate bookmakers and betting exchanges onto the market.<sup>17</sup> Although the latter are common across Australian jurisdictions, it again reinforces the importance of the Inquiry in terms of ensuring the Western Australian industry has the means to meet current and future challenges.

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<sup>16</sup> Mr J. Hilton-Barber, General Manager Finance and Business, Racing and Wagering Western Australia, Email, 1 October 2010.

<sup>17</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, pp61-62.



## **CHAPTER 2 EVALUATING THE NEED FOR THE CONTINUATION OF THE OPERATIONS OF RACING AND WAGERING WESTERN AUSTRALIA**

### **2.1 Introduction**

Evidence received by the Committee in the form of submissions and hearings often linked discussion of the effectiveness of the operations of RWWA and the need for the continuation of the operations of RWWA. Reflecting this interrelationship, this Chapter similarly groups both terms of reference together. In examining the effectiveness of the operations of RWWA, the Committee has adopted the common usage definition of ‘effectiveness’ that is, to ‘produce a desired or intended result’.<sup>18</sup> As such, this Chapter firstly examines whether RWWA’s operations are achieving the intended outcomes. Secondly, the continuing operations of RWWA are evaluated and where it has been identified that operations are suboptimal, mechanisms are suggested to improve effectiveness. This Chapter is structured around a number of major themes which were repeatedly highlighted in evidence to the Inquiry.

### **2.2 Governance**

#### **(a) About governance**

##### **(i) Definition**

The concept of governance is very broad. There is no universally accepted definition for governance, nor do universal rules and procedures that apply to governance exist. Governance entails what an organisation is trying to achieve and how it attempts to achieve it. It can be seen in how an organisation is managed, its corporate and administration structures, its policies and strategies and the way it deals with its various stakeholders.

The Australian National Audit Office (ANAO) defines governance as ‘the set of responsibilities and practices, policies and procedures, exercised by [an organisation] to provide strategic direction, ensure objectives are achieved, manage risks and use resources responsibly and with accountability’.<sup>19</sup>

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<sup>18</sup> Oxford Pocket Dictionary of Current English, 1999.

<sup>19</sup> Australian National Audit Office, Implementation of Programme and Policy Initiatives, Better Practice Guide, October 2006, p13. Available at: [www.anao.gov.au/uploads/documents/Implementation\\_of\\_Programme\\_and\\_Policy\\_Initiatives.pdf](http://www.anao.gov.au/uploads/documents/Implementation_of_Programme_and_Policy_Initiatives.pdf). Accessed on 30 August 2010.

The Department of the Prime Minister and Cabinet (DPMC) defines governance as ‘...the process by which agencies are directed and controlled. It is generally understood to encompass authority, accountability, stewardship, leadership, direction and control’.<sup>20</sup>

Governance also includes concepts of performance—on outcome delivery; and conformance—on meeting legislative and published requirements and community expectations of probity, accountability and openness.<sup>21</sup>

**(ii) Why is it important?**

*The reason governance is important is that good governance helps an organisation achieve its objectives. On the other hand, poor governance can bring about the decline or even demise of an organisation.*<sup>22</sup>

Clearly, achieving ‘good governance’ is crucial to an organisation striving to be successful. In turn, good governance is achieved when an organisation’s governance arrangements ensure the success of its activities. To achieve good governance, an organisation must ‘clearly understand what it is required to achieve, will be organised to achieve it through the success of its executive management and will focus on ensuring it achieves its goals’.<sup>23</sup>

The benefits of achieving good governance have received increased focus in the last decade from both private and public organisations seeking better management practices. Governance—and the attainment of good governance, has been at the heart of public sector reform at federal and state levels and is widely recognised as being a key challenge for public sector organisations seeking improvements in the efficiency and capability of their organisation and in affecting public confidence about the integrity of their organisation’s operation.<sup>24</sup>

At the centre of this review is the Committee’s focus on the operational effectiveness of RWWA as the body responsible for the governance of racing and wagering activities in Western Australia. For the Committee to examine if the operational aspects of RWWA are effective, it must consider what it is that RWWA is trying to achieve and how well it is achieving it. This will be established in the following sections by examining the needs and expectations of the industry alongside the governance functions and powers prescribed to RWWA under the RWWA Act; then assessing if the two are suitably compatible to achieve operational effectiveness—or in other words, by assessing if the governance arrangements of RWWA allow good governance to be achieved.

<sup>20</sup> Department of the Prime Minister and Cabinet, *Requirements for Annual Reports*, 23 June 2010, p18. Available at: [www.dPMC.gov.au/guidelines/docs/annual\\_report\\_requirements.pdf](http://www.dPMC.gov.au/guidelines/docs/annual_report_requirements.pdf). Accessed on 17 August 2010.

<sup>21</sup> Australian National Audit Office, *Volumes 1 & 2: Better Practice Guide*, 2003, p6. Available at: [www.anao.gov.au/uploads/documents/Public\\_Sector\\_Governance](http://www.anao.gov.au/uploads/documents/Public_Sector_Governance). Accessed on 27 August 2010.

<sup>22</sup> Australian Public Service Commission, *Building Better Governance*, 2007, p2. Available at: [www.apsc.gov.au/publications07/bettergovernance.pdf](http://www.apsc.gov.au/publications07/bettergovernance.pdf). Accessed on 4 September 2010.

<sup>23</sup> Department of Communications, Information Technology and the Arts, *Review of Corporate Governance of Statutory Authorities and Office Holders*, Commonwealth of Australia, Canberra, June 2003, p17.

<sup>24</sup> Australian Public Service Commission, *Building Better Governance*, 2007. Available at: [www.apsc.gov.au/publications07/bettergovernance.pdf](http://www.apsc.gov.au/publications07/bettergovernance.pdf). Accessed on 4 September 2010.

**Finding 1**

Examining the governance structure of Racing and Wagering Western Australia will help to establish the effectiveness of its operations.

**(iii) Principles of governance**

The Australian Securities Exchange (ASX) convened the ASX Corporate Governance Council in August 2002 and regularly releases updates within their Corporate Governance Principles and Recommendations publication.<sup>25</sup> It is this publication that the ANAO, the DPMC and the WA Public Sector Commission have all used as a key starting point for the developments of their own public sector governance frameworks.

The ASX Principles advocate that there is no one size fits all approach to governance procedures, stating that ‘governance is a dynamic force that keeps evolving’.<sup>26</sup> This is because of the inherent relationship between the specific activities of an organisation and that organisation’s governance procedures. Clearly then, it can be seen that as the activities of an organisation change so then should the governance arrangements that facilitate them. It then also stands that any governance arrangements of an organisation need to be reviewed within a timeframe that adequately reflects the changing environment within which an organisation is operating in. The OECD Principles of Corporate Governance emphasise the evolutionary nature of governance principles and highlight that any principles should ‘be reviewed in light of significant changes in circumstances’.<sup>27</sup> Likewise, in Western Australia, the Public Sector Commission states that, ‘there is an ongoing obligation on [organisations] to monitor and review their systems, practices, and governance framework to ensure that those systems and practices remain relevant and current to the organisation’s situation’.<sup>28</sup>

As such, whilst this review is examining the governance arrangements of RWWA the Committee notes that there is no one best practice model of governance that can be recommended to RWWA. Many of the governance arrangements of RWWA are legislated and therefore fall outside the

<sup>25</sup> The ASX framework comprises 8 core principles of governance—each of equal importance. The ASX clearly articulate that these are ‘best practice’ recommendations only and are not mandatory—encouraging companies to adopt an ‘if not why not’ approach to adopting these principles into existing governance strategies. As these principles relate on the whole to ASX listed companies they will not be discussed in detail here other than as they apply to public sector bodies or as recommendations for further review. For the list and full detail about these 8 Principles please see the ASX Corporate Governance Council website at [www.asx.com.au/about/pdf/cg\\_principles\\_recommendations\\_with\\_2010\\_amendments.pdf](http://www.asx.com.au/about/pdf/cg_principles_recommendations_with_2010_amendments.pdf)

<sup>26</sup> ASX, ‘Corporate Governance Principles and Recommendations with 2010 Amendments, 2<sup>nd</sup> Edition’, 2007. Available at: [www.asx.com.au/about/pdf/cg\\_principles\\_recommendations\\_with\\_2010\\_amendments.pdf](http://www.asx.com.au/about/pdf/cg_principles_recommendations_with_2010_amendments.pdf). Accessed on 31 August 2010.

<sup>27</sup> OECD, ‘Principles of Corporate Governance’, 2004. Available at: [www.oecd.org/dataoecd/32/18/31557724.pdf](http://www.oecd.org/dataoecd/32/18/31557724.pdf) Accessed on 2 September 2010.

<sup>28</sup> Public Sector Commission, *Principles of Good Corporate Governance for Western Australian Public Sector Boards and Committees*, 26 May 2010. Available at: [www.publicsector.wa.gov.au/boardsandcommittees/StartHere/Pages/PublicSectorBoardsandGovernance.aspx](http://www.publicsector.wa.gov.au/boardsandcommittees/StartHere/Pages/PublicSectorBoardsandGovernance.aspx) Accessed on 22 June 2010.

sphere of activity that RWWA can reasonably control on a daily operational basis. Nonetheless, the obligation to review the governance arrangements of RWWA in those areas it can reasonably effect—such as how it is managed, much of its corporate and administration structures, its internal policies and strategies and the way it deals with its various stakeholders—is an ongoing obligation for RWWA in striving to achieve good governance.

### **Finding 2**

There is no single model of good corporate governance that can be applied to Racing and Wagering Western Australia.

Whilst specific governance frameworks vary depending on what an organisation is trying to achieve, a few key principles can be found in many ‘good governance’ strategies and utilised to establish a sound governance framework. The following principles are those that the Committee considered during this review based on principles developed by the ANAO<sup>29</sup> and the Public Sector Commission of WA.<sup>30</sup>

- **Leadership of the board** and executive in achieving an organisation-wide commitment to good governance.
  - This is in part dependent on the control framework prescribed within the legislative framework of RWWA—which for this review entails the RWWA Act 2003 and any other relevant legislation as indicated throughout the report; and
  - the decision making procedures of the board and the financial controls and performance reporting in place.
- **Accountability** whereby RWWA is responsible for their decisions and actions and submit themselves to the legislated and appropriate ministerial, departmental and public scrutinies.
- **Consultation and Transparency** with industry participants to ensure:
  - there is confidence in the decision-making processes and actions of RWWA; and
  - that communication is comprehensive, accurate and contains clear information, and
  - any consultation leads to effective and timely action based on transparent procedures.

<sup>29</sup> Australian National Audit Office, Volumes 1 & 2: Better Practice Guide, 2003, p8. Available at: [www.apsc.gov.au/publications07/bettergovernance.pdf](http://www.apsc.gov.au/publications07/bettergovernance.pdf). Accessed on 4 September 2010.

<sup>30</sup> Public Sector Commission, *Principles of Good Corporate Governance for Western Australian Public Sector Boards and Committees*, 26 May 2010. Available at: [www.publicsector.wa.gov.au/boardsandcommittees/Pages/Default.aspx](http://www.publicsector.wa.gov.au/boardsandcommittees/Pages/Default.aspx). Accessed on 22 June 2010.

The accountability and consultation practices of RWWA as an organisation will be examined in detail in subsequent sections of this report.<sup>31</sup> The leadership of the RWWA board is discussed here. In the first instance, the circumstances that led to the formation of RWWA as a single governing body for the racing and wagering industry will be discussed, followed by an examination of RWWA's current governance arrangements—particularly as these are legislated under the RWWA Act. Feedback received by the Committee from industry participants is then examined in relation to the establishment of RWWA as a whole of industry governing body and the operational role of the RWWA board. Mechanisms to improve the governance of RWWA are discussed throughout. It should be noted that the Final Report of the Economic Audit Committee contains a number of recommendations that will capture the overarching governance arrangements of RWWA. These are also briefly examined below.

## **(b) Pre-RWWA: A brief history of racing and wagering governance**

The inception of RWWA in 2003 was a defining point in the governance of the racing and wagering industry in this state. Prior to the establishment of RWWA, racing and wagering did not operate as a coordinated entity. Instead, four separate controlling bodies comprising the three individual racing codes and the TAB each competed for the limited wagering dollar and related funding distributions against the other. The governance of each code resided with the principal club of each racing code<sup>32</sup> and that of wagering activities with the Totalisator Agency Board.

As mentioned briefly above, in 2001 a major review of the industry was conducted by Mr Ray Turner<sup>33</sup> who was recently asked by the Committee to recall his observations of the industry at the time of his review. He noted that:

*The principal problem with the industry in Western Australia at the time was the fragmentation of it. It appeared that thoroughbred racing, harness racing and greyhound racing did not get on with each other terribly well. That included the TAB, which [was] seen to be operating in competition with the racing clubs at the time.*<sup>34</sup>

The Turner Report determined that the governance arrangements of racing and wagering activities in the state were not effective. According to Mr Turner, 'there was a general feeling that there was disharmony and that no particular authority was supervising [code and TAB] activities'.<sup>35</sup> The review proceeded to recommend that the principal club and controlling authority responsibilities of the three codes and the TAB be formed into one coordinated body—later to become RWWA. Mr Turner informed the Committee that a vital component of this

<sup>31</sup> Reference should be made to Chapter 2.4 on Accountability and Chapter 2.6 on Consultation.

<sup>32</sup> The Western Australian Turf Club (WATC), the Western Australian Trotting Association (WATA) and the Western Australian Greyhound Racing Authority (WAGRA) were the three principal clubs for the Thoroughbred, Harness and Greyhound codes respectively.

<sup>33</sup> *Future Governance of the Western Australian Racing Industry*, report prepared for the Minister of Racing and Gaming by R Turner, A Di Francesco, M Nadebaum, Western Australian Racing Industry Review Committee, WA, October 2001. This report later became referred to as the Turner Report.

<sup>34</sup> Mr Raymond Turner AM, *Transcript of Evidence*, 19 February 2010, p2.

<sup>35</sup> *Ibid.*

recommendation was to establish the wagering activities of the TAB as part of a single organisation with the racing codes:

*It was crucial. The role of the TAB was probably dysfunctional in terms of the interests of industry at the time.*<sup>36</sup>

The impetus from this recommendation became the basis of what was to become the *Racing and Wagering Western Australia Act 2003*—the corner stone of which was the governance arrangements of racing and wagering activities in the state:

*The intention of establishing Racing and Wagering Western Australia is to move away from vested interests' representation so that RWWA can work at developing a single racing industry on a cooperative rather than a competitive basis with a common goal of developing the racing industry as one.*<sup>37</sup>

### **(c) RWWA governance**

As previously noted, governance concerns how an organisation performs activities; the management, corporate and administration structures—and the policies and strategies utilised to assist an organisation to achieve probity, openness and accountability. To be effective, governance must be able to evolve and respond to challenges and must also contribute to stakeholder confidence in an organisation. Consequently, many governance functions cannot be legislated or prescribed. This discussion will therefore largely frame the associated feedback the Committee received from industry stakeholders about the governance arrangements of RWWA. Even so, the overarching structure that allows governance functions to operate within RWWA is examined so that together, the governance structure and the views on the current governance performance of RWWA can be evaluated.

#### **(i) Prescribed governance functions of RWWA**

The seminal Uhrig Report<sup>38</sup> into the governance of statutory authorities in Australia argues that the principles of governance concern the ‘arrangements by which owners, or their representatives, delegate and limit power to enhance the entity’s prospects for long-term success’.<sup>39</sup> By this definition, the governance principles surrounding RWWA define how the ‘owners’ of RWWA - the WA Government - delegate and limit the power that RWWA is able to utilise to achieve their objectives. This is a brief examination of the power RWWA is prescribed under the RWWA Act and any other legislation.<sup>40</sup>

<sup>36</sup> Ibid., p6.

<sup>37</sup> Hon. John Kobelke, MLA, Western Australia, Legislative Assembly, *Parliamentary Debates* (Hansard), 6 May 2003, p7074.

<sup>38</sup> Refer to the Glossary for information on this report.

<sup>39</sup> Department of Communications, Information Technology and the Arts, *Review of Corporate Governance of Statutory Authorities and Office Holders*, Commonwealth of Australia, Canberra, June 2003, p21.

<sup>40</sup> A discussion on the objectives of RWWA—which are vital to the good governance of RWWA, are discussed in Chapter 2.3.

**(ii) Establishment of RWWA**

*Statutory authorities are established to undertake functions of government or provide services to the community on behalf of government. Statutory authorities are often established when a degree of operating independence is seen to provide either objectivity or to promote efficiency depending on the nature of the task.*<sup>41</sup>

The above quote underpins the rationale behind RWWA being established as a statutory authority. The WA Government has a monopoly on the state's off-course wagering activities, an arrangement that is largely historical—reflecting the policy need to fund the racing industry across Western Australia. At the time of RWWA's establishment, the market conditions allowed for the industry to be maintained if the TAB funding model continued to sustain the industry development policy of the government.<sup>42</sup> In order to achieve this, it was considered that RWWA would need a certain degree of commercial flexibility and independence whilst remaining within the auspices of government.<sup>43</sup>

As such, Part 2, Division 1 of the RWWA Act 2003 establishes RWWA as a:

- body corporate with perpetual succession.<sup>44</sup>

Sections 5 and Section 6 of this Part prescribe that RWWA is not a:

- crown agency; nor a
- public sector body under the *Public Sector Management Act 1994*.<sup>45</sup>

The reason RWWA was not established as an agent of the crown was to allow for as much competitive neutrality as possible. This is because agents of the crown can be afforded certain exemptions (from land tax for example) that may give a commercial advantage over privately owned bodies. As wagering bodies in other states are privately owned, the legislation was aimed at ensuring that RWWA did not have such a commercial advantage and would operate on a more commercial basis with greater commercial flexibility.<sup>46</sup> It does not however diminish or alter in any way the public nature of RWWA's funds.<sup>47</sup>

<sup>41</sup> Department of Communications, Information Technology and the Arts, *Review of Corporate Governance of Statutory Authorities and Office Holders*, Commonwealth of Australia, Canberra, June 2003, p30.

<sup>42</sup> Economic Audit Committee, Final Report October 2009, Government of Western Australia, Perth, 2009, p121.

<sup>43</sup> Hon. John Kobelke, MLA, Western Australia, Legislative Assembly, *Parliamentary Debates* (Hansard), 6 May 2003, p7075.

<sup>44</sup> Section 4 *Racing and Wagering Western Australia Act 2003*.

<sup>45</sup> Section 5 and Section 6 *Racing and Wagering Western Australia Act 2003*.

<sup>46</sup> Hon. John Kobelke, MLA, Western Australia, Legislative Assembly, *Parliamentary Debates* (Hansard), 6 May 2003, p7075.

<sup>47</sup> Mr Timothy Marney, Under Treasurer, Department of Treasury and Finance, letter, 26 August 2010. Refer to Chapter 2.8 (Taxation) for a further discussion on the public nature of funds raised by RWWA.

As such, Section 108 of the RWWA Act prescribes financial controls<sup>48</sup> on RWWA's public funds by determining that RWWA is subject to the provisions of the:

- Financial Management Act 2006; and
- Auditor General Act 2006.

One other determination that places some financial control onto the governance arrangements of RWWA is RWWA's classification as a Government Trading Enterprise (GTE).<sup>49</sup> A GTE is distinguished from other parts of the public sector by the fact that GTEs charge for the goods and services they provide and are in most cases self-financing.<sup>50</sup> RWWA's classification as a GTE has a broad impact on the overall governance arrangements of RWWA and is discussed later in this section.

### **Finding 3**

The *Racing and Wagering Western Australia Act 2003* prescribes appropriate financial controls upon the operations of Racing and Wagering Western Australia.

#### **(iii) Board of Directors**

Part 2 Division 2 of the RWWA Act divests primary responsibility for the governance functions of RWWA with the board. At the time RWWA was established, the make up and composition of the board was heavily debated. The resulting structure was considered to be the best structure to enable the board to move away from the separate code and wagering interests that existed prior to establishment.

The board of directors comprises eight members as follows:

- the chairperson of the board who is appointed by the Minister for Racing and Gaming;
- four persons selected for their expertise in management, finance, business, commerce or information technology and at least one of whom must have knowledge of, and experience in, regional development;<sup>51</sup> and
- three persons, one nominated by each of the three racing codes (thoroughbred racing, harness racing, and greyhound racing).<sup>52</sup>

<sup>48</sup> Financial controls impact on good governance and is one of the governance principles under *Leadership* considered by the Committee and was noted earlier in part (a)(iii) of this Chapter.

<sup>49</sup> Mr Timothy Marney, Under Treasurer, Department of Treasury and Finance, letter, 26 August 2010.

<sup>50</sup> Economic Audit Committee, Final Report October 2009, Government of Western Australia, Perth, 2009, p110.

<sup>51</sup> Section 11 of the Act provides for a selection panel, which is responsible for selecting these four board members.

<sup>52</sup> Section 8 *Racing and Wagering Western Australia Act 2003*.

RWWA board members hold office for up to three years after which they are eligible for reappointment, renomination or reselection.<sup>53</sup> Since RWWA's establishment, there has been only one change of board membership.<sup>54</sup>

Section 16 of the RWWA Act empowers the board to appoint Committees which may comprise directors of the board or other persons. RWWA has three committees which have 'delegated authority to perform certain functions and exercise powers of the Board',<sup>55</sup> namely the:

- Integrity Assurance Committee (IAC);
- Racing Operations Committee; and
- Executive Committee.

The IAC oversees stewards, drug testing and control, licensing and registration, handicapping, and racing appeals,<sup>56</sup> and also has responsibility for audit and compliance matters including legislative compliance.<sup>57</sup> The Racing Operations Committee oversees the racing functions of RWWA including 'consulting with industry bodies, programming and racing dates, loans, grants and distributions'.<sup>58</sup> The Executive Committee assists with day to day management of RWWA including the implementation of annual Strategic Development Plans.<sup>59</sup>

#### **(iv) Staff**

In relation to staff:

- A Chief Executive Officer, appointed by the board, is responsible for the day to day operations of RWWA.<sup>60</sup>
- The board also has responsibility for the engagement and management of staff; including the power to remove, suspend, discipline and terminate the employment of staff.<sup>61</sup>

<sup>53</sup> Schedule 1 *Racing and Wagering Western Australia Act 2003*.

<sup>54</sup> This is discussed in part (d)(iii) of this Chapter (Transparency of board procedures on governance).

<sup>55</sup> Racing and Wagering Western Australia, Annual Report 2009, 12 October 2009, p13. Available at: [www.rwwa.com.au/home/rwwa-annual-report-2009.pdf](http://www.rwwa.com.au/home/rwwa-annual-report-2009.pdf) Accessed on 25 June 2010.

<sup>56</sup> Section 49 *Racing and Wagering Western Australia Act 2003*.

<sup>57</sup> Racing and Wagering Western Australia, Annual Report 2009, 12 October 2009, p13. Available at: [www.rwwa.com.au/home/rwwa-annual-report-2009.pdf](http://www.rwwa.com.au/home/rwwa-annual-report-2009.pdf) Accessed on 25 June 2010.

<sup>58</sup> *Ibid.*

<sup>59</sup> Racing and Wagering Western Australia, 'RWWA's Corporate Governance Disclosure', 2007. Available at: [www.rwwa.com.au/home/governance-disclosure.html](http://www.rwwa.com.au/home/governance-disclosure.html) Accessed on 25 June 2010.

<sup>60</sup> Section 20 and Section 21 *Racing and Wagering Western Australia Act 2003*.

<sup>61</sup> Section 22 *Racing and Wagering Western Australia Act 2003*. The ramifications of this section is discussed in part (d)(iii) of this Chapter (Transparency of board procedures on governance).

**(d) Stakeholder views on the current governance of RWWA****(i) Establishment of RWWA as a whole of industry governance body**

A number of stakeholders within the racing and wagering industry expressed the opinion that overall the establishment of RWWA as a single governance body was a positive step for the industry.<sup>62</sup> This comment, submitted to the Committee by the Community and Public Sector Union is indicative of some of these stakeholder views:

*Having a single governing body enables a coordinated and cohesive approach to the future direction of the racing industry in WA, and facilitates efficiencies that aren't possible by spreading responsibilities across multiple bodies.*<sup>63</sup>

WAGRA supported this view, commenting in a hearing that RWWA is a good form of governance, particularly given that the 'task of RWWA is a huge one' because it had to superimpose itself on a structure that ultimately took power from the principal clubs.<sup>64</sup> WAGRA further submitted that it considers RWWA the 'best equipped to administer the future requirements of the racing and wagering industries'.<sup>65</sup>

Mr Colin Bellchambers of the Pinjarra Race Club agreed that RWWA has a difficult task given that interests within the racing industry can often be split. He asserted that the establishment of RWWA as the governing body is probably the equal of, if not superior to many in the nation:

*...there is no doubt in my mind that RWWA is as good a controlling body as one could hope for in an industry such as the racing industry, which is divided in many ways. Certainly the structure of RWWA and the way it operates in general, I would say, is superior to controlling bodies that I have dealt with in Tasmania, Victoria or Queensland, for example.*<sup>66</sup>

In a joint submission, HROAWA, WASBA and BOTRA noted that although it took some time to transition from the principal club governance model, RWWA is now running the industry effectively.<sup>67</sup>

<sup>62</sup> Submission No. 32 from Bunbury Turf Club, 18 December 2009, p1; Submission No. 24 from Western Australian Provincial Thoroughbred Racing Association, 24 December 2009, p1; Submission No. 13 from Mt Barker Turf Club, 30 November 2009, p2; Submission No. 18 from WA Bloodhorse Breeders Association Inc, 8 December 2009, p2.

<sup>63</sup> Submission No. 10 from Community and Public Sector Union/ Civil Service Association of WA, 30 November 2009, p2.

<sup>64</sup> Mr David Simonette, Chief Executive Officer, Western Australian Greyhound Racing Association, *Transcript of Evidence*, 30 April 2010, p10.

<sup>65</sup> Submission No. 14 from Western Australian Greyhound Racing Association, 30 November 2009, p4.

<sup>66</sup> Mr Colin Bellchambers, General Manager, Pinjarra Race Club, *Transcript of Evidence*, 6 April 2010, p5.

<sup>67</sup> Submission No. 29 from Harness Racing Owners Association of WA Inc (HROAWA), the Breeders Owners Trainers and Reinspersons Association of WA Inc (BOTRA), Western Australian Standardbred Breeders Association (WASBA), 15 January 2010, p2.

Mr Steven McGuire of the Kojonup Race Club noted that the independence of RWWA from that of the former principal club model is beneficial for both the integrity and broad operation of the industry.<sup>68</sup> This view was substantiated by the WA Bookmakers' Association, which stated of RWWA that 'their independence from the principal club is and has been of paramount importance to the industry'.<sup>69</sup> The WA Racing Trainers Association agreed that it is the independence of RWWA that has increased veracity of negotiations between clubs and improved the overall standard of racing in the state.<sup>70</sup>

RWWA commented that the whole of industry governance approach established by the RWWA Act has realised four significant improvements in the governance of racing and wagering in Western Australia through the operations of RWWA:

*Firstly, the placement of racing industry governance functions with RWWA has resolved the conflicts of interest that arose when the principal racing clubs (WATA, WATC) has responsibility for governance functions... Secondly, The larger scale and resources of RWWA has allowed strategic planning and research to be undertaken at an industry level unattainable by any individual code... Thirdly, the operation of RWWA as the single principal racing authority in Western Australia has enabled a coordinated response to whole-of-industry issues... Fourthly, the critical mass obtained through the combination of the codes has given RWWA increased negotiating power with Sky Channel Pty Ltd (Sky) and increased purchasing power.<sup>71</sup>*

A number of stakeholders agreed that the establishment of RWWA as the overarching governing body had been good for the industry with tangible benefits being realised from its formation—but cautioned that with the passing of time a need now exists for some structural or operational changes. Mr John Burt, WATA said, 'the concept and practice [of RWWA] is a perfect model; we just need the edges taken off'.<sup>72</sup>

The Western Australian Country Harness Association (WACHRA) stated that overall, there had been significant improvement in the industry since the formation of RWWA, notably seen through the increases in economic prosperity of clubs, stake money and participants and improved standards of integrity, marketing and promotion. Nonetheless, WACHRA strongly believe RWWA could now deliver better results for all clubs, participants and communities.<sup>73</sup> This view was supported by the Broome Turf Club which suggested that RWWA has now lost direction,<sup>74</sup>

<sup>68</sup> Mr Steven McGuire, Tote Manager, Kojonup Race club, *Transcript of Evidence*, 3 May 2010, p4.

<sup>69</sup> Submission No. 37 from WA Bookmakers Association, 8 March 2010, p1.

<sup>70</sup> Submission No. 22 from WA Racing Trainers Association, 17 December 2009, pp1-2.

<sup>71</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p34.

<sup>72</sup> Mr John Burt, President, Western Australian Trotting Association, *Transcript of Evidence*, 26 February 2010, p7.

<sup>73</sup> Submission No. 32 from Western Australian Country Harness Association, 19 January 2010, p4.

<sup>74</sup> Submission No. 21 from Broome Turf Club, 14 December 2009, p2.

and Mr John Biggs, North Eastern Goldfields Racing Clubs, who contended that whilst the current structure is essentially good—there exists a need for operational change.<sup>75</sup>

Mr David Prance of the Kalgoorlie-Boulder Racing Club posed that the establishment of RWWA as a single governing body was ‘the biggest single improvement in thoroughbred racing and wagering overall’; noting that if the thoroughbred industry had remained under the governance of the WATC the industry would ‘probably be on its knees’. Nonetheless, he noted that despite RWWA being the best possible structure at the time of its formation, a number of years have now passed and it is time for those structures to be reviewed:

*I think the overall structure of RWWA, the governing board and the make-up of the board was probably the best starting point at the point of inception. But having moved five to six years on now, that probably is in need of review.*<sup>76</sup>

Not all stakeholders agreed that the establishment of RWWA as a whole of industry governance body had been beneficial for the racing and wagering industry—either now or in the past. Narrogin Racing submitted that many governance practices of RWWA have fallen short in achieving a whole of industry approach to governance with regard to addressing the needs and contributions of provincial and country racing to the industry overall:

*The industry is in need of a strong, proactive and most importantly unbiased governing body. In its present form, RWWA lacks these qualities...Any governing body must be there for the entire industry (and) RWWA has fallen short in many areas.*<sup>77</sup>

The York Racing Club stated that in regard to thoroughbred racing, RWWA have simply imported the procedures of the principal racing club they were meant to replace and have continued to allow that principal club to have considerable influence.<sup>78</sup> The Geraldton Turf Club submitted that, despite being optimistic about the advent of RWWA and actively supporting its establishment at the time, in some cases the industry is worse off in the key areas of governance—accountability, consultation and transparency, than under the WATC.<sup>79</sup>

On balance, most participants in the industry felt the formation of RWWA as a whole-of industry governing body had been beneficial for the industry overall. Nonetheless, evidence has been received by the Committee suggesting that despite the benefits realised by the industry as a direct result of the formation of RWWA, there is scope for operational and structural change within some components of RWWA’s governance structure.

<sup>75</sup> Mr John Biggs, Representative, North East Goldfields Racing Clubs, *Transcript of Evidence*, 19 March 2010, p5.

<sup>76</sup> Mr David Prance, Immediate Past President, Kalgoorlie-Boulder Racing Club, *Transcript of Evidence*, 19 March 2010, p2.

<sup>77</sup> Submission No. 12 from Narrogin Racing, 30 November 2009, pp8-9.

<sup>78</sup> Submission No. 5 from York Racing (Inc), 26 November 2009, p4.

<sup>79</sup> Submission No. 25 from Geraldton Turf Club, 24 December 2009, p2.

**Finding 4**

The majority of industry participants support a whole-of-industry governance approach for the racing and wagering industry.

**Finding 5**

There is scope for operational and structural change within some components of Racing and Wagering Western Australia's governance structure.

The main issues raised with the Committee include: the leadership of the board; industry consultation and transparency of RWWA's operating procedures; and the accountability requirements of RWWA—and are examined in greater detail below.

**(ii) Board of Directors**

As indicated under the prescribed governance functions of RWWA, the board of directors has the final responsibility for the governance functions of RWWA on behalf of the racing and wagering industry—subsequently the role of the board in relation to governance received significant attention during debate on the Racing and Wagering Western Australia Bill 2003.<sup>80</sup> Likewise, the Committee received feedback on these issues during the course of its review as summarised below.

**Board Representation**

Of the areas raised by stakeholders expressing concern about the governance of the RWWA board, the issue of representation of the board received the most attention—revolving around the following three issues:

- country representation;
- wagering representation; and
- code representation.

**Country representation**

The importance of country racing has been a key point raised with the Committee during this Inquiry. The Country Racing Association (CRA) states that 'the grassroots of racing starts in the bush';<sup>81</sup> a view highlighted by Mr John Cowcher, Williams Harness Racing Club, who stated that

<sup>80</sup> This primarily concerned the number of code representatives, country representation and the specific skills required for non-code directors and the selection and nomination of directors on the board.

<sup>81</sup> Mr Maxwell (Dixie) Solly, President, Country Racing Association, *Transcript of Evidence*, 7 May 2010, p2.

country racing is essential and without it ‘...the industry is shot. If you keep chipping away at that bottom level, the top level is going to fall down’.<sup>82</sup> The Committee heard evidence that country racing is essential to allow young trainers to enter the industry,<sup>83</sup> and to attract new people into the industry who may later become industry participants in one form or the other:

*When you have racing or trotting within a local community, the community gets behind these horses because they are putting money into the TAB and I think this is what a lot of people do not recognise; not all the good horses—trotters or gallopers—come from the metropolitan area; many of the best horses in this state have come from country areas. When a good horse comes from a country area, the whole of the country is on that horse; it just gives that lift and keeps people involved.<sup>84</sup>*

The Committee received evidence to suggest that country racing is not only important to the racing industry but has key social and economic benefits for local communities. The Golden Mile Trotting Club did an independent study and established that the club has a substantial dollar impact on the local community.<sup>85</sup> Ms Lynn Heppell, Mt Barker Turf Club agreed and highlighted the flow-on effect that their race days have on local businesses.<sup>86</sup> Ms Heppell also illustrated the impact race days have on the local charity groups who gain valuable access to fundraising opportunities that they would not otherwise have:

*...we also involve other community groups as well such as Sacred Heart Church, which is a Catholic Church. They run the kiosk. It is their fundraising opportunity for the whole year. What they make is their profit. They put that back into the community to help underprivileged people and what other tasks they do. We have Lions operating a train that raises funds for their organisation. Rotary sells ice-creams and drinks. There are other service groups that benefit from the operation of the races as well.<sup>87</sup>*

The Pingrup Race Club asserted that their single race day is something they want to retain as it ‘...provides a lot of funds for the community’.<sup>88</sup> The importance of country racing to local communities was summarised well by WACHRA to the effect that RWWA needs to recognise that country clubs operate with minimal financial drawings on the industry; have the capacity and willingness to return sponsorship and surplus funds to participants; consist mostly of volunteers; and that family groups attend country meets as much for the social aspect as for the racing.<sup>89</sup>

<sup>82</sup> Mr John Cowcher, Committee Member, Williams Harness Racing Club, *Transcript of Evidence*, 3 May 2010, p6.

<sup>83</sup> Ibid.

<sup>84</sup> Mrs Rosanne Pimm, Secretary, Collie Race Club, *Transcript of Evidence*, 6 April 2010, p6.

<sup>85</sup> Mr Evan Spencer, President, Golden Mile Trotting Club, *Transcript of Evidence*, 19 March 2010, p5.

<sup>86</sup> Ms Lynn Heppell, Vice President, Mt Barker Turf Club, *Transcript of Evidence*, 12 March 2010, p10.

<sup>87</sup> Ibid.

<sup>88</sup> Mr Alan Smith, Secretary/Treasurer, Pingrup Racing Club, *Transcript of Evidence*, 3 May 2010, p2.

<sup>89</sup> Submission No. 32 from Western Australian Country Harness Association, 19 January 2010, p2.

Mr Matthew Spurr, Wagin Trotting Club said simply, ‘without the trots left in this town, this town will have nothing left; absolutely nothing’.<sup>90</sup>

Representation of country racing is currently encapsulated under Section 8(2) of the RWWA Act which requires that at least one of the non-code directors needs to ‘have knowledge of, and expertise in, regional development’.<sup>91</sup> The ambiguity surrounding the phraseology of ‘regional development’—and if this has adequately captured the level of expertise required for the concerns and needs of country stakeholders to be represented at board level, has been examined by the Committee.

In the first instance, the Committee enquired of Mr Barry Sargeant, Director General of the Department of Racing, Gaming and Liquor<sup>92</sup> what—if anything—he would change in the RWWA Act. Mr Sargeant highlighted the wording around experience and knowledge in regional development because it was not effective at achieving its purpose.<sup>93</sup> The evidence supports this conclusion as many stakeholders in the country feel they do not have adequate representation at the board level.

Mr David Wrensted of the Western Australian Provincial Thoroughbred Racing Association (WAPTRA) asserted that he felt there was no identifiable country representation on the RWWA board:

*...there should be a directly elected country representative. I do think that country clubs and regional clubs need an ear, and I do not think that we have got one at the moment. I think there needs to be a distinctly identifiable regional or country member on the board.*<sup>94</sup>

Mr John Biggs, North East Goldfields Racing Clubs had equally strong views about the lack of country representation on the RWWA board. He suggested that this lack of country representation disadvantages country stakeholders:

*We are not getting the results that we should be getting and that we deserve, no. I think it comes down to board level where there needs to be more country representation on the board to ensure that country racing gets a proper and decent hearing.*<sup>95</sup>

Mr David Prance, Kalgoorlie-Boulder Racing Club suggested that there has been an imbalance in country representation from the initial establishment of RWWA and it is time for redress:

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<sup>90</sup> Mr Matthew Spurr, President, Wagin Trotting Club, Transcript of Evidence, 3 May 2010, p6.

<sup>91</sup> Section 8(2) *Racing and Wagering Act 2003*.

<sup>92</sup> It should be noted that the Department had carriage for drafting the original legislation.

<sup>93</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 19 February 2010, p2.

<sup>94</sup> Mr David Wrensted, Vice Chairman, Western Australian Provincial Thoroughbred Racing Association, *Transcript of Evidence*, 26 February 2010, p3.

<sup>95</sup> Mr John Biggs, Representative, North East Goldfields Racing Clubs, *Transcript of Evidence*, 19 March 2010, p7.

*I have got a term for it—it is called “metrocentricity”...the focus is on the two metropolitan tracks and the two or three inner provincial tracks. Interest wanes very quickly once you get across the top of the scarp and a bit further south or north to the Geraldtons and Albanys. It is like the old bomb blast and the circles as they go out—the colours just change. You get less impact as you go out.<sup>96</sup>*

Mr Prance made the observation that because there are 10 provincial and 41 country thoroughbred tracks, compared to the two tracks run by the single metropolitan club—and given country and provincial tracks outperform either of the Perth tracks singularly in relative terms, it is a reasonable assumption to make that the provincial and country tracks ‘deserve that same level of recognition and representation’ as Perth thoroughbred racing.<sup>97</sup>

Mrs Lesley Solly, Albany Racing concurred with this view by stating that it would help country clubs trying to communicate with RWWA if there was a country person on the board who could communicate the specific needs and requirements of country stakeholders to city based directors:

*One of the things that could help with communication would be to have someone on the board who represents provincial country racing...because it is quite different from that of the city. The person could represent the trots, the gallops, the dogs and whatever. It needs someone actually sitting on the board itself so that that person is there to have a say.<sup>98</sup>*

It is noteworthy that the representatives of the Albany Racing Club were unaware, until informed by the Committee, that there existed a person representing country interests on the board. They contended that they had never been approached by anyone on the RWWA board suggesting that it was their role to look after the needs of country stakeholders.<sup>99</sup>

This view is expressed by harness racing stakeholders as well, who commented that they have seen very little evidence of any RWWA board members in country areas.<sup>100</sup> Mr Mark Roberts of WACHRA noted that the presence of any RWWA board members in the country was rare—and in conversations with board members on behalf of his members it is clear they ‘do not really understand what the situation is out in the country’.<sup>101</sup>

## **Finding 6**

Country racing is integral to the viability of the industry in Western Australia.

<sup>96</sup> Mr David Prance, Immediate Past President, Kalgoorlie-Boulder Racing Club, *Transcript of Evidence*, 19 March 2010, p2.

<sup>97</sup> *Ibid.* p3.

<sup>98</sup> Mrs Lesley Solly, President, Albany Racing Club, *Transcript of Evidence*, 12 March 2010, p5.

<sup>99</sup> *Ibid.*

<sup>100</sup> Mrs Margaret Skinner, Secretary, Mt Barker Turf Club, *Transcript of Evidence*, 12 March 2010, p9.

<sup>101</sup> Mr Mark Roberts, President, Western Australian Country Harness Racing Association, *Transcript of Evidence*, 26 February 2010, p3.

**Finding 7**

There is little evidence to show that members of the Racing and Wagering Western Australia board are directly engaged with regional and country based stakeholders.

**Mechanisms to Improve Country Representation of the RWWA Board**

Mr Brendon Gardiner, Bridgetown Harness Racing Club, noted that country harness racing clubs have less say now than they did under the principal club system where country clubs were equitably represented under three district councils of relatively equal meeting size and ‘political clout’. As such, even the smallest clubs had a voice that could potentially be presented to the then governing body, WATA. Due to the break up of the councils and transition to the new club classifications of metropolitan, provincial, country and community, small clubs had lost their voice and as such, Mr Gardiner supported a reintroduction of the district council system.<sup>102</sup>

Mr David Prance, Kalgoorlie-Boulder Racing Club, suggested an expanded version of these district councils by proposing that a regionalisation model could be applied—across all codes—across country WA. He propounded that the state could be divided up into three regional bodies that would become part of the overall administration of RWWA whereby each regional hub manages the ‘regional’ operations of RWWA for that area—yet would report to and be managed by the overall RWWA executive. This would have the advantage of having someone in the region looking after the region.<sup>103</sup>

A comparable view put to the Committee was the concept of establishing a ‘country liaison position’, again within the administrative auspices of RWWA, whereby the role becomes the main contact conduit for country participants, with the responsibility of ensuring the needs and requirements of country participants become known at a board level. WACHRA submitted that the creation of such a position would provide a vital link between RWWA and registered country clubs and is a model that has been adopted by Harness Racing Victoria.<sup>104</sup>

Yet another variation that has been raised to combat the lack of input country clubs feel they have into the decision making process of the RWWA board is the establishment of an advisory committee that could offer advice directly to the board about matters relating to county racing. Mr David Wrensted, Geraldton Turf Club, suggested that RWWA could utilise the experience of a number of highly focused people within the industry and allow them to have input into the

<sup>102</sup> Mr Brendon Gardiner, Secretary/Treasurer, Bridgetown Harness Racing Club, *Transcript of Evidence*, 6 April 2010, pp9-10.

<sup>103</sup> Mr David Prance, Immediate Past President, Kalgoorlie-Boulder Racing Club, *Transcript of Evidence*, 19 March 2010, p10.

<sup>104</sup> Submission No 32 from Western Australian Country Harness Association, 19 January 2010, p3.

decision making process at RWWA by talking to the board about ‘how they see the industry going forward’.<sup>105</sup>

Mr Evan Spencer, Golden Mile Trotting Club, recommended that any model adopted to drive regional representation must have the notion of regional unity at its core. He suggested that this could either be based on a regional council model, or be provided by an advisory body to RWWA that supports a regional approach—contending that either approach will work depending on the ‘quality and contribution of those groups and their abilities to listen [to each other]’.<sup>106</sup>

As a result of the evidence received, the Committee acknowledges the lack of representation of provincial and country racing on the RWWA board. It further acknowledges that Section 8(2) of the RWWA Act does not adequately reflect the skills required for the requirements of country and community racing to be represented to the RWWA board.

Whilst the Committee is of the opinion that it is important to have the requirements of country and provincial racing considered at a board level, in the absence of a detailed investigation the Committee cannot recommend amendment to Section 8(1) to include another nomination to the board in the form of a dedicated country representative.<sup>107</sup>

The Committee does recommend however that Section 8(2) be amended to more appropriately capture the skills required for a board nominee to possess knowledge of, and experience in, country racing. Because many of the issues associated with country racing are inherently distinct from those of the major provincial and metropolitan clubs, and many of these issues are non-code specific, the Committee is of the opinion that it is appropriate to insert the word ‘country racing’ instead of regional development as the Act currently prescribes.

During the course of its Inquiry the Committee witnessed sizeable variation between the needs and requirements of individual country and community racing clubs.<sup>108</sup> It has also witnessed certain commonalities between country and community clubs within a particular region or group—and heard about particular governance strategies that may address these issues. The Committee acknowledges that RWWA is overcoming significant challenges in effectively administering such a diverse group of racing clubs. Nonetheless, the Committee finds that the issues surrounding the effective governance of country and community racing clubs should be reviewed to take into account the issues surrounding the regionalisation of some of RWWA’s administrative functions as they apply to country and community racing clubs.

<sup>105</sup> Mr David Wrensted, Vice Chairman, Western Australian Provincial Thoroughbred Racing Association, *Transcript of Evidence*, 26 February 2010, p10.

<sup>106</sup> Mr Evan Spencer, President, Golden Mile Trotting Club, *Transcript of Evidence*, 19 March 2010, p5.

<sup>107</sup> The Committee has not examined what effect this crucial change in governance would have on the operations of the broader industry.

<sup>108</sup> Some of the reasons for this distinction may be geographical considerations, local population, access to services, prevalence of volunteerism or degree of local community support for a racing club—to name just a few. These issues were observed or discussed during the Committee visits to Country and Community Racing Clubs around the State and were seen to vary from club to club. They are not appropriate for individual review of comment in this report. They did nonetheless inform the Committee and enable it to capture as many of the common issues as is practicable throughout the body of this review.

**Finding 8**

There is insufficient country representation at Racing and Wagering Western Australia board level.

**Finding 9**

Section 8(2) of the *Racing and Wagering Western Australia Act 2003* does not capture the requisite skills for country and community racing needs to be adequately represented to the Racing and Wagering Western Australia board.

**Recommendation 1**

That Section 8(2) of the *Racing and Wagering Western Australia Act 2003* be amended to replace 'regional development' with 'country racing' to more appropriately capture the requirement for knowledge of, and experience in, country racing.

**Recommendation 2**

That Racing and Wagering Western Australia implements a structure under which regional and country clubs will have formal access to the administration through existing or new regional and industry groupings.

**Wagering representation**

The Committee received feedback from a number of off-course wagering operators concerned about the current lack of wagering representation at board level. The RWWA Act does not provide for an eligible wagering body to directly nominate a member to the board;<sup>109</sup> nor is there any requirement for board members to possess knowledge or experience in off-course wagering.<sup>110</sup> Further, eligible wagering bodies do not have any *prescribed* operation in regard to the direct nomination of members that will comprise the selection panel for the purposes of Section 8(1)(e).<sup>111</sup> There is some indirect opportunity for wagering interests to be involved in this process

<sup>109</sup> Whereas each code is able to nominate a representative directly onto the board.

<sup>110</sup> This is in the context as that similarly prescribed under Section 8(2) for country representation.

<sup>111</sup> Each code is able to nominate a representative directly onto the selection panel.

by virtue of the WA Bookmakers' Association being named an eligible thoroughbred racing body. As such, it will contribute to the nomination of one person onto the five person selection panel.<sup>112</sup> In practice, this currently enables the WA Bookmakers' Association, as the only wagering body, to have one vote in eight—of a simple majority vote—to nominate this representative onto the selection panel.

The argument posed by the off-course wagering stakeholders rests on the following simple tenets:

- The retail wagering component contributes substantially to the operations of RWWA; Retail off-course wagering accounts for 84% of RWWA turnover; the retail network comprises 92 dedicated full time shops, 188 PubTABs and 31 self-service outlets; wagering turnover has been steadily increasing and was up 5.7% in the 2008/09 financial year.<sup>113</sup>
- Retail wagering is structurally hampered from having influence over any decisions, strategies or future planning of RWWA and must rely on the goodwill of the board to exert any influence over the industry that they are a major contributor too.

The WA TAB Agents' Association submitted the following to the Committee, summing up the major concerns put forward by wagering stakeholders.

*The current structure in the Act gives emphasis to racing and reserves three positions for other expertise relevant to the Board's functions. Agents believe that with the current challenges from competitors in the retail component of the business, the argument for a greater dedicated recognition of wagering at Board level is strong. Experience has shown that Agents are completely reliant on the good will of RWWA management to put their case on issues to the Board...Agents argue that the turnover figures ...are a substantial component of RWWA's operations. Their representation on (and [lack of] access to) the ultimate decision making entity does not reflect their role in the business and ought to be addressed. The appropriate measure would be for representation at Board level.*<sup>114</sup>

When asked to elaborate on this, Mr Ken Trainer of the WA TAB Agents' Association reiterated that the wagering retail component is structurally removed from any decision making process within RWWA. The only access is through the TAB Agents advisory board—which as the name suggests is advisory 'and nothing more' and comprises four elected people. He noted that the experience of this advisory board has been that it is extremely difficult to raise issues to a senior executive or board level. Furthermore, any view put forward by the advisory board to RWWA must be a cooperative one and 'there is no independent capacity in that regard'.<sup>115</sup>

Mr Timothy Barnes of the Morley TAB stated that whilst he recognised that large boards are not always preferable, it would be good if the wagering interests of the industry were represented at a

<sup>112</sup> Specific eligible racing bodies are not prescribed under the RWWA Act but are determined by RWWA.

<sup>113</sup> Racing and Wagering Western Australia, *Annual Report 2009*, RWWA, p27.

<sup>114</sup> Submission No. 8 from the WA TAB Agents' Association, 30 November 2009, p11.

<sup>115</sup> Mr Kenneth Trainer, WA TAB Agents' Association, *Transcript of Evidence*, 8 March 2010, pp14-15.

board level.<sup>116</sup> Mr Wayne Barnes, also of Morley TAB, stated that given so much of the money for the industry flows through the TAB agencies, it would be reasonable for the agencies to have a voice on the board.<sup>117</sup>

### **Mechanisms to Improve Wagering Representation of the RWWA Board**

At present, the only wagering representation involved in the selection and nomination of a RWWA director comprises the WA Bookmakers Association. As an eligible thoroughbred racing body, WABA has a vote with respect to the thoroughbred nominee on the board, and also in relation to the nomination of one person to the selection panel to choose the four ‘non code’ directors of RWWA.<sup>118</sup> The Committee acknowledges that this representation is diluted and does not constitute representation of off-course wagering interests. The Committee finds that the significant contribution that retail wagering outlets make to the racing and wagering industry is under represented at the RWWA board level. The Committee also acknowledges that strategic knowledge of the wagering landscape may be beneficial as RWWA attempts to maintain and increase its current wagering market share. Whilst the Committee is of this opinion, there is insufficient evidence to prompt a change to the constitution of the board to include one person nominated by eligible wagering bodies.<sup>119</sup> It is the Committee’s opinion however that there should be off-course wagering representation insofar as the nomination and selection of board members is concerned.

#### **Finding 10**

There is insufficient representation of wagering in the selection of the Racing and Wagering Western Australia board.

#### **Recommendation 3**

That the Western Australian TAB Agents’ Association be represented in the nomination and selection of board members with respect to Section 8(1)(e) of the *Racing and Wagering Western Australia Act 2003*.

<sup>116</sup> Mr Timothy Barnes, Morley TAB, *Transcript of Evidence*, 12 March 2010, p9

<sup>117</sup> Mr Wayne Barnes, Morley TAB, *Transcript of Evidence*, 12 March 2010, p14.

<sup>118</sup> Section 8(1)(e) *Racing and Wagering Western Australia Act 2003*.

<sup>119</sup> The Committee has not conducted an examination into the possible governance ramifications that may arise by an increase in the representative directors (to that of a majority) on the RWWA board.

## Code representation

One area of extensive Parliamentary debate concerned the manner in which the codes were to be represented on the board—particularly about the number of code nominees for the thoroughbred and harness codes—or if indeed codes should be specifically represented at all. The Turner Report recommended that there should be no code representation at the board level so a whole-of industry approach to governance could more readily emerge.<sup>120</sup> This theme was picked up during the debates:

*The concept in the Turner report was that the new board members would represent the racing, pacing and chasing industry as a whole, rather than coming from a vested-interest position from either of the three codes.*<sup>121</sup>

The Turner Report envisaged that ‘code bodies’, existing immediately below board level, would capture the needs of the individual codes by negotiating funding and product agreements for each code. The criteria for selection on a code body would be ‘an in depth understanding of’ that particular code—together with ‘...successful general and specific experience in a commercial environment’.<sup>122</sup> This was the same criteria that the Turner Report set for half of the overarching board—the remaining members of which were to have successful business expertise in a specific area and a general understanding of the racing industry. Whilst there was a view that knowledge of the racing industry was important, the review established a clear imperative for there to be a commercial focus on the skills and experience of the board (and code) members. This concept did not gain favour and it was finally agreed that each code should have one representative at a board level.

During the course of this Inquiry, the Committee received feedback that code representation on the board should be revisited—particularly with regard to the consideration of the appropriateness of code representation. Perth Racing submitted that the RWWA board ‘should be apolitical and not code representative’ which if achieved will enable RWWA to act on an increased commercial platform and be more appropriately placed to respond to new market challenges the industry is facing.<sup>123</sup> When asked to elaborate on this view in a hearing, Mr Ted van Heemst, Chair of Perth Racing responded that in theory it is beyond doubt that what is required for the WA industry to survive is a more commercial approach to operations:

<sup>120</sup> *Future Governance of the Western Australian Racing Industry*, report prepared for the Minister of Racing and Gaming by R Turner, A Di Francesco, M Nadebaum, Western Australian Racing Industry Review Committee, WA, October 2001, p27.

<sup>121</sup> Mr Matt Birney, MLA, Western Australia, Legislative Assembly, *Parliamentary Debates* (Hansard), 6 May 2003, p7078.

<sup>122</sup> *Future Governance of the Western Australian Racing Industry*, report prepared for the Minister of Racing and Gaming by R Turner, A Di Francesco, M Nadebaum, Western Australian Racing Industry Review Committee, WA, October 2001, p30.

<sup>123</sup> Primarily increased competition from corporate bookmakers, the inception of product fess and increased pooling fees are putting considerable pressure on the viability of RWWA’s operations. Refer to Chapter 2.9(a) for a further discussion on the impact of these market pressures.

*...there is absolutely no doubt in my mind that in a perfect world you would not have code representation on that board at all; you would have half a dozen professional people who understood your product and made commercial decisions.*<sup>124</sup>

It was further contended that in practice this may be detrimental to the industry as it is inherently complicated and currently the board benefits from the knowledge and expertise that the code representative directors bring. This is because of their past experience and knowledge of and within the industry—benefits that may be lost to the industry if code representation was removed from the decision making processes of the board.

WACHRA submitted that a change to the RWWA Act may be necessary to enable RWWA to pursue a more 'business type, model' and maximise the dividend to government and the codes, but cautioned that this would need to be augmented with increased input from industry stakeholders about the strategic direction of the harness Industry.<sup>125</sup>

The WATA similarly asserted that the board should be kept independent from the codes—with substantial consultation with code based expertise when required. In addition, functions currently taken up by the board in regard to the day to day running of the clubs should be returned to the clubs.<sup>126</sup> Mr John Burt of WATA contended there are two main benefits to this approach—firstly, without code representation the board can more accurately focus on increasing the whole-of industry product. In addition, it would have the added benefit of guarding against any future circumstance whereby a particularly persuasive code representative is able to exert undue influence over other non-code directors to the detriment of the remaining two codes.<sup>127</sup>

The Committee is of the opinion that the concept of independent board members, as raised by the above stakeholders, could be a valuable asset to the racing and wagering industry in trying to combat emerging market challenges. Nonetheless, the Committee strongly propounds the benefits of retaining code representation at a board level as it enables the board to understand and effectively respond to the complex needs of the racing industry. In addition, the Committee contends that independent knowledge and expertise can be more readily accessed through external means than can knowledge and expertise in racing. Lastly, Principle 2.2 of the *ASX Corporate Governance Principles and Recommendations* recommends that for a board to add most value to an organisation it should have a majority of independent directors. RWWA as it is currently constituted has a majority of independent directors so reflects a preferred governance model. The Committee therefore finds that the number of independent directors should not be increased.

<sup>124</sup> Mr Edward (Ted) van Heemst, Chairman, Perth Racing, *Transcript of Evidence*, 26 February 2010, p7.

<sup>125</sup> Submission No. 32 from WA Country Harness Racing Association, 14 January 2010, p3.

<sup>126</sup> Mr John Burt, President, Western Australian Trotting Association, *Transcript of Evidence*, 26 February 2010, p10.

<sup>127</sup> *Ibid.*, p12.

**Finding 11**

The Committee supports retention of code representation on the Racing and Wagering Western Australia board.

**(iii) Transparency of board procedures on governance**

Schedule 1 of the RWWA Act outlines the provisions concerning the constitution and proceedings of RWWA's board of directors. Issues of transparency and consultation are examined in a subsequent section of this report.<sup>128</sup> Nonetheless a number of stakeholders have noted specific issues concerning the awareness of—or transparency of—board procedures that are appropriate to raise here.

**Selection and Nomination of Board Members**

Clause 1 of Schedule 1 of the RWWA Act specifically relates to the term of office of directors. It states that a director can hold office for three years and is eligible for reappointment. There is no provision in the Act that limits the amount of times a person can be re-elected. Stakeholders have noted that there has only been one change of directorship since the inception of RWWA.<sup>129</sup>

Mr Ray Turner asserted that it is acceptable governance practice to not limit the times a person can be re-elected to a board as it prevents the risk of good people being lost to the industry:

*I know of instances where very valuable people have been lost to various areas because of that restriction. I have never, ever agreed that there should be a limited period, as distinct from the need to stand for re-election at a given period...*<sup>130</sup>

Mr Barry Sargeant of the Department of Racing, Gaming and Liquor warned against change purely for the sake of change and explained that the selection panel for the board<sup>131</sup> has actively sought nominations but has not yet found anyone 'actually outstanding enough' to replace an existing member.<sup>132</sup> Mr Robert Pearson of RWWA, remarked that the process for his initial appointment as a code nominated director was 'exhaustive in interviews' and when the time came for his reappointment the position was advertised but '...for some unknown reason, no-one wanted to take it over'.<sup>133</sup>

<sup>128</sup> Refer to Chapter 2.6 (Consultation).

<sup>129</sup> Mr Gino Monaco, President, Fremantle Harness Racing Club, *Transcript of Evidence*, 4 June 2010, p7.

<sup>130</sup> Mr Raymond Turner, *Transcript of Evidence*, 19 February 2010, p4.

<sup>131</sup> Section 11 of the RWWA Act (2003) establishes a 'selection panel' for the purposes of nominating Directors under Section 8(1)(e).

<sup>132</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 19 February 2010, p4.

<sup>133</sup> Mr Robert Pearson, Director, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p32.

It appears then that the reason there has only been one change in directorship since the inception of RWWA is because no suitable candidates have been identified to replace the existing board members. This is in part underpinned by the quality of the incumbent RWWA board members.<sup>134</sup>

The process for selecting and nominating board members is briefly explained here.<sup>135</sup> Under Section 8 of the RWWA Act, the board comprises:

- the chair, nominated by the Minister;
- three code representatives, nominated directly by the code eligible bodies; and
- four non-code representatives, selected by a selection panel.

The selection panel is prescribed under Section 11, which determines that the selection panel will comprise five people; one nominated by the Minister; one nominated by the board; and three 'code' appointments nominated by each of the corresponding code eligible bodies. The selection panel is to appoint its own chair<sup>136</sup> and is to determine its own procedures.<sup>137</sup> Members of the selection panel remain for a period of three years but are eligible for reappointment or renomination.<sup>138</sup>

Section 12 of the RWWA Act determines that RWWA is to declare who the eligible bodies are. Eligible bodies are responsible for nominating the three code representatives to the board and the three code representatives on the selection panel. It is clear that in this process the eligible code racing bodies exert considerable influence over the selection and nomination of board members.

Notwithstanding this, considerable ambiguity exists as to how these eligible bodies are chosen. There is no prescribed procedure for either the selection or publication of eligible code racing bodies by RWWA. Nor is there a prescribed method by which the eligible bodies must call for nominations of candidates who wish to be considered for the position of Director on the RWWA board. Clearly nominations will be impacted if there is a general lack of awareness within the industry and the broader community that board nominations are occurring. Mr Tony Marwick of the Northam Race Club noted that whilst nominations for board members are no doubt advertised in the newspaper, there is no notification through industry channels.<sup>139</sup> The Albany Racing Club admitted that they are not aware of the nomination process of the RWWA board.<sup>140</sup>

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<sup>134</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 19 February 2010, p3.

<sup>135</sup> This process is also described earlier in this section under prescribed governance functions of RWWA.

<sup>136</sup> Section 11(7) *Racing and Wagering Western Australia Act 2003*.

<sup>137</sup> Section 11(11) *Racing and Wagering Western Australia Act 2003*.

<sup>138</sup> Section 11(8) *Racing and Wagering Western Australia Act 2003 (WA)*.

<sup>139</sup> Mr Tony Marwick, President, Northam Race Club, *Transcript of Evidence*, 26 March 2010, p7.

<sup>140</sup> Mrs Lesley Solly, President, Albany Racing Club, *Transcript of Evidence*, 12 March 2010, p15.

Despite this, Mr Richard Burt of RWWA stated that whilst ‘entrenched non-replacement’ of board members would be bad for the industry, he did not think that RWWA was at that stage.<sup>141</sup> Mr Barry Sargeant noted that there might be changes to the board in the near future.<sup>142</sup> If this was to happen, the Committee asserts that the current procedures will have to be amended prior to any new selection, in order to ensure that suitable candidates of an appropriately high standard are encouraged to nominate. Subsequently, some mechanisms to improve the selection and nomination of board members to facilitate a more effective nomination process are discussed here.

### **Mechanisms to Improve Selection and Nomination of Board Members**

In order to attract the continued placement of appropriate people onto the board of RWWA the Committee finds that the board nomination processes of RWWA must be examined so that, as an organisation, it can more effectively engage in succession planning strategies to recruit appropriate people onto the RWWA board. Ensuring appropriate board renewal will facilitate the ability of the current board to align the future board configuration with the strategic direction of the organisation.

The Committee acknowledges that Section 8(1) of the RWWA Act delegates the selection procedure of board members to bodies outside of the RWWA board and that the current RWWA board feel that succession planning for the board is out of their hands.<sup>143</sup> However, as part of the board’s leadership role in the pursuit of good governance, the Committee finds that the RWWA board should plan and disclose preferred succession strategies to eligible industry bodies and the selection panel responsible for nominating the board for their consideration prior to any such process being instigated.

#### **Finding 12**

The Racing and Wagering Western Australia board should develop an appropriate governance framework to encourage board renewal.

Given the critical role eligible racing bodies play in the nomination and selection process of directors, and given that RWWA is required to determine who these bodies are under Section 12 of the RWWA Act, the Committee queried the procedures in place to achieve this function. When RWWA was asked how it determines what bodies are to become eligible racing bodies there was uncertainty as to the process for establishing eligible bodies.<sup>144</sup>

<sup>141</sup> Mr Richard Burt, CEO, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p31.

<sup>142</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 19 February 2010, p4.

<sup>143</sup> Mr Ross Bowe, Chairman, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p29.

<sup>144</sup> Mr Richard Burt, Racing and Wagering Western Australia, 2010, pers. comm., 21 September 2010.

This response may indicate that no new eligible racing bodies have been appointed since initial establishment. Irrespective of this, the Committee is concerned that the establishment of the eligible bodies is currently unclear. The manner in which new bodies may apply to become an eligible racing body and the manner in which an eligible racing body can be removed must be established by RWWA and should be detailed in regulation. The publication of eligible bodies should also occur in regulation. As such, the Committee recommends that Section 12 of the RWWA Act be amended to include a clear instruction as to the establishment of eligible racing bodies.

#### **Recommendation 4**

That Section 12 of the *Racing and Wagering Western Australia Act 2003* be amended to stipulate that the process by which eligible bodies are to be determined, and the publication of eligible bodies be specified in regulation.

Section 9 of the RWWA Act prescribes that the Minister may determine: the manner and criteria on which persons are nominated and selected; and the procedures that are to be followed for making nominations, for all directors of RWWA. Despite this provision, only one determination has been made and that occurred at the time RWWA was established. This determination provided that any decision of eligible bodies with respect to the nomination of a ‘code’ director, and any decision made by the selection panel in nominating a ‘non code’ director, was to be made by a simple majority of votes.<sup>145</sup> No determination has been made as to what procedures should be followed in calling for nominations in the first instance.

Consequently, the Committee is concerned that the current nomination procedures being used to select directors of the RWWA board are not open and transparent.<sup>146</sup> The Committee strongly believes that the nomination procedures should be open, structured and appropriately broad to attract a strong calibre of candidates for nomination and selection. As such, the Committee recommends that pursuant to Section 9 of the RWWA Act, the Minister clarifies the nomination and selection procedures to include the following:

- any pending board vacancy be advertised widely; and
- all clubs and industry associations be given notice through appropriate mediums of pending board vacancies to be distributed to their members; and
- individual candidates are able to nominate themselves for consideration for the position of director under section 8(1)(b), (c) or (d) or section 8(1)(e) of the Act.

<sup>145</sup> Hon. Nicholas Griffiths, Government Gazette, No 114, 4 July 2003, p2691.

<sup>146</sup> The Committee also asked RWWA about the various procedures for nominating possible candidates for a directorship on the RWWA board—to which there was again uncertainty regarding exact procedures (as indicated by Mr Richard Burt, Racing and Wagering Western Australia, 2010, pers. comm., 21 September 2010).

**Finding 13**

It is necessary for the selection and nomination process of board members to be open, structured and appropriately broad to attract a strong calibre of candidates.

**Recommendation 5**

That pursuant to Section 9 of the *Racing and Wagering Western Australia Act 2003* the Minister for Racing and Gaming clarifies the nomination and selection procedures for directors to include:

- that any pending board vacancy be advertised widely; and
- that all clubs and industry associations be given notice through appropriate mediums of pending board vacancies to be distributed to their members; and
- that individual candidates are able to nominate themselves for consideration for the position of director under section 8(1)(b), (c) or (d) or section 8(1)(e) of the Act.

In addition, it is the Committee's view that the provision allowing selection panel members to serve long terms may have a negative impact upon the already small turnover of the RWWA board, and may increase the potential for 'entrenched non replacement' of the board. The Committee is aware that some continuity of the selection panel is appropriate for the strategic planning of subsequent board appointments in line with Finding 12 of this report. As such, it finds that it is appropriate for members of the selection panel who are appointed under section 11(2)(a) and (b) of the Act to serve terms longer than three years, pursuant to section 11(8) of the Act. In order to introduce some renewal into the process, the Committee recommends that any member of the selection panel nominated under section 11(2)(c), (d) or (e) should not be eligible to stand for consecutive terms under section 11(8) of the Act.

**Recommendation 6**

That any member of the selection panel nominated under section 11(2)(c), (d) or (e) of the *Racing and Wagering Western Australia Act 2003* should not be eligible to stand for consecutive terms under section 11(8) of the Act.

## Relationship between the Board and the CEO

The Committee has received some evidence that there exists a lack of clarity about the roles and responsibilities of the board as distinguished from those of senior management of RWWA.<sup>147</sup>

As mentioned, Schedule 1 of the RWWA Act delineates the provisions and proceedings of the RWWA board of directors. Likewise Schedule 2 does the same for the CEO and staff. Clause 1 of Schedule 2 states that the CEO is to have the same fiduciary relationship and duty to act with loyalty and in good faith to RWWA as a director of a company incorporated under the Corporations Act has to a company. Whilst this is prescriptive it is not descriptive.

Section 21 of the RWWA Act prescribes that the CEO has all the responsibility of—and the powers required, to administer the day to day operations of RWWA; yet the management of the staff of RWWA (including the CEO) is vested with the board. The board can nonetheless delegate any matter to the CEO under Section 33 of the RWWA Act.

The Committee acknowledges that it is essential for the effective running of RWWA for the board and the CEO to have an effective operating relationship as ‘the board’s relationship to management is critical to healthy governance’.<sup>148</sup> The Committee is of view that the role of the board and RWWA executive should be clearly delineated. Nonetheless, this does not mean that the relationship between a board and a CEO should be overly prescribed in legislation.<sup>149</sup>

RWWA has submitted that the prescribed arrangement is atypical of the division of powers between the CEO and board and recommends that:

- Section 22 of the RWWA Act should be amended to vest the power to engage and manage staff in the CEO;<sup>150</sup> and
- A clause should be inserted into the RWWA Act explicitly preventing the same individual from holding the positions of CEO and Chair of the RWWA board concurrently.<sup>151</sup>

## Mechanisms to Improve transparency on the delineated roles of the board and the CEO

The Committee acknowledges that the arrangement prescribed by the RWWA Act between the CEO and the RWWA board may be atypical of many privately owned companies—nonetheless as

<sup>147</sup> Mr John Burt, President, Western Australian Trotting Association, *Transcript of Evidence*, 26 February 2010, p13; Mr Steven McGuire, Tote Manager, Kojonup Race Club, *Transcript of Evidence*, 3 May 2010 p10; Mr Tony Marwick, President, Northam Race Club, *Transcript of Evidence*, 26 March 2010,p6; Mr Kenneth Godley, President, Bunbury Trotting Club, *Transcript of Evidence*, 6 April 2010, p2.

<sup>148</sup> Australian National Audit Office, *Achieving Better Practice Corporate Governance in the Public Sector*, June 2002, p13. Available at: [www.anao.gov.au/uploads/documents/Achieving\\_Better\\_Practice\\_Corporate\\_Governance\\_in\\_the\\_Public\\_Sector1.pdf](http://www.anao.gov.au/uploads/documents/Achieving_Better_Practice_Corporate_Governance_in_the_Public_Sector1.pdf) Accessed on 8 September 2010.

<sup>149</sup> Having such an interrelationship prescribed in the Act could introduce inherent inflexibility into governance procedures and decrease RWWA’s ability to adapt their governance to changing operating conditions.

<sup>150</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p83.

<sup>151</sup> *Ibid.*

RWWA is a statutory authority and the Chair of the RWWA board is appointed by the Minister, the Committee does not feel it can recommend that Section 22 of the Act be amended to vest all power to engage and manage staff in the CEO.

The Committee acknowledges that Section 33 provides for the board to delegate any and all powers to the CEO. There is no prescribed limit to this delegation in either function or time. Consequently, the Committee considers that it is an appropriately flexible delegation to enable the CEO to perform all duties as prescribed under Section 21. In addition, the Committee finds that any written delegation pursuant to Section 33(3) should be publicly disclosed.

In relation to the second matter, the Committee supports the principle of a clause in the RWWA Act that explicitly prevents the same individual from holding the positions of CEO and Chair of the RWWA board concurrently.

**Finding 14**

The role of the Racing and Wagering Western Australia board and executive should be clearly delineated and publicly disclosed.

**Finding 15**

Any written delegations pursuant to Section 33(3) of the *Racing and Wagering Western Australia Act 2003* should be publicly disclosed.

**Recommendation 7**

That Racing and Wagering Western Australia should delineate and publicly disclose the role of the board and executive and disclose any written delegations pursuant to Section 33(3) of the *Racing and Wagering Western Australia Act 2003*.

**Recommendation 8**

That the *Racing and Wagering Western Australia Act 2003* be amended to insert a clause explicitly preventing the same individual from holding the positions of Chief Executive Officer and Chair of the Racing and Wagering Western Australia board concurrently.

### Charter of the board and management

Whilst RWWA publish information on their governance guidelines and enabling legislation on their website, it contains only a small amount of descriptive content beyond the naming of what practices are in place. There is little to no information on the processes behind the practice or how a stakeholder may become aware of, or engage in, any appropriate governance process.

Allowing stakeholders to see and understand many of the procedures of the board is increasingly considered good governance practice. A key principle that the ASX emphasises is the public disclosure *and explanation* of any governance procedures that an organisation may have in place because governance is about ‘preserving stakeholder confidence’.<sup>152</sup> To this end, the ASX corporate governance council has recently incorporated a change to their governance principles by recommending that the disclosure by an organisation when reporting on their governance practices should include the specific policies that govern these practices; rather than simply allowing a company to report it has certain practices in place. The Australian Auditor General recently indicated support for this concept in a speech presented to the Australian Institute of Company Directors Public Sector Governance Conference.<sup>153</sup>

### Mechanisms to Improve Transparency of procedures of the RWWA Board

The Committee acknowledges that an essential part of good governance is being open and transparent about the board’s operating procedures and practices. The Committee notes that RWWA states that the roles and delegated authorities of the board, board committees, Chairperson, CEO and Executive Members, ‘are clearly defined and understood within RWWA’.<sup>154</sup> The Committee recommends however that these be publicly disclosed and updated as required, inclusive of such items as the board minutes (where appropriate), code of conduct for board members and the performance management measures of the board and senior management, so that a greater understanding of the goals, objectives, accomplishments and efficacy of the board may be gained by all racing and wagering industry participants.

#### **Finding 16**

The disclosure and explanation of governance principles to stakeholders is essential for good governance to be achieved.

<sup>152</sup> ASX, ‘Corporate Governance Principles and Recommendations with 2010 Amendments, 2<sup>nd</sup> Edition’, 2007. Available at: [www.asx.com.au/about/pdf/cg\\_principles\\_recommendations\\_with\\_2010\\_amendments.pdf](http://www.asx.com.au/about/pdf/cg_principles_recommendations_with_2010_amendments.pdf). Accessed on 31 August 2010.

<sup>153</sup> Australian National Audit Office, *Different Perspectives of Public Sector Governance Asia and Australia*, October 2009, p5. Available at: [http://anao.gov.au/uploads/documents/AICD\\_speech\\_October09.pdf](http://anao.gov.au/uploads/documents/AICD_speech_October09.pdf). Accessed on 7 September 2010.

<sup>154</sup> Racing and Wagering Western Australia, *Annual Report 2009*, RWWA, p73.

**Recommendation 9**

That Racing and Wagering Western Australia clarifies and publicly discloses any governance procedures that it has in place.

**(e) Future Considerations: the changing governance landscape of RWWA****(i) Market Challenges**

Earlier in this section it was noted that good governance principles are evolutionary in their nature. The ongoing obligation for RWWA to ensure their governance practices are reviewed in light of significant changes in circumstances has been emphasised.<sup>155</sup> This is particularly relevant to RWWA at the present time. During the course of this Inquiry the Committee has heard about the advent of a number of external circumstances that have deeply impacted the operational environment of RWWA in recent years. The external nature of these conditions has placed pressure on the internal operating procedures of RWWA as the organisation attempts to manage and adapt to changing market conditions. Notwithstanding that the board and management have been able to combat many of these pressures effectively, market pressures continue to create an imperative for RWWA to adapt their governance strategies to successfully manage them. This imperative has been raised by RWWA, and the means by which to responsibly counteract these market pressures form the corner stone of their recommendations to the Committee.<sup>156</sup>

While these external challenges are examined in greater detail later in the report, in summary these are as follows:

- The advent of corporate bookmakers and other providers of wagering product have injected a considerable amount of competition into the racing and wagering market;<sup>157</sup>
- Current and planned reductions in interstate taxation rates have rendered the RWWA wagering product less attractive in the market—resulting in substantial reductions in revenue;
- The increased cost of providing core wagering services due to product and pooling fees, which currently amount to \$4 million and \$11 million per annum, respectively; and
- The rising costs associated with infrastructure maintenance<sup>158</sup> and infrastructure and facility upgrades.

<sup>155</sup> Refer to the part (a)(iii) of this Chapter.

<sup>156</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010.

<sup>157</sup> Constitutional constraints prevent the state from protecting its wagering monopoly and industry funding model. Refer to Chapter 2.9 (Wagering Revenues) for detail on the impact increased competition in the supply of wagering product has had on RWWA.

<sup>158</sup> Maintenance costs include the rising costs associated with additional regulatory and environmental requirements for racing grounds.

Mechanisms to alleviate the strain these market challenges are placing on the industry are discussed in detail throughout this review in acknowledgment of the negative impact they are having on the operational effectiveness of RWWA.

The Committee is mindful of the impact these market challenges are placing on the overall governance of RWWA, particularly at this juncture with respect to the imperative that exists for the RWWA board to most appropriately value add to the activities of RWWA.

The Economic Audit Committee Report notes that the market pressures RWWA currently face may have serious consequences for the future sustainability of the racing and wagering industry. The report argues that if the market share of the TAB continues to erode, then the current industry funding model will be undermined—in which case, alternative models of funding for the industry will have to be explored.<sup>159</sup>

The Committee requested clarification on what *alternative funding models* might be considered and received the following response from the Department of Treasury and Finance:

*If the market share continues to be eroded steps could be taken to narrow the scope of Totalisator Agency Board operations to the things that they are most efficient at to provide a return. Ultimately, alternative models may need to be examined in the future, in consultation with the agency and stakeholders, in order to identify a sustainable model that will best, satisfy the requirements of the State Government and other stakeholders.*<sup>160</sup>

## **(ii) Committee structure of RWWA board in response to market challenges**

It is clear that RWWA must become increasingly strategic in their governance in an effort to ensure the long term sustainability of the industry. The committee structure of the RWWA board provides a mechanism for focusing on specific strategic issues. To this end, the Committee is of the opinion that the committee structure of the RWWA board should be reviewed to determine if a more appropriate framework can respond to the market challenges RWWA is now facing.

As stated above, Section 16 of the RWWA Act empowers the board to appoint committees of which three currently exist, specifically the IAC, Racing Operations Committee, and Executive Committee. The IAC is established under Section 47 of the RWWA Act and has functions relating to overseeing stewards, drug testing and control, licensing and registration, handicapping, and racing appeals.<sup>161</sup> In addition, the IAC has the extra responsibility of performing the role of RWWA's Audit Committee—which includes oversight for internal Risk Management strategies.

An approach considered by the Committee is one recommended in a UK government commissioned review on the governance procedures of financial institutions in response to the

<sup>159</sup> Economic Audit Committee, Final Report October 2009, Government of Western Australia, Perth, 2009, p122.

<sup>160</sup> Mr Timothy Marney, Under Treasurer, Department of Treasury and Finance, Committee Correspondence, 2 August 2010.

<sup>161</sup> Section 48 *Racing and Wagering Western Australia Act 2003*.

critical failure these institutions faced during the global financial crisis.<sup>162</sup> The Committee finds that there may be some relevancy in examining a similar framework for RWWA in light of the serious threat market challenges are placing on the future sustainability of the racing and wagering industry in Western Australia.

In brief, it recommends for the establishment of a clearly distinguished Audit Committee and the establishment of a separate Risk Committee. The approach outlines that in practice, Audit Committees have clear responsibilities for oversight and reporting to the board on the financial accounts and adoption of appropriate accounting policies, internal control, compliance and other matters. This is a vital role but is in many ways backward looking whereas, Risk Management, whilst obviously closely related to functions associated with an Audit Committee, could be vested with a largely forward-looking focus if it is given oversight for the board's consideration of both current and future risk exposure.<sup>163</sup> This could include future infrastructure planning (as discussed in Chapter 2.7(c)).

It may be that such a framework would enable the RWWA board to become increasingly responsive to dynamic market conditions that are placing pressure on RWWA's operations. Section 16 provides the legislative ability for RWWA to review and implement changes to their committee framework. As such, the Committee recommends that such a review be carried out.

#### **Finding 17**

There is merit in the establishment of a board Risk Committee separate from the Audit Committee and as board committees in their own right.

#### **Recommendation 10**

That Racing and Wagering Western Australia, pursuant to Section 16 of the *Racing and Wagering Western Australia Act 2003*, reviews the committee framework of the board to establish whether a board risk committee separate from the audit committee would be beneficial to its operations.

<sup>162</sup> David Walker, 'A review of corporate governance in UK banks and other financial industry entities', 16 July 2009. Available at: [www.audit-committee-institute.be/dbfetch/52616e646f6d4956f9ed6cb8ae5277dbec35c233bab54a5b/walker\\_review\\_consultation\\_160709.pdf](http://www.audit-committee-institute.be/dbfetch/52616e646f6d4956f9ed6cb8ae5277dbec35c233bab54a5b/walker_review_consultation_160709.pdf) Accessed on 13 September 2010.

<sup>163</sup> Ibid, p81.

**(iii) The Economic Audit Committee (EAC)**

The Economic Audit Committee's final report listed a number of recommendations that will be relevant to the future governance of RWWA.<sup>164</sup>

The report is aimed at providing recommendations for immediate and ongoing improvement in the outcomes achieved by the Western Australian public sector—and largely focuses on appropriateness of the governance arrangements of entities within the public sector. RWWA is classified as a Government Trading Enterprise (GTE) and as such will be subject to any of the recommendations made in the report that apply to GTEs.<sup>165</sup>

The two overarching aims of the EAC report were to recommend that a transparent and consistent governance policy be developed, alongside enhanced general government sector support for the key stakeholders in each GTE. These are reflected in recommendations 28 to 30 of the report which are summarised here:

**Recommendation 28:** Introduce umbrella legislation to standardise, strengthen and clarify governance arrangements for all GTEs.

**Recommendation 29:** Establish a GTE advisory and monitoring unit.

**Recommendation 30:** Review GTEs to ensure that the governance and ownership of each business is appropriate for delivering Government's policy objectives. The review should address the following issues:

- a) Does Government need to be an active participant in the market (due to market failure) or is it simply replicating something the private sector can do (with appropriate regulation)?
- b) Can the GTE operate independently of Government? What policy outcomes is Government seeking from the GTE (for example, fully commercial provider of specific outputs, a source of revenue, industry and/or social policy)?
- c) What is Government's broader policy for the market in which the GTE operates and does the policy have implications for the appropriate ownership and governance of a GTE participating in the market?
- d) The relative merits of outsourcing, rationalising or decorporatising.<sup>166</sup>

If implemented, these recommendations will impact on the overarching governance arrangements of RWWA. How much will largely be determined by:

- what provisions RWWA would be subject to under the umbrella legislation;

<sup>164</sup> Economic Audit Committee, Final Report October 2009, Government of Western Australia, Perth, 2009.

<sup>165</sup> Mr Timothy Marney, Under Treasurer, Department of Treasury and Finance, letter, 26 August 2010.

<sup>166</sup> Economic Audit Committee, Final Report October 2009, Government of Western Australia, Perth, 2009, pp x-xi.

- what support RWWA would be able to access from the GTE advisory unit; and
- the findings of the governance and ownership review of RWWA as a GTE.

The Committee finds it is incumbent on RWWA to consider the potential or real impact of these recommendations on any of its current or future governance arrangements.

### **Finding 18**

Racing and Wagering Western Australia should consider the potential or real impact of recommendations in the Western Australian Government's Economic Audit Committee Final Report on its current and future governance arrangements.

## **2.3 Objectives of RWWA**

### **(a) Background**

An objective is something that is sought or aimed at.<sup>167</sup> For the purposes of reviewing the operational effectiveness of RWWA, the Committee attempted to gauge what the aims of RWWA are—what RWWA is seeking to achieve, so that an opinion can be formed as to whether RWWA has achieved these aims. The Committee examined the aims behind the establishment of RWWA in 2003 and what objectives or aims were prescribed in the Act; as well as examining feedback on what the industry felt RWWA should be achieving on its behalf and what RWWA considered its main objectives to be.

Whilst the latter views were comprehensively gathered from industry participants and RWWA, the process in its entirety is only briefly summarised here. The Committee discovered considerable ambiguity surrounding the role of RWWA and therefore did not form an opinion on the appropriateness of that role. Instead, stakeholder views are summarised here to highlight the confusion that is present within the racing and wagering industry on this matter, and the importance of RWWA clarifying its objectives will be discussed.

### **(b) Establishment of RWWA's objectives**

The RWWA Act established RWWA as the single controlling body for thoroughbred, harness and greyhound racing in WA. When considering the rationale behind 'the most significant change to the racing industry in its long history',<sup>168</sup> the responsible Minister at the time, Hon. Nick

<sup>167</sup> The Australian Oxford Dictionary, Second Edition, Oxford University Press, 2004.

<sup>168</sup> Hon. Nick Griffiths, MLC, Minister for Racing and Gaming, WA, Legislative Council, *Parliamentary Debates* (Hansard), 9 May 2003, p7416.

Griffiths, MLC offered the following observations made in the Turner Report<sup>169</sup> as a primary driver for the establishment of RWWA:

*...the present governance structure of the racing industry in Western Australia lacks cohesion and strategic direction...Each of the code governing bodies manages its own affairs in isolation. The Minister for Racing and Gaming is [the] last resort...because, in the absence of any strategic directions agreed to for the industry as a whole, or any body responsible for the development of the whole of the industry, there is no other avenue through which individuals or stakeholder groups can represent their concerns or needs and seek action.*<sup>170</sup>

From this statement it could be suggested that the founding objectives of RWWA were to offer strategic direction and development of the whole industry—and to provide a means by which stakeholder groups or individuals could raise their concerns and seek action; thus removing the responsible Minister from the role of ‘last resort’. Whilst RWWA may have succeeded in achieving some of these aims, particularly in regard to relieving the Minister from acting on a last resort basis for the industry,<sup>171</sup> these aims are not prescribed in the Act.

During the same second reading speech on the Racing and Wagering Western Australia Bill 2003, the Minister indicated that Section 35 of the Bill outlined the governance functions of RWWA with regard to racing.<sup>172</sup> Whilst there was some minor change during the passage of the Bill through Parliament, the governance functions referred to were accepted as the functions of RWWA in relation to racing in general and now constitute Section 35 of the RWWA Act. This section includes that it is a function of RWWA to:<sup>173</sup>

- control, supervise and regulate racing in the State;<sup>174</sup>
- to foster the development, promote the welfare and ensure the integrity of metropolitan and country thoroughbred racing, harness racing and greyhound racing, in the interests of the long term viability of the racing industry in Western Australia;<sup>175</sup>
- to undertake and manage racing industry strategic planning, promotion, marketing, sponsorship and administration;<sup>176</sup>

<sup>169</sup> Western Australian Racing Industry Review Committee, *Future Governance of the Western Australian Racing Industry. A Report to the Minister for Racing and Gaming*, Western Australia, October 2001.

<sup>170</sup> Hon. Nick Griffiths, MLC, Minister for Racing and Gaming, WA, Legislative Council, *Parliamentary Debates* (Hansard), 9 May 2003, p7412.

<sup>171</sup> Refer to Chapter 2.4 (a) for information of the Minister’s current role in directing the operations of the racing and wagering industry.

<sup>172</sup> Hon. Nick Griffiths, MLC, Minister for Racing and Gaming, WA, Legislative Council, *Parliamentary Debates* (Hansard), 9 May 2003, p7413.

<sup>173</sup> Refer to the section 35 *Racing and Wagering Western Australia Act 2003* for a full list of the prescribed functions.

<sup>174</sup> Section 35(1)(a) *Racing and Wagering Western Australia Act 2003*.

<sup>175</sup> Section 35(1)(b) *Racing and Wagering Western Australia Act 2003*.

<sup>176</sup> Section 35(1)(c) *Racing and Wagering Western Australia Act 2003*.

- to supervise racing clubs and their affairs;<sup>177</sup>
- to determine the race meetings on which RWWA will conduct off-course wagering;<sup>178</sup>
- in consultation with racing clubs, to establish policies for stake money levels and race conditions and programs;<sup>179</sup>
- to establish policies for, and manage the provision of, programs for apprentice jockey, trainee driver and other racing industry training requirements,<sup>180</sup> and
- to liaise with government and other authorities, whether in or out of Western Australia, with respect to, and to represent the interests of, the racing industry in Western Australia.<sup>181</sup>

The Committee notes that it is a comprehensive list of functions, but it fails to attach any priorities to these functions, and its focus concerns many day to day operations of RWWA that offer no guidance as to what the government's long term objectives for RWWA—or the racing industry—are. As such, Section 35, whilst very useful in prescribing the governance functions of RWWA on an operational level, is not a statement of objectives for RWWA. The RWWA Act, when passed, contained no prescribed objectives for RWWA.

### **(c) RWWA's views on its objectives**

The omission from the RWWA Act of any prescribed objectives was a significant issue raised by RWWA in its submission to the Committee. In it, RWWA stated that there are no 'explicit statements of objectives other than the administrative objectives of establishing RWWA as the governing body for the racing industry'.<sup>182</sup> As the body subject to review, RWWA attempted to define a scope of issues by which the Committee could review its performance. As such, RWWA recognised that the lack of any objectives was clearly an impediment for the Committee in exercising this function.

In the absence of any explicit objectives, RWWA suggested that an overriding objective could be inferred from Section 35,<sup>183</sup> that is, that the objective of the legislation is to 'ensure the long term welfare and sustainability of racing in Western Australia'.<sup>184</sup> While the Committee agrees this

<sup>177</sup> Section 35(1)(d) *Racing and Wagering Western Australia Act 2003*.

<sup>178</sup> Section 35(1)(f) *Racing and Wagering Western Australia Act 2003*.

<sup>179</sup> Section 35(1)(g) *Racing and Wagering Western Australia Act 2003*.

<sup>180</sup> Section 35(1)(h) *Racing and Wagering Western Australia Act 2003*.

<sup>181</sup> Section 35(1)(j) *Racing and Wagering Western Australia Act 2003*.

<sup>182</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p1. The 'administrative objectives' RWWA mentioned in this statement has been inferred to mean the prescribed functions under section 35.

<sup>183</sup> Specifically Section 35(1)(b), noted earlier, which provides that RWWA is to foster the development, promote the welfare and ensure the integrity of metropolitan and country thoroughbred racing, harness racing and greyhound racing, in the interests of the long term viability of the racing industry in Western Australia.

<sup>184</sup> Submission No. 7C from Racing and Wagering Western Australia, 9 May 2010, p1.

objective is sound, it is of the opinion that the objectives of RWWA, or any statutory body, should not need to be inferred.

#### **(d) Industry views on RWWA's objectives**

Evidence received by the Committee demonstrated that industry participants, whilst not in agreement about what the objectives of RWWA should be, nonetheless focus on the functions prescribed in Section 35. Opposing stakeholder views surrounding the issue of RWWA's objectives are briefly summarised here. Views centre on the main issues of country and provincial racing and racing club activities. RWWA's role in regard to education and industry lobbying are also raised here.<sup>185</sup>

##### **(i) Views on RWWA's role in regard to country and provincial racing**

There is a perception that RWWA has an obligation to foster country racing as much as it does any other area of the industry; yet its focus on wagering activities and generating turnover is undermining the ability of country clubs to survive.<sup>186</sup> Other comments received by the Committee in this regard can be summarised as follows:

- Small clubs which generate very little wagering turnover are vulnerable to being shut down and RWWA should be trying to protect them;<sup>187</sup>
- It should be the role of RWWA to ensure that country clubs are 'not allowed (just) to continue, but actually helped to prosper';<sup>188</sup>
- A conflict exists between the betting side of the industry and the running of racing, which needs to be resolved through a clear statement of objectives so that clubs, and country and provincial racing, will know if they have protection for existence beyond the good will of the board;<sup>189</sup>
- Some country clubs resent being labelled as a liability on the industry and believe it should be the role of RWWA to promote them as an important asset;<sup>190</sup> and
- RWWA puts too much emphasis on wagering and revenue generation at the risk of losing sight of the sustainability of the racing industry, particularly small clubs. This may be due to conflict of interests and/or a lack of resources by the board.<sup>191</sup>

<sup>185</sup> It should be noted that industry views on RWWA's role with respect to consultation, accountability, funding distribution and infrastructure funding have been discussed in detail in other sections of this report and are therefore not repeated here.

<sup>186</sup> Submission No. 14 from Western Australian Greyhounds Association, 30 November 2009, p5; Mr Jonathan Menzel, Manager, Narrogin Racing, *Transcript of Evidence*, 3 May 2010, p5; Submission No. 46 from Pinjarra Harness Racing Club, 6 April 2010, p4; Mr Matthew Spurr, President, Wagin Trotting Club, *Transcript of Evidence*, 3 May 2010, p2.

<sup>187</sup> Mr Alfred Paganoni, Past President, Western Australian Country Harness Association, *Transcript of Evidence*, 26 February 2010, p15.

<sup>188</sup> Mr Brendon Gardiner, Secretary/Treasurer, Bridgetown Harness Racing Club, *Transcript of Evidence*, 6 April 2010, p2.

<sup>189</sup> Mr Steven McGuire, Tote Manager, Kojonup Race Club, *Transcript of Evidence*, 3 May 2010, p10.

<sup>190</sup> Submission No. 41 from Country Racing Association, 16 April 2010, p12; Submission No. 21 from Broome Turf Club, 17 December 2009 p2.

According to some stakeholders, RWWA must foster regional and remote racing communities in conjunction with metropolitan races, because it will benefit the entire racing industry.<sup>192</sup> Mr Geoff Fahl of the Carnarvon Race Club indicated that maintaining country racing should be the role of RWWA because ‘if you have got strong country racing, eventually you are going to have strong city racing.’<sup>193</sup> Mr John Biggs, on behalf of NE Goldfields Racing Clubs stated it should be an objective of RWWA to promote country racing, because loss of country racing would have severe ramifications for the industry:

*If those country race meetings were lost, a lot of people would lose interest in the racing industry as a whole. They would not go into the TAB shop and they would not invest money in the TAB; therefore, the turnover will go down. It is very important that we ensure that none of these clubs is allowed to close under any circumstances whatsoever.*<sup>194</sup>

Similarly, many stakeholders argued that RWWA has an obligation to foster the needs of all racing throughout the state, regardless of whether it is metropolitan, provincial, country or outer country. It was suggested that RWWA is failing in this obligation by supporting metro-centric policies.<sup>195</sup> WACHRA noted that ‘there is a growing trend to “offload” smaller to medium sized Clubs to fend for themselves’.<sup>196</sup> Mr Mathew Spurr of the Wagin Trotting Club suggested that RWWA is favouring metropolitan clubs and larger provincial clubs, yet is stripping races and stake money from smaller clubs to the point that they are at risk of failing:

*The Great Southern has been severely impacted since the introduction of RWWA, with a stripping of meetings and a lack of stake money to the point where the clubs are still viable...[RWWA] have created scenarios where some clubs will achieve and some will not. This was pretty evident right from the start.*<sup>197</sup>

Some stakeholders argued that RWWA has an obligation to grow the industry by retaining industry participants and attracting new people to it. It was proposed that this could only be achieved by RWWA having a clear aim to increase races in country communities—rather than to minimise those races which is RWWA’s current policy. Increasing country races will assist those

<sup>191</sup> Submission No. 41 from Country Racing Association, 16 April 2010, p4.

<sup>192</sup> Mrs Margaret Skinner, Secretary, Mt Barker Turf Club, *Transcript of Evidence*, 12 March 2010, p10; Mr Maxwell (Dixie) Solly, President, Country Racing Association, *Transcript of Evidence*, 7 May 2010, pp2, 9.

<sup>193</sup> Mr Geoff Fahl, Chairman/Treasurer, Carnarvon Race Club, *Transcript of Evidence*, 16 May 2010, p8.

<sup>194</sup> Mr John Biggs, Representative, NE Goldfields Racing Clubs, *Transcript of Evidence*, 19 March 2010, p3.

<sup>195</sup> Mr Tony Marwick, Chief Executive officer, Western Australian Provincial Thoroughbred Association, *Transcript of Evidence*, 26 February 2010, pp6-7; Mr David Prance, Immediate Past Chairman, Kalgoorlie-Boulder Racing Club, 19 March 2010, p2; Submission No 5 from York Racing, 26 November 2009, p4; Submission No. 9 from Mr Frank Peczka, 30 November 2009, p2.

<sup>196</sup> Submission No. 33 from Western Australian Country Harness Racing Association, 19 January 2010, p3.

<sup>197</sup> Mr Matthew Spurr, President, Wagin Trotting Club, *Transcript of Evidence*, 3 May 2010, p2.

owners and trainers that have been required to move out to country areas in order to obtain more affordable land and facilities.<sup>198</sup>

Mr Evan Spencer, President of the Golden Mile Trotting Club, asserted that the function of RWWA is to distribute TAB monies to the community—for the benefit of the community. Therefore it is incumbent on RWWA to support country racing as a part of this, because country clubs drive the community focus of RWWA:

*The role of the Golden Mile Trotting Club and the strength of harness racing—all industries like harness racing and gallops—is that it has a regional focus...[they] are community features. RWWA is there to distribute gambling moneys or TAB moneys to the community for the benefit of the community. While it has to be commercial, they certainly are community funds driven from the community, and they should be put back into the community.*<sup>199</sup>

**(ii) Views on RWWA’s role in regard to managing and organising club activities**

A number of stakeholders held the firm view that RWWA’s charter requires RWWA to engage in activities much broader than just facilitating race meetings, summarised as follows:

- A number of stakeholders asserted that it is the objective of RWWA to assist clubs in the marketing and promotion of their events and their product;<sup>200</sup>
- RWWA’s role should be broader than just facilitating race meetings, they should also be offering professional advice to club secretaries, particularly in regard to the administration of club financial records;<sup>201</sup> and
- RWWA needs to promote on-course turnover for the long term viability of racing clubs by investing in on-course facilities to encourage people to attend race meetings.<sup>202</sup>

It was suggested by a number of industry participants that an objective of RWWA is to promote local racing product but that it has allowed national and international product to take precedence. It was argued that it is essential that RWWA addresses this.<sup>203</sup> The Fremantle Harness Racing

<sup>198</sup> Mr Barry Mahood, Chairman, York Racing Inc, *Transcript of Evidence*, 26 March 2010, pp7-8; Mr Patrick Flynn, Vice President, York Harness Racing Club, *Transcript of Evidence*, 26 March 2010, p7; Mrs Patricia Abbott, Secretary/Treasurer, Busselton Trotting Club, *Transcript of Evidence*, 6 April 2010, p4.

<sup>199</sup> Mr Evan Spencer, President, Golden Mile Trotting Club, *Transcript of Evidence*, 19 March 2010, p13.

<sup>200</sup> Submission No. 33 from West Australian Country Harness Racing Association, 19 January 2010, p3; Submission No. 9 from Mr Frank Peczkka, 30 November 2009, p2.

<sup>201</sup> Ms Julie Caldwell, Manager, Bunbury Trotting Club, *Transcript of Evidence*, 6 April 2010, p9; Mr Evan Spencer, President, Golden Mile Trotting Club, *Transcript of Evidence*, 19 March 2010, p13; Mr Bruce Brown, Treasurer and Committee member, Geraldton Harness Racing Club, *Transcript of Evidence*, 29 March 2010, p15; Submission No. 23 from Bunbury Turf Club, 18 December 2009, p1.

<sup>202</sup> Mr Robert Howat, President, Western Australian Bookmakers Association, *Transcript of Evidence*, 8 March 2010, p4; Mr Brendon Gardiner, Secretary/Treasurer, Bridgetown Harness Racing Club, *Transcript of Evidence*, 6 April 2010, p7; Mr Kenneth Godley, President, Bunbury Trotting Club, *Transcript of Evidence*, 6 April 2010, p4.

<sup>203</sup> Mr Peter Hemsley, Secretary, Collie Harness Racing Club, *Transcript of Evidence*, 6 April 2010, p2; Mr Nicholas Bosly-Pask, Acting Chair, Narrogin Racing, *Transcript of Evidence*, 3 May 2010, p15.

Club asserted that RWWA has not been strong on promotion and has a role to become more of a corporate citizen and help racing clubs promote their product:

*I believe that RWWA has an obligation to the industry to explore every opportunity that there is to help a club to foster it in the environment that it is in.*<sup>204</sup>

It was suggested that RWWA should also be building the national and international profile of local racing product by helping clubs build their reputation and by providing some continuity in a club's programming.<sup>205 206</sup>

Conversely, some stakeholders suggested that it was never the intent for RWWA to have such a say over the day to day operational activities of individual clubs. These stakeholders argued that RWWA should be focusing only on the broader industry issues concerning overall strategy of the industry going forward. The WATA contended that RWWA has too much control over clubs and subsequently limit a club's ability to grow its own local product:

*I think there is a responsibility for RWWA to a certain degree to market the betting engine of racing. But as we mentioned earlier...the fact is that we are a business. Every club is a business. We need to be in a situation where we can stock our own shelves.*<sup>207</sup>

Perth Racing similarly contended that RWWA's role is to focus on the overall promotion of the industry and to hand back the event management of race meetings to the clubs:

*...RWWA's role...obviously needs to be focused on generic advertising; that is, advertising the product, the betting product, through its agency network and in totality its marketing network... There is a greater level of knowledge within the racing clubs that have become, in effect, the event managers regarding the racing product. It would benefit the industry if some of those functions...came back to the clubs.*<sup>208</sup>

It is not just metropolitan clubs that have the view that RWWA's role has become too focused on operational activities of clubs. Mr Brett Smith of the Junction Race Club believed that RWWA's purpose should be to keep the allocations going and to help clubs achieve infrastructure upgrades—without being totally dictatorial about what the club can and cannot do.<sup>209</sup>

<sup>204</sup> Mr Geoffrey Warwick, Vice President, Fremantle Harness Racing Club, *Transcript of Evidence*, 4 June 2010, p8.

<sup>205</sup> Mr Nicholas Bosly-Pask, Acting Chair, Narrogin Racing, *Transcript of Evidence*, 3 May 2010, p15.

<sup>206</sup> Race programming is discussed further at Chapter 3.5 of this report.

<sup>207</sup> Mr Robert Bovell, Chief Executive, Western Australian Trotting Association, *Transcript of Evidence*, 26 February 2010, pp9-10.

<sup>208</sup> Mr Edward (Ted) van Heemst, Chairman, Perth Racing, *Transcript of Evidence*, 26 February 2010, p2.

<sup>209</sup> Mr Brett Smith, Committee Member, Junction Race Club, *Transcript of Evidence*, 16 May 2010, p10.

**(iii) Other views on RWWA's role in regard to the racing and wagering industry**

Some stakeholders believe that RWWA has an essential role as the controlling body for the industry to lobby the government on issues concerning the industry. WAPTRA submitted that it is the role of RWWA to lobby the government on issues like taxation relief:

*It is incumbent on RWWA to actively and vigorously explore every avenue of political lobbying of all persuasions.*<sup>210</sup>

Mr Evan Spencer of the Golden Mile Trotting Club considered it a core function of RWWA to lobby on behalf of clubs on issues surrounding the stabling of horses and other animal welfare issues:

*Horse stabling is core business to RWWA. RWWA should have a say in legislation for housing and cost effective health issues for horses.. I do not think that RWWA has lobbied hard with health requirements for stabling of horses. No-one else has a better knowledge, control and ability to drive, purchase power, common design, commonality and approach than RWWA, and I believe that should be a core function of RWWA.*<sup>211</sup>

From yet another angle, some stakeholders considered it of vital importance that RWWA promotes and develops education courses for the industry. WACHRA highlighted that there may be a skills shortage looming with respect to farriers:

*There is a really urgent need for something to be done there...The farrier is more important in harness racing than in the thoroughbred industry, but there is really nothing happening there... Something could be done through TAFE to train farriers.*<sup>212</sup>

The Pinjarra Harness Racing Club suggested that some forward planning needs to be implemented so that courses are developed before a skills shortage occurs.<sup>213</sup>

**(e) Clarifying RWWA's objectives - why it is important**

The Committee notes that throughout the Inquiry stakeholders have offered differing views on a number of issues. The significance of this as it relates to the aims of RWWA is that if stakeholders, at the most primary level, do not agree on *what RWWA is meant to be doing*, considerable operational pressure may be put on RWWA in its role as the controlling body for the many and varied interests within the racing and wagering industry. Many industry stakeholders have a strong view as to what the function of RWWA is, which will sometimes be in direct opposition to another stakeholder's view.

<sup>210</sup> Submission No. 24 from Western Australian Provincial Thoroughbred Racing Association, 24 December 2009, p2.

<sup>211</sup> Mr Evan Spencer, President, Golden Mile Trotting Club, *Transcript of Evidence*, 19 March 2010, p15;

<sup>212</sup> Mr Kerry Clarke, President, Western Australian Standardbred Breeders Association, *Transcript of Evidence*, 7 May 2010, p23.

<sup>213</sup> Mr Kimberley Tuckey, President, Pinjarra Harness Racing Club, *Transcript of Evidence*, 6 April 2010, p7.

This phenomenon is only exacerbated by the current economic pressure that RWWA is experiencing. Currently, RWWA is without any protection from industry frustration in the event that it makes an unpopular decision that appears to be contrary to Section 35. The failing of Section 35, as previously noted, is that it does not place any priority onto any given function. Hence, in an environment of limited resources, some of these functions may necessarily compete with other functions. From the evidence it can be seen that stakeholders are of the view that RWWA is giving priority to some areas of the industry at the detriment of others. The Committee argues that this has created confusion and opposition amongst stakeholders as to what priorities, or objectives, RWWA should be trying to achieve through its operations.

It is also problematic for RWWA in trying to manage industry expectations about what it can effectively achieve in the coming years. If RWWA's objectives are clarified, that is, if it was provided with an objective or 'mission statement' explicitly stated within the Act—set by the government—in light of what the government wants RWWA to achieve in the long term, it would provide a framework within which RWWA can operate and make decisions in the short term to best achieve its long term objectives.

It is not the function of an overarching objective to determine day to day functions of RWWA; as RWWA must be able to perform its operations in an environment that is responsive to market conditions. Nonetheless, it is the Committee's opinion that if the broader industry is aware of the long term explicit objectives of RWWA—and has the confidence that, through legislation, RWWA must work towards trying to achieve these objectives, stakeholder frustration about day to day decisions made by RWWA will diminish. The Committee finds therefore that the RWWA Act should be amended to include an explicit statement of objectives for RWWA.

### **Finding 19**

Industry participants have varied opinions as to what priorities or objectives Racing and Wagering Western Australia should be trying to achieve, which has the potential to impact on the effectiveness of its operations.

### **Finding 20**

An explicit statement of objectives for Racing and Wagering Western Australia defined in legislation would provide an effective framework within which it can make decisions to best achieve its long term goals.

When asked to comment about the absence of any explicit statement of objectives in the legislation, RWWA agreed it was problematic because some of the functions listed in Section 35 could lead to conflicting outcomes.<sup>214</sup> Mr Richard Burt, CEO of RWWA highlighted that the key

<sup>214</sup> Mr Richard Burt, CEO, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p11.

word that would need to be included in a statement of objectives for RWWA is the word ‘sustainability’.<sup>215</sup> Expanding on this theme, RWWA was asked to provide the Committee a further elaboration on the wording associated with Section 35. RWWA’s response to the Committee was as follows:

*...to foster the development, promote the welfare and ensure the integrity of metropolitan and country thoroughbred racing, harness racing and greyhound racing. In undertaking these objectives, RWWA is to recognise the unique characteristics of each racing code so as to maximise the sustainability of racing in Western Australia.*<sup>216</sup>

Elaborating on this wording, RWWA advised that:

*...the mission statement of RWWA should include words to the effect [that]...In undertaking these objectives—this is new—RWWA is to recognise the unique characteristics of each racing code so as to maximise the sustainability of racing in Western Australia. This is the key.*<sup>217</sup>

The Committee agrees with the mission statement put forward by RWWA. It is of the view that it will assist both RWWA and stakeholders define what it is that RWWA is trying to achieve.

In order for the statement to satisfy this purpose, it should not be given the same practical designation as any other function listed in Section 35. As such, it would be appropriate for the statement to be inserted into the RWWA Act as a stand alone statement of RWWA’s objectives with respect to racing.

### **Recommendation 11**

That the *Racing and Wagering Western Australia Act 2003* be amended to insert the following specific statement of objective for Racing and Wagering Western Australia in relation to racing in general:

*That Racing and Wagering Western Australia is to foster the development, promote the welfare and ensure the integrity of metropolitan and country thoroughbred racing, harness racing and greyhound racing. In undertaking these objectives, Racing and Wagering Western Australia is to recognise the unique characteristics of each racing code so as to maximise the sustainability of racing in Western Australia.*

<sup>215</sup> Ibid., p12.

<sup>216</sup> Submission No. 7C from Racing and Wagering Western Australia, 31 May 2010, p4.

<sup>217</sup> Mr Richard Burt, CEO, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p46.

## 2.4 Accountability

### (a) Accountability functions of RWWA

As part of the governance framework of an organisation, accountability is generally considered to be an indispensable check on how power is exercised. It is a measure that those exercising public power are answerable, responsive and transparent.<sup>218</sup> This section presents a summary of stakeholder views on accountability. An examination is also provided of the prescribed framework within Part 6 of the RWWA Act and other operational procedures that constitute the accountability system for RWWA, and whether these facilitate RWWA being an *answerable, responsive and transparent* organisation.

Part 6 of the RWWA Act 2003 requires RWWA to comply with two basic accountability mechanisms:

- A Strategic Development Plan (SDP); and
- A Statement of Corporate Intent (SCI).

The processes by which these two mechanisms are prescribed accountability measures of RWWA are explained below.

#### (i) *Strategic Development Plan (SDP)*

Section 66 of the RWWA Act requires the RWWA board to prepare a draft SDP each year and submit it to the Minister for Racing and Gaming for the Minister's agreement. The RWWA Act specifies matters to be considered when preparing a plan, specifically:

- 1 competitive strategies, pricing of products, productivity levels, financial requirements, capital expenditure and personnel requirements;
- 2 how funds are to be distributed to racing clubs across the various codes and between metropolitan and regional areas; and
- 3 any other matters as agreed between the Minister and the board.<sup>219</sup>

The plan must cover a forecast period of 5 years unless otherwise agreed with the Minister and is to 'set out economic and financial objectives and operational targets and how those objectives and targets will be achieved'.<sup>220</sup>

<sup>218</sup> Commonwealth Ombudsman, 'Accountability of Government', 12 May 2007. Available at: [www.ombudsman.gov.au/pages/publications-and-media/speeches-and-presentations/speech-2007-may-12.php](http://www.ombudsman.gov.au/pages/publications-and-media/speeches-and-presentations/speech-2007-may-12.php) Accessed on 19 February 2010.

<sup>219</sup> Section 68(2) *Racing and Wagering Western Australia Act 2003*.

<sup>220</sup> Sections 66, 67, 68(1) and 72 *Racing and Wagering Western Australia Act 2003*.

**Minister's power in relation to the Strategic Development Plan (SDP)**

Upon receipt of the draft SDP from the RWWA board, Section 70 allows the Minister to return the draft to the RWWA board requesting that any matter be considered further should the Minister not agree with some section of the plan. The board must comply with this request as soon as it is practicable—or, if agreement is not reached,<sup>221</sup> the Minister can direct the board to take specific steps or make specific modifications to the draft plan. Once RWWA and the Minister agree on a draft plan, it then becomes the SDP for the relevant financial year (or remainder of the year if the time taken for the Minister and board to reach agreement was prolonged).<sup>222</sup>

Subsequent modifications may be made to the SDP. The RWWA board can modify it with the agreement of the Minister; or after consultation with the board, the Minister can direct the board to modify the SDP which it must comply with.<sup>223</sup> Notably, Section 74 prescribes that the Minister is not to agree to any draft plan, or direct any modifications to a plan without the concurrence of the Treasurer.<sup>224</sup>

**(ii) Statement of Corporate Intent (SCI)**

Every year, RWWA is also required to prepare and submit to the Minister a Statement of Corporate Intent (SCI). The SCI must be consistent with the Strategic Development Plan for that financial year and must include the following considerations:

- 1 an outline of objectives;
- 2 an outline of main undertakings during the relevant financial year;
- 3 how funds are to be apportioned to racing clubs across the various codes and between metropolitan and regional areas;
- 4 an outline of the nature and scope of functions RWWA propose to perform in the relevant financial year;
- 5 accounting policies;
- 6 information of the type given to the Minister in annual reports; and
- 7 performance targets and other matters that the board consider relevant to include.<sup>225</sup>

Section 77(3) allows the Minister to exempt RWWA from including any matter listed above.

<sup>221</sup> That is, that the Minister and the RWWA board do not reach an agreement on the draft SDP.

<sup>222</sup> Section 72 *Racing and Wagering Western Australia Act 2003*.

<sup>223</sup> Section 73(2) *Racing and Wagering Western Australia Act 2003*.

<sup>224</sup> The significance of this is discussed later in this section.

<sup>225</sup> Section 77 *Racing and Wagering Western Australia Act 2003*.

**Minister's power in relation to the Statement of Corporate Intent (SCI)**

The Minister may request that the board considers any matter and revises the Statement of Corporate Intent accordingly. The board must comply with this request as soon as practicable. The SCI must be tabled in Parliament within 14 days of receipt by the Minister.<sup>226</sup> RWWA may request—and the Minister can comply, that a commercially sensitive matter be deleted from the tabled SCI. If this is the case, the tabled SCI must contain a statement detailing the reasons for the deletion in its place—together with an opinion on the commercial sensitivity of the deleted portion from the Auditor General.<sup>227</sup>

It is interesting to note that whilst the Minister does not have any provision to alter the SCI once it has been tabled, Section 80 prescribes that the Statement of Corporate Intent can be modified by the RWWA board.

**(iii) Other prescribed roles with respect to accountability**

Other than the Minister's role in the development and approval of SDPs and SCIs, the Minister for Racing and Gaming has limited involvement in the accountability operations of RWWA:

- Section 83 prescribes that the Minister is entitled to access, copy and retain information and documents from RWWA and any subsidiary and that RWWA is to comply with this request and make staff and facilities available for this process to be carried out;
- RWWA is also required to keep the Minister reasonably informed of its operations, financial performance and financial position of RWWA and its subsidiaries, including information such as 'assets and liabilities, profits and losses and prospects of RWWA and its subsidiaries.'<sup>228</sup> This includes notifying the Minister if any matter arises that will significantly impact on RWWA's ability to either achieve the targets contained in its Strategic Development Plan or the objectives outlined in its Statement of Corporate Intent.<sup>229</sup>
- If RWWA or a subsidiary becomes unable to fulfil, or is likely to be unable to fulfil—any financial obligation of RWWA or a subsidiary, notice must be given to the Minister in writing and include the reasons for the board's opinion and any information determined by the board to be relevant. There is no prescribed time frame within which this notice to the Minister must be carried out;<sup>230</sup>
- RWWA's accounts and managements records must be kept in a place approved by the Gaming and Wagering Commission ('the Commission'), which also has access to those records.<sup>231</sup>

<sup>226</sup> Section 79 *Racing and Wagering Western Australia Act 2003*.

<sup>227</sup> Sections 79(2) and 79(3) *Racing and Wagering Western Australia Act 2003*.

<sup>228</sup> Section 84(a) *Racing and Wagering Western Australia Act 2003*.

<sup>229</sup> Sections 83 and 84 *Racing and Wagering Western Australia Act 2003*.

<sup>230</sup> Section 85 *Racing and Wagering Western Australia Act 2003*.

<sup>231</sup> Section 8 *Racing and Wagering Western Australia Act 2003*.

No prescribed role exists under the RWWA Act for the Department of Racing, Gaming and Liquor. Mr Barry Sargeant, Director General of DRGL noted that the Department has reduced involvement in the racing and wagering industry compared to the previous system of governance under the principal clubs and the Totalisator Agency Board. He summed up the role of the Department in the following way:

*I still control the correspondence and complaints that come through about RWWA and other matters. I get involved in some of the broad government policy but a lot of it is generated through RWWA. My agency does not have that involvement. I still regulate the TAB through the Gaming and Wagering Commission. We still regulate the bookmakers through the Gaming and Wagering Commission.*<sup>232</sup>

Significantly, Section 81 of the RWWA Act states that RWWA is not subject to direction from government and—except as provided by the Act, RWWA is not required to comply with any direction or administrative request made by or on behalf of government. It is also important to note that RWWA has a duty under Section 28 of the RWWA Act to perform its functions in accordance with its SDP and SCI and while RWWA also has a duty to act on commercial principles, where there is a conflict the SDP and SCI prevail.<sup>233</sup>

Other legislated accountability requirements are as follows:

- RWWA is subject to the provisions of the *Financial Management Act 2006*; and the *Auditor General Act 2006*;<sup>234</sup>
- The Minister may (with the concurrence of the Treasurer) impose monetary limits on what RWWA can borrow/obtain in the form of credit;<sup>235</sup>
- RWWA is subject to regulation by the Gaming and Wagering Commission for many of its prescribed functions, including the licensing of its Directors and Key Employees;<sup>236</sup>
- The Commissioner of State Revenue has the power to access and inspect RWWA premises, including totalisators, totalisator agencies and other premises of RWWA and to perform other duties as required;<sup>237</sup> and
- A police officer, RWWA director, steward or authorised person can enter any of RWWA's premises to audit, inspect and determine that the requirements of the RWWA Act 2003 are being met;<sup>238</sup>

<sup>232</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 19 February 2010, pp8-9.

<sup>233</sup> Section 29 *Racing and Wagering Western Australia Act 2003*.

<sup>234</sup> Section 108 *Racing and Wagering Western Australia Act 2003*.

<sup>235</sup> Section 98 *Racing and Wagering Western Australia Act 2003*.

<sup>236</sup> Sections 14 and 24 *Racing and Wagering Western Australia Act 2003*.

<sup>237</sup> Section 114 *Racing and Wagering Western Australia Act 2003*.

The Committee notes that whilst there is obviously a suite of legislation to which RWWA must comply and that will, in practice, contribute to the overall accountability framework,<sup>239</sup> they are nonetheless outside the scope of this Inquiry. The Committee will therefore not examine the impact of these—other than to acknowledge that RWWA is subject to external accountability requirements which involve considerable reporting and administrative demands.

### **Finding 21**

Racing and Wagering Western Australia is subject to external accountability requirements which involve considerable reporting and administrative demands.

## **(b) Views on the accountability of RWWA and mechanisms to improve accountability**

The Committee received evidence highlighting concerns regarding the exercise of RWWA's accountability functions. In this regard the majority of stakeholders felt that RWWA has a broad obligation to industry participants to be accountable for its financial operations and its strategic decision making processes. Correspondingly, industry participants were generally of the view that RWWA should be accountable to government, either directly or through the development and tabling of the Statement of Corporate Intent. Lastly, racing clubs in particular noted that there was no external accountability mechanism that allowed clubs the ability to appeal decisions by RWWA which would impact significantly on a club. Feedback surrounding these points are summarised briefly here along with suggested mechanisms for improvement.

### **(i) RWWA's accountability for financial operations and transparency regarding its strategic decision making processes**

A number of stakeholders expressed the opinion that there is a lack of accountability with respect to general decision making processes within RWWA. The main comments put to the Committee can be summarised as follows:

- Some very big decisions have been made by RWWA that affect a lot of people in the industry but there is no accountability about who makes those decisions;<sup>240</sup>

<sup>238</sup> Section 113 *Racing and Wagering Western Australia Act 2003*. This right to enter includes premises of totalisators, totalisator agencies and other premises of RWWA or any racecourse; race club or other sporting venue where wagering takes place; or any premises where a racing horse or greyhound is kept, trained or raced.

<sup>239</sup> Examples of other legislation that contribute to the accountability framework of RWWA are: *Racing Restriction Act 2003*; *Gaming and Wagering Commission Act 1987*; *Betting Control Act 1954*; and the *Statutory Corporations (Liabilities of Directors) Act 1996*; *Equal Opportunity Act 1984*. In addition, there are clearly a vast number of general legislation requirements such as *Corruption and Crime Commission Act 2003*; *the Freedom of Information Act 1992*; *Public Interest Disclosure Act 2003*; *Occupational Safety and Health Act 1984*; *Equal Opportunity Act 1984*; *Criminal Code Act 1913 (WA) and Criminal Code Act 1995 (Commonwealth)* and the *Trade Practice Act 1974*.

<sup>240</sup> Mr David Wrensted, Vice Chair, Western Australian Provincial Thoroughbred Racing Association, *Transcript of Evidence*, 26 February 2010, p12.

- The [Northam Race Club] is totally unaware of the decision-making process within RWWA and what their priorities are;<sup>241</sup>
- RWWA does not seem answerable to the industry and is not open about its decision making processes;<sup>242</sup>
- RWWA needs to become more accountable, particularly in regard to its responsibility to administer the racing industry because if unchecked, RWWA will simply focus on growing its wagering interests;<sup>243</sup> and
- RWWA appears to have no accountability in many areas and seems intent to grow metropolitan racing to the detriment of regional WA.<sup>244</sup>

There was concern expressed over the lack of accountability with respect to RWWA's financial operations. Both wagering and racing stakeholders claimed that there is a lack of accountability surrounding the manner in which RWWA spends money before it is distributed to the codes—particularly in regard to the operating costs of RWWA.<sup>245</sup>

Mr Tony Marwick, Northam Race Club, noted that there is a lack of explanation concerning the rationale behind RWWA's funding decisions. He said of RWWA that whilst he understood RWWA needs to make decisions as the governing body, it is not transparent and many clubs are in the dark regarding why a funding model has been presented, what the logic is behind it, and where RWWA has gathered its information on which to base its decisions.<sup>246</sup> Mr Robert Tomlinson, BOTRA, said that the harness industry would benefit greatly if there was more transparency about where funding distributions were going—whether it is into infrastructure; racing, or stakes, as it would help participants plan for the future.<sup>247</sup>

Evidence was also received by the Committee suggesting a lack of information put to clubs regarding the financial performance of clubs relative to each other. It was noted that prior to the advent of RWWA, each club was able to see how well another club was performing—which in turn would assist the club to gauge its performance, and would allow clubs to have a complete understanding of how and where club funding was being distributed.<sup>248</sup> Mrs Margaret Skinner, Mt

<sup>241</sup> Mr Tony Marwick, President, Northam Race Club, *Transcript of Evidence*, 26 March 2010, p2.

<sup>242</sup> Mr Kenneth Godley, President, Bunbury Trotting Club, *Transcript of Evidence*, 6 April 2010, p2.

<sup>243</sup> Mr Brendon Gardiner, Secretary/Treasurer, Bridgetown Harness Racing Club, *Transcript of Evidence*, 6 April 2010, p8.

<sup>244</sup> Submission No. 12 from Narrogin Racing, 30 November 2009, p6.

<sup>245</sup> Submission No. 41 from Country Racing Association, 16 April 2010, p3; Mr Dino Di Cianno, Director, Best Bookies Price Pty Ltd, *Transcript of Evidence*, 8 March 2010, p14; Mr Jonathan Menzel, Manager, Narrogin Racing, *Transcript of Evidence*, 3 May 2010, p10.

<sup>246</sup> Mr Tony Marwick, President, Northam Race Club, *Transcript of Evidence*, 26 March 2010, p2.

<sup>247</sup> Mr Robert Tomlinson, President, Breeders, Owners, Trainers, Reinspersons Association, *Transcript of Evidence*, 7 May 2010, p5.

<sup>248</sup> Mr Kenneth Nottle, President, Harvey District Trotting Club, *Transcript of Evidence*, 6 April 2010, p12; Submission No. 13 from Mt Barker Turf Club, 30 November 2009, p2.

Barker Turf Club, noted that the previous system would contribute to the overall accountability on club funding, as every aspect of it was open:

*Everybody in the provincial association knew exactly where every club was and what their stake money was. Every aspect of each club's finances was clear.*<sup>249</sup>

Mrs Skinner continued that because these figures are no longer shared, clubs have to rely on each other to share this information in order to gauge how they are faring compared to their competitors; how clubs in particular areas are performing overall and to establish where the money is going.<sup>250</sup> When asked if it would be useful to know what competing clubs are doing and how much turnover they are producing, Mr Paul Rossiter of the Bunbury Turf Club noted that it would be hugely beneficial to clubs.<sup>251</sup>

In summary therefore, the feedback received by the Committee shows that there is a perceived lack of transparency about decision making processes within RWWA. It is apparent that this issue is having a negative impact on the industry. This is evidenced by the CRA's view that there is a sense of deficiency about the accountability of RWWA board decisions which has led to 'a feeling of distrust and concern between parties'.<sup>252</sup> It is the Committee's opinion that if this issue is allowed to continue, it will have an increasingly negative impact on the effectiveness of the operations of RWWA. As such, the Committee finds that this issue should be explored further and remedied by RWWA as a priority.

### **Finding 22**

Industry participants perceive a lack of transparency with respect to Racing and Wagering Western Australia's decision making processes, which if not addressed as a matter of priority will risk undermining its operational effectiveness.

As noted in Chapter 2.2, a basic principle of good governance—of which accountability is an integral part—is preserving stakeholder confidence.<sup>253</sup> It is not unreasonable that a stakeholder may therefore feel a lack of confidence about decisions if they are unable to determine the quality of information being factored into—or have any knowledge of, any decision making process. Conversely, if RWWA was to be more accountable about its decision making processes, stakeholder confidence in these decisions may increase which could—in turn, increase the overall operational effectiveness of RWWA. The Committee therefore recommends that RWWA

<sup>249</sup> Mrs Margaret Skinner, Secretary, Mt Barker Turf club, *Transcript of Evidence*, 12 March 2009, p8.

<sup>250</sup> *Ibid.*

<sup>251</sup> Mr Paul Rossiter, Manager, Bunbury Turf Club, *Transcript of Evidence*, 7 May 2010, pp7-9.

<sup>252</sup> Submission No. 41 from Country Racing Association, 16 April 2010, pp3-4.

<sup>253</sup> ASX, 'Corporate Governance Principles and Recommendations with 2010 Amendments, 2<sup>nd</sup> Edition', 2007. Available at: [www.asx.com.au/about/pdf/cg\\_principles\\_recommendations\\_with\\_2010\\_amendments.pdf](http://www.asx.com.au/about/pdf/cg_principles_recommendations_with_2010_amendments.pdf) Accessed on 31 August 2010.

discloses its decision making procedures as this would facilitate a greater understanding among industry stakeholders of how long-term planning decisions are made.

### **Recommendation 12**

That Racing and Wagering Western Australia publicly discloses its overarching decision making procedures to provide greater transparency to the industry.

The Committee received extensive feedback about the lack of open and up to date sharing of individual club financial information. It was asserted that this is becoming a barrier to stakeholder confidence. The Committee finds that, given this evidence, there is merit in clubs being made aware of their relative financial performance so that there is clear and open accountability in regard to club financing. While the Committee acknowledges that RWWA currently publishes annual Racing Industry Status Reports, which compare racing statistics and turnover for the season just gone, the criticism seems to relate primarily to openness surrounding the allocation of funds to clubs for the season to come. As such, the Committee finds that greater transparency measures should be introduced to enable one club to see another club's finances in the context of RWWA's distribution of funds.

### **Finding 23**

Evidence suggests that in terms of forward planning it would be advantageous if race clubs are made aware of their financial performance compared with other clubs.

### **Recommendation 13**

That Racing and Wagering Western Australia introduces transparency measures to facilitate greater awareness among race clubs of relative financial performance.

## **(ii) Accountability to government**

The former Minister for Racing and Gaming, Hon. Nick Griffiths contends that the RWWA Act, when passed, went 'a long way in getting rid of government from the racing industry, and the job should be completed'.<sup>254</sup> Mr Griffiths is of the view that the industry should be left to run the industry—that the Minister should not appoint the chair of the board, indeed that there is no need

<sup>254</sup> Hon. Nicholas Griffiths, Former Minister for Racing and Gaming, *Transcript of Evidence*, 19 February 2010, p9.

to have a racing minister or the Department of Racing Gaming and Liquor.<sup>255</sup> Mr Griffiths' rationale is that 'there is no benefit at all in having government involved in these activities'.<sup>256</sup> Interestingly, the Committee sought the broad opinion of industry participants on the view put forward by the former Minister, and it became clear that widespread support is lacking for RWWA to become completely independent of government, a matter discussed further in the context of the structure of RWWA in Chapter 2.10.

Stakeholders held the view that some governmental oversight within RWWA's accountability framework was beneficial for the racing and wagering industry.<sup>257</sup> Mr Robert Bovell, WATA, went so far as to say that allowing RWWA to be completely independent of government could be a dangerous thing because it would give RWWA absolute power and remove the ability of any club or any government to have a say.<sup>258</sup>

Evidence to the Inquiry suggested that government oversight is necessary, and because RWWA currently requires the assistance of government to meet its burgeoning capital infrastructure requirements, it is appropriate that RWWA is held accountable to the government for the funding it receives.<sup>259</sup> Similarly, Mr Ross Bowe, Chairman of RWWA, noted that because RWWA will need to call on the government in extraordinary circumstances<sup>260</sup> it is not reasonable to expect that RWWA can be independent of government and that, if it did occur, the implications would be felt across the industry.

*It is unrealistic to expect that we can be totally removed from some sort of government oversight. That would have social and community implications across the state. I am inclined to think that the present model is the preferable one.*<sup>261</sup>

Mr Kevin Jeavons of BOTRA asserted that RWWA is dependent on government for funding and given that this will continue to happen in one form or another, the government should know how these funds are spent.<sup>262</sup>

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<sup>255</sup> Ibid., pp8-9.

<sup>256</sup> Ibid., p9. By proposing that the racing and wagering industry should be completely independent from government, the former racing minister assumes that there is no public money involved in funding the industry—which is a fact not supported by the views above nor the findings of this Inquiry. Refer to Chapter 2.2 Governance) and 2.8 (Taxation) for a discussion on the public nature of RWWA's funds.

<sup>257</sup> Mr Brian Paddock, Secretary, Western Australian Racing Trainers Association, *Transcript of Evidence*, 26 February 2010, p11; Mr Rodney O'Bree, Chairman, Geraldton Turf Club, *Transcript of Evidence*, 29 March 2010, p12; Mr Harvey Crossman, President, Western Australian Racehorse Owners Association, *Transcript of Evidence*, 26 February 2010, p2.

<sup>258</sup> Mr Robert Bovell, Chief Executive, Western Australian Trotting Association, *Transcript of Evidence*, 26 February 2010, p8.

<sup>259</sup> The implications of this view are discussed in Chapter 2.8 (Taxation) of this Report.

<sup>260</sup> Such as the current financial pressures that RWWA is facing - refer to Chapter 2.9 (Wagering revenues) for detail.

<sup>261</sup> Mr Ross Bowe, Chairman, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p19.

<sup>262</sup> Mr Kevin Jeavons, President, Harness Racing Owners Association of Western Australia, *Transcript of Evidence*, 7 May 2010, p18.

Another argument for RWWA to remain accountable to government relates to the fact that the industry encompasses community and country aspects of racing that are not necessarily commercially profitable. The evidence from stakeholders suggests that because RWWA is largely focused on increasing wagering turnover, this could potentially occur at the expense of community and country clubs which have limited opportunity to profitably compete. As such, country and community clubs require the oversight and protection of the government to ensure their continued existence.<sup>263</sup> The Geraldton Turf Club stated that country clubs would be wary if there was less government involvement.<sup>264</sup> Mr Tony Marwick, Northam Race Club, suggested that Ministerial oversight as it currently exists is necessary; otherwise, if RWWA was to become completely independent, the community aspects of racing will be surrendered because they are not profitable enough:

*It is not all about financial decisions; it is about communities, the industry and industry participants all through the state. If [RWWA] are allowed to be totally independent, you may well find...that you have a lot of these small community clubs fall off the cliff.<sup>265</sup>*

Evidence therefore suggests that the majority of stakeholders would prefer that the Minister retains the current involvement in the racing and wagering industry for accountability purposes.

#### **Finding 24**

Racing and Wagering Western Australia should be accountable to government and it is appropriate for the Minister for Racing and Gaming to retain the current level of involvement in the accountability framework.

#### **(iii) External accountability mechanisms**

The third major component of evidence to the Committee concerned external accountability mechanisms that would enable clubs to appeal decisions by RWWA. This matter is discussed in greater detail in Chapter 2.5.

#### **(c) The need for a Statement of Corporate Intent and other accountability mechanisms**

In 2009, the Auditor General noted that RWWA had not tabled an SCI for the 2008 or 2009 financial years.<sup>266</sup> The CRA highlighted the fact that RWWA has not posted a Statement of

<sup>263</sup> Ministerial oversight has also been propounded by clubs in the context of an external accountability measure for clubs appealing decisions made by RWWA. Appeals are discussed in Chapter 2.5.

<sup>264</sup> Mr David Wrensted, Manager, Geraldton Turf Club, *Transcript of Evidence*, 29 March 2010, p12.

<sup>265</sup> Mr Tony Marwick, President, Northam Race Club, *Transcript of Evidence*, 26 March 2010, pp7-8.

<sup>266</sup> Western Australian Auditor General, *Audit Results Report 2008-09 Assurance Audits*, November 2009, p27. Available at: [www.audit.wa.gov.au/reports/pdfreports/report2009\\_13.pdf](http://www.audit.wa.gov.au/reports/pdfreports/report2009_13.pdf) Accessed on 1 July 2010.

Corporate Intent on its website for some years and that it is ‘unclear that these vital documents even exist’.<sup>267</sup>

It could be argued therefore that the Statement of Corporate Intent is not really effective as an accountability mechanism and could be removed as a requirement that RWWA has to satisfy. The former Racing and Wagering Minister, Hon. Nick Griffiths, was very strong in his opposition to the requirement for RWWA to submit an SDP or an SCI. He argued that these mechanisms were put in place merely to help the passage of the bill through Parliament and should not continue as they place an unnecessary burden by government on the industry:

*Why should there be a need for this industry...to prepare and submit for approval an annual strategic development plan? This uses up resources, and it is not done in a timely way anyway. Why should it be required to prepare and submit for tabling in Parliament an annual statement of corporate intent? These provisions for the most part are there because I had to get the job done...so I put in place these bells and whistles... But I do not think they should exist.*<sup>268</sup>

This view was put to Mr Barry Sargeant of DRGL who responded that both the SCI and the Strategic Development Plan were appropriate accountability mechanisms for RWWA as long as it remains a statutory body.<sup>269</sup> He summed up the process as follows:

*The requirement is that [RWWA] have to submit only their strategic development plan to the minister and it is approved by the Treasurer. The statement of corporate intent is the only one that is tabled. The other remains a confidential document. That comes back to the philosophy of whether you want it within government or not... If you expect the public purse to support it, it is fair enough for the public purse to look at what the liabilities are and what is happening. It is a philosophical position...The government basically still has responsibility for much of it; therefore, it is only appropriate that the government of the day sees what is going on.*<sup>270</sup>

Given therefore, that the Committee has found it appropriate that RWWA should remain within the auspices of the government,<sup>271</sup> Mr Sargeant’s argument suggests that RWWA should continue to comply with Sections 66 and 75 of the RWWA Act. It is important to note that the powers of the Minister in relation to the drafting and approval of any draft strategic plan are arguably the most prescriptive in the context of directing any operational aspect of RWWA. This is primarily because Section 81 states that unless specifically prescribed under the RWWA Act, RWWA is not otherwise subject to direction from government. The Committee’s view is that it is appropriate for RWWA to provide information to the Minister on the strategic direction of RWWA—and that the

<sup>267</sup> Submission No. 41 from Country Racing Association, 16 April 2010, p4.

<sup>268</sup> Hon. Nick Griffiths, Former Minister for Racing and Gaming, *Transcript of Evidence*, 19 February 2010, pp8-9.

<sup>269</sup> Refer to Chapter 2.2 (c)(ii) on Governance for detail on the establishment of RWWA as a statutory body.

<sup>270</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 19 February 2010, p6.

<sup>271</sup> Refer to Chapter 2.10 (Structure of RWWA) for a discussion on the Committee’s findings.

Minister, as the representative of the government of the day, can in turn provide input into the future direction of the racing and wagering industry.

A further aspect to consider when examining the need for RWWA to table an SCI is the needs of stakeholders. Industry stakeholders and the broader community are of the view that RWWA has an obligation to the industry to be more accountable—which supports the tabling of an SCI. Industry participants have strong regard for the direction RWWA is proposing for the industry. Determining a particular direction must necessarily involve strategic decisions—many of which may financially impact on industry participants with vested interests. It is therefore fitting that these stakeholders are able to have access to what RWWA intends to achieve. Whilst the SDP is confidential, the SCI is a public document which, if tabled, can be accessed by all industry participants. Significant too is that RWWA is obligated to perform its functions in accordance with its SCI.<sup>272</sup> As such, this accountability mechanism is critical for ensuring that RWWA is a more responsive and transparent organisation.

### **Finding 25**

The preparation of a Strategic Development Plan and subsequent tabling of a Statement of Corporate Intent is a necessary accountability measure for Racing and Wagering Western Australia.

#### **(i) Mechanisms to improve the SCI**

Given the relative importance of the SDP and SCI, the Committee was concerned that RWWA had not tabled a SCI since the 2007 financial year. When asked to explain, RWWA stated that it had in fact submitted a draft SDP to the Minister for approval in the two years since 2007 but the Treasurer did not concur with either of them.<sup>273</sup> As such, RWWA was unable to prepare an SCI based on an approved SDP.<sup>274</sup> It is clear that being unable to table an SCI is currently limiting RWWA's accountability efforts. The state government's Economic Audit Committee Final Report made note of this problem as it generally applies to Government Trading Enterprises (GTEs),<sup>275</sup> stating that:

<sup>272</sup> This relates to RWWA's duty under Section 28 of the RWWA Act to perform its functions in accordance with its SDP and SCI.

<sup>273</sup> Submission No. 7D from Racing and Wagering Western Australia, 2 August 2010, p17.

<sup>274</sup> Sections 72 and 74 provide that the Minister cannot agree to a draft strategic development plan (thus becoming the strategic development plan for the relevant financial year) except with the Treasurer's **concurrence**; and Section 75 prescribes that the SCI must be based on the relevant strategic plan for the financial year to which the SCI relates.

<sup>275</sup> Page 110 of the Economic Audit Committee, Final Report October 2009 (Government of Western Australia, Perth) distinguishes a GTE from other parts of the public sector by the fact that GTE's charge for the goods and services they provide and are in most cases self-financing.

*The State Solicitor's Office has recently advised the term concur prevents the Treasurer from being able to impose any conditions or restrictions on the operation of the SCI and SDP. This is inconsistent with the intent of the wording, which seeks to recognise the role of the Treasurer and the impact of the operation of GTEs on the government's finances more generally.*<sup>276</sup>

As such, the Committee recommends that Section 74 of the RWWA Act be amended to include the ability of the Treasurer to offer some direction on the operation of the SDP and SCI. In so doing it is hoped that the impediment can be removed thereby allowing for an SCI to be tabled.

#### **Recommendation 14**

That, in order to expedite the approval process of Racing and Wagering Western Australia's Strategic Development Plan, Section 74 of the *Racing and Wagering Western Australia Act 2003* be amended to allow the Treasurer to impose some direction on the draft Strategic Development Plan.

Despite the Committee finding that the SDP and SCI are effective accountability tools, there is room for improvement—particularly in regard to the sort of information that is included in the SCI. As noted earlier, Sections 68 and 77 of the RWWA Act require the SDP and the SCI to contain specific information. These provisions are in some cases generic performance measures that may not necessarily apply to the 'mixed bowl of lollies'<sup>277</sup> that comprise the racing and wagering industry—and may in fact, hinder the efforts of RWWA to be accountable.

The challenge for RWWA with some of these provisions is how it can produce measures across all codes and wagering that will be meaningful to stakeholders. Further exacerbating the effectiveness of these mechanisms is that because the requirements are set in legislation, the capacity of RWWA to include matters that more appropriately reflect changing operational environments are limited.<sup>278</sup> The Committee proposes that in order for the SDP and SCI to be effective accountability measures, the information contained therein must be useful to the industry, to RWWA, and to the government. The Committee therefore finds that the content requirements for the SDP and the SCI should more appropriately be specified in regulation to allow for greater flexibility in the face of changing market conditions. Further, that the current requirements be reviewed to ensure that the information contained within the SDP and the SCI is meaningful and relevant to the current operations of RWWA.

<sup>276</sup> Economic Audit Committee, Final Report October 2009, Government of Western Australia, Perth, 2009, p118.

<sup>277</sup> Mr David Simonette, CEO, Western Australian Greyhound Racing Association, *Transcript of Evidence*, 30 April 2010, p10.

<sup>278</sup> Refer to Chapter 2.9(a) for a discussion on the market challenges that are impacting on RWWA's current operational environment.

**Recommendation 15**

That the Minister for Racing and Gaming reviews the content requirements of Racing and Wagering Western Australia's Strategic Development Plan and Statement of Corporate Intent.

**Recommendation 16**

That content requirements of Racing and Wagering Western Australia's Strategic Development Plan and Statement of Corporate Intent be specified in regulation.

One final aspect of RWWA's accountability provisions is outlined in Sections 84 and 85 of the RWWA Act. As detailed earlier, RWWA must keep the Minister informed of any operational or financial aspects of RWWA operations that may significantly impinge on its effectiveness. RWWA must provide notice to the Minister if it or a subsidiary becomes unable to fulfil, or is likely to be unable to fulfil—any financial obligation. Given the serious market challenges that RWWA currently faces, the Committee recommends that Section 85 of the RWWA Act be amended to include a timeframe within which this notice to the Minister must be carried out.

**Recommendation 17**

That section 85 of the *Racing and Wagering Western Australia Act 2003* be amended to include a reasonable timeframe within which notice of financial difficulty must be given by Racing and Wagering Western Australia to the Minister.

**2.5 Appealing decisions by RWWA**

During the course of the Inquiry, the Committee heard various grievances from industry participants regarding decisions made by RWWA. While it is not the purpose of this Inquiry to investigate individual complaints, the Committee has examined points raised in evidence only so far as it highlights more generic concerns. Issues largely relate to RWWA's decision making processes and/or avenues available for industry participants to appeal decisions made by RWWA.

While RWWA has primary responsibility for the control, supervision and regulation of the three racing codes as well as prescribed wagering functions in WA, other bodies also play an integrity assurance role with respect to racing and gambling operations in this state and have a bearing on appeals. Among them is the Gaming and Wagering Commission which is responsible for administering gaming and wagering law in Western Australia and has certain responsibilities

under the RWWA Act.<sup>279</sup> These include licensing RWWA directors and key employees and regulating the conduct of wagering operations by RWWA. The Department of Racing, Gaming and Liquor (DRGL) facilitates and provides executive support to the Commission and also the Racing Penalties Appeal Tribunal (RPAT).<sup>280</sup> The latter is an independent judicial body established under the *Racing Penalties (Appeals) Act 1990* which is tasked with ‘hearing and determining appeals against penalties imposed in disciplinary proceedings arising from, or in relation to, the conduct of greyhound racing, horse racing and harness racing’.<sup>281</sup> Parties aggrieved by a decision made by RWWA or a determination of a steward or committee of a racing club may lodge an appeal to RPAT within 14 days of the decision being handed down.<sup>282</sup> A visual representation of how the integrity assurance framework in WA is structured<sup>283</sup> is reproduced at Appendix Five.

### (a) Issues

Evidence suggests that existing mechanisms to appeal RWWA’s decisions are ineffective. Some of the points raised by industry participants can be summarised as follows:

- There is no formal appeal body for TAB agents;<sup>284</sup>
- Appeals against RWWA’s decisions are reviewed by RWWA which is itself the decision maker;<sup>285</sup>
- There is no clear avenue of appeal for decisions made by RWWA;<sup>286</sup>
- The Committee also received several specific complaints which commented on individual cases and highlighted the unsatisfactory handling of issues/appeals by RWWA,<sup>287</sup> the Gaming and Wagering Commission,<sup>288</sup> or RPAT.<sup>289</sup>

<sup>279</sup> Department of Racing, Gaming and Liquor, ‘The Role of the Gaming and Wagering Commission of Western Australia’, January 2010. Available at: [www.rgl.wa.gov.au/Default.aspx?NodeId=68&DocId=128](http://www.rgl.wa.gov.au/Default.aspx?NodeId=68&DocId=128) Accessed on 25 June 2010.

<sup>280</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 13 August 2010, p2.

<sup>281</sup> Department of Racing, Gaming and Liquor, ‘The role of Racing Penalties Appeal Tribunal’, 24 September 2007. Available at: [www.rgl.wa.gov.au/Default.aspx?NodeId=68&DocId=130](http://www.rgl.wa.gov.au/Default.aspx?NodeId=68&DocId=130) Accessed on 18 September 2010.

<sup>282</sup> Section 13 *Racing Penalties (Appeals) Act 1990*.

<sup>283</sup> Diagram taken from Judge G.D. Lewis, AM, *A Report on Integrity Assurance in the Victorian Racing Industry*, 1 August 2008, p94. Available at: [www.justice.vic.gov.au/wps/wcm/connect/e2d0aa80404a6ff3a2befbf5f2791d4a/Lewis+Report+-+Integrity+Assurance+-+Vic+Racing+Industry+Aug+08.pdf?MOD=AJPERES](http://www.justice.vic.gov.au/wps/wcm/connect/e2d0aa80404a6ff3a2befbf5f2791d4a/Lewis+Report+-+Integrity+Assurance+-+Vic+Racing+Industry+Aug+08.pdf?MOD=AJPERES) Accessed on 18 September 2010.

<sup>284</sup> Submission No. 16 from Morley TAB Agents, 27 November 2009, p3.

<sup>285</sup> Submission No. 8 from WA TAB Agents’ Association, 30 November 2009, p8.

<sup>286</sup> Submission No. 13 from Mt Barker Turf Club, 30 November 2009, p2; Mrs Lesley Solly, President, Albany Racing Club, *Transcript of Evidence*, 12 March 2010, p13.

<sup>287</sup> Submission No. 4 from Mr N.A. Harman, 19 November 2009, pp1-13.

<sup>288</sup> Submission No. 11 from Best Bookies Price Pty Ltd, 30 November 2009, p7.

<sup>289</sup> Submission No. 27 from Mr L. Harper, 21 December 2009, p3.

As alluded to in Chapter 2.4 (Accountability), a particular subset of stakeholder concerns pertained to RWWA's decisions to close race clubs or reduce a club's meetings. Comments were largely influenced by RWWA's decisions affecting two race clubs, namely the Mt Barker Turf Club, and Geraldton Harness Racing Club. In April 2010 immediately prior to the launch of RWWA's vision statements for the thoroughbred and harness racing codes, the Mt Barker Turf Club was advised that two of its eight meetings would be reallocated to Albany from the 2010-11 season, and the Geraldton Harness Racing Club was advised that it would not receive any race dates for 2010-11, effectively closing the club.<sup>290</sup> The latter caused significant industry concern,<sup>291</sup> particularly with regard to the manner in which Geraldton Harness Racing Club was closed. Concerns put to the Committee by industry participants reflected perceptions that:

- RWWA had not consulted adequately;<sup>292</sup> and
- RWWA had not given due consideration to all pertinent factors when making the decision.<sup>293</sup>

The Geraldton Harness Racing Club stressed that there was no prior indication from RWWA that the club would not receive further meeting allocations until the decision had already been made, highlighting RWWA's poor communication with the club. The club also indicated that it had always performed well financially,<sup>294</sup> questioning factors considered by RWWA in its decision making. RWWA cited the lack of locally based horses and trainers as the primary reason for its decision but indicated that other factors, including wider regional implications, were taken into account.<sup>295</sup>

A contrary view was held by Hon. Grant Woodhams, MLA, Member for Moore and patron of the Geraldton Harness Racing Club. It was suggested that RWWA's decision making was flawed since the club could clearly demonstrate it had met three key criteria, specifically: its location in a major growth region of the state; access to Sky Vision which had been secured by the club; and infrastructure needs that were already in place courtesy of the club's co-location with the Geraldton Turf Club.<sup>296</sup> The Committee is particularly concerned that RWWA did not negotiate

<sup>290</sup> The proposals for the Mt Barker Turf Club and Geraldton Harness Racing Club are reflected in RWWA's documents, *Securing the Future: A Vision of Sustainability for the WA Thoroughbred Racing Industry* (p13); and *Protecting our Product: A Vision of Sustainability for the WA Harness Industry* (p12) respectively.

<sup>291</sup> Rooney, J., 'Trots legend Kersley angry over Geraldton axe', *The West Australian* (online edition), 5 August 2010; 'Woodhams slams harness club closure', *Geraldton Guardian*, 23 August 2010, p25.

<sup>292</sup> Mr Peter Dempster, President, Northam Harness Racing Club, *Transcript of Evidence*, 26 March 2010, p3; Mr Kerry Clarke, President, WASBA, *Transcript of Evidence*, 7 May 2010, p19; Mr Robert Tomlinson, President, BOTRA, 7 May 2010, *Transcript of Evidence*, p19.

<sup>293</sup> Mr Rob Deadman, Secretary, York Harness Racing Club, *Transcript of Evidence*, 26 March 2010, p4; Mr Kevin Jeavons, President, HROAWA, *Transcript of Evidence*, 7 May 2010, p11; Mr Gino Monaco, President, Fremantle Harness Racing Club, *Transcript of Evidence*, 4 June 2010, p8.

<sup>294</sup> Mr Graham Cox, President, Geraldton Harness Racing Club, *Transcript of Evidence*, 29 March 2010, p2.

<sup>295</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p19.

<sup>296</sup> Submission No. 48 from Hon. Grant Woodhams, MLA, 13 September 2010, pp1-2.

for Sky Vision coverage on behalf of the club and therefore it had no chance to improve its immediate viability.

### **Finding 26**

There is significant industry concern regarding Racing and Wagering Western Australia's decision to close the Geraldton Harness Racing Club, particularly with regard to a perceived lack of consultation, support, and consideration of other pertinent factors.

### **Finding 27**

Racing and Wagering Western Australia's failure to negotiate for Sky Vision coverage gave the Geraldton Harness Racing Club no chance to improve its immediate viability.

Other evidence received by the Committee revealed a general sense of uncertainty among clubs and, in many cases, a desire to be able to contest RWWA's decisions particularly those relating to club closure. The uncertainty among small clubs, especially country/community clubs, at the threat of being closed down by RWWA is encapsulated in the following statement by Mr Brett Taylor of the Central Wheatbelt Harness Racing Club:

*It is always a worry for a small club. Are we going to be here next year? ... A lot of us do it because we love the sport. If we lost our club a lot of us would leave. That will not do the industry any good whatsoever ... We just do not know how long we have or how we stand in the grand scheme of things.<sup>297</sup>*

A similar concern was articulated by Mr Brendon Gardiner of the Bridgetown Harness Racing Club:

*But what we do not have is any guarantees for the future. Each year you have got your fingers crossed, waiting for the race dates to come out to see if you have been wiped off the map or not. Financially, at the moment, the club is pretty sound, but ... as a club gets chopped off the bottom of the ladder, you are one closer to the chopping block.<sup>298</sup>*

Other issues conveyed to the Committee in this regard can be summarised as follows:

- Small clubs lack leverage with RWWA from a wagering point of view and are easy targets for closure;<sup>299</sup>

<sup>297</sup> Mr Brett Taylor, President, Central Wheatbelt Harness Racing Club, *Transcript of Evidence*, 26 March 2010, p15.

<sup>298</sup> Mr Brendon Gardiner, Secretary/Treasurer, Bridgetown Harness Racing Club, *Transcript of Evidence*, 6 April 2010, p3.

<sup>299</sup> Mr Alf Paganoni, Past President, WA Country Harness Racing Association, 26 February 2010, p9; Mr Kevin Spurr, Vice President, Wagin Trotting Club, *Transcript of Evidence*, 3 May 2010, p15.

- Based on RWWA's policies, looking ahead there is little prospect for small clubs except the threat of closure;<sup>300</sup>
- RWWA's processes for reducing meetings in outer country areas are not understood by industry participants and seem counterintuitive when clubs are told their meetings have been removed because the industry is struggling and yet these same meetings appear to be awarded to other clubs;<sup>301</sup>
- Sufficient community support should protect community clubs from closure;<sup>302</sup>
- The only recourse available to a club facing closure is to try appealing to the Minister but the Minister lacks power under the RWWA Act to reverse the board's decision;<sup>303</sup>
- RWWA is quick to make a decision that will adversely affect a club without first providing a club with assistance so it can improve its performance;<sup>304</sup>
- While closing a club may contain costs, it has significant impacts from the perspective of people lost to the industry;<sup>305</sup>
- It is uncertain where the cost savings achieved from club closure actually go;<sup>306</sup>
- The closure of a racing club should be the last resort and RWWA should assist the club in the first instance.<sup>307</sup>

From the evidence, it is clear to the Committee that race clubs experience uncertainty with respect to race programming and the effects this may have on long-term survival. Further, there appears to be a lack of clarity among industry participants as to the factors which RWWA considers when making its decisions and where the purported cost savings (from closing a club for example) actually go. These matters largely speak to inadequacies in RWWA's consultation and reporting processes which are explored further in Chapter 2.6.

In the present context of decisions which adversely affect a club or code, the Committee believes that it is critical for RWWA to adopt a more consultative and transparent approach.

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<sup>300</sup> Mr Kevin Spurr, Vice President, Wagin Trotting Club, *Transcript of Evidence*, 3 May 2010, p15.

<sup>301</sup> Mr Brett Snell, Past President, Golden Mile Trotting Club, *Transcript of Evidence*, 19 March 2010, p12.

<sup>302</sup> Mr Peter Hemsley, Secretary, Collie Harness Racing Club, *Transcript of Evidence*, 6 April 2010, p6.

<sup>303</sup> Mr Kevin Spurr, Vice President, Wagin Trotting Club, *Transcript of Evidence*, 3 May 2010, p15; Mr John Biggs, Representative, NE Goldfields Racing Clubs, *Transcript of Evidence*, 19 March 2010, p8.

<sup>304</sup> Mr Rob Deadman, Secretary, York Harness Racing Club, *Transcript of Evidence*, 26 March 2010, pp2-3; Mr Graham Cox, President, Geraldton Harness Racing Club, *Transcript of Evidence*, 29 March 2010, p2.

<sup>305</sup> Mr Kevin Jeavons, President, WA Harness Racing Owners' Association, *Transcript of Evidence*, 7 May 2010, p10.

<sup>306</sup> Mr Robert Tomlinson, President, Breeders Owners Trainers and Reinspersons Association, *Transcript of Evidence*, 7 May 2010, p11.

<sup>307</sup> Mr Geoffrey Warwick, Vice President, Fremantle Harness Racing Club, *Transcript of Evidence*, 4 June 2010, p8.

**Finding 28**

It is critical that Racing and Wagering Western Australia adopts a more consultative and transparent approach regarding any decisions that will impact significantly on a racing club or code.

Adding to the uncertainty experienced by clubs is a pervading sense of powerlessness at not being able to appeal a decision by RWWA to reduce a club's meetings or to close a club. The only avenue available at present is for clubs to appeal to the board of RWWA.

**Finding 29**

Many small clubs feel powerless at not being able to appeal to a body other than Racing and Wagering Western Australia against a decision by Racing and Wagering Western Australia to reduce a club's meetings or to close a club. This was particularly evident in the cases of the Mt Barker Turf Club and the Geraldton Harness Racing Club.

**(b) Mechanisms to enhance the appeals process**

The RWWA Act does not define a dedicated appeal body or conflict resolution process. This is largely due to multiple external bodies having responsibility for investigating and/or adjudicating on different aspects of racing and wagering. As mentioned above, racing penalties come under the jurisdiction of the RPAT. By virtue of racing related matters being dealt with by a dedicated independent judicial panel, RWWA is excluded from the jurisdiction of the Ombudsman under Schedule 1 of the *Parliamentary Commissioner Act 1971*.<sup>308</sup> For the same reason, RWWA is outside the jurisdiction of the State Administrative Tribunal.<sup>309</sup>

The Gaming and Wagering Commission has significant investigatory powers with respect to RWWA's gambling operations. Section 109I of the *Gaming and Wagering Commission Act 1987* enables it to investigate and deal with complaints from members of the public 'with respect to any aspect of the gambling operations of RWWA, and advise the complainant of the result of the complaint'. Mr Barry Sargeant of DRGL indicated that no formal complaints had been lodged with the Commission since RWWA's establishment although acknowledged that this could be

<sup>308</sup> The *Parliamentary Commissioner Act 1971* was amended to exclude RWWA as per Section 22 of the *Racing and Gambling Legislation Amendment and Repeal Act 2003*. The Ombudsman generally cannot investigate complaints which can be taken to a court or tribunal (as indicated by Ombudsman Western Australia, 'What you can complain about', nd. Available at: [www.ombudsman.wa.gov.au/Complaints/What.htm](http://www.ombudsman.wa.gov.au/Complaints/What.htm) Accessed on 24 September 2010).

<sup>309</sup> State Administrative Tribunal, 'Outside SAT's Scope', nd. Available at: [www.sat.justice.wa.gov.au/M/mattersNotCovered.aspx?uid=3280-1879-1680-3393](http://www.sat.justice.wa.gov.au/M/mattersNotCovered.aspx?uid=3280-1879-1680-3393) Accessed on 27 September 2010.

because the Commission had not actively promoted this aspect of the legislation and people could be unaware of this function.<sup>310</sup>

Under Section 109J of the *Gaming and Wagering Commission Act 1987*, the Commission may (at its own instigation) report to the Minister and make recommendations as to any actions the Minister should take in relation to RWWA.<sup>311</sup> The Minister may also direct the Commission to inquire into the affairs of RWWA including but not limited to: RWWA's gambling operations; compliance with the RWWA Act and any other written laws; or suspected corruption.<sup>312</sup> Although this power has never been exercised, Mr Barry Sargeant of DRGL indicated that it is appropriate for an independent body like the Commission to have the power to investigate RWWA should this ever be required.<sup>313</sup> Mr Sargeant also emphasised that the Commission's investigatory powers are restricted to gambling related matters only:

*It has got to be about gambling. We have not got a carte blanche authority to relate to other aspects of RWWA's operations.*<sup>314</sup>

More broadly, the Corruption and Crime Commission has jurisdiction to investigate claims relating to misconduct by public officers,<sup>315</sup> the definition of which would include RWWA and its officers.<sup>316</sup>

With the exception of the abovementioned external investigatory and/or appeal mechanisms, RWWA is otherwise responsible for hearing and adjudicating on complaints that it receives.<sup>317</sup> The existence of multiple complaints/appeals pathways has highlighted two major issues to the Committee: firstly, the lack of information available for industry participants on where to go with a complaint or issue; and secondly, how issues that fall outside of existing appeal pathways should be dealt with effectively.

<sup>310</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 13 August 2010, pp4-5.

<sup>311</sup> Under Section 109K of the *Gaming and Wagering Commission Act 1987* actions the Minister could take in relation to RWWA include serving a letter of censure on RWWA, revoking the license of a director or ordering RWWA to pay a monetary penalty.

<sup>312</sup> Section 109J(3) *Gaming and Wagering Commission Act 1987*.

<sup>313</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 19 February 2010, p9.

<sup>314</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 13 August 2010, p5.

<sup>315</sup> Section 4 and Section 18 *Corruption and Crime Commission Act 2003*.

<sup>316</sup> Section 3 of the *Corruption and Crime Commission Act 2003* gives the same definition of 'public officer' as Section 1 of the Criminal Code. The definition of 'public officer' under the Criminal Code includes 'a person exercising authority under a written law' (s1(ad)) and 'a member, officer or employee of any authority, board, corporation, commission, ..., established under a written law' (s1(d)).

<sup>317</sup> This would include wagering-related issues raised by TAB agents; and racing-related issues outside of racing penalties such as club closure and reductions in meetings.

**(i) Greater definition of the appeals process**

In the first instance, the Country Racing Association suggested that an appeal process should be defined and included in the RWWA Act in order to avoid confusion and protect the rights of individuals and associations.<sup>318</sup> The Committee concurs that complaint and appeals processes in relation to racing and wagering require clarification, however, the fact that multiple agencies play a role precludes definition in the RWWA Act. The Committee believes that clarification would best be achieved through better communication on the part of RWWA and other agencies, specifically DRGL on behalf of the RPAT and the Commission.

**Finding 30**

With some exceptions including club closure and reduction in meetings, there are other appeal pathways available for industry participants through bodies including the Racing Penalties Appeals Tribunal and the Gaming and Wagering Commission.

**Recommendation 18**

That Racing and Wagering Western Australia, in conjunction with the Department of Racing, Gaming and Liquor, publishes guidance material for racing industry stakeholders and participants on how to lodge complaints and/or appeals.

**(ii) Addressing issues that fall outside of existing appeal pathways**

It is clear that external appeal mechanisms cover racing penalties and gambling related matters. The issue of club closure appears to fall between the gaps however as it is clearly not related to racing penalties or wagering. In this respect, RWWA is responsible for hearing appeals.

RWWA's procedure involves escalating complaints and disputes through a complaints handling system through the hierarchy. RWWA advised that its staff and managers are accessible by industry participants who may raise issues at any time without prejudice and in confidence. For racing related issues, matters may be escalated from racing code managers ultimately to the relevant board committee (in this case the Racing Operation Committee) and the board itself. Similarly, issues in relation to stewards may be brought to the attention of the IAC and ultimately the board itself.<sup>319</sup>

The right of a club to make representations to the RWWA board is provided for in Section 96 of the RWWA Act but only so far as it relates to loans and grants. Nonetheless RWWA has

<sup>318</sup> Submission No. 41 from Country Racing Association, 16 April 2010, p7.

<sup>319</sup> Submission No. 7D from Racing and Wagering Western Australia, 2 August 2010, p18.

demonstrated that its internal dispute resolution process allows clubs to make representation to the board on more extensive grounds than those defined in the Act. In both the instances of the Mt Barker Turf Club and Geraldton Harness Racing Club, clubs presented their cases directly to the RWWA board. In the case of Mt Barker, RWWA revised its initial decision by agreeing to provide an extra race for every allocated meeting:

*They walked away, from where I sit, relatively contented in the fact that they knew they were going to have a future and that they had been listened to, on an appeal, by the board. I just thought it is important to demonstrate that there are areas where the board has made changes when compelling evidence has been put to us.*<sup>320</sup>

Although a similar compromise could not be reached in relation to the Geraldton Harness Racing Club and RWWA's original decision stood, an avenue of appeal was made available to the club. Mr Richard Burt, CEO of RWWA stressed that the decision of the board was made independently of Management's position and that the board took into consideration not only the club's perspective but written submissions from various sources including trainers, Geraldton stakeholders and the Mid West Development Commission:

*All their submissions were put to the board independently. Their views were read by the board independently of management's view. The president of the Geraldton harness club...physically presented to the board. It was not like management receiving the input, changing it and presenting it.*<sup>321</sup>

Some industry participants argued in favour of a right of appeal to either an independent body<sup>322</sup> or to the Minister for Racing and Gaming.<sup>323</sup> The Country Racing Association believes there should be a right of appeal to the Minister, although qualified this by stating that it should only exist in exceptional circumstances (such as closure of a race club):

*We are of the opinion—this would only be in exceptional circumstances—that in the event that we wanted to appeal against any decision—“we” being any sector of the industry—who do we go to? RWWA is judge, jury and executioner. It is no good going to the people who have already made the decision. We would like to see incorporated in the act a right of appeal to the minister of the day so that in exceptional circumstances there is a preferred umpire.*<sup>324</sup>

<sup>320</sup> Mr Robert Pearson, Director, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p28.

<sup>321</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p20.

<sup>322</sup> Submission No. 5 from York Racing, 18 November 2009, p5.

<sup>323</sup> Submission No. 25 from Geraldton Turf Club, 25 November 2009, p4; Mr Gino Monaco, President, Fremantle Harness Racing Club, *Transcript of Evidence*, 4 June 2010, p7.

<sup>324</sup> Mr Maxwell (Dixie) Solly, President, Country Racing Association, *Transcript of Evidence*, 7 May 2010, p7.

The Wagin Trotting Club similarly supported greater Ministerial involvement whereby RWWA would not be able to take any action resulting in closure of a club without the approval of the Minister.<sup>325</sup>

Other industry participants acknowledged that RWWA had to make difficult decisions and provided this occurred with sufficient consultation beforehand, a third party appeals body or appealing to the Minister should not be necessary:

*We do not want to go back to the days where everybody just rang their local parliamentarian or the minister and things got reversed for, sometimes, the wrong reasons. It is a very dangerous area in my view. Whilst you need them to run it—let us be honest, they are dependent on government anyway; for instance, some of these decisions they make are made on flexibility and turnover so it gets back to the government anyway. But if you put a middle person in to oversee them, I wonder if it will get too complicated in terms of an appeal process and people will be appealing all the time over everything.*<sup>326</sup>

In a similar vein, RWWA reinforced the importance of staying at arm's length from government:

*If this business was at the direction of the minister, you would have a situation in which you would not be able to pursue your strategic direction because whatever we do ruffles feathers because of these black and white attitudes. You would constantly have people going to the minister and the minister saying, "Don't do that" and the business would die; it would decline rapidly because you cannot bring innovation and change to the business. ... I think a good and very wise process was put in place with the RWWA Act that you did not have the ability of a group to be able to say that this is the way the industry is going to run. You are better off letting the industry run itself.*<sup>327</sup>

The Committee believes that RWWA should retain the responsibility for hearing appeals in relation to matters not otherwise covered by external appeal bodies. It was established earlier<sup>328</sup> that the Minister's existing role in RWWA's accountability framework should remain. While existing levels of Ministerial involvement are warranted, the Committee finds it would be inappropriate to expand the Minister's role any further without compromising RWWA's operational independence.

### **Finding 31**

Introducing a mechanism of appeal to the Minister would compromise the operational independence of Racing and Wagering Western Australia.

<sup>325</sup> Submission No. 42 from Wagin Trotting Club, 26 May 2010, p1.

<sup>326</sup> Mr Kevin Jeavons, President, WA Harness Racing Owners' Association, *Transcript of Evidence*, 7 May 2010, pp14, 18.

<sup>327</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p19.

<sup>328</sup> Refer to Chapter 2.4(b) of this report.

**Recommendation 19**

That appeals to the Minister against Racing and Wagering Western Australia board decisions should not be established.

While the Committee acknowledges that RWWA's internal processes give clubs the opportunity to make direct representation to the board in instances where decisions will severely impact on a club's operations (such as meeting reduction or closure), this is currently not provided for in the Act. Section 96 only provides for a club to make representations in very limited circumstances of a financial nature. It would be appropriate for grounds to include any instance where a club's operations will be severely impacted as a consequence of RWWA's decisions.

**Finding 32**

Race clubs should have the opportunity to make representations to the Racing and Wagering Western Australia board in instances of club closure or a significant reduction in meetings that will affect that club's long-term viability.

**Recommendation 20**

That the *Racing and Wagering Western Australia Act 2003* be amended to include a new provision for a club to make representations to the board in instances of club closure or a significant reduction in meetings that will affect a club's long-term viability.

**2.6 Consultation**

The RWWA Act requires RWWA to establish procedures for consulting with prescribed racing bodies and other prescribed bodies with an interest in the racing industry in relation to RWWA's operations.<sup>329</sup> Prescribed bodies are defined in the RWWA Regulations.<sup>330</sup> In accordance with this provision of the Act, RWWA established three code specific racing industry consultative groups which meet with RWWA representatives on a quarterly basis to provide industry feedback

<sup>329</sup> Section 82(2) *Racing and Wagering Western Australia Act 2003*.

<sup>330</sup> Regulation 71 *Racing and Wagering Western Australia Regulations 2003*.

on racing operational policy and issues. The consultative groups, one each for thoroughbred racing, harness racing, and greyhound racing, comprise nominated representatives of racing clubs, industry associations and industry participant groups.<sup>331 332</sup>

Despite the procedures RWWA has developed pursuant to Section 82 of the RWWA Act, the Committee received substantial feedback criticising the consultative capacity of RWWA. Stakeholders felt that RWWA has failed to consult with the industry in any meaningful way. The specific matters relating to consultation practice which industry participants have concern reflect the main issues the Committee has identified and discussed throughout this report.<sup>333</sup> As such, individual concerns will not be raised further here. That the lack of consultation has been a disappointment to many industry participants is clear and will be discussed, together with some mechanisms to improve the consultation practices of RWWA.

### (a) Industry views on consultation

The main issues raised are summarised here:

- RWWA has demonstrated a significant lack of consultation with industry participants across a variety of issues;<sup>334</sup>
- RWWA dictates to the industry rather than consults—club and consultative groups alike are presented with decisions as a *fait accompli*;<sup>335</sup>
- The current process provides little to no opportunity for stakeholders to have input into any major decision making processes—irrespective of the impacts these decisions may have on stakeholders;<sup>336</sup>

<sup>331</sup> Racing and Wagering Western Australia, 'Consultative Groups', 2007. Available at: [www.rwwa.com.au/home/consultative-groups.html](http://www.rwwa.com.au/home/consultative-groups.html) Accessed on 25 June 2010.

<sup>332</sup> A contractual arrangement between RWWA and the WA TAB Agents Association is in place whereby the TAB agents' advisory group meets regularly with RWWA. The Committee received feedback that the consultation within this arrangement is limited. As this arrangement is contractual, refer to Chapter 3.8 (a)(ii) for further information.

<sup>333</sup> For example, industry participants have raised concerns about RWWA's ability to consult on issues of industry and club funding, race programming, and infrastructure funding; to name a few. Many of the concerns raised have consequently been captured within the examinations of these issues as they appear in this report.

<sup>334</sup> Submission No. 24 from Western Australian Provincial Thoroughbred Racing Association, received 24 December 2009, p7; Submission No. 26 from Northam Race Club, received 24 December 2009, pp1, 3; Submission No. 16 from Morley TAB Agents, received 30 November 2009, p5; Submission No. 9 from Frank Peczka, received 30 November 2009, p2; Mr David Wrensted, Manager, Geraldton Turf Club, *Transcript of Evidence*, 29 March 2010, p6.

<sup>335</sup> Submission No. 6 from Geraldton Harness Racing Club, received on 29 September 2009, p2; Mr Graham Cox, President, Geraldton Harness Racing Club, *Transcript of Evidence*, 29 March 2010, pp6-7; Mrs Margaret Skinner, Secretary, Mt Barker Turf Club Inc, *Transcript of Evidence*, 12 March 2010, p8; Mr Tony Marwick, President, Western Australian Provincial Thoroughbred Racing Association, *Transcript of Evidence*, 26 February 2010, p3; Mr Kevin O'Brien, Treasurer, York Racing Inc, *Transcript of Evidence*, 26 March 2010, p4; Mr Robin Deadman, Secretary, York Harness Racing Club, *Transcript of Evidence*, 26 March 2010, p11; Mr Mark Roberts, President, Western Australian Country Harness Racing Association, *Transcript of Evidence*, 26 February 2010, p9; Mr Allen Kinnish, Committee Member, Western Australian Greyhound Breeders, Owners and Trainers Association, *Transcript of Evidence*, 30 April, 2010, p8.

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- The manner of consultation has reduced the capacity of industry bodies, together with the clubs and industry participants they represent—particularly those in provincial and country areas, to have a say in the future direction of the industry.<sup>337</sup>

Expanding on the evidence above, the Committee received a number of comments about the general lack of consultation by RWWA. Mr Colin Bellchambers, Pinjarra Race Club, indicated that RWWA has fallen down as far as consultation is concerned, both with their club and the industry overall.<sup>338</sup> Mr Allen Kinnish, WAGBOTA made the following comment which is indicative of many industry concerns:

*We tend to be told what is taking place rather than having meaningful discussions and consultation.*<sup>339</sup>

The consultative groups also received criticism. Mr John Burt of WATA said the following about the Harness Racing Consultative Group (HRCG):

*The harness racing consultative group is lip-service to the industry... decisions have already previously been made, and it is basically a forum for our being advised what is going to happen before industries know.*<sup>340</sup>

Mr Ted van Heemst of Perth Racing stated that the Thoroughbred Racing Consultative Group (TRCG) was very light weight and only played ‘lip service to the industry’.<sup>341</sup> Mr David Prance, appearing for the Kalgoorlie Boulder Racing Club, noted that the thoroughbred consultative group was consultative in name only, and cautioned that the lack of consultation was having a negative impact on the effectiveness of RWWA:

*It is a misnomer: there is no consultation and things are handed down from the executive and, at times, from the board through the executive...It is basically, “This is what we have decided. This is how it is going to be.” I do believe that it is clearly stated in the act that there needs to be a consultative process. Just creating a thoroughbred consultative group,*

<sup>336</sup> Submission No. 12 from Narrogin Racing, received 30 November 2009, pp3-4; Mr Kenneth Nottle, President, Harvey District Trotting Club, *Transcript of Evidence*, 6 April 2010, p13; Mr Alan Smith, Secretary/Treasurer, Pingrup Race Club, *Transcript of Evidence*, 3 May 2010, p13; Mr Maxwell (Dixie) Solly, President, Country Racing Association, *Transcript of Evidence*, 7 May 2010, p7; Mr Peter Hemsley, Secretary, Collie Harness Racing Club, *Transcript of Evidence*, 6 April 2010, p11; Mr Jonathan Menzel, Manager, Narrogin Racing, *Transcript of Evidence*, 3 May 2010, p8; Mr Donald Davies, Vice President, Wagin Trotting Club, *Transcript of Evidence*, 3 May 2010, pp7-8.

<sup>337</sup> Mr Barry Mahood, President, York Racing Inc, *Transcript of Evidence*, 26 March 2010, p2; Mr Victor Jury, Trainer, Albany Harness Racing Club, *Transcript of Evidence*, 12 March 2010, p12; Submission No. 13, Mt Barker Turf Club, received 30 November 2009, p2 Mr Tony Marwick, President, Northam Race Club, *Transcript of Evidence*, 26 March 2010, p13; Submission No. 24, Geraldton Turf Club, received 24 December 2009, p2; Mr John Biggs, representative, North Eastern Goldfields Racing Clubs, *Transcript of Evidence*, 19 March 2010, p5; Mr Brett Taylor, President, Central Wheatbelt Harness Racing Club, *Transcript of Evidence*, 26 March 2010, p5.

<sup>338</sup> Mr Colin Bellchambers, General Manager, Pinjarra Race Club, *Transcript of Evidence*, 6 April 2010, p5.

<sup>339</sup> Mr Allen Kinnish, Committee Member, WA Greyhound Breeders, Owners, Trainers’ Association, *Transcript of Evidence*, 30 April 2010, p8.

<sup>340</sup> Mr John Burt, President, Western Australian Trotting Association, *Transcript of Evidence*, 26 February 2010, p6.

<sup>341</sup> Mr Edward (Ted) van Heemst, Chairman, Perth Racing, *Transcript of Evidence*, 26 February 2010, p10.

*by name, and bringing in bookmakers, owners and breeders, and the various different groups to be sat around the table and just delivering the result is not consultative.*<sup>342</sup>

Lack of consultation with individual clubs was reported by the Wagin Trotting Club.<sup>343</sup> Mr Brendon Gardiner, Bridgetown Harness Racing Club, asserted that clubs being excluded from the consultation process was unhelpful for the industry and was cause for disappointment:

*I think we are being let down. We are being neglected. We know that our role in the industry is a small one; nonetheless, it is an important one...more open and free communication would be very helpful.*<sup>344</sup>

Mr Kenneth Godley, Bunbury Trotting Club stated that if RWWA could consult more with clubs about what it is doing, all clubs would have a better idea of where they are going:

*At the moment, we are just a club treading water, wondering what [RWWA] is going to do to us next time.*<sup>345</sup>

The lack of input stakeholders have in the decision making process was stressed by Mr Jonathan Menzel of Narrogin Racing, who stated that RWWA tended to ‘dictate what is going to happen in the industry, without calling for submissions beforehand’.<sup>346</sup> Mr Revell Douglas, General Manager, Pinjarra Harness Racing Club, was of the opinion that if RWWA was to ask industry bodies or individual clubs about issues, it would uncover ideas that would assist it with strategic planning.<sup>347</sup> Mr Rob Deadman, York Harness Racing Club, suggested that if RWWA had consulted with the industry, the industry would be in better shape now:

*I am very critical of a lot of desk decisions that are made by RWWA where people have not gone to the extent of coming to the industry to find out more.*<sup>348</sup>

Geraldton Turf Club submitted that since the formation of RWWA there has been even less consultation with clubs than under the previous principal club system—despite the best hopes of many industry participants:

*...unfortunately little changed, it can be argued it has been significantly worse with no consultation and again decisions made by a few with little or no input from industry participants.*<sup>349</sup>

<sup>342</sup> Mr David Prance, Immediate Past Chairman, Kalgoorlie-Boulder Racing Club, *Transcript of Evidence*, 19 March 2010, p13.

<sup>343</sup> Mr Donald Davies, Vice President, Wagin Trotting Club, *Transcript of Evidence*, 3 May 2010, pp7-8.

<sup>344</sup> Mr Brendon Gardiner, Secretary Treasurer, Bridgetown Harness Racing Club, *Transcript of Evidence*, 6 April 2010, p7.

<sup>345</sup> Mr Kenneth Godly, President, Bunbury Trotting Club, *Transcript of Evidence*, 6 April 2010, p12.

<sup>346</sup> Mr Jonathan Menzel, Manager, Narrogin Racing, *Transcript of Evidence*, 3 May 2010, p8.

<sup>347</sup> Mr Revell Douglas, General Manager, Pinjarra Harness Racing Club, *Transcript of Evidence*, 6 April 2010, p10.

<sup>348</sup> Mr Robin Deadman, Secretary, York Harness Racing Club, *Transcript of Evidence*, 26 March 2010, p11.

<sup>349</sup> Submission No. 25 from Geraldton Turf Club, 24 December 2009, p1.

The decline of industry bodies to represent the needs of participants was noted by a number of stakeholders. The Albany Harness Racing Club indicated that RWWA makes decisions that impact on the club without any consultation or right of appeal and that their main representative body, WACHRA is ‘toothless’.<sup>350</sup> The Mt Barker Turf Club noted that the establishment of RWWA had led to the decline of WAPTRA.<sup>351</sup> York Racing concurred that provincial bodies have lost their power.<sup>352</sup>

Mr Tony Marwick, President, Northam Race Club, indicated that the provincial bodies like WAPTRA were powerless and had no say:

*All provincial clubs find it difficult and frustrating because we simply do not have the avenue to have discussion. We nearly withdrew from the Western Australian Provincial Thoroughbred Racing Association, because ...it does nothing ... RWWA does not really recognise it. You have to beat your drum pretty hard. RWWA would prefer to deal with individual clubs, and it is a great frustration.*<sup>353</sup>

The Geraldton Turf Club further stated that RWWA’s ‘divide and conquer’ approach of dealing individually with clubs has not benefited the clubs and has made industry groups and associations irrelevant.<sup>354</sup>

Smaller country clubs expressed that they have less of a consultative voice with RWWA. Mr Kenneth Nottle, Harvey District Trotting Club, stated that more consultation is needed with country clubs.<sup>355</sup> Mr John Biggs, speaking on behalf of North East Goldfields Racing Clubs, asserted that small clubs do not get enough say in any decision making processes:

*I do not think the country clubs get enough say as to what they want to do and how they want to conduct their race meetings; the types of races they can run and the classes of races. They are being told and are being dictated to by the administration too much.*<sup>356</sup>

Some country clubs suggested the demise of a country voice in decision making procedures is creating the need for a contact person within the auspices of RWWA to whom they can go to for representation or information.<sup>357</sup> The York Harness Racing Club believed that a go-to person for country clubs would be beneficial and has raised the matter with RWWA:

<sup>350</sup> Mr Victor Jury, Trainer, Albany Harness Racing Club, Transcript of Evidence, 12 March 2010, p12.

<sup>351</sup> Submission No. 13 from Mt Barker Turf Club, received 30 November 2009, p2.

<sup>352</sup> Mr Barry Mahood, President, York Racing Inc, Transcript of Evidence, 26 March 2010, p2.

<sup>353</sup> Mr Tony Marwick, President, Northam Race Club, Transcript of Evidence, 26 March 2010, p13.

<sup>354</sup> Submission No. 24, Geraldton Turf Club, received 24 December 2009, p2.

<sup>355</sup> Mr Kenneth Nottle, President, Harvey District Trotting Club, Transcript of Evidence, 6 April 2010, p13

<sup>356</sup> Mr John Biggs, representative, North Eastern Goldfields Racing Clubs, Transcript of Evidence, 19 March 2010, p5.

<sup>357</sup> This view is not limited to small clubs. Mr Paul Rossiter of the Bunbury Turf Club intimated that clubs needed a point of call in RWWA via a go-to person (Mr Paul Rossiter, Manager, Bunbury Turf Club, Transcript of Evidence, 7 May 2010, p13).

*The proposal we put to RWWA was: give us a country liaison officer...it has been on the table now with RWWA for some time.*<sup>358</sup>

The Central Wheatbelt Harness Racing Club indicated frustration at locating the appropriate person within RWWA to speak to.<sup>359</sup> The importance of a 'middle person' was further reinforced by Mr Patrick Flynn, York Harness Racing Club:

*...my own perception is that at the moment RWWA and the board in general is made up of policy makers and managers. There has got to be someone in the middle who actually can speak to both parties because it is very hard for clubs in general...to actually talk to people in the policy region or the management region.*<sup>360</sup>

Not every comment received by the Committee was critical about RWWA's consultative process. Western Australian Racehorse Owners Association submitted that consultation is adequate and RWWA's Thoroughbred Racing Consultative Group is effective.<sup>361</sup> This view was later confirmed by Mr Harvey Crossman, WAROA President, who made the following statement:

*We have a very solid relationship with RWWA. We do not always agree with where it is going, and we certainly voice our opinions. Sometimes we sway its opinion a little. We have some wins and losses. In general, I am happy with the performance of RWWA.*<sup>362</sup>

When asked if the Mingenew Race Club had good communication with RWWA, Mr Robert Newton, Vice President of the club, replied that as far as he is aware, RWWA has a good rapport with them.<sup>363</sup>

Mr Bob Howat, WA Bookmakers' Association, was asked if there is a good enough process in place for consultation within the industry, to which he answered that there is certainly a forum for it, and that whilst he is new to the process, the CEO for RWWA 'has thrown open the doors to talk about everything in relation to betting'.<sup>364</sup>

Mr Ted van Heemst of Perth Racing commented that the relationship Perth Racing has with RWWA is 'quite a good relationship', indicating that the CEO was very approachable and that the thoroughbred board member has been 'doing a very good job for us'.<sup>365</sup>

<sup>358</sup> Mr Robin Deadman, Secretary, York Harness Racing Club, *Transcript of Evidence*, 26 March 2010, p11.

<sup>359</sup> Mr Brett Taylor, President, Central Wheatbelt Harness Racing Club, *Transcript of Evidence*, 26 March 2010, p5.

<sup>360</sup> Mr Patrick Flynn, Vice President, York Harness Racing Club, *Transcript of Evidence*, 26 March 2010, p12.

<sup>361</sup> Submission No. 28 from Western Australian Racehorse Owners Association received 6 January 2010, p1.

<sup>362</sup> Mr Harvey Crossman, President, Western Australian Racehorse Owners Association, *Transcript of Evidence*, 26 February 2010, p3.

<sup>363</sup> Mr Robert Newton, Vice President, Mingenew, Turf Club, *Transcript of Evidence*, 29 March 2010, p5.

<sup>364</sup> Mr Robert Howat, President, WA Bookmakers' Association, *Transcript of Evidence*, 8 March 2010, p11.

<sup>365</sup> Mr Edward (Ted) van Heemst, Chairman, Perth Racing, *Transcript of Evidence*, 26 February 2010, p10.

Despite these positive comments, a clear majority of stakeholders expressed negative views to the Committee on the effectiveness of RWWA's consultation practice. It is an issue that has caused frustration within the industry, particularly in regard to information being presented to stakeholders as a *fait accompli*; and the lack of opportunity stakeholders, be it industry bodies, individual clubs or participants, have to input into major decisions that may affect them.

### **Finding 33**

Racing and Wagering Western Australia presents information to industry consultative groups as a *fait accompli*.

Notwithstanding the imperative on RWWA to consult with industry participants under the RWWA Act, the Committee finds that RWWA must seek strategies to improve its consultation with stakeholders as a part of its governance framework. If stakeholders have the ability to add their knowledge, views and industry experience into the decision making processes of RWWA, industry confidence in RWWA's decision making processes will increase—which in turn will increase the operational effectiveness of RWWA.

### **Finding 34**

Racing and Wagering Western Australia should provide stakeholders with the opportunity to have input into major decisions that may affect them.

## **(b) Mechanisms to enhance consultation with the industry**

RWWA is entirely cognisant of the criticism it has received about its consultation techniques during the course of this Inquiry. On first meeting with the Committee, RWWA acknowledged and accepted that a major criticism of RWWA was that it does not consult adequately. Mr Richard Burt, CEO of RWWA, stated that there were certainly areas where improvements were warranted—particularly regarding race programming, meeting numbers and consultation in general. It was put forward that with the advent of the strategic vision papers providing indicative leadership for the industry, RWWA will be able to put in place a greater certainty of meetings.<sup>366</sup>

Nonetheless, RWWA suggested that it does 'incredible amounts of consulting, particularly in the past couple of years. Right the way back there has been a structured process of consulting'.<sup>367</sup> In a subsequent hearing, RWWA again noted that it has been very consultative in the last couple of years. Mr Robert Pearson, Chair of the Thoroughbred Racing Consultative Group (TRCG), said

<sup>366</sup> Mr Richard Burt, CEO, Racing and Wagering Western Australia, Transcript of Evidence, 30 April 2010, p46.

<sup>367</sup> Ibid.

that he knows of incidences when RWWA has raised issues with the consultative groups, whereby these groups tell RWWA ‘why it would not work, or should not work, or should not be done, and [RWWA] have gone back and make adjustments accordingly’.<sup>368</sup> He further pointed out that these consultative groups are given the opportunity to place items on the agenda for discussion, but this does not generally occur in the TRCG:

*I would say that the average we would have at any meeting would be one or two things that are put to the groups, but in the main we have no items that are presented to us from those representative groups.*<sup>369</sup>

In comparison, with the Harness Racing Consultative Group, there seemed to be ‘a lot more meat on the table from the various representatives’.<sup>370</sup>

Mr Dixie Solly of the CRA offered a possible reason for the apparent lack of items being put up for discussion by the representative groups in thoroughbred racing. He noted that not all the issues faced by some stakeholders at these groups are relevant to all the stakeholders and it is therefore inappropriate for them to be raised at the quarterly meetings. He also suggested that the groups themselves have been a little ‘derelict’ whereas prior to RWWA’s establishment, the old industry councils would meet and discuss all the issues they wanted to raise prior to meeting with the then principal club, the WATC.<sup>371</sup>

Mr John Burt, WATA, further highlighted the benefits of convening a meeting of industry group representatives prior to code consultative group meetings. He argued that this could be a democratic approach whereby the industry could vote on what issues they felt should be raised—or what position should be taken, at the consultative groups. If there was a unanimous vote, that documented position could be presented to RWWA as an accurate view of that particular group’s thoughts. If one particular body was strongly opposed, they would also have the opportunity to present their views at the consultative group for RWWA’s consideration. In this way, Mr Burt argued, RWWA would be presented with an accurate snapshot of the industry’s views before decisions are made.<sup>372</sup>

In the Committee’s opinion, the convening of representative industry groups prior to the consultative groups has merit. While this may already occur on an ad hoc basis, a more structured process where groups commit to meeting prior to quarterly consultative groups could provide RWWA with an ongoing, current and useful insight into the thoughts and feelings of the broader racing and wagering industry—which will only help to positively inform RWWA’s decision making process on behalf of the industry. Overall, this approach may help to address some of the frustration felt by industry participants as a result of the demise of the old industry councils. In addition, it may lend more of a voice to smaller clubs which feel they have less representation at

<sup>368</sup> Mr Robert Pearson, Director, Racing and Wagering Western Australia, Transcript of Evidence, 20 August 2010, p6.

<sup>369</sup> *Ibid.*, p5.

<sup>370</sup> *Ibid.*

<sup>371</sup> Mr Maxwell (Dixie) Solly, President, Country Racing Association, Transcript of Evidence, 7 May 2010, p6.

<sup>372</sup> Mr John Burt, President, WA Trotting Association, *Transcript of Evidence*, 26 February 2010, p6.

the consultative group level; or where clubs are conscious about the appropriateness of items to be discussed at the quarterly consultative group meetings. RWWA's procedures for the consultative groups do not preclude this from occurring.<sup>373</sup>

### **Finding 35**

There is a need for representative industry groups to meet prior to consultative group meetings so that all major issues concerning the industry can be raised.

Section 82 of the RWWA Act only makes provision for RWWA to establish procedures for consulting with prescribed bodies, which are listed in the RWWA Regulations. Section 35(1)(g) of the Act also allows RWWA to consult with individual racing clubs in relation to matters such as stake money levels and programs. As it stands RWWA can either talk to the prescribed bodies—or to the thousands of individual participants, and it currently attempts to do both, in so doing creating 'an absolute nightmare'<sup>374</sup> for itself. Returning to the original rationale for prescribed bodies, the Turner Report - which informed the restructure of the racing industry and establishment of RWWA - had identified a need for structured consultation between the governing body and associations representing stakeholders.<sup>375</sup> The Committee agrees that structured consultation is necessary and therefore supports the continuation of the system of consulting with prescribed bodies, however also acknowledges that, as suggested by one industry participant, there is a lot of expertise available across the industry which RWWA is not necessarily accessing before making decisions.<sup>376</sup> The current procedures and terms of reference for consultative groups permits RWWA to 'at any time, co-opt a person/s to attend meetings of a specific Consultative Group'.<sup>377</sup> The Committee considers that this provision is sufficient to allow RWWA to capture the views of individuals or groups outside of the defined prescribed bodies if and when necessary. Even though RWWA's consultation procedures indicate that RWWA can consult outside of the consultative groups, the Committee considers it worthwhile reinforcing this point in the RWWA Act.

<sup>373</sup> Racing and Wagering Western Australia, 'Thoroughbred Racing Consultative Group', January 2010. Available at: [www.rwwa.com.au/home/thoroughbreds-consultative-group.html](http://www.rwwa.com.au/home/thoroughbreds-consultative-group.html) Accessed on 29 September 2010. It should be noted that the same provisions apply to the harness, and greyhound racing consultative groups.

<sup>374</sup> Mr Robert Tomlinson President, BOTRA, *Transcript of Evidence*, 7 May 2010, p19.

<sup>375</sup> Western Australian Racing Industry Review Committee, *Future Governance of the Western Australian Racing Industry. A Report to the Minister for Racing and Gaming*, Western Australia, October 2001, p23.

<sup>376</sup> Mr Kerry Clarke, President, WASBA, *Transcript of Evidence*, 7 May 2010, p19.

<sup>377</sup> Racing and Wagering Western Australia, 'Thoroughbred Racing Consultative Group', January 2010. Available at: [www.rwwa.com.au/home/thoroughbreds-consultative-group.html](http://www.rwwa.com.au/home/thoroughbreds-consultative-group.html) Accessed on 29 September 2010. It should be noted that the same provisions apply to the harness, and greyhound racing consultative groups.

**Recommendation 21**

That Section 82 of the *Racing and Wagering Western Australia Act 2003* be amended to include the statement that nothing in Section 82(2) precludes Racing and Wagering Western Australia from consulting outside of the prescribed bodies in relation to the operations of Racing and Wagering Western Australia or a subsidiary.

In terms of attempting to consult with industry groups as well as individuals, this is a matter of RWWA striking the appropriate balance. The Committee notes that RWWA has instituted a change as of 2010 to its consultative group meeting format that may assist in this regard. RWWA has indicated that in relation to consultative group meetings for all three racing codes:

*...from 2010 onwards, three Head Office meetings would be held annually, with the fourth meeting to be a regional visit by Racing Operations Directors and Senior Racing Management. These regional meetings will allow for the dissemination of operational and strategic racing issues to the wider racing industry. This will usually take place around February-April each year and will coincide with the release of racing fixtures and distribution of funds to the racing clubs and participants.*<sup>378</sup>

The Committee cautions however that these meetings should not simply present information to regional industry participants but allow input into decisions on racing fixtures and distribution of funds.

By far the greatest criticism concerning RWWA's consultation is the widespread feeling among industry participants that they lack a meaningful input into RWWA's decision making process. The overarching issues raised with the Committee concerned decisions that had already been made and matters that had been presented to the industry as a *fait accompli*. Mr Dixie Solly, CRA, said of RWWA that industry stakeholders do not 'get to know about lots of the things that they have in their tray until a decision has been made'.<sup>379</sup> This suggests that despite RWWA's structured consultation process, many industry stakeholders are unaware of what issues are being considered at any given time. Mr Richard Burt, CEO of RWWA noted that the difficulty involved in consulting with industry stakeholders within the racing and wagering industry is the existence of very divergent views. He contends that this is a well known fact within the industry and the industry wants RWWA to make a decision—even if RWWA receives complaints when it does so:

*So they want decisiveness, but the moment you act decisively you get labelled as autocratic. So it is a balance.*<sup>380</sup>

<sup>378</sup> Ibid.

<sup>379</sup> Mr Maxwell (Dixie) Solly, President, Country Racing Association, Transcript of Evidence, 7 May 2010, p6.

<sup>380</sup> Mr Richard Burt, CEO, Racing and Wagering Western Australia, Transcript of Evidence, 20 August 2010, p6.

Mr Burt noted that because of this, RWWA does not try to please all parties—yet RWWA also does not want to upset people and they want people to accept what has to happen.<sup>381</sup> The Committee fully concurs with this as an outcome of good consultation, but suggests that for stakeholders to accept the sometimes difficult decisions that RWWA has to make they must first be made aware of any issues that inform the decision making process—and be given some opportunity to contribute to the process, prior to the decision actually being made.<sup>382</sup> As such, the Committee strongly recommends that RWWA makes its consultation procedures widely known.

### **Recommendation 22**

That Racing and Wagering Western Australia makes its consultation procedures widely known throughout the industry.

Improving the consultation process is essential to helping industry participants feel part of the decision making process. That said, the Committee is mindful that during the consultation process for this Inquiry, RWWA announced some significant changes to the way they intend to consult with industry stakeholders. If RWWA continues developing these innovations through to implementation, the Committee is satisfied that many of the stakeholder criticisms about RWWA's lack of consultation will be addressed.

The proposed changes include the following:

- (As indicated above) an 'outreach' program whereby the executive management, directors and other staff travel to regional areas, presenting information and discussing 'the year we have had, the year ahead, our financial situation, how we do the programming and how we do distributions';<sup>383</sup>
- An AGM style of meeting whereby the agenda is 'the chairman and full board giving a report on the year-end results and what is happening';<sup>384</sup> and
- The above to be combined with an industry wide conference whereby the information is not just presented but workshopped and the benefits of bringing people together to share and develop ideas is realised.

Mr Richard Burt expanded on the idea of the AGM and conference with the following comment:

<sup>381</sup> Ibid.

<sup>382</sup> Evidence suggests stakeholders would like to be able to submit information prior to any decision being made final, so that if relevant, the information might have a bearing on that process. (As indicated by Mr Jonathan Menzel, Manager, Narrogin Racing, *Transcript of Evidence*, 3 May 2010, p8; Mr Tony Marwick, President, Northam Race Club, *Transcript of Evidence*, 26 March 2010, p2).

<sup>383</sup> Mr Richard Burt, CEO, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p4.

<sup>384</sup> Mr Ross Bowe, Chairman, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p4.

*Typically you would come together like an AGM, and then you would go off into these sort of workshops to talk about programming, sponsorship and things, where they can get ideas from others. Because there is a lot of best practice going on in one but not in another so you share that.*<sup>385</sup>

The Committee considers RWWA's proposed initiatives to be essential. If RWWA implements these changes it will raise the standard of consultation, transparency and accountability within the industry; increase the profile of the industry to external stakeholders and potential sponsors; allow industry knowledge to be maintained and improved; assist all industry participants in becoming more productive, and will ultimately allow the industry to become more competitive and responsive to challenging market conditions.

### **Recommendation 23**

That as a priority, Racing and Wagering Western Australia continues to develop and implement the following changes to the way it consults with stakeholders:

4. an outreach program to regional areas;
5. the convening of an Annual General Meeting; combined with
6. the establishment of an industry wide conference.

## **2.7 The distribution of funds by RWWA**

RWWA sources the majority of its income from off-course and on-course wagering, with a smaller proportion of revenue derived from non-wagering income. The latter includes unclaimed dividends<sup>386</sup> and grants and subsidies from the state government.<sup>387</sup>

Sections 105 and 106 of the RWWA Act detail how RWWA is to allocate wagering profits to each of the three racing codes. Until 31 July 2006, Section 105 of the Act required RWWA to distribute profits after taxes and expenses or \$50 million, whichever is the lesser amount,<sup>388</sup> to

<sup>385</sup> Mr Richard Burt, CEO, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p5.

<sup>386</sup> Section 104 of the RWWA Act states that dividends, fixed odds winnings or refunds in respect of wagers unclaimed after 7 months are turned over to income.

<sup>387</sup> Racing and Wagering Western Australia, *Annual Report 2009*, 12 October 2009, p41. Available at: [www.rwwa.com.au/home/rwwa-annual-report-2009.pdf](http://www.rwwa.com.au/home/rwwa-annual-report-2009.pdf) Accessed on 25 June 2010. It should be noted that the state government provides reimbursement for GST paid on the operators' margin and for accounting purposes this is considered a 'grant' from the state government.

<sup>388</sup> Section 105 maintained arrangements that already existed within the *Totalisator Agency Board Betting (Modification of Operation) Act 2000* whereby the first \$50 million of wagering profits after taxes and expenses would be distributed to the codes in accordance with set percentages (Hon. Nick Griffiths, MLC, Minister for Racing and Gaming, Western Australia, Legislative Council, *Parliamentary Debates* (Hansard), 9 May 2003, p7416).

thoroughbred, harness, and greyhound racing in the proportions defined in Section 105(2). Profits in excess of \$50 million were then to be distributed at the discretion of RWWA.<sup>389</sup> From 1 August 2006,<sup>390</sup> section 106 took effect stating that after expenses RWWA is to distribute wagering profits among the three racing codes in such amounts as it determines. Notwithstanding RWWA's discretion:

*RWWA is to use its best endeavours to ensure that the amount paid or credited to any racing club...in any racing year is not less than the revenue, after taxes and expenses are deducted, generated from wagering conducted by RWWA on races conducted by that racing club during that year.*<sup>391</sup>

In early 2010 the RWWA Act was amended as a consequence of the *Racing and Wagering Legislation Amendment Act 2009*. The new Section 107A establishes a racing bets levy account and requires RWWA to also distribute moneys received from the Gaming and Wagering Commission (in relation to product fees) to each of the three racing codes.<sup>392</sup> Funds in the racing bets levy account are to be distributed to the three codes by RWWA in such amounts as it determines.<sup>393</sup>

Funds distributed to the three codes are in the form of stakes, capital grants, subsidies and participant payments.<sup>394</sup> Thoroughbred and harness racing distributions are made directly to clubs whereas greyhound distributions go to the Western Australian Greyhound Racing Association.<sup>395</sup> WAGRA manages three venues (Cannington, Mandurah, and Northam) and is responsible for allocating the funds it receives to the volunteer committees (such as AVGRA) which perform race day functions at the venues.<sup>396</sup>

When broken down further, the distributions made to racing clubs by RWWA comprise participant funding and club funding. The former underwrites stakes and also includes among other things, breeding incentives and driver/rider fees. The latter returns a contribution to clubs for operating race meetings, providing training infrastructure and usage and product fees (arising from wagering turnover at meetings conducted by the club).<sup>397</sup>

<sup>389</sup> Section 105(5) *Racing and Wagering Western Australia Act 2003*.

<sup>390</sup> This date was subject to extensive debate in the Legislative Council during consideration of the *Racing and Wagering Western Australia Bill 2003*. The bill was amended from a cut off of 31 July 2005 to that of 31 July 2006 to provide a suitable period of transition for RWWA while ensuring fair returns for stakeholders in the racing industry.

<sup>391</sup> Section 106(2) *Racing and Wagering Western Australia Act 2003* (WA).

<sup>392</sup> Hon. T.K. Waldron, MLA, Minister for Racing and Gaming, Western Australia, Legislative Assembly, *Parliamentary Debates (Hansard)*, 23 September 2009, pp7556-7557.

<sup>393</sup> Section 107A *Racing and Wagering Western Australia Act 2003* (WA).

<sup>394</sup> Racing and Wagering Western Australia, *Annual Report 2008*, 13 October 2008, p6. Available at: [www.rwwa.com.au/home/annual-report-2008.pdf](http://www.rwwa.com.au/home/annual-report-2008.pdf) Accessed on 31 August 2010.

<sup>395</sup> WAGRA is a statutory authority established under the *Western Australian Greyhound Racing Association Act 1981* (WA).

<sup>396</sup> Mr David Simonette, Chief Executive Officer, Western Australian Greyhound Racing Association, *Transcript of Evidence*, 30 April 2010, p3.

<sup>397</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p42.

In terms of funds distributed to the racing industry since RWWA's establishment in 2003, annual distributions increased until 2008-09.<sup>398</sup> The distribution to the racing industry in 2009-10 was less than for 2008-09 as a consequence of downward pressures on revenues (detailed in Chapter 2.9). In 2009-10, RWWA provided \$103.2 million to the three racing codes in the form of club and participant distributions. An additional \$2.1 million was provided as industry infrastructure and development grants. RWWA announced a \$104.9 million distribution to the codes for 2010-11 thereby maintaining stake money levels; however no similar commitment was made for infrastructure.<sup>399</sup>

According to RWWA, \$24.5 million has been distributed to the industry in direct capital grants between 2003-04 and 2008-09.<sup>400</sup> The emphasis of RWWA's distribution however has been on maintaining stake money levels in order to deliver adequate returns to industry participants and maintain an industry incentive.<sup>401</sup>

### (a) The effectiveness of RWWA's funding distribution

The Committee received extensive feedback on the topic of funding distribution. In relation to the effectiveness of RWWA's distribution model, the main criticisms are summarised here with further analysis below:

- The distribution model favours the thoroughbred racing code at the expense of harness racing<sup>402</sup> and greyhound racing;<sup>403</sup>
- RWWA's distribution model fails to recognise performance as distributions are not truly reflective of contribution to turnover<sup>404</sup> and a more adequate performance based model is required;<sup>405</sup>
- The distribution of funds to the thoroughbred racing code suggests that provincial racing is subsidising country racing to a greater extent compared with metropolitan racing;<sup>406</sup>

<sup>398</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p37.

<sup>399</sup> Edwards, R., 'No cutbacks in stakes', *The West Australian*, 4 June 2010, p72.

<sup>400</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p19. It should be noted that this figure excludes the \$20 million Regional Racing Infrastructure Grants Program introduced by the state government in 2005.

<sup>401</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, pp34, 70.

<sup>402</sup> Submission No. 30 from Western Australian Trotting Association, 15 January 2010, pp1-15.

<sup>403</sup> Submission No. 14 from Western Australian Greyhound Racing Association, 30 November 2009, pp3-4.

<sup>404</sup> Mr David Wrensted, Vice Chairman, WA Provincial Thoroughbred Racing Association, *Transcript of Evidence*, 26 February 2010, p7.

<sup>405</sup> Submission No. 26 from Northam Race Club Inc, 23 December 2009, p2.

<sup>406</sup> This issue was raised in Submission No. 24 from Western Australian Provincial Thoroughbred Racing Association (Inc), 29 December 2009, pp4-5; Mr Keith Jeffreys, Committee Member, Pinjarra Race Club, *Transcript of Evidence*, 6 April 2010, pp3-4; Mr David Wrensted, Manager, Geraldton Turf Club, *Transcript of Evidence*, 29 March 2010, p6; and Submission No. 13 from Mt Barker Turf Club, 30 November 2009, p2.

- Stakes distribution favours metropolitan racing at the expense of provincial and country racing;<sup>407</sup>
- The funding distribution fails to recognise the significant volunteer effort of country/community clubs;<sup>408</sup>
- The funding model differs from year to year and there is no surety for clubs about club or stake money funding;<sup>409</sup>
- RWWA's administrative costs have reduced the pool of funds available for distribution to the codes;<sup>410</sup>
- There is a discrepancy in venue fees between metropolitan and regional areas;<sup>411</sup>
- RWWA's suspension of the Owners' Incentive Payment (OIP) has adversely affected country clubs;<sup>412</sup>
- There has been insufficient expenditure by RWWA on new and/or existing race related and TAB infrastructure:
  - The impost on country racing clubs has been particularly severe;<sup>413</sup> and
  - There is an urgent need for infrastructure funding across the industry, including training facilities.<sup>414</sup>

Expanding on some of the comments above, the Committee received evidence from various provincial thoroughbred racing clubs to the effect that RWWA's funding distribution model is not sufficiently reflective of performance and places an unfair burden on provincial clubs. WAPTRA indicated that provincial racing clubs had received a substantially smaller percentage of distribution when compared to turnover generated while Perth Racing had received a higher percentage distribution than its turnover contribution.<sup>415</sup> According to WAPTRA this represents a 'leakage' of funds generated by provincial clubs to fund country racing.<sup>416</sup> This view was shared

<sup>407</sup> This issue was raised in Submission No. 25 from Geraldton Turf Club, 24 December 2009, p2; Submission No. 24 from Western Australian Provincial Thoroughbred Racing Association (Inc), 29 December 2009, p4; Submission No. 26 from Northam Race Club (Inc), 24 December 2009, p2; Submission No. 5 from York Racing (Inc), 26 November, p4; and Submission No. 12, 30 November 2009, p3.

<sup>408</sup> Mr Maxwell (Dixie) Solly, President, Country Racing Association, *Transcript of Evidence*, 7 May 2010, p5.

<sup>409</sup> Submission No. 30 from Western Australian Trotting Association, 15 January 2010, pp1-15.

<sup>410</sup> Submission No. 28 from Western Australian Racehorse Owners' Association, 30 December 2009, p2.

<sup>411</sup> Mr Paul Rossiter, Manager, Bunbury Turf Club, *Transcript of Evidence*, 7 May 2010, p6.

<sup>412</sup> Mr John Biggs, Representative, NE Goldfields Racing Clubs, *Transcript of Evidence*, 19 March 2010, p4.

<sup>413</sup> Mrs Rosanne Pimm, Treasurer, Collie Race Club, *Transcript of Evidence*, 6 April 2010, p4.

<sup>414</sup> Due to the volume of evidence received with respect to infrastructure, this issue is expanded on in subsequent pages.

<sup>415</sup> Submission No. 24 from Western Australian Provincial Thoroughbred Racing Association, 29 December 2009, p6.

<sup>416</sup> *Ibid.*

by the Kalgoorlie-Boulder Racing Club<sup>417</sup> and the Pinjarra Race Club,<sup>418</sup> and was reinforced by the Geraldton Turf Club:

*At the moment the percentages are such that the provincial clubs have less of what they turn over as to what they have generated. That money seems to be drifting to the country racing clubs. The provincial clubs would say that they have a responsibility to support country racing because a lot of us benefit indirectly and directly by country race clubs but the burden should be on the industry as a whole.*<sup>419</sup>

A number of country/community race clubs highlighted the substantial volunteer effort that goes into their operations.<sup>420</sup> It was put to the Committee that RWWA's funding distribution model fails to reflect the significant contribution of volunteers to these clubs. Given the cost savings to the industry that volunteers represent<sup>421</sup> and the fact that many of these clubs top up their stakes, this contribution should be accounted for:

*Because of their low overheads, the smaller clubs are pretty low cost maintenance clubs. Everything is pretty well done on a voluntary basis. They survive on the smell of an oily rag...As a whole, country racing clubs contribute around 30 per cent more in actual stakes distribution than they receive. They top their stakes up ... While they are deemed to be not that significant in their financial contribution to the industry, they still receive less than anyone else and put in 30 per cent more than they get. It is a huge contribution in terms of stakes to financial contribution.*<sup>422</sup>

Another issue raised with the Committee pertained to differences in levels of stake money between metropolitan and non-metropolitan areas. This is significant given that basic stakes are funded through RWWA's distribution. Mr David Wrensted, Geraldton Turf Club indicated that the gap between metropolitan and provincial stakes is widening in real terms.<sup>423</sup> The Pingrup Race Club believed that metropolitan stakes were unnecessarily high and limited funds available for the rest of the industry.<sup>424</sup> Mr Terry Zambonetti, Albany Racing Club highlighted that the gaps between metropolitan, provincial and country stakes distributions have become more pronounced over time.<sup>425</sup> Further, Mr Jonathan Menzel, Narrogin Racing indicated that this disparity was not getting any better:

<sup>417</sup> Mr David Prance, Immediate Past Chairman, Kalgoorlie-Boulder Racing Club, *Transcript of Evidence*, 19 March 2010, pp3-5.

<sup>418</sup> Mr Colin Bellchambers, General Manager, Pinjarra Race Club, *Transcript of Evidence*, 6 April 2010, p5.

<sup>419</sup> Mr David Wrensted, Manager, Geraldton Turf Club, *Transcript of Evidence*, 29 March 2010, p6.

<sup>420</sup> Mr Bill Pearce, Mt Barker Turf Club, *Transcript of Evidence*, 12 March 2010, p7; Mr Tony Crowhurst, Chairman, Dongara-Irwin Race Club, *Transcript of Evidence*, 29 March 2010, p2.

<sup>421</sup> Submission No. 32 from Western Australian Country Harness Racing Association, 14 January 2010, p3.

<sup>422</sup> Mr Maxwell (Dixie) Solly, President, Country Racing Association, *Transcript of Evidence*, 7 May 2010, p5.

<sup>423</sup> Mr David Wrensted, Manager, Geraldton Turf Club, *Transcript of Evidence*, 29 March 2010, p5.

<sup>424</sup> Mr Alan Smith, Secretary/Treasurer, Pingrup Race Club, *Transcript of Evidence*, 3 May 2010, p14.

<sup>425</sup> Mr Terence Zambonetti, Vice President, Albany Racing Club, *Transcript of Evidence*, 12 March 2010, p16.

*It is a huge difference between the stake money of country clubs and the stake money in Perth. It is something that has grown exponentially in Perth, but it has not changed essentially in the country; if anything, it has gone down.*<sup>426</sup>

There were suggestions also from provincial thoroughbred racing clubs that RWWA's contribution to metropolitan feature stakes in particular was unnecessarily high. According to the Northam Race Club, provincial clubs are forced to reduce maiden stakes in order to top up their feature races while Perth Racing receives full funding from RWWA for its feature races.<sup>427</sup> Narrogin Racing<sup>428</sup> and the Bunbury Turf Club<sup>429</sup> also highlighted the disproportionately higher feature race stakes in the metropolitan area. The Geraldton Turf Club also drew attention to the scale of metropolitan feature stakes such as the Railway Stakes and while acknowledging that it was important for a premier event such as this to be funded significantly by RWWA, this funding should not occur at the expense of other clubs.<sup>430</sup>

In relation to RWWA's distribution of capital grants, the Committee received extensive comment suggesting critical need across the industry for infrastructure funding. The main issues can be summarised as follows:

- Race clubs have not received adequate development funding and/or require additional funds to upgrade facilities;<sup>431</sup>
- There is a need for a dedicated horse sales and/or quarantine facility in Western Australia;<sup>432</sup>
- It is critical to retain a dedicated metropolitan facility for greyhound racing. A new racing facility constructed at Cannington would cost approximately \$19.2 million and is beyond the capacity of WAGRA to fund;<sup>433</sup>
- Compared to other states, there has been insufficient infrastructure investment in the harness industry in WA;<sup>434</sup>

<sup>426</sup> Mr Jonathan Menzel, Manager, Narrogin Racing, *Transcript of Evidence*, 3 May 2010, p14.

<sup>427</sup> Submission No. 26 from Northam Race Club Inc, 23 December 2009, p2.

<sup>428</sup> Mr Jonathan Menzel, Manager, Narrogin Racing, *Transcript of Evidence*, 3 May 2010, p10.

<sup>429</sup> Mr Paul Rossiter, Manager, Bunbury Turf Club, *Transcript of Evidence*, 7 May 2010, p7.

<sup>430</sup> Mr David Wrensted, Manager, Geraldton Turf Club, *Transcript of Evidence*, 29 March 2010, p5.

<sup>431</sup> The Committee received evidence of infrastructure need from numerous clubs, a sample of which is cited here: Submission No. 13 from Mt Barker Turf Club, 30 November 2009, p2; Submission No. 5 from York Racing Inc, 26 November 2009, p4; Submission No. 12 from Narrogin Racing, 30 November 2009, p3; Submission No. 23 from Bunbury Turf Club, 18 December 2009, p1; and Mr Brendon Gardiner, Secretary/Treasurer, Bridgetown Harness Racing Club, *Transcript of Evidence*, 6 April 2010, p2.

<sup>432</sup> Submission No. 18 from West Australian Bloodhorse Breeders Association Inc, 3 December 2009, p3.

<sup>433</sup> Mr David Simonette, Chief Executive Officer, Western Australian Greyhound Racing Association, *Transcript of Evidence*, 30 April 2010, p4.

<sup>434</sup> Submission No. 46 from Pinjarra Harness Racing Club, 6 April 2010, p3.

- Safety upgrades to race tracks as required by RWWA have been a particular financial impost on country race clubs<sup>435</sup> although RWWA has provided some limited funding assistance in this regard;<sup>436</sup>
- Country clubs in particular struggle to fund infrastructure and/or lack funding support from RWWA in this regard;<sup>437</sup> and
- Infrastructure needs are not confined to racing with a lack of capital expenditure on TAB retail agencies also brought to the Committee's attention.<sup>438</sup>

A specific subset of infrastructure concerns related to training facilities and the Committee heard extensive evidence suggesting that more funding is required in this regard. The main points can be summarised as follows:

- Thoroughbred training facilities in the metropolitan area (Ascot, Belmont and Lark Hill) are under significant pressure<sup>439</sup> and/or better facilities are required;<sup>440</sup>
- The metropolitan/near metropolitan area is one track short of requirements for training (and racing);<sup>441</sup>
- Clubs receive some financial compensation from RWWA for the provision of training facilities but this only partially covers costs and clubs are left to meet significant shortfalls,<sup>442</sup> for example Perth Racing (\$750,000),<sup>443</sup> Geraldton Turf Club (up to \$50,000 per year),<sup>444</sup> and Albany Racing Club (RWWA covers less than half of the \$250,000 annual cost);<sup>445</sup>

<sup>435</sup> Mr Steven McGuire, Tote Manager, Kojonup Race Club, *Transcript of Evidence*, 3 May 2010, p4; Mr Alan Smith, Secretary/Treasurer, Pingrup Race Club, *Transcript of Evidence*, 3 May 2010, pp6-7; Mr Brett Smith, Committee Member, Junction Race Club, *Transcript of Evidence*, 16 May 2010, p6.

<sup>436</sup> Mr Robert Newton, Vice President, Mingenew Turf Club and Mr Tony Crowhurst, Chairman, Dongara-Irwin Race Club, *Transcript of Evidence*, 29 March 2010, p4; Mrs Rosanne Pimm, Treasurer, Collie Race Club, *Transcript of Evidence*, 6 April 2010, p9; Mr Geoff Fahl, Chairman/Treasurer, Carnarvon Race Club, *Transcript of Evidence*, 16 May 2010, p5.

<sup>437</sup> Submission No. 9 from Mr F Peczka, 30 November 2009, p2; Mrs Rosanne Pimm, Treasurer, Collie Race Club, *Transcript of Evidence*, 6 April 2010, p4.

<sup>438</sup> Submission No. 16 from Morley TAB Agents, 2 December 2009, p5; Submission No. 8 from WA TAB Agents' Association, 30 November 2009, p7.

<sup>439</sup> Mr Edward (Ted) van Heemst, Chairman, Perth Racing, *Transcript of Evidence*, 26 February 2010, pp4,6; Mr Keith Jeffreys, Committee Member, Pinjarra Race Club, *Transcript of Evidence*, 6 April 2010, p11.

<sup>440</sup> Mr Bruce Hyde, President, WA Racing Trainers' Association, *Transcript of Evidence*, 26 February 2010, p8;

<sup>441</sup> Submission No. 22B from WA Racing Trainers' Association, 6 August 2010, p2.

<sup>442</sup> Mr Tony Marwick, President, Northam Race Club, *Transcript of Evidence*, 26 March 2010, p10.

<sup>443</sup> Mr Edward (Ted) van Heemst, Chairman, Perth Racing, *Transcript of Evidence*, 26 February 2010, p4

<sup>444</sup> Mr David Wrensted, Manager, Geraldton Turf Club, *Transcript of Evidence*, 29 March 2010, p4.

<sup>445</sup> Mr Shane O'Loughlin, Committee Member, Albany Racing Club, *Transcript of Evidence*, 12 March 2010, p9.

- RWWA's funding model needs to give greater recognition to clubs that provide training facilities;<sup>446</sup>
- The harness industry requires training facilities;<sup>447</sup>
- The greyhound code lacks dedicated training facilities<sup>448</sup> and without training facilities and a metropolitan race track, the code cannot survive;<sup>449</sup> and
- There is some acknowledgement within the industry that RWWA has limited finances to support training facilities.<sup>450</sup>

### Finding 36

There is extensive evidence of critical infrastructure need across the racing industry in Western Australia.

In relation to other club funding, various stakeholders cited the loss of the OIP<sup>451</sup> as a particular issue. It should be noted that RWWA suspended the OIP for the 2009-10 racing season as a consequence of escalating financial pressures and as a means of preserving the level of stakes funding. The Committee was told that the loss of the OIP had been particularly difficult for country clubs<sup>452</sup> and should be reinstated.<sup>453</sup> While the Committee heard that people involved in the industry would continue regardless,<sup>454</sup> the OIP definitely assisted industry participants to recover costs<sup>455</sup> and stay in the industry:

<sup>446</sup> Submission No. 25 from Geraldton Turf Club, 24 December 2009, p3; Mr David Prance, Immediate Past Chairman, Kalgoorlie-Boulder Racing Club, *Transcript of Evidence*, 19 March 2010, p9; Mr Craig Chadwick, Chairman, Bunbury Turf Club, *Transcript of Evidence*, 7 May 2010, pp2-4.

<sup>447</sup> Mr Kevin Jeavons, President, Western Australian Harness Racing Owners' Association, *Transcript of Evidence*, 7 May 2010, p22; Mr Mark Roberts, Vice President, Northam Harness Racing Club, *Transcript of Evidence*, 26 March 2010, p14; Mr Rob Deadman, Secretary, York Harness Racing Club, *Transcript of Evidence*, 26 March 2010, p2.

<sup>448</sup> Mr David Simonette, Chief Executive Officer, Western Australian Greyhound Racing Association, *Transcript of Evidence*, 30 April 2010, p12.

<sup>449</sup> Mr Sam Celenza, President, Western Australian Greyhound Breeders, Owners and Trainers' Association, *Transcript of Evidence*, 30 April 2010, p2.

<sup>450</sup> Mr Barry Mahood, Chairman, York Racing Inc, *Transcript of Evidence*, 26 March 2010, p8; Mr Kevin Jeavons, President, Western Australian Harness Racing Owners' Association, *Transcript of Evidence*, 7 May 2010, p22.

<sup>451</sup> The OIP comprised a \$125 payment to owners of non-stakes earners which would subsidise owners somewhat for the feeding and transportation of horses to regional race meetings.

<sup>452</sup> Mr John Biggs, Representative, NE Goldfields Racing Clubs, *Transcript of Evidence*, 19 March 2010, p4.

<sup>453</sup> Submission No. 12 from Narrogin Racing, 30 November 2009, p4; Mr Geoff Fahl, Chairman/Treasurer, Carnarvon Race Club, *Transcript of Evidence*, 16 May 2010, p15.

<sup>454</sup> Mr Brett Taylor, President, Central Wheatbelt Harness Racing Club, *Transcript of Evidence*, 26 March 2010, p10.

<sup>455</sup> Mr Kerry Clarke, President, Western Australian Standardbred Breeders' Association, *Transcript of Evidence*, 7 May 2010, p6.

*It does help for people to stay in the industry. I think that is another point: that you really need to be looking after them. You need to encourage people to come into the industry. We do not want too many stumbling blocks to stop people.*<sup>456</sup>

Also relevant to club funding, a number of clubs raised the issue of meeting fees, which refers to the financial contribution made by RWWA to clubs to operate their race meetings. The Albany Harness Racing Club indicated that meeting fees did not fully take into account clubs which owned their own premises and therefore had to shoulder a higher financial burden.<sup>457</sup> Various harness racing clubs highlighted the significantly lower meeting fee secured by country clubs compared to Gloucester Park.<sup>458</sup> With respect to thoroughbreds, the Bunbury Turf Club highlighted meeting fee discrepancies between metropolitan and regional areas:

*With the venue fees, I find it very hard to gauge why it would cost Belmont or Ascot \$15 000 to conduct a race meeting and we get paid a \$5 000 venue fee...Our crowds are very similar. We have the same expenses as their midweek race meetings.*<sup>459</sup>

## Summary

Although many comments put to the Committee suggested deficiencies in RWWA's funding distribution and the need for additional funds, it must also be acknowledged that many (mainly country and community) clubs prided their ability to raise their own funds and avoid being a financial burden on the industry. Although by no means an exhaustive list, this included Busselton Trotting Club (responsible for topping up stakes and providing petrol vouchers),<sup>460</sup> Wagin Trotting Club (upgraded its own track at a cost of \$20,000),<sup>461</sup> and Albany Harness Racing Club (petrol vouchers).<sup>462</sup> A number of clubs cited local government support including York Racing Inc,<sup>463</sup> Mt Barker Turf Club,<sup>464</sup> and Williams Harness Racing Club.<sup>465</sup> Many clubs also

<sup>456</sup> Mr Peter Dempster, President, Northam Harness Racing Club, *Transcript of Evidence*, 26 March 2010, p10.

<sup>457</sup> Submission No. 36 from Albany Harness Racing Club, 2 February 2010, p2.

<sup>458</sup> Mr Peter Dempster, President, Northam Harness Racing Club, *Transcript of Evidence*, 26 March 2010, p9; Mr Bruce Jones, Vice President, Harvey Districts Trotting Club, *Transcript of Evidence*, 6 April 2010, p8; Mr Revell Douglas, General Manager, Pinjarra Harness Racing Club, *Transcript of Evidence*, 6 April 2010, p4.

<sup>459</sup> Mr Paul Rossiter, Manager, Bunbury Turf Club, *Transcript of Evidence*, 7 May 2010, p6.

<sup>460</sup> Mrs Patricia Abbott, Secretary/Treasurer, Busselton Trotting Club, *Transcript of Evidence*, 6 April 2010, p5.

<sup>461</sup> Mr Kevin Spurr, Vice President, Wagin Trotting Club, *Transcript of Evidence*, 3 May 2010, p5.

<sup>462</sup> Mr Colin Park, General Manager, Albany Harness Racing Club, *Transcript of Evidence*, 12 March 2010, p6.

<sup>463</sup> Mr Anthony Boyle, Committee Member, York Racing Inc, *Transcript of Evidence*, 26 March 2010, p9.

<sup>464</sup> Mrs Margaret Skinner, Secretary, Mt Barker Turf Club, *Transcript of Evidence*, 12 March 2010, p2.

<sup>465</sup> Ms Helen Bunch, Secretary-Treasurer, Williams Harness Racing Club, *Transcript of Evidence*, 3 May 2010, pp2-3.

asserted that they operated as financially self-sufficiently as possible including WAGRA,<sup>466</sup> Geraldton Harness Racing Club<sup>467</sup> and Dongara-Irwin Race Club.<sup>468</sup>

The arguments heard by the Committee in relation to RWWA's distribution to the three racing codes and to clubs within the codes are fundamentally linked to RWWA's discretionary funding model and whether industry participants feel they are receiving their fair share. Prescribed intercode and intracode allocations under Section 105 of the RWWA Act ceased to operate as at 1 August 2006. The Committee's analysis of the discretionary funding model and whether or not greater prescription is required in the Act is discussed below at Chapter 2.7(b). Infrastructure funding is discussed separately below at Chapter 2.7(c).

### **(b) Improving the effectiveness of funding distribution - the funding distribution model**

RWWA has defended its distribution, stating that it has 'consistently delivered a higher proportion of wagering turnover to industry than the totalisator businesses of any other Australian jurisdiction other than Victoria, for which distributions to racing clubs are supplemented by profits from gaming machines'.<sup>469</sup> Figures provided by RWWA demonstrate that 8.3% of totalisator turnover in 2008-09 was distributed to the industry, second only to Victoria.<sup>470</sup>

In terms of how RWWA exercises its discretion under Section 106 of the RWWA Act to distribute funds to the industry, Mr Richard Burt, CEO of RWWA advised:

*We, in our distribution model, have many categories of allocation of funds. The largest category goes to basic feature stakes. There is money that goes to training, there is money that goes to club funding, there is money that goes to jockey payments and driver payments.*<sup>471</sup>

RWWA has continually emphasised the pre-eminence of stakes in its funding distribution,<sup>472</sup> an emphasis which many stakeholders consider justified since it has preserved the status of the Western Australian industry nationally.<sup>473</sup> Conversely, any reduction in stakes could lead to a loss of confidence in the industry.<sup>474</sup> Various stakeholders indicated that the level of RWWA's stakes

<sup>466</sup> Mr David Simonette, Chief Executive Officer, Western Australian Greyhound Racing Association, *Transcript of Evidence*, 30 April 2010, pp5-6.

<sup>467</sup> Mr Graham Cox, President, Geraldton Harness Racing Club, *Transcript of Evidence*, 29 March 2010, p9.

<sup>468</sup> Mr Tony Crowhurst, Chairman, Dongara-Irwin Race Club, *Transcript of Evidence*, 29 March 2010, p4.

<sup>469</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, piv.

<sup>470</sup> *Ibid.*, p36.

<sup>471</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p51.

<sup>472</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, piv.

<sup>473</sup> Mr John Biggs, Representative, NE Goldfields Racing Clubs, *Transcript of Evidence*, 19 March 2010, p6; Submission No. 46 from Pinjarra Harness Racing Club, 6 April 2010, p2.

<sup>474</sup> Mr Maxwell (Dixie) Solly, President, Country Racing Association, *Transcript of Evidence*, 7 May 2010, p11.

funding was not an issue compared to capital funding which was.<sup>475</sup> That said, there was some argument that an indefinite increase in stakes would not continue to achieve such a significant outcome. WAGRA made the point that stake money is already at a good level and suggested that there was a point at which further increases would be ‘like tipping water into a bucket. There is the right level, and the rest just goes into nothingness’.<sup>476</sup>

As outlined above, evidence to the Committee has suggested that certain aspects of RWWA’s model are ineffective thereby creating perceived inequities ranging from stakes allocations to metropolitan and country clubs, to meeting fees and the loss of incentive payments. In determining the distribution to the industry, RWWA undertakes an annual budgeting process, which involves evaluating future growth and anticipated income from various sources against anticipated expenses, fees (such as pooling fees and product fees) and costs (such as administration). According to RWWA, it is ‘a very businesslike approach in that income less expenses leaves, in theory, a profit’,<sup>477</sup> which is then distributed to the industry. RWWA is required to consult with racing clubs to establish policies for stake money levels and race conditions and programs.<sup>478</sup> As such, RWWA’s Racing Operations Committee takes on board ‘comment from the consultative groups, discussions with various race clubs and with industry people such as owners, trainers, drivers and jockeys’ and has a bearing on the distribution.<sup>479</sup>

The funding model itself works by integrating the racing calendar for all three racing codes with the funding allocation to each race, meeting, club and code based on a classification of club, meetings and races. The model coordinates payment of all distribution-related funding including club fees, breeding incentives, stakes, rider and driver fees.<sup>480</sup>

The strength of RWWA’s funding model is that it works forward in anticipation of the coming season. According to Mr Richard Burt, CEO of RWWA, the benefit of this approach is that unlike privatised models that say, “‘This is what we have made and this is all that is available”, and the industry goes up and goes down’, the RWWA model is able to protect the racing product going forward.<sup>481</sup> The major failing is that the budget can come out with an amount of money that is far greater than the amount available for distribution thereby forcing RWWA to make up the difference using its cash reserves. According to the Chairman of the RWWA board:

*Ideally we do not want to go into deficit for any particular year, but there may be occasions when we feel that, in order to keep distributions at a reasonable level in hard*

<sup>475</sup> Mr Craig Chadwick, Chairman, Bunbury Turf Club, *Transcript of Evidence*, 7 May 2010, p12; Mr Maxwell (Dixie) Solly, President, Country Racing Association, *Transcript of Evidence*, 7 May 2010, p10.

<sup>476</sup> Mr David Simonette, Chief Executive Officer, Western Australian Greyhound Racing Association, *Transcript of Evidence*, 30 April 2010, p6.

<sup>477</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p31.

<sup>478</sup> Section 35(g) *Racing and Wagering Western Australia Act 2003* (WA).

<sup>479</sup> Mr Robert Pearson, Director, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, pp31-32.

<sup>480</sup> Submission No. 7D from Racing and Wagering Western Australia, 2 August 2010, pp3-4.

<sup>481</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p31.

*commercial times, it might be appropriate, as it has been over the last two years, to run a deficit and draw down our reserves by a small amount. But it cannot continue to do that. That is a short-term fix while we look at other revenue opportunities or cost-cutting measures that we can introduce in order to bring the books into balance.*<sup>482</sup>

Aspects of RWWA's funding model that have drawn criticism include perceived expenditure on administration (including staffing and marketing<sup>483</sup>) although concerns largely relate to the period following RWWA's establishment. RWWA advised that it had streamlined its operations through abolition of 30 positions and has a current staffing of 320 FTE.<sup>484</sup> This streamlining has helped to allay some stakeholder concerns.<sup>485</sup> The perception that RWWA is administratively burdensome may also be due to insufficient transparency regarding its administrative costs.<sup>486</sup> This perception could be addressed through greater transparency by RWWA and therefore highlights again the importance of accountability (which is discussed in Chapter 2.4)

A significant issue raised with the Committee pertains to perceived inequities in stake money allocations between codes and within codes (i.e. between metropolitan, provincial and/or country areas). Regarding the latter, there was some acknowledgement among industry participants that metropolitan stake levels should be higher to preserve their flagship status,<sup>487</sup> and that maintaining the strength of metropolitan racing would benefit country racing in the long run due to the interconnected nature of metropolitan and country racing.<sup>488</sup>

RWWA put forward a base-stakes model for the thoroughbred racing code which looked to address the significant disparity between metropolitan, provincial, and country stake levels. The model proposed fixing base stakes for metropolitan and provincial meetings which would then be fully funded by RWWA at sustainable levels. RWWA proposed making a contribution towards feature stakes but leaving clubs to top up feature stakes using their own means.<sup>489</sup> RWWA has since advised the Committee that this initiative will not be progressed and that while a number of provincial clubs supported the idea of set base stakes, widespread support was lacking from industry regarding RWWA's original recommendation to restrict club top ups so that clubs would instead focus on feature race meetings.<sup>490</sup>

<sup>482</sup> Mr Ross Bowe, Chairman, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p32.

<sup>483</sup> Ms Julie Caldwell, Manager, Bunbury Trotting Club, *Transcript of Evidence*, 6 April 2010, pp8-9.

<sup>484</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p16.

<sup>485</sup> Mr Jonathan Menzel, Manager, Narrogin Racing, *Transcript of Evidence*, 3 May 2010, p10.

<sup>486</sup> Submission No. 41 from Country Racing Association, 16 April 2010, p3.

<sup>487</sup> Mr Maxwell (Dixie) Solly, President, Country Racing Association, *Transcript of Evidence*, 7 May 2010, p12.

<sup>488</sup> Mr Geoff Fahl, Chairman/Treasurer, Carnarvon Race Club, *Transcript of Evidence*, 16 May 2010, p11.

<sup>489</sup> Racing and Wagering Western Australia, *Securing the Future: A Vision of Sustainability for the WA Thoroughbred Industry*, RWWA, March 2010, p12.

<sup>490</sup> Submission No. 7D from Racing and Wagering Western Australia, 2 August 2010, p7.

The Committee acknowledges that stakes are a critical element for sustaining the industry and can appreciate the value of maintaining higher metropolitan stakes to preserve the ‘flagship’ status of metropolitan racing. The Committee is aware however that the disparity in basic and feature stakes between metropolitan, provincial, and country areas remains unresolved and is therefore still an issue of contention.

### **Finding 37**

The disparity in basic and feature stake funding by Racing and Wagering Western Australia of metropolitan, provincial and country race clubs remains contentious.

Insofar as meeting fee discrepancies are concerned, RWWA has proposed a mechanism to address this issue although it is specific only to the thoroughbred code. Moving away from its traditional formula for club funding which is based on a set meeting fee according to club classification (metropolitan, provincial, country), RWWA’s Transition Club Funding Model proposes to allocate funds based on the wagering performance of relative ‘fixture’ meetings as opposed to ‘event’ meetings. Event meetings are defined as meetings with strong customer and community participation with optimal on-course wagering capacity. Fixture meetings are defined as meetings with a capacity for optimal returns to the industry in the provision of wagering related revenue and strong off-course revenue capacity. ‘Event’ meetings will attract lower funding in recognition of a club’s ability to generate increased on-course turnover. In applying the new model, RWWA has committed to working with clubs to develop performance requirements to ensure a fair and competitive allocation of meetings.<sup>491</sup> RWWA has advised that classification and funding will occur on a meeting by meeting basis not the overall nature of a club’s meetings and that pending consultation with the industry, this initiative will be implemented in the 2011-12 season.<sup>492</sup>

With respect to harness racing, RWWA makes the point that Gloucester Park maintains its flagship status through volume of meetings so even though it might be less costly to run mid-week meetings at provincial tracks, the industry would be at a greater disadvantage if it lost its prime metropolitan venue:

*The point is: running at a very expensive quality venue for the promotion of the product, running of elite racing, the drawcard for people in harness racing—all those reasons—like the Subiaco football ground costs more than the local Collie football ground, the benefit of running at Gloucester Park I will not go into, but should be understood. The way in which Gloucester Park is sustained is that it is sustained through scale. It has 108 race meetings,*

<sup>491</sup> Racing and Wagering Western Australia, *Securing the Future: A Vision of Sustainability for the WA Thoroughbred Industry*, RWWA, March 2010, p15.

<sup>492</sup> Submission No. 7D from Racing and Wagering Western Australia, 2 August 2010, p6.

*just over half of which are country front meetings. They could be run at Pinjarra or Harvey. The meeting fees are now the same as Harvey or Pinjarra.*<sup>493</sup>

RWWA indicated further that the matter is being addressed and that in this year's distribution model, the meeting fee that Gloucester Park will get is the same as what country front meetings will get.<sup>494</sup> Nonetheless, until the matter is fully resolved, meeting fee discrepancies remain a serious issue for provincial and country race clubs.

### **Finding 38**

Meeting fee discrepancies between midweek metropolitan race meetings and provincial/country areas remain an issue for Racing and Wagering Western Australia.

### **Recommendation 24**

That Racing and Wagering Western Australia resolves meeting fee discrepancies within its funding distribution model as a matter of priority.

With respect to other club funding, the OIP obviously makes a difference to country race clubs and assists participants to stay in the industry. The Country Racing Association suggested that to make it more economically viable, RWWA could limit the payment to outer country clubs where travel is associated and where the payment is particularly critical.<sup>495</sup> In early 2010, the Minister for Racing and Gaming indicated that RWWA's consideration of the funding model for the 2010-11 racing season would include 'a travel subsidy policy for country and regional race clubs'.<sup>496</sup> In May 2010, RWWA established a subcommittee to address certain matters raised by the Harness Racing Consultative Group, among them the reintroduction of the OIP however there have been no recent statements in this regard.<sup>497</sup>

The Committee considers the OIP to be important to the sustainability of country racing and should be considered in RWWA's funding distribution model.

<sup>493</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, pp41-42.

<sup>494</sup> *Ibid.*, p41.

<sup>495</sup> Mr Maxwell (Dixie) Solly, President, Country Racing Association, *Transcript of Evidence*, 7 May 2010, p5.

<sup>496</sup> Hon. T.K. Waldron, MLA, Minister for Racing and Gaming, Western Australia, Legislative Assembly, *Parliamentary Debates* (Hansard), 17 March 2010, p858.

<sup>497</sup> Harness Racing Consultative Group, Minutes, 5 May 2010, p4. Available at: [www.rwwa.com.au/home/HRCG\\_Minutes\\_05\\_05\\_10.pdf](http://www.rwwa.com.au/home/HRCG_Minutes_05_05_10.pdf) Accessed on 3 September 2010.

**Finding 39**

The Owners' Incentive Payment is important to the sustainability of country racing and should be considered by Racing and Wagering Western Australia in its funding distribution model.

Another claimed deficiency of RWWA's funding distribution model relates to the contribution made by volunteers. The Committee acknowledges that substantial volunteer effort goes into the operations of many racing clubs, particularly country clubs, and that this undoubtedly reduces the costs for many clubs. RWWA advised that its financial modelling does not incorporate volunteerism and clubs are not asked to provide records of these contributions. RWWA cites the absence of an accurate and reliable way of weighting or attaching a value to the financial savings (and therefore contribution in real terms) that volunteers make to a club's financial performance. RWWA recognises, and the Committee accepts, the important role that volunteers play in ensuring community based clubs can support a sustainable number of meetings, which would be lost if these clubs sought additional meetings thus leading to greater funding growth but also a greater reliance on paid staff.<sup>498</sup>

By far the greatest criticism of RWWA's existing funding model relates to relative share of funding within codes and between codes. The Committee observed that the harness racing code in particular was concerned about a declining share of distribution relative to the other codes.<sup>499</sup> The main issues raised in this regard can be summarised as follows:

- The harness industry is faced with uncertainty due to RWWA's absolute control of funding and how that funding is applied;<sup>500</sup>
- Uncertainty regarding funding compromises the ability of clubs to plan for the future;<sup>501</sup>
- To protect the harness industry's share and prevent further erosion, the harness code should be assured of receiving a set minimum percentage of the distribution, to be prescribed in the RWWA Act;<sup>502</sup>
- There should be set intercode and intracode entitlements in the RWWA Act to safeguard the interests of codes and clubs;<sup>503</sup>
- The harness industry requires sufficient funding, and stakes in particular, in order to keep people in the industry and reverse the decline in quality trainers, owners and reinsmen.<sup>504</sup>

<sup>498</sup> Submission No. 7D from Racing and Wagering Western Australia, 2 August 2010, p8.

<sup>499</sup> Submission No. 29 from WAROA/BOTRA/WASBA, 15 January 2010, p2; Mr Ross Pyke, Secretary/Manager, Fremantle Harness Racing Club, *Transcript of Evidence*, 4 June 2010, p13.

<sup>500</sup> Mr Robert Bovell, Chief Executive, Western Australian Trotting Association, *Transcript of Evidence*, 26 February 2010, p3.

<sup>501</sup> Mr John Burt, President, Western Australian Trotting Association, *Transcript of Evidence*, 26 February 2010, p10.

<sup>502</sup> Mr Kevin Jeavons, President, Harness Racing Owners Association of Western Australia, 7 May 2010, pp3-4; Mr Gino Monaco, President, Fremantle Harness Racing Club, *Transcript of Evidence*, 4 June 2010, p12; Mr Robert Bovell, Chief Executive, Western Australian Trotting Association, *Transcript of Evidence*, 26 February 2010, p4.

<sup>503</sup> Submission No. 30 from Western Australian Trotting Association, 15 January 2010, pp1-15.

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In terms of the quantum of the distribution percentage to be set in the Act, some harness stakeholders indicated that this should be no less than 29.7% (this being the percentage that applied under Section 105 of the RWWA Act).<sup>505</sup> Another suggestion is for an average of percentages which applied over the previous three financial years coupled with a set percentage of funding to metropolitan and country based clubs.<sup>506</sup>

From within the thoroughbred racing code, arguments for greater prescription of funding distributions in the RWWA Act reflect the need to correct the perceived imbalance between metropolitan and non-metropolitan racing clubs.<sup>507</sup> It should be noted that prior to 2006, Section 105 of the RWWA Act prescribed a minimum percentage of funds to be paid to thoroughbred and harness racing clubs conducting races outside the metropolitan region.<sup>508</sup>

The other side of the argument relates to retaining RWWA's discretion to distribute funds in such amounts as it determines as per Section 106 of the RWWA Act. Perth Racing supports the discretionary funding model,<sup>509</sup> as does the Country Racing Association, for the same reason that it rewards the clubs that do well.<sup>510</sup>

The Turner Report, which prompted the restructuring of governance arrangements for the WA racing industry and the eventual establishment of RWWA, was firm about the need to move away from a set distribution formula:

*As long as the basis of distribution of the off-course wagering profits to the codes is set by statute, there will be no incentive to grow the quality or range of the local product. Without such an incentive, the prospects of strengthening the local industry are bleak... The distribution formula should not be set by statute, but determined by negotiation between the whole-of-industry body and the code bodies.*<sup>511</sup>

When the Racing and Wagering Western Australia Bill 2003 was before the Parliament, the argument against the retention of set percentages was put by Hon. Nick Griffiths, MLC (then

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<sup>504</sup> Mr Robert Tomlinson, President, Breeders' Owners' Trainer's and Reinspersons' Association, *Transcript of Evidence*, 7 May 2010, pp11-12; Mr Kerry Clarke, President, Western Australian Standardbred Breeders' Association, *Transcript of Evidence*, 7 May 2010, p13; Mr Gino Monaco, President, Fremantle Harness Racing Club, *Transcript of Evidence*, 4 June 2010, p8; Mr Geoffrey Warwick, Vice President, Fremantle Harness Racing Club, *Transcript of Evidence*, 4 June 2010, pp8-9.

<sup>505</sup> Submission No. 29 from WAROA/BOTRA/WASBA, 15 January 2010, p2.

<sup>506</sup> Submission No. 31 from Fremantle Harness Racing Club, 15 January 2010, p4; Submission No. 30 from Western Australian Trotting Association, 15 January 2010, p15.

<sup>507</sup> Submission No. 25 from Geraldton Turf Club, 24 December 2009, p3; Mr John Biggs, Representative, NE Goldfields Racing Clubs, *Transcript of Evidence*, 19 March 2010, p6.

<sup>508</sup> Section 105(3)(a) and Section 105(4)(a) *Racing and Wagering Western Australia Act 2003* (WA).

<sup>509</sup> Submission No. 35 from Perth Racing, 22 December 2010, p3.

<sup>510</sup> Mr Maxwell (Dixie) Solly, President, Country Racing Association, *Transcript of Evidence*, 7 May 2010, p10.

<sup>511</sup> Western Australian Racing Industry Review Committee, *Future Governance of the Western Australian Racing Industry. A Report to the Minister for Racing and Gaming*, Western Australia, October 2001, p24.

Minister for Racing and Gaming),<sup>512</sup> who recently reinforced this position citing the discretionary model as being one of the original reasons for establishing RWWA as it provided the means for the industry to grow effectively:

*This is racing. You reward success. You do not featherbed failure by protectionist measures... I do not believe in formulae. I think the method of doing it now is the right way.*<sup>513</sup>

RWWA concurred that the fixed percentage distribution system failed to provide incentives for individual racing codes or clubs to increase off-course wagering revenue when 'any increase would be distributed across all codes according to the fixed percentage formula'.<sup>514</sup> Further, the importance of flexibility that the discretionary model affords has been alluded to by RWWA given the new uncharted territory of product fees and the need for WA racing to remain relevant in a shifting national market:

*As the industry moves into an era of 'payment for product' with the national application of product fees, there is a need to reassess distributions based on quality of product for wagering income at a state, national and international level. All principal racing authorities (PRAs) are now unofficially competing for maximum income generation respective to their state/territory in a national market.*<sup>515</sup>

Regarding distributions to the codes, RWWA advised that actual distributions have not departed significantly from historical percentages. In relation to the harness code in particular, Mr Richard Burt, CEO of RWWA indicated that historically the harness industry received 29.74% of the distribution and when everything was added up, the harness industry would be getting close to 29% now. RWWA was not purposely trying to follow the historical percentages but the reality was that actual distributions did not differ much and that any changes to distributions had to occur slowly.<sup>516</sup> The funding distribution model is obviously still evolving since, for example, in relation to the greyhound code RWWA is currently in discussions with WAGRA to try and achieve a fairer funding balance within the distribution model.<sup>517</sup>

RWWA advised that the percentages currently distributed to the codes better reflect wagering turnover shares than those set by legislation until 2006. However, they are still not truly representative of the share of wagering turnover generated.<sup>518</sup> As detailed above, RWWA's

<sup>512</sup> Hon. Nick Griffiths, MLC, Minister for Racing and Gaming, Western Australia, Legislative Council, *Parliamentary Debates* (Hansard), 12 June 2003, p8665.

<sup>513</sup> Hon. Nick Griffiths, *Transcript of Evidence*, 19 February 2010, p7.

<sup>514</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p42.

<sup>515</sup> Racing and Wagering Western Australia, *Securing the Future: A Vision of Sustainability for the WA Thoroughbred Industry*, RWWA, March 2010, p1.

<sup>516</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p12.

<sup>517</sup> Greyhound Racing Consultative Group, Minutes, 18 August 2010, p2. Available at: [www.rwwa.com.au/home/GRCG\\_Minutes\\_20100818.pdf](http://www.rwwa.com.au/home/GRCG_Minutes_20100818.pdf) Accessed on 10 September 2010.

<sup>518</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p38.

funding distribution model was criticised for not being sufficiently performance based, resulting in certain sectors of the industry having to subsidise others. RWWA acknowledges that subsidisation is occurring across the industry. This includes the subsidisation of one code by another, specifically subsidisation of the harness industry (which receives more in distributions than it generates in turnover).<sup>519</sup> At a broader level, there is also subsidisation to some extent of wagering operations by racing (i.e. through investment in Racing Radio and the form guide).<sup>520</sup>

RWWA's funding distribution model is not completely performance based nor can it be by virtue of its charter under Section 35 of the RWWA Act. RWWA's statutory obligation to promote the welfare of the racing industry entails 'regular operational contributions to racing that does not generate a return for the racing industry'.<sup>521</sup> Due to the requirements of Section 35, RWWA is particularly conscious of the need 'to balance the competing interests of the codes [and] the issue of subsidisation'.<sup>522</sup> The Committee considers that RWWA's overall approach to the distribution of funds to the codes is sound although the matter of 'balance' may need further fine tuning to address claims such as those from provincial thoroughbred racing clubs regarding the need for a fairer sharing of subsidisation burdens.<sup>523</sup>

The Committee is mindful that RWWA's discretion to distribute funds has certain intrinsic responsibilities. Significantly, while the Turner Report recommended discretionary funding, it also stated that distributions should be determined by negotiation between the governing body and the code bodies.<sup>524</sup> A number of stakeholders have favoured a return to an earlier system of distribution whereby funds are distributed by the provincial racing association,<sup>525</sup> claiming that this allows more effective benchmarking as clubs are aware of what all other clubs receive in stake money etc.<sup>526</sup> Inserting another funding body between RWWA and clubs would add to layers of bureaucracy and would not be desirable given that there has already been criticism of too much bureaucracy.<sup>527</sup>

A more fundamental issue that this raises is that of negotiation and input into RWWA's funding distribution. The Committee heard evidence to suggest that clubs are 'in the dark' regarding the

<sup>519</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p21.

<sup>520</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p26.

<sup>521</sup> According to RWWA, approximately \$9 million per annum of distributions and other meeting support costs (including stakes, participant funding, and overheads) are directed to racing clubs considered non-commercial or community clubs. Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p73.

<sup>522</sup> Mr James Freemantle, Deputy Chairman, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p56.

<sup>523</sup> Submission No. 24 from Western Australian Provincial Thoroughbred Racing Association, 29 December 2009, p4.

<sup>524</sup> Western Australian Racing Industry Review Committee, *Future Governance of the Western Australian Racing Industry. A Report to the Minister for Racing and Gaming*, Western Australia, October 2001, p24.

<sup>525</sup> Mr Barry Mahood, Chairman, York Racing Inc, *Transcript of Evidence*, 26 March 2010, p3; Mr Alf Paganoni, Past President, WA Country Harness Racing Association, *Transcript of Evidence*, 26 February 2010, p7.

<sup>526</sup> Mrs Margaret Skinner, Secretary, Mt Barker Turf Club, *Transcript of Evidence*, 12 March 2010, p8.

<sup>527</sup> Mr Maxwell (Dixie) Solly, President, Country Racing Association, *Transcript of Evidence*, 7 May 2010, pp6-7.

logic behind the funding model and what RWWA's decision making process involves.<sup>528</sup> This has even prompted the suggestion that there should be an independent arbiter to determine whether RWWA is doing the right thing.<sup>529</sup> The uncertainty regarding the operation of RWWA's funding distribution model speaks to the need for greater transparency via improved consultation with clubs and greater accountability<sup>530</sup> (as discussed in Chapters 2.4 and 2.6).

Good governance is also critical to the effectiveness of the discretionary funding model as highlighted during debate on the Racing and Wagering Western Australia Bill 2003:

*If we have any faith at all in what we are doing, we must have faith that the people who are appointed to these position will make decisions that will enable the industry to grow and improve its opportunities.*<sup>531</sup>

A sound governance structure coupled with strong accountability would help to address stakeholder fears that discretionary funding is sensitive to board changes.<sup>532</sup> Governance is discussed in detail in Chapter 2.2.

In terms of what a discretionary funding distribution model should seek to achieve, the Country Racing Association stressed that the allocation of funds should ensure participation in country racing remains affordable and worthwhile for participants.<sup>533</sup> The sustainability objective was also highlighted by Mr David Simonette of WAGRA and again speaks to the importance of the model finding the right 'balance':

*My belief is that there has never been a distribution model created, or one likely to be created, which meets the needs of the codes, of individual clubs, or metro versus country versus provincial—you name it. There will never be one that is ideal. In our situation, all we are saying is that we would like sufficient money not just to live on a day-to-day basis; we need to be able to grow our business. That means that we need to look after our industry with facilities, we need to make sure that the facilities are attractive to patrons to come on course, and that we can look after our own future.*<sup>534</sup>

## Summary

To summarise the main points considered by the Committee in relation to the effectiveness of RWWA's funding distribution model:

<sup>528</sup> Mr Tony Marwick, President, Northam Race Club, *Transcript of Evidence*, 26 March 2010, p2.

<sup>529</sup> Mr Kevin O'Brien, Treasurer, York Racing Inc, *Transcript of Evidence*, 26 March 2010, pp5-6.

<sup>530</sup> This reinforces the importance of Section 77 of the RWWA Act which requires RWWA to table a Statement of Corporate Intent annually. This must set out the proportion in which funds will be distributed across codes and to metropolitan and non-metropolitan clubs.

<sup>531</sup> Hon. Murray Criddle, MLC, Western Australia, Legislative Council, *Parliamentary Debates* (Hansard), 12 June 2003, p8665.

<sup>532</sup> Submission No. 30 from Western Australian Trotting Association, 15 January 2010, p12.

<sup>533</sup> Submission No. 41 from Country Racing Association, 16 April 2010, p11.

<sup>534</sup> Mr David Simonette, Chief Executive Officer, Western Australian Greyhound Racing Association, *Transcript of Evidence*, 30 April 2010, p7.

- RWWA has demonstrated sound financial performance since establishment and has delivered consistent distributions to the industry;
- Stake levels have been maintained across all codes but evidence suggests that infrastructure has not been sustained to the same degree (discussed further below);
- RWWA is addressing certain disparities in its funding distribution model including that of meeting fees although some issues, such as the disparity between basic and feature stake funding remain unresolved;
- A discretionary funding approach provides incentives for the industry in line with the rationale underpinning the formation of RWWA, as well as sufficient flexibility for distributions to respond to shifts in the national racing industry;
- While it is recognised that the set percentage distribution model established under Section 105 was a stabilising influence for the industry, RWWA's focus should be on fostering the overall industry rather than adjudicating between the codes;
- While actual distributions to the codes more closely reflect wagering performance than historical formulae, radical departures have not been made from historical percentages;
- The funding distribution model cannot be fully performance based due to RWWA's statutory obligations under Section 35 of the RWWA Act which necessitate some degree of cross-subsidisation however it is important to strike the correct 'balance'; and
- For a discretionary funding distribution model to be completely effective, RWWA must have strong accountability, good governance, and consult with the industry.

Following consideration of the above factors, the Committee considers that a return to set percentage distributions in the RWW Act would be a retrograde step. In keeping with the original intent of the legislation it is important that the Western Australian industry has the means to continue to develop. This can best be achieved if RWWA retains the discretion to distribute funds as provided under Section 106.

#### **Finding 40**

The distribution of funding to the racing codes should not be determined by set percentages prescribed in the *Racing and Wagering Western Australia Act 2003*.

#### **Finding 41**

Despite evidence from certain sectors of the industry suggesting a return to set percentage code distributions, the Committee supports continuation of Racing and Wagering Western Australia's discretionary funding model with a view to maintaining the viability of the codes.

**Recommendation 25**

That the *Racing and Wagering Western Australia Act 2003* be amended to delete Section 105 and that consequential amendments be made to remove references to Section 105.

**(c) Improving the effectiveness of funding distribution - funding of infrastructure**

RWWA is required to fund infrastructure (including training facilities) under Section 35(1)(e) and Section 92 of the RWWA Act. Nonetheless, RWWA has largely directed revenues towards increases in race stakes in order to achieve adequate returns to industry participants. RWWA is now faced with ageing club infrastructure and a large gap between required and actual infrastructure expenditure.<sup>535</sup> RWWA estimates the infrastructure spend required across the industry over the next five years will be in the order of \$70 million. This estimate factors in a new metropolitan venue for the greyhound industry<sup>536</sup> and other large-scale projects including redevelopment of the Bunbury Turf Club racing and training facilities.<sup>537</sup> This estimate also relates solely to race related infrastructure<sup>538</sup> and infrastructure needs relating to TAB agencies would be in addition to this. While some believe that a reduction in stake money might be acceptable to the industry in order to fund immediate infrastructure needs,<sup>539</sup> RWWA's view is that this would not be popular among industry participants and that stake levels must be maintained.<sup>540</sup>

As detailed above, evidence suggests there is extensive need across the industry for infrastructure funding. Training facilities in particular were raised with the Committee and in this regard, RWWA has plans to address deficiencies.<sup>541</sup> In its strategic vision for the thoroughbred code, RWWA identifies training investment priorities for the purpose of targeting spending in metropolitan and provincial areas. The strategy also proposes a revised approach to funding training facilities including encouraging clubs to consider a user-pays system into the future.<sup>542</sup>

<sup>535</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p70.

<sup>536</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p37.

<sup>537</sup> Submission No. 7C from Racing and Wagering Western Australia, 31 May 2010, Appendix D; Mr Craig Chadwick, Chairman, Bunbury Turf Club, *Transcript of Evidence*, 7 May 2010, p2.

<sup>538</sup> Submission No. 7C from Racing and Wagering Western Australia, 31 May 2010, Appendix D.

<sup>539</sup> Mr David Wrensted, Manager, Geraldton Turf Club, *Transcript of Evidence*, 29 March 2010, p4.

<sup>540</sup> Mr Robert Pearson, Director, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p44.

<sup>541</sup> *Ibid.*, p42.

<sup>542</sup> Racing and Wagering Western Australia, *Securing the Future: A Vision of Sustainability for the WA Thoroughbred Industry*, RWWA, March 2010, p14.

The concept of user-pays has some support from industry participants,<sup>543</sup> although there are also some concerns from thoroughbred trainers about financial implications.<sup>544</sup> RWWA recently advised code consultative groups that it is reviewing training costs at major training centres across all three codes with a view to moving towards a system of apportioning costs in an 80:20 ratio. The model, which RWWA aims to introduce over a 2 to 3 year timeframe, will fund 80% of costs and recover the remaining 20% from industry participants.<sup>545</sup> Besides major training centres and areas of critical need it would appear that funding of training facilities will remain subject to the same competing demands as other capital expenditure requirements.

With regard to improving the effectiveness of RWWA's funding of infrastructure, possible mechanisms include public funding (comprising either sports funding and/or capital grants), or funds administered by RWWA from a dedicated infrastructure fund.

### **(i) Public funding**

RWWA refers to past public funding of race related infrastructure and suggests that the Western Australian Government 'should provide funding to enable ongoing investment in racing infrastructure to ensure the welfare and sustainability of racing as a sport in Western Australia'.<sup>546</sup> In this regard, RWWA has suggested that the state government should provide public funding for investment in the infrastructure of racing clubs in a manner similar to the provision of public funds for infrastructure of other major sports.<sup>547</sup> The requirements for the public funding of sports infrastructure are often not aligned with the nature of racing<sup>548</sup> so it is the Committee's belief that this would generally not be a suitable funding source.

Further to the matter of public funding, RWWA also refers to the Regional Racing Infrastructure Grants Program, which was introduced by the state government in 2005. The program initially committed \$20 million of government funding over two years to be spent on upgrading regional racetrack infrastructure in priority regional areas. RWWA contributed an additional \$5 million to the program enabling it to be extended for another year.<sup>549</sup> The Department of Racing, Gaming

<sup>543</sup> Mr Colin Bellchambers, General Manager, Pinjarra Race Club, *Transcript of Evidence*, 6 April 2010, pp10-11.

<sup>544</sup> Submission No. 22B from WA Racing Trainers' Association, 6 August 2010, p1.

<sup>545</sup> Greyhound Racing Consultative Group, Minutes, 18 August 2010, p2. Available at: [www.rwwa.com.au/home/GRCG\\_Minutes\\_20100818.pdf](http://www.rwwa.com.au/home/GRCG_Minutes_20100818.pdf) and Thoroughbred Racing Consultative Group, Minutes, 31 August 2010, p2. Available at: [www.rwwa.com.au/home/TRCG\\_Minutes\\_20100831.pdf](http://www.rwwa.com.au/home/TRCG_Minutes_20100831.pdf) Accessed on 10 September 2010.

<sup>546</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p81.

<sup>547</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p81.

<sup>548</sup> Public funding of sports infrastructure aims to provide facilities that provide community benefit but a large emphasis is also placed on facilities that encourage physical activity, for example, the Community Sporting and Recreation Facilities Fund and State Sporting Facilities Plan (Department of Sport and Recreation, 'Funding Facilities', December 2009. Available at: [www.dsr.wa.gov.au/facilitiesfunding](http://www.dsr.wa.gov.au/facilitiesfunding) Accessed on 8 February 2010).

<sup>549</sup> Hon. M. McGowan, MLA, Minister for Racing and Gaming, 'Racing industry to share in additional infrastructure funding', *Media Statement*, 1 September 2005.

and Liquor administered the grants, which were targeted at racing infrastructure renewal in Geraldton, Northam, Kalgoorlie, Peel, Pinjarra, Bunbury and Albany.<sup>550 551</sup>

In February 2009 the Minister for Racing and Gaming, Hon. Terry Waldron, MLA announced that the economic climate precluded the state government from establishing a dedicated grants program for regional racecourse infrastructure, however regional clubs would be eligible for Regional Development Commission funding. The latter comprised \$40 million of Royalties for Regions funding made available as contestable grants.<sup>552</sup>

Evidence to the Committee indicates that RWWA has referred non-metropolitan clubs to Royalties for Regions in the first instance and will not consider requests for infrastructure funding unless clubs have tried Royalties for Regions first.<sup>553</sup> The Committee heard from various clubs which had made application for Royalties for Regions funding including but not limited to: Golden Mile Trotting Club;<sup>554</sup> Bunbury Trotting Club;<sup>555</sup> Mt Barker Turf Club;<sup>556</sup> Collie Race Club;<sup>557</sup> and Narrogin Racing.<sup>558</sup> Six country thoroughbred, harness, and greyhound racing clubs received a total of \$830,000 of Royalties for Regions grants for infrastructure in the latest round of funding. To the end of June 2010, nine clubs had received funding through Royalties for Regions since the program began.<sup>559</sup>

Although it was acknowledged that Royalties for Regions had enabled smaller clubs to access funding for infrastructure which might not otherwise have been available to them,<sup>560</sup> a commonly held view was that Royalties for Regions is not the most suitable means of funding the industry.<sup>561</sup>

<sup>550</sup> Hon. E.S. Ripper, MLA, Treasurer, Western Australia, Legislative Assembly, *Parliamentary Debates (Hansard)*, 20 May 2008, p42.

<sup>551</sup> A record of how the grant money was distributed and what projects were funded is contained within the RWWA document, *Making Tracks 2005-2008*, (2008) pp1-60.

<sup>552</sup> Hon. T.K. Waldron, MLA, Minister for Racing and Gaming, 'Regional racing clubs eligible for Regional Development Commission funding', *Media Statement*, 12 February 2009.

<sup>553</sup> Ms Julie Caldwell, Manager, Bunbury Trotting Club, *Transcript of Evidence*, 6 April 2010, p6.

<sup>554</sup> Mr Evan Spencer, President, Golden Mile Trotting Club, *Transcript of Evidence*, 19 March 2010, p13.

<sup>555</sup> Mr Kenneth Godley, President, Bunbury Trotting Club, *Transcript of Evidence*, 6 April 2010, pp5-6.

<sup>556</sup> Ms Lynn Heppell, Vice President, Mt Barker Turf Club, *Transcript of Evidence*, 12 March 2010, p4.

<sup>557</sup> Mrs Rosanne Pimm, Treasurer, Collie Race Club, *Transcript of Evidence*, 6 April 2010, pp4-5.

<sup>558</sup> Mr Nicholas Bosly-Pask, Acting Chair, Narrogin Racing, *Transcript of Evidence*, 3 May 2010, p12.

<sup>559</sup> Hon. T.K. Waldron, MLA, (Minister for Racing and Gaming) and Hon. B.J. Grylls, MLA, (Minister for Regional Development), *Regional race clubs win with Royalties for Regions funding*, Media Statement, Government of Western Australia, Perth, 28 June 2010.

<sup>560</sup> Mr Barry Mahood, Chairman, York Racing Inc, *Transcript of Evidence*, 26 March 2010, p12.

<sup>561</sup> Mr Geoff Fahl, Chairman/Treasurer, Carnarvon Race Club, *Transcript of Evidence*, 16 May 2010, p9; Mr Mark Roberts, President, WA Country Harness Racing Association, *Transcript of Evidence*, 26 February 2010, p13.

A number of clubs felt disadvantaged at having to compete against other community organisations for limited grant money.<sup>562</sup>

Significantly, the state government recently announced a funding package to benefit racecourse infrastructure across the state. In July 2010, the state government gave in-principle support for a \$350 million extension of the Burswood Entertainment Complex including an expansion of the Casino's gaming capacity.<sup>563</sup> While the application is still subject to approval by the Gaming and Wagering Commission,<sup>564</sup> the state government has committed to applying some of the proceeds from its agreement with Burswood for the proposed expansion to funding racecourse infrastructure. The racecourse infrastructure grants fund will comprise an initial \$5 million in the first year followed by \$2 million per year subject to review at the end of four years.<sup>565</sup> RWWA understands that clubs will be invited by the Minister for Racing and Gaming to put forward various projects in writing to RWWA, which will then be responsible for prioritising bids consistent with its strategic planning and forwarding recommendations to the Minister who will approve the funds. Grants provided under the program will be expected to leverage funding from other sources including Royalties for Regions, local government and RWWA so that there will be a multiplier on the \$13 million.<sup>566 567</sup>

Mr Richard Burt, CEO of RWWA advised that although the ideal situation would be for RWWA to have full discretion to allocate the infrastructure grants (rather than the Minister having the final say), the funding was welcome and RWWA would gladly work within the process. RWWA also advised that although the grants program would help to address some of the \$70 million infrastructure deficit, large infrastructure requirements such as redevelopment of the metropolitan greyhound racing venue were immediately precluded by scale<sup>568</sup> and as such, the grants would most likely be applied to smaller projects of less than \$1 million in value.<sup>569</sup> Acute infrastructure

<sup>562</sup> Mr Neville Sly, Committee Member, Golden Mile Trotting Club, *Transcript of Evidence*, 19 March 2010, p14; Mr Maxwell (Dixie) Solly, President, Country Racing Association, *Transcript of Evidence*, 7 May 2010, p3.

<sup>563</sup> Hon. T.K. Waldron, MLA, (Minister for Racing and Gaming), *Burswood Entertainment Complex set to expand*, Media Statement, Government of Western Australia, Perth, 19 July 2010.

<sup>564</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 13 August 2010, pp10-11.

<sup>565</sup> Hon. T.K. Waldron, MLA, (Minister for Racing and Gaming), *State Government's boost to WA racing*, Media Statement, Government of Western Australia, Perth, 19 July 2010.

<sup>566</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p42.

<sup>567</sup> The state government has given in-principle support to an upgrade of the Pinjarra Race Club facilities to enable winter racing. Under the grants program, in-principle funding will be provided on a partnership basis with RWWA contributing approximately \$182,000, the club \$149,000 and the government \$331,000 (Hon. T.K.Waldron, MLA (Minister for Racing and Gaming), *Infrastructure upgrade to enable winter racing at Pinjarra*, Media Statement, Government of Western Australia, Perth, 17 September 2010).

<sup>568</sup> This category would also include the Bunbury Turf Club redevelopment with an estimated total cost approaching \$14 million (Rooney, J., 'Bunbury unveils idea for synthetic tracks', *The West Australian*, 8 September 2010, p96).

<sup>569</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p43.

needs would also continue unresolved in the immediate term since public funding from the grants fund and the latest round of Royalties for Regions would likely not be available until mid-2011.<sup>570</sup>

### Summary

With regard to public funding of racecourse infrastructure, the Committee considered the following points:

- Public funding for the infrastructure of racing clubs in a manner similar to the public funding of other major sports is generally not appropriate given that the requirements for sports funding do not align with the nature of racing;
- While Royalties for Regions funding helps to address infrastructure need among non-metropolitan clubs, it is insufficient for funding race-related infrastructure over the long-term;
- The state government's recent announcement of a \$13 million racecourse infrastructure grants fund will help to address some of the industry's estimated \$70 million requirement for infrastructure funding; and
- Government grants alone will not be sufficient to meet all the infrastructure needs of the racing industry. A mechanism is therefore required that will enable a more flexible and sustained approach to infrastructure funding.

#### **Finding 42**

Government grants alone will not be sufficient to meet all the infrastructure needs of the Western Australian racing industry. A mechanism is required that will enable a more flexible and sustained approach to infrastructure funding.

#### **(ii) Infrastructure fund**

Evidence to the Committee emphasised the importance of racecourse infrastructure and supported the idea of RWWA setting aside a dedicated amount for infrastructure every year<sup>571</sup> and/or a dedicated infrastructure fund to be established for all three codes.<sup>572 573</sup> One particular criticism of RWWA's funding distribution model is that infrastructure funding is now less clearly defined:

<sup>570</sup> Ibid.

<sup>571</sup> Mr David Wrensted, Manager, Geraldton Turf Club, *Transcript of Evidence*, 29 March 2010, p3.

<sup>572</sup> Mr Nicholas Bosly-Pask, Acting Chair, Narrogin Racing, *Transcript of Evidence*, 3 May 2010, p13.

<sup>573</sup> It should be noted that further evidence received by the Committee in support of an infrastructure fund is cited in Chapter 2.7(c) in the context of methods to resource such a fund.

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*We used to have unclaimed dividends put aside for facilities and services and whatever in the Racecourse Development Fund, but where has it gone? Obviously, it is running the industry but we do not know where it has gone.*<sup>574</sup>

Various stakeholders suggested that the (now defunct) Racecourse Development Trust (RDT) was a superior model<sup>575</sup> and that an infrastructure fund should be administered along similar lines.<sup>576</sup> Stakeholders such as the Geraldton Turf Club believed that although the Racecourse Development Trust lacked substantial funds at least it guaranteed a set amount was put towards infrastructure every year.<sup>577</sup>

The RDT was abolished and its funds transferred to RWWA in 2003. The RDT was a statutory body which provided grants and loans to thoroughbred and harness racing clubs for the purpose of establishing or maintaining facilities. Funding was predominantly derived from unclaimed dividends.<sup>578</sup> According to Hon. Tom McNeil, past Chairman of the RDT, funding was distributed on a priority basis to clubs and even then, there were many more applications than funds available.<sup>579</sup> RWWA advised that it derived approximately \$7 million in unclaimed dividends in 2008-09<sup>580</sup> and that since inception RWWA had collected \$34.34 million in unclaimed dividends. Unclaimed dividends now go into RWWA's general revenue and are distributed to the industry in the form of stakes, club funding, participant payments and direct capital grants.<sup>581</sup>

RWWA confirmed that it would not be a viable proposition to quarantine unclaimed dividends solely for the purpose of funding infrastructure as it would impact on stakes.<sup>582</sup> The same would apply for revenues derived from fractions<sup>583</sup> and even if revenues derived annually from unclaimed dividends and fractions were combined, if this was to be applied solely to infrastructure it would impact significantly on stake money levels as this money is currently distributed.<sup>584</sup>

<sup>574</sup> Mrs Lesley Solly, President, Albany Racing Club, *Transcript of Evidence*, 12 March 2010, p5.

<sup>575</sup> Mr Rob Deadman, Secretary, York Harness Racing Club, *Transcript of Evidence*, 26 March 2010, pp10-11.

<sup>576</sup> Mr David Prance, Immediate Past Chairman, Kalgoorlie Boulder Race Club, *Transcript of Evidence*, 19 March 2010, p12.

<sup>577</sup> Mr David Wrensted, Manager, Geraldton Turf Club, *Transcript of Evidence*, 29 March 2010, p3.

<sup>578</sup> Western Australian Racing Industry Review Committee, *Future Governance of the Western Australian Racing Industry. A Report to the Minister for Racing and Gaming*, Western Australia, October 2001, pp8-9.

<sup>579</sup> Hon. Tom McNeil, Past Chairman, Racecourse Development Trust, *Transcript of Evidence*, 13 August 2010, p2.

<sup>580</sup> Under Section 104 of the RWWA Act, any moneys payable by way of dividends, fixed odds winnings or refunds in respect of wagers that are unclaimed for 7 months, become part of the funds of RWWA.

<sup>581</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p19.

<sup>582</sup> *Ibid.*, p20.

<sup>583</sup> Under Regulation 30 of the *Racing and Wagering Western Australia Regulations 2003* RWWA may round dividends down to the nearest five cents. Revenues derived from these roundings or 'fractions' go into general revenue and are returned to the industry via distributions (as per Submission No. 7D from Racing and Wagering Western Australia, 2 August 2010, p22).

<sup>584</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p43.

## Summary

In summary, the Committee considered the following factors in relation to the effectiveness of RWWA's funding distribution for infrastructure:

- There is evidently an acute need across the industry for infrastructure funding including but not limited to a critical need to provide new facilities and/or upgrade ageing racecourse infrastructure, and to provide adequate training facilities for all codes;
- The Committee acknowledges that RWWA is taking steps to address funding of training infrastructure. However, it appears that RWWA's capacity to fund training infrastructure will continue to be exceeded under current returns from wagering;
- It is unlikely that a method such as that employed by the RDT could meet the present day infrastructure needs of the industry, not least because of the difference between unclaimed dividends available and the magnitude of infrastructure expenditure required across the industry;
- It is not desirable to reduce stake money levels as this will compromise the ongoing development of the industry;
- It is critical that the industry receives a guaranteed stream of infrastructure funding, however as stated above, government grants alone will not be sufficient to cover immediate, let alone long-term infrastructure needs.

In relation to the final point, there is support among industry participants for a dedicated source of infrastructure funding. The Committee supports the principle of a long-term infrastructure fund as this is the most suitable mechanism to achieve a sustained funding stream for infrastructure rather than the ad-hoc nature of government funding to date. A fund administered by RWWA would also be in keeping with RWWA's statutory obligation to fund infrastructure. Mechanisms for resourcing an infrastructure fund are explored further in the next section.

### **Finding 43**

There is overwhelming support for a dedicated racing industry infrastructure fund.

### **Recommendation 26**

That a dedicated racing industry infrastructure fund, to be administered by Racing and Wagering Western Australia, is established.

## 2.8 Taxation

Section 102 of the RWWA Act requires RWWA to pay tax on moneys it receives in respect of wagers made in accordance with the RWWA Tax Act. The rate of tax for totalisator wagers is defined by Section 4 of the RWWA Tax Act as follows:<sup>585</sup>

| Off-course totalisator tax rate - racing        | Off-course totalisator tax rate - sport   | On-course totalisator tax rate |
|---|---|--------------------------------|
| 11.91% of gross revenue <sup>586</sup> plus GST | 5% of gross revenue <sup>587</sup> plus GST<br><br>25% of gross revenue (after tax) to Sports Wagering Account <sup>588</sup> | Zero plus GST                  |

The rate of tax for fixed odds wagers is defined by Section 5 of the RWWA Tax Act as follows:<sup>589</sup>

| Racing  | Sport   |
|---|---|
| TAB: 2% of turnover <sup>590</sup> , equating to 20% of gross revenue (GST reimbursed)<br><br>Bookmakers: zero (GST reimbursed) | TAB: 0.5% of turnover <sup>591</sup> , equating to 5% of gross revenue (GST reimbursed); 25% of gross revenue (after tax) to Sports Wagering Account <sup>592</sup><br><br>Bookmakers: racing club levy of 0.5% or 1.5% of turnover <sup>593</sup> equating to approximately 30% of gross revenue (GST reimbursed) <sup>594</sup> |

<sup>585</sup> Extract (modified) from Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p65.

<sup>586</sup> Section 4(2) *Racing and Wagering Western Australia Tax Act 2003*.

<sup>587</sup> Section 4(1) *Racing and Wagering Western Australia Tax Act 2003*.

<sup>588</sup> Section 107(1)(b) *Racing and Wagering Western Australia Act 2003*.

<sup>589</sup> Extract (modified) from Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p67.

<sup>590</sup> Section 5(a) *Racing and Wagering Western Australia Tax Act 2003*.

<sup>591</sup> Section 5(b) *Racing and Wagering Western Australia Tax Act 2003*.

<sup>592</sup> Section 107(1)(b) *Racing and Wagering Western Australia Act 2003*.

<sup>593</sup> Bookmakers are subject to a levy as per Section 2(1) of the *Bookmakers Betting Levy Act 1954*.

<sup>594</sup> All collections from the Bookmakers' Betting Levy are retained by the industry except for sports betting, where the state government receives 50% of the collections (DTF Overview of State Taxes 2009-10 p45).

The Australian Government charges Goods and Services Tax (GST) across all forms of gambling at the rate equivalent to other goods and services.<sup>595</sup> According to the Department of Treasury and Finance (DTF), as a consequence of the intergovernmental agreement on the GST, states agreed to adjust gambling taxes to accommodate the GST. Until 2006-07 GST was separately reimbursed by the state. From 1 July 2007, the method of taxation for off-course racing totalisator wagering was changed.<sup>596</sup> The purpose was firstly to bring taxation methodology in line with that of Burswood Casino such that off-course racing totalisator wagering would be taxed on the basis of gross profit rather than turnover. Secondly, setting the rate of taxation at 11.91% net of GST (which represented an equivalent rate reduction from 5% of turnover (as it was immediately prior to the change) to 3.5%) would remove the need to rebate GST paid on wagering revenue.<sup>597</sup>

GST is also payable on bookmakers' margins being the difference between the amount of bets received and the amount of winnings paid to punters. GST in this regard is reimbursed by the state government.<sup>598</sup>

In terms of revenues derived from 'betting taxes' (defined by DTF as comprising RWWA wagering tax and the Bookmakers' Betting Levy), the state government collected \$32m in 2008-09 and \$33.9m (estimate) in 2009-10.<sup>599</sup> The estimated state government betting tax revenue for 2010-11 is approximately \$36 million.<sup>600</sup> According to RWWA the betting tax revenue figure is not representative of the true tax burden as it does not take into account the GST:

*...the government withholds our GST—a minor matter of \$25 million a year. The amount of tax we pay is \$56 million, not \$31 million.*<sup>601</sup>

RWWA claims that in real terms, its taxation contribution has increased marginally since its establishment in 2003 despite the reduction in the tax rate in 2007.<sup>602</sup>

It should be noted that RWWA separately deducts a commission from the off-course wagers it receives.<sup>603 604</sup> Whereas the commission for a bet is deducted by RWWA and goes into RWWA's

<sup>595</sup> Government of Australia, *Australia's Future Tax System* Final Report Part 2, 2 May 2010, p460.

<sup>596</sup> Department of Treasury and Finance, *Overview of State Taxes Western Australia 2009-10*, Government of Western Australia, Perth, December 2009, p46.

<sup>597</sup> *Racing and Wagering Western Australia Tax Amendment Bill 2006* Explanatory Memorandum and Hon. M. McGowan, MLA, Minister for Racing and Gaming, Western Australia, Legislative Assembly, *Parliamentary Debates (Hansard)*, 18 October 2006, p7207.

<sup>598</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p26.

<sup>599</sup> Department of Treasury and Finance, *Overview of State Taxes Western Australia 2009-10*, Government of Western Australia, Perth, December 2009, p2.

<sup>600</sup> Government of Western Australia, *2010-11 Budget - Budget Paper No. 2*, 20 May 2010, p144. Available at: [www.dtf.wa.gov.au/cms/uploadedFiles/State\\_Budget/Budget\\_2010\\_11/bp2\\_vol1.pdf](http://www.dtf.wa.gov.au/cms/uploadedFiles/State_Budget/Budget_2010_11/bp2_vol1.pdf). Accessed on 6 September 2010.

<sup>601</sup> Mr Richard Burt, CEO, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p22.

<sup>602</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p30.

<sup>603</sup> Section 17E(1) *Betting Control Act 1954*.

general funds, wagering tax is deducted by the state government and goes into consolidated revenue.

### (a) Views on taxation

In its submission, RWWA makes a number of recommendations regarding wagering tax, as follows:

- Rates of wagering tax under the RWWA Tax Act should be reviewed to ensure that total taxation burdens on totalisator and fixed odds betting are maintained at levels comparable to RWWA's major competitors;
- The Western Australian government should pursue a nationally coordinated approach to taxation of wagering in Australia;
- The RWWA Tax Act should be amended to allow the basis and rates for wagering taxation to be set in regulation;
- The RWWA Tax Act should be amended to place fixed odds betting conducted on-course by clubs as agents of RWWA on the same taxation basis as totalisator betting. Section 17F of the *Betting Control Act* should be amended to allow for the fixed odds betting on-course margin to be retained by the race club; and
- The RWWA Act and RWWA Tax Act should be amended to combine RWWA's payments of wagering tax on sporting events and the payments to the Sports Wagering Account into a single payment to Western Australian sporting organisations.<sup>605</sup>

The critical need for infrastructure across the industry and potential for an ongoing RWWA administered infrastructure fund have already been discussed in some detail in the previous section. Means of resourcing an infrastructure fund are also explored here in the broader context of taxation and its impacts.

### (b) Analysis of taxation matters

The following analysis has been structured to reflect the main issues listed above.

#### (i) ***Rates of taxation should be maintained at levels comparable to RWWA's major competitors***

To avoid losing market share to interstate totalisator competitors or operate at unfeasible margins as part of pooling arrangements, RWWA has argued that taxation on totalisator products should be at rates no greater than its major competitors.<sup>606</sup> RWWA supports this argument as follows:

<sup>604</sup> The rates of commission that apply to RWWA on different types of bet are defined by Regulation 17C of the *Betting Control Regulations 1978*.

<sup>605</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, pp81, 85-87.

<sup>606</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p80.

- The totalisator tax rate in WA is higher than states such as Victoria (which will reduce its rate in 2010) and South Australia (no taxation from 2013)<sup>607</sup> - RWWA's comparison of totalisator taxation rates by jurisdiction is reproduced at Appendix Six;
- It is inappropriate for the tax rate to be tied to that of Burswood Casino since RWWA is not a public company and does not fund shareholders;<sup>608</sup>
- The rate of tax for fixed odds wagers on racing is significantly higher than that applied to fixed odds products of totalisator businesses in all other jurisdictions except Queensland<sup>609</sup> - RWWA's comparison of fixed odds betting taxation rates by jurisdiction is reproduced at Appendix Six;
- Further to the last point, parimutuel betting is fairly mature whereas fixed odds betting is a growth product. The comparatively high tax rate in WA means that RWWA is disadvantaged with respect to its fixed odds racing product;<sup>610</sup> and
- Laws pertaining to fixed odds were not considered at the time of RWWA's establishment and rates are historical.<sup>611</sup>

Similarly, there was support from other industry participants for a lowering of taxation rates.<sup>612</sup> A number of stakeholders identified taxation relief as necessary to bring Western Australia in line with other states,<sup>613</sup> and/or as a means of providing more money for RWWA to fund the industry.<sup>614</sup> Wagering operators emphasised that all betting agents should be subject to the same rate of tax and WA needed to remain competitive with other jurisdictions.<sup>615</sup> While Best Bookies Price Pty Ltd considered that a tax reduction might reduce the incentive for RWWA to maximise returns to the industry,<sup>616</sup> this was a minority view. The Committee also heard that the industry

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<sup>607</sup> Ibid.

<sup>608</sup> Mr Richard Burt, CEO, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p30.

<sup>609</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p80.

<sup>610</sup> Mr Richard Burt, CEO, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p31.

<sup>611</sup> Mr Richard Burt, CEO, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p12.

<sup>612</sup> Mr Alan Smith, Secretary/Treasurer, Pingrup Race Club, *Transcript of Evidence*, 3 May 2010, p14.

<sup>613</sup> Submission No. 30 from Western Australian Trotting Association, 15 January 2010, p18; Submission No. 31 from Fremantle Harness Racing Club, 15 January 2010, p3.

<sup>614</sup> Mr Brett Smith, Committee Member, Junction Race Club, *Transcript of Evidence*, 16 May 2010, p10; Mr Edward (Ted) van Heemst, Chairman, Perth Racing, *Transcript of Evidence*, 26 February 2010, p4; Submission No. 24 from WA Provincial Thoroughbred Racing Association, 24 December 2009, p2; Submission No. 23 from Bunbury Turf Club, 18 December 2009, p2.

<sup>615</sup> Submission No. 8 from Western Australian TAB Agents' Association, 30 November 2009, p2; Submission No. 16 from Morley TAB Agents, 27 November 2009, p6.

<sup>616</sup> Mr Dino Di Cianno, Director, Best Bookies Price Pty Ltd, *Transcript of Evidence*, 8 March 2010, p8.

should not be ‘taxed at the same rate as the Burswood Casino’<sup>617</sup> and there was a clear case for the tax to be lowered given the GST.<sup>618</sup>

The Committee considered each of these arguments in turn, firstly the question of whether the racing industry should be taxed at all. The Committee acknowledges that both the Henry Tax Review and Productivity Commission Report on Gambling identify that the growth of internet wagering will reduce the capacity of states to raise tax revenues as gambling markets become more competitive and mobile providers have the option of simply migrating to jurisdictions with lower tax rates.<sup>619</sup> Even so, to the extent that it is possible the Committee considers taxation to be warranted. In 1994 the Public Accounts and Expenditure Review Committee of the WA Parliament found that monies raised by the (then) TAB were public funds as these could only be raised under the legislative mandate of the TAB even if they were the result of the racing industry’s ‘product’.<sup>620</sup> RWWA, like its predecessor the TAB, effectively holds money in trust for the industry and has inherited the legislative mandate to raise a significant amount of money. In effect, as stated by Mr Barry Sargeant, Department of Racing, Gaming and Liquor, RWWA has a ‘permanent appropriation to use those moneys, so it makes a contribution back’.<sup>621</sup> The Committee concurs with this view.

Claims that the rate of wagering tax is tied to casino tax are incorrect. While the methodology used to calculate the off-course totalisator tax rate (based on gross revenue) is comparable to that of Burswood Casino, there is no direct relationship between the rate or basis for charging casino taxes and wagering taxes.<sup>622</sup> The scale of contribution is also very different with the casino tax constituting 1.5% of overall state tax revenue in 2009-10 while betting tax constituted 0.6%.<sup>623</sup> Otherwise, DTF advised that there is a conceptual similarity between wagering tax and casino tax in relation to a recently introduced wagering tax rebate for professional punters, which is similar to an existing casino tax concession for interstate and international premium players (‘junket’ business).<sup>624</sup> A rebate to RWWA on gross margin will apply from 2010-11 (for an initial three year period) with respect to professional punters on contract with RWWA with an annual betting

<sup>617</sup> Submission No. 24 from WAPTRA, 29 December 2009, p2.

<sup>618</sup> Hon. Nick Griffiths, *Transcript of Evidence*, 19 February 2010, p12.

<sup>619</sup> Government of Australia, *Australia’s Future Tax System - Final Report Part 2 Detailed Analysis*, 2 May 2010, p463 and Productivity Commission, *Gambling*, Report No. 50, Commonwealth of Australia, Canberra, 26 February 2010, p16.50.

<sup>620</sup> Public Accounts and Expenditure Review Committee, *Report on the Totalisator Agency Board (Report No. 28)*, Legislative Assembly, Western Australia, 15 June 1994, p52.

<sup>621</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 19 February 2010, p6.

<sup>622</sup> Mr Timothy Marney, Under Treasurer, Department of Treasury and Finance, letter, 26 August 2010, p2.

<sup>623</sup> Department of Treasury and Finance, *Overview of State Taxes Western Australia 2009-10*, Government of Western Australia, Perth, December 2009, p2.

<sup>624</sup> *Ibid.*

outlay of at least \$500,000.<sup>625</sup> According to DTF, the rebate for this category of betting will be equivalent to a reduction in the betting tax rate from 11.91% to 1.91%.<sup>626</sup>

Other than the reduction in the rate of tax afforded to professional punters, the rates of totalisator and fixed odds betting remain unchanged. In its consideration more broadly of whether rates of wagering tax require revision, the Committee considered a number of issues. RWWA's argument that fixed odds wagering rates are largely historical is correct. The TAB was only authorised to conduct fixed odds betting with the passage of the *Acts Amendment (Fixed Odds Betting) Act 1999*. The rate of tax payable on fixed odds betting was established by the *Totalisator Agency Board Betting Tax Amendment Act 1999* at the rate of 2% on horse and greyhound racing and 0.5% on all other bets including sports betting.<sup>627</sup> This rate was carried through without review in 2003 when RWWA was established. The wagering landscape has undoubtedly changed since 1999 with respect to fixed odds wagering, which RWWA indicates is a growth area.<sup>628</sup>

In relation to the argument that Western Australian tax rates should be reduced to levels comparable to other states, it is important to note the context in which interstate jurisdictions are lowering taxation rates. Victoria for instance is reducing its tax rate to offset the loss of gaming revenues when the gaming and wagering licence in that state expires in 2012. This is to ensure that funding to the racing industry is 'no less favourable' under new funding arrangements.<sup>629</sup>

Even so, the recent Henry Tax Review acknowledged that tax competition between the states can be unproductive, however also found that 'diversity can result in healthy tax competition between the states, in which the states face competitive pressure to adopt best practice in the design of their tax systems'. The Review also states that 'if tax policies are driven by a desire to match other states, rather than the need to raise revenue, this may compromise the sustainability of the states' own source tax revenues'.<sup>630</sup> The Committee concurs that it is poor policy for change to occur purely on the basis of matching taxes in other states. That said, the Committee also recognises that unless taxation rates in Western Australia are more comparable to those in other states, RWWA will not be able to compete effectively with its major wagering competitors. A more comprehensive solution is required and ideally one that adopts a nationally coordinated approach.

RWWA has argued for a nationally coordinated approach to the taxation of wagering in order to address the competitive imbalance between jurisdictions.<sup>631</sup> According to RWWA, the federal

<sup>625</sup> Hon. T.K. Waldron, MLA, (Minister for Racing and Gaming), *Media response - RWWA tax rebate*, Media Statement, Government of Western Australia, Perth, 19 December 2009.

<sup>626</sup> Department of Treasury and Finance, *Overview of State Taxes Western Australia 2009-10*, Government of Western Australia, Perth, December 2009, p46.

<sup>627</sup> Hon. H.J. Cowan, MLA, Deputy Premier, Western Australia, Legislative Assembly, *Parliamentary Debates (Hansard)*, 19 August 1999, p505.

<sup>628</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p31.

<sup>629</sup> Ms Kerri Hereward, Principal Policy Officer, Department of Justice, Office of Gaming and Racing, *Briefing*, 16 April 2010.

<sup>630</sup> Government of Australia, *Australia's Future Tax System - Final Report (Overview)*, 2 May 2010, section 10.3.

<sup>631</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p81.

government needs to get involved with regard to a common wagering tax.<sup>632</sup> The concept of a national approach to taxation accords with a finding of the Productivity Commission Report on Gambling, which states that ‘there are grounds for state and territory governments to cooperate when setting taxes on wagering revenue, in order to avoid destructive tax competition’. The Report suggests a binding agreement between all jurisdictions for a harmonised tax regime.<sup>633</sup> DTF highlights the difficulties that would be involved in reaching consensus on a national approach to wagering taxation given the disparity between tax rates across the country and the way in which taxes are applied. Wagering tax also could not be considered in isolation as it underpins critical issues such as the competitiveness and ongoing sustainability of state racing industries. As such, DTF suggests that taxation might best be considered as part of a broader discussion of racing industry issues and that the Ministerial Council of Racing Ministers<sup>634</sup> would be the most appropriate forum for this.<sup>635</sup>

In terms of a more immediate solution, the Henry Tax Review provides some guidance with respect to how an appropriate fixed odds (and/or totalisator) wagering rate should be calculated. The Review recommends that gambling taxes (including wagering taxes) should be reviewed to ensure they are focused on recouping economic rent. Gambling providers earn economic rent because state government restrictions on the supply of gambling services in Australia allow the limited number of providers to make more profit than they would in a competitive market. As such, the Review suggests that capturing economic rent is the most compelling reason for imposing taxes on gambling services.<sup>636</sup> DTF advised that betting taxes are currently based on either the turnover or gross margin of a wagering operator (net of GST) and are not specifically designed to capture economic rent. Detailed analysis has not been undertaken but would be required in order to determine the extent of economic rent being earned by gambling service providers in WA.<sup>637</sup>

Another factor that requires consideration in setting an appropriate rate of taxation concerns the need for infrastructure across the industry and whether a reduction in the taxation rate could assist RWWA to offset some of the costs. This matter is discussed in greater detail below.

DTF advised that there is always scope to review the rates of tax applicable to fixed odds and totalisator betting as part of the State Budget process and that ‘any such review would normally have regard to many factors, including the tax rates in other States and their impact on the

<sup>632</sup> Mr Richard Burt, CEO, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p8.

<sup>633</sup> Productivity Commission, *Gambling*, Report No. 50, Commonwealth of Australia, Canberra, 26 February 2010, p16.50.

<sup>634</sup> This presumably refers to the Ministerial Council on Gambling, membership of which includes the WA Minister for Racing and Gaming. Commonwealth-state Ministerial Councils are forums for sharing information between Australian jurisdictions and develop policy reforms for consideration by the Council of Australian Governments (COAG, ‘Ministerial Councils’, 21 July 2010. Available at: [www.coag.gov.au/ministerial\\_councils/index.cfm](http://www.coag.gov.au/ministerial_councils/index.cfm) Accessed on 7 September 2010).

<sup>635</sup> Mr Timothy Marney, Under Treasurer, Department of Treasury and Finance, letter, 26 August 2010, p2.

<sup>636</sup> Government of Australia, *Australia’s Future Tax System - Final Report Part 2 Detailed Analysis*, 2 May 2010, pp457-467.

<sup>637</sup> Mr Timothy Marney, Under Treasurer, Department of Treasury and Finance, letter, 26 August 2010, p2.

interstate competitiveness of the Western Australian racing industry'. In this regard, the government would have to decide whether it chooses to review tax rates.<sup>638</sup>

### Summary

In summary, the conclusions reached by the Committee in its consideration of wagering taxation are as follows:

- It is appropriate for wagering activities to be taxed;
- When determining appropriate rates of wagering taxation the state government must consider RWWA's ability to meet its operational costs and funding obligations to the industry;
- The Henry Tax Review suggests that taxation rates should not be formulated simply on the basis of matching other jurisdictions. That said, the Committee believes that the rate of wagering tax should be struck at a level to enable RWWA to remain viable against increasing competition in the wagering market;
- The rate of fixed odds and totalisator taxation could be reviewed as part of the State Budget process, which would take into account various factors;
- A review of the rates of fixed odds taxation is warranted due to the lapse of time and change in wagering conditions since the rate was initially set however such a review would need to occur in the context of overall rates of wagering tax (i.e. including totalisator tax); and
- In the long-term, a cooperative national approach to wagering taxation would help to address destructive tax competition between the states and is supported.

#### **Finding 44**

The rate of tax applicable to fixed odds betting should be reviewed.

#### **Finding 45**

Any review of wagering tax should examine rates applicable to both totalisator and fixed odds betting.

#### **Finding 46**

Given that other states have already committed to reducing rates of taxation on wagering, the Western Australian racing industry cannot remain competitive without a similar reduction.

<sup>638</sup> Mr Timothy Marney, Under Treasurer, Department of Treasury and Finance, letter, 26 August 2010, p2.

**Recommendation 27**

That the Minister for Racing and Gaming in conjunction with the Treasurer reviews the rates of tax for totalisator wagers and fixed odds wagers in sections 4 and 5 respectively of the *Racing and Wagering Western Australia Tax Act 2003* with a view to enabling Racing and Wagering Western Australia to compete more effectively.

**Finding 47**

A cooperative national approach by the states and territories to wagering taxation would be beneficial.

**Recommendation 28**

That the Minister for Racing and Gaming pursues a coordinated national approach to wagering taxation through the appropriate Council of Australian Governments forum.

**(ii) Basis and rates for wagering taxation to be set in regulation**

RWWA has recommended that rates of taxation for totalisator and fixed odds betting should be set in regulation rather than legislation for greater flexibility and administrative ease. Due to the length of time required to amend legislation, RWWA has suggested that the state government currently has limited ability to respond to changes in taxation rates by competing jurisdictions or other changes in the market. RWWA cites recent product fee legislation as an example (and its preferred scenario) whereby the Minister may set product fees by regulation.<sup>639 640</sup>

Broadly defined, a tax exists when there is no direct link between the payment of the tax and benefits to the taxpayer. Funds raised through taxes may be used by the government to provide benefits to the community overall. Fees on the other hand exist when an agency recovers the costs of supplying a particular product or service.<sup>641</sup> By this definition, the revenues to state government arising from totalisator and fixed odds wagering are undoubtedly *taxes* as these sums go towards consolidated revenue.

<sup>639</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p85.

<sup>640</sup> Mr Richard Burt, CEO, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p8.

<sup>641</sup> Government of Australia, *Australia's Future Tax System - Final Report (Overview)*, 2 May 2010, section 8.5.

In its 32<sup>nd</sup> Report (May 2009), the WA Delegated Legislation Committee notes significant evidence to reinforce the point that taxes must be imposed by an Act of Parliament and cannot lawfully be imposed via regulation. The Report also cites a comment by the Auditor General from the *Second Public Sector Report 2006*, which states:

*Legislative authority conferred on agencies to raise fees and charges does not permit the imposition of a tax. A tax must be specifically imposed under an Act of Parliament.*<sup>642</sup>

The Office of the Auditor General further qualified this statement by advising that the statement was based on advice received from the State Solicitor in July 2004 to the effect that:

*...legislative powers conferred on government agencies to impose “fees” or “charges” do not permit the imposition, either in whole or in part, of a tax. Agencies should be referred to s.45 and 45A of the Interpretation Act 1984 in particular. If a tax is to be levied by an agency, then it must be specifically imposed under an Act of Parliament as a tax.*<sup>643</sup>

The Committee recognises that imposing rates of wagering taxation by regulation rather than through the RWWA Tax Act would provide RWWA with more flexibility to remain competitive in a changing wagering market. However, under current state law all taxes must be imposed by an Act of Parliament.

#### **Finding 48**

The basis and rates of wagering taxation cannot be imposed in regulation and must remain within the *Racing and Wagering Western Australia Tax Act 2003*.

#### **(iii) Fixed odds betting conducted on-course should be taxed the same as totalisator betting**

Racing clubs do not have the ability under legislation to conduct fixed odds betting on-course and may do so only as an agent of RWWA. RWWA argues that while clubs are not required to pay tax on on-course totalisator wagering, tax still applies to fixed odds betting and is a disincentive to clubs wishing to pursue this option. Given that demand for fixed odds betting is increasing, this is disadvantageous for clubs.<sup>644</sup> RWWA indicates that there is no clear case for the differential taxation of on-course totalisator and fixed odds betting and suggests that clubs acting as agents of

<sup>642</sup> As cited within Parliament of Western Australia, Joint Standing Committee on Delegated Legislation, *Supreme Court (Fees) Amendment Regulations (No.2) 2008, Children’s Court (Fees) Amendment Regulations (No. 2) 2008, District Court (Fees) Amendment Regulations 2008, Magistrates Court (Fees) Amendment Regulations (No. 2) 2008, Fines, Penalties and Infringement Notices Enforcement Amendment Regulations (No. 2) 2007 and other court fee instruments - Report 32*, May 2009, p33.

<sup>643</sup> Mr Glen Clarke, Acting Auditor General, letter, 9 July 2010, p2.

<sup>644</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, pp12-13.

RWWA should receive a similar exemption for fixed odds betting conducted on-course.<sup>645</sup> The Committee concurs that there is no clear rationale for the differential rate of taxation for on-course totalisator and fixed odds betting and supports in principle the idea of a more equitable rate of taxation for on-course wagering conducted by clubs.

#### **Finding 49**

The principle of equitable taxation rates for on-course totalisator and fixed odds wagering conducted by racing clubs is supported.

Significantly, DTF highlighted that increased on-course fixed odds betting by clubs could have consequences for the ongoing viability of licensed bookmakers. As such, it would be appropriate for licensed bookmakers and racing clubs to receive equitable taxation treatment.<sup>646</sup> This is a pertinent point and while the Committee supports a more equitable approach to tax rates for on-course wagering conducted by racing clubs, the Committee also recognises that this cannot be considered in isolation. In the previous section the Committee identified that a review of the taxation rate applicable to fixed odds betting is warranted. It would be appropriate for such a review to also take into account the appropriate rate of taxation for on-course fixed odds betting with a view to reducing the tax burden on clubs without impacting on bookmakers.

#### **(iv) *RWWA's payments of wagering tax on sporting events and the payments to the Sports Wagering Account should be combined into a single payment***

Payments to the Sports Wagering Account (SWA) by RWWA are required for unclaimed dividends in respect of wagers made on sporting events.<sup>647</sup> Following payment of dividends and tax on totalisator and fixed odds wagering in relation to sporting events, RWWA is also required to pay 25% of the remaining balance into the SWA.<sup>648</sup> The SWA is administered by the Gaming and Wagering Commission for the purpose of distribution to sporting organisations at the direction of the Minister for Sport and Recreation.<sup>649</sup> The Gaming and Wagering Commission also deposits monies into the SWA in relation to payments of the bookmakers' betting levy made under Section 15 of the *Betting Control Act 1954*. In 2008-09, payments totalling \$2.7m were made from the SWA leaving a balance of approximately \$2.5m.<sup>650</sup>

<sup>645</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p85.

<sup>646</sup> Mr Timothy Marney, Under Treasurer, Department of Treasury and Finance, letter, 26 August 2010, p3.

<sup>647</sup> Section 104 *Racing and Wagering Western Australia Act 2003*.

<sup>648</sup> Section 107(1)(b) *Racing and Wagering Western Australia Act 2003*.

<sup>649</sup> Section 110A *Gaming and Wagering Commission Act 1987*.

<sup>650</sup> Gaming and Wagering Commission of Western Australia, *2008-2009 Annual Report*, p49, 2009. Available at: [www.rgl.wa.gov.au/ResourceFiles/Publications/Reports/2009/GWCWA.pdf](http://www.rgl.wa.gov.au/ResourceFiles/Publications/Reports/2009/GWCWA.pdf). Accessed on 30 June 2010.

RWWA has suggested that its system of payments should be simplified by rolling the payments to the SWA and payments of wagering tax on sporting events<sup>651</sup> into a single payment to sporting organisations.<sup>652</sup> RWWA claims that this would be for administrative ease and did not have a position on whether tax should still be payable on this combined amount.<sup>653</sup>

In its submission to the Inquiry, the Department of Sport and Recreation (DSR) also raised the issue of the SWA and how it is currently administratively cumbersome. DSR has undertaken preliminary consultation with the Department of Racing, Gaming and Liquor (DRGL) (on behalf of the Gaming and Wagering Commission) and RWWA with respect to streamlining the process and has obtained in principle support from these parties. Under the DSR streamlining proposal, the requirements for RWWA to pay moneys into the SWA would be unchanged<sup>654</sup> but the Gaming and Wagering Commission would be removed from the administration process to be replaced by DSR. If streamlining proceeded, minor amendments would be required to the wording of Sections 104 and 107 of the RWWA Act to reflect changes in the administration of the account from the Gaming and Wagering Commission to DSR.<sup>655</sup>

In its analysis, the Committee recognised that there are two parts to the SWA argument: the first concerns streamlining the SWA process, which is administratively cumbersome; and the second involves combining RWWA's payments into the SWA. With regard to the first issue, the Committee recognises that the current administrative arrangements are cumbersome as multiple agencies are involved. It appears that the rationale behind the Gaming and Wagering Commission's involvement in the administration of the SWA was largely historical due to its responsibility for levying bookmakers prior to the TAB (and then RWWA) having the ability to conduct sports betting. It was then logical for sports betting payments, when these came into being, to operate through the existing account structures of the Commission.<sup>656</sup> While the same community sporting benefits would be realised regardless of whether DSR or the Gaming and Wagering Commission administered the SWA,<sup>657</sup> Mr Barry Sargeant, Director General of the Department of Racing, Gaming and Liquor raised an important point:

*From the view of the Department of Sport and Recreation, as I understand, there is a bureaucracy they have to go through. But I repeat the point that we are actually more involved now in moneys that Racing and Wagering Western Australia is generating, and*

<sup>651</sup> As previously stated, this equates to 0.5% of turnover for wagers on sporting events.

<sup>652</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p86.

<sup>653</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 14 June 2010, p14.

<sup>654</sup> The Gaming and Wagering Commission would still remit the betting levy payable on sporting events under the *Bookmakers Betting Levy Act 1954* to the SWA (as advised by Mr Timothy Marney, Under Treasurer, Department of Treasury and Finance, letter, 26 August 2010, p4).

<sup>655</sup> Submission No. 43 from Department of Sport and Recreation, 1 June 2010, pp1-6.

<sup>656</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 13 August 2010, p5.

<sup>657</sup> DRGL's comment as cited by Mr Timothy Marney, Under Treasurer, Department of Treasury and Finance, letter, 26 August 2010, p4.

*the clubs are generating through betting et cetera through the product fee, than we were before.*<sup>658</sup>

Following the passage of racefields legislation in 2009, the Gaming and Wagering Commission assumed responsibility for administering the racing bets levy account, which involves the collection and disbursement of product fees (the latter being to RWWA or directly to racing clubs).<sup>659</sup> The Commission's involvement with RWWA has therefore increased via the product fee regime and according to DRGL, the Gaming and Wagering Commission will likely remain the mechanism for the collection of product fees for the foreseeable future unless national product fee legislation is introduced.<sup>660</sup> The Committee considers it is a valid argument to maintain the status quo given the Commission's history and ongoing involvement in the administration of payments relating to RWWA. No amendment to the RWWA Act is therefore required with respect to administration of the SWA.

#### **Finding 50**

Administration of the Sports Wagering Account should continue to be the responsibility of the Gaming and Wagering Commission as per Section 110A of the *Gaming and Wagering Commission Act 1987*.

The second aspect of the argument regarding RWWA combining its wagering tax and 25% payment into the SWA has much more significant ramifications. Moneys in the SWA are distributed to sports organisations whereas wagering tax goes towards the state government's consolidated revenue. Assuming that all sports wagering monies directed into the SWA by RWWA would go towards sporting organisations, combining the two payments would in effect be hypothecating the tax. For reasons elaborated below this is not supported.

#### **Finding 51**

It would not be appropriate for Racing and Wagering Western Australia's payments of wagering tax on sporting events and payments to the Sports Wagering Account to be combined into a single payment.

<sup>658</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 13 August 2010, p6.

<sup>659</sup> Section 110B *Gaming and Wagering Commission Act 1987*.

<sup>660</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 13 August 2010, p6.

**(v) Wagering taxes and the funding of infrastructure**

In Chapter 2.7, the Committee identified a critical need for infrastructure across the industry. The Committee found that government grants alone are insufficient to meet the infrastructure shortfall and that an additional mechanism is required that will provide a more flexible and sustained approach to the funding of infrastructure. In supporting the establishment of a RWWA-administered infrastructure fund, the Committee has ascertained that RWWA currently lacks the means to meet these needs without negatively impacting on stake money distributions.

In acknowledging its difficulty in funding infrastructure, RWWA has suggested taxation as a possible method of addressing this situation:

*We also have a very large stakeholder base of ageing assets. To maintain those assets—we do not have the financial capacity to do that—we are recommending that there should be some recognition of that from the public purse either through reduced taxation on a sustainable basis, or through grants.*<sup>661</sup>

Evidence to the Inquiry highlighted the potential for a reduction in wagering taxation to be applied to infrastructure funding. The main argument from industry can be summarised as follows:

- A reduction in wagering tax will provide RWWA with more funding for the industry;<sup>662</sup>
- The rate of wagering tax should be lowered and the resulting money should be directed towards the funding of race related infrastructure;<sup>663</sup>
- The rate of wagering tax should be reduced and the resulting funds used by RWWA to fund infrastructure;<sup>664</sup>
- A future fund/ capital fund should be established by setting aside a fixed percentage of taxes annually which can then only be applied to infrastructure projects;<sup>665</sup>
- Infrastructure funding arising from a reduction in wagering tax should be directed towards infrastructure for country and regional race clubs;<sup>666</sup> and
- Funding set aside for infrastructure would need to make specific reference to country racing.<sup>667</sup>

<sup>661</sup> Mr Richard Burt, CEO, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p37.

<sup>662</sup> Mr Colin Bellchambers, General Manager, Pinjarra Race Club, *Transcript of Evidence*, 6 April 2010, p7.

<sup>663</sup> Submission No. 29 from HROAWA, BOTRA and WASBA, 15 January 2010, p3; Submission No. 23 from Bunbury Turf Club, 18 December 2009, p2; Submission No. 24 from Western Australian Provincial Thoroughbred Racing Association, 24 December 2009, p2; Submission No. 22 from WA Racing Trainers' Association, 14 December 2009, pp3-4; Mr Alan Smith, Secretary/Treasurer, Pingrup Race Club, *Transcript of Evidence*, 3 May 2010, p14; Mr Maxwell (Dixie) Solly, President, Country Racing Association, *Transcript of Evidence*, 7 May 2010, p3.

<sup>664</sup> Mr Nicholas Bosly-Pask, Acting Chair, Narrogin Racing, *Transcript of Evidence*, 3 May 2010, p12; Mr David Prance, Immediate Past Chairman, Kalgoorlie Boulder Race Club, *Transcript of Evidence*, 19 March 2010, p5.

<sup>665</sup> Submission No. 28 from Western Australian Racehorse Owners' Association, 30 December 2009, p4; Mr Geoff Fahl, Chairman/Treasurer, Carnarvon Race Club, *Transcript of Evidence*, 16 May 2010, p9.

<sup>666</sup> Mr John Biggs, Representative, North Eastern Goldfields Racing Clubs, *Transcript of Evidence*, 19 March 2010, p3.

<sup>667</sup> Submission No. 21 from Broome Turf Club (Inc), 14 December 2009, p4.

On the basis of comments received, the Committee identified two possible methods for establishing an infrastructure fund.

### **Method 1: A set percentage of wagering taxes is put towards an infrastructure fund**

The first option pertains to hypothecating<sup>668</sup> wagering tax for the purpose of funding infrastructure. In the past DTF has not supported the hypothecation of revenues for the purposes of building infrastructure for the reason that:

*...it reduces the flexibility of the Government to respond to changes in its environment and narrows the revenue base for other expenditures (which may provide more benefits than economic infrastructure). It also gives these projects a privileged position in a State budget context by removing them from the scrutiny of the annual budget process, potentially distorting priorities and misallocating public sector resources.<sup>669</sup>*

DTF continues to recommend against the hypothecation of revenues for specific expenditure programs ‘on the basis that it circumvents the Government’s decision making processes that determine the relative priority that should be given to competing expenditure programs’.<sup>670</sup>

### **Method 2: The rate of wagering tax is reduced thus assisting RWWA to provide for infrastructure**

Earlier in this report the Committee recommended that the rate of wagering tax should be lowered to enable RWWA to compete more effectively against wagering operators in other jurisdictions. Reducing the rate of wagering tax would ultimately be reflected in RWWA having more funds available for distribution to the industry. The second method for establishing an infrastructure fund, and the Committee’s preferred option, utilises RWWA’s existing funding distribution framework, however is contingent on a reduction in the rate of wagering tax.

As identified previously by the Committee, a RWWA administered fund is preferable given RWWA’s existing charter under the RWWA Act, and would also allow for capital to be allocated on a needs basis in accordance with strategic plans for the industry.<sup>671</sup> A fund to be administered by RWWA needs protections in place however to ensure that monies are specifically allocated to infrastructure. The Committee considers this necessary given that RWWA’s funding distribution model is heavily weighted towards stakes.

The Committee is of the view that, provided there is a reduction in wagering tax, a percentage of RWWA’s wagering profits after taxes and expenses should be set aside annually in a fund for

<sup>668</sup> Hypothecation is where money obtained, or part of the money obtained through tax is used for a particular purpose, rather than spent on a number of things (as defined by Financial Times Ltd, ‘Financial Times Lexicon’, 2009. Available at: <http://lexicon.ft.com/term.asp?t=hypothecated-tax> Accessed on 18 June 2010).

<sup>669</sup> Department of Treasury and Finance, *Framework for the State Infrastructure Strategy: Green Paper*, September 2006, p45. Available at: [www.dtf.wa.gov.au/cms/uploadedFiles/sis\\_greenpaper\\_sept2006.pdf](http://www.dtf.wa.gov.au/cms/uploadedFiles/sis_greenpaper_sept2006.pdf) Accessed on 18 June 2010.

<sup>670</sup> Mr Timothy Marney, Under Treasurer, Department of Treasury and Finance, letter, 26 August 2010, p1.

<sup>671</sup> Mr Ross Bowe, Chairman and Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p39.

infrastructure projects. Evidence to the Committee demonstrated that a funding stream of at least \$15 million a year<sup>672</sup> for the next 5 years would be required to meet urgent infrastructure needs.<sup>673</sup> By mandating that a percentage of RWWA's profit margin<sup>674</sup> (at a rate sufficient to address critical infrastructure needs) is set aside each year for infrastructure, this would ensure a regular funding stream. On current estimates based on RWWA's approximate margin figures for 2009-10,<sup>675</sup> a mandated figure of between 8% and 9% would yield between \$13 million and \$15 million a year. As already established however, it is important to reinforce that for this method not to impact adversely on RWWA's distribution to the codes (and stakes in particular), the infrastructure fund could only be established following a reduction in wagering tax.

In terms of the quantum of change that would be needed to the taxation rate, it was suggested by some industry participants that the tax should be reduced initially by one per cent.<sup>676</sup> The Committee recognises that a detailed economic analysis is required to identify an actual figure and as indicated earlier in this Report, has recommended that tax rates should be reviewed by the state government. Factors that would need to be considered include:

- how taxation might best be modified to achieve the desired outcomes for the racing industry i.e. whether this should be spread across rates of taxation for totalisator and/or fixed odds betting;
- how taxation relief will enable RWWA to compete more effectively in the wagering market (as discussed in Chapter 2.9);
- in relation to equipping RWWA to meet infrastructure funding challenges:
  - the extent to which state government funding under the recently announced racecourse infrastructure grants program will address infrastructure shortfalls;
  - the extent to which other committed funds such as Royalties for Regions will address infrastructure shortfalls; and
  - the extent to which RWWA might contribute to addressing infrastructure shortfalls.

In terms of how an infrastructure fund could actually be established, Section 88 of the RWWA Act provides for RWWA to maintain one or more special purpose accounts as defined under the *Financial Management Act 2006*. A special purpose account administered by RWWA could be used to ensure that funds sourced from wagering profits are applied to infrastructure. DTF has advised that with appropriate changes to the RWWA Act and RWWA Tax Act this would be possible. The Committee believes that the potential benefits to the industry to be derived from a source of dedicated infrastructure funding justify the establishment of a special purpose account

<sup>672</sup> This is also supported by Submission No. 21 from Broome Turf Club, 14 December 2009, p4.

<sup>673</sup> Mr Richard Burt, (Racing and Wagering Western Australia), 2010, pers. comm., 21 September 2010.

<sup>674</sup> This refers to the margin after paying pooling fees, product fees, rebates and tax.

<sup>675</sup> Mr Richard Burt, (Racing and Wagering Western Australia), 2010, pers. comm., 21 September 2010.

<sup>676</sup> Mr John Biggs, Representative, North Eastern Goldfields Racing Clubs, *Transcript of Evidence*, 19 March 2010, p3; Submission No. 21 from Broome Turf Club, 14 December 2009, p4. This presumably referred to a reduction in the rate of off-course totalisator tax equivalent to 1% of turnover as calculated using the previously applied method.

for infrastructure, not least the potential to address priority infrastructure needs including those in country and regional areas. In terms of mandating for a set percentage of RWWA's distribution to be put towards infrastructure, it is important to understand that the allocation to the fund may need to be revised as infrastructure needs change. The mandated percentage should therefore be specified in regulations in order to provide this flexibility.

The Committee also recognises the need for transparency (in addition to normal annual reporting requirements) and considers that an infrastructure plan and increased reporting requirements would be appropriate in the context of an infrastructure fund. The Committee is aware that in May 2009, Racing Victoria Limited in conjunction with Country Racing Victoria released a five-year Racecourse and Training Facilities Infrastructure Plan. The plan provides all country clubs in the state with a five-year plan which includes but is not limited to: race dates; capital funding strategy; optimum wagering schedule; and training track maintenance funding. The result of extensive industry consultation, the plan will be updated annually following a review of club performance and is intended to provide direction to clubs and assistance to achieve greater sustainability.<sup>677</sup>

Should a RWWA administered infrastructure fund be established, it must be reinforced by a forward looking infrastructure plan which clearly identifies infrastructure priorities and the proposed schedule and quantity of funding allocations across the state. Although current accountability provisions in the RWWA Act require capital expenditure to be included in RWWA's Strategic Development Plan,<sup>678</sup> a similar requirement is lacking in the Statement of Corporate Intent which once tabled in Parliament becomes a public document. A requirement to report infrastructure expenditure for the coming financial year in an SCI would strengthen accountability and legislatively reinforce the need for RWWA to undertake sound planning for the allocation of infrastructure funds. The task of preparing such documentation could be the responsibility of a risk management board committee (as discussed in Chapter 2.2(e)).

## Summary

The main conclusions reached by the Committee in relation to funding infrastructure can be summarised as follows:

- A RWWA administered infrastructure fund has already been identified to be a suitable mechanism for providing more flexible and sustained infrastructure funding to the industry;
- For RWWA to compete on more favourable terms with its wagering competitors and in order to fund major infrastructure, the preferred mechanism is for the wagering tax rate to be reduced and for a percentage of RWWA's wagering profits to be set aside each year for infrastructure;
- The magnitude of tax reduction needs to be subject to a detailed analysis; and

<sup>677</sup> Racing Victoria Limited, 'Victorian Racecourse and Training Facilities Infrastructure Plan Overview', May 2009. Available at: <https://admin.racingvictoria.net.au/asset/cms/Race%20Programs%20PDF/Infrastructure%20Plan%20Summary.pdf> Accessed on 1 February 2010.

<sup>678</sup> Section 68(2) *Racing and Wagering Western Australia Act 2003*.

- The anticipated benefits to the industry justify this approach, especially if sufficient transparency measures can simultaneously be put in place. In this regard, a forward looking infrastructure plan to be backed up by a legislative requirement to incorporate proposed infrastructure spending in RWWA's Statement of Corporate Intent will be necessary.

**Finding 52**

Provided the rate of wagering tax is reduced, a special purpose account for racing industry infrastructure should be put in place.

**Finding 53**

The infrastructure fund should be funded through a percentage of Racing and Wagering Western Australia's profit margin at a rate sufficient to address critical infrastructure needs. Based on Racing and Wagering Western Australia estimates for 2009-10, a mandated figure of between 8% and 9% of the profit margin would yield between \$13 million and \$15 million a year.

**Finding 54**

Accountability and reporting requirements need to be put in place by Racing and Wagering Western Australia to ensure that funds from the special purpose account are used only for infrastructure.

**Recommendation 29**

That the *Racing and Wagering Western Australia Act 2003* be amended to establish a special purpose account for the infrastructure fund.

**Recommendation 30**

That the percentage of Racing and Wagering Western Australia's profits, fixed by regulation at a rate sufficient to address critical infrastructure needs is quarantined annually into the infrastructure fund.

**Recommendation 31**

That Section 77(2) of the *Racing and Wagering Western Australia Act 2003* be amended to require the inclusion of proposed infrastructure spending in the Statement of Corporate Intent for Racing and Wagering Western Australia.

**2.9 Wagering revenues****(a) Challenges**

Section 50 of the RWWA Act authorises RWWA to carry on a wagering business.<sup>679</sup> Wagering services in WA are also provided by on-course parimutuel totalisators operated by racing clubs at race courses (or by RWWA on behalf of a racing club where contracted to do so<sup>680</sup>), and on-course bookmakers.<sup>681</sup> Only RWWA may conduct off-course wagering as there is no provision under the *Betting Control Act 1954* for additional providers of off-course wagering services to be licensed by the Gaming and Wagering Commission.<sup>682</sup>

The importance of RWWA's wagering operations stem from the application of profits to the industry in the form of distributions (as detailed in Chapter 2.7). RWWA continues to emphasise the importance of wagering revenues in terms of its purpose:

*Our singular focus is to run the TAB to make a profit for distributable funds for the racing industry.*<sup>683</sup>

and ongoing significance:

*I would like the committee to note that the three codes in Western Australia are ridden on the back of the wagering dollar, and they will continue to do so...*<sup>684</sup>

RWWA has provided figures to indicate that between establishment in 2003 and 2008-2009, wagering income and distributions to clubs increased annually.<sup>685</sup> That said, a reversal in the total

<sup>679</sup> For a definition of 'wagering' refer to the Glossary.

<sup>680</sup> Section 50(1)(b)(ii) *Racing and Wagering Western Australia Act 2003* (WA).

<sup>681</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p18.

<sup>682</sup> *Ibid.*, p24.

<sup>683</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p13.

<sup>684</sup> Mr Ross Bowe, Chairman, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p3.

<sup>685</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p37.

annual distribution by RWWA has become apparent in recent times. As at February 2010, RWWA noted that financial performance to date in 2009-10 was below expectations as a result of a significant reduction in totalisator betting. Further, the distribution to the racing industry in 2009-10 was \$4.19 million less than for 2008-09.

RWWA has highlighted a number of factors that are placing downward pressure on wagering revenues. These can be summarised as follows:

- **Increasing competition for wagering services** - in particular from corporate bookmakers, betting exchanges, and eastern states wagering businesses. The development of internet based wagering is transforming the wagering landscape. Increased competition in the broader gambling market as a result of: the expansion of Burswood Casino; growing popularity of sports betting; and interstate and international gaming and wagering are all contributing to a decline in racing wagering as a proportion of the wagering market, and of wagering in the overall gambling market;
- **Changes in rates of wagering taxation in other Australian jurisdictions** - more competitive rates of taxation in other jurisdictions risk possible migration of Western Australian customers to interstate wagering operators and further diminution of WA product; and
- **Increasing costs associated with providing RWWA's core wagering services** - a significant increase to pooling fees<sup>686</sup> has resulted in an \$11 million annual increase in costs required for Western Australia to stay within the SuperTAB betting pool. The introduction of product fees<sup>687</sup> has resulted in a recurring \$4 million increase in costs to RWWA.<sup>688</sup>

The Committee received extensive comments from industry stakeholders regarding the challenges confronting RWWA. Many industry participants highlighted that RWWA had been established during an economic 'boom' time and the industry had benefited from this. The coming years however would present particular challenges given the rise of corporate bookmakers, betting exchanges and product fees, and this would be a real test of the RWWA model.<sup>689</sup> The Committee heard that competition from corporate bookmakers had been particularly damaging for RWWA's

<sup>686</sup> Until 2009, RWWA operated totalisator and fixed odds wagering on sports and racing events through an agreement with Tabcorp (Victoria's privatised TAB operator). RWWA was required to negotiate a new pooling agreement with Tabcorp so that Western Australian customers could continue accessing a combined betting pool with Victoria, Tasmania and the ACT (SuperTAB) but the agreement came at a higher cost. RWWA negotiated a new agreement with a different wagering partner (Centrebet) with respect to fixed odds betting resulting in the re-branding of the fixed odds betting business to 'Player'.

<sup>687</sup> More Western Australians bet on eastern states' racing than interstate customers bet on WA events to the extent that 75% of RWWA's wagering turnover is derived from interstate racing events. The introduction of product fees in other states has meant that fees paid by RWWA to eastern states racing bodies exceed the value of product fees paid by eastern states wagering businesses to the WA racing industry. Although the state government passed racefields legislation in 2009 to enable the WA racing industry to recover product fees, as a net 'importer' of racing product RWWA is still left with a shortfall.

<sup>688</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, pp61-70.

<sup>689</sup> Submission No. 26 from Northam Race Club, 23 December 2009, p3; Submission No. 25 from Geraldton Turf Club, 25 November 2009, p4; Submission No.14 from WA Greyhound Racing Association, 30 November 2009, p5; Mr Bruce Jones, Vice President, Harvey District Trotting Club, *Transcript of Evidence*, 6 April 2010, p4; Mr Maxwell (Dixie) Solly, President, Country Racing Association, *Transcript of Evidence*, 7 May 2010, p3; Mr Robert Bovell, Chief Executive, Western Australian Trotting Association, *Transcript of Evidence*, 26 February 2010, p11.

wagering revenues and this pressure would continue to intensify.<sup>690</sup> That said, Mr Robert Howat of the WA Bookmakers' Association sees corporate bookmakers as just another part of the economic chain in which money circulates and therefore downplayed their perceived threat to Western Australian wagering revenues.<sup>691</sup>

Other views concerning factors impacting negatively on RWWA's wagering revenues include poor odds being offered to WA punters which works to the advantage of RWWA's interstate wagering competitors,<sup>692</sup> and the ability of big punters to bet on credit with corporate bookmakers but not with RWWA which again takes business away from WA.<sup>693</sup> The Committee also heard that the expanding wagering market is a particular challenge and that limiting the scope of wagering to a statewide focus is no longer appropriate.<sup>694</sup>

The main consequence for the industry if RWWA fails to address these challenges was best summarised by Mr Colin Bellchambers, Pinjarra Race Club:

*There is a limit to how far RWWA is able to prune its operating costs. I guess they have done nearly as much as they can now. Ultimately, if things continue to go on a downward track rather than upwards, there will be only one place from which it can come, and that is distribution to clubs.*<sup>695</sup>

If diminishing distributions led to a reduction in stake levels, this would drive people out of the industry and continue the downward spiral.<sup>696</sup>

In recognition of these consequences, evidence to the Inquiry suggested that RWWA needs to increase its revenues.<sup>697</sup> The Western Australian Racehorse Owners' Association suggested that while RWWA needs to generate more revenue, holding more races is not the answer as the horse population has remained relatively constant over the last five years and more meetings would mean smaller fields and lower wagering returns.<sup>698</sup> Other stakeholders emphasised that increasing the race program would need to be supported by sufficient stake money to stay competitive.<sup>699</sup> This is a self-defeating argument if an expanded race program is needed to increase wagering

<sup>690</sup> Submission No. 7A from Racing and Wagering Western Australia, 30 November 2009, p3; Submission No. 28 from WA Racehorse Owners' Association, 30 December 2009, p3.

<sup>691</sup> Mr Robert Howat, President, WA Bookmakers' Association, *Transcript of Evidence*, 8 March 2010, p5.

<sup>692</sup> Submission No. 16 from Morley TAB Agents, 27 November 2009, p6.

<sup>693</sup> Mr Geoffrey Warwick, Vice President, Fremantle Harness Racing Club, *Transcript of Evidence*, 4 June 2010, p14.

<sup>694</sup> Mr Dino Di Cianno, President, Best Bookies Price Pty Ltd, *Transcript of Evidence*, 8 March 2010, p7.

<sup>695</sup> Mr Colin Bellchambers, General Manager, Pinjarra Race Club, *Transcript of Evidence*, 6 April 2010, p6.

<sup>696</sup> Mr David Prance, Immediate Past Chairman, Kalgoorlie-Boulder Racing Club, *Transcript of Evidence*, 19 March 2010, p5.

<sup>697</sup> Mr Allen Kinnish, Committee Member, Western Australian Greyhound Breeders Owners and Trainers' Association, *Transcript of Evidence*, 30 April 2010, p5; Mr Edward (Ted) van Heemst, Chairman, Perth Racing, *Transcript of Evidence*, 26 February 2010, p11; Submission No. 38 from Mr J Spasich, 23 March 2010, p1.

<sup>698</sup> Submission No. 28 from Western Australian Racehorse Owners' Association, 30 December 2009, p3.

<sup>699</sup> Mr Nicholas Bosly-Pask, Acting Chair, Narrogin Racing, *Transcript of Evidence*, 3 May 2010, p7.

revenues but is itself dependent on an increase in stakes (and therefore wagering revenues). RWWA also confirmed that conducting more racing is not the answer:

*Meetings held in the country, provincial and metropolitan areas, across all three codes, are largely loss making. When you allocate the cost of running this industry from distributions, the direct costs of stewards, race meeting costs, nominations et cetera, the numbers that we have been communicating to the industry extensively over the past couple of months through the rollout of the strategic plans is that for every dollar we invest in harness racing, we lose 94c; for every dollar we invest in thoroughbreds, across the range, from country to metropolitan, we lose 65c; and we lose 85c for the greyhounds. To hold more meetings, be they at Lark Hill or Pemberton, would be a loss-making venture.<sup>700</sup>*

RWWA qualified this statement by indicating that it did not mean abandoning local product. Although racing is not profitable from a business venture perspective, RWWA acknowledged that profitability alone does not determine race programming. Other factors taken into consideration include: venues that can sustain more racing from the perspective of existing track and other infrastructure; vision coverage; and presence of a local horse population to minimise fuel/transport costs. Even so, RWWA indicated that current levels of local racing are adequate.<sup>701</sup> It is therefore clear that an expanded race program is not the answer for boosting RWWA's wagering revenues.

Alternative mechanisms suggested in evidence to the Committee to assist RWWA to increase revenues are explored in greater detail below.

## **(b) Mechanisms to enhance revenues**

### **(i) Taxation**

Various submissions to the Inquiry argued for a review of wagering taxation to enhance RWWA's ability to compete more effectively with the providers of wagering services in other jurisdictions and therefore maximise returns to the industry. This matter has been discussed separately in Chapter 2.8.

### **(ii) Increasing product range and accessibility**

RWWA has made a number of suggestions to enhance its wagering revenues as follows:

- RWWA should be allowed to expand the range of wagering and gambling products to include products already available to competing wagering businesses;
- The RWWA Act should be amended to expand the ability of RWWA to offer wagering services through electronic agents without RWWA having the direct relationship with the end-customer;

<sup>700</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p40.

<sup>701</sup> *Ibid.*

- RWWA should be allowed to expand the range of outlets through which RWWA may distribute wagering products.<sup>702</sup>

Numerous other submissions to the Inquiry have supported the concept of RWWA broadening its product range in order to increase wagering income.<sup>703</sup> This includes support for the introduction of alternative forms of wagering<sup>704</sup> like Keno<sup>705</sup> and Trakside (virtual racing),<sup>706</sup> and/or an expansion of outlets for conducting wagering.<sup>707</sup>

In support RWWA reasoned that the product range offered by the TAB had not changed in 10 years and this limited the capacity of the wagering business to grow. RWWA has specifically identified Trakside (a fixed odds simulated racing product) and Keno (a bingo-style product) as being suitable components of an expanded product offering through the TAB. Both are currently restricted to Burswood Casino.<sup>708</sup> According to RWWA, simulated virtual racing is by its nature closely aligned to racing so there are obvious synergies whereas Keno is attractive due to its revenue generating capacity.<sup>709</sup>

With regard to virtual racing, RWWA cited recent plans by the New South Wales government to establish a racing development fund.<sup>710</sup> The fund will deliver an estimated \$150 million to the racing industry in that state at the rate of \$12 million a year. Funding is dependent on a merger of Sydney's two main racing clubs and will be derived from the introduction of Trakside into TABs.<sup>711</sup> In Western Australia, RWWA sees Trakside as being a suitable product for TAB retail agencies and licensed premises and to a limited extent clubs, whereas Keno if available would predominantly be a club and pub product.<sup>712</sup> RWWA stressed however that if introduced, these

<sup>702</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, pp78-79.

<sup>703</sup> Submission No. 22 from WA Racing Trainers' Association, 14 December 2009, p3; Submission No. 16 from Western Australian TAB Agents' Association, 27 November 2009, p2; Submission No. 42 from Wagin Trotting Club, 26 May 2010, p1; Mr Gino Monaco, President, Fremantle Harness Racing Club, *Transcript of Evidence*, 4 June 2010, p12; Submission No. 37 from Western Australian Bookmakers' Association (Inc), 25 February 2010, p2; Mr Robert Tomlinson, President, Breeders', Owners', Trainers and Reinspersons' Association, *Transcript of Evidence*, 7 May 2010, p9; Submission No. 35 from Perth Racing, 22 December 2009, p1; Submission No. 29 from HROAWA/WASBA/BOTRA, 15 January 2010, p2.

<sup>704</sup> Submission No. 28 from Western Australian Racehorse Owners' Association, 30 December 2009, p3.

<sup>705</sup> Submission No. 16 from Morley TAB Agents, 27 November 2009, p4.

<sup>706</sup> Mr Kenneth Trainer, Advisor, WA TAB Agents' Association, and Mr Robert Morgan, President, WA TAB Agents' Association, *Transcript of Evidence*, 8 March 2010, pp1, 11; Submission No. 31 from Fremantle Harness Racing Club, 15 January 2010, p4.

<sup>707</sup> Mr Robert Bovell, Chief Executive, Western Australian Trotting Association, *Transcript of Evidence*, 26 February 2010, p11; Submission No. 31 from Fremantle Harness Racing Club, 15 January 2010, p5.

<sup>708</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, 30 April 2010, pp22-23.

<sup>709</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, 20 August 2010, p46.

<sup>710</sup> Mr Robert Pearson, Director, Racing and Wagering Western Australia, 20 August 2010, p46.

<sup>711</sup> AAP, 'Racing club merger delivers windfall', *Australian Financial Review*, 23 July 2010, p8.

<sup>712</sup> *Ibid.*, p23.

products should go no further than licensed TAB venues, which comprises retail TAB agencies, PubTABs and ClubTABs.<sup>713</sup>

The Australian Hotels Association (AHA)<sup>714</sup> cites other jurisdictions (Victoria and New South Wales) where Trackside is classified as a wagering product and states that there is evidence to suggest that it 'should be offered as a wagering product in TAB locations as a supplement to wagering on real life animals'.<sup>715</sup> The AHA recognises however that state government policy to date has considered Trackside a casino game and as such, urges 'an appropriate mechanism to independently review and consider the determination of Trackside as a wagering product and for it to be available in hotels [sic] TAB venues'.<sup>716</sup>

RWWA considers that it already has the legislative capacity to allow for the introduction of Trackside and in order to progress the proposal, it would require Ministerial approval and the concurrence of Burswood Casino to introduce the product.<sup>717</sup> From a regulatory perspective, Mr Barry Sargeant of DRGL confirmed that the RWWA Act had sufficient flexibility built-in to accommodate some form of gambling in TAB outlets, however he stressed that:

*Fundamentally ... it has to have government approval. No agreement has been struck on tax rates et cetera, and then there is just the fundamental approval of a government, as a matter of policy, on whether it wants that. The technical side is not the issue; it is a matter of government policy, and the government policy to date has been that there be no development of gambling per se outside the current structures.*<sup>718</sup>

The *Casino (Burswood Island) Agreement Act 1985* gives Burswood Casino exclusive rights to certain games.<sup>719</sup> Mr Sargeant explained that Burswood currently has exclusive rights to Trackside and that if there was a proposal to expand the product beyond the casino, under the terms of the agreement it could only be done with the agreement of Burswood. Any proposal to introduce Trackside to TABs therefore would require the state government to firstly agree to a change in policy<sup>720</sup> and secondly it would be necessary to secure the agreement of Burswood.<sup>721</sup>

<sup>713</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, 20 August 2010, p46.

<sup>714</sup> The Australian Hotels Association Western Australia represents members which operate PubTABs (SL2) or self-service kiosks (SL3).

<sup>715</sup> Submission No. 45 from Australian Hotels Association Western Australia, 3 August 2010, p4.

<sup>716</sup> Ibid.

<sup>717</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p23.

<sup>718</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 13 August 2010, p12.

<sup>719</sup> Department of Racing, Gaming and Liquor, 'The Western Australian Gaming Legislation', June 2008. Available at: [www.rgl.wa.gov.au/ResourceFiles/Gaming/wa\\_gaming\\_bground.pdf](http://www.rgl.wa.gov.au/ResourceFiles/Gaming/wa_gaming_bground.pdf). Accessed on 10 August 2010.

<sup>720</sup> Recent indications are that the state government remains opposed to electronic gaming machines outside of the casino. Hon. T.K. Waldron, MLA (Minister for Racing and Gaming) was quoted in the media as stating that while the government gave in principle support to the proposed expansion of Burswood Casino, gaming machines are restricted to the casino and there is no intention for machines to be approved in pubs or clubs (Emerson, D., 'State to get bigger take as Burswood raises stake', *The West Australian*, 20 July 2010, p9).

Mr Sargeant raised a further point that any proposal to introduce Trackside would need to be supported by a strong business case:

*I would question whether it is going to be viable. I cannot release figures and I do not know what the network is, but do not forget, we have got a pretty big network in Australia. On the one hand it is quite easy to say we would like it, but you have to question whether it is financially viable.*<sup>722</sup>

With respect to Keno, similar restrictions apply in terms of Burswood's current exclusivity. ClubsWA, which represents some racing clubs, has made a submission to the Minister for Racing and Gaming with respect to extending Keno to clubs as a means of increasing club revenues and boosting social exchange. ClubsWA had previously negotiated with Burswood in this regard and received favourable indications at the time that Burswood supported the concept. While the proposal progressed no further at the time, ClubsWA has no reason to believe that Burswood's position has changed.<sup>723</sup>

RWWA's other suggestions are mechanisms for increasing accessibility to its wagering network. In the first instance, RWWA has suggested that the RWWA Act should be amended to allow wagering services to be offered through electronic agents. Currently the RWWA Act prohibits wagers from being accepted unless the customer's account is held by RWWA.<sup>724</sup> An internet agent, possibly based in another state and with a large customer base, could potentially offer RWWA's wagering products to its customers while retaining its customers' accounts.<sup>725</sup> According to RWWA, this will assist the TAB to compete more effectively in a national gambling market.<sup>726</sup> RWWA recognises that retail TAB agents have some concerns about competition from internet wagering and in this respect alluded to a new agreement currently under development which will be offered to existing agents.<sup>727</sup> With respect to the overall concept of electronic agents, the Committee acknowledges that online wagering is an established part of the national gambling landscape<sup>728</sup> and that removing restrictions from the RWWA Act to allow for electronic agents would enable RWWA to compete more effectively in a national market.

<sup>721</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 13 August 2010, pp12-13.

<sup>722</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 13 August 2010, p13.

<sup>723</sup> Submission No. 44B from Clubs WA, 7 September 2010, p1.

<sup>724</sup> Section 63 *Racing and Wagering Western Australia Act 2003*.

<sup>725</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p25.

<sup>726</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p78.

<sup>727</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, pp15-16.

<sup>728</sup> Government of Australia, *Australia's Future Tax System - Final Report Part 2 Detailed Analysis*, 2 May 2010, p463 and Productivity Commission, *Gambling*, Report No. 50, Commonwealth of Australia, Canberra, 26 February 2010, Overview p35.

RWWA's remaining suggestion pertains to expanding the range of outlets through which it may distribute wagering products. Currently RWWA may establish totalisator agencies<sup>729</sup> and the Gaming and Wagering Commission may direct RWWA to close or not establish an agency where in the opinion of the Commission, this may be 'detrimental to the public interest'.<sup>730</sup> Betting kiosks are currently limited to TAB outlets and licensed premises however RWWA argues that a broader range of outlets will provide for a more convenient and attractive wagering product.<sup>731</sup> RWWA has identified newsagencies and service stations as potential locations however stressed that only a limited range of products might be offered and would only be made available under supervision in a limited way to consumers.<sup>732</sup> As stated previously, RWWA excludes virtual racing and Keno from consideration in this context.

While there is some support for RWWA to expand its sales network into alternative locations such as newsagencies and popular retail areas,<sup>733</sup> the WA TAB Agents' Association considers that access to products should remain restricted to TAB agencies and licensed premises.<sup>734</sup> Similarly, the Director of the Morley TAB agency supports a greater product offering at TAB agencies.<sup>735</sup> The Committee notes that TAB agents already feel under pressure by the expansion of the SL3<sup>736</sup> network in licensed premises (this matter is discussed in more detail in Chapter 3.8) and that expansion of wagering products into alternative locations would compound this issue.

## Summary

The Committee reached the following conclusions following analysis of RWWA's suggestions to increase product range and accessibility:

- The Committee acknowledges that RWWA's wagering revenues are coming under increasing pressure and that an expanded product range and/or greater accessibility to wagering products are potential mechanisms for addressing the decline;
- The Committee has already identified that a review of wagering taxation rates is warranted to enable RWWA to compete more effectively with wagering competitors in other states (see Chapter 2.8). The Committee is also mindful of statements made by RWWA to the effect that an expanded product range would be part of the suite of possible options to assist it to meet

<sup>729</sup> Section 51 *Racing and Wagering Western Australia Act 2003*.

<sup>730</sup> Section 52(3) *Racing and Wagering Western Australia Act 2003*.

<sup>731</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p79.

<sup>732</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p26.

<sup>733</sup> Submission No. 30 from Western Australian Trotting Association, 15 January 2010, p19; Submission No. 31 from Fremantle Harness Racing Club, 15 January 2010, p5.

<sup>734</sup> Mr Robert Morgan, President, WA TAB Agents' Association, *Transcript of Evidence*, 8 March 2010, p15.

<sup>735</sup> Mr Timothy Barnes, Director, Morley TAB Agency, *Transcript of Evidence*, 8 March 2010, p15.

<sup>736</sup> This refers to wagering Service Level as follows: SL1 (full service agency); SL2 (PubTAB/ClubTAB); and SL3 (self-service). As defined in RWWA Annual Report 2008, p32. Available at: [www.rwwa.com.au/home/annual-report-2008.pdf](http://www.rwwa.com.au/home/annual-report-2008.pdf) Accessed on 14 September 2010.

industry funding shortfalls and should not be considered in addition to other mechanisms if these are granted;<sup>737</sup>

- After careful consideration, the Committee has found no case for the expansion of virtual racing and/or Keno into TAB venues.

### **Finding 55**

Notwithstanding evidence received by the Committee (including Racing and Wagering Western Australia) supporting the expansion of virtual racing and/or Keno into TABs and licensed premises, the Committee finds no case for expansion.

### **Recommendation 32**

That virtual racing and Keno should not be expanded to TABs and licensed premises.

- With respect to expanding the wagering sales network the Committee considers that a sufficiently compelling business argument would be needed to inform a review of government policy in this regard. Of particular concern is the impact that such an expansion might have on the viability of existing TAB agencies. As such it would be appropriate for RWWA to mount a business case in this respect for consideration by government.

### **Finding 56**

Racing and Wagering Western Australia would need to prepare a strong case for government to support expansion of its wagering sales network into alternative locations such as newsagencies and popular retail areas. Any expansion would impact on existing TAB outlets.

- The Committee has not undertaken any investigation into the matter of electronic agents however agrees in principle with the notion of RWWA being able to offer its wagering services through this means. The Committee recognises that online wagering is an established part of the national gambling landscape and that removing restrictions from the RWWA Act to allow for electronic agents would certainly enable RWWA to compete more effectively in a national market.

<sup>737</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p38.

**Finding 57**

The principle of allowing Racing and Wagering Western Australia to offer wagering services through electronic agents is supported.

**Recommendation 33**

That Section 63 of the *Racing and Wagering Western Australia Act 2003* be amended to enable Racing and Wagering Western Australia to offer wagering services through electronic agents.

**(iii) Betting Exchange**

In 2008, the betting agency Betfair won a High Court challenge against the state of Western Australia. The state government had earlier amended the *Betting Control Act 1954* (WA) to prohibit the establishment and operation of a betting exchange<sup>738</sup> in WA and also prohibit any person in WA from making a bet through a betting exchange.<sup>739</sup> Betfair successfully challenged this position on the basis that it was unconstitutional. The High Court found that the WA legislation did indeed contravene s92 of the Constitution because it discriminated against interstate trade in a protectionist sense.<sup>740</sup> In 2009, the state government duly repealed provisions prohibiting betting through betting exchanges.<sup>741</sup>

In July 2010, Victoria's Gaming Minister announced that the successful licensee for the Victorian wagering licence (to be awarded in late 2010) will be permitted to establish and operate the only betting exchange based in Victoria.<sup>742</sup> Given that the legislative barrier to establishing a betting exchange in Western Australia has now been removed, RWWA has a similar option to establish a betting exchange should it wish to do so.<sup>743</sup> The sole existing betting exchange operator saw the possibility for a betting exchange and parimutuel betting to coexist and identified a need for

<sup>738</sup> A betting exchange (which Betfair operates from its base in Tasmania) allows customers to bet on opposing outcomes of racing or other events. In other words, unlike traditional forms of wagering (totalisator or bookmaker) it permits customers to 'back the loser'.

<sup>739</sup> Hon. M. McGowan, MLA, Minister for Racing and Gaming, Western Australia, Legislative Assembly, *Parliamentary Debates (Hansard)*, 21 June 2006, p4066.

<sup>740</sup> *Betfair Pty Limited v Western Australia* [2008] HCA 11 (27 March 2008).

<sup>741</sup> *Racing and Wagering Legislation Amendment Act 2009*.

<sup>742</sup> Hon. T. Robinson, MP, (Minister for Gaming (Victoria)), *Successful applicants invited to apply for wagering licence*, Media Statement, Government of Victoria, Melbourne, 29 July 2010.

<sup>743</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 13 August 2010, p15.

RWWA to diversify its wagering income.<sup>744</sup> Even so, RWWA identified only marginal benefit in having a licence for a betting exchange in the foreseeable future given that it requires great scale and the market for betting exchanges is still ‘niche’. According to RWWA, the totalisator market is dominant although there is increasing growth in the area of fixed odds betting. While RWWA considered that betting exchanges might become more relevant in the future, it is not currently a priority.<sup>745</sup>

#### **(iv) Credit betting**

RWWA has suggested that the RWWA Act<sup>746</sup> and *Betting Control Act 1954* should be amended to give RWWA the discretion to extend credit to account customers in the form of allowing settlement of wagering accounts for bets after the relevant racing or sporting events are finalised. RWWA argues that it should be given the same opportunity to match the level of service already offered by its competitors including corporate bookmakers.<sup>747</sup> RWWA makes the point however that credit betting would only be available on strict terms, for example for large and established clients who hold an account with RWWA. Further, RWWA would put in place the necessary due diligence and assume the commercial risk if bets are not repaid.<sup>748</sup>

Evidence received by the Committee was mixed with regard to whether credit betting should be permitted in Western Australia. Industry stakeholders such as WAROA supported the concept.<sup>749</sup> Similarly, HROAWA indicated that Western Australia is at a disadvantage because credit betting is not permitted.<sup>750</sup> The President of the WA TAB Agents’ Association was not personally in favour of introducing credit betting, and while he did not see a problem with very low amounts of credit, he considered credit betting too great a business risk for large sums as punters could easily move onto another agency without paying.<sup>751</sup> That said, as the operator of a TAB agency, Mr Timothy Barnes of the Morley TAB considered credit betting to be a risk that each individual TAB business operator should bear.<sup>752</sup> This view was shared by his co-proprietor who believed that having built a rapport with customers over many years, TAB agents would be in a good position to assess the risks and extend credit where appropriate.<sup>753</sup>

<sup>744</sup> Mr Greg Nichols, Managing Director Sporting Affairs, Betfair, *Briefing*, 16 April 2010.

<sup>745</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p46.

<sup>746</sup> Section 63(2)(b)(ii) of the RWWA Act currently prohibits the provision of credit by RWWA when accepting a wager.

<sup>747</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, pp79-80.

<sup>748</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, pp26-27.

<sup>749</sup> Submission No. 28 from Western Australian Racehorse Owners’ Association, 30 December 2009, p3.

<sup>750</sup> Mr Kevin Jeavons, President, Western Australian Harness Racing Owners’ Association, *Transcript of Evidence*, 7 May 2010, p21.

<sup>751</sup> Mr Robert Morgan, President, WA TAB Agents’ Association, *Transcript of Evidence*, 8 March 2010, p13.

<sup>752</sup> Mr Timothy Barnes, Director, Morley TAB Agency, *Transcript of Evidence*, 8 March 2010, p7.

<sup>753</sup> Mr Wayne Barnes, TAB Assistant, Morley TAB Agency, *Transcript of Evidence*, 8 March 2010, p7.

The Productivity Commission recently found that despite the commercial benefits associated with credit betting, the potential harms involved (specifically the ability for problem gamblers to inflict financial stress on themselves and their families) warranted strict regulation and monitoring. The Commission had particular concerns regarding the off-course provision of credit betting as benefits were less clearly defined than for on-course credit betting. While the Commission did not consider that the evidence of harm was great enough to require immediate prohibition, it recommended further investigation at a national level of the risks associated with credit betting and that:

*In the interim, advertising credit betting facilities should be prohibited, and credit betting should not be extended to TABs.*<sup>754</sup>

In response, the Commonwealth Government recognised that national leadership is required and has undertaken to work with State and Territory governments through the new Select Council on Gambling Reform to consider the Productivity Commission's final report.<sup>755</sup>

The Committee has not investigated the merits of credit betting in Western Australia but given the potential risks associated with credit betting, it believes that it is appropriate for this issue to be progressed through COAG and that in the interim, credit betting should not be offered by RWWA.

### **Finding 58**

The Committee received evidence that Racing and Wagering Western Australia should offer credit betting facilities. Credit betting is to be considered by the Council of Australian Governments.

Further to the credit argument, RWWA has also suggested that the RWWA Act be amended to permit the use of debit and credit cards. Currently customers can only 'top-up' wagering accounts using credit cards but cannot use cards to transact. RWWA again advised that it would assume the commercial risk and responsible wagering measures would apply. The latter refers to RWWA's self-regulatory mechanisms for managing problem gambling across its business.<sup>756</sup>

With respect to credit card gambling, the Productivity Commission report notes that the restrictions that exist on the use of credit cards or access to credit accounts through EFTPOS in gambling venues for gambling are deliberate. While most gamblers do not use credit to gamble, this is not true of problem gamblers.<sup>757</sup> As such, the Committee recognises the potential implications that allowing the use of credit cards for wagering may have for problem gambling in

<sup>754</sup> Productivity Commission, *Gambling*, Report No. 50, Australian Government, Canberra, 26 February 2010, pp16.54-16.58.

<sup>755</sup> Senator the Hon. N. Sherry, (Assistant Treasurer), *Productivity Commission Report into Gambling*, Media Statement, Government of Australia, Canberra, 23 June 2010.

<sup>756</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, pp27-28.

<sup>757</sup> Productivity Commission, *Gambling*, Report No. 50, Australian Government, Canberra, 26 February 2010, ppG.23-G.24.

WA. While RWWA has developed and implements a Responsible Wagering Code of Practice,<sup>758</sup> the Committee has not evaluated the strength of this device in relation to proposed credit card gambling. At a time when tougher measures are being advocated nationally to minimise the harm caused by problem gambling, the Committee is not convinced that existing mechanisms are sufficiently capable of mitigating the potential risks of credit card gambling.

### **Finding 59**

The use of debit and/or credit cards for wagering transactions cannot be supported.

#### **(v) Other mechanisms**

In terms of other mechanisms that might be available to RWWA to boost its wagering revenues, Mr Robert Howat of the WA Bookmakers' Association highlighted the important contribution made by bookmakers:

*A huge amount of the money they get is, obviously, from the TAB business. We are very conscious of that and supportive of the TAB, because on course we are their biggest client. We trap money coming from everywhere, but we are limited to what we can do so we repatriate a lot of that money onto on-course tote. The more money that can come through us gets back onto the on-course tote.*<sup>759</sup>

Although only a minor component of RWWA's revenues, the interrelationship between bookmakers and the on-course tote<sup>760</sup> led Mr Howat to emphasise the importance of fostering on-course wagering. In this regard, it was suggested that facilities for on-course customers need to be improved<sup>761</sup> as without on-course patrons, 'the gambling cycle that makes the entire industry exist would falter'.<sup>762</sup>

From a racing club's perspective, the Bunbury Trotting Club also recognised the importance of improving the on-course experience since the club also benefits from returns.<sup>763</sup> The club indicated however that financial assistance from RWWA to improve on-course facilities was not forthcoming due to financial constraints.<sup>764</sup> The Committee acknowledges the important contribution made to overall wagering revenues by on-course activities and believes it is

<sup>758</sup> Submission No. 7C from Racing and Wagering Western Australia, 31 May 2010, p2.

<sup>759</sup> Mr Robert Howat, President, WA Bookmakers' Association, *Transcript of Evidence*, 8 March 2010, p3.

<sup>760</sup> According to RWWA, most racing clubs partner with the TAB to provide on-course betting services and in return for using betting services and pools, clubs pay a fee to the TAB which is determined by commercial negotiation between the club and the TAB (Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p25).

<sup>761</sup> Mr Robert Howat, President, WA Bookmakers' Association, *Transcript of Evidence*, 8 March 2010, pp3-4.

<sup>762</sup> Submission No. 37 from Western Australian Bookmakers' Association (Inc), 25 February 2010, p2.

<sup>763</sup> Mr Kenneth Godley, President, Bunbury Trotting Club, *Transcript of Evidence*, 6 April 2010, p5.

<sup>764</sup> Ms Julie Caldwell, Manager, Bunbury Trotting Club, *Transcript of Evidence*, 6 April 2010, p6.

appropriate for this sector to be fostered. Investment in on-course facilities speaks to the larger issue of infrastructure funding however, which has been examined in detail in Chapter 2.7(c).

Another factor critical to maintaining and growing wagering revenues relates to the existing wagering sales network. As at 31 July 2009 RWWA's retail TAB network comprised 92 dedicated full-time shops, 188 PubTABs and 31 self-service outlets.<sup>765</sup> Mechanisms for optimising the effectiveness of the retail wagering network are explored separately in Chapter 3.8.

## 2.10 Structure and ownership of RWWA

RWWA was established as an integrated statutory authority. Its formation in 2003 represented a restructuring of the racing industry to merge the principal club functions of the WA Turf Club, WATA and WAGRA with the off-course betting activities of the TAB to create a single controlling entity.<sup>766</sup> The structure of RWWA is unique in Australia and while states like Queensland have recently adopted a single control body for all three racing codes,<sup>767</sup> most states have privatised their TAB businesses. Tasmania and WA remain the only jurisdictions in Australia where the major totalisator operator is government owned.<sup>768</sup>

### (a) Views on the structure and ownership of RWWA

The Committee received opposing views from industry participants regarding the structure of RWWA. Several stakeholders supported splitting RWWA into its racing and wagering components, with some going further to suggest that the TAB should be privatised. The main comments received by the Committee in this regard can be summarised as follows:

- RWWA's wagering operation should be established as a separate entity;<sup>769</sup>
- RWWA's focus is skewed towards wagering at the expense of racing and a study should be done to see if there is any benefit to be derived from separating racing and wagering;<sup>770</sup>
- RWWA could be disbanded and the TAB sold in order to raise funds for the industry;<sup>771</sup> and

<sup>765</sup> Racing and Wagering Western Australia, *Annual Report 2009*, 12 October 2009, p25. Available at: [www.rwwa.com.au/home/rwwa-annual-report-2009.pdf](http://www.rwwa.com.au/home/rwwa-annual-report-2009.pdf) Accessed on 16 September 2010.

<sup>766</sup> Hon. Nick Griffiths, MLC, Minister for Racing and Gaming, Western Australia, Legislative Council, *Parliamentary Debates* (Hansard), 9 May 2003, p7412.

<sup>767</sup> Racing Queensland Limited commenced on 1 July 2010 (Racing Queensland Limited, 'About RQL', 2010. Available at: [www.racingqueensland.com.au/about-rql.aspx](http://www.racingqueensland.com.au/about-rql.aspx) Accessed on 28 September 2010.

<sup>768</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p99.

<sup>769</sup> Submission No. 11 from Best Bookies Price Pty Ltd, 30 November 2009, p11.

<sup>770</sup> Mr David Wrensted, Manager, Geraldton Turf Club, *Transcript of Evidence*, 29 March 2010, p10.

<sup>771</sup> Submission No. 16 from Morley TAB Agents, 27 November 2009, p5.

- It would be appropriate for the industry to be restructured to remove government involvement.<sup>772</sup>

The majority view however supported the retention of wagering operations by RWWA as summarised in the following comments put to the Committee:

- The TAB should remain a part of RWWA and should not be privatised.<sup>773</sup> In South Australia privatisation has not been successful;<sup>774</sup>
- To safeguard the source of racing industry funding, it is essential that the TAB is not privatised;<sup>775</sup>
- The continuation of RWWA's retail licence exclusivity is critical to retail TAB agents. A vibrant retail wagering business underpins the prosperity of the racing industry;<sup>776</sup>
- Having the state government involved brings accountability back to RWWA. This accountability will be lost with privatisation;<sup>777</sup>
- The Western Australian model where RWWA has responsibility for administering the three racing codes and the TAB is the envy of other states;<sup>778</sup>
- The Western Australia model which has maintained ownership of the wagering arm has kept the racing industry quite strong and set WA apart from the other states;<sup>779</sup>
- For RWWA to retain ownership of the off-course wagering vehicle is even more fundamental to the future of the industry today than it was before;<sup>780</sup>
- The racing industry is funded by returns from the TAB. If the TAB is ever privatised it will be responsible to shareholders and the racing industry will no longer get the same returns from RWWA.<sup>781</sup>

A number of other comments reinforced the notion that privatisation of the TAB would not benefit the racing industry. Mr Barry Sargeant of DRGL supported retention of the current model:

*The other thing is, once you introduce a private sector model—if I were a CEO or a managing director of a company, I would know full well where my loyalties lie; that is,*

<sup>772</sup> Hon. Nick Griffiths, Former Minister for Racing and Gaming, *Transcript of Evidence*, 19 February 2010, pp10-11.

<sup>773</sup> Submission No. 14 from WA Greyhound Racing Association, 30 November 2009, p5.

<sup>774</sup> Submission No. 10 from Community and Public Sector Union Civil Service Association of WA, 30 November 2009, p3.

<sup>775</sup> Submission No. 30 from WA Trotting Association, 15 January 2010, p26.

<sup>776</sup> Submission No. 8 from WA TAB Agents' Association, 30 November 2009, p2.

<sup>777</sup> Mr Jonathan Menzel, Manager, Narrogin Racing, *Transcript of Evidence*, 3 May 2010, p13.

<sup>778</sup> Submission No. 28 from Western Australian Racehorse Owners' Association, 30 December 2009, p2.

<sup>779</sup> Mr David Prance, Immediate Past Chairman, Kalgoorlie-Boulder Racing Club, *Transcript of Evidence*, 19 March 2010, p2.

<sup>780</sup> Submission No. 35 from Perth Racing, 22 December 2010, p2.

<sup>781</sup> Mr Bruce Hyde, President, WA Racing Trainers' Association, *Transcript of Evidence*, 26 February 2010, p6.

*with the shareholders. I think that is what creates some of the tension. I believe that model has served us well.*<sup>782</sup>

Mr Gray Williamson of WABBA conveyed an industry perspective:

*At the end of the day, in the concept of RWWA and the TAB as an integrated body, I would hate to see the TAB privatised. I think that would be the start of the death knell of racing for us. I think the way it is structured now is really good.*<sup>783</sup>

RWWA's own view is that it should continue operating under its current model,<sup>784</sup> that of a statutory authority with roles of governance for all three racing codes and ownership of the principal off-course TAB business in Western Australia.<sup>785</sup>

## **(b) The structure and ownership of RWWA going forward**

From the Committee's observations of systems of racing administration in Queensland and Victoria, it was evident that industry stakeholders in these states had equally divergent views concerning the merits of privatising the TAB.

In 1994 the Victorian state government privatised the TAB via a public float and granted a wagering licence and gaming licence to Tabcorp for a period of 18 years.<sup>786</sup> The public float yielded approximately \$700m for consolidated revenue.<sup>787</sup> In order to meet the condition for the licences, Tabcorp formed an unincorporated joint venture with the Victorian racing industry. The funding arrangement agreed at the time requires allocation of joint venture profits, marketing fees and 25 per cent of the product supply fees to the three racing codes based on off-course wagering market share; and racing program fees and 75 per cent of the product supply fees allocated on a fixed percentage basis to the racing codes.<sup>788</sup> The Queensland TAB was privatised in 1999 and in a similar situation to Victoria, UniTAB as the holder of the wagering licences entered into an agreement with the Queensland racing industry setting out the allocation of profits to the racing codes.

<sup>782</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 19 February 2010, pp3-4.

<sup>783</sup> Mr Gray Williamson, President, WA Bloodhorse Breeders' Association, *Transcript of Evidence*, 26 February 2010, p12.

<sup>784</sup> Mr Ross Bowe, Chairman, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p2.

<sup>785</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p56.

<sup>786</sup> Victoria Department of Justice, Office of Gaming and Racing, *Wagering Licence Arrangements Post-2012 Issues Paper*, March 2006, p7 and *Funding Arrangements for the Racing Industry Post-2012 Issues Paper*, March 2006, p7. Available at: [www.gamblinglicences.vic.gov.au/gambling-licences-review/discussion-papers-and-submissions/2006-Gambling-Licences-Review-Issues-Papers.html](http://www.gamblinglicences.vic.gov.au/gambling-licences-review/discussion-papers-and-submissions/2006-Gambling-Licences-Review-Issues-Papers.html) Accessed on 28 January 2010.

<sup>787</sup> Ms Kerri Hereward, Principal Policy Officer, Victoria Department of Justice, Office of Gaming and Racing, *Briefing*, 16 April 2010.

<sup>788</sup> Victoria Department of Justice, Office of Gaming and Racing, *Funding Arrangements for the Racing Industry Post-2012 Issues Paper*, March 2006, p8. Available at: [www.gamblinglicences.vic.gov.au/gambling-licences-review/discussion-papers-and-submissions/2006-Gambling-Licences-Review-Issues-Papers.html](http://www.gamblinglicences.vic.gov.au/gambling-licences-review/discussion-papers-and-submissions/2006-Gambling-Licences-Review-Issues-Papers.html) Accessed on 28 January 2010.

Interstate stakeholders pointed to independence from government as the major advantage of privatising the TAB. Some of the main themes raised during briefings were as follows:

- Privatisation has worked well for Victoria and it is better for governments not to be involved in wagering operations;<sup>789</sup> and
- It is appropriate for the government and wagering operator to operate at arm's length as it enables the wagering operator to get on with its business.<sup>790</sup>

Conversely, critics of privatisation highlighted the commercial interests of the privatised wagering operator as being unfavourable for the racing industry as reflected in these general discussions:

- A privatised model means that the wagering operator needs to take care of its shareholders so perhaps a government owned model is better where there is greater responsibility for the industry;<sup>791</sup>
- Overall, privatisation of the Victorian TAB has not benefited the industry. Under the joint venture agreement, 75% of revenues goes into private hands (Tabcorp shareholders) and not enough is going back to owners to sustain the industry;<sup>792</sup> and
- Privatisation of the TAB was inevitable in Victoria<sup>793</sup> and occurred because the state government needed the funds.<sup>794</sup>

An interesting point was raised by (then) Queensland Racing Limited, which suggested that when the Queensland TAB was privatised there was not much competition in the wagering market. The situation has obviously changed and it is unlikely that a new exclusive wagering license would cost as much now as it did in 1998.<sup>795</sup>

The Committee recognises that the integrated structure of RWWA (in terms of a single control body for the three codes and ownership of the TAB) is largely supported by industry participants. Most comments however relate to ownership of the TAB and whether this should remain government owned or whether wagering operations should be privatised. A compelling argument, either among industry participants in WA or interstate, is generally absent with respect to the benefits of privatisation. Furthermore, the Committee has already established the public nature of

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<sup>789</sup> Mr John Anderson, Chief Executive, Harness Racing Victoria, *Briefing*, 14 April 2010.

<sup>790</sup> Mr David Ford, Deputy Director General, Department of Employment, Economic Development and Innovation Queensland, *Briefing*, 12 April 2010.

<sup>791</sup> Mr Darren Beavis, General Manager, Greyhounds Queensland Limited, *Briefing*, 13 April 2010.

<sup>792</sup> Mr Rob Hines, Chief Executive Officer, Racing Victoria Limited, *Briefing*, 16 April 2010.

<sup>793</sup> Mr Roger Joseph, Manager Racing Administration, Australian Trainers' Association (Victoria), *Briefing*, 14 April 2010.

<sup>794</sup> Mr John Stephens, Chief Executive Officer, Greyhound Racing Victoria, *Briefing*, 14 April 2010.

<sup>795</sup> Mr Bob Bentley, Chairman, and Mr Malcolm Tuttle, Chief Operations Manager, Queensland Racing Limited, *Briefing*, 21 June 2010.

funds raised by RWWA<sup>796</sup> and consequently, the widespread support among industry participants for the government to retain an involvement for accountability purposes.<sup>797</sup>

### **Finding 60**

While privatisation of the TAB has occurred in most other states, there is no long-term benefit for the industry in Western Australia. There is extensive industry support for the existing structure and wagering ownership arrangements under Racing and Wagering Western Australia to continue.

In terms of different ownership models, RWWA commissioned a study in 2009 which benchmarked its performance against various alternative models. The study examined various structure and ownership scenarios including:

- maintaining the status quo;
- an alternative industry ownership model which would involve transferring the wagering business and ownership of racing governance functions to the racing industry with wagering governance functions transferred to the state government; and
- an alternative private ownership model which would involve selling the wagering business, transferring racing governance functions to the racing industry and wagering governance functions to the state government.

The study also considered variations of the private ownership scenario comprising different taxation arrangements and funding arrangements for the racing industry. Significantly, the study concluded that the current structure of RWWA as an integrated statutory authority performed at least as well as the other models. Financial outcomes for the racing industry and the state government under the existing RWWA structure were found to be ‘comparable with the outcomes that might be expected under industry ownership or private ownership’.<sup>798</sup> RWWA went further to demonstrate that under the existing structure and ownership model, the Western Australian racing industry has outperformed other jurisdictions with privatised wagering businesses in the context of racing activity and rates of increase in stake monies.<sup>799</sup>

The Committee is mindful that the structure and ownership of RWWA may be examined as part of a broader review into governance arrangements of GTEs. As indicated in Chapter 2.2, the state government’s Economic Audit Committee Final Report recommended a review of GTEs to ensure that the governance and ownership of each business is appropriate for the delivery of

<sup>796</sup> Refer to Chapter 2.8 (Taxation).

<sup>797</sup> Refer to Chapter 2.4 (Accountability).

<sup>798</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, pp56-57.

<sup>799</sup> Ibid., pp58-59.

government's policy objectives.<sup>800</sup> This is particularly significant for RWWA given that the EAC identified that the existing model arose from a historical policy need to fund the development of the state's racing industry but challenges to wagering operations (i.e. corporate bookmakers and the expansion of online wagering) impact on the commercial viability of the business in the long term. The EAC report states that a change in the 'extent and nature of competition in markets over time, and to Government policy objectives, can alter the capacity or need for a business to operate independently' thus making it important for government to revisit the issue as to whether its ownership of an entity and associated governance model is still appropriate.<sup>801</sup>

Although the governance and ownership of RWWA may be examined as part of a broader state government review in the future, the Committee is persuaded by the weight of evidence supporting the existing structure and ownership of RWWA under which the one body operates both the wagering arm and racing administration. As such the Committee recommends that RWWA continues to operate in its present form.

#### **Recommendation 34**

That Racing and Wagering Western Australia continues to operate as a statutory authority with roles of governance for all three racing codes and ownership of the principal off-course TAB business in Western Australia.

## **2.11 Conclusions**

This chapter has examined the effectiveness of various operations of RWWA. As detailed above, it is evident that the majority of industry participants support the whole-of-industry governance model that RWWA represents and believe that RWWA's establishment has overall benefited the industry and is an improvement on the principal clubs model that existed before 2003. In terms of the question posed at the start of this chapter as to whether RWWA has achieved the desired outcomes, overall it is fair to say that it has. While industry participants consider the continuation of the operations of RWWA to be necessary, many highlighted the need for refinements as encapsulated in the following statement:

*In assessing the achievements of RWWA to date, one would have to say that whilst there have been some disappointments there is an overwhelming argument to suggest that the model is superior to our eastern states counterparts and from a broad industry perspective it needs fine tuning not surgery.*<sup>802</sup>

<sup>800</sup> Refer to Recommendation 30 of the Economic Audit Committee Final Report.

<sup>801</sup> Economic Audit Committee, Final Report October 2009, Government of Western Australia, Perth, 2009, pp119,121-122.

<sup>802</sup> Submission No. 35 from Perth Racing, 28 January 2010, p2.

From its investigations, the Committee identified mechanisms to improve the effectiveness of RWWA's operations including: changes to governance practices; accountability and transparency; consultation and appeals practices; a recommended reduction in the rates of wagering tax to assist RWWA to compete more effectively; and the establishment of a RWWA-administered racing industry infrastructure fund. The Committee notes a number of positive developments that commenced during the course of this Inquiry, which will also contribute to the greater effectiveness of RWWA's operations in the form of government grant funding to assist with racing industry infrastructure provision, and commitments by RWWA to improve consultation processes.

**Finding 61**

Overall, the operations of Racing and Wagering Western Australia have been effective but the mechanisms identified here will contribute to greater effectiveness.

**Finding 62**

It is essential for the Western Australian racing industry that the operations of Racing and Wagering Western Australia continue.

The Committee is mindful that some industry participants suggested another review of the RWWA Act in the future.<sup>803</sup> Section 122 of the RWWA Act provides only for the present review of the Act by a Parliamentary Joint Standing Committee appointed for that purpose. The Committee considers that the timing of any future review should be determined by the Minister.

**Finding 63**

Another review of the *Racing and Wagering Western Australia Act 2003* may be required in the future with any such timing to be determined by the responsible Minister.

<sup>803</sup> Submission No. 33 from Albany Racing Club, 18 January 2010, p4 (suggested a review after 3 years); Submission No. 21 from Broome Turf Club, 14 December 2009, p4 (suggested a review after 5 years); Submission No. 41 from Country Racing Association, 16 April 2010, p11 (suggested a review after 5 years).

## CHAPTER 3 OTHER MATTERS RELEVANT TO THE OPERATION AND EFFECTIVENESS OF THE ACTS

### 3.1 Introduction

This Chapter focuses on the Inquiry's third term of reference and examines miscellaneous issues and suggested mechanisms for enhancing the operation and effectiveness of the Acts.

### 3.2 Ratings/handicapping system for horse racing codes

The prescribed responsibility within RWWA for handicapping rests with the Integrity Assurance Committee.<sup>804</sup> Through various hearings and submissions, the Committee has become aware that a number of industry participants have concerns over the ratings/handicapping systems being used in Western Australia by both the thoroughbred and harness racing codes. These views are summarised here.

#### (a) Stakeholder views on ratings/handicapping

It is noteworthy that despite the variance of concerns, and the different issues experienced by each horse racing code, a general consensus exists amongst industry participants that the ratings/handicapping systems should be reviewed.<sup>805</sup>

The main criticisms in relation to the thoroughbred code can be summarised as follows:

1. The national template adopted by RWWA does not serve Western Australia well. It reduces the size of the fields and requires an unnecessary handicapping department to run it. WA should have a stand alone system that is a pure ratings-based system. It would suit the state better and would only require one person to run it.<sup>806</sup>
2. The system discriminates against country races:
  - a. It does not account for the differences in the grade of a field between country and metropolitan races of the same class. A class *x* race in Perth is invariably going to be of a higher grade than the same class race in the country—yet a win in the country can be given the same rating penalty as a win in the city despite the lower grade field. As such, a provincial win can essentially become a penalty if that horse next races in the city and is given top weight.<sup>807</sup>

<sup>804</sup> Section 49 *Racing and Wagering Western Australia Act 2003*.

<sup>805</sup> Mr Geoffrey Fahl, Chairman, Carnarvon Race Club, *Transcript of Evidence*, 16 May 2010, p12.

<sup>806</sup> Mr Edward (Ted) van Heemst, Chairman, Perth Racing, *Transcript of Evidence*, 26 February 2010, p3.

<sup>807</sup> Mr David Wrensted, Manager, Geraldton Turf Club, *Transcript of Evidence*, 29 March 2010, p9.

- b. The lack of high rating races in the country forces horses of a certain quality to race in Perth, which (unless it is a major race) is a heavy financial impost on owners and is detrimental to fostering a racing industry because local spectators and future participants never get to see the best local horses race.<sup>808</sup>
  - c. The Ratings Based Handicapping (RBH) system is being misused between different geographical regions without adequate recognition from RWWA as to why this is occurring.<sup>809</sup>
3. The system is too complicated—and only benefits those who understand it properly.<sup>810</sup>

The main criticisms with respect to the harness racing code can be summarised as follows:

1. Country races are disadvantaged because the stake money varies dramatically regardless of the penalty received to the owner and the trainer of the horse—in some cases a horse can be racing for more than double the stake money for the same penalty in the city compared to the country. Stakeholders argue that the only fair solution is to make it even across the board, where, regardless of where the horse is racing, if it is going to lose a penalty worth  $x$  amount, the reward from losing that penalty by winning the race is the same amount.<sup>811</sup>
2. Currently, a horse does not have to qualify to run in some races—reducing the overall quality of the fields. If a system was introduced whereby a horse had to qualify before it was able to race at Gloucester Park, the quality of the fields would become more consistent, more competitive and would produce a better quality racing product.<sup>812</sup>
3. The handicapping system allows higher class horses to be able to drop back into lower class fields, which, because there is not necessarily any hierarchical stake money, there is no incentive for horses to go into a better class race.<sup>813</sup>

## **(b) Mechanisms to improve ratings/handicapping in WA**

RWWA contends that handicapping is a very complex issue and different approaches have pluses and minuses.<sup>814</sup> With regard to thoroughbred handicapping, RWWA agreed that there is a disparity in how the handicapping system applies to a country race versus a city race. Mr Robert Pearson of RWWA noted that it is currently investigating the possibility of a separate system for the country whereby a horse will receive an outer metropolitan rating for those races in the country—and a metropolitan rating for when that same horse races in the city. RWWA has

<sup>808</sup> Ibid.

<sup>809</sup> Mr David Prance, Immediate Past Chairman, Kalgoorlie-Boulder Racing Club, *Transcript of Evidence*, 19 March 2010, p13.

<sup>810</sup> Mr Bruce Hyde, Trainer, Western Australian Racing Trainers Association, *Transcript of Evidence*, 26 February 2010, p10.

<sup>811</sup> Mr Brett Snell, Owner-Breeder-Trainer-Reinsman, Golden Mile Turf Club, *Transcript of Evidence*, 12 March 2010, p2; Mr Victor Jury, Trainer, Albany Harness Racing Club, 12 March 2010, p2.

<sup>812</sup> Mr Mark Roberts, Vice President, Northam Harness Racing Club, *Transcript of Evidence*, 26 March 2010, p12.

<sup>813</sup> Ibid., p12.

<sup>814</sup> Mr Robert Pearson, Director, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p40.

suggested that it will raise the issue with the Thoroughbred Racing Consultative Group (TRGC) for comment and to explore what improvements can be made.

The Committee concurs that RWWA should engage in consultation about ratings/handicapping with both the TRCG and the Harness Racing Consultative Group (HRCG) but acknowledges that this is a multifaceted issue and one that falls largely outside the scope of this Inquiry.<sup>815</sup> Nonetheless it notes that the perceived inequities between city and country racing, and the difficulties that some clubs like Perth Racing experience in filling competitive fields, is indicative of failings within the handicapping systems in use and as such, these systems should be reviewed.

The Committee is satisfied with RWWA's recognition of the handicapping issues that exist in the industry—and its current efforts to examine means by which some of these issues may be resolved. The Committee recommends that further review into these handicapping systems is carried out in consultation with the Thoroughbred and Harness Racing Consultative Groups, with a view to producing balanced and competitive race fields and to remedy the inequities between city, provincial and country racing for thoroughbred and harness codes.

### **Recommendation 35**

That Racing and Wagering Western Australia reviews, in consultation with the Thoroughbred and Harness Racing Consultative Groups, the ratings/handicapping systems for each code, with a view to producing balanced and competitive race fields; and to address the perceived handicapping inequities between city, provincial and country racing.

<sup>815</sup> During the course of this Inquiry the Committee reviewed the system that is currently being used in NSW as an example of a stand alone thoroughbred handicapping model that emerged as a result of an intensive industry review conducted by the Board of Racing NSW. The model, called the Benchmark Programming and Handicapping (BPaH) system, was launched in 2009. The Committee has since learned that this system is presently under review by the Board of Racing NSW and, as a consequence, acknowledges that it would be inappropriate to make a finding on the suitability of the NSW system.

### 3.3 Liquor licensing

Although liquor licensing is outside the operations of the RWWA Act, the Committee received evidence of the impact that it is having on the racing industry. Indirectly therefore, the matter is impacting on the functioning and viability of race clubs, with the major issues summarised as follows:

- Most race clubs believed they had been subjected to unreasonable and in most cases, unnecessary requirements for security;<sup>816</sup>
- Employing security personnel represents a major cost impost on clubs<sup>817</sup> and uses up limited funds that could be better applied to funding infrastructure and/or stakes;<sup>818</sup>
- Clubs must sometimes reduce the number of patrons attending events or turn people away at the gate;<sup>819</sup>
- Enforcement of liquor licensing needs to be improved as there is anecdotal evidence of on-course staff feeling intimidated or the victims of perceived entrapment;<sup>820</sup>
- Relationships with regional police are generally positive<sup>821</sup> and clubs receive support with regard to liquor licensing applications and/or attendance of police officers on race days;<sup>822</sup> and
- Metropolitan clubs reported that liquor licensing restrictions had impacted significantly on events such as the Perth Cup and New Year's Eve at Gloucester Park.<sup>823</sup>

<sup>816</sup> Mr Tony Crowhurst, Chairman, Dongara-Irwin Race Club, *Transcript of Evidence*, 29 March 2010, pp8-9; Mr Alan Smith, Secretary/Treasurer, Pingrup Race Club, *Transcript of Evidence*, 3 May 2010, p7; Mr Geoff Fahl, Chairman/Treasurer, Carnarvon Race Club, *Transcript of Evidence*, 16 May 2010, p3; Mr Robert Pimm, Committee Member, Collie Race Club, *Transcript of Evidence*, 6 April 2010, p10; Mr Edward (Ted) van Heemst, Chairman, Perth Racing, *Transcript of Evidence*, 26 February 2010, pp17-18.

<sup>817</sup> Mrs Jan Glasson, Racing Manager, Kalgoorlie-Boulder Racing Club, *Transcript of Evidence*, 19 March 2010, p7; Mr Tony Crowhurst, Chairman, Dongara-Irwin Race Club, *Transcript of Evidence*, 29 March 2010, p9 (the club spends \$15,000-\$20,000 on security); Mr Maxwell (Dixie) Solly, President, Country Racing Association, *Transcript of Evidence*, 7 May 2010, p2 (Port Hedland Turf Club paid \$60,000 for security in 2009); Mr Paul Rossiter, Manager, Bunbury Turf Club, *Transcript of Evidence*, 7 May 2010, p9 (Bunbury Turf Club paid \$60,000 for security for the 2010 Bunbury Cup); Mr Brett Smith, Committee Member, Junction Race Club, *Transcript of Evidence*, 16 May 2010, p8 (\$4,800 security costs in 2009).

<sup>818</sup> Mr Robert Pimm, Committee Member, Collie Race Club, *Transcript of Evidence*, 6 April 2010, p10.

<sup>819</sup> Mr Edward (Ted) van Heemst, Chairman, Perth Racing, *Transcript of Evidence*, 26 February 2010, p18; Mr Paul Rossiter, Manager, Bunbury Turf Club, *Transcript of Evidence*, 7 May 2010, p11.

<sup>820</sup> Mr Edward (Ted) van Heemst, Chairman, Perth Racing, *Transcript of Evidence*, 26 February 2010, p18; Mr Maxwell (Dixie) Solly, President, Country Racing Association, *Transcript of Evidence*, 7 May 2010, p3; Mr Brett Smith, Committee Member, Junction Race Club, *Transcript of Evidence*, 16 May 2010, p9.

<sup>821</sup> Although it should be noted that the WA Trotting Association and Kalgoorlie Boulder Racing Club indicated that it was police from the liquor enforcement unit who were unnecessarily strict (Mr Rob Bovell, Chief Executive, WA Trotting Association, *Transcript of Evidence*, 26 February 2010, p17; Mrs Jan Glasson, Racing Manager, Kalgoorlie-Boulder Racing Club, *Transcript of Evidence*, 19 March 2010, p8).

<sup>822</sup> Mr Robert Pimm, Committee Member, Collie Race Club, *Transcript of Evidence*, 6 April 2010, p9; Mr Tony Crowhurst, Chairman, Dongara-Irwin Race Club, *Transcript of Evidence*, 29 March 2010, p9; Mr Robert Newton, Vice President, Mingenew Turf Club, *Transcript of Evidence*, 29 March 2010, p9; Mr Paul Rossiter, Manager, Bunbury Turf Club, *Transcript of Evidence*, 7 May 2010, p11.

The cost impost on clubs with respect to the provision of security is not the only issue as evidenced by media reports which indicate that liquor infringements also constitute a significant spend for clubs:

- WA Trotting Association fined \$46,000 in 2007 and \$26,000 in 2008;<sup>824</sup>
- Port Hedland Turf Club fined \$30,000 following the Port Hedland Cup 2009;
- Broome Turf Club required to pay 4 x \$2,000 fines following the Broome Cup 2009;<sup>825</sup>
- Kalgoorlie Boulder Race Club required to pay 5 x \$1,000 fines in 2009 for underage drinking at event.<sup>826</sup>

The sale, supply and consumption of alcohol in Western Australia is regulated by the *Liquor Control Act 1988* and administered by the Department of Racing, Gaming and Liquor (DRGL). Under the Act, a licence must be sought with respect to the sale and supply of liquor, the terms of which must be followed<sup>827</sup> or penalties apply. The Act provides discretion to the 'licensing authority' (DRGL) to impose conditions in relation to any licence or permit, including conditions 'which it considers to be in the public interest or which it considers desirable' in order to, for example, 'ensure public order and safety, particularly where circumstances or events are expected to attract large numbers of persons to the premises or to an area adjacent to the premises'.<sup>828</sup>

DRGL has issued a number of policies to provide information on liquor licensing, including matters considered as part of the licensing process. In evidence received by the Committee, numerous clubs cited a ratio, specifically that two security personnel are required for the first 100 patrons with a further requirement for one security guard for each additional 100 patrons. This ratio does indeed appear in a DRGL policy,<sup>829</sup> however, according to Mr Barry Sargeant, Director General of DRGL, the ratio is incorrectly cited:

*Under the act, the police, health department et cetera have the right to intervene and comment on liquor licence applications. Frankly, for any event that involves a big number of people, I am guided very much by the police ... In relation to late night trading venues in Northbridge we have a policy saying that for the first 100 we need two security people and we need one per 100 after that. We did have some referencing some time ago to the ratio, saying you might want two per 100 for casual licences. But I took that out because the police were saying, "That's it; that's law." It is not law. The issue is: a policy is a policy; it is not in the Liquor Control Act; it is not in a regulation ... There is no carte*

<sup>823</sup> Mr John Burt, President, Western Australian Trotting Association, *Transcript of Evidence*, 26 February 2010, p17; Mr Edward (Ted) van Heemst, Chairman, Perth Racing, *Transcript of Evidence*, 26 February 2010, p18.

<sup>824</sup> B. Thomas, 'Costs, liquor curbs snuff out Gloucester Park year-end fireworks', *The West Australian*, 24 February 2009, p9.

<sup>825</sup> B. Spencer, 'Liquor fines threaten to topple bush racing clubs', *The West Australian*, 21 November 2009, p9.

<sup>826</sup> Mrs Jan Glasson, Racing Manager, Kalgoorlie-Boulder Racing Club, *Transcript of Evidence*, 19 March 2010, p9.

<sup>827</sup> Section 31(3) *Liquor Control Act 1988*.

<sup>828</sup> Section 64(1) and Section 64(3)(d) *Liquor Control Act 1988*.

<sup>829</sup> Department of Racing, Gaming and Liquor, *Policy: Security at licensed premises*, as amended 28 July 2009, p1. Available at: [www.rgl.wa.gov.au/ResourceFiles/Policies/Security\\_At\\_Licensed\\_Premises.pdf](http://www.rgl.wa.gov.au/ResourceFiles/Policies/Security_At_Licensed_Premises.pdf) Accessed on 27 May 2010.

*blanche policy among security policies that are to be involved. The police come in and negotiate with individuals. It is a matter of the relationship those clubs have with their police office.*<sup>830</sup>

Mr Sargeant acknowledged that confusion exists in the racing industry regarding security requirements and undertook to issue a notice to clarify the situation.<sup>831</sup> A notice was indeed sent to race clubs in August 2010 confirming that the DRGL occasional licence policy<sup>832</sup> does not specify a set requirement for numbers of security personnel and that each occasional licence application is considered on its merits. Events considered high risk will generally be required to provide greater security and the WA Police will ‘generally determine the level of security it believes is necessary to effectively manage events’. As such, clubs were reminded to consult with local police and local government prior to lodging an application for a liquor licence in order to negotiate security requirements.<sup>833</sup> The Kalgoorlie-Boulder Racing Club is an example of a successfully negotiated outcome whereby the club (although in a different licensing category to country/community clubs) successfully negotiated a reduction in the number of required security personnel in 2009.<sup>834</sup>

It is the Committee’s opinion that while race courses are considered to be licensed premises, they do not function in the same way as licensed premises such as nightclubs or hotels and therefore should not be subject to the same policy requirements. Most clubs promote their race days as social/family events and for many of the people attending race courses this does not involve alcohol consumption. For this reason it is not appropriate for DRGL to have a fixed policy on numbers of security personnel in relation to requirements for race days and the Committee is satisfied that the Department has sought to clarify this issue with race clubs. It is clear however that the WA Police need to disseminate the same information to its officers. It is also important for race clubs to negotiate with local police regarding security requirements prior to lodging a liquor licensing application for events.

In another positive development, the Committee understands that Clubs WA has approached RWWA with a view to assisting race clubs with their preparation of plans by using an Events Management Template Plan, which has been approved in principle by the WA Police and DRGL.<sup>835</sup> This is a worthwhile initiative and is supported.

<sup>830</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 13 August 2010, p16.

<sup>831</sup> *Ibid.*, p17.

<sup>832</sup> This category of licence would in the most part apply to country and community racing clubs.

<sup>833</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, letter, 24 August 2010.

<sup>834</sup> According to the Kalgoorlie Boulder Racing Club, the ratio of security personnel to patrons was increased from 1 per 100 to 1 per 120 for the tentland area in 2009 (Mrs Jan Glasson, Racing Manager, Kalgoorlie-Boulder Racing Club, *Transcript of Evidence*, 19 March 2010, p8).

<sup>835</sup> Thoroughbred Racing Consultative Group, Minutes, 31 August 2010, p4. Available at: [www.rwwa.com.au/home/TRCG\\_Minutes\\_20100831.pdf](http://www.rwwa.com.au/home/TRCG_Minutes_20100831.pdf) Accessed on 10 September 2010.

**Finding 64**

Past practices with regard to liquor licensing enforcement have impacted severely on the viability of major race days in country centres.

**Finding 65**

It is extremely disappointing that family events such as the New Year's Eve meeting at Gloucester Park no longer operate.

While the Committee recognises the importance of clubs negotiating with local authorities with respect to licence conditions, a more common-sense approach to liquor enforcement activities is also supported. This is critical given the significant economic and social benefits that race days, particularly in country areas, generate for their communities.

**Finding 66**

A more common-sense approach to liquor enforcement activities would be beneficial to race clubs and country communities.

**Finding 67**

Evidence suggested that where clubs have been able to negotiate satisfactorily with local police, more appropriate outcomes were achieved.

The other major issue that arose in evidence to the Committee concerned enforcement of liquor licences. Under the *Liquor Control Act 1988*, 'authorised officers' have significant powers including the power at any reasonable time to enter and inspect licensed premises, and require the licensee to provide any information and/or records.<sup>836</sup> According to legislation, 'authorised officers' include DRGL inspectors, a person specifically authorised by the Director General under a delegated authority, or a member of the police force.<sup>837</sup> With regard to the latter, WA Police have a liquor enforcement unit tasked with managing compliance and enforcement of the *Liquor Control Act 1988* as well as developing statewide strategies to address alcohol consumption in

<sup>836</sup> Section 154 *Liquor Control Act 1988*.

<sup>837</sup> Section 3(1) *Liquor Control Act 1988*.

licensed premises.<sup>838</sup> Comments to the Committee from various racing clubs indicate some confusion as to whether enforcement officers at race meetings were from DRGL or the police.

With respect to DRGL inspectors, Mr Barry Sargeant indicated that the Department issued permits and it was the responsibility of inspectors to enforce the conditions of the licence:

*Ultimately, my department issues the permits...whenever there is an application it goes to the local authority and it goes to the police to find out what their concerns are. The local authority quite often gives us the advice on numbers and so forth. Once you have put them on a licence condition, then they are in force. I cannot control every minute of the day how my officers deal with it. We train them and tell them and try to have some understanding, but that is something which I just cannot control.*<sup>839</sup>

Mr Sargeant emphasised the need for clubs to negotiate with local authorities regarding licensing conditions as it underpins later enforcement. Although comment from the WA Police was not sought during this Inquiry, in a public hearing with the Education and Health Standing Committee of the WA Parliament, the Commissioner of Police referred to the challenges faced by the liquor enforcement unit with respect to large-scale race events. The Commissioner also highlighted that a more common-sense approach would be trialled during the coming race season:

*I think what we saw was the licensing enforcement division going out and trying to recover something that has probably got out of control in the past few years. One of our most significant events for drunkenness, disorderly conduct and assaults is the Perth Cup every year, for argument's sake. It is a huge problem for us, but it had been going under the radar for so long. I have spoken to the assistant commissioner for regional Western Australia about this, and he thinks probably we do not need to go in so hard on that; we can warn them a couple of times, and if they then do not comply, we can move to issue infringements. I understand that the infringements that were issued to some of the race meets last year were quite substantial and actually eroded most of the profits they wanted to make. So I have asked him to have a look at that to see whether there is a more consultative approach we could take in that regard. Certainly, with the next round of race meets, as they come up this year, we will trial that and see what sort of response we get from those groups.*<sup>840</sup>

The Committee is encouraged by the comments of the Commissioner but believes there is still evidence of unnecessary compliance demands being placed on race clubs in relation to security at race meetings. It is the Committee's view that the level of security required is best established by discussions with local police giving due regard to historical requirements.

<sup>838</sup> Western Australia Police, 'About the Licensing Enforcement Division', nd. Available at: [www.police.wa.gov.au/Crime/Licensingenforcement/tabid/1593/Default.aspx](http://www.police.wa.gov.au/Crime/Licensingenforcement/tabid/1593/Default.aspx) Accessed on 31 May 2010.

<sup>839</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 13 August 2010, p19.

<sup>840</sup> Dr Karl O'Callaghan, Commissioner of Police, WA Police, *Transcript of Evidence*, 26 May 2010, p7, Education and Health Standing Committee, Inquiry into the adequacy and appropriateness of prevention and treatment services for alcohol and illicit drug problems in Western Australia.

**Recommendation 36**

That the Minister for Racing and Gaming urgently reviews liquor licensing and enforcement requirements for major race meetings.

**3.4 The power to direct race clubs and conduct racing in extraordinary circumstances**

RWWA has suggested amendments to the RWWA Act so that it may:

- direct clubs and allied bodies where there is a severe threat to the welfare of racing. This power should include the power to dissolve a committee and appoint an administrator or to remove a licence to operate; and
- conduct race meetings in extraordinary circumstances.<sup>841</sup>

In relation to the first point, under Section 35(1) of the Act, RWWA can currently ‘supervise racing’ but has limited ability to direct a club. Under Section 43 of the RWWA Act, directions to a racing club are limited to works to improve safety at a racecourse or training track. Otherwise, Section 46 of the RWWA Act provides for RWWA to direct clubs to produce club records. RWWA has argued that while existing provisions enable it to, for example, provide staff to assist a club in financial difficulty, RWWA cannot require resolution of underlying problems. RWWA indicated that the ability to direct racing clubs is held by all other principal racing authorities in Australia and was also a power held by the principal clubs in WA prior to the establishment of RWWA.<sup>842</sup> The reason this power was not carried over to RWWA at the time of its establishment was perceived by RWWA to be a ‘hangover from the old...days’ when stakeholders did not want RWWA to become like the old principal clubs so it was forced to remain at arm’s length.<sup>843</sup>

RWWA clarified its existing powers in terms of what it can do now if a club is unable to conduct its affairs (e.g. due to mismanagement or financial duress) thereby posing a threat to the sustainability of racing:

- RWWA may licence an alternative venue to carry race meetings to ‘ensure the continuity of racing’;<sup>844</sup> and

<sup>841</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p84.

<sup>842</sup> Ibid.

<sup>843</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p10.

<sup>844</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p3.

- RWWA may provide a grant or a loan to assist a club, although loans are not considered ideal as clubs are then encumbered.<sup>845</sup>

A recent example of where a grant has been used by RWWA relates to the provision of a non-refundable grant to the Golden Mile Trotting Club. The club was experiencing severe financial difficulty but the new president and committee of the club approached RWWA with a business plan for taking the club forward. RWWA indicated that the grant was an effective means in that circumstance as it provided the club with ‘working capital to be able to run the club, convince sponsors and other providers of services—breweries and other people—to provide services to them, and they got back up and running, and now they are a very functioning group. So that injection of capital allowed a fairly creative group of people to be able to run their business’.<sup>846</sup> The Golden Mile Trotting Club reported that it had received definite support from within RWWA for its approach<sup>847</sup> although qualified this by suggesting that RWWA could have done more to prevent the club’s financial management situation from deteriorating to such a severe extent.<sup>848</sup>

Mr Evan Spencer of the Golden Mile Trotting Club supported ‘a greater role [for] RWWA in managing and organising clubs in general’.<sup>849</sup> Rather than endorsing additional powers for RWWA however, the implication was more that fostering effective club management might prevent RWWA from having to actively take control at a later stage if things go wrong. Recognising that volunteer-run clubs struggle with complex management requirements such as accounts and insurances and trying to navigate the complexity of RWWA’s funding distribution, Mr Spencer saw potential for RWWA to play a greater role in assisting clubs with their management functions.<sup>850</sup>

In terms of steps that RWWA can take to prevent a club from reaching the stage where it cannot conduct racing, RWWA currently has the power to audit club records. If a problem is detected, RWWA will work with the club to address the issues and will ask the club to ‘show cause how they are able to run a proper, functioning club, and [...] ask them to rectify the issues’.<sup>851</sup>

The Committee recognises that RWWA is limited to requesting that a club rectifies any issues and to providing support in this regard. In other jurisdictions such as South Australia and Queensland, racing control bodies have the legislative power to issue directions to a club in relation to that club’s operations and also require some form of action from a club to rectify issues.<sup>852</sup> Directions

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<sup>845</sup> Ibid., p4.

<sup>846</sup> Ibid.

<sup>847</sup> Mr Evan Spencer, President, Golden Mile Trotting Club, *Transcript of Evidence*, 19 March 2010, p3.

<sup>848</sup> Mr Neville Sly, Committee Member, Golden Mile Trotting Club, *Transcript of Evidence*, 19 March 2010, p3.

<sup>849</sup> Mr Evan Spencer, President, Golden Mile Trotting Club, *Transcript of Evidence*, 19 March 2010, p4.

<sup>850</sup> Ibid.

<sup>851</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p4.

<sup>852</sup> Section 34(2) and 34(3) *Racing Act 2002* (Qld) and Section 106 *Racing (Proprietary Business Licensing) Act 2000* (SA).

issued to clubs are reinforced with sanctions for non-compliance ranging from public admonishment<sup>853</sup> to cancellation of a licence.

### **Finding 68**

Racing and Wagering Western Australia currently has limited powers in situations where a race club is unable to conduct its affairs.

To overcome current legislative restrictions, the Committee supports an amendment to the RWWA Act to allow RWWA to direct the operations and management of a racing club where there is a severe threat to the welfare of racing. RWWA makes the point, and the Committee concurs, that the power should apply also to ‘allied bodies’ since the operation of training facilities is equally important to racing operations.<sup>854</sup> That said, it is important for clubs and allied bodies to have some form of recourse should sanctions apply in instances of non-compliance with a direction. In NSW for example, a sanction cannot be imposed on a club without first giving the club written notice of the proposed sanction and reasonable opportunity to make submissions about the matter.<sup>855</sup> Given the previous discussion on Appeals (Chapter 2.5) and the fact that this matter would be subject to RWWA’s internal conflict resolution processes, a similar requirement should apply to any sanctions imposed on clubs with respect to non-compliance with RWWA’s directions.

### **Recommendation 37**

That the *Racing and Wagering Western Australia Act 2003* be amended to include the power for Racing and Wagering Western Australia to direct clubs and allied bodies where there is a severe threat to the welfare of racing.

### **Recommendation 38**

That the *Racing and Wagering Western Australia Act 2003* be amended to ensure Racing and Wagering Western Australia cannot impose sanctions for not complying with a direction without those clubs and allied bodies first making representation.

<sup>853</sup> Section 29C(2) *Thoroughbred Racing Act 1996* (NSW).

<sup>854</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p84.

<sup>855</sup> Section 29C(3) *Thoroughbred Racing Act 1996* (NSW).

The Committee believes that RWWA should continue its current practice where club audits indicate potential problems at a club. In these instances it is imperative that, wherever possible, RWWA supports the management efforts of race clubs to sustain their own ability to effectively exercise their functions.

### **Finding 69**

It is imperative that Racing and Wagering Western Australia supports the management efforts of race clubs to sustain their own ability to effectively exercise their functions.

RWWA suggested that its powers under the RWWA Act should be extended to enable it to dissolve a committee and appoint an administrator or to remove a club's licence to operate. Regarding the latter, RWWA already has the power under Section 40 of the RWWA Act to refuse to register a racing club, or, in accordance with the rules of racing and the regulations, suspend or cancel the registration of a racing club.<sup>856</sup> With respect to dissolving a committee and appointing an administrator, RWWA explained its rationale as follows:

*RWWA would have the ability to come in, appoint an administrator, run the club and get the club back on its feet, and then find volunteers to come back in; not to assume the responsibility of running the club on a permanent basis.*<sup>857</sup>

RWWA indicated that it is not always practicable to licence an alternative venue for a race meeting should a club be unable to conduct its functions. This might be because of the distances involved between the club and its nearest neighbour, or for continuity reasons. Staying at the advertised venue has greater benefits for the continuity of Sky coverage, sponsors and spectators. In these instances, an administrator appointed by RWWA could run the race meeting however sufficient powers would need to be introduced into the Act to enable RWWA to enter onto a club's premises, hold a meeting and 'carry out all of the functions of a club for the purpose of that race meeting'.<sup>858</sup>

If RWWA is given the power to intervene in the operation of a club to appoint an administrator, Section 35(2) of the RWWA Act would require amendment to allow RWWA to conduct race meetings. RWWA is currently precluded under Section 35(2) from conducting race meetings on its own behalf. Similarly an amendment would be required to realise RWWA's suggestion for it to be able to conduct race meetings in 'extraordinary circumstances'. RWWA cited a Queensland example whereby during the 2007 equine influenza outbreak, the racing control body in that state

<sup>856</sup> Section 40(1) and Section 40(4) *Racing and Wagering Western Australia Act 2003*.

<sup>857</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p10.

<sup>858</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p6.

conducted a race meeting at a training facility. RWWA would be precluded from doing the same in WA in a similar circumstance.<sup>859</sup>

While the Committee acknowledges that there would be advantages to expanding RWWA's powers in relation to conducting race meetings, enabling it to dissolve club committees and appoint administrators and conduct meetings on its own behalf represents a significant expansion of powers. RWWA advised that it is not the intent for these powers to be applied in the long-term or in anything other than extraordinary circumstances:

*...we are talking about in extreme circumstances simply wanting to be able to continue racing, not at any stage getting involved in the running of a club. The very nature of RWWA from 2003 was that it was to address that conflict of interest of the PRA being the club. I can assure you from a personal point of view and from what I have learned from this board and operations committees et cetera that the last thing we want to do is run clubs.*<sup>860</sup>

RWWA also considered it appropriate for a head of power to be established in the RWWA Act but for conditions under which RWWA may exercise these additional powers to be stipulated through regulations.<sup>861</sup>

The Committee is cognisant however of the intent underpinning the introduction of Section 35(2) of the RWWA Act, that of overcoming the conflicts of interest characteristic of the principal club model where principal clubs could both control, and yet also be participants in, the industry. It is critical that the separation instituted under Section 35(2) is maintained. RWWA has a clear control function in relation to racing, which will be enhanced should it acquire additional powers to direct clubs (see above). This control function will be compromised if RWWA is able to conduct race meetings on its own behalf. As such the Committee considers it appropriate for the existing provisions of Section 35(2) to remain. Evidence to date has indicated that the existing powers under the RWWA Act are sufficient to cover most contingencies and from a race continuity perspective, new powers enabling RWWA to direct a race club will help to avoid a situation where a club reaches the stage where it cannot conduct race meetings. An expansion of powers to enable RWWA to dissolve club committees, appoint administrators, and conduct race meetings in extraordinary circumstances is therefore not supported.

### **Finding 70**

Racing and Wagering Western Australia should not conduct race meetings on its own behalf.

<sup>859</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p84.

<sup>860</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p5.

<sup>861</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p5.

**Finding 71**

It would not be appropriate for Racing and Wagering Western Australia to have powers to dissolve a club committee, appoint administrators or conduct race meetings in extraordinary circumstances.

**3.5 Meeting allocations, race programming and Vision**

Extensive industry comment was received by the Committee in relation to meeting allocations, race programming and Sky Vision, a sample of which is reproduced below. The interrelated nature of meeting allocation, programming and Vision coverage is conveyed in many of the comments. For clubs with Vision coverage, programming is dictated to a large degree by Sky Channel demands and the need to generate off-course wagering revenue:

*A lot of the programming is dictated by Sky Racing, and Sky Racing is Australia-wide, as you know, so we cannot all race on our preferred days, and they try to program it so that Sky Racing has a book of product throughout the week. That is really where it is driven from, so we have midweek racing because the offcourse, which really drives the industry, relies on Sky Racing, and Sky Racing together with RWWA set the program. So I guess that is a factor in relation to why we have midweek racing.<sup>862</sup>*

RWWA does not own any vision rights and is responsible for negotiating vision rights agreements with Sky<sup>863</sup> on behalf of the majority of clubs. With the exception of Perth Racing which has its own agreement with Sky, RWWA has ‘in-principle support...from the other clubs that are on Sky to delegate their authority to us to negotiate, and those agreements—it depends on which code—are largely expiring around 2014’.<sup>864</sup>

**(i) Long-term continuity of country race clubs**

A common theme conveyed to the Committee by race clubs was the need for RWWA to allocate more race meetings.<sup>865</sup> The Committee heard that while RWWA might be fairly accommodating when it came to swapping race dates around, this was certainly not the case where clubs believed

<sup>862</sup> Mr Tony Marwick, President, Northam Race Club, *Transcript of Evidence*, 26 March 2010, p4.

<sup>863</sup> Sky Racing is owned by Tabcorp and is responsible for transmitting live thoroughbred, harness and greyhound racing coverage around Australia and internationally via satellite, cable, mobile TV and the internet. A new channel, Sky Racing 2 was launched in 2010 to complement the existing Sky Racing 1 (Sky Racing, ‘About Sky Racing’, nd. Available at: [www.skychannel.com.au/company/company\\_profile.php](http://www.skychannel.com.au/company/company_profile.php) Accessed on 7 October 2010).

<sup>864</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p37.

<sup>865</sup> Including comments from: Mr Craig Chadwick, Chairman, Bunbury Turf Club, *Transcript of Evidence*, 7 May 2010, p2; Mr Colin Park, General Manager, Albany Harness Racing Club, *Transcript of Evidence*, 12 March 2010, p3; Mrs Lesley Solly, President, Albany Racing Club, *Transcript of Evidence*, 12 March 2010, p3.

they should get more dates.<sup>866</sup> RWWA's reasons for not expanding its racing product were discussed previously.<sup>867</sup>

Nonetheless, the Committee received evidence to suggest that smaller clubs struggle to get ahead without sufficient meeting allocations as there are insufficient resources to fund advancement.<sup>868</sup> The Williams Harness Racing Club highlighted the implications of a low meeting allocation:

*...as a matter of fact, most of the fill to do the track is already in place; we just need the green light. But it is very hard to justify doing that track if we are going to have only two meetings a year or one meeting a year; it is just not worth it.*<sup>869</sup>

The uncertainty experienced by country clubs at the prospect of having meeting allocations reduced by RWWA to the point of club closure has been discussed earlier in this Report.<sup>870</sup> This uncertainty is perhaps most acute among harness racing clubs, particularly in the wake of RWWA's decision not to award any meetings to the Geraldton Harness Racing Club and that club's closure. The Bridgetown Harness Racing Club indicated that they 'do not have...any guarantees for the future. Each year you have got your fingers crossed, waiting for the race dates to come out to see if you have been wiped off the map or not'<sup>871</sup>. The Northam Harness Racing Club suggested that country harness clubs are losing out to the city in terms of meeting allocations:

*The thing that worries me again is the three meetings a week at Gloucester Park where we are devastated. We are left at the end of the line and our fields are down; there is not the quality in the fields; our turnover goes down. It is very good for people who live in the metropolitan area but in the long term it will be very, very detrimental to harness racing.*<sup>872</sup>

The Golden Mile Trotting Club also drew attention to the consequences of fewer meetings:

*Our turnover is purely driven by the amount of Sky access that you have in the first place, so if you keep taking races away from me and my Sky Channel and my turnover decreases, and that is just the functionality of race programming and scheduling.*<sup>873</sup>

A number of harness racing stakeholders emphasised the importance of Sky coverage to the future of the code. Mr Kevin Jeavons of HROAWA indicated that poor programming combined with

<sup>866</sup> Mr Jonathan Menzel, Manager, Narrogin Racing, *Transcript of Evidence*, 3 May 2010, p2.

<sup>867</sup> Refer to Chapter 2.9 (Wagering Revenues).

<sup>868</sup> Mr Shane O'Loughlin, Committee Member, Albany Racing Club, *Transcript of Evidence*, 12 March 2010, p16.

<sup>869</sup> Mr John Cowcher, Committee Member, Williams Harness Racing Club, *Transcript of Evidence*, 3 May 2010, p2.

<sup>870</sup> Refer to Chapter 2.5 (Appealing decisions by RWWA).

<sup>871</sup> Mr Brendon Gardiner, Secretary/Treasurer, Bridgetown Harness Racing Club, *Transcript of Evidence*, 6 April 2010, p3

<sup>872</sup> Mr Peter Dempster, President, Northam Harness Racing Club, *Transcript of Evidence*, 26 March 2010, p3.

<sup>873</sup> Mr Evan Spencer, President, Golden Mile Trotting Club, *Transcript of Evidence*, 19 March 2010, p8.

bad times on Sky would have an adverse impact on turnover.<sup>874</sup> WACHRA similarly emphasised the importance of Sky coverage to the future of the harness code:

*For the Harness Racing Industry to grow, RWWA needs to extend the Sky Vision service more widely. Increased promotion is vital and the opportunity to have a Sky Channel Race Program at all Clubs (for major race programmes) will grow the industry.<sup>875</sup>*

The Wagin Trotting Club stated that RWWA was not doing enough to assist the club to secure Sky coverage and more meeting dates within its existing location.<sup>876</sup> The Albany Harness Racing Club suggested that meeting allocations<sup>877</sup> and Sky coverage<sup>878</sup> should be offered by RWWA as incentives for clubs which perform well.

Earlier in this Report,<sup>879</sup> the Committee established the important role that country racing plays in local communities. While country harness racing clubs in particular emphasised the need for greater surety of long-term survival in the form of meeting allocations and securing Sky coverage, it is fair to say that the same principle applies to country and outer country thoroughbred racing clubs also. The Committee believes it is essential for country racing to survive and recognises that meeting allocations, race programming and Sky Vision coverage all have a bearing on the long-term continuity of country race clubs.

### **Finding 72**

The long-term continuity of country racing clubs is essential for the industry, hence race programming and Sky Vision coverage are important factors for these clubs to remain viable.

RWWA indicated that it is not possible for all clubs to be on Sky so in some respects industry participants need to adjust their expectations:

*What is happening is that people in recent years have cottoned on to the idea if they are not on Sky Channel and they do not have X number of meetings then they are doomed. We are not saying that. We are saying that there is a role for the economic-generating clubs and a role for the social community clubs. But not everyone can be on Sky because of*

<sup>874</sup> Mr Kevin Jeavons, President, Western Australian Harness Racing Owners' Association, *Transcript of Evidence*, 7 May 2010, p4.

<sup>875</sup> Submission No. 32 from Western Australian Country Harness Racing Association, 14 January 2010, p3.

<sup>876</sup> Mr Matthew Spurr, President, Wagin Trotting Club, *Transcript of Evidence*, 3 May 2010, pp3-4.

<sup>877</sup> Mr Colin Park, General Manager, Albany Harness Racing Club, *Transcript of Evidence*, 12 March 2010, p7.

<sup>878</sup> Submission No. 36 from Albany Harness Racing Club, 2 February 2010, p1.

<sup>879</sup> Refer to Chapter 2.2 (Governance).

*availability of time slots, and the infrastructure or the quality of the tracks cannot be the same ... This is where we are having problems with expectations.*<sup>880</sup>

Even so, RWWA indicated its commitment to community and regional racing,<sup>881</sup> and (addressing the concerns raised here) to the continuity of country harness racing. RWWA alludes to its strategy for the harness code<sup>882</sup> in terms of contracting harness racing to the south west and stabilising the volume of product:

*...we see that the country base of harness is very much secure going forward. We see that provided it gets onto Sky and generates an acceptable return, the country roots of harness are good, because that is where the product is best; that is where the horse population is ... Our long-term strategy in terms of number of meetings is to bring down slightly—not completely—the volume of harness racing in some of these regional areas where we race at the moment, because they are relatively inexpensive to run; they do not need turf maintenance and things, and the committees draw funds typically from the local areas. Yes, we would like to see a bit more utilisation of the venues in a concentrated way, but to keep the harness product alive and well, we want to centre it in the south west and keep its current base ... We are centring racing in the south west; we are going to put a bit of pressure on the number of meetings; and we are very much seeing it keep its country base, because that is what harness grew from—the country base.*<sup>883</sup>

In relation to Vision in particular, RWWA advised:

*The harness product is sustainable at a level and we have to bring change to it, whether it is on Vision or not. There is more that can go onto Vision that can help make it more sustainable. We, as a business, need to put forward subtle change to our programming that generates more income so that we can spread it across the three codes as we see fit.*<sup>884</sup>

While RWWA has indicated scope for greater Vision coverage and subtle changes to programming, a number of concerns were raised in this regard in evidence to the Committee.

## **(ii) Impediments to race programming and Vision access**

Some of the comments received by the Committee in relation to race programming were as follows:

- If race programming is done well and supported by the correct stake money, outer country clubs can attract good fields. Over the past four or five years, many clubs have had meetings

<sup>880</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p13.

<sup>881</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p54.

<sup>882</sup> Racing and Wagering Western Australia, *Protecting our Product: A Vision of Sustainability for the WA Harness Industry*, 2010.

<sup>883</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p23.

<sup>884</sup> *Ibid.*, p22.

scheduled at the same time creating more competition and resulting in fewer nominations and meetings;<sup>885</sup>

- RWWA's race programming appears arbitrary and does not take into account local conditions however there is a fear that pursuing the issue with RWWA will result in the club having dates withdrawn;<sup>886</sup>
- RWWA's programming needs to capitalise on areas of growth, for example, the north of the state where there is economic and financial growth.<sup>887</sup>

Comments appear to point to clubs not having sufficient input into the race programming process. This was reinforced by Narrogin Racing, which stated that 'scheduling carried out as an open and transparent process with provision for input, feedback and questions from the race clubs is essential'.<sup>888</sup> This relates more broadly to deficiencies in RWWA's consultation process, which was explored in Chapter 2.6 (Consultation). The mechanisms identified to improve consultation outcomes and give clubs a more meaningful input into RWWA's decision-making encapsulated within Recommendation 22 will also assist in relation to race programming issues.

### **Finding 73**

Evidence from racing industry participants suggests that clubs currently lack sufficient input into the race programming process.

### **Finding 74**

Improvements to Racing and Wagering Western Australia's overall consultation processes will assist in relation to race programming issues.

One particular criticism relating to programming is the lack of notice that clubs receive from RWWA with regard to the coming season's race dates. Mrs Nicole Bell of the Northam Race Club indicated in March that the club had only just received its dates for the racing period August to October and was heading into its race season in May. The short notice made it 'difficult programming sponsorship events, and you really do just sort of start heading forward, programming the days you think you are going to get and hope that you get them'.<sup>889</sup> The Golden

<sup>885</sup> Mr Brett Snell, Past President, Golden Mile Trotting Club, *Transcript of Evidence*, 19 March 2010, p12.

<sup>886</sup> Mr Brett Taylor, President, Central Wheatbelt Harness Racing Club, *Transcript of Evidence*, 26 March 2010, p6.

<sup>887</sup> Mr Maxwell (Dixie) Solly, President, Country Racing Association, *Transcript of Evidence*, 7 May 2010, p8.

<sup>888</sup> Submission No. 12 from Narrogin Racing, 30 November 2009, p5.

<sup>889</sup> Mrs Nicole Bell, Manager, Northam Race Club, *Transcript of Evidence*, 26 March 2010, p5.

Mile Trotting Club similarly indicated that not enough notice of dates was given by RWWA and that ideally clubs should be informed six or nine months in advance of the race program.<sup>890</sup>

### **Finding 75**

More timely notice from Racing and Wagering Western Australia of race date allocations would assist clubs with their planning for race meetings, including the securing of sponsorship.

Mr Nicholas Bosly-Pask of Narrogin Racing indicated that something similar to Victoria's rolling five-year plan would be helpful.<sup>891</sup> As described in Chapter 2.8 (Taxation), Victoria's five-year Racecourse and Training Facilities Infrastructure Plan provides all country clubs in the state with a five-year plan which includes race dates. RWWA indicated, and the Committee accepts, that 'in fairness, Racing Victoria and others do not work five years in advance to the meeting on a day. They give out broad indications'.<sup>892</sup> Nonetheless, Racing Victoria Limited and Country Racing Victoria undertake a yearly review of clubs which provides the basis for future race date allocation and funding. The five year plans are guaranteed subject to clubs meeting certain financial and development benchmarks.<sup>893</sup> Country Racing Victoria indicated that clubs can have some surety of ongoing survival provided they can demonstrate that they are financial and that their local communities support those race dates.<sup>894</sup> The Committee believes that a similar forward looking document which provides some indication of meeting allocations and race dates would have two major benefits for the WA racing industry: firstly, it would assist clubs with their planning, and secondly, it would provide some surety to country racing clubs regarding their long-term continuity.

### **Recommendation 39**

That Racing and Wagering Western Australia prepares a more extensive forward looking plan with indicative race dates in order to assist clubs with planning and provide greater surety to clubs with respect to ongoing survival.

<sup>890</sup> Mr Evan Spencer, President, Golden Mile Trotting Club, *Transcript of Evidence*, 19 March 2010, p11.

<sup>891</sup> Mr Nicholas Bosly-Pask, Acting Chair, Narrogin Racing, *Transcript of Evidence*, 3 May 2010, p9.

<sup>892</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p7.

<sup>893</sup> Racing Victoria Limited, 'Victorian Racecourse and Training Facilities Infrastructure Plan', May 2009. Available at: <https://admin.racingvictoria.net.au/asset/cms/Race%20Programs%20PDF/Infrastructure%20Plan%20Summary.pdf>. Accessed on 7 October 2010.

<sup>894</sup> Mr Michael Caveny, Chairman, Country Racing Victoria Limited, *Briefing*, 16 April 2010.

With regard to securing greater Vision access, the Committee acknowledges that RWWA has committed to increasing Sky coverage across all codes and puts forward various strategies for doing so in its code vision statements:

*It is clear that the introduction of product fees results in the Western Australian racing industry being worse off by \$5m per annum. A key strategy to mitigate this new cost is to position more WA racing product on SKY, making the product visible to interstate wagering customers and reducing the product fee imbalance.*<sup>895</sup>

The Committee notes however that there are certain impediments to increasing Sky coverage, most of which are beyond RWWA's control. The most fundamental is that (as noted above) RWWA does not own vision rights and must negotiate with Sky. This has pitfalls as evidenced recently when RWWA was not provided with the opportunity to lock in race dates prior to the launch of Sky Channel 2 in April 2010.<sup>896</sup>

The actual infrastructure required to enable Vision coverage is also a factor beyond RWWA's control and presents a major impediment to many clubs. For clubs without permanent Vision, this requires the use of a mobile unit. RWWA covers the cost however this is still subject to availability:

*...for any Sky meeting to take place here, GlobeCast have to bring their SNG—satellite news gathering—equipment in here...and there is often only one van to go around, that is a part of it, so the access is restricted there ...*<sup>897</sup>

Securing permanent Vision for a club is more economical for RWWA in the long-term however it is costly to install the necessary infrastructure and maintain coverage:

*The technology firstly,..., is as simple as it gets. It is a piece of fibre going into a race club connected into their comms board, so it is nothing more or less than that in essence. The Globecast, who are the providers, SNG satellite dish arrives as the alternative to the fibre option. The cost of the SNG is about \$7 000 a trip. So if you go to Narrogin, where we do not have fibre, it is about \$7 000 to drive down, stay there for five hours, drive back. The benefit we have in putting fibre in is we drop a lot of the variable cost. But even though the fixed cost is \$150 000 up-front, there is still a variable cost of about \$30 000 a year for the broadband use, if you like, of the current broadband.*<sup>898</sup>

<sup>895</sup> Racing and Wagering Western Australia, *Protecting our Product: A Vision of Sustainability for the WA Harness Industry*, 2010, p4; *Securing the Future: A Vision of Sustainability for the WA Thoroughbred Industry*, p5; *Towards Sustainability: A Vision for the WA Greyhound Industry* (the latter refers to optimising Sky coverage).

<sup>896</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p8.

<sup>897</sup> Mr Nicholas Bosly-Pask, Acting Chair, Narrogin Racing, *Transcript of Evidence*, 3 May 2010, p3.

<sup>898</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p34.

RWWA contributes to funding but the cost of having permanent Vision installed can simply be cost prohibitive for smaller clubs with only a few meetings a year.<sup>899</sup> RWWA acknowledged that there is trade-off but in the long-term is encouraging clubs to seek Royalties for Regions funding to assist with fibre installation:

*If you have got four meetings, five meetings, you are in the break-even sort of place. If you are greater than that, you are better off having fibre. Our intention is to work with royalties for regions through the local clubs to get the fixed costs of the fibre funded through royalties.*<sup>900</sup>

The Committee acknowledges that various factors relating to Sky Vision are beyond RWWA's control. These include the ownership of Sky Channel by a competitor in the wagering market (Tabcorp), the fierce competition for time slots and the cost of installing the necessary infrastructure required to broadcast race meetings. It is the Committee's opinion that the latter could be addressed to some extent by the roll-out of the federal government's National Broadband Network. Notwithstanding this, it is important for the racing industry in Western Australia, particularly in regional areas, that Sky Vision coverage is maximised. Wherever possible, RWWA should assist clubs to secure access to vision.

#### **Finding 76**

It is important that Sky Vision coverage is maximised to as many country race clubs as possible.

#### **Recommendation 40**

That wherever possible Racing and Wagering Western Australia should assist race clubs to secure Sky Vision access and coverage.

#### **Recommendation 41**

That the Minister for Racing and Gaming initiates communications with the Commonwealth Government to expedite the roll-out of the National Broadband Network to race clubs in country Western Australia.

<sup>899</sup> Mr Nicholas Bosly-Pask, Acting Chair, Narrogin Racing, *Transcript of Evidence*, 3 May 2010, p4.

<sup>900</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p35.

### 3.6 Resolving conflicts of interest with respect to wagering

Some stakeholders have mentioned that there exists a conflict of interest in RWWA's role in relation to wagering.<sup>901</sup> This is a consequence of the following prescribed functions in the *Racing and Wagering Western Australia Act 2003*:

- Section 120 determines RWWA may make rules of wagering in respect to on-course wagering; off-course wagering and fixed odds wagering;
- Section 50(1) provides that RWWA must ensure that on-course wagering is conducted in accordance with the *Betting Control Act 1954* and the rules of wagering; yet
- Section 50(b) of the RWWA Act allows RWWA to carry on a wagering business.

In summary, the above functions result in RWWA being a rule maker in respect to some of the rules of wagering,<sup>902</sup> a rule regulator, and a competitor subject to rules it has set for itself. In contrast, other competitors in the wagering market are subject to the rules of wagering, yet have no input into the establishment or regulation of these rules.

Some stakeholder views have been critical of this circumstance. The Morley TAB Agency captured these views with the following comment:

*RWWA has an untenable position as being both our "Arbiter" and at the same time our "Competitor".*<sup>903</sup>

Best Bookies Price Pty Ltd submitted that RWWA's considerable influence in the establishment of the rules of wagering provide it with the very rare circumstance whereby it is able to dictate the operating conditions for its competitors.<sup>904</sup>

Mr Kenneth Trainer of the WA TAB Agents' Association noted that these prescribed functions of RWWA put it in a unique position as a competitor in the wagering market. He suggested that the situation could 'potentially have a significant impact on the capacity of the agents to achieve the objectives set by RWWA, which is to increase growth'.<sup>905</sup>

RWWA recognises this conflict of interest and clearly stated a desire for the situation to be remedied, as detailed in the following passage submitted to the Committee:

*Sections 50 and 120 of the RWWA Act provide for RWWA to have functions that affect the activities of direct competitors of RWWA in the wagering market. This is an obvious*

<sup>901</sup> Submission No. 8 from WA TAB Agents' Association, 30 November 2009, p7; Mr Timothy Barnes, Director, Morley TAB Agents, *Transcript of Evidence*, 8 March 2010, p13; Mr Robert Howat, President, WA Bookmakers Association, *Transcript of Evidence*, 8 March 2010, p6; Submission No. 11 from Best Bookies Price Pty Ltd, 30 November 2009, p5.

<sup>902</sup> With the approval of the Gaming and Wagering Commission.

<sup>903</sup> Submission No. 8 from Morley TAB Agency, 30 November 2009, p2.

<sup>904</sup> Submission No. 11 from Best Bookies Price Pty Ltd, 30 November 2009, p5.

<sup>905</sup> Mr Kenneth Trainer, Advisor, WA TAB Agents' Association, *Transcript of Evidence*, 8 March 2010, p2.

*conflict of interest for RWWA. These functions should be vested in an independent body such as the Gaming and Wagering Commission, with RWWA having equivalent powers to seek changes to the rules of wagering as its competitors.*<sup>906</sup>

As a result, RWWA suggested the following two amendments to the RWWA Act:

- 1 Section 50 of the RWWA Act should be amended to remove RWWA's supervisory powers over its competitors; and
- 2 Section 120 of the RWWA Act should remove RWWA's ability to make rules for wagering that apply to other providers of wagering services.

The Committee acknowledges the views received from racing industry stakeholders and RWWA, and concurs with the view that a conflict of interest resides within the prescribed wagering functions of RWWA in the *Racing and Wagering Act 2003*.

### **Finding 77**

There is a conflict of interest in Racing and Wagering Western Australia's role in regard to wagering as it is currently prescribed in the *Racing and Wagering Western Australia Act 2003*.

The Committee asked Mr Barry Sargeant, Director General of the Department of Racing, Gaming and Liquor<sup>907</sup> to respond to the conflict of interest contained within the RWWA Act. He indicated that the reason these supervisory and rule making powers were originally vested with RWWA was largely historical—RWWA took them on from the relevant principal clubs for each code. He stated that this circumstance diminished the need for the functions to be placed with the government:

*Rather than taking that one step further across to the government, it stayed with Racing and Wagering Western Australia as an independent body.*<sup>908</sup>

When asked if RWWA should continue with these functions, or if it would now be appropriate for the Gaming and Wagering Commission to assume them, Mr Sargeant noted that as an issue it had not been raised by RWWA itself; further, to his knowledge, RWWA had been performing the role well. Nonetheless, he asserted if RWWA would prefer the role be transferred to the Commission, then, with government approval, it would be a suitable arrangement:

*Fundamentally, what RWWA has done since 2003 is no reason to justify moving it. But if they prefer to move it and the government is agreeable to it moving and with the appropriate funding arrangements sorted out, it is quite appropriate for my agency to take that on board—quite appropriate!*<sup>909</sup>

<sup>906</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p89.

<sup>907</sup> Mr Barry Sargeant is also the Chairperson of the Gaming and Wagering Commission.

<sup>908</sup> Mr Barry Sargeant, Director General, Department of Racing, Gaming and Liquor, *Transcript of Evidence*, 13 August 2010, p7.

<sup>909</sup> *Ibid.*, p10.

Based on Mr Sargeant's comments, there is no evidence that RWWA has used any prescribed functions to furnish a commercial advantage for itself in its provision of wagering services.<sup>910</sup> Notwithstanding this fact, RWWA is of the view that these functions should be transferred to the Gaming and Wagering Commission. The Committee concurs with this view, as even a perceived conflict of interest may be harmful to the operational effectiveness of RWWA.<sup>911</sup> The Committee has previously noted that it is essential to the industry that RWWA carries on a profitable wagering business.<sup>912</sup> As such, it should not continue to operate with prescribed wagering functions that may impact on the long term viability of its wagering business. The Committee therefore finds that any function prescribed under Sections 50 or 120 of the RWWA Act that may jeopardise the ability of RWWA to effectively carry on a wagering business should be removed as a function of RWWA under the Act. Accordingly, the Committee finds that it is appropriate, with the approval of the Minister, that the Gaming and Wagering Commission assumes responsibility for performing these functions.

#### **Finding 78**

Any regulatory function prescribed under Section 50 or Section 120 of the *Racing and Wagering Western Australia Act 2003* that may limit Racing and Wagering Western Australia's ability to carry on a wagering business should be removed from the *Racing and Wagering Western Australia Act 2003*.

#### **Finding 79**

It is appropriate that the Gaming and Wagering Commission, with the approval of the Minister for Racing and Gaming, assumes responsibility for performing any regulatory functions in relation to wagering that are removed from Racing and Wagering Western Australia.

Due to the limited evidence received, the Committee is unable to recommend in any prescriptive manner which parts of Section 50 and Section 120 of the *Racing and Wagering Act 2003* should be repealed. The Committee acknowledges it is a complex matter and requires examination that is beyond the scope of this Inquiry.

This is in part because Section 120 prescribes a number of functions dealing with operational aspects of wagering that seem appropriate to remain a function of RWWA—and too cumbersome to become a function of the Commission. Therefore, a detailed examination will be necessary to determine what rule making scope RWWA should retain. An issue that may require negotiation is

<sup>910</sup> Ibid., p8.

<sup>911</sup> The importance of commercial neutrality was a primary goal behind RWWA being established under its current governance structure. Refer to Chapter 2.2 for more information.

<sup>912</sup> Chapter 2.7 on distribution of funds and Chapter 2.9 on wagering revenue both highlight the importance that RWWA's wagering business and the distribution of its profits have to the industry.

the matter of funding for the operation of these functions, as raised earlier in this section by Mr Barry Sargeant. The funding arrangements should be examined as to how they would operate should the functions be assumed by the Commission, and what impact the arrangements might have on the financial operations of RWWA. The Committee would suggest that any operational change must at a minimum be revenue neutral for RWWA.

The Committee asserts that in these considerations, a balance must be struck between the operational effectiveness of RWWA and the appearance of commercial neutrality. It recommends that the Minister reviews and negotiates between RWWA and the Gaming and Wagering Commission as to which functions RWWA should retain, and which should be assumed by the Commission to most effectively promote the ability of RWWA to carry on a wagering business.

#### **Recommendation 42**

That the Minister for Racing and Gaming reviews the most appropriate manner in which any prescribed function of Racing and Wagering Western Australia that conflicts with its prescribed functions to carry out its wagering business under Sections 50 and 120 of the *Racing and Wagering Western Australia Act 2003* be removed and subsequently vested with the Gaming and Wagering Commission.

### **3.7 Miscellaneous administrative amendments to the RWWA Act**

RWWA has made several other suggestions regarding legislative amendments which it describes as being administrative.

#### **(i) Freedom of Information**

RWWA has sought additional protection from the requirement to reveal strategic and commercially sensitive documents under Freedom of Information (FOI) applications. While not suggesting that it should be afforded the position of an exempt agency under the *Freedom of Information Act 1992* (FOI Act), RWWA has argued for protection ‘so that commercial deliberations, even where apparently complete, are protected from FOI applications’.<sup>913</sup> In its argument, RWWA made reference to a particular incident where it had to release a document revealing board deliberations in relation to betting exchanges:

*The possibility of release of strategic considerations by the RWWA board to competitors places RWWA at a clear competitive disadvantage. It curtails the ability of the board to plan and places market strategies in the hands of competitors.*<sup>914</sup>

<sup>913</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p90.

<sup>914</sup> Ibid.

In this particular case, the Western Australian Information Commissioner found that ‘the accountability and transparency objectives of the FOI Act apply to the agency’ and that sufficient public interest existed for ‘the public being able to scrutinize the operations of the agency and make its own judgement as to whether it is discharging its functions effectively and according to its constituent legislation and published policies’.<sup>915</sup>

The Committee is aware that certain protections already exist under the FOI Act, specifically Schedule 1, Clause 4 provides for exemptions on the grounds of commercial or business sensitivity. The Committee also understands that provision exists for internal review by the agency or external review by the Information Commissioner where an agency’s decision to refuse access to documents under FOI is appealed.<sup>916</sup>

RWWA does not dispute the accountability intent underpinning FOI and the Committee acknowledges that RWWA ‘just do[es] not want it to be on commercially sensitive material and no different from a normal trading enterprise’.<sup>917</sup> The Committee believes however that sufficient protections already exist under FOI legislation in relation to commercially sensitive matters and where RWWA’s decision to grant access to documentation is appealed, provision exists for scrutiny on a case by case basis. Further to the discussion in Chapter 2.4 (Accountability), in the interests of promoting greater accountability, the Committee considers that existing FOI provisions are appropriate and that no additional protections are warranted.

### **Finding 80**

Existing Freedom of Information provisions are appropriate and additional protections for Racing and Wagering Western Australia are not warranted.

### **(ii) Redundant sections of the RWWA Act**

RWWA has made several suggestions for the RWWA Act to be amended in order to remove references to redundant provisions, specifically:

- Section 118 should be amended to remove the requirement for a common seal with alternative document execution the RWWA Act should be amended to remove references to wagers and payments by letter sent through the post (consequential amendments would also be required to the *Racing and Wagering Western Australia Regulations 2003*);
- Section 86 (pertaining to records) should be repealed;

<sup>915</sup> *Addisons v Racing and Wagering Western Australia*, Re [2008] WAICmr 3 (1 February 2008) para 27, 38.

<sup>916</sup> Office of the Information Commissioner, ‘About FOI’, nd. Available at: [www.foi.wa.gov.au/dnn/AboutFOI/FAQs.aspx](http://www.foi.wa.gov.au/dnn/AboutFOI/FAQs.aspx) Accessed on 5 October 2010.

<sup>917</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p17.

- Section 22(3) should be amended to read ‘the remuneration of and other terms and conditions of employment of staff are not to be less favourable than is provided for in an applicable award, order or agreement’;
- Section 3 should be amended by replacing the words, ‘Australian and New Zealand Greyhound Association’ with ‘Greyhounds Australasia’; and
- Section 3 should be amended by replacing the words, ‘Australian Harness Racing Council’ with ‘Harness Racing Australia’.<sup>918</sup>

In relation to requirements for a common seal, RWWA refers to Section 123 of the *Corporations Act 2001* (Cth) which makes such a seal optional.<sup>919</sup> The legal implications of repealing this requirement have not been examined but would need to be explored to ensure that alternative document execution methods can be applied to RWWA. The Committee supports the recommendation in principle provided it is legally valid for the common seal to be replaced by an alternative method for executing documents.

### **Finding 81**

It is important that the legal implications of repealing Racing and Wagering Western Australia’s requirement for a common seal under Section 118 of the *Racing and Wagering Western Australia Act 2003* are understood before the matter is progressed.

### **Recommendation 43**

That Section 118 of the *Racing and Wagering Western Australia Act 2003* be amended to remove the requirement for a common seal provided alternative document execution requirements can be applied.

The Committee supports removal of references in the RWWA Act to wagers and payments by letter sent through the post as it accepts RWWA’s rationale that this method of wagering and payment is no longer used.<sup>920</sup>

<sup>918</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, pp90-92.

<sup>919</sup> Ibid., pp90-91.

<sup>920</sup> Ibid., p91.

**Recommendation 44**

That Section 63 of the *Racing and Wagering Western Australia Act 2003* be amended to remove references to wagers and payments by letter sent through the post, and that consequential amendments in this regard are made to the *Racing and Wagering Western Australia Regulations 2003*.

Section 86 of the RWWA Act makes provision for record keeping. All records relating to the accounts and management of RWWA must be kept by RWWA in a place approved by the Gaming and Wagering Commission and RWWA must give the Commission access to these records on the provision of written notice.<sup>921</sup> Section 86 also makes provisions for the retention or destruction of records.<sup>922</sup> RWWA has recommended the repeal of Section 86 since it is already required to comply with the *State Records Act 2000* and there is duplication. RWWA confirmed that only the subsections of Section 86 which duplicate provisions of the *State Records Act 2000* (and not those relating to access to records by the Gaming and Wagering Commission) should be repealed.<sup>923</sup> The Committee supports amendment of Section 86 along these lines.

**Recommendation 45**

That Section 86 of the *Racing and Wagering Western Australia Act 2003* be amended to remove any provisions which duplicate the *State Records Act 2000*.

Section 22(3) of the RWWA Act refers to the remuneration and other terms and conditions of employment of staff. RWWA has suggested that this section requires amendment since the relevant Western Australian legislation cited has changed and remuneration and conditions of employment of staff are now subject to the applicable federal industrial legislation.<sup>924</sup> RWWA advised that its intention is for 'minimum standards to be made clear, and [RWWA] will pay people no less favourably than what the base rate is'.<sup>925</sup> The Committee supports amendment of Section 22(3)(a) and (b) of the RWWA Act to reflect applicable legislative requirements defining the minimum remuneration and other terms and conditions of employment of staff.

<sup>921</sup> Section 86(1) and 86(2) *Racing and Wagering Western Australia Act 2003*.

<sup>922</sup> Section 86(d) *Racing and Wagering Western Australia Act 2003*.

<sup>923</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p18.

<sup>924</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p91.

<sup>925</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p18.

**Recommendation 46**

That Section 22(3)(a) and (b) of the *Racing and Wagering Western Australia Act 2003* be amended to reflect applicable legislative requirements defining the minimum remuneration and other terms of conditions of employment of staff.

Section 3(1) of the RWWA Act lists terms used in the Act. RWWA identified a number of references which require updating, specifically: changing ‘Australian and New Zealand Greyhound Association’ to ‘Greyhounds Australasia’; and changing ‘Australian Harness Racing Council’ to ‘Harness Racing Australia’.<sup>926</sup> The Committee supports these amendments.

**Recommendation 47**

That Section 3(1) of the *Racing and Wagering Western Australia Act 2003* be amended to replace:

- ‘Australian and New Zealand Greyhound Association’ with ‘Greyhounds Australasia’; and
- ‘Australian Harness Racing Council’ with ‘Harness Racing Australia’.

**3.8 Future directions for the industry**

The Committee became aware of a number of miscellaneous matters during the course of this Inquiry which have a bearing on the future of racing and wagering in this state. This section presents a summary of the issues raised in this regard by industry participants and stakeholders as well as matters the Committee wishes to highlight. Issues have been listed with minimal analysis since points tended to be raised in isolation and no further evidence could be obtained. By and large, the issues listed below are challenges confronting the industry which RWWA will need to monitor and/or address over the coming years to ensure the ongoing prosperity of the industry.

**(a) Matters raised by industry participants and stakeholders**

The following have been highlighted by industry participants and stakeholders as matters which will have a bearing on the future of the industry:

<sup>926</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, pp90-92.

**(i) RWWA disciplinary powers**

RWWA has made a number of recommendations to the Committee in regard to disciplinary powers prescribed under Part 4 of the RWWA Act that determine RWWA's specialised functions in relation to racing.<sup>927</sup> In summary RWWA's main concerns comprise the following issues:

Section 34 of the RWWA Act provides a definition of 'a person associated with racing' to whom RWWA's disciplinary powers under Part 4 apply. RWWA argues that the definition is too narrow. It does not include family members or others that may not be directly related to racing, as prescribed in Section 34, but who may still render considerable influence over racing activities.<sup>928</sup> As a result, RWWA stewards cannot apply any disciplinary action to these people—so they can continue to adversely affect racing activities. RWWA submitted therefore that the definition of 'a person associated with racing' be amended to include any person 'with influence on racing activities.'<sup>929</sup>

The Committee notes the logic behind RWWA's argument and contends that the ability of RWWA to maintain the integrity of racing activities is crucial for the ongoing viability of the industry.

**Finding 82**

Maintaining the integrity of racing activities is crucial for the ongoing viability of the industry.

Nonetheless, the Committee is of the view that the proposed amendment is too broad. In the interests of probity, the Committee considers it would be incumbent on RWWA to prove that a person has an influence on racing before any such definition can be applied. This may impose such an impost on the RWWA stewards as to make the amended definition ineffective.

The Committee is of the view that RWWA should develop a case for the Minister's consideration to demonstrate how the application of this proposed amendment by RWWA stewards would work. The Committee suggests that the plans of Racing Victoria to pursue legislative change to allow 'people who earn a living from racing to come under the rules of racing'<sup>930</sup> might be an appropriate avenue for RWWA to explore when establishing its case for the Minister.

<sup>927</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, pp87-89.

<sup>928</sup> Mr James Freemantle, Deputy Chairman, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p14.

<sup>929</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p87.

<sup>930</sup> Mr Evan Nunn, Manager Corporate Strategy, Racing and Wagering Western Australia, email, 31 August 2010.

**Finding 83**

Amending Section 34 of the *Racing and Wagering Western Australia Act 2003* to include individuals ‘with influence on racing activities’ is too broad for a determination to be made on its merit. If Racing and Wagering Western Australia wishes to pursue this matter it should present a case to the Minister in regard to the application of this proposed amendment prior to any change being considered.

Another area of contention that exists for RWWA in relation to its disciplinary powers are those relating to Section 44(1)(e) of the RWWA Act. This section provides that RWWA is able to—in accordance with the rules of racing and the regulations, prohibit any person from attending or taking part in a race meeting, or entering or remaining on any licensed racecourse.

Subsequent to this Section being enacted, Regulation 72 of the RWWA Regulations was established to determine the procedures by which RWWA may exercise the powers conferred in Section 44(1)(e). Included in the Regulation are the following requirements:

1. RWWA must issue a ‘show cause notice’ in writing;
2. Any recipient has the right to be heard by RWWA as to why section 44(1)(e) should not be exercised against them; on condition they inform RWWA within 14 days of receiving the notice;
3. If a person requests it, RWWA must hear that person within 28 days of the request being made;
4. If RWWA still determines to exercise a power under section 44(1)(e); that person is issued a ‘warning off notice’, for a time determined by that notice; and
5. Failure to comply with a notice will result in a \$1000.00 fine.

RWWA argued that Regulation 72 has resulted in a number of shortfalls to enforcing Section 44(1)(e), specifically:

- The regulation has limited the power stewards previously had under this section to respond to one-off incidents;
- The regulation does not include any procedure for RWWA to lift a warning-off at its discretion; and
- It is currently inconsistent with Section 45(3)(a)(ii) which allows the rules of racing to empower the stewards to prohibit any person from entering upon and remaining on a racecourse or a trial track.<sup>931</sup>

<sup>931</sup> Submission No. 7B from Racing and Wagering Western Australia, 3 February 2010, p88.

RWWA asserts that the ‘warning-off’ procedures contained in Regulation 72 are only appropriate for long term bans, on the condition that the regulation includes a process by which a warning off can be lifted.

In addition, it states that the power exercised under section 44(1)(e) is appropriate for short term or one-off offences, on the condition that it is not subject to the types of provisions contained in Regulation 72. Instead, it notes that a maximum time limit should apply for any power exercised under this section.

In summary, RWWA finds that the following actions would be required to amend Section 44 and Regulation 72:

1. That Section 44 be amended to include a subsection prescribing RWWA’s explicit power to warn off, and lift a warning off; and
  - (a) that this new section be carried out in accordance with Regulation 72; and
  - (b) Regulation 72 be amended to reflect this change.
2. That Section 44(1)(e) be amended to include a maximum time limit for this section to apply; and
  - (a) any requirement that this section be enacted in accordance with regulation 72 be repealed.

The Committee agrees in principle with these changes, however it has concerns over the transparency of the proposed amendments. As such, the Committee finds that, in addition to RWWA’s proposed changes, the following additions, noted in italics, should be included:

1. That Section 44 be amended to include a subsection prescribing RWWA’s explicit power to warn off, and lift a warning off; and
  - (a) that this new section be carried out in accordance with Regulation 72; and
  - (b) regulation 72 be amended to reflect this change; and
  - (c) *regulation 72 be amended to include:*
    - (i) *that any warning off notice must have a prescribed time limit;*
    - (ii) *the conditions by which RWWA can apply for an extension or impose additional notices; and*
    - (iii) *the process by which the recipient can apply to RWWA for the warning off notice to be lifted.*
2. That Section 44(1)(e) be amended to include a maximum time limit for this section to apply; and
  - (a) any requirement that this section be enacted in accordance with Regulation 72 be repealed, and;
  - (b) *new procedures be set out in RWWA’s regulations that transparently outline the ‘short term’ incidences to which this section should apply.*

**Finding 84**

Racing and Wagering Western Australia's disciplinary powers in relation to warning-off should be clarified in legislation and should be reinforced with greater transparency measures.

**Recommendation 48**

That Section 44 of the *Racing and Wagering Western Australia Act 2003* be amended to include the explicit function to allow Racing and Wagering Western Australia to warn-off, and lift a warning-off, and that this function be carried out in accordance with Regulation 72 of the *Racing and Wagering Western Australia Regulations 2003*.

**Recommendation 49**

That consequential amendments be made to Regulation 72 of the *Racing and Wagering Western Australia Regulations 2003* including:

- that any warning-off notice must have a prescribed time limit;
- the conditions by which Racing and Wagering Western Australia can impose additional notices; and
- the process by which the recipient can apply to Racing and Wagering Western Australia to have a warning-off notice lifted.

**Recommendation 50**

That section 44(1)(e) of the *Racing and Wagering Western Australia Act 2003* be amended to include a maximum time limit and:

- Any requirement that this section be enacted in accordance with Regulation 72 of the *Racing and Wagering Western Australia Regulations 2003* be repealed; and
- New procedures be set out in the *Racing and Wagering Western Australia Regulations 2003* that prescribe the 'short term' incidences to which this section should apply.

**(ii) TAB agency agreements/ territorial rights**

In 2005 the ACCC authorised the WA TAB Agents' Association to represent its members (these comprise holders of full time/full service retail licences; known as SL1 licence holders or agents)<sup>932</sup> in collective bargaining with RWWA. Subsequently, the Association negotiated the 2006 round of Assignable Business Licence Agreements; due to expire in 31 August 2016,<sup>933</sup> and conducts operational and other contractual negotiations with RWWA on behalf of its members. The Association submitted that agents' rights under this License are limited—as is the general framework that SL1 agencies operate within.

Some of the issues raised by the Association are as follows:

- SL1 agents do not have rights over any designated geographical area. As such, RWWA can establish a competitor service within close proximity of an existing agency; thus jeopardising the short term viability, and long term investment opportunity, of agents. It is argued that this operates as a disincentive to SL1 License holders to develop and grow their businesses.<sup>934</sup>
- RWWA, as the Licensor and landlord, enjoys the additional advantage of being a direct competitor to the agents. It allows itself to offer wagering services that it does not make available at SL1 agencies—therefore RWWA could enjoy a commercial advantage over these retail outlets.<sup>935</sup> On this point, the Committee received supporting evidence from Mr Timothy Barnes, Morley TAB Agency, who notes that RWWA has, in some cases, offered special promotions to internet and phone account holders, which, by definition, precludes the customers of the TAB agencies. He argued that this makes it harder for the agencies to retain those customers. Mr Barnes submits that this sort of unequal marketing spend is unjust—and does not appear to be working for the overall best interests of the wagering market.<sup>936 937</sup>
- RWWA exercises such a powerful influence over agencies that licensees do not have any real way to develop their business. Agents maintain that they ought to be able to provide other services and products through their agencies that are not in conflict with, and do not derogate from, the primary purpose of the agency. Examples cited include the provision of dedicated facilities for important customers and the sale of sports memorabilia.<sup>938</sup>
- Other issues include the prescriptive nature of the License agreements whereby:
  - RWWA sets the hours of opening; the form and style of the displays and the products for sale;

<sup>932</sup> There are currently three categories of TAB outlets in RWWA's retail wagering operations. An SL1 is a full time / full service Agency; an SL2 is a PubTAB or a ClubTAB; and the SL3 is a self service site.

<sup>933</sup> Submission No. 8 from WA TAB Agents' Association, 30 November 2009, p4.

<sup>934</sup> *Ibid.*, pp6-7.

<sup>935</sup> Submission No. 8 from WA TAB Agents' Association, 30 November 2009, p7.

<sup>936</sup> Mr Timothy Barnes, Director, Morley TAB Agents, *Transcript of Evidence*, 8 March 2010, p13.

<sup>937</sup> Refer to Chapter 3.6 for a discussion on resolving the conflicts of interest of RWWA with respect to wagering.

<sup>938</sup> Submission No. 8 from WA Tab Agents Association, 30 November 2009, pp7-8.

- Agents are not able to operate more than one site at a time;
- Agents' long term capital investments are jeopardised because there is no guarantee of renewal at the expiry of an SL1 licence; this creates further disincentive to grow and develop the business.<sup>939</sup>

The main point put forward by WA TAB Agents' Association can be summarised by the following statement:

*Agents consider that without the freeing up of the operation of their businesses, both the Agent and RWWA are unable to reach the potential of the Agencies.*<sup>940</sup>

RWWA was asked to address many of these issues, to which it offered the following responses:

In regard to the lack of territorial rights of agents, RWWA stated that the licensees have never been offered a regional area and that placing an alternative TAB outlet close to a full retail SL1 TAB has proven to have minimal impact on the existing retail agencies. A PubTAB for example, will largely draw business from new customers who would not otherwise make use of a SL1 TAB. Nonetheless, RWWA noted that a form of voluntary compensation is in place should a retail TAB lose turnover as a result of a new TAB outlet being opened in close proximity.<sup>941</sup> It should be noted that the WA TAB Agents' Association stressed in their submission that this compensation is 'missing the point' as it does not address the long term impact an alternative TAB will have on the future resale of an existing TAB licence.<sup>942</sup>

To the criticism that it exercises too much control over the operating environment of full retail TABs, RWWA asserted that the wagering market is a highly regulated industry, so many of the operational and Licence requirements reflect these regulations, which the licensee is made aware of before they choose to enter into the business.<sup>943</sup>

In respect to the prescriptive nature in which RWWA determines each aspect of a TAB agency's operation, RWWA stipulated that it is simply trying to maintain professional standards, much like other retail 'chains', whereby the presentation and service offered at a full retail TAB agency is recognisable and consistent with any other SL1 agency.<sup>944</sup>

It is clear that some confusion exists between what RWWA and the licensee believe to be the role of a SL1 agency. RWWA argues that the SL1 agent should provide a full wagering service to customers, the provision of which must necessarily be prescribed by RWWA, because RWWA is

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<sup>939</sup> Ibid., p8.

<sup>940</sup> Ibid., p9.

<sup>941</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p50.

<sup>942</sup> Submission No. 8 from WA Tab Agents Association, 30 November 2009, p7.

<sup>943</sup> Mr Richard Burt, CEO, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p49.

<sup>944</sup> Ibid.

in turn regulated by the Gaming and Wagering Commission.<sup>945</sup> The WA TAB Agents' Association argued that it is appropriate for SL1 agents to be able to grow their businesses, and have some input into decisions that impact on the long term financial performance of their investment.<sup>946</sup>

In this regard, the TAB Agents' Advisory Committee<sup>947</sup> has received criticism from stakeholders who believe that, like many of the comments received about the consultative capacity of RWWA,<sup>948</sup> the process lacks any genuine attempt to negotiate or consult with the nominated TAB agents who attend these meetings. It has been suggested that decisions are only presented, not discussed. Mr Timothy Barnes, Morley TAB, noted that there is plenty of scope for consultation through the advisory committee but that:

*...if there is any particular critical issue that we vehemently oppose, we just get railroaded; it does not matter.*<sup>949</sup>

The Committee accepts the rationale asserted by the WA TAB Agents' Association that if full retail TAB agents are provided with long term incentives to develop and grow their businesses, both they and RWWA—and therefore the racing and wagering industry, will benefit. As such, RWWA should employ marketing and promotional opportunities that assist the entire retail wagering network—and avoid activities that promote one sector of the retail network to the detriment of another. To do otherwise could disguise or inhibit real growth in RWWA's wagering retail market.

As such, the Committee finds that the consultation and communication between RWWA and its TAB agents should be improved to clarify the operational role of a SL1 TAB retail agent and to explore more fully incentives and opportunities for business development.

### **Finding 85**

The consultation and communication between Racing and Wagering Western Australia and its (SL1) full retail TAB agents should identify potential opportunities and incentives for the continued business development of the Racing and Wagering Western Australia retail TAB network.

<sup>945</sup> Ibid., p48.

<sup>946</sup> The WA TAB Agents' Association notes that the initial capital investment to purchase some full SLI Licences could exceed one million dollars: Submission No. 8 from WA TAB Agents' Association, 30 November 2009, p2.

<sup>947</sup> The 2006 Assignable Business Licence provides for the election of four TAB Agents onto the TAB Agents Advisory Committee, to be joined by representatives of RWWA, and who meet on a regular basis. Submission No. 8 from WA TAB Agents' Association, 30 November 2009, p5.

<sup>948</sup> Refer to Chapter 2.6 (Consultation).

<sup>949</sup> Mr Timothy Barnes, Director, Morley TAB Agents, *Transcript of Evidence*, 8 March 2010, p9.

**(iii) Wagering commission rates**

Both SL1 TAB Agencies and SL2 Pub and ClubTABs have noted that the current commission rates are of concern.<sup>950 951</sup>

The WA TAB Agents' Association, which represents SL1 TAB agencies, noted that the commission rates are virtually the same as they were under the 1996 contract. As such, agents are 'dependent on growth to get an increase in our income. Of course, if you do not get the growth, your income does not increase'.<sup>952</sup> This creates an imperative for every SLI agency to grow.<sup>953</sup>

The AHA, which represents nearly 200 PubTABs in their dealings with RWWA, stated that one of its chief concerns is that the current commission arrangements do little to provide an incentive for operators to grow the TAB element of their business:

*PubTAB operators are not seeking to make massive profits from their wagering facilities but expect a reasonable return for the hard work, responsibility and effort that goes into running a punting agency for RWWA however [in some cases] the return on investment is negligible to the point of unviable.*<sup>954</sup>

The AHA further submitted that there is a general view amongst operators that RWWA is seeking to reduce the existing commission rates. The AHA argued this would be harmful to the industry.<sup>955</sup>

The Committee has previously noted that a factor critical to maintaining and growing wagering revenues relates to maintaining the existing wagering sales network.<sup>956</sup> Subsequently, it cautions against a situation occurring whereby commission rates become a disincentive to full time TAB agents and PubTAB operators to grow, or even maintain, their TAB operations.

As such, the Committee finds that a review into the commission rates payable to operators of SL1 and SL2 licences should be conducted, taking into account associated business costs, to determine a rate payable to provide an incentive to operators to establish, maintain or grow their retail wagering operations.

<sup>950</sup> Submission No. 45 from Australian Hotels Association Western Australia, 3 August 2010, p6, Mr Robert Morgan, President, WA TAB Agents' Association, *Transcript of Evidence*, 8 March 2010, p12; Submission No. 44 from Clubs WA, 13 July 2010, p2.

<sup>951</sup> There are currently three categories of TAB outlets in RWWA's retail wagering operations. An SL1 is a full time / full service Agency; an SL2 is a PubTAB or a ClubTAB; and the SL3 is a self service site.

<sup>952</sup> Mr Robert Morgan, President, WA TAB Agents' Association, *Transcript of Evidence*, 8 March 2010, p12.

<sup>953</sup> Refer to the discussion raised earlier in this Chapter on issues concerning SL1 Tab Agency Agreements. It includes information about the perceived impediments that exist for SLI agents in regard to growing their own businesses.

<sup>954</sup> Submission No. 45 from Australian Hotels Association Western Australia, 3 August 2010, p6.

<sup>955</sup> *Ibid.*

<sup>956</sup> Refer to Chapter 2.9(b) for a discussion on mechanisms to enhance wagering revenues.

**Recommendation 51**

That Racing and Wagering Western Australia reviews the commission rates payable to operators of SL1 and SL2 TAB Licences to help ensure the maintenance and potential growth of the retail wagering sales network.

**(iv) Racing Radio**

Racing Radio is a service provided by RWWA to broadcast racing activity throughout the state. A number of stakeholders have noted the inadequacy of Racing Radio coverage in country areas. From the evidence received, it was generally stressed that racing radio is a very important tool to promote racing in country areas. As such, stakeholders were critical about the provision of racing radio with respect to the intermittent coverage in country areas and the lack of local product that is included in the programming.<sup>957</sup> An indicative comment of stakeholder sentiment was expressed to the Committee by Mrs Margaret Skinner of Mt Barker Turf Club, who stated:

*Racing Radio is very inadequate. It has been a bugbear for years and years and years.*<sup>958</sup>

**Finding 86**

Racing Radio coverage is a very important service to industry participants throughout the state and evidence suggested that current coverage is inadequate and a cause of frustration for industry participants.

In regard to the intermittent coverage, Mr Richard Burt, RWWA agreed that coverage in the country was not ideal and stressed that the poor coverage is a direct factor of RWWA not being in a commercial position to acquire radio licences with broad coverage:<sup>959</sup>

<sup>957</sup> Mr Tony Marwick, President, Northam Race Club, *Transcript of Evidence*, 26 March 2010, p13; Mr Timothy Borgward, President, Pingrup Racing Club, *Transcript of Evidence*, 3 May 2010, p2; Mr David Wrensted, Vice President, Western Australian Provincial Thoroughbred Racing Association, *Transcript of Evidence*, 26 February 2010, p11; Mr Alfred Paganoni, Past President, Western Australian Country Harness Racing Association, *Transcript of Evidence*, 26 February 2010, p6; Mr Brendon Gardiner, Vice President, Bridgetown Harness Racing Club, *Transcript of Evidence*, 6 April 2010, p2; Mr David Abbott, Busselton Trotting Club, *Transcript of Evidence*, 6 April 2010, p13; Mrs Margaret Skinner, Secretary, Mt Barker Turf Club Inc, *Transcript of Evidence*, 12 March 2010, p11 Mr Barry Mahood, Chairman, York Racing Inc, *Transcript of Evidence*, 26 March 2010, p11.

<sup>958</sup> Mrs Margaret Skinner, Secretary, Mt Barker Turf Club Inc, *Transcript of Evidence*, 12 March 2010, p11.

<sup>959</sup> RWWA stated that Racing Radio costs between \$2-2.5million a year.

*It is inadequate in regional areas. We would like it to be better. Unless we get an ABC-type licence whereby we can get state coverage and can commercially afford it, it just will not happen...we are running narrowcast AM signals...at the bottom end of the spectrum...*<sup>960</sup>

RWWA indicated that the current cost of running racing radio is around \$2 million per year, which includes the cost of running studio operations, announcers, the breakfast show and the 50 or so radio licenses that transmit across the state.<sup>961</sup> RWWA asserted it is in communication with the Australian Communications and Media Authority about seeking new licences. Mr Burt explained that it is a highly regulated industry, with many restrictions in place with regard to the transmission of radio signals to ensure that there is no interference with other radio stations or mobiles phones. He described the process as ‘a nightmare’ but nonetheless stressed that RWWA is very active in trying to find ways to improve the racing radio system:

*We are taskmasters at being able to get into people and talk about how we can do this better and cheaper, putting transmitters on top of other people’s towers. It is a nightmare. If someone can help us in transmitting better, I welcome the opportunity.*<sup>962</sup>

On the issue of the lack of local product being broadcast, Mr Alf Paganoni of WACHRA, asserted that it was essential for country clubs to have their local product broadcast on racing radio:

*I believe that radio is probably the only way forward for country clubs—they cannot get their vision out, but they can get the voice out.*<sup>963</sup>

Mr Brendon Gardiner, Bridgetown Harness Racing Club stated that the lack of reliability of local product in racing radio was impacting on their ability to survive as a club.<sup>964</sup> Mr David Abbott, Busselton Trotting Club noted that it is wrong that RWWA is not broadcasting local races:

*We do not get preference in our state to our own business. RWWA is not giving preference to our own races.*<sup>965</sup>

Mr Barry Mahood of York Racing stated that racing radio ‘is a joke in the bush’ and that it can have a considerable impact on country clubs and their ability to create turnover because ‘people like to have a bet but they do not bet if they cannot hear their race’.<sup>966</sup>

RWWA stated that local content only contributes about 5 per cent value to the product that it broadcasts on racing radio; the rest being composed of what is being covered on Sky.<sup>967</sup> It was

<sup>960</sup> Mr Richard Burt, CEO, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010 p24.

<sup>961</sup> *Ibid.*, p22.

<sup>962</sup> *Ibid.*, pp23-24.

<sup>963</sup> Mr Alfred Paganoni, Past President, Western Australian Country Harness Racing Association, *Transcript of Evidence*, 26 February 2010, p6.

<sup>964</sup> Mr Brendon Gardiner, Vice President, Bridgetown harness Racing Club, *Transcript of Evidence*, 6 April 2010, p2.

<sup>965</sup> Mr David Abbott, Busselton Trotting Club, *Transcript of Evidence*, 6 April 2010, p13.

<sup>966</sup> Mr Barry Mahood, Chairman, York racing Inc, *Transcript of Evidence*, 26 March 2010, p11.

not established by the Committee if this was a function of cost. Nonetheless, RWWA did concede that its ability to promote local wagering product is under pressure.<sup>968</sup>

*We pay for everything, and without adequate funding, will either spend more on wagering and less on racing, or we will not have wagering services.*<sup>969</sup>

On the future of Racing Radio, Mr Richard Burt, CEO of RWWA stated the following:

*I can see a positive future as we move towards digital radio and the population of Western Australia takes up digital radio, and we can see an improvement in the quality of our coverage. Without adequate funding, I can see it going the other way.*<sup>970</sup>

The Committee acknowledges that Racing Radio coverage is a very important service to industry participants throughout the state. As such, every effort should be made to maintain and improve the Racing Radio service. The Committee recognises that RWWA is not currently in a position to acquire a radio licence that is capable to broadcast statewide. The remedy may be found in new technologies like digital radio and the Committee understands that RWWA will continue to seek new ways to broadcast Racing Radio to country areas. In addition, despite the financial limitations that RWWA faces, the recent expansion of RWWA's radio network in the Kalgoorlie-Boulder and Kambalda regions<sup>971</sup> demonstrates that RWWA is in fact continuing to improve Racing Radio coverage in the short term.

With respect to the quantity of local product being broadcast on the system, the Committee concurs with stakeholder views that industry participants are more likely to have a bet on local product if they can either see or hear local races being broadcast. This will increase the potential ability of race clubs to generate turnover and subsequently help reduce the burden that product fees place on the Western Australian industry. As such, the Committee finds that it is incumbent on RWWA to broadcast and generally promote local product wherever possible.

### **Finding 87**

Racing and Wagering Western Australia must make every effort to broadcast local racing product on the racing radio network.

<sup>967</sup> Mr Richard Burt, CEO, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010 p23.

<sup>968</sup> This included RWWA's wagering spend on TABForm and its other wagering promotional material; of which Racing Radio is a part.

<sup>969</sup> Mr Richard Burt, CEO, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p23.

<sup>970</sup> *Ibid.*

<sup>971</sup> Dean Stacey, 'Coup for Punters', *Kalgoorlie Miner*, 2 October 2010, p58.

**(v) Animal welfare issues**

Although the topic of animal welfare was not raised extensively during the course of the Inquiry, the Committee considers it an issue of ongoing importance that should be taken into consideration by RWWA, and the industry overall, as it plans for the future. Some of the main themes conveyed to the Committee can be summarised as follows:

- Without the horse and its correct treatment and welfare, the racing industry would not be able to generate turnover. Greater research is required into the welfare of horses to guard against future outbreaks of diseases, like equine influenza.<sup>972</sup>
- RWWA has a duty of care to ensure that a horse is not being overworked. In relation to harness racing, the current method of liaising with trainers to ensure that a horse is 'fit' is inadequate as the horse is more than likely to be fit because it is traditional in harness racing to produce 'tough' horses. A policy should be introduced restricting the number of times a horse can start within a week, a month, a quarter, and any consecutive 12 month period. Some possible timeframes could be (respectively), no more than 3 times in a week; no more than 6 times in a month; no more than 10 times in a quarter; no more than 26 times in a year.<sup>973</sup>
- Animal welfare issues associated with thoroughbred, harness and greyhounds are not being appropriately recognised by the industry or by government. The *Animal Welfare Act 2002* does not specifically offer any prescribed protection for racing animals.<sup>974</sup>

The Committee notes that RWWA and industry participants are subject to the *Animal Welfare Act 2002* which does afford substantial protection to racing animals. In particular, Section 19 of the *Animal Welfare Act 2002* prescribes offences against animals, of which Section 19(3) specifically states that it is an offence of cruelty against an animal if the animal is worked, driven, ridden or otherwise used when it is not fit, is overused or is used in a manner which is likely to cause harm.

RWWA has noted that animal welfare is a critical industry issue and threat if not managed properly. It actively promotes that there is a need to minimise any threat to the wellbeing of animals across all racing codes and to 'maintain active development of our animal welfare programmes'.<sup>975</sup> RWWA's current initiatives with respect to animal welfare issues include:

- A memorandum of understanding (MOU) between RWWA and the RSPCA on animal welfare breaches, agreeing to facilitate the successful investigation of alleged breaches of animal welfare in racing animals;<sup>976</sup>

<sup>972</sup> Ms Lisa Baker MLA, Western Australia, Legislative Assembly, *Parliamentary Debates* (Hansard), 21 October 2009, p8401.

<sup>973</sup> Submission No. 15, 30 November 2009, pp4-5.

<sup>974</sup> Submission No. 20 from A. Herlihy, 8 December 2009, pp1-2.

<sup>975</sup> Racing and Wagering Western Australia, 'Towards Sustainability, April 2009. Available at: [www.rwwa.com.au/home/towards-sustainability.pdf](http://www.rwwa.com.au/home/towards-sustainability.pdf) Accessed on 7 October 2010.

<sup>976</sup> Racing and Wagering Western Australia, 'Thoroughbred Racing Consultative Group (TRCG), Minutes of the meeting held on Tuesday 31 August 2010', Available at: [www.rwwa.com.au/home/TRCG\\_Minutes\\_20100831.pdf](http://www.rwwa.com.au/home/TRCG_Minutes_20100831.pdf). Accessed on 7 October 2010.

- The Animal Welfare Group (RAWG) established by RWWA stewards and veterinarians. The group's focus is to develop animal welfare policies and promote the importance of animal welfare issues across all three codes. In 2008-09, the RAWG produced the RAWG Manual containing formalised animal welfare policies; and undertook research relating to breeding and racing across all codes, to be made available for future strategic planning;<sup>977</sup> and
- The Western Australian Equine Influenza Industry Group (WAEIIG) established by RWWA following the equine influenza outbreak. The group was to provide strategic advice to protect the WA horse industry from EI, develop risk minimisation strategies consistent with the nationally agreed response and communicate effectively with all horse industry stakeholders, the general public and the state government.<sup>978</sup>

The Committee acknowledges that RWWA is taking steps to mitigate any risk of breaches to the welfare of animals in the racing industry. Nonetheless, the Committee makes the following observations as to how RWWA may further strengthen its approach to animal welfare:

1. Increase information on the RWWA website in regard to RWWA's animal welfare policies and guidelines, for example the RAWG Manual could be used to increase awareness among industry participants and the wider community regarding RWWA's animal welfare policies;
2. Expand animal welfare guidelines and policies, to more appropriately inform participants as to what constitutes an offence against animals under the *Animal Welfare Act 2002*;
3. Seek stakeholder input to assist development of future animal welfare policies and reinforce existing policies; and
4. Educate industry participants on animal welfare issues and continue research into animal welfare issues.

#### **(vi) Breeding incentives**

The West Australian Bloodhorse Breeders Association Inc (WABBA) submitted that the breeding industry for both thoroughbred and standardbred horses is essential to the racing and wagering industry:

*It drives ownership of racehorses, which in turn drives the amount of racing product available for field size, therefore producing better turnover and, ultimately through TAB profits, the amount that can be delivered to the community for the state's economic, employment, community and social well being.*<sup>979</sup>

WABBA contended that thoroughbred racing is developing strongly in WA with horses beginning to sell and perform well interstate and internationally. Further, given the benefits breeding brings to the industry, it is imperative that RWWA invests money into an appropriate sales venue for

<sup>977</sup> Racing and Wagering Western Australia, *Annual Report 2009*, RWWA, Perth, 12 October 2009, p24.

<sup>978</sup> Racing and Wagering Western Australia, 'Western Australian Equine Influenza Industry Group, 2007, Available at: [www.rwwa.com.au/home/waeiig.html](http://www.rwwa.com.au/home/waeiig.html). Accessed on 7 October 2010.

<sup>979</sup> Submission No. 18 from West Australian Bloodhorse Breeders Association Inc, 8 December 2009, p2.

marketing Western Australian bred horses. WABBA noted that breeders in the state have been trying to sell horses in a substandard facility for a long time:

*...to be unable to show off our produce to people in a proper way is actually detrimental to the industry as a whole, because it flows on to whether we get people from overseas and the better trainers...from the eastern states.*<sup>980</sup>

WABBA also stated that it is important that a quarantine facility be established in the state ‘to encourage the participation of overseas horses in any racing program or to accommodate shuttle stallions from the US and Europe’.<sup>981</sup> Without this, WABBA argued that the breeding industry would contract throughout the state—which will be detrimental to the entire industry. As such, it should be a matter of priority that RWWA examines a way to establish or finance a purpose built sales/quarantine facility in WA.<sup>982</sup>

With regard to harness racing, the Committee received feedback from stakeholders that the breeding stock in harness racing is in critical decline because there are no incentives for breeders.<sup>983</sup> This has often meant it has been easier to import race ready horses from interstate or overseas.<sup>984</sup> Mr Mark Roberts of WACHRA observed this is partly because the advent of artificial insemination has meant that mares are breeding more easily with eastern state sires and as such incentives like ‘sire stakes’ are required to encourage breeders. Mr Roberts also suggested that uncertainty in the industry, and particularly the tentative state of harness racing, had discouraged breeders:

*In the past two or three years it [breeding] has dropped even more because people are struggling to see where the industry is heading. It is hard for someone to spend \$5 000 or \$10 000 on breeding a horse when they are unsure whether they will have a place to race it in two or three years when the horse is ready to race.*<sup>985</sup>

The Committee believes that a strong breeding industry is critical to the ongoing and overall viability of the WA racing industry. It is therefore important for WA to have a vital local breeding industry across all racing codes.

<sup>980</sup> Mr Gray Williamson, President, West Australian Bloodhorse Breeders Association Inc, *Transcript of Evidence*, 26 February 2010, p4.

<sup>981</sup> Mr Gray Williamson, President, West Australian Bloodhorse Breeders Association Inc, *Transcript of Evidence*, 26 February 2010, p3.

<sup>982</sup> Submission No. 18 from West Australian Bloodhorse Breeders Association Inc, 8 December 2009, pp 3-5.

<sup>983</sup> Mr Stephen Hyde, Williams Harness Racing Club, *Transcript of Evidence*, 3 May 2010, p6.

<sup>984</sup> Submission No. 46 from Pinjarra Harness Racing Club, 6 April 2010, p2; Submission No. 15, 30 November 2009, pp3-4.

<sup>985</sup> Mr Mark Roberts, President, WACHRA, *Transcript of Evidence*, 26 February 2010, p13.

**Finding 88**

It is important that Racing and Wagering Western Australia supports a vibrant and sustainable breeding industry across all racing codes.

**(b) Committee observations**

The following list of challenges confronting RWWA and the racing industry has been informed by Members' own experiences as participants in the racing industry<sup>986</sup> and partly by observations during this Inquiry. These challenges are highlighted here due to their potential bearing on the future of racing and wagering in Western Australia:

**(i) Remaining competitive in a challenging wagering market**

It is critical that RWWA is able to remain competitive in an ever-changing and growing wagering market. The particular challenges confronting RWWA in this respect have already been examined in Chapter 2.9 (Wagering Revenues) where it was also noted that increasing racing in Western Australia is not the answer to generating increased revenues. The Committee analysed a number of alternative mechanisms to boost wagering revenues in Chapter 2.9 and also examined RWWA's ability to compete more effectively through a reduction in the rate of wagering tax (Chapter 2.8). RWWA itself has indicated that it is taking a more proactive approach to ensuring that in the lead up to the expiration of its pooling agreement with Tabcorp in August 2012,<sup>987</sup> it is not confronted again with significantly higher costs. RWWA has indicated in this regard that it is exploring all options specifically it 'can either pull back in Victoria or New South Wales...talk to the UniTAB operation or ... stand alone'.<sup>988</sup>

Another important element in remaining competitive in the wagering sector relates to ensuring that the TAB has the highest quality infrastructure. This too was alluded to in Chapter 2.9 (Wagering Revenues). In this regard, RWWA has recently undertaken significant capital works in the form of bet engine replacement.<sup>989</sup> The estimated total cost of the project as at the end of the 2008-09 financial year was approximately \$31 million. Ticket terminal replacement has also occurred with a view to upgrading technology to adapt to changing wagering conditions at an estimated total cost of \$17 million.<sup>990</sup>

<sup>986</sup> Members' private interests pertaining to racing and/or wagering were tabled in the Legislative Assembly on 24 November 2009.

<sup>987</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p7.

<sup>988</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, pp52-53.

<sup>989</sup> Mr James Freemantle, Deputy Chairman, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p33.

<sup>990</sup> Racing and Wagering Western Australia, *Annual Report 2009*, pp27, 70. Available at: [www.rwwa.com.au/home/rwwa-annual-report-2009.pdf](http://www.rwwa.com.au/home/rwwa-annual-report-2009.pdf) Accessed on 4 October 2010.

It is encouraging also that RWWA is actively investing in improvements to its retail wagering network:

*Part of our plan is to upgrade the agencies. The board is dealing with a major infrastructure plan at the moment for agencies, which is about modernising; continuing the modernisation program of putting in toilets, making them more aesthetic with fixtures, fittings and services, and making them more secure.<sup>991</sup>*

## **(ii) Infrastructure**

As detailed in Chapters 2.7 (Distribution of Funds) and 2.8 (Taxation), it is essential that RWWA meets the urgent need for racing industry infrastructure. This relates to both the provision of new, and maintenance of existing, infrastructure with regard to racing and training facilities across the three codes. Government grants will only go part of the way to addressing the \$70 million infrastructure shortfall identified by RWWA. As detailed in this report, the establishment of a dedicated infrastructure fund will ensure a secure funding stream for this purpose.

The implementation of some of the following findings/recommendations will only be possible with the establishment of the proposed infrastructure fund.

## **(iii) Racing/training facilities into the future**

### **Thoroughbred racing/training facilities**

Industry concerns regarding training facilities in the metropolitan area have been examined in Chapter 2.7 (Distribution of Funds). In relation to metropolitan thoroughbred training facilities, land at Ascot and Lark Hill is now priced out of the reach of most new trainers entering the industry. Perth Racing indicated that its subsidy from RWWA does not cover the cost of maintaining the facility for the large number of horses that work there.<sup>992</sup> In other major cities stables are being forced out of city suburbs like Ascot, with stables either relocated on-course or trainers moving to training centres outside the city area.

The WA Trainers' Association has also expressed concern about a lack of racing/training facilities in the metropolitan area and has suggested that 'there are sufficient horses in training to support three race meetings a week in the near metropolitan area now, let alone with the continued expansion of population in and around the city. Provincial tracks are barely adequate to meet industry needs with fields reduced to 10 starters in some cases....'<sup>993</sup> RWWA has indicated in relation to the latter point that it continues to work towards optimal field sizes (12-14 runners) and

<sup>991</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 20 August 2010, p50.

<sup>992</sup> Mr Edward (Ted) van Heemst, Chairman, Perth Racing, *Transcript of Evidence*, 26 February 2010, pp4-5.

<sup>993</sup> Submission No. 22B from WA Racing Trainers' Association, 6 August 2010, p2.

although field sizes have averaged fewer runners in metropolitan and provincial races, the emphasis has been on maintaining full fields in order to enhance wagering revenue.<sup>994</sup>

As detailed in Chapter 2.7 (Distribution of Funds), RWWA has recognised the importance of training facilities in its strategic vision for the thoroughbred code:

*...from a capital infrastructure investment perspective, it is imperative that we adequately sustain training tracks, particularly those that service our metropolitan and provincial starter numbers: Ascot, Lark Hill and Bunbury ... From a metropolitan perspective, it is recommended that an evaluation of long-term venue training and racing requirements is undertaken taking into account Ascot's capacity to accommodate long-term stabling along with horse population demands. From a provincial perspective, the six key venues - Bunbury, Pinjarra, Northam, Albany, Geraldton and Kalgoorlie - will continue to be the focus of track and training investment.<sup>995</sup>*

Perth Racing indicated that it had suggested a potential site to RWWA for a dedicated training facility which would relieve the cost pressures on the club from having to provide training facilities at Ascot.<sup>996</sup> RWWA indicated however that it does not have the ability to fund a new training track and that 'the cost to acquire the land is one thing, but to build a new track and full training facilities would cost \$15 million. That is not including the land purchase'.<sup>997</sup> As such, RWWA's approach to training facilities, as outlined in the thoroughbred vision statement is to leverage the existing tracks:

*We need horses to be trained at Ascot. But we want to take pressure off Ascot. Between 400 and 600 horses train there on training mornings, which is an overcrowded environment. We have complete empathy for Ascot. We need to do two things. We need to put boxes and stalls at Lark Hill and have on-course stables. That is what people are asking for. They want to move out of the large blocks that are highly capitalised. They want to realise their cash and live in a different environment in which their horses live on-course. That will give new entrants who cannot afford the land the ability to lease the stalls at subsidised rates to enable them to be there... The plan is to continue training at Ascot, to develop 300 or 400 stalls at Lark Hill, and to continue to leverage inner and outer regional tracks as training tracks.<sup>998</sup>*

<sup>994</sup> Racing and Wagering Western Australia, *Securing the Future: A Vision of Sustainability for the WA Thoroughbred Industry*, RWWA, March 2010, p12.

<sup>995</sup> Racing and Wagering Western Australia, *Securing the Future: A Vision of Sustainability for the WA Thoroughbred Industry*, RWWA, March 2010, p9.

<sup>996</sup> Mr Edward (Ted) van Heemst, Chairman, Perth Racing, *Transcript of Evidence*, 26 February 2010, p5.

<sup>997</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p42.

<sup>998</sup> *Ibid.*, pp42-43.

RWWA's proposal to upgrade the Lark Hill facility forms part of its \$70 million requirement for infrastructure funding.<sup>999</sup> As stated above, this again highlights the importance of securing a dedicated funding stream for racing infrastructure.

It is the Committee's view that RWWA should take a long-term approach to the provision of training facilities for the metropolitan area.

### **Finding 89**

Racing and Wagering Western Australia should take a long-term approach to the provision of training facilities for the metropolitan area.

### **Metropolitan racetracks**

The Committee understands that there is a misconception within the wider community regarding the need for two metropolitan thoroughbred racetracks at Ascot and Belmont Park.

RWWA has indicated support<sup>1000</sup> for the continuation of two thoroughbred turf racing tracks in the metropolitan area:

*As for thoroughbreds, while there is the need to race on a grassed surface, and that is the favoured surface of the thoroughbred industry worldwide, and certainly in Australia, there is a requirement to have two tracks. You cannot race the number of meetings that are conducted in the metropolitan and provincial areas without giving those turf tracks some respite.*<sup>1001</sup>

With regard to the location of Perth's metropolitan racetracks, RWWA reinforced that this matter is out of its hands since both tracks (Ascot and Belmont) are club assets belonging to Perth Racing:

*We do not control the industry's assets; the members do ... whatever the constitution says. We can do what we can do. We can apply commonsense and business rationale but on the big subject of major assets it is really up to the club to make wise decisions.*<sup>1002</sup>

It is the Committee's view that the current level of racing within the metropolitan area warrants the continuation of two thoroughbred racetracks.

<sup>999</sup> Submission No. 7C from Racing and Wagering Western Australia, 31 May 2010, Appendix D.

<sup>1000</sup> Mr Ross Bowe, Chairman, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p40.

<sup>1001</sup> Mr Robert Pearson, Director, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p39.

<sup>1002</sup> Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p39.

**Finding 90**

The current level of racing within the metropolitan area warrants the continuation of two thoroughbred racetracks.

In relation to harness racing, there has been some conjecture regarding the future of the WATA-owned Gloucester Park given its asset value and whether the headquarters of harness racing should be moved to an outer metropolitan venue as has occurred in some other states.

When asked by the Committee, RWWA indicated that the jury is still out in NSW and Victoria which had moved racing from inner metropolitan sites to outer metropolitan venues and that if RWWA had reason to believe from the experience on the east coast that beneficial outcomes could be achieved for the industry, it would have reason to look at whether similar outcomes could be translated to a WA context. In the meantime, RWWA acknowledged that the harness industry favoured the continuation of racing at Gloucester Park:

*The harness industry in Western Australia, and certainly the metropolitan area, seems very fixed on being able to stay at Gloucester Park. That is their right; and, if they have the ability to do so, so be it. If we were to find from the experiment in the other two states that we had reason to believe that we could influence the people involved with Gloucester Park by giving them reasons we think they should move, I am sure that in a proper and sane community it would be looked at.*<sup>1003</sup>

It is the Committee's view that RWWA should work with the WATA to ensure that the harness racing industry has the best possible facility for metropolitan racing.

**Finding 91**

Racing and Wagering Western Australia should work with the Western Australian Trotting Association to ensure that the harness racing industry has the best possible facility for metropolitan racing.

**Synthetic tracks**

As highlighted in Chapter 2.7 (Distribution of Funds), the Bunbury Turf Club announced a plan to install a synthetic track inside its grass racetrack as part of its \$14m - \$15m redevelopment proposal. The synthetic track will be available for racing and training. This calls into question more broadly whether a synthetic track is needed in the metropolitan area to help meet the increasing demand for better training facilities and take some of the load off existing grass tracks, which are costly to maintain and also require heavy watering.

<sup>1003</sup> Mr Robert Pearson, Director, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p39.

RWWA does not support the use of synthetic tracks for racing, however, is more open to the potential for synthetic tracks to be used for training purposes.<sup>1004</sup> RWWA acknowledged that it had been criticised for being slow on the issue,<sup>1005</sup> although the inclusion of the Bunbury Turf Club proposal as part of RWWA's identified need for infrastructure spending is perhaps evidence that this is changing. Even so, given the real and immediate pressures relating to training facilities and water conservation, it would be appropriate for RWWA to thoroughly investigate the viability of synthetic tracks.

### **Recommendation 52**

That Racing and Wagering Western Australia continues to investigate the viability of synthetic tracks for training purposes.

#### **(iv) National totalisator pool**

During the Committee's visit to Queensland and Victoria, there was widespread support across various sectors of the industry for a national totalisator pool as the best method for state TABs to compete with corporate bookmakers.<sup>1006</sup> Contributors to the Inquiry warned of the difficulties of achieving such a goal (for example anti-competitive reasons might be raised by the ACCC, and there are also the vested interests of the wagering operators in the larger states to compete with).<sup>1007</sup> There would also be difficulty coordinating such a process without a federal Minister for Racing. However, the Committee believes that RWWA and the Minister for Racing and Gaming should continue to pursue whatever avenues are available.

### **Finding 92**

The introduction of a national totalisator pool would be beneficial for Western Australia.

### **Recommendation 53**

That the Minister for Racing and Gaming and Racing and Wagering Western Australia pursue any avenue available to achieve a national totalisator pool.

<sup>1004</sup> Ibid.

<sup>1005</sup> Mr Ross Bowe, Chairman, Racing and Wagering Western Australia, *Transcript of Evidence*, 4 June 2010, p40.

<sup>1006</sup> The Committee heard comments in favour of the idea of larger and/or national pools and also the difficulties involved during briefings conducted with Harness Racing Queensland (13 April 2010); Greyhounds Queensland Limited (13 April 2010); Harness Racing Victoria (14 April 2010); Racing Victoria Limited (16 April 2010).

<sup>1007</sup> For example, Mr Ross Bowe, Chairman, and Mr Richard Burt, Chief Executive Officer, Racing and Wagering Western Australia, *Transcript of Evidence*, 30 April 2010, p7.

JOINT STANDING COMMITTEE ON THE REVIEW OF THE RACING AND WAGERING WESTERN AUSTRALIA ACTS  
CHAPTER 3

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## CHAPTER 4 SUMMARY OF RECOMMENDED LEGISLATIVE AMENDMENTS

As the purpose of the Committee's Inquiry is foremost to review the RWWA Acts, for ease of reference the recommendations pertaining to amending the Act are reproduced here.

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### **Recommendation 1**

That Section 8(2) of the *Racing and Wagering Western Australia Act 2003* be amended to replace 'regional development' with 'country racing' to more appropriately capture the requirement for knowledge of, and experience in, country racing.

Page 33

### **Recommendation 4**

That Section 12 of the *Racing and Wagering Western Australia Act 2003* be amended to stipulate that the process by which eligible bodies are to be determined, and the publication of eligible bodies be specified in regulation.

Page 34

### **Recommendation 6**

That any member of the selection panel nominated under section 11(2)(c), (d) or (e) of the *Racing and Wagering Western Australia Act 2003* should not be eligible to stand for consecutive terms under section 11(8) of the Act.

Page 36

### **Recommendation 8**

That the *Racing and Wagering Western Australia Act 2003* be amended to insert a clause explicitly preventing the same individual from holding the positions of Chief Executive Officer and Chair of the Racing and Wagering Western Australia board concurrently.

Page 51

**Recommendation 11**

That the *Racing and Wagering Western Australia Act 2003* be amended to insert the following specific statement of objective for Racing and Wagering Western Australia in relation to racing in general:

*That Racing and Wagering Western Australia is to foster the development, promote the welfare and ensure the integrity of metropolitan and country thoroughbred racing, harness racing and greyhound racing. In undertaking these objectives, Racing and Wagering Western Australia is to recognise the unique characteristics of each racing code so as to maximise the sustainability of racing in Western Australia.*

Page 64

**Recommendation 14**

That, in order to expedite the approval process of Racing and Wagering Western Australia's Strategic Development Plan, Section 74 of the *Racing and Wagering Western Australia Act 2003* be amended to allow the Treasurer to impose some direction on the draft Strategic Development Plan.

Page 65

**Recommendation 17**

That section 85 of the *Racing and Wagering Western Australia Act 2003* be amended to include a reasonable timeframe within which notice of financial difficulty must be given by Racing and Wagering Western Australia to the Minister.

Page 75

**Recommendation 20**

That the *Racing and Wagering Western Australia Act 2003* be amended to include a new provision for a club to make representations to the board in instances of club closure or a significant reduction in meetings that will affect a club's long-term viability.

Page 84

**Recommendation 21**

That Section 82 of the *Racing and Wagering Western Australia Act 2003* be amended to include the statement that nothing in Section 82(2) precludes Racing and Wagering Western Australia from consulting outside of the prescribed bodies in relation to the operations of Racing and Wagering Western Australia or a subsidiary.

Page 106

**Recommendation 25**

That the *Racing and Wagering Western Australia Act 2003* be amended to delete Section 105 and that consequential amendments be made to remove references to Section 105.

Page 121

**Recommendation 27**

That the Minister for Racing and Gaming in conjunction with the Treasurer reviews the rates of tax for totalisator wagers and fixed odds wagers in sections 4 and 5 respectively of the *Racing and Wagering Western Australia Tax Act 2003* with a view to enabling Racing and Wagering Western Australia to compete more effectively.

Page 130

**Recommendation 29**

That the *Racing and Wagering Western Australia Act 2003* be amended to establish a special purpose account for the infrastructure fund.

Page 131

**Recommendation 31**

That Section 77(2) of the *Racing and Wagering Western Australia Act 2003* be amended to require the inclusion of proposed infrastructure spending in the Statement of Corporate Intent for Racing and Wagering Western Australia.

Page 140

**Recommendation 33**

That Section 63 of the *Racing and Wagering Western Australia Act 2003* be amended to enable Racing and Wagering Western Australia to offer wagering services through electronic agents.

Page 161

**Recommendation 37**

That the *Racing and Wagering Western Australia Act 2003* be amended to include the power for Racing and Wagering Western Australia to direct clubs and allied bodies where there is a severe threat to the welfare of racing.

Page 161

**Recommendation 38**

That the *Racing and Wagering Western Australia Act 2003* be amended to ensure Racing and Wagering Western Australia cannot impose sanctions for not complying with a direction without those clubs and allied bodies first making representation.

Page 175

**Recommendation 42**

That the Minister for Racing and Gaming reviews the most appropriate manner in which any prescribed function of Racing and Wagering Western Australia that conflicts with its prescribed functions to carry out its wagering business under Sections 50 and 120 of the *Racing and Wagering Western Australia Act 2003* be removed and subsequently vested with the Gaming and Wagering Commission.

Page 177

**Recommendation 43**

That Section 118 of the *Racing and Wagering Western Australia Act 2003* be amended to remove the requirement for a common seal provided alternative document execution requirements can be applied.

Page 178

**Recommendation 44**

That Section 63 of the *Racing and Wagering Western Australia Act 2003* be amended to remove references to wagers and payments by letter sent through the post, and that consequential amendments in this regard are made to the *Racing and Wagering Western Australia Regulations 2003*.

Page 178

**Recommendation 45**

That Section 86 of the *Racing and Wagering Western Australia Act 2003* be amended to remove any provisions which duplicate the *State Records Act 2000*.

Page 179

**Recommendation 46**

That Section 22(3)(a) and (b) of the *Racing and Wagering Western Australia Act 2003* be amended to reflect applicable legislative requirements defining the minimum remuneration and other terms of conditions of employment of staff.

Page 179

**Recommendation 47**

That Section 3(1) of the *Racing and Wagering Western Australia Act 2003* be amended to replace:

- ‘Australian and New Zealand Greyhound Association’ with ‘Greyhounds Australasia’; and
- ‘Australian Harness Racing Council’ with ‘Harness Racing Australia’.

Page 183

**Recommendation 48**

That Section 44 of the *Racing and Wagering Western Australia Act 2003* be amended to include the explicit function to allow Racing and Wagering Western Australia to warn-off, and lift a warning-off, and that this function be carried out in accordance with Regulation 72 of the *Racing and Wagering Western Australia Regulations 2003*.

Page 183

**Recommendation 49**

That consequential amendments be made to Regulation 72 of the *Racing and Wagering Western Australia Regulations 2003* including:

- that any warning-off notice must have a prescribed time limit;
- the conditions by which Racing and Wagering Western Australia can impose additional notices; and
- the process by which the recipient can apply to Racing and Wagering Western Australia to have a warning-off notice lifted.

Page 183

**Recommendation 50**

That section 44(1)(e) of the *Racing and Wagering Western Australia Act 2003* be amended to include a maximum time limit and:

- Any requirement that this section be enacted in accordance with Regulation 72 of the *Racing and Wagering Western Australia Regulations 2003* be repealed; and
- New procedures be set out in the *Racing and Wagering Western Australia Regulations 2003* that prescribe the 'short term' incidences to which this section should apply.



MR J.E. McGRATH, MLA  
CHAIRMAN

JOINT STANDING COMMITTEE ON THE REVIEW OF THE RACING AND WAGERING WESTERN AUSTRALIA ACTS  
CHAPTER 4

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# APPENDIX ONE

## SUBMISSIONS RECEIVED

The following submissions were received by the Committee for the Inquiry:

| <b>Date</b>      | <b>Name</b>                       | <b>Position</b>         | <b>Organisation</b>                             |
|------------------|-----------------------------------|-------------------------|---|
| 20 October 2009  | Mr George C Barber                | (Private submission)    |   |
| 4 November 2009  | Mr George W Pyett                 | (Private submission)    |   |
| 10 November 2009 | Mr R.E. Dowding                   | (Private submission)    |   |
| 19 November 2009 | Mr N.A. Harman                    | (Private submission)    |   |
| 18 November 2009 | Mr Barry Mahood                   | Chairman                | York Racing (Inc)                               |
| 29 November 2009 | Mr Bruce Brown                    | Secretary/Treasurer     | Geraldton Harness Racing Club (Inc)             |
| 30 November 2009 | Mr Richard Burt                   | Chief Executive Officer | Racing and Wagering Western Australia           |
| 30 November 2009 | Mr Robert Morgan                  | President               | WA TAB Agents' Association Inc.                 |
| 30 November 2009 | Mr Frank Peczka                   | (Private submission)    |   |
| 30 November 2009 | Ms Toni Walkington                | Branch Secretary        | CPSU/CSA  |
| 30 November 2009 | Mr Dino Di Cianno                 | Director                | Best Bookies Price Pty Ltd                      |
| 30 November 2009 | Mr Jon Menzel                     | Manager                 | Narrogin Race & Pace Inc                        |
| 30 November 2009 | Ms Margaret Skinner               | Secretary               | Mt Barker Turf Club Inc                         |
| 30 November 2009 | Mr David Simonette                | Chief Executive Officer | Western Australian Greyhound Racing Association |
| 27 November 2009 | Mr Wayne Barnes and Mr Tim Barnes | Morley TAB Agents       |   |
| 26 November 2009 | Mr Kevin O'Brien                  | (Private submission)    |   |

## JOINT STANDING COMMITTEE ON THE REVIEW OF THE RACING AND WAGERING WESTERN AUSTRALIA ACTS

| <b>Date</b>      | <b>Name</b>        | <b>Position</b>         | <b>Organisation</b>   |
|------------------|--------------------|-------------------------|---|
| 27 November 2009 | Mr Les Coulson     | (Private submission)    |   |
| 27 November 2009 | Ms Astrid Herlihy  | (Private submission)    |   |
| 29 November 2009 | Ms Lorna Maund     | (Private submission)    |   |
| 4 December 2009  | Mr Gray Williamson | President               | West Australian Bloodhorse Breeders' Association Inc.               |
| 14 December 2009 | Mr Doug Milner     | Manager                 | Broome Turf Club (Inc)  |
| 14 December 2009 | Mr Brian Paddick   | Secretary               | WA Racing Trainers' Association                                     |
| 18 December 2009 | Mr Craig Chadwick  | Chairman                | Bunbury Turf Club   |
| 24 December 2009 | Mr David Prance    | Vice Chairperson        | Western Australian Provincial Thoroughbred Racing Association (Inc) |
| 24 December 2009 | Mr David Wrensted  | Manager                 | Geraldton Turf Club Inc.  |
| 23 December 2009 | Ms Nicole Bell     | Manager                 | Northam Race Club Inc.  |
| 30 December 2009 | Mr Harvey Crossman | President               | Western Australian Racehorse Owners' Association                    |
| 15 January 2010  | Mr Kevin Jeavons   | President               | Harness Racing Owners Association of WA Inc                         |
| 15 January 2010  | Mr John Burt       | President               | Western Australian Trotting Association                             |
| 15 January 2010  | Mr Gino Monaco     | President               | Fremantle Harness Racing Club (Inc)                                 |
| 14 January 2010  | Mr Rob Deadman     | Secretary               | West Australian Country Harness Racing Association                  |
| 18 January 2010  | Mrs Lesley Solly   | President               | Albany Racing Club Inc  |
| 28 January 2010  | Mr Ted van Heemst  | Chairman                | Perth Racing  |
| 2 February 2010  | Mr Ken Davies      | President               | Albany Harness Racing Club  |
| 3 February 2010  | Mr Richard Burt    | Chief Executive Officer | Racing and Wagering Western Australia                               |

## JOINT STANDING COMMITTEE ON THE REVIEW OF THE RACING AND WAGERING WESTERN AUSTRALIA ACTS

| <b>Date</b>       | <b>Name</b>               | <b>Position</b>   | <b>Organisation</b>                             |
|-------------------|---------------------------|---|---|
| 25 February 2010  | Mr Bob Howat              | President   | WA Bookmakers Association (Inc)                 |
| 8 March 2010      | Mr G.H. Adams             | (Private submission)  |   |
| 23 March 2010     | Mr James Spasich          | (Private submission)  |   |
| 6 April 2010      | Mr Brendon Gardiner       | Secretary/Treasurer   | Bridgetown Harness Racing Club Inc              |
| 6 April 2010      | Mr Revell Douglas         | General Manager   | Pinjarra Harness Racing Club (Inc)              |
| 16 April 2010     | Mr Arnold Carter          | Secretary   | Country Racing Association                      |
| 26 May 2010       | Mr Matthew Spurr          | President   | Wagin Trotting Club                             |
| 1 June 2010       | Mr Ron Alexander          | Director General  | Department of Sport and Recreation              |
| 13 July 2010      | Mr Peter Seaman           | Executive Director  | Clubs WA  |
| 3 August 2010     | Mr Bradley Woods          | Executive Director  | Australian Hotels Association Western Australia |
| 22 September 2010 | Hon Grant Woodhams<br>MLA | Member for Moore,<br>Speaker of the<br>Legislative Assembly |   |



## APPENDIX TWO

### HEARINGS

The following public hearings were undertaken by the Committee for the purpose of its Inquiry:

| Date             | Name                       | Position                                  | Organisation                                    |
|------------------|----------------------------|---|---|
| 19 February 2010 | Hon Nick Griffiths         | Former Minister for Racing and Gaming     |   |
| 19 February 2010 | Mr Ray Turner AM           | Former Chairman WA Racing Industry Review |   |
| 19 February 2010 | Mr Barry Sargeant          | Director General                          | Department of Racing, Gaming and Liquor         |
| 26 February 2010 | Mr Edward (Ted) van Heemst | Chairman                                  | Perth Racing                                    |
|                  | Mr Lex Piper               | Vice Chairman                             | Perth Racing                                    |
| 26 February 2010 | Mr Tony Marwick            | Chief Executive Officer                   | WA Provincial Thoroughbred Racing Association   |
|                  | Mr David Wrensted          | Vice Chairman                             | WA Provincial Thoroughbred Racing Association   |
| 26 February 2010 | Mr Gray Williamson         | President                                 | WA Bloodhorse Breeders Association              |
|                  | Mr Colin Brown             | Committee Member                          | WA Bloodhorse Breeders Association              |
|                  | Mr Harvey Crossman         | President                                 | Western Australian Racehorse Owners Association |
|                  | Mr Bruce Hyde              | President                                 | WA Racing Trainers Association                  |
|                  | Mr Brain Paddick           | Secretary                                 | WA Racing Trainers Association                  |
| 26 February 2010 | Mr Mark Roberts            | President                                 | WA Country Harness Racing Association           |

## JOINT STANDING COMMITTEE ON THE REVIEW OF THE RACING AND WAGERING WESTERN AUSTRALIA ACTS

| <b>Date</b>      | <b>Name</b>           | <b>Position</b>                   | <b>Organisation</b>                   |
|------------------|-----------------------|-----------------------------------|---------------------------------------|
|                  | Mr Alfred Paganoni    | Past President                    | WA Country Harness Racing Association |
| 26 February 2010 | Mr John Burt          | President                         | WA Trotting Association               |
|                  | Mr Robert Bovell      | Chief Executive Officer           | WA Trotting Association               |
|                  | Ms Kerry Hanks        | Assistant Chief Executive Officer | WA Trotting Association               |
| 8 March 2010     | Mr Robert Morgan      | President                         | WA TAB Agents Association Inc         |
|                  | Ms Swee-Gaik Lim      | Secretary                         | WA TAB Agents Association Inc         |
|                  | Mr Kenneth Trainer    | Advisor                           | WA TAB Agents Association Inc         |
| 8 March 2010     | Mr Timothy Barnes     | Director                          | Morley TAB Agency                     |
|                  | Mr Wayne Barnes       | TAB Assistant                     | Morley TAB Agency                     |
| 8 March 2010     | Mr Robert Howat       | President                         | WA Bookmakers Association Inc         |
|                  | Mr Brian Brown        | Association Secretary             | WA Bookmakers Association Inc         |
| 8 March 2010     | Mr Dino Di Cianno     | Director                          | Best Bookies Price Pty Ltd            |
|                  | Mr Fabio Di Cianno    | Employee                          | Best Bookies Price Pty Ltd            |
| 12 March 2010    | Ms Vivienne Taylor    | President                         | Mount Barker Turf Club Inc            |
|                  | Mrs Margaret Skinner  | Secretary                         | Mount Barker Turf Club Inc            |
|                  | Ms Lynn Heppell       | Vice President                    | Mount Barker Turf Club Inc            |
|                  | Mr Bill Pearce        |                                   | Mount Barker Turf Club Inc            |
|                  | Mr Steve Caporn       |                                   | Mount Barker Turf Club Inc            |
| 12 March 2010    | Mrs Lesley Solly      | President                         | Albany Racing Club Inc                |
|                  | Mr Terence Zambonetti | Vice President                    | Albany Racing Club Inc                |
|                  | Mr Shane O'Loughlin   | Committee Member                  | Albany Racing Club Inc                |

## JOINT STANDING COMMITTEE ON THE REVIEW OF THE RACING AND WAGERING WESTERN AUSTRALIA ACTS

| <b>Date</b>   | <b>Name</b>        | <b>Position</b>                   | <b>Organisation</b>                   |
|---------------|--------------------|-----------------------------------|---------------------------------------|
| 12 March 2010 | Mr Colin Park      | General Manager                   | Albany Harness Racing Club            |
|               | Mr Victor Jury     | Trainer                           | Albany Harness Racing Club            |
| 19 March 2010 | Mr Evan Spencer    | President                         | Golden Mile Trotting Club             |
|               | Mr Phillip Virgin  | Junior Vice President             | Golden Mile Trotting Club             |
|               | Mr Brett Snell     | Past President                    | Golden Mile Trotting Club             |
|               | Mr Neville Sly     | Committee Member                  | Golden Mile Trotting Club             |
|               | Ms Julie Beccaria  | Committee Member                  | Golden Mile Trotting Club             |
| 19 March 2010 | Mr John Biggs      | Representative                    | North Eastern Goldfields Racing Clubs |
| 19 March 2010 | Mr Murray Percasky | Chairman                          | Kalgoorlie Boulder Racing Club        |
|               | Mr Trevor McManus  | Vice-Chairman                     | Kalgoorlie Boulder Racing Club        |
|               | Mr David Prance    | Immediate Past Chairman           | Kalgoorlie Boulder Racing Club        |
|               | Mrs Janice Glasson | Administration and Racing Manager | Kalgoorlie Boulder Racing Club        |
| 26 March 2010 | Mr Barry Mahood    | Chairman                          | York Racing Inc                       |
|               | Mr Kevin O'Brien   | Treasurer                         | York Racing Inc                       |
|               | Mr Anthony Boyle   | Committee Member                  | York Racing Inc                       |
| 26 March 2010 | Mr Mervyn Grey     | President                         | York Harness Racing Club              |
|               | Mr Patrick Flynn   | Vice President                    | York Harness Racing Club              |
|               | Mr Rob Deadman     | Secretary                         | York Harness Racing Club              |
| 26 March 2010 | Mr Tony Marwick    | President                         | Northam Race Club Inc                 |
|               | Mrs Nicole Bell    | Manager                           | Northam Race Club Inc                 |
| 26 March 2010 | Mr Peter Dempster  | President                         | Northam Harness Racing Club           |
|               | Mr Mark Roberts    | Vice President                    | Northam Harness Racing Club           |
|               | Mr Brett Taylor    | President                         | Central Wheatbelt Harness Racing Club |

## JOINT STANDING COMMITTEE ON THE REVIEW OF THE RACING AND WAGERING WESTERN AUSTRALIA ACTS

| <b>Date</b>   | <b>Name</b>           | <b>Position</b>            | <b>Organisation</b>            |
|---------------|-----------------------|----------------------------|--------------------------------|
| 29 March 2010 | Mr Rodney O'Bree      | Chairman                   | Geraldton Turf Club Inc        |
|               | Mr Donald Hammarquist | Vice Chairman              | Geraldton Turf Club Inc        |
|               | Mr David Wrensted     | Manager                    | Geraldton Turf Club Inc        |
| 29 March 2010 | Mr Graham Cox         | President                  | Geraldton Harness Racing Club  |
|               | Mr John Reynolds      | Vice President             | Geraldton Harness Racing Club  |
|               | Mr Bruce Brown        | Treasurer/Committee Member | Geraldton Harness Racing Club  |
| 29 March 2010 | Mr Robert Newton      | Vice President             | Mingenew Turf Club             |
|               | Mr Tony Crowhurst     | Chairman                   | Dongara Irwin Race Club        |
| 6 April 2010  | Mr Kenneth Godley     | President                  | Bunbury Trotting Club          |
|               | Ms Julie Caldwell     | Manager                    | Bunbury Trotting Club          |
| 6 April 2010  | Mr Kenneth Nottle     | President                  | Harvey District Trotting Club  |
|               | Mr Bruce Jones        | Vice President             | Harvey District Trotting Club  |
| 6 April 2010  | Mr Graeme Waters      | Vice President             | Bridgetown Harness Racing Club |
|               | Mr Brendon Gardiner   | Secretary/Treasurer        | Bridgetown Harness Racing Club |
|               | Mrs Patricia Abbott   | Secretary/Treasurer        | Busselton Trotting Club        |
|               | Mr David Abbott       | Vice President             | Busselton Trotting Club        |
| 6 April 2010  | Mrs Rosanne Pimm      | Treasurer                  | Collie Race Club               |
|               | Mr Robert Pimm        | Committee Member           | Collie Race Club               |
|               | Mr Peter Hemsley      | Secretary                  | Collie Harness Racing Club     |
| 6 April 2010  | Mr Kimberley Tuckey   | President                  | Pinjarra Harness Racing Club   |
|               | Mr Revell Douglas     | General Manager            | Pinjarra Harness Racing Club   |
| 6 April 2010  | Mr Phillip Ibbotson   | Acting Chairman            | Pinjarra Race Club             |
|               | Mr Keith Jeffreys     | Committee Member           | Pinjarra Race Club             |
|               | Mr Gregory Dixon      | Committee Member           | Pinjarra Race Club             |

## JOINT STANDING COMMITTEE ON THE REVIEW OF THE RACING AND WAGERING WESTERN AUSTRALIA ACTS

| <b>Date</b>   | <b>Name</b>            | <b>Position</b>         | <b>Organisation</b>   |
|---------------|------------------------|-------------------------|---|
|               | Mr Colin Bellchambers  | General Manager         | Pinjarra Race Club  |
| 30 April 2010 | Mr David Simonette     | Chief Executive Officer | Western Australian Greyhound Racing Association                         |
| 30 April 2010 | Mr Ross Bowe           | Chairman                | Racing and Wagering Western Australia                                   |
|               | Mr James Freemantle    | Deputy Chairman         | Racing and Wagering Western Australia                                   |
|               | Mr Robert Pearson      | Director                | Racing and Wagering Western Australia                                   |
|               | Mr Richard Burt        | Chief Executive Officer | Racing and Wagering Western Australia                                   |
| 30 April 2010 | Mr Sam Celenza         | President               | Western Australian Greyhound Breeders, Owners and Trainers' Association |
|               | Mr Allen Kinnish       | Committee Member        | Western Australian Greyhound Breeders, Owners and Trainers' Association |
| 3 May 2010    | Mr Matthew Spurr       | President               | Wagin Trotting Club   |
|               | Mr Kevin Spurr         | Vice President          | Wagin Trotting Club   |
|               | Mr Donald Davies       | Vice President          | Wagin Trotting Club   |
| 3 May 2010    | Mr Steven McGuire      | Tote Manager            | Kojonup Turf Club   |
|               | Mr Timothy Borgward    | President               | Pingrup Turf Club   |
|               | Mr Alan Lewis          | Secretary/Treasurer     | Pingrup Turf Club   |
| 3 May 2010    | Mr Nicholas Bosly-Pask | Acting Chair            | Narrogin Racing   |
|               | Mr Jonathan Menzel     | Manager                 | Narrogin Racing   |
| 3 May 2010    | Mr John Cowcher        | Committee Member        | Williams Harness Racing Club  |
|               | Mrs Helen Bunch        | Secretary/Treasurer     | Williams Harness Racing Club  |
|               | Mr Stephen Hyde        | Life Member             | Williams Harness Racing Club  |
| 7 May 2010    | Mr Kevin Jeavons       | President               | Harness Racing Owners Association of WA Inc                             |

## JOINT STANDING COMMITTEE ON THE REVIEW OF THE RACING AND WAGERING WESTERN AUSTRALIA ACTS

| Date           | Name                     | Position                | Organisation  |
|----------------|--------------------------|-------------------------|---|
|                | Mr Kerry Clarke          | President               | Western Australian Standardbred Breeders Association Inc        |
|                | Mr Robert Tomlinson      | President               | Breeders Owners Trainers and Reinspersons Association of WA Inc |
| 7 May 2010     | Mr Maxwell (Dixie) Solly | President               | Country Racing Association                                      |
| 7 May 2010     | Mr Craig Chadwick        | Chairman                | Bunbury Turf Club   |
|                | Mr Paul Rossiter         | Manager                 | Bunbury Turf Club   |
| 16 May 2010    | Mr Geoffrey Fahl         | Chairman/Treasurer      | Carnarvon Race Club   |
|                | Mr Laurie Simmons        | Committee Member        | Carnarvon Race Club   |
| 16 May 2010    | Mr Victor Barrett        | President               | Junction Race Club  |
|                | Mr Brett Smith           | Committee Member        | Junction Race Club  |
| 4 June 2010    | Mr Ross Bowe             | Chairman                | Racing and Wagering Western Australia                           |
|                | Mr James Freemantle      | Deputy Chairman         | Racing and Wagering Western Australia                           |
|                | Mr Robert Pearson        | Director                | Racing and Wagering Western Australia                           |
|                | Mr Richard Burt          | Chief Executive Officer | Racing and Wagering Western Australia                           |
| 4 June 2010    | Mr Gino Monaco           | President               | Fremantle Harness Racing Club                                   |
|                | Mr Geoffrey Warwick      | Vice President          | Fremantle Harness Racing Club                                   |
|                | Mr Ross Pyke             | Secretary/Manager       | Fremantle Harness Racing Club                                   |
| 13 August 2010 | Mr Barry Sargeant        | Director General        | Department of Racing, Gaming and Liquor                         |
| 13 August 2010 | Hon Tom McNeil           | Past Chairman           | Racecourse Development Trust                                    |
| 20 August 2010 | Mr Ross Bowe             | Chairman                | Racing and Wagering Western Australia                           |
|                | Mr James Freemantle      | Deputy Chairman         | Racing and Wagering Western Australia                           |

JOINT STANDING COMMITTEE ON THE REVIEW OF THE RACING AND WAGERING WESTERN AUSTRALIA ACTS

| Date | Name              | Position                | Organisation                          |
|------|-------------------|-------------------------|---------------------------------------|
|      | Mr Robert Pearson | Director                | Racing and Wagering Western Australia |
|      | Mr Richard Burt   | Chief Executive Officer | Racing and Wagering Western Australia |



## APPENDIX THREE

### *BRIEFINGS HELD*

The following briefings assisted the Committee with its Inquiry:

| <b>Date</b>   | <b>Name</b>        | <b>Position</b>               | <b>Organisation</b>   |
|---------------|--------------------|-------------------------------|---|
| 12 April 2010 | Mr Ian Fletcher    | Director General              | Department of Employment, Economic Development and Innovation (DEEDI) |
|               | Mr David Ford      | Deputy Director General       | Liquor, Gaming, Racing and Fair Trading (DEEDI)                       |
|               | Mr John Paterson   |                               | Office of Racing (DEEDI)  |
| 13 April 2010 | Mr Bob Lette       | Chairman                      | Harness Racing Queensland   |
|               | Mr Mike Godber     | Chief Executive               | Harness Racing Queensland   |
| 13 April 2010 | Mr Darren Beavis   | General Manager               | Greyhounds Queensland Limited   |
| 14 April 2010 | Mr Roger Joseph    | Manager Racing Administration | Australian Trainers Association (Victoria)                            |
| 14 April 2010 | Mr John Anderson   | Chief Executive Officer       | Harness Racing Victoria   |
| 14 April 2010 | Mr John Stephens   | Chief Executive Officer       | Greyhound Racing Victoria   |
| 15 April 2010 | Mr Andre Agterhuis | Chairman                      | Ballarat Turf Club  |
|               | Mr Shane Brennan   | Chief Executive               | Ballarat Turf Club  |
|               | Mr Ian Ford        | Treasurer                     | Ballarat Turf Club  |
| 15 April 2010 | Mr Paul James      | President                     | Ballarat and District Trotting Club Inc                               |
|               | Mr Paul Rowse      | Chief Executive               | Ballarat and District Trotting Club Inc                               |
|               | Ms Tamara Lane     | Racing Manager                | Ballarat and District Trotting Club Inc                               |

## JOINT STANDING COMMITTEE ON THE REVIEW OF THE RACING AND WAGERING WESTERN AUSTRALIA ACTS

| <b>Date</b>   | <b>Name</b>         | <b>Position</b>                       | <b>Organisation</b>   |
|---------------|---------------------|---------------------------------------|---|
| 15 April 2010 | Mr Joe Ivisic       | General Manager                       | Harness Racing Victoria Tabcorp Park  |
| 16 April 2010 | Ms Kerri Hereward   | Principal Policy Officer              | Department of Justice Office of Gaming and Racing   |
|               | Mr Anthony Ilot     | Policy Advisor                        | Department of Justice Gambling Licenses Review  |
|               | Mr David Ware       | Director                              | Department of Justice Wagering Licence Allocation and Gambling Licences Transition and Review |
| 16 April 2010 | Mr Michael Caveny   | Chairman                              | Country Racing Victoria Limited   |
|               | Mr Scott Whiteman   | Chief Executive Officer               | Country Racing Victoria Limited   |
|               | Mr Jamie McGuinness | Strategy and Business Manager         | Country Racing Victoria Limited   |
| 16 April 2010 | Mr Rob Hines        | Chief Executive Officer               | Racing Victoria Limited (RVL)   |
|               | Mr Mark Close       | Government Relations Manager          | Racing Victoria Limited (RVL)   |
| 16 April 2010 | Mr Greg Nichols     | Managing Director of Sporting Affairs | Betfair   |
| 21 June 2010  | Mr Bob Bentley      | Chairman                              | Queensland Racing Limited   |
|               | Mr Malcolm Tuttle   | Chief Operations Manager              | Queensland Racing Limited   |

## APPENDIX FOUR

### LEGISLATION

The following legislation was used in the Inquiry:

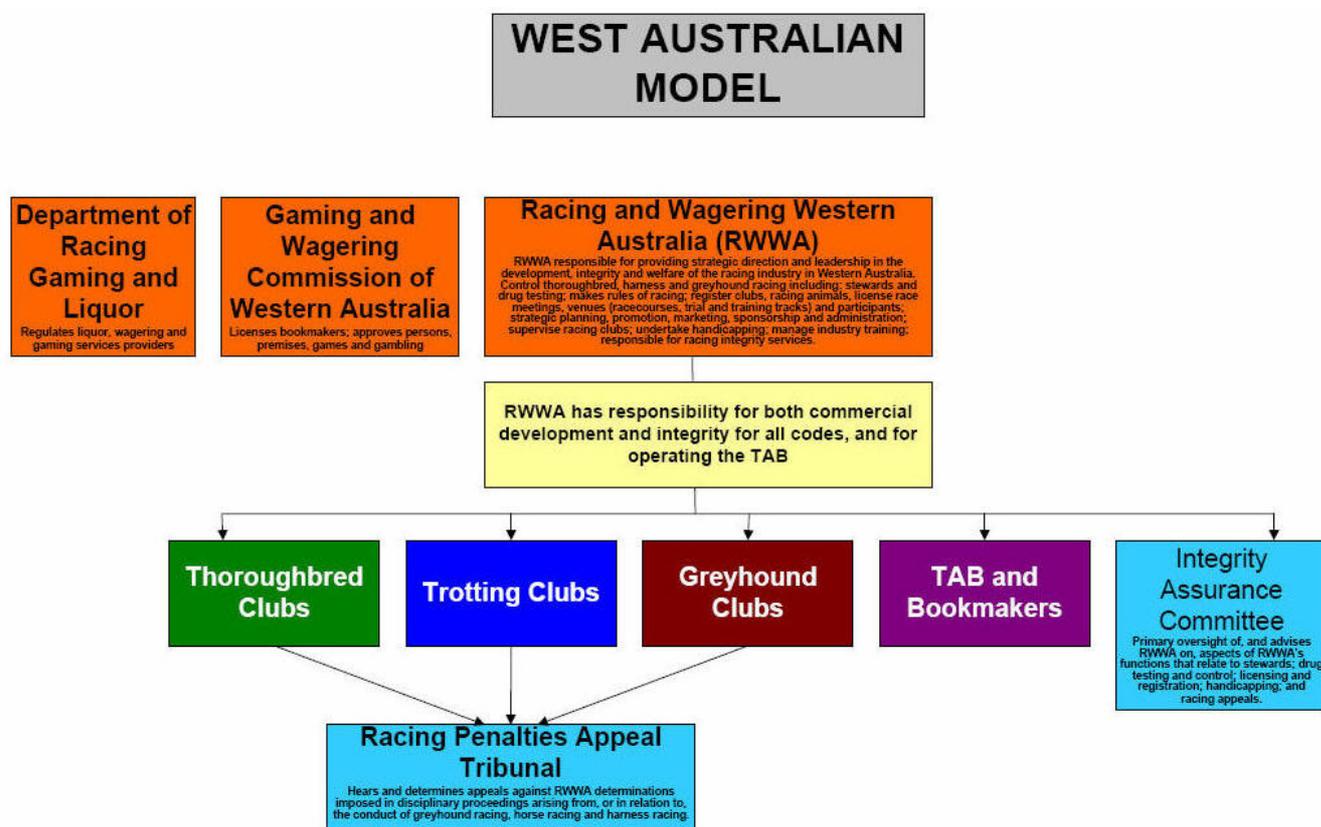
| <b>Legislation</b>  | <b>State (or Country)</b> |
|---|---------------------------|
| <i>Acts Amendment (Fixed Odds Betting) Act 1999</i>           | Western Australia         |
| <i>Animal Welfare Act 2002</i>                                | Western Australia         |
| <i>Auditor General Act 2006</i>                               | Western Australia         |
| <i>Betting Control Act 1954</i>                               | Western Australia         |
| <i>Betting Control Regulations 1978</i>                       | Western Australia         |
| <i>Bookmakers Betting Levy Act 1954</i>                       | Western Australia         |
| <i>Casino (Burswood Island) Agreement Act 1985</i>            | Western Australia         |
| <i>Corporations Act 2001</i>                                  | Commonwealth              |
| <i>Financial Management Act 2006</i>                          | Western Australia         |
| <i>Freedom of Information Act 1992</i>                        | Western Australia         |
| <i>Gaming and Wagering Commission Act 1987</i>                | Western Australia         |
| <i>Liquor Control Act 1988</i>                                | Western Australia         |
| <i>Parliamentary Commissioner Act 1971</i>                    | Western Australia         |
| <i>Racing (Proprietary Business Licensing) Act 2000</i>       | South Australia           |
| <i>Racing Act 2002</i>  | Queensland                |
| <i>Racing and Wagering Western Australia Act 2003</i>         | Western Australia         |
| <i>Racing and Wagering Western Australia Regulations 2003</i> | Western Australia         |
| <i>Racing and Wagering Western Australia Tax Act 2003</i>     | Western Australia         |
| <i>Racing Penalties (Appeals) Act 1990</i>                    | Western Australia         |
| <i>Racing Restriction Act 2003</i>                            | Western Australia         |

## JOINT STANDING COMMITTEE ON THE REVIEW OF THE RACING AND WAGERING WESTERN AUSTRALIA ACTS

| <b>Legislation</b>  | <b>State (or Country)</b> |
|---|---------------------------|
| <i>State Records Act 2000</i>                                     | Western Australia         |
| <i>Statutory Corporations (Liabilities of Directors) Act 1996</i> | Western Australia         |
| <i>Thoroughbred Racing Act 1996</i>                               | New South Wales           |
| <i>Totalisator Agency Board Betting Tax Amendment Act 1999</i>    | Western Australia         |

## APPENDIX FIVE

### INTEGRITY ASSURANCE FRAMEWORK FOR RACING AND WAGERING IN WESTERN AUSTRALIA<sup>1008</sup>



<sup>1008</sup> Judge G.D. Lewis AM, *A Report on Integrity Assurance in the Victorian Racing Industry*, 1 August 2008, p94. Available at: [www.justice.vic.gov.au/wps/wcm/connect/e2d0aa80404a6ff3a2befbf5f2791d4a/Lewis+Report+Integrity+Assurance++Vic+Racing+Industry+Aug+08.pdf?MOD=AJPERES](http://www.justice.vic.gov.au/wps/wcm/connect/e2d0aa80404a6ff3a2befbf5f2791d4a/Lewis+Report+Integrity+Assurance++Vic+Racing+Industry+Aug+08.pdf?MOD=AJPERES) Accessed on 12 October 2010.



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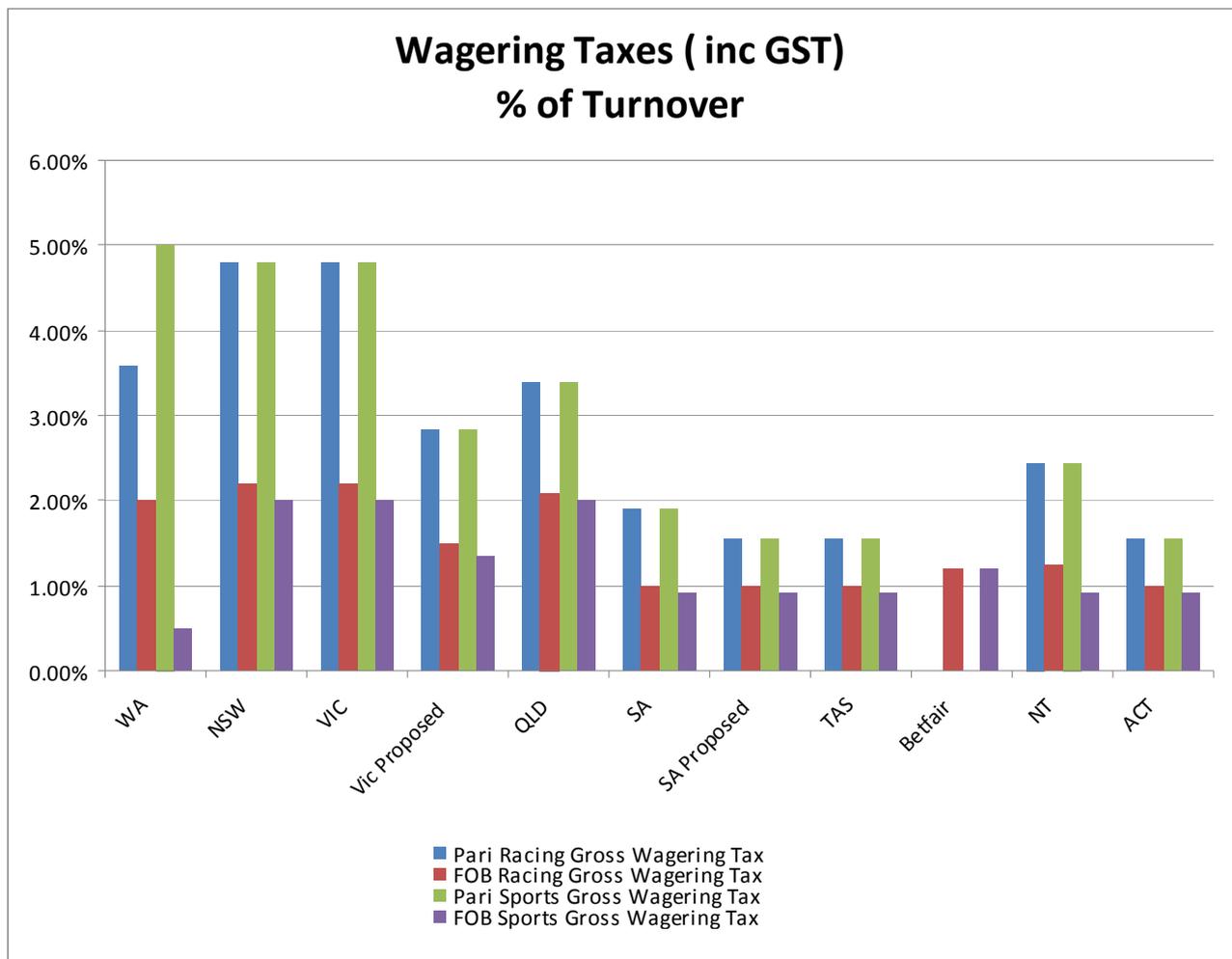
## APPENDIX SIX

COMPARISON OF WAGERING TAXATION RATES BY JURISDICTION<sup>1009</sup>

| TAB Tax Rate Comparison Table - Estimates   | Rate includes GST at 9.09% or 1/11th of Gross Revenue or Margin |        |          |           |        |          |           |       |         |        |       |
|---|---|--------|----------|-----------|--------|----------|-----------|-------|---------|--------|-------|
|   | Rate of Turnover / Gross Revenue                                |        |          |           |        |          |           |       |         |        |       |
|   | WA  | NSW    | VIC      |           | QLD    | SA       |           | TAS   | Betfair | NT     | ACT   |
|   |   |        | Pre 2012 | Post 2012 |        | Pre 2012 | Post 2012 |       |         |        |       |
| <b>Pari Racing Gross Wagering Tax</b>   |   |        |          |           |        |          |           |       |         |        |       |
| % of Gross Revenue  | 21.00%  | 28.20% | 28.20%   | 16.69%    | 20.00% | 11.19%   | 9.09%     | 9.09% |         | 40.00% | 9.09% |
| % of Turnover   | 3.57%   | 4.79%  | 4.79%    | 2.84%     | 3.40%  | 1.90%    | 1.55%     | 1.55% |         | 2.45%  | 1.55% |
|   |   |        |          |           |        |          |           |       |         |        |       |
|   |   |        |          |           |        |          |           |       |         |        |       |
| <b>Fixed Odds Betting Racing Gross Wagering Tax</b>   |   |        |          |           |        |          |           |       |         |        |       |
| % of Gross Revenue  | 18.18%  | 20.00% | 20.00%   | 13.47%    | 20.00% | 9.09%    | 9.09%     | 9.09% | 24.09%  | 19.09% | 9.09% |
| % of Turnover   | 2.00%   | 2.20%  | 2.20%    | 1.48%     | 2.10%  | 1.00%    | 1.00%     | 1.00% | 1.20%   | 1.24%  | 1.00% |
|   |   |        |          |           |        |          |           |       |         |        |       |
|   |   |        |          |           |        |          |           |       |         |        |       |
| <b>Pari Sports Gross Wagering Tax</b>   |   |        |          |           |        |          |           |       |         |        |       |
| % of Gross Revenue  | 20.00%  | 28.20% | 28.20%   | 16.69%    | 20.00% | 11.19%   | 9.09%     | 9.09% |         | 40.00% | 9.09% |
| % of Turnover   | 5.00%   | 4.79%  | 4.79%    | 2.84%     | 3.40%  | 1.90%    | 1.55%     | 1.55% |         | 2.45%  | 1.55% |
|   |   |        |          |           |        |          |           |       |         |        |       |
|   |   |        |          |           |        |          |           |       |         |        |       |
| <b>Fixed Odds Betting Sports Gross Wagering Tax</b>   |   |        |          |           |        |          |           |       |         |        |       |
| % of Gross Revenue  | 5.00%   | 20.00% | 20.00%   | 13.47%    | 20.00% | 9.09%    | 9.09%     | 9.09% | 24.09%  | 9.09%  | 9.09% |
| % of Turnover   | 0.50%   | 2.00%  | 2.00%    | 1.35%     | 2.00%  | 0.91%    | 0.91%     | 0.91% | 1.20%   | 0.91%  | 0.91% |
|   |   |        |          |           |        |          |           |       |         |        |       |
|   |   |        |          |           |        |          |           |       |         |        |       |
| <b>Notes:</b>   |   |        |          |           |        |          |           |       |         |        |       |
| <b>Pari Racing</b> tax rates as a % of Turnover are based on a Retail take out rate of 17% for all TAB's (Equivalent to Gross Revenue)  |   |        |          |           |        |          |           |       |         |        |       |
| <b>FOB Racing</b> tax rates as a % of Turnover are based on a Retail FOB book margin of 11% for all TAB's FOB books except in NT corporate setting where 6.5% has been used and 5% for Betfair (= Gross Revenue)  |   |        |          |           |        |          |           |       |         |        |       |
| <b>Victorian</b> estimates assume that the benefit of Gaming machine revenues already result in an offset tax (i.e. on the current tax or Economic rent paid)   |   |        |          |           |        |          |           |       |         |        |       |
| <b>GST</b> in all circumstances is one eleventh of the Gross Revenue (where Gross Revenue = turnover less dividends paid to the customer)   |   |        |          |           |        |          |           |       |         |        |       |
| <b>NT Bookmakers'</b> taxes are capped at 250K per annum - Individual enterprise and total rate of tax on bookmakers turnover unknown as volume and margin rates vary   |   |        |          |           |        |          |           |       |         |        |       |
| <b>Betfair</b> also pays sponsorship to Race Clubs directly   |   |        |          |           |        |          |           |       |         |        |       |
| <b>ToteTAS</b> pays and annual wagering licence fee of approximately 6m per annum indexed, <b>ACTTAB</b> pays a annual fee of Licence fee monthly of 10% of capital In addition clubs receive 4% and RDF 0.5%.  |   |        |          |           |        |          |           |       |         |        |       |
| In cases of <b>GST Reimbursement</b> , the GST is paid directly to the ATO and rebated back via WA Treasury and RGL   |   |        |          |           |        |          |           |       |         |        |       |
| <b>VIP tax rate</b> for (contracted professional electronic customers) who receive a commission/rebate, i.e. we will receive a tax concession on pari margin Tax of 10% of gross Revenue )  |   |        |          |           |        |          |           |       |         |        |       |
|   |   |        |          |           |        |          |           |       |         |        |       |
|   |   |        |          |           |        |          |           |       |         |        |       |
| <b>ACT License Fee:</b>   |   |        |          |           |        |          |           |       |         |        |       |
| Pursuant to a deed of agreement with the ACT Government, ACTTAB has been granted a 20-year exclusive license to provide totalisator betting services to the public, commencing from 1 Jul 1996. An annual license fee is payable (in monthly instalments) to the ACT government, equal to 10% of the present value of the estimated profit after income tax equivalents expense of ACTAB for the 20-year period. ACT Treasury has advised that the value of the license was \$35,661,434 as at 1 July 2002. |   |        |          |           |        |          |           |       |         |        |       |
| <a href="#">ACTTAB 2008-2009 Annual Report, pp.18-19</a>  |   |        |          |           |        |          |           |       |         |        |       |
|   |   |        |          |           |        |          |           |       |         |        |       |
| <b>TAS Annual Wagering Levy</b>   |   |        |          |           |        |          |           |       |         |        |       |
| The Totalizator Wagering Levy will commence in 2009-10 and is indexed in line with the Consumer Price Index.  |   |        |          |           |        |          |           |       |         |        |       |
| The Levy will be paid by the holder of the Tasmanian Gaming Licence with a totalizator (parimutuel) endorsement.  |   |        |          |           |        |          |           |       |         |        |       |
| During 2009-10, the regulation of TOTE Tasmania, and any subsequent holder of a Tasmanian Gaming Licence with a totalizator endorsement, will come under the jurisdiction of the Gaming Control Act 1993. A fixed annual totalizator wagering levy of \$6.0 million (indexed) will apply in 2009-10 to the holder of such a licence.  |   |        |          |           |        |          |           |       |         |        |       |

<sup>1009</sup> Reproduced with the permission of Racing and Wagering Western Australia (Mr Evan Nunn, Manager Corporate Strategy, Racing and Wagering Western Australia, email, 28 September 2010).

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Racing chiefs oppose TAB sale

Steve Butler and Gareth Parker - The West Australian on May 21, 2014, 2:40 am



Worried: WA Racehorse Trainers Association president Michael Grant and trainer Fred Kersley at Belmont. Picture: Mogens Johansen/The West Australian

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WA racing leaders have predicted a "scary" future for their industry over the potential sale of the TAB by the State Government.

As the industry prepares to hold an emergency meeting over the issue at Belmont Park today, legendary WA horseman Fred Kersley reflected the growing mood of his racing peers by expressing concern for a move they fear will run their financial lifeblood dry.



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Racing chiefs oppose TAB sale - The West Australian

Kersley, who ignited the State's racing industry in the early 2000s with his turf superstar Northerly, said the disastrous results of TAB privatisation in South Australia, Tasmania and Queensland were worrying.

"I have fears for the future of racing if that happens," he said.

"It takes the control away from racing and you'll be just waiting on handouts from the private company. It's a scary thing being talked about and it's a huge worry for the industry."

Racing and Wagering WA yesterday confirmed revenue growth of 6.8 per cent for the past nine months and a profit boost of nearly 6 per cent. Since RWWA's inception in 2003, its annual distribution to the industry has more than doubled to a record \$126.1 million this year, with a further \$4 million to go to the Department of Sport and Recreation and \$14 million in grants committed for infrastructure projects.

The State Government will get \$43 million in tax from a betting turnover of \$2.15 billion and the Federal Government will get \$28 million in GST revenue.

WA's three racing codes - thoroughbred, harness and greyhounds - will this year get an extra \$6.5 million.

WA Racing Trainers Association president Michael Grant said the increased distribution and turnover was proof the current model under RWWA was working for an industry that directly employed nearly 34,000 people. "In anyone's language, it's a good business and it's guaranteed," Mr Grant said.



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"If the Government is going to look at selling the TAB, we need to be a part of the process and get assurances that the level of distribution would be guaranteed.

"Unless they can guarantee it, all they are doing, based on previous sales in other States, is guaranteeing the demise of the WA racing industry."

Leading WA racehorse owner Bob Peters said he wanted more information, but had initial concerns. "My thoughts are that is not a good idea, that we're running quite well as we are and we should stay as we are," he said.

Though Premier Colin Barnett and Treasurer Mike Nahan have indicated a level of willingness to sell by placing the TAB on their list of assets to be further investigated, opinion is divided in Cabinet. During a parliamentary Budget estimates hearing yesterday, Racing and Gaming Minister Terry Waldron said that while no decision had

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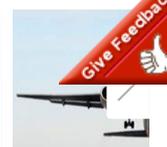
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been made, he did not believe the sale would be in the best interests of the WA racing industry.

Dr Nahan has acknowledged that finding a sustainable funding solution for the industry was a necessary condition of any sale, but he and Mr Barnett have both made noises about whether it was "appropriate" for the Government to continue to own a betting business.

Mr Barnett said last night that the Government recognised the economic benefits of the TAB and its important relationship with the local racing industry. "We will be very mindful of these considerations when reviewing the available options," he said.

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Racing chiefs oppose TAB sale - The West Australian

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A young mother of three was last night fighting for life in hospital after her jugular vein was severed in what police are treating as an horrific case of domestic violence.



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Developer Edge Visionary Living says it is going ahead with its 34-storey South Perth Lumiere apartment development after losing a Supreme Court appeal to reinstate its 29-storey version.



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The Perth Wildcats season is in danger of falling apart after they lost their second successive home game tonight and star Matt Knight suffered another serious injury.



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A Geraldton mother has been accused of starving her three-month-old daughter to death before wrapping her in cloth, putting her in a cooler bag and leaving her in her back shed.



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WA's racing chief says he can't comment on the potential privatisation of the TAB until the Barnett Government reaches its decision. Picture: File image

WA News

# Racing and Wagering WA CEO Richard Burt quiet on TAB privatisation after ACT sell-off

PETER LAW, PerthNow

July 31, 2014 2:45pm

WA'S racing chief says he can't comment on the potential privatisation of the TAB until the Barnett Government reaches its decision.

WA this week became the last remaining government which still owns a gambling agency after the ACT Government sold its TAB for \$105 million to Tabcorp.

WA's TAB is one of a number publicly-owned assets the Barnett Government is considering selling to the private sectors to help cut public sector debt.

12/1/2016

Racing and Wagering WA CEO Richard Burt quiet on TAB privatisation after ACT sell-off | Perth Now

Ports, wastewater facilities, the Market Authority and ex-hospital sites have also been identified as assets which could be sold off.

Racing and Wagering Western Australia CEO Richard Burt today said he had been given no indication as to when the Government would come to a decision on the future of the TAB.

Mr Burt said the Government was still considering its options and he had “no information to the contrary”.

“I really don’t want to talk about privatisation until the Government makes a decision. It’s all speculation at this stage, so let’s wait for the Government to make a decision,” he said.

“It’s speculative to be talking about what would happen or what the alternatives are.

“I’d be more inclined to get confirmation of views from the industry, but from RWWA’s point of view — which is a Government organisation — we can’t talk about something that we don’t know about.”

Concerns have previously been expressed about the impact of privatisation on the racing industry, which receives \$126 million from the TAB each year.

The TAB was announced as being potentially up for sale at May’s State Budget, just months after Premier Colin Barnett ruled-out such a move.

At the time, Treasurer Mike Nahan said the TAB was an “easy saleable asset” and that he, as well as some Cabinet colleagues “find it uncomfortable for the state owning gambling outlets”.

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# TAB sale could handicap Lark Hill training facility

Hayley Goddard - Sound Telegraph on August 13, 2014, 10:16 am



Warnbro MLA Paul Papalia and experienced racing horse trainers Grant Williams, David Harrison and Vernon Brockman are concerned the privatisation of TAB.

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## Lark Hill horse trainers fear the potential sale of the State-owned TAB could lead to the demise of the Government-funded training facility.

WA's three racing codes - thoroughbred, harness and greyhounds - have raised concerns about the future of their industry after the State Government placed the TAB



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TAB sale could handicap Lark Hill training facility - The West Australian

on its list of assets that could be sold to cut WA's debt.

WA Racing and Training Association president Michael Grant said he did not oppose privatisation but feared it could handicap an industry which directly employed more than 33,000 people.

He said the State Government made \$70 million in taxes a year from the industry and TAB profits enabled Racing and Wagering WA to distribute \$126 million to facilities around WA, including more than \$800,000 for the upkeep of Lark Hill.

Having seen the detrimental impact of TAB privatisation in Queensland, South Australia and Tasmania, Mr Grant formed a WA racing representative group with industry chiefs from racing, harness and dog racing.

"Hundreds of horses rely on Lark Hill for training - it is a vital link in the thoroughbred training schedule," Mr Grant said.

"Some trainers use it every day in preparation for meets at the weekend."

The group is hoping the Government will hold off any decisions until a review of the industry is undertaken by Ray Gunston, the Essendon Bombers' interim CEO who guided the club through the supplements scandal, is finalised in October.

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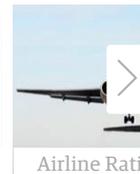
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Lark Hill trainer Vernon Brockman said he was an avid Liberal supporter but would vote elsewhere if the sale of the TAB went through.

Fellow trainer David Harrison said it would be disappointing to see the amount of money he and others had put into the industry fall by the wayside.

Warnbro MLA Paul Papalia said the proposed sale of the TAB was a betrayal of the WA community, not just racing.

"If the TAB is sold, I can't see how Lark Hill will stay open," he said.

Premier Colin Barnett said the sale of TAB was "unlikely to be looked at in the short-term because of the complexities surrounding it".

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The Perth Wildcats season is in danger of falling apart after they lost their second successive home game tonight and star Matt Knight suffered another serious injury.



### Driver crashes 4WD after being stung in eye by bee

A bee has caused an unlikely incident after it stung a male driver in the eye and inadvertently caused a car crash.



### Seaman died after desperate pleas for doctor ignored

An engineer on an iron ore carrier operating between WA and China repeatedly pleaded for a doctor before he was found unconscious in his cabin, an inquest has been told.



### Buzz Aldrin rescued from South Pole

The National Science Foundation has agreed to provide medical evacuation from the South Pole for 86-year-old Buzz Aldrin, a former astronaut who in 1969 became one of the first people to walk on the ...



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### Lead still in water at new Perth hospital

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# TAB sale 'threatens community sport'

Exclusive Phoebe Wearne - The West Australian on September 13, 2014, 2:40 am



At risk: Community sporting events. Picture: Mary Mills/The Kalgoorlie Miner

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**WA's peak independent sports body says selling off the TAB would rip the heart out of community sport and recreation by robbing it of about a third of its State funding.**

The State Government has flagged a possible sale of the State-owned betting agency as part of its \$6 billion asset sale considerations.

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12/2/2016

TAB sale threatens community sport - The West Australian

WA Sports Federation chief executive Rob Thompson said funding made available through the sports wagering account, which is topped up using TAB profits, made up 32 per cent of the \$14.3 million allocated to community sport and recreation organisations.

Mr Thompson said the account, which received \$4.5 million in sports betting income and unclaimed money in 2013-14, had grown almost 15 per cent each year, helping to bolster WA's sport and recreation industry.

He said a privatisation of the TAB would almost certainly mean the sports wagering account would cease to exist - a "devastating" blow for junior and senior sport.

He was concerned that the significant threat to the sport and recreation industry was being left out of the debate.

"It could potentially have quite a devastating impact in that services and direct grants to sports could dry up," he said.

"It could take away things like the support for training of coaches, administrators and officials and certainly there are some support agencies for community-based sport that rely on this funding as well.

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"At the moment the focus has been on the racing industry . . . we are concerned that going into the future people, if the sale goes ahead, won't even consider what aspects of sport are going to be impacted."

Parks and Leisure Australia WA president Mark Casserly said losing the sports wagering account could set recreation in WA back 10 years and decimate participation in physical activity.

Mr Casserly said he hoped the Government would find money from elsewhere to continue funding community sport and recreation should the sale go ahead.

Racing and Gaming Minister Terry Waldron said he acknowledged Mr Thompson's concerns and that the sports wagering account provided substantial money for grassroots sport and recreation organisations.

Mr Waldron said a decision on whether the TAB would be sold was yet to be made.

Shadow racing and gaming minister Mick Murray said the Government needed to meet the racing industry and community groups that would be affected as soon as possible.

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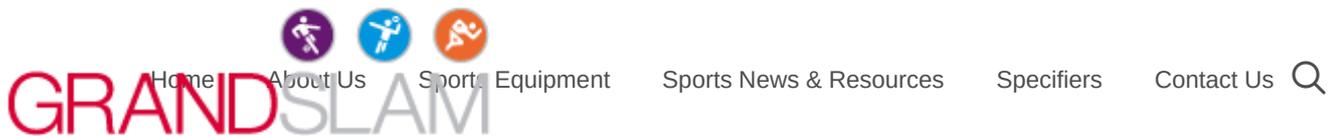


# One-third of WA community sport funding threatened by TAB privatisation



**GRAND SLAM**

*September 18, 2014*



[Grand Slam Sports Equipment](#) » [Grand Slam Sports Information Hub](#) » [Community Sports News](#) » **One-third of WA community sport funding threatened by TAB privatisation**

## Quick summary:

The WA government's plans to privatise the TAB would threaten valuable community sport funding, according to the WA Sports Federation. Approximately 32% of current community sports funding is provided through TAB profits, funds that could be wiped-out if the state Government goes through with their planned sale of the betting agency.

12/1/2016

One-third of WA community sport funding threatened by TAB privatisation | Grand Slam Sports Equipment

Although a final decision has yet to be made, community and other affected groups have been voicing their disapproval, including Parks and Leisure Australia WA president Mark Casserly, who stated that privatising TAB 'could set recreation in WA back 10 years and decimate participation in physical activity'.

#### Article extract:

The State Government has flagged a possible sale of the State-owned betting agency as part of its \$6 billion asset sale considerations.

WA Sports Federation chief executive Rob Thompson said funding made available through the sports wagering account, which is topped up using TAB profits, made up 32 per cent of the \$14.3 million allocated to community sport and recreation organisations.

#### Read More:

<https://au.news.yahoo.com/thewest/sport/a/24983035/tab-sale-threatens-community-sport/>





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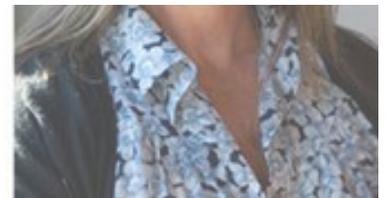
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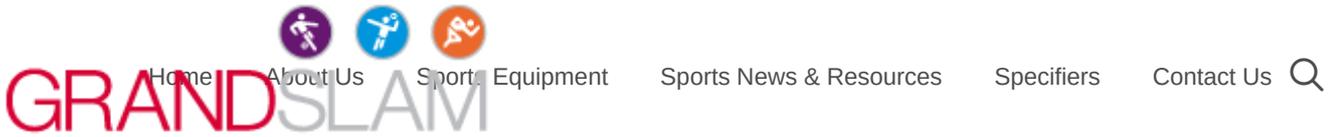
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# MP breaks ranks on TAB sale

Steve Butler - The West Australian on June 3, 2015, 12:36 am



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**A Liberal backbencher has broken ranks to slam the potentially "devastating consequences" of the State Government's plan to sell the TAB, demanding an independent study of the economic impact of the decision.**

Murray-Wellington MLA Murray Cowper claimed yesterday to have the backing of up to eight colleagues and said there was widespread state of confusion across the party because of the "shadow boxing" over issues such as the TAB's sale price and plans for the long-term funding of the industry.

He has called on Racing and Gaming Minister Colin Holt to commission the research because he believes the sale will have a huge negative impact, particularly in regional areas.

Belmont MLA Glenys Godfrey, whose electorate takes in Ascot racecourse and the surrounding area where many of the industry's leading city participants run their operations, has also been outspoken in her opposition to the sale of the TAB.

Mr Cowper said the full measure of damage had to be identified before the Government "sold the goose laying the golden eggs".

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MP breaks ranks on TAB sale - The West Australian

He said the TAB had provided a "unique stability" to the industry since being introduced by the Brand government in 1961, replacing 206 licensed off-course bookmakers.

"We therefore need to know the real cost and likely disadvantages of disposing of a business that has successfully underwritten an entire industry for more than 50 years, as well as generating hundreds of millions of dollars for its owners - the taxpayers of WA," Mr Cowper said.



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"The State Government must now determine if it is prepared to sacrifice TAB-funded standards that are the envy of other Australian States by bowing to a Federal directive to sell the TAB."

Mr Cowper accused Mr Holt and his Nationals WA colleagues of shifting stance to support the sale of the TAB, while also warning that his Liberal counterparts in South Australia had claimed that selling off that State's TAB had destroyed country racing and seriously eroded the breeding and training industries.

Racing and Wagering WA's new racing general manager John Yovich made a call at the weekend for the Government to consider the financial benefits of allowing the TAB to better compete with corporate bookmakers before progressing any sale.

RWWA last week announced a record distribution of \$136 million to the industry from TAB profits, with a further \$50 million going to the State Government in taxes.

Mr Holt would not be drawn on the review but said a thorough sale process would address Mr Cowper's concerns.

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# Liberal backbencher Murray Cowper voices opposition to sale of WA TAB

Bob Maumill

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Liberal Party backbencher Murray Cowper is the latest government member to criticise [the decision to sell the WA TAB](#).



There's huge interest in buying the country's last state-owned tote. Photo: Jenny Evans

Mr Cowper has issued a strongly worded press release emphasising the importance of the TAB to the Western Australian racing codes.

He has called on Racing and Gaming Minister Colin Holt to "commission an independent economic impact study to determine all of the consequences to the racing industry in WA if the TAB is sold".

Mr Cowper joins fellow backbencher Glenys Godfrey in criticising Barnett government plans to sell the home grown wagering operator.

In criticising the proposed sale, Mr Cowper predicts that if the TAB is sold there will be "devastating consequences for the racing, training,

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Liberal backbencher Murray Cowper voices opposition to sale of WA TAB

and breeding industries in the state, particularly in country areas ".

"These sections of the industry have enjoyed a unique stability since the TAB was introduced by the Liberal government of Sir David Brand in 1961," he said

The WA TAB was originally created to arrest the flow of funds away from the racing codes and into the hands of the 206 privately operated betting agencies that were "bleeding racing dry".

In pushing for an independent commission to examine the impact of any sale on racing, Mr Cowper warned the government that "country race clubs, trainers, and breeders and owners share my concern".

His assertion of deep concerns within the thoroughbred and racing industries is supported by news that two petitions are circulating in thoroughbred and harness circles demanding the Barnett government backs away from a sale.

Mr Cowper believes the federal government is pushing strongly for the TAB to be sold.

"The state government must determine whether it is prepared to sacrifice TAB-funded standards that are the envy of other Australian states by bowing to a federal directive to sell the TAB," he said.

Before the TAB can be sold the Barnett government must gain the approval of State Parliament.

The Labor opposition has emphasised it will oppose a sale, believing selling the TAB would direct vital funds away from the racing industries and put thousands of jobs at risk.

"To get a sale through parliament Mr Barnett will need the support of the National Party," Mr Cowper said.

"Lots of country breeders, trainers, and owners share my concern that Minister Colin Holt and his National colleagues have shifted their stance on the issue from opposition to a sale to supporting the sale".

Mr. Cowper has been in close contact with a group of Liberal members of the South Australian parliament who he said had warned that "a South Australian decision to sell of the State's TAB had virtually destroyed country racing, and seriously eroded the breeding and training industries".

Some proponents of the sale believe now is the time to do it.

One backbencher told Fairfax Media: "Now is the time to sell. The TAB is doing well, now is the time to cash in".

But that suggestion was scoffed at by a number of owners and trainers.

Trainers Bob McPherson and Vern Brockman were among a group of owners and trainers who met with Glenys Godfrey to present their views and offer support in her opposition to the sale.

"I have voted Liberal all of my life," Mr McPherson said.

"But to suggest you sell something that has benefited the racing codes and generated millions of dollars for the broader community through taxes paid to the state government is just plain stupid. And

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Liberal backbencher Murray Cowper voices opposition to sale of WA TAB

through taxes paid to the state government, is just plain stupid. And to say that one of the reasons to sell the business is because it is doing well is rubbish."

"What is the matter with these people? The TAB is doing the job it was created to do, that is, bring stability to the industry and protect the jobs of thousands of Western Australians.

"This is crazy politics, why on earth would Colin Barnett start this bunfight and cause all of this uncertainty? The TAB is a WA success story, Colin Barnett should leave it alone."

***Maumill on Sunday runs on Radio 6PR from 9am to 12noon.***

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**Is it gone yet?** Jun 3 2015 at 7:35pm

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Liberal backbencher Murray Cowper voices opposition to sale of WA TAB

The TAB should be sold for the benefit of punters as it is them, the customers who should come first.

The WA TAB is too small, inefficient, has no idea and has no future.

Those who oppose the sale are still think they are in the 90's... when the TAB was a viable business.

Under Tatts or Tabcorp they will be able to deliver the WA punters some meaningful products which can compete with the plethora of online bookies.

WA punters deserve better.

maltanh@bigpond.com.au Jun 5 2015 at 1:45am

Interesting first comment, obviously another stooge from Tatts or TABCORP trying to instil some form of credibility into a decision that quite obviously will have devastating effects on the sustainability of a huge industry in this state. I would suggest that the way of life of West Australians is being put at risk by the unbelievably inept management of this State by the Barnett Government. Their decision to threaten the entire long term future of an industry that provides so much to our community for the sole purpose of retiring some of the debt they created is a disgrace.

The conflict of interest between top end business and our politicians in this matter is of serious concern and further investigation in my opinion would be warranted.

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# WA TAB sale a dud bet for Colin Barnett

**Bob Maumill**

7 comments

## COMMENT:

It is no secret that Colin Barnett now wants to sell the WA Tab.



Colin Barnett has caused dirt to fly over his plans to sell the WA TAB. Photo: Jenny Evans

Which is a contradiction of public statements he made back a year or so. Then, when asked on radio if he intended to sell the wagering

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fathom.

For a start, why is the Premier talking down the performance of the TAB? If he is keen to sell it, why weaken its value by saying publicly "it is losing business", when in fact the TAB is performing strongly.

At the 2015 WA Racing Symposium at the Crown Convention Centre last week, figures produced by Racing and Wagering WA (RWWA) – the body that operates the TAB – clearly showed the betting agency was generating profits and funnelling millions of dollars to the WA Government and three racing codes.

And the business is growing, not contracting.

The Premier and others who support the sale of the WA TAB like to

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WA TAB sale a dud bet for Colin Barnett

The premier and others who support the sale of the WA TAB like to say it cannot compete with the big corporate wagering operators. That one was debunked when the RWWA produced figures showing the WA TAB is doing better than most corporate rivals.

So, if the TAB is a thriving business, why not sell it, and use the money to reduce state debt?

The problem is that, despite spokespersons from the Tatts organisation saying they are interested in buying, the Barnett government has not yet put an official FOR SALE sign on the business.

And there is the widespread grassroots opposition to the sale of the TAB... driven by the uncertainty of how their industries will be funded if the business is bought by a private operator.

Maurice Grubisa, a committee member of the WA Trotting Association, told *Fairfax Media* he was resolutely opposed to the TAB being sold.

"The three codes are the major beneficiaries of a profitable TAB," he said.

"The government gets its share and the codes get a guaranteed funding stream.

"There is no way a cash-strapped State Government or a privately-owned wagering corporation seeking profits for shareholders can match what we already have.

"Anyone who thinks otherwise is dreaming."

These issues have created a political problem for Mr Barnett.

It became clear at the Racing Symposium there is much opposition within the harness, greyhound and thoroughbred codes to a sale.

But a group of leading figures from the thoroughbred racing industry who were at the symposium opted for a wait-and-see policy, arguing any offer should be examined and discussed.

As the symposium progressed, a split emerged between the three codes, with those involved in harness and greyhound codes saying RWWA should handle any negotiations involving a sale of the TAB on

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participants that a group representing the three codes, headed by thoroughbred trainer Michael Grant, had been formed to deal with government on issues associated with any firm offer for the wagering business.

Supporting Mr Sayers, Mr Grant said his group had commissioned and published an issues report and were waiting for the Barnett government to declare its intentions.

The final session became acrimonious when Perth Racing committee member Peter Gangemi accused RWWA CEO Richard Burt of organising dissent and fostering opposition to the sale of the TAB.

Mr Burt described the accusation as "offensive and wrong".

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Meanwhile, in another room, Pinjarra Harness Racing president Barry Warwick was insisting the TAB should not be sold. He was supported by Golden Mile Trotting Club secretary/manager Esso Delaney, who said his club was "absolutely against selling."

Both said that "RWWA is the best organisation to deal with government if an offer comes for the TAB. RWWA represents all of our interests... they are doing a great job".

All of this creates a major political problem for Colin Barnett, a problem he has created by sending mixed signals.

Mr Grubisa said: "There are thousands of voters across the state who are involved in the three racing codes. Many resent the instability that talk of a sale has caused, and fear for the long-term funding of their industries if the TAB is sold."

Mr Barnett already has to deal with a group of his parliamentary colleagues opposed to the sale. Two of them, Murray Cowper and Glenys Godfrey, have publicly defied the Premier over the issue.

Which raises questions about Colin Barnett's political judgement.

Why pick a fight over this?

A sale will not raise a lot of money for his government, and will make no difference to the level of state debt.

But the issue will bring heat on those members of his team who hold seats in areas where racing clubs and communities rely on funding generated by the TAB.

It has created a split in the ranks of his parliamentary colleagues and has given the Labor opposition a chance to harvest votes in seats across the state that have large racing communities.

In opposing a sale of the TAB, Labor is presenting itself to the racing codes as the saviour and protector of the thousands of jobs the industries generate.

If the Barnett government decides to sell the TAB, it can expect to be involved in a bruising political bunfight.

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## TAB sale could "cripple" country racing

**Source:** Bunbury Mail (Australia)  
**Publication Date:** June 24, 2015  
**Country:** Australia  
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6/24/15 Bunbury Mail (Austl.) (Pg. Unavail. Online)

News

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JUSTIN RAKE

THE future of the WA country racing industry hangs in the balance after the state government announced it is committed to the sale of the **TAB**.

The plan was confirmed in the May state budget with the government stating it would continue to search for a buyer while also trying to protect the racing industry.

A number of stakeholders in the racing industry expressed their opposition towards the sale at a forum held at the Bunbury Trotting Club last Friday.

Club general manager Julie Caldwell said the sale could easily force the closure of the facility along with a number of other regional racing venues.

???The money we receive from the **TAB** helps us to employ track staff and without it people would likely lose their jobs,??? she said.

???We run a tight ship and only turn a small profit as it is.???

Bunbury Turf Club committee member Louie Tuia said the government???'s plan to sell the **TAB** had left him ???utterly disappointed.???

"It makes no sense to sell it and put country racing clubs at risk,"-he said.-

Racing and gaming minister Colin Holt said the sale was simply a proposal and that he would consult the country racing industry throughout the process.

"The State Government???'s focus is ensuring an open and consultative due diligence process with the industry to make sure all the relevant information is understood," he said.

Mr Tuia said the sale could mirror South Australia where the local government offloaded the state???'s betting agency to a private buyer.

???In South Australia, around 30 race clubs have closed and their industry is a post-sale shambles,??? he said.

???An informal vote was held at last week???'s meeting that asked who would be open to the **TAB** being sold and not one person put their hand up ??? this could cripple our industry.???

Shadow racing and gaming minister Mick Murray labelled the plan ridiculous.-

???The **TAB** injects more than \$126 million worth of funding, and a further \$14 million in infrastructure grants, to WA racing each year,??? he said.

???There has been talk of selling the **TAB** for as little as \$150 million, which is a ludicrously small one-off amount when you look at how much money the **TAB** makes.???

Mr Murray said the sale would diminish the morale of the Bunbury racing community.

???The value Bunbury???'s race clubs bring to the community cannot be measured only in dollars

and cents,??? he said.

???Everyone who earns a living from racing would be impacted and that???'s why on Friday we saw people from throughout the industry unanimously let the minister know how dangerous this proposal is.???

Premier **Colin Barnett** has previously said if a deal cannot be reached soon, the sale of the **TAB** may become a 2017 election issue.

---- INDEX REFERENCES ----

**NEWS SUBJECT:** Business Management (1BU42); Corporate Events (1CR05); Economic Development (1EC65); Economic Policy & Policymakers (1EC69); Economics & Trade (1EC26); Government (1GO80); Local Government (1LO75); Privatization (1PR92); Public Finance (1PU60)

**REGION:** Australasia (1AU56); Australia (1AU55); Oceania (1OC40); South Australia (1SO82)

**LANGUAGE:** English

**OTHER INDEXING:** (Colin Barnett; Mick Murray; Julie Caldwell; Colin Holt; Louie Tuia)

**WORD COUNT:** 472

30 June, 2015 12:49PM AWST

## Concern for future of country racing over proposed TAB sale

By Karla Arnall

**Country racing will be hardest hit by the proposed privatisation of the TAB, says a Geraldton racing identity.**

Race horse owner and industry observer Wayne Clarkson will urge the state government to retain ownership of the TAB, saying that a sell-off would spell the end for country racing.

"Hopefully we can get the government to understand common sense and not sell," he said speaking to Glenn Barndon on ABC Mid West and Wheatbelt Mornings.

The Minister for Gaming and Racing, Colin Holt, will meet local industry at the Geraldton Turf Club on Thursday 2 July, as a part of the State Government's consultation process on the potential sale.

### TAB has a social responsibility, says Mr Clarkson

Mr Clarkson voiced concern that regional meetups such as Dongara and Mingenew would be unable to continue without TAB income, which provides revenue for the racing industry.

"I think the TAB has got a responsibility to the community, to the public and a part of the spinoff of the TAB is of course an income stream," he said.

"It provides a social entertainment, it provides a place to go, if people want to bet, they bet. Most people don't. They go there, enjoy each other's company and it's a get together and that's what racing's all about."

Mr Clarkson is fearful that the privatisation of the TAB would compromise employment in the broader racing industry, impacting vets, bookmakers and jockeys.

"In some of these country towns, the state money that comes out of those places, it's absolutely gold to a lot of these people."

### Disquiet in industry

The State Government flagged the potential sale in 2014. It has since been met with resistance from industry.

Earlier this year, Premier Colin Barnett conceded that the proposed sale **would struggle to pass the current Parliament**, but could be taken to the 2017 election.

Mr Clarkson said the commentary has created disquiet in the industry and is hurting potential investment.

"The big sale that we held in January was absolutely a catastrophe.

"There was just devastation, people selling horses, the cost to breed the horse was \$10 or \$15,000 respectively, they were selling horses for \$2000. Alarm bells were ringing.

"Off the back of the commentary, there's so much disengagement, there's so much unknown by people, why would you invest?"



Minister for Gaming and Racing, Colin Holt, will meet local industry as a part of the State Government's consultation process on a potential TAB sale. ( Supplied - Wikimedia commons )

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## Racing clubs worried about potential TAB sale

**Source:** Mandurah Mail (Australia)  
**Publication Date:** July 1, 2015  
**Country:** Australia  
**Source Type:** Newspaper

7/1/15 Mandurah Mail (Austl.) (Pg. Unavail. Online)

News

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WITH the state government committed to the sale of **TAB** racing in the Peel region hangs in the balance with clubs against the proposal.

Sian Hughes, general manager of the Pinjarra Harness Racing Club, said the sale of **TAB** was a major issue for all three codes of racing ??? greyhounds, thoroughbred and harness -??? in the Peel region.

???Funds generated by the **TAB** goes directly back to the racing industry to support racing clubs in the form of stakemoney for races, to employ staff, conduct race meetings and in infrastructure funding to provide the best facilities for our participants, members and patrons,??? she said.

In the Peel region approximately one in every 22 people has an involvement in the racing industry either as an employee, volunteer or participant.

Racing and gaming minister Colin Holt said the sale was simply a proposal and that he would consult the country racing industry throughout the process.

???The State Government???s focus is ensuring an open and consultative due diligence process with the industry to make sure all the relevant information is understood,??? he said.

Ms Hughes said the Peel region had the highest proportion of harness racing industry participants in the State with more than 2000 participants in harness racing in the region.

???If the **TAB** were to be sold, a private buyer would not necessarily continue to invest back into the actual racing product, by increasing stakemoney or funding to clubs or infrastructure,??? she said.

???With the costs of keeping horses and preparing them to race, as well as maintaining racing clubs surely only rising in years to come, this could potentially make racing an unviable industry for participants to be involved in long term.???

Shadow racing and gaming minister Mick Murray labelled the plan ridiculous.-

???The **TAB** injects more than \$126 million worth of funding, and a further \$14m in infrastructure grants, to WA racing each year,??? he said.

???There has been talk of selling the **TAB** for as little as \$150m, which is a ludicrously small one-off amount when you look at how much money the **TAB** makes.???

Ms Hughes said the club was concern that Racing and Wagering Western Australia (RWAA), experts on wagering, were not being consulted in regards to the sale of the **TAB** at all.

???The sale of the **TAB** is certainly a dangerous proposal that would have dire long term consequences for our club, other country clubs and the entire harness racing industry ??? once it???s sold there would be no going back,??? she said.

Premier **Colin Barnett** has previously said if a deal cannot be reached soon, the sale of the **TAB** may become a 2017 election issue.

---- INDEX REFERENCES ----

**NEWS SUBJECT:** Campaigns & Elections (1CA25); U.S. Congressional Campaigns (1US07)  
**INDUSTRY:** Athletics (1AT05); Casinos (1CA80); Entertainment (1EN08); Equestrian Events & Horse Racing (1EQ65); Horse Racing (1HO27); Marathons, Biathlons, & Triathlons (1MA39); Sports (1SP75)  
**REGION:** Australasia (1AU56); Australia (1AU55); Oceania (1OC40); Western Australia (1WE82)  
**LANGUAGE:** English  
**OTHER INDEXING:** (Sian Hughes; Colin Barnett; Mick Murray; Colin Holt)  
**WORD COUNT:** 451

# THE IMPACT OF SELLING THE W.A. TAB



The sale of the TAB would potentially have an horrific impact on Pinjarra Harness Racing Club and the entire harness racing industry.

Funds generated by the WA TAB goes directly back to the racing industry to support racing Clubs in the form of

- Stakemoney for races
- To employ local staff
- To conduct race meetings and
- As infrastructure funding to provide and maintain the best facilities for our participants, Members and patrons.

Here in the Peel region 1 in every 22 people has an involvement in the racing industry (inclusive of all three codes – harness, thoroughbreds and greyhounds) either as an employee, volunteer or participant.

If the TAB were to be sold, a private buyer would not necessarily continue to invest back into the actual racing product, by increasing stakemoney, funding to Clubs or infrastructure. With the costs of keeping horses and preparing them to race, as well as maintaining racing Clubs surely only rising in years to come, this could potentially make racing an unviable industry for participants to be involved in long term.

The WA TAB returns to Government approximately \$44 Million in Wagering Tax and \$27 Million in GST. It is a truly viable long term asset that not only supports the Government itself, but an entire industry and the broader community.

Every year the TAB directs 100% of its profits back to the community across the sectors of racing, community sport and community partnerships.

It's not only the racing industry that benefits from the TAB - this year the WA TAB has given back nearly \$150 Million to the local community through the Community TAB program, which assists not-for-profit organisation including Lifeline, Fremantle Sea Rescue and Riding for the Disabled.

\$4.5 Million in funding from the TAB goes to the Department of Sport and Recreation, which is distributed to community sport programs.

The racing industry is a significant player in the Peel economy; financially and socially; in the Peel region the economic contribution (value added) of the racing industry is over \$77.2 Million and the combined direct expenditure by the racing industry on production (breeding) and preparation (training and racing) of racing animals is \$50.2 Million.

The sale of the TAB is a very real prospect that could have dire long term consequences for our Club, other regional racing Clubs and the entire racing industry - once the TAB sold there would be no going back.

*The views expressed here are those of the Pinjarra Harness Racing Club and are supported by our Patron, Murray Cowper M.L.A.*

# Hold on to reins says ex-jockey

August 3rd, 2015, 03:30PM | Written by Susanne Reilly | [Southern Gazette \(http://www.communitynews.com.au/southern-gazette/\)](http://www.communitynews.com.au/southern-gazette/)

[NEWS \(/SOUTHERN-GAZETTE/NEWS/\)](http://www.communitynews.com.au/southern-gazette/news/)

 (HTTPS://TWITTER.COM/HOME?STATUS=HTTP://WWW.COMMUNITYNEWS.COM) He was the president of the WA Jockey's Association for more than 30 years and said that in his role he negotiated increased

wages, improved health and safety standards and implemented workers' compensation and superannuation for jockeys.  (HTTPS://WWW.FACEBOOK.COM/SHARER/SHARER.PHP?U=HTTP://WWW.COMMUNITYNEWS.COM)

Ryan started a jockey apprenticeship in 1962 and in 1967 he won the Kalgoorlie Cup. A few months later he won the Perth Cup and over his career he rode about 1000 winners.  (HTTPS://PLUS.GOOGLE.COM/SHARE?URL=HTTP://WWW.COMMUNITYNEWS.COM)

He said the TAB started as a way to replace the off-course betting shops so people in the industry got something out of it.

◆It shouldn't be sold,◆ he said. ◆I don't know why they want to sell it, they get so much from it for doing nothing.◆

He said what should be done instead is a facelift to Ascot and Belmont racecourses.

◆With the new stadium, they could charge parking at Belmont and make so much more money for the industry.◆

The TAB was formed in 1961 as the Wagering and the Totalisator Agency Board of WA and in its first annual report recorded a turnover of \$1 million.

More about the plans to privatise TAB [here](http://www.communitynews.com.au/news/Calls-to-keep-TAB-for-state/7673529).  
<http://www.communitynews.com.au/news/Calls-to-keep-TAB-for-state/7673529>

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(<http://www.communitynews.com.au/fremantle-gazette/news/fremantle-dockers-shane-yarran-hit-charge/>)

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**City of Melville announces Bobby the cat winner of first Instagram fur**

(<http://www.communitynews.com.au/melville-times/news/city-of-melville-announces-bobby-the-cat-winner-of-first-instagram-fur-baby-competition/>)

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## Calls to keep TAB for state

**Source:** Southern Gazette (Australia)  
**Publication Date:** August 4, 2015  
**Country:** Australia  
**Source Type:** Newspaper

8/4/15 S. Gazette (Austl.) 3

News

Copyright © 2015 News Limited Australia. All rights reserved.

Member for East Metro Samantha Rowe with trainer and vice president of the WA Race Trainers Association John Lugg. Picture: Matt Jelonek [www.communitypix.com.au](http://www.communitypix.com.au) d441452 WITH the State Governments plan to sell the **TAB** going ahead, racing industry workers say they are worried what it will do to local racing

Vice president of the WA Racing Trainers Association John Lugg said the sale of the **TAB** would decimate local racing

We are all worried about how the decision to sell the **TAB** will affect the long-term sustainability of local racing, he said

The industry is already suffering from the uncertainty around its future

Premier **Colin Barnett** detailed in the states 2015-16 Budget that the decision to sell the **TAB** and pursue a sensible program of asset sales would enable the Government to build new infrastructure to support growth without putting further pressure on the states finances

But opposition spokesman for racing and gaming Mick Murray said the Government needed to heed warnings from Queensland about the condition of its racing industry under a privatised **TAB**

Mr Murray said Racing Queensland recently announced it was burdened with mounting and unsustainable losses

He said there was no clearer warning about where the WA racing would be in 10 or 15 years if it were sold

The numbers dont lie and Queenslands Racing and Gaming Minister has now had to intervene to try to restore some sort of workable future for their industry, he said

Belmont MLA Glenys Godfrey and East Metropolitan MLC Samantha Rowe have visited racing industry workers in recent weeks

Although the current **TAB** system has some flaws, it works well in general and does not negatively impact on the State Government, Ms Godfrey said

Privatising the **TAB** exposes the WA racing industry to more risks, so the feedback I get every time I go to the races at Belmont is the industry would prefer to work on the areas that need improvement and not sell the **TAB**

Ms Rowe said trainers in Ascot were very concerned about the impact of the **TAB** sale on the local industry and on the WA racing industry more broadly

The trainers know the sale of the **TAB** is not about producing a benefit to the racing industry, she said

The **TAB** supports thousands of jobs around the state, and many here in Belmont. It also injects millions of dollars into WA racing every year

Read what a former jockey thinks &a href="http://www.communitynews.com.au/news/Hold-on-to-reins--says-ex-jockey/7673619">here.&lt;/a>

## ---- INDEX REFERENCES ----

**NEWS SUBJECT:** Business Management (1BU42); Corporate Events (1CR05); Privatization (1PR92)  
**INDUSTRY:** Boats & Sailing (1BO44); Entertainment (1EN08); Equestrian Events & Horse Racing (1EQ65); Horse Racing (1HO27); I.T. (1IT96); I.T. Vertical Markets (1IT38); I.T. in Small Office & Home Office (SOHO) (1IT10); Sports (1SP75)  
**REGION:** Australasia (1AU56); Australia (1AU55); Oceania (1OC40); Queensland (1QU50)  
**LANGUAGE:** English  
**OTHER INDEXING:** (John Lugg; Glenys Godfrey; Colin Barnett; Mick Murray; Godfrey saidPrivatising; Matt Jelonek; Samantha Rowe)  
**EDITION:** 1  
**WORD COUNT:** 438



## WA racing minister touts for TAB as uncertainty continues over betting agency's potential sale

ABC Esperance By Sam Tomlin

Posted Fri 4 Mar 2016, 4:59pm



PHOTO: Small racing clubs, like Leonora, fear the instability that loss of TAB revenue would bring. (ABC Goldfields: Nathan Morris)

**Gamblers have been urged to wager on the horses rather than wider sports betting by Western Australia's Racing and Gaming Minister Colin Holt, in a bid to boost support for country racing clubs amid concerns over the looming sale of the TAB.**

The betting agency, the last in Australia to be government-owned, could be put up for sale as soon as next month, amid speculation of considerable corporate interest.

The move has prompted fresh concerns for country racing clubs, which fear the estimated billion dollar sale to the private sector could see the industry lose access to its most reliable revenue stream.

Speaking to ABC Goldfields ahead of this weekend's Esperance Cup meeting, Mr Holt urged would-be punters to embrace a return to racetrack wagering.

"Sports betting doesn't contribute to the racing industry like wagering on the races does," Mr Holt said.

"So we certainly would like to promote that if you're going to have a wager, have a wager on the horses.

"I certainly would like to see punters support their bookies and the local tote a lot more."

Describing the shift to online and mobile betting as the biggest challenge facing country racing clubs, the Nationals Minister flagged the need for greater marketing and promotional support across regional racing.

**RELATED STORY:** Fremantle Port sale unlikely to happen before 2017 election, says WA Premier

**RELATED STORY:** WA racing industry wants \$500k for consultation on TAB sale

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**MAP:** Esperance 6450

If it does cut out, and the money does go to a private operator and the corporate sector, country racing clubs are the first to suffer.

Ken Norton, Esperance Bay Turf Club president

"[Clubs] are very good at holding events, and they've done that for many years," Mr Holt said.

"I think what we need is a general push from a marketing point of view, to get more people to the track."

## More to industry than budget bottom line

The betting agency joins a laundry list of WA Government assets subject to pre-budget speculation, as the Barnett Government looks to repair the state's shaky budget position.

While Mr Holt has made it clear he will not back any sale which fails to deliver a net benefit to WA racing, the thoughts of country club officials are far away from the betting industry bidding war the Government hopes will drive up the agency's sale price.

Esperance Bay Turf Club president Ken Norton said the negative effects of agency sales had been demonstrated across Australia.

"If it does cut out, and the money does go to a private operator and the corporate sector, country racing clubs are the first to suffer," Mr Norton said.

With the racing club gearing up for its biggest race meeting of the year this weekend, he said the community aspect of local racing would be on show for all to see.

"Down here on the day, the lifesaving club will be down here shaking the tins; they'll be looking after the parking and holding a raffle," Mr Norton said.

"Anything they fundraise, the community TAB matches that dollar for dollar, so we're helping out in other areas as well."

While he said he was impressed by Mr Holt's insistence that any sale benefit the wider industry, he said such an aim would be hard to achieve in current circumstances.

"If it does sell, the money must go back into racing in WA," Mr Norton said.



**PHOTO:** Racing Minister Colin Holt says punters can support local racing by wagering on the horses, rather than general sports betting. (ABC News: Andrew O'Connor)



**PHOTO:** The success of major race meetings is a critical factor for the viability of smaller racing clubs. (ABC Goldfields: Nathan Morris)

## Funding critical for smaller clubs

While flagship meetings like the Esperance Cup and Kalgoorlie-Boulder's Race Round provide a key injection of cash for clubs in major centres, country cups are even more critical for smaller racing clubs.

With the key meetings in the northern Goldfields — encompassing the Leinster, Leonora and Laverton Racing Clubs — coming after the Kalgoorlie round's high-profile triple crown of the Boulder Cup, Hannans Handicap and Kalgoorlie Cup, the smaller clubs have often struggled to attract prospective runners and punters.

But with the cup meetings representing a rare chance for the entire communities to celebrate, Leonora Shire president Peter Craig said smaller towns were contributing more and more to ensure the events were successful.

"The clubs themselves do a lot of sponsorship drives, to get the stakes money up to a level that's going to attract horses, trainers and owners alike," he said.

"Sometimes it might only be once a year where everyone can come together and catch up, so the community, shires and local businesses are fully supportive."

With long-standing ties to the Leinster District Race Club, Mr Craig said he could not see any circumstances where the TAB sale would not hit country clubs.

"Everything these days is monetary, and that funding is the biggest thing," he said.

"If it does go ahead, it's going to be to our detriment; any deal that does get done is only going to be a short-term thing."

**Topics:** horse-racing, gambling, esperance-6450, leonora-6438, kalgoorlie-6430

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Delay on TAB sale a barrier for industry

Gareth Parker - The West Australian on May 1, 2016, 2:30 am



There is increasing scepticism that a TAB sale can be progressed before the next State election.

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The racing industry is becoming increasingly worried that the Barnett Government's TAB sale process is caught up in political limbo, damaging the commercial viability of the wagering operator and undermining confidence in the industry.

With only 12 sitting weeks remaining once the May Budget session of Parliament is complete for this term of Government, there is rising scepticism that a sale can be progressed before the next State election, due in March.

The practical effect is that the TAB could not be privatised - even if the racing industry and the party that wins the next election wanted to - before the second half of next year at the earliest.

Meanwhile, the industry fears the wagering business is becoming ever more competitive and fast-changing, potentially exposing the State-owned TAB to significant commercial headwinds while the political process unfolds.

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Delay on TAB sale a barrier for industry - The West Australian

Leading trainer Michael Grant, who is chairman of the industry body formed to respond to the Government's sale proposal, said the uncertainty was affecting confidence in the industry.

"While the TAB is being used as a political football, the TAB's ability to function as a commercial entity is compromised," he said.

"This debate has been going on for nearly two years and while the market is ever-changing, the TAB is being forced into standstill mode."

Mr Grant and the WA Racing Response Group met Premier Colin Barnett and Racing Minister Colin Holt about two months ago but the industry is waiting for an official response from Government about how the industry would benefit from a sale.

Mr Holt rejected the suggestion the TAB was being used as a political football and said he had worked hard to get the industry to a point where it now accepted there could be net benefits from privatisation.

While he admitted the legislative timeframe was tight, he said if the industry agreed a sale was in its best interests then Labor might be convinced to back the sale, smoothing the way for a speedy passage of legislation.

Shadow racing minister Mick Murray said the Government had not demonstrated how a sale was in the industry's interests and Labor would not support privatisation until it did.

"I mean the whole industry, not just Perth Racing," he said. "There seems to be a divide between the country and city racing."

## The West Australian

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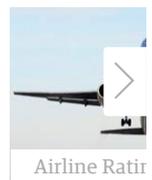
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# TAB sale: Colin Barnett rules out lead role for racing industry in privatisation process

By Andrew O'Connor

Posted Wed 4 May 2016, 4:04pm

**Tension over the proposed sale of the TAB in WA appears to have intensified, with the Premier rejecting a racing industry push to play a central role in the privatisation of the betting agency.**

Senior industry figures met with Mr Barnett two months ago, seeking to establish the ground rules for the Government to engage with the industry on the sale of the TAB.

WA Racing Representative Group was appointed by the industry to represent the three racing codes - thoroughbred, harness and greyhound - but has expressed increasing frustration at the pace of negotiations.

The industry believes the sale of TAB must be a tri-party deal, involving the Government, the purchaser and the industry, which supplies the racing product.

But Mr Barnett said while the industry would be consulted, it would not control the process.

"The industry is not going to be handling the privatisation of the TAB. Some may think they will, but the Government will handle that," he said.

Mr Barnett said he believed there was now broad support in the racing industry to sell off the TAB.

"I think they rightly need to know what the Government will do with those proceeds," he said.

"I've flagged there will be an industry investment or infrastructure fund, but the industry has got to make some sensible decisions about which facilities get upgraded."

## Decide on venues: Premier

The Premier said the Government wants the industry to set out its requirements.

"The big issues that we want to hear back from racing on an agreed basis is the structure of venues," he said.

"The State Government is not going to pour tens of millions of dollars into duplicate venues. We want the racing industry to work out exactly which venues will be maintained, and then we'll help the racing industry upgrade those venues."

The ABC understands the representative group has completed an industry requirements report setting out what it believes WA's racing industry needs to secure its future.

But the industry wants to establish ground rules for negotiating with the Government over a range of aspects of the privatisation, before it hands over the report.

Mr Barnett said the Government would sell the TAB, not the industry.

"It's a government process. It's a government asset and the Government will sell it. But we will certainly involve the industry and take advice, but they will not be party to the privatisation."

WA Racing Representative Group spokesman Michael Grant said he was "staggered" by the Premier's comments and said the industry had always sought to work constructively with the Government.



**PHOTO:** Mr Barnett says the racing industry will not be handling the privatisation of the TAB.  
(ABC News: Andrew O'Connor)

**RELATED STORY:** WA racing industry wants \$500k for consultation on TAB sale

**RELATED STORY:** Racing Minister urges punters to bet on horses to support community

**RELATED STORY:** Uncertainty over TAB sale as timeline thrown into doubt

**MAP:** WA 

**Topics:** gambling, horse-racing, states-and-territories, wa

## Privatisation may render family-operated TABs worthless

2 Jun 2016, 11:14 a.m.

<https://www.facebook.com/sharer/sharer.php?u=http://www.colliemail.com.au/story/3944716/privatisation-may-render-family-operated-tabs-worthless/>

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WA's more than 120 family-operated TAB businesses may become worthless upon privatisation, Racing and Wagering Western Australia chief executive Richard Burt has confirmed.

Responding to Opposition questioning in Budget Estimates hearings, Mr Burt said TAB licensees were not franchise owners and could provide no assurance they could derive any value from the licences upon privatisation.

He said the issue was "top of mind" but any assistance to businesses and families impacted by privatisation would be a decision of government, "similar to the issue of taxis".

Mr Burt said the Liberal-National Government had made no approach to RWWA to discuss plans for TAB licence holders in the event of a sale, nor done any analysis of the way in which other states handled their TAB licensees upon privatisation.

CS Shadow Minister for Agriculture and Food Mick Murray said small businesses have been left short.

"It is concerning to hear Mr Burt compare the situation to the one taxi drivers are experiencing where they have invested hundreds of thousands of dollars into a small business and been left very short," he said.

12/1/2016

Privatisation may render family-operated TABs worthless | Collie Mail

“The State Government has not contacted RWWA to discuss plans for the 68 licences post-privatisation and I question why that hasn’t happened as part of the planning process.

News  Business

“It is not good enough to say they aren’t franchises so we can cut them loose – these are small businesses that often represent the entire livelihood of a family.

Search...

“With no planning having been done to manage a transition, and none announced by the State Government, there is a very real possibility that these 120-plus family businesses will be left high and dry after privatisation.”

**West Australian Harness Racing Breeders, Owners, Trainers and Reinspersons Association**  
**PO Box 159 York WA 6302**  
**Tel/Fax 96 412 105**  
**Email [botrot@westnet.com.au](mailto:botrot@westnet.com.au)**

**Minutes for the Meeting Held Wednesday 5<sup>th</sup> October 2016, meeting commenced at 5pm.**

**1. PRESENT-T. Ferguson (Chairman), C. Abercromby, R. Pearce, W. Robinson, R. Olivieri, G. Butler, M. Gray and R. Deadman (Secretary).**

**2. APOLOGIES. Nil**

**3. ABSENT. Nil**

**4. CONFIRMATION OF MINUTES**

**The Minutes from the meeting held 7<sup>TH</sup> September 2016 were accepted as a true and correct record of that meeting on the motion by M. Gray seconded by W. Robinson. Carried.**

**5. BUSINESS ARISING**

**The continued anomalies with Race Programming will be raised again at the next EHRB and HRCG meetings. (On Going)**

**The review for the Epona Mares Scheme will be delayed until further notice and will discussed further by the BOTRA Committee.**

**6. CORRESPONDENCE**

**Inward**

**1. John McIntosh**

**Free Lease-Broodmare**

**2. Ross Pearce**

**BOTRA Constitution**

**3. RWWA**

**Notice of HRCG Meeting-9<sup>th</sup> November 2016**

**4. RWWA**

**New Owners Only Ambassador-**

**5. National Trot Guide**

**Stallion Service Auction-Advertising**

**Outward****1/4- Bio John/BOTRA Award****All Correspondence.****5. To all Committee****Terry Ferguson Meeting With Brendon Grylls-Report****6. To all Committee****Poster and Info- Stallion Service Auction****6. ACTION ON CORRESPONDENCE**

**The unfortunate circumstances occurring after a claiming race held at Pinjarra led to the purchaser paying \$2000 for a horse which was banned for life after bleeding. This matter will be placed (for discussion) on the HRCG Agenda.**

**Inward Correspondence was received and Outward Correspondence endorsed on the motion by M. Gray seconded by C. Abercromby. Carried.**

**8. FINANCE**

**There is \$21,383.21 in the General Account to 31.8.2016**

**The Term Deposit stands at \$26,421.19 and has been rolled over for 12 months at 2.65% and will be reviewed in May 2017.**

**This Financial Report tabled was received on the motion by C. Abercromby, seconded by M. Gray. Carried.**

**9. Industry Body Meetings****Spider Fund**

**No action. The Spider Fund AGM will be scheduled for 2nd November 2016**

**Hardship Fund**

**No New Claims. The Hardship Fund AGM will be scheduled for 2<sup>nd</sup> November 2016**

**Harness Racing Consultative Group**

**Next Meeting to be held on 9<sup>th</sup> November 2016**

## **10.GENERAL BUSINESS**

**Winners of the Bio John/BOTRA Award for September 2016 were David Simmonds and Shane Young.**

**There was lengthy discussion on the Epona Scheme for mares. A review has been requested by RWWA from WABOTRA and WASBA. BOTRA believes a less complicated approach to distributing accumulated funding by RWWA for the Epona Scheme would be to emulate New South Wales Harness Racing with its decision to fully subsidise breeder's payments for foaling fees and eliminate payments associated with Registration fees. An email will be sent to Noel Reilly representing the WABOTRA initiative as part of the review for the Epona Mares Scheme. (On going).**

**A letter will be sent to RWWA requesting consideration to increase the stakemoney paid for the BOTRA Cup to \$30,000.00. (Still under consideration)**

**Bob Fowler will be invited to a BOTRA Committee meeting to be held on Wednesday 2<sup>nd</sup> November 2016. (To coincide with the AGM for the Hardship Fund)**

**An item for the agenda for the next meeting of Committee will be the matter of fines in place of suspensions for drivers. (To be further discussed)**

**Terry Ferguson, with other members of the EHRB, met with Brendon Grylls to discuss the privatisation of the TAB. The meeting was positive and the sale of the TAB would be supported only on the basis of a positive long term benefit to the racing industry. If this did not occur, support would be withdrawn. There are still many factors to be considered and if sold, options such as virtual racing, keno and tax relief to benefit the industry must be considered. The March 2017 election could also lead to a change in Government so there are many unknowns at this stage.**

**The time lapse between races at all meetings was discussed. BOTRA Committee recommend that a time frame of twenty minutes between**

**racers should be introduced and this initiative will be placed on the Agenda of the HRCG meeting for further discussion.**

**The need for change was seen as a necessity for the future operations of BOTRA. It was the view of some members of Committee that BOTRA did little for its members and needed to stimulate its activities to become a more vibrant industry body. The thrust to form a single united industry body has been driven by BOTRA for many years, however other Industry Groups have continually rejected the idea. There was also a suggestion that RWWA should revamp the current HRCG which is seen to be a forum held to satisfy the instructions of a Parliamentary directive rather than being a fact finding, solution solving, decision making body.**

**There was further discussion on making information available to the fraternity via email. Around 600 email addresses have been obtained. It was resolved to commence a Monthly Newsletter, circulated by email to involve the fraternity in issues such as- Race programming, handicapping, penalties for scratching a horse nominated for consecutive starts, standing starts, the elimination of 1700metre races at GP, conditions with handicapping, the ease out rule, continuity of mare's racing, concession drivers at GP, spread of classes in programmes at all meetings. These and many other issues will be presented in the News Letter, requesting fraternity responses and opinions to the many issues that are currently of concern in the harness industry. (On Going)**

#### **11. MEETING CLOSURE**

**There being no further business to discuss, the meeting closed at 6.30pm**

#### **9. DATE OF NEXT MEETING**

**\*5.30pm Wednesday 2<sup>nd</sup> November 2016**

**PLEASE MAKE EVERY EFFORT TO ATTEND COMMITTEE MEETINGS**



**Extract from Hansard**

[ASSEMBLY — Thursday, 15 August 2013]

p3576d-3594a

Mr John McGrath; Acting Speaker; Ms Josie Farrer; Mr Peter Abetz; Mr Chris Hatton; Mr Dean Nalder; Ms Wendy Duncan; Mr Troy Buswell

**APPROPRIATION (CONSOLIDATED ACCOUNT) RECURRENT 2013–14 BILL 2013**  
**APPROPRIATION (CONSOLIDATED ACCOUNT) CAPITAL 2013–14 BILL 2013***Second Reading — Cognate Debate*

Resumed from an earlier stage of the sitting.

**MR J.E. McGRATH (South Perth — Parliamentary Secretary)** [2.52 pm]: I am very glad that the Treasurer has come back from his very important opening this morning because I will call on the Treasurer for some action. When I was last on my feet, I was talking about racing industry infrastructure. This was something that was highlighted when a race meeting was abandoned at Belmont Park last week because of the state of the track. The industry is well aware that Belmont Park really needs to be re-turfed. It has not been done for 30 years and the cost is estimated to be between \$7 million and \$10 million. The problem is that the racing industry does not have the money to do it. Racing and Wagering Western Australia simply does not have the ability to fund other pressing infrastructure needs, unless it reduces funding from prize money. We all know that cutting prize money would make a huge impact on the racing industry. That is why across-the-codes participants have been calling on our state government to set up a racing industry infrastructure fund. In 2010, I brought a report to this chamber as chairman of the select Committee on the Review of the Racing and Wagering Western Australia Acts. While the committee identified that the Racing and Wagering Western Australia model worked in its governance of the three codes—that is, thoroughbreds, harness and greyhounds—it also identified a \$70 million black hole in revenue to fund some very urgent infrastructure needs across the industry.

The committee was told that the Bunbury Turf Club, which is very close to the Treasurer's electorate of Vasse, needs something in the vicinity of \$15 million to provide better facilities for the biggest thoroughbred training centre outside the metropolitan area. The greyhound industry needed close to \$30 million to establish a new home at Cannington because the lease on its current site was not to be renewed. I am aware that RWWA, with the assistance of the Minister for Racing and Gaming has been able to come up with a scaled-down version that will not be as big as the facility the greyhounds currently enjoy.

These are a couple of examples that highlight the massive funding problems facing the racing industry when it comes to infrastructure. Basically, the industry injects roughly \$60 million into Treasury coffers every year from wagering, yet it is unable to meet the cost of maintaining and upgrading the very infrastructure that supports that same industry. This is no reflection on RWWA or the minister, Hon Terry Waldron, who has managed to provide funds for many of the smaller projects through royalties for regions and other mechanisms. The minister is a strong supporter of the industry, but here we are talking about big-ticket items that need strong action from the government. Hence the key recommendation of our committee's report to Parliament, which was tabled in 2010, was that the government reduce the tax on wagering by an amount sufficient to establish a racing industry infrastructure fund that might start at between \$10 million and \$12 million in the first year, but would increase as betting turnover rose. Members should remember that these are funds that the industry generates through wagering; it is not a handout from the government. It is funds generated by the racing industry. Unfortunately, we are three years down the track and the government has not been able to act on that recommendation. To me, that is disappointing, but it leads to the question: where do we go from here? The government could agree to implement the recommendations of the committee report, but given the pressures on the state's finances at the moment—so much redevelopment and infrastructure is needed in other areas—I am not sure that the government is in a position to come up with these funds. After giving this much thought, I have come to the conclusion that there is only one way in which the government will be able to establish a racing industry infrastructure fund out of wagering revenue—that is, to privatise the TAB.

I am not saying that we should sell off the TAB. I stress that point very strongly. I am not in favour of selling off the TAB; rather we should outsource the operations of the TAB, as has been done in most other states ever since Victoria did it in 1994. This type of corporatisation has the capacity for any government to negotiate for the successful tenderer to come up with an up-front payment to gain those rights. This would be a matter of negotiation, obviously, between Treasury or the department, and whoever tendered for the TAB. In other states these up-front payments have been used to support the racing industry through the provision of new infrastructure. Some years ago the New South Wales government came to an agreement with Tabcorp for it to operate the New South Wales TAB—not to own it, but to operate it. The government recently extended that contract for another 20 years and Tabcorp made an up-front payment of \$70 million. I am not saying that the Western Australian TAB would commit to the same sort of payment as the New South Wales TAB as it is a greater entity in a bigger state, but these things can be negotiated. After the negotiations and the contracts are signed, the states continue to receive a dividend from wagering and the racing codes receive a guaranteed dividend. I am especially looking at this because I feel that unless we can do something as a government—I

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would like to think that the opposition would support this—the industry will lag behind other states, which are receiving this support from their state governments.

Big things are happening in the wagering industry. It is a \$26 billion industry around Australia. The competition is enormous. International wagering agencies are investing millions of dollars in our marketplace. I believe one agency has invested \$700 million in picking up some licences for wagering operations around Australia. There is an opportunity, and I think the face of Racing and Wagering WA will change from what we have today with the TAB shops and pub TABS, with more online wagering. It will be a different market and we need to make some decisions now as this new era approaches. This is no reflection on Racing and Wagering WA, which under Richard Burt is a very well run organisation, but do we have the best model to face the challenges ahead? Could the model be tweaked a little? I am not an economist but people working in government agencies could look at this. We could debate this subject for many hours. Today, someone must start the conversation on behalf of the industry.

In the Treasurer's budget speech last week, he indicated that the Economic Regulation Authority would be tasked with undertaking an inquiry into the micro-economic reform priorities needed for Western Australia. I was interested to see that. I inform the Treasurer and the house that I will be writing to the Treasurer to ask whether the privatisation of the state's wagering operation could be included in that investigation, and if it could be part of the 2013–14 financial year investigation. It is time the government took the racing industry seriously. This is a very important industry for employment and the Western Australian economy. The industry has massive potential but it has come to a bit of a standstill in terms of its prize money. We were told seven or eight years ago that by now we would be racing for \$70 000 prize money on Saturdays, however we are racing for \$50 000 and some of the races are running for only \$45 000. The bigger states have moved ahead of us. We have always been a strong racing state and I would like to see some action. I have discussed this with the Minister for Racing and Gaming who wants to see more evidence to support the recommendation I am making today.

**Mr M.P. Murray:** Are you suggesting the privatisation of the TAB?

**Mr J.E. McGrath:** Not a sell-off of the TAB; just the running of the TAB. The state would continue to own the TAB, but it would be run by a private operator, just as the prisons are.

**Mr D.J. Kelly:** Like Serco.

**Mr J.E. McGrath:** A lot of private operators run transport services around the world. Private operators run a lot of things and they do it well. The member for Collie–Preston is the shadow Minister for Racing and Gaming. I have never been in favour of selling off the TAB because I have never believed in selling off the farm, but perhaps we should look at the modelling. The member would know from the race clubs down Bunbury way that Bunbury is in desperate need of money.

**The ACTING SPEAKER (Ms L.L. Baker):** Member for Bassendean, can we not have another side conversation, please.

**Mr J.E. McGrath:** Thank you Madam Acting Speaker.

Member for Bunbury, I am putting this on the table. I know it is a big decision but after what I saw happen at Belmont last week, I thought to myself that I do not know what other way out there is for the industry. It is our job to support this industry because of its importance to our state. I do not know the process, but I will write to the Treasurer about whether there needs to be some other form of inquiry. The Economic Regulation Authority could certainly look at it and see the economic benefits to be gained from it. We should consider it very seriously. Thank you, Treasurer, for stopping behind and listening to my few words.

**Mr T.R. Buswell:** I am looking forward to getting your letter.

**Mr J.E. McGrath:** You could have come and got my coat, you know; I reckon my jacket would have been a better fit.

I will now talk about local government amalgamations.

**Mrs M.H. Roberts:** Are you going to invite the Treasurer to your BBQ?

**Mr J.E. McGrath:** A lot has been said in recent weeks about the state government's plan —

**Mrs M.H. Roberts:** You don't want to say. I don't think he's getting an invite.

**Mr J.E. McGrath:** Madam Acting Speaker, the member for Midland is being very flippant about something that will not happen.

A lot has been said in recent weeks about the state government's plan to reduce the number of councils in the metropolitan area. I must put my position on record in this place because I have made some public comments,

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some of which were repeated ad nauseam by the opposition. When the Robson report was released, two proposals placed the City of South Perth within the City of Perth, and the City of South Perth is the only local government area in my electorate. My electorate covers the entire City of South Perth. I said publicly at the time that I would not support such a move. I have always had the view that one day the City of South Perth could become like North Sydney with a mix of residential and commercial developments sitting right across the river from our great city. I have always believed that South Perth should retain its identity. When talk of council amalgamation began to swirl around, I became aware that the City of South Perth and the Town of Victoria Park had already begun talks about a possible merger. When the member for Bunbury was the Minister for Local Government, I guess they saw that the movement towards local government amalgamation was on, so they decided to be proactive. I was happy to support that, provided it did not impact adversely on the ratepayers of my electorate. The two councils after some discussion decided to come together and they had a vote, and they agreed to progress the amalgamation on one condition—that they retain the Burswood peninsula, which currently sits in the Town of Victoria Park. By then, it had emerged that the City of Perth had its eyes on Burswood so that it could announce to the world that it was a city with great icons like Crown Perth and the new sports stadium, along with Elizabeth Quay and Kings Park. I can imagine people driving into Perth from the airport and seeing a sign saying “Welcome to Perth” when they could still be in the Town of Victoria Park. Do members think they would really know which local government authority they were driving through? They would just say, “We travelled to Perth and had a great holiday.” When they go to the Crown casino, do they really know that they are in the Town of Victoria Park? I do not think so.

[Member’s time extended.]

**Mr J.E. McGRATH:** I wonder why the City of Perth has not set its sights on Perth Zoo, which is in South Perth. It is not called the “South Perth Zoo”—some people do call it that—but it happens to sit in the City of South Perth. The Zoo attracts 600 000 visitors a year. I wonder about the cherrypicking and whether it is necessary.

**Dr A.D. Buti:** They will eventually.

**Mr J.E. McGRATH:** Member for Armadale, someone told me today to be careful because it might happen eventually, but I do not think so.

When the City of Perth made that claim, I made a statement that I think has been repeated by the member for Victoria Park a few times. I basically said that if Burswood comes out of the planned amalgamation between the City of South Perth and the Town of Victoria Park, all bets would be off because it would be totally unsustainable. The government has since been very strong in its insistence that Crown casino and the new stadium will stay in the City of Perth. The Minister for Local Government has been very good throughout this process. All the councils I speak to think he has been very genuine in trying to bring about the best result for them, and he has worked very hard at it. He drew up a new map that excises the Crown casino and the stadium from the Town of Victoria Park. If this amalgamation goes ahead, the boundary will go around South Perth and Victoria Park and then it will move onto the Burswood peninsula and up and around the Crown casino. Crown will keep the parking, but the parking area next to the old superdome is actually owned by the Town of Victoria Park. I do not know how that will be managed. Then, South Perth and Victoria Park will keep a bit of high-rise there at the back of the casino and then go around to Belmont Park.

**Dr A.D. Buti:** What a mess!

**Mr J.E. McGRATH:** It will be difficult because, as someone pointed out to me today, if the residents of the City of Victoria Park who live in the high-rise were impacted in any way by the stadium because of louts coming home at night after the footy or the casino, by traffic or whatever, who do they go to? They cannot go to the City of Perth because they are not City of Perth ratepayers. They do not have any representation on the council. It is a difficult issue and one that I will continue to talk to the minister about.

**Dr A.D. Buti:** It’s a good point!

**Mr J.E. McGRATH:** As compensation for losing the \$2.8 million in annual rates from Crown casino, the minister has extended the boundary on the southern part of the two existing councils down to Leach Highway; that represents 7 000—as the minister calls them—rooftops. Some are commercial, but they are mostly houses. They have been excised out of the old City of Canning and they will come into the new council.

**Dr A.D. Buti:** When he counts those 7 000 rooftops, I presume they will still be Homeswest?

**Mr J.E. McGRATH:** No, I think Homeswest would be in it; but Homeswest pays rates.

**Mrs G.J. Godfrey:** Yes.

**Extract from *Hansard***  
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**Mr J.E. McGRATH:** I think it does. The Minister for Local Government said that on his figures the rates lost from Burswood would be more than recovered by the rates gained by the 7 000 new rooftops. I note the minister entered the house just when I was giving him a big wrap!

**Mr A.J. Simpson:** That's why I came in!

**Mr J.E. McGRATH:** That is very admirable, but it has been pointed out that with those 7 000 new rooftops, there could be an additional cost involved for the new cities because the council does not have to spend any money in the Burswood precinct itself because it is managed by the Burswood Park Board. I have basically said to my council to go away, do the figures —

**Mr D.J. Kelly:** Go away full stop!

**Mr J.E. McGRATH:** Not to go away, but do the figures and see how the financials add up.

**Dr A.D. Buti:** It is obvious! You will be worse off!

**Mr J.E. McGRATH:** They have to do the cost-benefit analysis. They will put their report in to the Local Government Advisory Board by 4 October. I have to say one thing about this: I have not had anyone knocking on my door saying, "Oh gee, isn't it great, we're going to amalgamate." I think the people of South Perth do not care whether they amalgamate or not. They are very happy where they are. They like where they live; the suburb is pretty good. I do not think they are in the mood for a change. The only thing they do say to me when I ask them about it is that it is their belief that the river should be the natural boundary. That is why we are South Perth and the City of Perth is the City of Perth. They say the natural boundary should be the river. I think that will be the argument they put to the advisory board when the two councils make their submission, but the minister has a tough job. I want to commend him. At least he is prepared to talk to the councils but—pardon the pun—there is still a lot of water to flow under the bridge on this matter. All I will say, and I have always said this from the outset, is that I will support my voters to get the best outcome. Hopefully, through the process we can come up with the desired outcome for both councils.

Just on one other note, I was a little disappointed—I was actually more than a little disappointed—that during the election campaign my party made a commitment to invest \$16 million into Swan River Trust for the Swan and Canning Rivers.

**Dr A.D. Buti:** They broke that one, did they?

**Mr J.E. McGRATH:** As part of that, some \$1.35 million was for restoring the rock river walls on the South Perth foreshore near Mends Street. This was something I was really delighted about; I thought, what a great thing that our government can do this. Obviously, the situation of the finances has changed and some things had to be lopped off, and this was one of them. I am disappointed. I have spoken to the Minister for Environment; I am going to work as hard as I can to get it reinstated or to see whether we can come up with that funding, because it is right opposite where we will have Elizabeth Quay. The river walls are crumbling into the river. The City of South Perth has had to put up a barrier along that section of the river where thousands of people walk and ride along that South Perth foreshore every week. It is a beautiful part of the city. For \$1.35 million, which is what the city has already, it is prepared to pay its half of the cost of doing the job. They were hoping to have the money by October this year so that they could get on with the work and get it done for next summer.

All I can say to my constituents is that I apologise, because I did put that restoration project in my letter to the voters. I did get a 67 per cent primary vote, which was the highest in the state. I do not know whether that restoration project contributed to that figure or it was just the hard work that I had been doing for the last four years!

**Dr A.D. Buti:** At least you've been honest and apologised, while the Premier makes excuses! Another broken promise!

**Mr J.E. McGRATH:** I am not blaming the Premier for this because, in the grand scheme of things, it is not a massive amount of funding. I note that the minister has apologised; he put the money forward but it did not quite get across the line. I will say that there was no time line on it. It was said that the money would be provided, but it did not say in the first year or the second year.

**Dr A.D. Buti:** It won't be provided at all!

**Mr J.E. McGRATH:** All I can say is that I will continue to talk to the minister about that and advocate that we get that infrastructure done as quickly as possible. I know there are other speakers who will follow me now. I just want to make one final point; that is, if I did not make a budget speech in this house and not mention Manning Road, I might as well retire. I am still waiting for the funding for Manning Road.

**Extract from Hansard**

[ASSEMBLY — Thursday, 15 August 2013]

p3576d-3594a

Mr John McGrath; Acting Speaker; Ms Josie Farrer; Mr Peter Abetz; Mr Chris Hatton; Mr Dean Nalder; Ms Wendy Duncan; Mr Troy Buswell

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**Mr W.J. Johnston:** The Minister for Transport is not in the room!

**Mr J.E. McGRATH:** I have said this many times, but I believe that transport is the biggest challenge for any government. Manning Road is a good piece of transport infrastructure. If we could get a ramp running south on to the freeway for people coming along Manning Road going to the new Fiona Stanley Hospital, it would free up the Canning Bridge area. It will take cars off the freeway. I note that north–south connection on the two freeways is the worst area for congestion. Obviously, it is hard because we would need to go into the river to make the freeway wider, but Canning Bridge is a mess. I know that the Department of Transport has been talking to some of the residents about the possibility of some land resumption. Therefore, things are moving forward, but nothing has been allocated in the budget yet. I would like to think it would happen before I leave this place, and I am not sure how many more terms I intend to run for, but I would like to see Manning Road happen. I would die a happy man! Thank you.

**MS J. FARRER (Kimberley)** [3.18 pm]: I will speak to the Appropriation (Consolidated Account) Recurrent 2013–14 Bill 2013 and the Appropriation (Consolidated Account) Capital 2013–14 Bill 2013. On 17 April this year, less than four months ago, I rose to my feet in this Parliament to make my very first speech. In that speech I talked about the Kimberley and its people. I have an electorate that is twice the size of Victoria. I have an electorate where Aboriginal people make up the majority of the population; that electorate is a very, very long way from Perth. Some 40 000 people live there and more than half of these people are Indigenous. In many ways, we are a different world and we are certainly regarded as a different world if one were to look at the way the Kimberley people have been treated in this budget.

It is a common sight all over the Kimberley to see people standing outside courthouses because they have no money to pay for their bills or feed their families. I talked about them in my first speech; I told members how angry it makes me when I see desperation in people's faces. That desperation is increasing. When looking for the reasons why the desperation is increasing, I need not look further than this budget. I believe—it is a belief that everyone on this side of the chamber shares—that everyone should be treated equally. It should not matter who a person is and it should not matter where a person lives. But this budget shows that for the Barnett government it does matter who a person is and it does matter where a person lives.

People in the Kimberley are a long way from Perth. They are so far away that they have been forgotten. If members do not believe me, they should come up to the Kimberley and let me show them what life is like for thousands of people who need food, shelter, proper health care, decent schools and a safe place to bring up their kids. They need these things just like every other Western Australian but they do not have them. All we have heard from the Barnett government are promises, promises and promises. But those promises have turned out to be empty and to be nothing but fine words and glossy printouts. Fine words and glossy pamphlets do not feed hungry children; they do not house people living in their cars or in sand dunes or swamps; they do not give our kids the decent start in life they deserve or to help them overcome the effects of poverty and disadvantage.

I say again to members that they should come up to the Kimberley and let me show them what everyday life is like. If members come with me far away from the luxury resorts and holidaymakers, I will show them what happens to people when they have a government that breaks its promises by forcing up living costs, which is exactly what this budget has done. Perhaps members on the government side of the house would like to think about how they are going to explain to people in the Kimberley why they will have to find \$1 billion every year just to pay the interest bill on the debt the government has racked up. Do members seriously suggest that I go to every man, woman and child in my electorate and tell them that their share of the debt is almost \$10 000 each? When Kimberley people ask me what the debt is for, what should I tell them? This government is not keeping its promises.

The truth is that the government has created a big budget black hole and it is trying to fill that hole by pushing up taxes, power prices and the cost of car licences and rents. I cannot believe the number of calls my office in Broome gets from people who need help with their drastically increased power bills. At the same time the government is cutting public sector jobs—jobs that provide vital employment to people in towns like Broome, Kununurra, Derby, Wyndham, Halls Creek and Fitzroy Crossing. The government is cutting services that give crucial support to families in all our Kimberley towns and remote communities as they go through hard times or need a bit of extra assistance.

Let me give some examples of what is already happening to people in the Kimberley as a result of what this government is doing. In recent days there have been threatened cuts to child protection services in Wyndham. My colleague in the other place Hon Stephen Dawson last week asked the minister to explain why child protection staff in the office in Wyndham were being given forms about taking voluntary redundancies. The minister, of course, did not use words like “cuts” and “staff sackings”. Instead she tried to hide the truth by using words like “yearly operational planning cycle reviews”, “service delivery models” and “staff configurations”.

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While I am on the subject of Wyndham, let me remind members that this is where the people who were forced out of Oombulgurri by this government now live. The document I am holding up shows members the sort of campsites where people are living. This paper can be tabled.

[The paper was tabled for the information of members.]

**Ms J. FARRER:** There is a desperate need for support for these people. They were removed from their community, not by choice, and many are now living in Wyndham in overcrowded houses. One of the things we need urgently in Wyndham is a full-time housing officer to work on the ground with these people to support them and help them make a decent life for themselves. We in the Kimberley know that if these people were living in the Premier's electorate of Cottesloe or in the Treasurer's electorate around Busselton, there would be immediate action to help them. As I said earlier, if members come to the Kimberley, I will show them that for the Barnett government it does matter who people are and it does matter where they live. Someone living in the Kimberley looking for housing or help for their family will not get it from this government in this budget.

Like other places around the state, housing is a huge issue for Kimberley people. The priority waiting list is very long and the waiting time is more than three years. Some people are homeless and some people are living in overcrowded conditions, yet the government thinks it is okay to tell people that they have years to wait for a place to live, and even when they get that place, they might not be secure. I have been fighting really hard for Department of Housing tenants in the East Kimberley who were in danger of losing their homes because of the unfair treatment they were getting from Homeswest. But we did have a win. Homeswest is now working with Kimberley Community Legal Services in Kununurra on plans to make sure that some of these back payments of rent are sorted out. I am happy to say that after the fight we put up, things have now improved and plans are in place, which has stopped people from being kicked out of their homes.

Let me tell members a bit about the patient assisted travel scheme. The scheme is just not working for Kimberley locals who are being sent to Perth for medical treatment far away from their homes. Little or no support is provided to these people who are trying to find their way around the metropolitan area. Many have never travelled by plane or train before, let alone been in a city, and this can be very scary for them. People have resorted to setting up camp in bushland. I believe that some people from the Kimberley and from the Pilbara are now living in bushland around the Perth area. In case members think I am making this up, let me read part of an article that appeared in the *Eastern Reporter* last Tuesday, 13 August. The article headed "How could it come to this?" states —

A group of six ill Aboriginal people, from the Kimberley and Pilbara, are camping in Mirrabooka bushland because they have nowhere else to go.

They need emergency accommodation while they receive medical treatment in Perth, but have been told they could be waiting for up to three years.

The Salvation Army has provided meals and blankets to the people who have been forced to enter private property in search of clean drinking water.

I would like the article, which tells the story about those people, tabled.

[The paper was tabled for the information of members.]

**Ms J. FARRER:** This is what it is like for very many of my constituents who have to leave their families and homes to live in Perth for years to receive much-needed medical treatment. These people do not choose to be in Perth. They have not come to Perth to have tummy tucks or face lifts. They have come to Perth because the medical treatment they require is not available in the Kimberley, yet they just do not get the support they need from this government. If this is any indication of what the government has done to those people, it is thanks to funding cuts that have been made to travel allowances and to measures to address serious overcrowding in Aboriginal hostels. I hate to say it, but perhaps we will see some change when we see sick people from Cottesloe and Busselton camping in bushland and being fed by the Salvos.

**Mr C.J. Barnett:** Do you know that there are some very poor people in the Cottesloe electorate?

**Ms J. FARRER:** But they are not living in the bush, are they?

**Mr C.J. Barnett:** Some have been, near the old cable station.

**Ms J. FARRER:** That is something the state should be taking care of.

**Mr P. Papalia:** Maybe the member should be taking it up.

**Ms J. FARRER:** Yes, it is something we as a Parliament should be looking at. It does not fall to one person as the responsible person; it falls to the whole of government. Until then, anyone who lives in the Kimberley will

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not get equal treatment from the Barnett government. Even a service that has a great track record, such as the Kullarri night patrol in Broome, has had funding cuts. I hope the Minister for Police is listening to me, because it is the police who need help! It makes no sense to cut a program like that, which collects young kids and delivers them home safely, and which helps break up antisocial groups without involving the police.

I want to talk again about suicide. As I said in my first speech in this place, this is a very personal issue for me because my 16-year-old grandson took his own life. Only last week another member of my family had a mental health crisis and needed urgent help. It is very important that we look at the rate of suicide to see how we can prevent our young people from taking their life. All this about the high cost of living and everything else—no jobs, no accommodation—is weighing heavily on people. I guess that is happening everywhere right across the state, but I particularly refer to the Kimberley because that is where I come from.

I spent some time in Beagle Bay recently, so let me just tell members a few things about what happens in a community that has been affected by years of trauma connected with suicide and grief. In the space of just one month this year, a young boy was tragically taken by a crocodile, a young mother of two sons committed suicide, and there was another suicide of a young man. This is not rare. It happens on a regular basis, yet Beagle Bay has no youth services or before or after-school activities in the community. There is no Auskick. A lot of these kids like to play sport, but there is nothing there for them. The only oval has a dangerous building standing on it that is contaminated with asbestos. There is no full-time counsellor. The roof is falling in on the general store that belongs to the community, and I am now worried that recent break-ins to the building have caused damage to the building structure and that the whole community is now at risk from asbestos-related materials dislodged by damage to the building.

Beagle Bay is just one example of the trouble that people in the Kimberley have every day of their lives. I could be standing here talking about my recent visits to Ringers Soak, Warmun, Fitzroy, Djugerari, Mindi Radi or the outlying communities around Halls Creek. I could be telling members about what people from Balgo, Mulan, Derby or Bidyadanga need to make their lives better. I could be talking about the ranger programs that are vital to our young people up in the Kimberley who enjoy helping to maintain and look after waterways and the land. We should be putting programs in place, and the roads should be sealed so that kids can get to school and women do not have to give birth while waiting for impassable roads to be opened, as has happened at least twice recently to my knowledge. For the women in this place who know what it is like to give birth to a child, just imagine having to do it on the side of the road without medical attention. I could also be talking about communities that have to go without fuel for their generators because the hand pumps are not working.

This is 2013, yet the government is letting people all over my electorate go without decent services and proper infrastructure, all because it cannot get its budget priorities right. Communities have pleaded for assistance and help to provide their children with positive activities to participate in, yet the substance abuse, teenage pregnancies, suicides and fatal accidents continue—while down here in Perth the government builds footy stadiums and spends hundreds of millions of dollars on the waterfront development.

In my first speech a few months ago, I promised Kimberley people that I would work hard to ensure that there would be proper health services and adequate housing and education equal to those found in Perth and to provide access to opportunity for all Kimberley people. I make that promise again now. Even such a bitter disappointment as this budget will not stop me fighting for the people I care about. I just wish the Barnett government had used this budget to show how we might rid the Kimberley of poverty. Sadly, that was not the case. I table a document in relation to the patient assisted travel scheme. That concludes my contribution to the budget debate.

[The paper was tabled for the information of members.]

**MR P. ABETZ (Southern River)** [3.33 pm]: Having just returned from four weeks in Europe during the winter break and having had discussions with ordinary citizens and officials in Germany, Finland, Estonia and Russia, I want to say just how glad I am that I live in Australia, and more particularly Western Australia. I have much I would like to address in terms of the utter drivel and half-truths spouted forth by the opposition about this budget, but I have to limit myself to just a few matters. There can be no question that the state budget required us to make some hard choices. Although mining royalties were certainly at a record high, our GST share from Canberra was at a record low. I am very pleased to be able to say that I believe that this budget outlined in the Appropriation (Consolidated Account) Recurrent 2013–14 Bill 2013 and the Appropriation (Consolidated Account) Capital 2013–14 Bill 2013 is a responsible allocation of our financial resources.

Government budgets throughout the western world have been under increasing pressure due to governments living beyond their means. Many foolishly worshipped at the altar of renewable energy, with Spain and even the economic powerhouse of Germany paying an enormous penalty for that folly. While I was in Germany, I learnt

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that the Energy Consumer Association estimates that 800 000 Germans have had their power cut off because they could not pay their rising electricity bills. They are now paying approximately 40 cents a kilowatt hour; we are paying, I think, about 23c or 24c in Australia. Last October the German newspaper *Der Spiegel* reported that some 200 000 of those 800 000 who had their electricity disconnected were long-term unemployed. In Germany, enthusiasm is certainly waning for what was enthusiastically called the Energiewende—the energy transition—which is estimated to have cost German domestic electricity consumers over €1 trillion by 2030. Approximately half of all the solar panels that exist in the world are located in Germany.

**Mr D.J. Kelly** interjected.

**Mr P. ABETZ:** Yes, it has been an enormously damaging industry. Short outages of electricity caused by sudden drops in output from solar and wind power have resulted in millions of euros of damage to industrial processes. The result has been that most energy-sensitive industrial processes are actually now installing massive diesel generation plants at their factories, to ensure that those kinds of damaging fraction-of-a-second shutdowns do not occur. What is the result? Germany today has a higher carbon footprint than it did before it went in this direction.

I read that in Britain the government is asking private investors to invest in funding diesel generators that will be scattered all over the countryside, because when the wind suddenly stops, diesel generators have the capacity to instantly kick in—they can be computer controlled—and away they go. The United Kingdom government simply does not have the capital to do that, so it is inviting the private sector to invest in these massive diesel generators that will be scattered around the countryside.

I guess that leads me to a few comments about the solar feed-in tariff issue, about which I got a little media attention although that was not my intention; I just wanted a review of it. My wife and I decided to install solar panels in, I think, 2009. Before we did, I did my homework and said to my wife that it would take 13 years of electricity generated from those solar panels to neutralise the CO<sub>2</sub> produced in their production. In terms of reducing the carbon footprint, solar panels have a very long payback period. I said to my wife, Jenny, “I’m sure this system is going to cause a lot of problems in how it will affect consumers, but let’s do it; we can afford to do it,” so we put it on. At that time the federal government gave \$8 000 towards it and we put in \$8 000. We are pretty frugal empty-nesters. Every electricity bill used to be about \$140 to \$220—we have gas hot water, heating and stove, so it was not that difficult—and the result has been that we do not get an electricity bill anymore. We use a little more than we produce in winter, but in summer we have overproduction, so basically we have usually been in credit, and since then we have not had an electricity bill. I said to my wife, “When you actually think about this, this is really crook. I can afford to pay for my electricity—it is not a problem—but the ordinary taxpayer is actually subsidising my electricity bill and I don’t really need the subsidy.” So I certainly concur with the sentiment of the government in wanting to scale down that scheme. I know of people who have put a four-kilowatt system on their holiday house, and because they are using hardly any electricity, except on the weekends, they are making a killing out of it, at the expense of taxpayers. That was at the tail end of the scheme, when the cost of a solar panel system was much less and it could be bought for about \$4 000 or \$5 000. I therefore share the sentiment of the government in wanting to rejig that scheme.

The only difficulty is that I do feel for the little people, such as the retirees on fixed incomes who have invested their \$8 000 and installed solar panels, as we did, in the hope of keeping down their electricity bills, because these people have not really got their money back yet. It is true that in media releases from the minister at the time, people were told that they would be given a subsidy for 10 years. But it is also true that the written contract that people entered into with Synergy made it absolutely clear that the government had the right to vary the contract at its discretion. Therefore, when people say that the government has broken a contract, that is a nonsense. The legal contract makes it absolutely clear that the government could stop the scheme at any time. But the problem is that ethically, for the sake of the little people involved in this scheme, we do need to honour what we have said in our public statements. However, we need to find some way of refining the system so that people cannot make a killing at taxpayers’ expense. That would certainly have my support.

What some nation states have been rather slow to understand is that they cannot spend more than the revenue that flows to them, otherwise they will leave a massive debt for future generations. The people of Greece and other nations have certainly learnt that lesson the hard way. I have a cousin who lives in Spain. The people in Spain are doing it very tough. There is massive unemployment. Spain has always been held up as a place in which all these wonderful jobs have been created by green energy. The Spanish government is now saying it cannot afford to pay all these subsidies any more, and numerous of the green energy companies are going bankrupt. Energy is now so costly in Spain that most of the industries that use significant amounts of energy have moved out of the country. In Germany there is also talk of moving industries to countries in which electricity is cheaper.

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It is fair to say that some of the pressure on this government's budget is due to the exciting and much-needed capital projects that the government has embarked upon. For example, we are well on the way with the virtual rebuilding of our hospital system. The residents in my electorate are quite excited about the completion in the not-too-distant future of Fiona Stanley Hospital. I want to comment on the member for Girrawheen's comment that there was nothing in the budget for her electorate. There was nothing in the budget specifically for my electorate of Southern River. But I, as the representative of the people of Southern River, still say that this is a great budget, because even though Fiona Stanley Hospital is not in my electorate, it will certainly benefit the people of my electorate. The widening of the freeway past South Street will also benefit my electorate.

This government has invested significantly on upgrades to the prison system. I commend the Minister for Corrective Services on introducing random drug tests for prison officers. There is a major problem with drugs getting into prisons. From what I am told, a significant route is via visitors. But another route is via a small number of prison officers. I am also glad that the repairs to Banksia Hill Detention Centre, which is in my electorate, have almost been completed after the disturbance, and that the opportunity is also being taken to install air conditioning in the units and improve them in various other ways. I am also delighted about the doubling of funding for the provision of programs in our detention centres to help offenders stay out of trouble when they are released. That is most encouraging.

Having served on the Education and Health Standing Committee, I was thrilled to read about the \$4 million allocated to the ear health program for Aboriginal children in regional areas. This will be an excellent benefit, and hopefully it will pay huge dividends in reducing the number of children who start school with damaged hearing.

The adjustment to the first home owner grant is an excellent initiative. The existing grant was being used to help people buy their first home out of existing stock. What we need is more housing stock. Therefore, the increase in the grant to \$10 000 for those who have a new house built, and the reduction to \$3 000 for those who buy an existing house, certainly has my support.

People sometimes say that the Barnett government is too determined on building monuments. But let us not forget that in the past four years, the budget for disability services has increased by 83 per cent. The education budget this year has increased by 6.3 per cent. I am also delighted at the doubling of funding for low-interest loans for independent schools. In my area of Southern River, there are a number of very good Christian schools. There is Thornlie Christian College, which is in my electorate, and there is Carey Baptist College, which is just across the boundary in the electorate of the member for Darling Range. Both those schools have waiting lists. Part of the problem is they do not have the capital to build the classrooms that they need to accommodate all the students whose parents want to send to those schools. This funding will enable those schools to access more capital and thereby meet the demand. A lot of the children at Carey Baptist College actually come from my electorate. That school is seeking to build a second campus because of the massive demand for its educational services. However, unfortunately, the new campus will now not be open in time for the 2014 school year. That is because the school has run into all sorts of red tape and is still struggling to get all the different approvals. We thought we had it all in the bag, because the traffic issues had been overcome, but then something else came up. It seems to be a never-ending merry-go-round.

I would also like to comment on the \$4 000 education cost for the children of 457 visa holders. Most of those children end up becoming Australian citizens. The greatest desire of the many South African and Indian people in my electorate who have come to this country on 457 visas is to become Australian citizens, and it is a delight to be able to attend many of those citizenship ceremonies. I would not have an issue with the \$4 000 contribution if that was a requirement for the future. But it will create some issues for people who came into this country on the basis of a certain package. It will be difficult for a family with four kids to suddenly have to find an extra \$16 000. This could, in fact, be a bit of a free kick for the Christian schools in my area, because their fees are less than \$4 000 a year. It could also take some of the pressure off state schools. That is because most of the funding that goes to independent schools comes from the federal government. Therefore, that would be a clever way of moving the expense to the federal government and away from the state budget. But I guess we will need to see what issues will arise from this decision that we will need to address.

I am pleased to see in this budget the commitment to continue to improve community sports facilities. There is \$6 million in this budget for the Hartfield Park sports complex in Forrestfield. We are very hopeful that we will see a similar amount in next year's budget for the Canning Vale sports complex on Clifton Road, which I have been working on for some time. In the last budget we were given \$500 000, and \$500 000 in the forward estimates for this year. There is nothing in the forward estimates in this year's budget, but I am not distressed about that because we have spent only \$100 000 of the \$500 000 allocated last year on preliminary investigations. The groundwater studies are underway, and the investigations into the perched watertable,

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whether there will be enough water to irrigate the fields and the cost of reticulation et cetera are being carried out. Once that is complete, the Department of Planning will assess the site, and I note that it has \$35 000 in its budget for that purpose. That will leave us with \$400 000 to move it to the next stage. The public will soon have the opportunity to comment on the master plan, which is almost finalised and should be available towards the end of next month. The remaining funds from the \$500 000 will be used this financial year for detailed planning to get a true indicative cost. I believe that we will see in the next budget some significant funding for the next stage of construction. I have spoken to the minister and he has assured me that the government is committed to moving this project forward.

[Member's time extended.]

**Mr P. ABETZ:** Also in my electorate, there is the issue of the Jandakot eastern access road from Ranford Road to the Jandakot airport, because Jandakot airport needs another access road for safety and traffic flow issues. I note that there is \$235 000 in the budget of the Department of Planning to move that forward. That road will also be the access road to the sports facility on Clifton Road. In a sense, the sports facility is dependent on the Jandakot eastern access road going through.

There are some pretty amazing people in my electorate who contribute so much to the community. I want to mention Ann Nisbet, who is suffering from cancer, and has done for quite some years, yet she continues to contribute to the wellbeing of the residents of my electorate and beyond. She has been concerned about the possible impact of silica dust from a quarry near the Lumen Christi College in Gosnells, which is outside my electorate. She was so concerned about the impact that that might have on the students and staff—she used to work at the college at one stage—she funded some of the analysis of samples. I am encouraged that the new principal of Lumen Christi is committed to investigating this matter further. This work will be a great legacy that Ann leaves for this community. It shows that even when a person is struggling with cancer, they can still make a meaningful contribution to the community.

Even though I do not have any farms in my electorate, I take a very keen interest in agriculture. Much has been said about the \$300 million in agricultural research funding, and I believe that is a very timely investment. Farming is very different from any other form of business. The rural sector needs a different form of finance access from that for the normal kind of business. When I worked at the agriculture department in Tasmania in the 1970s, there was what was then called the Agricultural Bank. Farm advisory officers were responsible for considering the applications that farmers sent to the Agricultural Bank. We would assess the application, write a report, send it to the Agricultural Bank and the board would decide whether to grant finance. That finance was provided at five per cent interest. At that time there was significant readjustment going on in the rural sector in Tasmania, so that finance with an interest rate of five per cent enabled farmers to perhaps buy the property next door to expand their farm to remain viable or to modernise or build a new dairy for milking cows to reduce their costs. Where would that money come from if we were to do something similar in Western Australia? We need to do that not only in Western Australia, but also across the whole of Australia. Why is it necessary? The prices of farming properties have dropped and they are difficult to sell. I was told recently by a farmer in the wheatbelt that when his property was worth \$3 million and he had 66 per cent equity, he owed the bank only one-third, but now his equity is at a point at which the bank considers him to be a risk and, bang, his interest rate has jumped to 19 per cent. That guarantees the failure of that farm. There are simply no two ways about it. The farm is still the same, the machinery is still there and he has the same skills, but all of a sudden the bank is guaranteeing the failure of that farm by charging 19 per cent interest.

All members have superannuation and we make choices about how we invest our money. I would certainly be willing to invest a certain percentage of my superannuation in the rural sector at a five per cent fixed interest rate. I have talked about that idea for the past year or two with different people, and I have found that, in the community at large, there is widespread support. People are saying, “Yes, I would invest some of my superannuation in that.” With so much superannuation money chasing the share market and other investments, it may be a positive thing to have another area in which superannuation funds can invest their money. If I had received a guaranteed five per cent interest rate in my superannuation fund for every year for the last 10 or 12 years, I would have done an awfully lot better than I have done. I put on the record that that is an issue that we would do well to consider.

In closing, I will comment on the speech made yesterday by the member for Maylands, who is currently in the chair, so I am sorry that she is not able to interject should she wish to do so. The member used her time quite appropriately to talk about whatever she liked, and I want to pick up on her remarks about the issue of gay marriage. I note that she said in her speech that 10 per cent of the population identifies as same-sex attracted. That figure is often bandied about. Interestingly, that figure came about from the publication of Dr Alfred Kinsey. Dr Alfred Kinsey has now been exposed as what we would today call a paedophile. The experiments that he did on children would put him in jail today. His so-called 10 per cent figure came from

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interviewing long-term prisoners in an all-male prison in the United States. Ten per cent of the long-term male prisoners in that prison were engaged in homosexual contact. On that basis, he says that 10 per cent of the population is same-sex oriented, which is hardly a proper scientific conclusion. Indeed, Dr Judith Reisman and Edward W. Eichel wrote a book entitled *Kinsey, Sex and Fraud: The Indoctrination of a People*. I heartily recommend that book, which has been around for a while, to see what has been going on in that area.

It is interesting that in the Netherlands, where same-sex marriage has been legal since the very early 2000s, fewer than 10 per cent of same-sex couples have actually exercised the right to marry. When asked why not, they say that it is because it is not marriage. As someone once said, it does not matter how often we call a circle a square; it does not make it a square. It is not discrimination to call a circle a circle and a square a square; they are two different things, so we use different words to describe them. I put it to this house that although there is no doubt that people in same-sex relationships value their relationships, they are different from marriage relationships, and we cannot escape that.

**Mr P. Papalia:** How does that relate to the percentage of gay people in the community?

**Mr P. ABETZ:** In Australia? About one to two per cent.

**Mr P. Papalia:** How does the contention that you just put forward relate to the percentage of gay people?

**Mr P. ABETZ:** Ten per cent of all those who are in permanent relationships in the Netherlands have chosen to exercise the right to marry; it is 10 per cent of those who are in that kind of relationship.

In the couple of minutes I have left, I want to add something that will change the subject a little. I believe that one of the pressures we are feeling on our budgets is the cost of family breakdown. In 2010, Access Economics was commissioned by the federal government to quantify in economic terms the value provided by positive family functioning and to conduct a cost-benefit analysis to establish the returns to government and society on investments made in supporting family functioning. The 153-page report measured three broad areas of outcome: health outcomes, observed through the occurrence of anxiety and depression, obesity and substance abuse; productivity outcomes, reflected in secondary and tertiary educational achievements and impact on lifetime earnings; and social outcomes, measured through antisocial behaviours and so on.

Access Economics' conclusion was staggering. The net present value of benefits from intervening in childhood and adolescence to prevent poor outcomes later in life was in the order of \$5.4 billion per annum, in 2010 dollars. This recognises that intervention costs money today, but that benefits are realised for a long time into the future, giving a very positive return. Under this methodology, Access Economics estimated productivity gains at \$2.9 billion per annum. An amount of \$1.2 billion was saved from fewer addictions each year and \$0.6 billion from fewer cases of anxiety and depression, and \$0.5 billion could be attributed to a lower incidence of criminal behaviour and \$0.3 billion from a reduction in obesity. These findings were based on the rigorous analysis of two longitudinal studies—one for children aged up to nine years and the other for older children. The key finding of the report was that positive family functioning is economically and socially valuable and that value can be quantitatively measured using the extensive and detailed “cost of illness” methodology traditionally adopted to analyse interventions in the health sector.

Similar results have come from research carried out in the United States and in other places. I believe that one of the things we really need to do as a government, in an ongoing way, is to ensure that we do all that we can to assist families to be a stable environment for kids to grow up in, and many of the things that we have in our budget serve to achieve that.

**MR C.D. HATTON (Balcatta)** [4.03 pm]: I rise to contribute to debate on the Appropriation (Consolidated Account) Recurrent 2013–14 Bill 2013 and the Appropriation (Consolidated Account) Capital 2013–14 Bill 2013. This is a responsible budget that takes into consideration the massive changes impacting on our economy. The Liberal–National government has previously delivered responsible budgets that have enabled strong economic outcomes for Western Australians. Since 2008, this government has done what is necessary for this great state to prosper in times of worldwide economic and fiscal gloom. We are the most robust of all the states, contributing to the overall sustainability of the whole country.

The Liberal–National government has encouraged business and mining investment. The growth of the mining sector has helped sustain small and medium businesses and business enterprise, which has provided employment and opportunities for individuals and families. The rate of growth in recent years has been strong; population growth in Western Australia has been enormous. More than 1 000 people are moving to Western Australia each week, which represents more than 75 000 people each year in recent years. There is no doubt that this growth has placed increasing pressure on our infrastructure—that is, hospitals, housing, roads and essential services. Over recent years, this government has managed this growth with strong fiscal planning. When hospitals have had to be built or upgraded, this government has responded for the people of Western Australia. There has been

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massive investment in hospitals over the last term of government; Fiona Stanley Hospital is to be opened next year and the new children's hospital is under construction. There is also investment in hospitals in Midland, Joondalup, Busselton, Kalgoorlie and Albany, including both city and regional hospitals. They are being refurbished, upgraded and built. Medical provision in Western Australia is amongst the best in the world; we are a world leader, and this government is still investing in hospitals and has a responsible plan for staffing and management for the future. Health infrastructure investment will exceed several billion dollars over the forward estimates, and it is hard to question that sort of investment in people's health.

When schools have had to be built, this government has responded and met the needs of our young. There are five new schools near completion, and a further four to be built by 2015. More than \$100 million is being spent on building high schools and colleges, and \$230 million is being invested in accommodation for the new year 7 cohort to enter high school in 2015 and beyond. This is necessary planning and investment in educating our society to prosper in the future. Education, as I have said before in this chamber, is the benchmark of our society.

Policing, law and order, and protecting the people of Western Australia are always major priorities of this Liberal-National government. This budget will deliver 550 new police officers, to be recruited over the next four years, and 80 officers in 2013-14. More than \$280 million will be invested over the next four years so that people can feel safe in this great state. We owe it to the people of Western Australia to be a committed government that provides safe environments, with the capacity to assist people in need and to arrest offenders. We need police on the beat, and the announcement of extra funding—\$282 million—for the plan to free up the court systems means that officers can be back out policing the streets. That is what people expect and what this government will do. People in my electorate of Balcatta, many of whom are elderly, will welcome greater police visibility and access.

At the March 2013 state election, the people of Western Australia put their faith in this government, realising that it would deliver for the good of communities. It has delivered, it is still delivering, and it will continue to deliver, even in this challenging economic climate. Our economy is now changing; mining sector investment is in transition, with a movement away from construction. The drivers of growth have changed; our resource revenue base is less and declining GST revenue could seriously impact on the people of Western Australia. That is why this budget is responsible; it recognises the changing economy and what needs to be done. The Western Australian economy is forecast to grow by 3.25 per cent in 2013-14, which is the highest growth forecast for any state this year.

How do we move forward in difficult times and continue to have fiscal sustainability? The presented budget is embedded with a \$6.8 billion fiscal action plan providing an operating surplus of \$386 million in 2013-14 following an estimated surplus of \$235 million in 2012-13. The fiscal action plan responds to significant pressure on the state to deliver services and infrastructure. There are significant demand pressures; for example, over 8 000 entered the public school system in semester 1 this year. This government is investing an estimated \$582 million in 2013-14 and a total of \$1.5 billion over the forward estimates into school infrastructure. In the four years up to 2011-12 there was a 6.9 per cent increase per annum in emergency presentations to WA hospitals—well above the national average of 4.3 per cent. The enormous population growth pressure in WA has put demands on hospitals. However, this government has policies and practices in place, such as the four-hour rule in emergency presentations, and has responded to people's medical requirements. A very good example of this is Fremantle Hospital, which has become an example of best practice for the whole of Australia. I congratulate the Minister for Health on his excellent vision and persistence in meeting the health needs of the people of Western Australia.

Another demand pressure relates to transport and roads. Public transport boardings reached 150 million people in 2012-13, up from 144 million in the previous year. Only 90.5 million boardings were recorded in 2003-04. We can see that rapid population expansion is putting pressure on public transport. Nearly 100 000 more vehicles were registered in 2012-13 than were registered in the previous year, and 2.2 million vehicles are now on WA roads. There is clearly a high demand on road and transport requirements. As every commuter knows, traffic congestion and public transport are key issues that people want action on. The Liberal-National government is committed to deliver road and rail infrastructure to this state. This is what the people of WA want and need. We are a government that will respond and deliver. The combined asset investment program of the Department of Transport, Main Roads and the Public Transport Authority is a record \$1.7 billion in 2013-14. Over the next four years until 2016-17, this government has committed a total of \$5.7 billion to transport infrastructure—a further increase in investment than over the past four years. As we have heard before in this chamber, this investment is the equivalent of four Perth-Mandurah rail lines. It is a far better infrastructure investment than the previous state Labor government could ever deliver.

I am very pleased that this budget includes a housing supply package in the response to the need for housing. There is great pressure on housing stock in Perth city and beyond, and this government will expand affordable

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rental properties under the national rental affordability scheme. The government will re-target the first home buyer grant and will look towards simplifying and streamlining residential planning and building approvals. I see great benefits to builders, homebuyers and those in the rental market. Affordable housing, ownership and rental are key issues in the Balcatta electorate, and these budget measures and strategies will help people. An additional \$47.8 million will be allocated to the national rental affordability scheme.

I am confident that this budget will deliver real outcomes for the people of Western Australia. Essential services needs will be met in health, education, and law and order, and transport needs and road infrastructure will be delivered in a measured way. Road congestion will continue to be addressed by this budget.

The budget fiscal action plan is responsible in that it reflects the tough decisions that have needed to be taken to secure the future of Western Australia. As has been said before, declining GST revenue imposed unfairly by the federal Labor government has had a major impact on state finances. To offset declining revenue input, this government's budget has introduced necessary, sensible and considered reform measures that will benefit all. There will be a reform of government service delivery models and flexibility will be brought into public sector workforce management. A voluntary severance scheme has been offered to many people and will continue to be offered; the uptake is expected to be high. It will be of benefit to many public sector workers and to the state, with savings of over \$350 million in the forward estimates. The new public sector wages policy will create savings.

There will be modest tax increases and the introduction of a \$4 000-a-year public school tuition fee for the children of 457 visa holders to partly cover the costs of educating these children will offer revenue gains. As a long-term schoolteacher prior to entering Parliament, I know many a time when I was in the classroom when I struggled to find a way to teach literacy to new Australians and children of 457 visa holders. These were good people—great people—but the burden on the schoolteacher in the classroom became great. We have to employ more teacher assistants and bring in new programs, and there is a definite difficulty in resourcing that. The system needs a little input, and this is a very good and fair way of doing that.

The savings gained from tax measures and public sector reform will offset deficits and continue to allow Western Australians to have essential services and quality infrastructure. Many will welcome the large infrastructure programs that are in addition to hospitals, education, rail and road. In the CBD, Elizabeth Quay and the Perth stadium will become focal inner-city destinations, adding to the vibrancy of the city. Royalties for regions in country WA will remain strong and supportive of the needs of country populations. I congratulate the Liberal–National government on the management and implementation of royalties for regions.

In my electorate of Balcatta, people will continue to have opportunities and benefits from this budget. The budget will deliver to Balcatta a major upgrade for Reid Highway between Erindale and Duffy Roads. This will greatly ease traffic congestion in that busy area and improve safety for road users. Reid Highway, from Erindale Road to the freeway, will become safer and quicker to traverse. It will be a major benefit to road users, including me and my family.

Osborne Park Hospital, in my electorate, will have a major parking and public transport upgrade. Outpatients, hospital employees, local residents and hospital visitors will benefit from a multimillion-dollar budget commitment to upgrade the Osborne Park Hospital precinct. This hospital provides a vast range of services and the upgrade of the precinct will be well received by hospital patrons and employees. I also welcome the decision to fund a much-needed bus shelter outside the hospital. It is a small investment, but a necessary one. This bus shelter will be welcomed by those who use public transport, especially elderly people, and those people who attend the hospital.

In my electorate, West Balcatta Primary School's administration block is undergoing renewal. The upgrade is a demonstration of the government's commitment to infrastructure, in this case in schools. Five of the 10 schools in my electorate now have 40-kilometre-an-hour flashing lights in school zones, as Tuart Hill Primary School now has them too. This government's commitment to install 40-kilometre-an-hour flashing lights at every school in Western Australia—more than 900 schools—in the next four years is a significant investment in children's safety. I am of the belief that the other five schools in my electorate will soon also have those very necessary safety measures.

The KidSport program is a great program.

**Mr N.W. Morton:** It is a good program.

**Mr C.D. HATTON:** As a former teacher, the member for Forrestfield knows about this program. Young children participate in physical activity for their own wellbeing and to engage in the community. The KidSport program benefits children and families. Due to this investment in this fantastic program, young children are

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becoming more engaged. A teacher at Osborne Primary School in my electorate has engaged a range of children from different backgrounds—it is a multicultural school—in football, basketball and other events inside and outside the school. She has gone out to the community and educated them on the KidSport program, so the uptake has been fantastic.

[Member's time extended.]

**Mr C.D. HATTON:** The government has committed \$200 to every child who applies for this grant for uniforms, sporting equipment and other needs. It really engages kids.

I will visit Osborne Primary School in a couple of weeks to present this teacher with an award, which she thoroughly deserves.

This government continues to support the very, very successful independent public schools program. In my electorate, a number of schools have already taken up this program. I know that it is working very well. The government is prepared to invest in not only the infrastructure of schools and education, but also how those schools are run, operated and staffed. I look forward to that further commitment.

This budget is a responsible budget. It meets the demands of the changing economy and the needs of Western Australians. It delivers broadly across communities. It will deliver real benefits to Western Australians and to people in my electorate. I congratulate the Premier, Deputy Premier, Treasurer and cabinet on delivering a sensible budget.

**MR D.C. NALDER (Alfred Cove)** [4.24 pm]: I stand in support of the Appropriation (Consolidated Account) Recurrent 2013–14 Bill 2013 and the Appropriation (Consolidated Account) Capital 2013–14 Bill 2013 and in so doing stand in support of the Premier and the Treasurer of Western Australia. I start my speech today by looking at the events of the past week and commending the Premier and cabinet. Wise words were once said: success seems to be connected with action. Successful organisations keep moving; they make mistakes, but they never quit. Our Premier and government have demonstrated that they are taking action to get things done with a clear vision for this state. It is not difficult to see the achievements around our state and in metropolitan Perth. We have committed \$7.5 billion for infrastructure improvements in this financial year alone. An unprecedented \$26.9 billion is committed to infrastructure investment over the next four years. It will be spent on hospitals, benchmarked by Fiona Stanley Hospital and a new children's hospital, and schools.

As our cities grow to the north, south and west, money will be spent on rail and roads to meet record population growth. We are investing in entertainment precincts through linking Northbridge and Chinatown with our city and developing the Perth Arena, Elizabeth Quay and a new stadium at Burswood. We are investing in law and order in our community, with 550 new officers on the beat and eight new magistrates in the courts. In education, we will spend an average of \$15 621 per student this year, which is an increase of \$513 a student from last year. We will invest \$1.5 billion to build new schools and improve existing schools. My electorate is fortunate to receive an additional \$19 million to finish the redevelopment of Applecross Senior High School. Metro Area Express light rail will connect the growing northern suburbs and the Perth CBD, and from Victoria Park in the east to the QEII Medical Centre in Nedlands in the west. This will drive growth and link communities that are independent from the city and create new hubs for trades, services and local community. This budget has a focus on these local communities. An amount of \$15 million has been committed to bike paths, while \$40.7 million has been committed to camping sites and low-cost holidays statewide. An amount of \$10.3 million will be spent over three years to upgrade 23 police and community youth centres.

For regional areas, \$300 million over five years will go to WA farmers to capitalise on the Asian demand for produce. An amount of \$40 million will go to agricultural research and development. An amount of \$20 million will be spent to beat pests and disease. There will a targeted review of residential planning and building approval processes.

This government has not forgotten those who need our assistance most. There are senior concessions of up to \$1 412 per annum. The hardship utility grants will be provided on top of an annual average power subsidy of \$369 a household. An amount of \$47.8 million will go towards affordable housing. The list is comprehensive and dynamic. The budget is focused and it has its priorities right and all at a time when Western Australia is facing economic and social pressures not seen for many generations.

A government focused on action will, on occasion, misstep. On Monday morning, the Premier had the courage to admit a mistake and immediately resolve the issue following extensive community consultation over the weekend. I applaud the Premier and cabinet for the speed and manner in which the feed-in tariff issue was resolved. We now need to move on. Much more needs to be done.

A matter of public interest is an opportunity for the opposition to debate an issue that it feels is impacting the community unfairly, an issue that requires the attention of this place over all other business of the day. On

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Tuesday, the Leader of the Opposition chose the feed-in tariff as the topic of his MPI. Given the government's swift and decisive action, those opposite were left with little to argue. We were subjected to an MPI on a matter that had become of little importance. However disappointing, this is not surprising.

A focus on recent contributions from those opposite shines a light on the ineptitude of the opposition and reinforces why Labor is in opposition and why it should not be trusted to be anything but in opposition. I have sat quietly and listened closely to the words of my colleagues opposite as they have delivered their budget replies in this place. Repetition is a common theme. Criticism of the level of state debt has been popular. So has their willingness to offer additional policy after policy that would ignorantly balloon the problem. It is easy to criticise when in opposition. It is easy to make promises when in opposition. It is also laughable to think that should the Labor Party come to government in the future, it would become fiscal conservatives and —

**Dr A.D. Buti** interjected.

**Mr D.C. NALDER:** Let us look at the policies and promises the Labor Party has offered their electorates in their contributions to this debate.

**Dr A.D. Buti** interjected.

**The ACTING SPEAKER (Mr P. Abetz):** Member for Armadale, I call you for the first time.

**Dr A.D. Buti** interjected.

**The ACTING SPEAKER:** Member for Armadale, I call you for the second time.

**Mr D.C. NALDER:** Let us look at the policies and promises the Labor Party has offered the electorate in its members' contributions to the debate on these bills. I can only assume that these policies, if the opposition were to form government, would become their policies of the day.

**Dr A.D. Buti** interjected.

**The ACTING SPEAKER:** Members!

**Mr D.C. NALDER:** I will go through the list quickly, and there is quite a list. I have had the opportunity to review —

**Dr A.D. Buti** interjected.

**Mr D.C. NALDER:** Listen quietly, member.

**The ACTING SPEAKER:** Member for Armadale, I do not want to put you on a third call.

**Mr D.C. NALDER:** Let us look at what every member of the opposition has had to say. Let us start with Metronet at \$5.2 billion; the Metronet wi-fi, \$1 million; the redevelopment of Royal Perth Hospital, \$180 million; the mentioned Serco contract and over the term of the contract, \$560 million; primary schools in Kwinana, \$15 million; further widening of Kwinana Freeway from Armadale Road to Kwinana, \$84 million—I have made rough estimates here because I have not had a lot of time, and this is what I have come up with—the Back on Track strategy, an additional \$20 million; a 24-hour Ballajura police station, \$12 million; an Ellenbrook swimming pool, \$7 million; a pipeline, \$9.5 million; extra Albany Hospital funding, \$20 million; Princess Royal Drive, \$3.8 million; the extra funding to Great Southern —

**Mr P. Papalia:** They are your government's promises.

**Mr D.C. NALDER:** I am interpreting what members of the opposition have said over the past two days and I assume that their wishes would become policy.

**Mr P. Papalia** interjected.

**The ACTING SPEAKER:** Member for Warnbro, I do not want to have to call you to order again.

**Mr D.C. NALDER:** The grandparent scheme, \$3.6 million; more funding for Katanning victims—I do not have a figure; the Albany ring-road, \$1 million; the removal of train station parking fees, \$20 million; a dialysis machine in Albany, \$55 000 —

**Dr A.D. Buti** interjected.

**The ACTING SPEAKER:** Member for Armadale!

**Mr D.C. NALDER:** Here is an interesting one—9.2 per cent for environmental agencies, \$18 million. What the opposition has not done is —

**Mr P. Papalia** interjected.

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**The ACTING SPEAKER:** Member for Warnbro, I call you for the first time. Somehow the member for Warnbro has dropped off the list here, but I have been told that he has been called twice before but he is not on my list, unless I cannot read the writing, so the member is very fortunate—there it is, I could not read the writing, sorry. I have called the member for Warnbro for the third time, so you need to watch your mouth.

**Mr D.C. NALDER:** What is interesting is that members opposite claim an extra \$18 million for the 9.2 per cent they claim is missing from the budget for environmental agencies. Closer inspection of that suggests that we have actually budgeted for a 2.2 per cent increase already, so I am unsure why they want the extra \$18 million. I will continue reading out the list: the axing of community grants program, \$6 million; environmental awards, \$100 000; and high tide and storm surge, \$600 000.

**Dr A.D. Buti** interjected.

**The ACTING SPEAKER:** Members! Interjections are appropriate but not repeated so as to drown out the speaker. I will accept a short interjection, but not one that drowns out the speaker.

**Mr D.C. NALDER:** Thank you, Mr Acting Speaker. I will spend a little time on this next item—the pastoral land lease buyback that was announced by the shadow Minister for Environment. Are the pastoralists of the north west aware that the shadow minister said we should not reissue leases when they come up for renewal on 30 June 2015? I will give a little credit here because if I read into the detail, he suggested we should force buyback for only 72 per cent of the leases that exist in Western Australia. What would that cost? This is what I would consider as a policy moving forward, and rough estimates on improved land would suggest that the cost would be in the vicinity of \$1 billion. That does not take into consideration the 2.5 million cattle sitting out there if, all of a sudden, members opposite decided to force buyback of these leases. I do not know what they would do with that, but that is another \$1 billion that I will just leave out for now. Members opposite talked about environmental works for Canning River of \$300 000; an upgrade to the Canning Vale and Gosnells Police Stations, \$10 million; the removal of a \$4 000 fee for 457 visa holders' children over four years, \$120 million; the Armadale justice centre, \$100 million; keeping the ophthalmology ward open at Armadale–Kelmscott Memorial Hospital, \$5.2 million; the Paganoni Road train station, \$63 million —

**Dr A.D. Buti** interjected.

**The ACTING SPEAKER:** Member for Armadale!

**Mr D.C. NALDER:** The orthopaedic service in Mandurah over four years, \$40 million—I can stop this at any time but it just keeps going—20 police officers in Mandurah, \$2.75 million; the conservation grants scheme, \$5 million; a third lane for Shelley Bridge, \$80 million; the bridge in Millbridge, \$18 million; local high schools for the member for Collie–Preston, \$6.5 million; LED streetlights, \$5 million; the Katanning Police Station, \$12 million; heavy rail along Reid Highway, \$720 million; the Equal Opportunity Commission of Western Australia, \$150 000; additional tourism spending, \$24 million; the electricity price cap—which I have not calculated but the member for Midland indicated that they would cap that—is another expense that is not in the numbers at this point; the Midland railway station, \$30 million; and the Midland university, \$22 million. This spending is in the vicinity of \$8.5 billion—plus.

Here comes the real point. Interestingly, when the Deputy Leader of the Opposition asked for a new primary school, he was asked if this would contribute to increased debt and he said, “It is paid for by increased economic management.” I am reasonably well-versed in economics and finance, but I really do not understand what he means. When I consider financial levers, we have either revenue, which is increased tax, or expense, which is starting to tackle the public sector reform, and is what we are trying to do. I do not know what the Deputy Leader of the Opposition intends. By not increasing debt, I assume, if he were in power, that he would either start increasing tax or start cutting recurrent spending. I would like him to clarify that. If we were to give no credence to the ambit claims that opposition members have made throughout their two days of speaking, how can we give any credence to the arguments on state debt? Labor has no credibility on economic and financial matters.

Several members interjected.

**The ACTING SPEAKER:** Members! The member for Alfred Cove has the call.

**Mr D.C. NALDER:** This government understands the challenges it faces in trying to position Western Australia for the future. It understands the volatility and risks it must face with commodity prices and exchange rates and it will not shirk from this responsibility to deliver the best possible outcome for Western Australia, and in so doing, where it makes mistakes, taking ownership of that concern, fixing it and moving on. This budget includes a \$67.8 billion fiscal action plan over four years with new revenue measures, public sector reforms, targeted savings and program evaluation. A new approach to program and service evaluation will be embedded across the public sector with recurrent savings of \$150 million over the forward estimates, and further net debt savings of

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\$200 million also targeted. We will rationalise existing programs and activities that are no longer a priority and do not provide value. This measure is expected to save \$52 million in this financial year, and a total of \$422 million in expenditure across the next four years. These are good reforms and I look forward to their success and to this government extending them further. This government understands the challenges in the near future and longer term of controlling and drawing down our debt position. We have our eye on the ball and the faith of the electorate to make this our key priority for the coming period. We commit to this, which places this at the fore of all government activities, because in the end fiscally conservative government is just as popular in the community as grand projects and handout sweeteners. I look forward to working with all my parliamentary colleagues across party lines as we work through what is one of the most exciting but challenging times for Western Australia.

**MS W.M. DUNCAN (Kalgoorlie — Deputy Speaker)** [4.39 pm]: I know that everybody thought they were going home, but I beg members' indulgence for a few minutes to conclude this debate on the Appropriation (Consolidated Account) Capital 2013–14 Bill 2013 and the Appropriation (Consolidated Account) Recurrent 2013–14 Bill 2013. I note that this budget really is a new era for development in the goldfields. In tight budgetary circumstances, it is really great to see that the goldfields will benefit from over \$100 million in expenditure across various programs in 2013–14 and that we will be able to make a start on the long-awaited Esperance revitalisation plan. The most exciting news of all is the \$6.2 million commitment to secure the future of the Goldfields Arts Centre. This is an acknowledgment of the people of Kalgoorlie–Boulder, who made their voices well and truly heard on the need for that arts centre to be refurbished, for it to continue and for its ownership to be clarified. I thank the Premier and the Minister for Regional Development for their commitment to the Goldfields Arts Centre. This funding will certainly go a long way towards enabling that arts centre to deliver art and entertainment in the twenty-first century and, in particular, to host the Regional Arts Australia National Conference and Festival in 2014 in Kalgoorlie–Boulder.

The \$6.2 million for the Goldfields Arts Centre is part of the \$186 million Goldfields–Esperance revitalisation fund. That fund also includes funding for a new Kalgoorlie–Boulder community high school, \$38 million for passing lanes on Great Eastern Highway and \$96.8 million for local governments and the Goldfields–Esperance Development Commission to fund the priorities that have been identified in their strategic development plan, into which they have all put a great deal of effort. On top of that, they will benefit from the \$16 million allocated from royalties for regions for the regional centres development plan, which will help major centres like Kalgoorlie–Boulder to plan for the future by setting out their growth plans and economic development plans. I am also very pleased to see the support for small business through the changes in payroll tax, the buy-local initiative and small business development centres. This is a time that is pretty important in Kalgoorlie–Boulder and the goldfields. With the price of gold going down and pressures on the mining industry, it is good to see that these supports are there for small business.

There are two programs in particular that I am pleased will be continued. The first is the wild dog management plan, with \$2.3 million allocated over four years. That program, which was under royalties for regions, was about to conclude. The government has recognised the fact that wild dogs are a really big problem in the pastoral areas and have actually meant that many pastoralists are now unable to continue to run small stock. I am also very pleased to see the exploration incentive scheme continued, with \$54.6 million for that program. It is interesting to note that the exploration incentive scheme was considered so important in last year's budget that it was to be taken back under consolidated revenue. However, given the very tight financial circumstances, the scheme looked like it might not continue. I am very pleased that it is now back under the wings of royalties for regions, because over the last four years \$40 million of co-funded drilling has been undertaken, supporting over 377 projects. Not only that, but also the funding has assisted with the undertaking of geophysical surveys across the state and online tenement applications and approvals, which hopefully are making a real difference with one of those big issues that the mining industry talks about a lot—red tape.

The \$6.2 million for the Goldfields Arts Centre is augmented by the \$24 million in royalties for regions funding for the regional arts program, which will help arts groups, touring performances and Aboriginal art centres. I draw the attention of members to one program that I really hope will benefit from this. NG Media does great work out in the Ngaanyatjarra lands. They have a program called community for community where they are training up the local people in film, television, music and radio. The aim of the program is to help preserve their culture and language and ensure that it is passed on to the young people. This is a way to preserve their stories, songs and lives for others in the region to enjoy and hear. They are doing a fantastic job. I went and had a look at the NG Media premises in Wingellina last year. It is just an oasis out there. The kids are thoroughly enjoying it. There is some highly skilled work going on out there. The product they are delivering is going into the mainstream media.

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A few other things that are really beneficial to my region include the \$2.9 million in funding to help visitor centres; \$6.6 million, or \$30 000 each, to upgrade community pools; the really great assistance of \$1 million in funding to assist young, talented athletes with their travel costs to get to training; and, of course, the emergency services funding, which has been touched on by other members. The other part of that is the \$2 000 fuel card for volunteer emergency service groups in regional areas. That will certainly be a great recognition of the incredible work volunteers do in regional areas.

Telehealth services, which are making a great deal of difference in regional areas, are also being funded. They will be a hub, particularly in the goldfields. I have seen the telehealth set-up at the Laverton health centre. It is certainly making a great deal of difference. I heard firsthand of a person who had been quite severely injured in a car accident and was brought into the hospital and dealt with extremely well using telehealth. I would like to take this opportunity to congratulate four staff from the Laverton Hospital who have been nominated for this year's WA Nursing and Midwifery Excellence Awards. When they were interviewed about their jobs, they said how much the telehealth service was making a difference. Those staff are Christine Stubberfield, who is a finalist in the primary and community care category, Elissa Stout, Jasmine Brown and Kirsten Fleming, all from the WA Country Health Service. My congratulations go to those girls. They have been in Laverton for a long time. They love where they live and they are delivering an excellent service. That is great news.

I mentioned earlier that Kalgoorlie–Boulder and the goldfields are feeling the pressure of reduced mining activity, so it was a pleasure the other day to accompany the Minister for Corrective Services in turning the first sod at the regional prison. That is a \$232 million project, with a strong commitment to use local businesses and employ local people. It will provide a great benefit to the people of Kalgoorlie–Boulder. I had the pleasure of watching the development of the West Kimberley Regional Prison near Derby from planning right through almost to completion as member for the Mining and Pastoral Region. I was very impressed with the Department of Corrective Services and how it was managing that project.

**Mr C.J. Barnett:** That is fantastic. The prison will be fantastic; as good as it gets.

**Ms W.M. DUNCAN:** Just the sensitivity to the cultural needs of the Aboriginal people who will be in those prisons is something for which I would be really grateful if the minister would pass on credit to his officers. I really look forward to seeing a similar outcome in Kalgoorlie–Boulder.

In addition to the goldfields revitalisation fund there is funding under the regional development fund, the regional grants program and the regional strategic projects, which will assist with other great projects in the goldfields. I will endeavour to talk about those on another occasion because I know that we have all had a very long week and are looking forward to heading home.

One thing I would like to do just in the last couple of minutes is to follow on from the earlier acknowledgement by the Minister for Regional Development of the 100<sup>th</sup> anniversary of the National Party. Since 2004 I have been working on putting a book together that recounts the history of this great little party. We started off with Heather Dreyer and John Saint—John being a distinguished service medal holder of the Nationals—endeavouring to do this on a voluntary basis. Unfortunately, they are no longer with us—either of them—which has really set the project back. I record my grateful thanks to Associate Professor Lenore Layman, who took up this project to help me co-edit and complete this book. She is doing that really for the love of it and making a huge deal of difference with the assistance of Associate Professor Bobbie Oliver and Dr Ron Chapman. Our little party was established out of the Farmers and Settlers' Association, which was formed in 1913. Its members then set about standing for seats in Parliament in the 1914 elections. Two Country Party representatives, Charles F. Baxter and H. Carson, were elected to the Legislative Council in May 1914. Then in the Legislative Assembly election Francis Edward Sykes Willmott and Harry Griffiths, James Gardiner, Alfred Piesse, Henry Hickmont, John Cunningham, Charles Wansbrough and Thomas Harrison were elected. I draw attention to the first leader of the Nationals, James Gardiner, who is a forebear of Hon Phil Gardiner, a member of the previous government; Henry Hickmont is a forebear of Hon Brendon Grylls; and of course Francis Edward Sykes Willmott is a forebear of well-known Western Australian Deidre Willmott. We are therefore all very proud to see our little party make it to 100 years. Now, having got the manuscript pretty well complete for our book, we are looking forward to finding the money to get it printed.

**Mr C.J. Barnett:** I'm sure R for R will be able to help out!

**Ms W.M. DUNCAN:** I am working on that!

On that note, I thank you, Mr Acting Speaker (Mr I.C. Blayney), and other members of the house for allowing me this time. I greatly appreciate the budget and what it will do for the seat of Kalgoorlie.

**MR T.R. BUSWELL (Vasse — Treasurer)** [4.52 pm] — in reply: In the hour or so available to me I look forward to winding up the business of the house on the second reading debate on the budget for this year. I am

**Extract from Hansard**

[ASSEMBLY — Thursday, 15 August 2013]

p3576d-3594a

Mr John McGrath; Acting Speaker; Ms Josie Farrer; Mr Peter Abetz; Mr Chris Hatton; Mr Dean Nalder; Ms Wendy Duncan; Mr Troy Buswell

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not going to say much, other than firstly to extend my surprise to members opposite at the extent to which I understand they missed me earlier today. For their information, as may have been relayed, I was in Port Hedland where Fortescue Metals Group officially commissioned its new ship loader and port at what is known as Anderson Point 5.

Of course it was a day tinged with sorrow because a contractor on the FMG site lost his life at work last night. It really reminds everybody of the dangers of working in an industry that is so important to the state. It has had a good record of late of course in that space, but no-one expects to go to work and not come home. I am sure, Mr Speaker, on behalf of members present and those not present, I can extend our sympathies to that particular young man, to his family and to his workmates. I will make one observation. We were not at that site; we were at the port. But I got a real appreciation today of the genuine concern about that outcome by the senior executives of that company who were gathered for the official opening of the port facility. I can say, having witnessed it firsthand, that their desire to respond appropriately was very, very high. Their concern obviously for the family, the friends and the workmates of that individual was significant and appropriate. To be frank, amazed is not the word to describe my feelings, but it really had an impact on me to see how something like that impacted on an entire organisation from the most senior executives down through the organisation. Our prayers are of course with his family and workmates and let us hope that sort of thing does not happen again for a long time in the state.

I suppose the flip side is that we were opening a facility there that will take FMG's capacity through that small part of Australia to 155 million tonnes of iron ore per annum. That is a lot of economic activity out of one very small part of Western Australia. Considering that the current sale price of iron ore is up around \$US140 a tonne, that is an enormous amount of wealth being generated not only for the company, its investors and employees, but also more broadly for the state. I did a rough back-of-the-envelope calculation. That one small parcel of land, Herb Elliott Port, will generate, at 155 million tonnes per annum, around \$1.2 billion of royalty income for the state. It is just amazing to stand there and try to understand that in economic terms. Of course we have an obligation to spend that wisely, and that is what the government tries to do through the budget process.

I listened carefully to members opposite. I acknowledge a particular contribution made by the member for Maylands. The member for Maylands' second reading contribution was obviously deeply personal for her, but I think it would have caused reflection and contemplation in anyone who heard it. I extend my thanks to her for sharing with the house a quite rich life tapestry and life journey full of a lot of obstacles that many of us would never imagine.

Of course members, as is the nature in this place, spend a lot of time explaining what we should not have done. I am not going to make too much of the politics of it. I think the member for Alfred Cove summed it up very nicely in his contribution earlier this afternoon. When we consider that the budget papers are a fixed set of documents printed in black and white, it was almost as though there were two parallel universes in operation in the chamber. I understand what it is like. I have been in opposition and I think that commentary—not that I have read what I said when I was in opposition—has been an entirely worthwhile contribution to the public debate in the state. I think whatever I said at the time was not dissimilar to what members of the opposition said this time around. However, I can tell members opposite that the government and all members of the government, whom members opposite heard from in their contribution, are of a very strong view that the fundamentals of this budget are very strong. They are very sound —

**Mr M. McGowan** interjected.

**Mr T.R. BUSWELL:** They are very strong, Leader of the Opposition, and they are very sound. The budget is the continuation of the construction of a very solid platform for this state, both economically and socially, to grow into the century ahead.

I will close with some quick comments. It is true to say that debt levels are and will be a challenge for the government to manage over this term of government. We have a job of work to do in that space. But I also remind all members present that the infrastructure we are constructing today is not infrastructure that will be used and consumed by those people in Western Australia who live here for the period of the next forward estimates. They are in many cases intergenerational investments in social and economic infrastructure. I imagine that my sons—and hopefully their children and perhaps their children—will have the opportunity to use the new children's hospital; although not my sons any more as they have graduated past a children's hospital. I also hope that they will be able to enjoy the train line to the airport, which I suspect will be there for a century at least.

**Mr C.J. Barnett:** They'll probably like Elizabeth Quay, I reckon.

**Extract from Hansard**

[ASSEMBLY — Thursday, 15 August 2013]  
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Mr John McGrath; Acting Speaker; Ms Josie Farrer; Mr Peter Abetz; Mr Chris Hatton; Mr Dean Nalder; Ms Wendy Duncan; Mr Troy Buswell

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**Mr T.R. BUSWELL:** I was about to get to that, Premier, and thank you for reminding me. Of course they will enjoy all those things: the stadium, Elizabeth Quay and the light rail network that will provide a fantastic basis upon which to construct a new approach to public transport in the state.

**Mr J.H.D. Day:** And the Western Australian Museum.

**Mr T.R. BUSWELL:** Yes, and the Museum. I am right onto that one.

**Mr C.J. Barnett:** I have met your boys; they are very mature.

**Mr T.R. BUSWELL:** It is a large expensive building full of dead things.

**Mr C.J. Barnett:** That is something I think they would enjoy; the Museum.

**Mr T.R. BUSWELL:** Unlike their father, I suspect my boys would have a far greater appreciation of the Museum, and definitely the art gallery next door!

These are long-term, intergenerational assets, but we do need to work on developing a strategy to pay down state debt. We have to lift our eyes up beyond the horizon that is currently presented by the forward estimates. These assets will clearly last beyond that time. It is a challenge and the government and I will not resile from that challenge. However, the government does not and will not apologise for borrowing that money today, in the present, to deliver that infrastructure because we think that this is the time to be providing that infrastructure.

I again thank all members for their varied contributions. I am sure that I speak on behalf of all my ministerial colleagues and those in this place who represent ministers, when I say how much we are looking forward to the estimates hearings next week when we will be able to explore some of the more detailed items in the budget papers.

Questions put and passed.

Bills read a second time.

Pursuant to standing order 222, bills and estimates referred to Estimates Committees A and B.

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## Power station privatisation on the cards, according to WA Premier Colin Barnett

- by: Joe Spagnolo, political editor
- From: PerthNow
- September 25, 2013 3:04PM

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WA Premier Colin Barnett says WA's power stations may be privatised to pay off mounting debt.

Source: The Australian

**PREMIER Colin Barnett says WA's power stations may be privatised to pay off mounting debt and get back WA's AAA credit rating.**

Speaking on 6PR radio today, Mr Barnett said energy generator Verve would not be privatised - but some government-owned power stations could be sold off.

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Power station privatisation on the cards, according to WA Premier Colin Barnett | Perth Now

He also said some projects proposed by the government would be cancelled - or their start up timetables put back - in order to counter state debt, which Treasury forecasts will hit the \$28 billion mark before the next election in 2017.

"In the 1990s there was a lot of assets sale - nothing like that is contemplated," Mr Barnett said.

"We won't be selling utilities - there won't be a sale of the Water Corporation, or Western Power or Verve or the TAB.

"But we may sell some of the components of those businesses.

"For example, you might sell a power station but not sell Verve.

"Verve has a full suite of power stations so maybe one of those might be sold.'

"But that's not privatising Verve."

Mr Barnett said there were "some contradictions" that the state, which keeps a tight rein on gambling - allowing only a certain number of pokie machines in James Packer's Crown Casino - would own TAB.

But it provided a means of supporting the racing industry so it would be retained, he said.

If the state did not have the benefit of the revenue it brought in, the government "would be facing request after request for track upgrades" and the like, he said.

Any asset sales would be ones that weren't particularly important to the wider public, he said.

Mr Barnett, under fire for losing the AAA credit rating, said he believed the state could cope with a \$14 billion increase in state debt in five years.

Although he had inherited a \$3.6 billion state debt in 2008, that figure was not at \$18.5 billion - and climbing.

Mr Barnett conceded that the government's infrastructure program would be slowed down.

"Perhaps we went a bit too hard a bit too early," he said.

### **Debt costs outweigh future fund returns**

The Premier also told 6PR that the future fund, designed to quarantine some of Western Australia's mining royalties for future generations, isn't making enough cash to offset the state's increased cost of borrowing.

The fund was the centrepiece of the 2012/13 budget and is being established with more than \$1 billion in seed capital over four years, mainly using money from the Royalties for Regions fund.

While it's forecast to grow to \$4.7 billion within 20 years, opposition treasury spokesman Ben Wyatt has cast doubt on whether it will even make a return.

Mr Wyatt says it is actually being funded by borrowings, which are used for investments, and then placed in a marginally interest-bearing account.

But the cost of debt had gone up with the state losing its AAA credit rating, so the fund was losing money, he said.

Mr Barnett conceded the fund wasn't making enough to counter higher borrowing costs, but said the loans were for capital works projects.

"We pay a little bit more on what we borrow compared to what we receive from the future fund," Mr Barnett

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told 6PR.

"That is true, but we're not borrowing, as such, to put into the future fund."

Mr Barnett said only one per cent of the fund would come from royalties after the seed capital was injected.

The premier said Mr Wyatt "could argue" the remainder would be debt "but that doesn't defeat the need for a future fund".

"It's all in one big pot," Mr Barnett said.

*with AAP*

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**Ray**

Sep 26, 2013

Barnett is the worst premier we have had in years, I did not vote for him because I know what he is like. He should have resigned years ago.

[Like](#) [Reply](#)

**Peter**

Sep 25, 2013

Does he really know what he is doing?

Oppositions don't win Govt - they give it away - WA put him in and now we have to live with it!

He and other Libs blame Fed Labor for their ways - he has done exactly the same- and he didn't have GFC to deal with!!!! Don't forget the "big picture" though!

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**Jarrad**

Sep 25, 2013

It's time you and buswel where shown the door .

[Like](#) [Reply](#)

**Shane**

Sep 25, 2013

Quote- "A bit hard to early", I add comment, arrogant and competent at the start. Arrogant and competent now. Still equals incompetancy. WA voters like this overwhelmingly. I chose to stay away from my beloved home, wonder why?????

[Like](#) [Reply](#)

**Greg**

Sep 25, 2013

If you let Barnett sell off your power and gas it won't give you AAA for long as you will have less assets to fall back on and if you think private companies will be cheaper, think again and look what people in other states pay for their power. Plus the gov then put up other charges to cover the loss from what those asserts use to give them. All I can say is say no loudly.

[Like](#) [Reply](#)

**Hutchy Hutchy**

Sep 25, 2013

Barnett just admit it your a failure you go out and spend big then it bites us hard working aussies in the backside whilst you sit there with a high income. Instead of selling of assets how about you government personell whoo are high paid all take pay cuts. You threaten us with GST raise and for what to make us pay more taxes for your mistakes MR BARNETT you are a disgrace now you want to start selling our assets i think its time you hand the position over to someone who is a lot more sensible than what you are. How about you try and do the right thing by us for a change instead of thinking of your own personal gratification and image ( as look at me look what i have done it has my name on it ) get over yourself barnett everything dosent revolve around you. Maybe you should have to seek public vote for when you want to purchase or build things and that goes for the whole government in general.

[Like](#) [Reply](#)

**Ray**

Sep 25, 2013

Sell the new stadium and the foreshore developments first,Muja wont be worth much.

2 [Like](#) [Reply](#)

**andrew**

Sep 25, 2013

You don't sell your house to pay off a credit card, no you just stop living outside of you means. Once assets are gone they are hard to get back and this government needs to forget about a quick fix as the money they will gain will soon be gone and the debt level will be the same. Just stop spending Mr Barnett and leave some projects for a better time as this is a more mature thing to do. It is a shame that we as a state are poor and yet we have huge amounts of money that has come to us through mining but now has been squandered.

[Like](#) [Reply](#)

**Lesley**

Sep 25, 2013

Absolutely right, where has all that money gone, the projects Barnett was going to do are hardly started in any case not that we particularly needed them at this moment with the global crisis etc. The labor fed government put up a lot of the funding the the hospital and infrastructure in any case, so what has Barnett put up to build these projects, not much I would guess, they are stalled now because there is a fed lib government who won't help fund the projects. Another bell tower.

[Like](#) [Reply](#)



11/30/2016

Parliamentary Questions &amp; Answers

**Question Without Notice No. 36** asked in the **Legislative Assembly** on **20 February 2014**  
by **Mr M.P. Murray**

Parliament: **39** Session: **1****Answered on**

## TAB — PRIVATISATION

**36. Mr M.P. MURRAY to the Minister for Racing and Gaming:**

I refer to the highly unusual public statements made by officers from Racing and Wagering Western Australia opposing the privatisation of the TAB.

- (1) What is the minister's position and the Western Australian National Party's position on the government's asset sales task force's targeting of the TAB?
- (2) What feedback from industry stakeholders has the minister received about the privatisation?
- (3) Will the TAB be privatised?

**Mr T.K. WALDRON replied:**

(1)–(3) I thank the member for the question. I am on record in this place saying that I do not support the privatisation of the TAB. I think that the TAB in Western Australia plays a really important part in the funding and ongoing success and health of the racing industry, which is extremely important to Western Australia. Talking about Racing and Wagering Western Australia, I have discussed this with RWWA on many occasions. RWWA does not support the privatisation of the TAB. I have given an assurance that when the time comes, if RWWA thought it was in the best interests of the racing industry to privatise the TAB, obviously I would listen to that. It is not about to do that, I can assure members of that. From speaking to industry people, there is not support for the privatisation of the TAB. That is the position at the moment.

**Mr M. McGowan:** Is it the government's position that it will not be privatised?

**Mr T.K. WALDRON:** Yes.

**Mr B.S. Wyatt:** Or the National Party's position?

**Mr T.K. WALDRON:** I do not think the Nationals actually have a formal position on it, but formally the Nationals would not support the privatisation of the TAB. I have said this in this house before: if it was in the best interests of the racing industry, the government would consider it. My experience shows that privatisations in other states, particularly in Tasmania and South Australia, have not been good for the industry. They in fact have been detrimental to the industry. Some of the other privatisations have been different because they have involved poker machines as part of that deal, which has made it a different scenario. I do not support the privatisation of the TAB.

**Speech by**

**Hon Dr Mike Nahan MLA**

**Treasurer; Minister for Energy; Citizenship and Multicultural Interests**

**Thursday 8 May 2014**

Mr Speaker, I move that this Bill be read a second time.

**INTRODUCTION**

Mr Speaker, the Liberal-National Government is delivering the right Budget for its time. The 2014-15 Budget responds to the changing economic circumstances and builds on the Government's achievements.

Western Australia is experiencing a challenging fiscal environment at a time when the economy has passed the investment peak, leading to a production phase which will yield a record level of resource exports.

Over the four year budget period, economic growth in Western Australia is expected to outpace growth nationally. This will be supported by projects like Gorgon, which will underpin a doubling of Liquefied Natural Gas exports, and the Roy Hill iron ore project, which will contribute to an almost one-third increase in iron ore exports. This will build on Western Australia's position as the major exporting State, currently accounting for around 48% of the nation's merchandise exports.

This year, the Western Australian economy is forecast to grow by 3.75%, down from 5.1% growth in 2012-13. As business investment continues to moderate from its recent peak, growth in Gross State Product is forecast to ease further to 2.75% in 2014-15.

This moderation in domestic economic conditions is flowing through to lower employment and wages growth. This, in turn, is resulting in weaker growth in taxation collections, particularly payroll tax – the State's largest tax base.

At the same time as our tax collections are moderating, the lagged nature of the GST distribution process means that we are receiving significantly less GST revenue from the Commonwealth, with Western Australia's per capita share of GST revenue falling to a new low of 37.6% in 2014-15, down from 44.6% in 2013-14. This compares to a per capita GST share of 93.6% in 2007-08. In fact, if Western Australia received its population share of GST, we would receive an additional \$3.6 billion in 2014-15 alone.

Given the subdued revenue outlook and continuing strong demand for government services driven by a rapidly expanding population, this Budget includes a new package of revenue and savings measures totalling \$2 billion over the next four years.

These new revenue and savings measures underpin an expected general government operating surplus of \$175 million in 2014-15, a turnaround from the \$124 million operating deficit projected in December's Mid-year Review. A general government operating surplus of \$183 million is now expected for 2013-14, down from the \$437 million surplus forecast in the Mid-year Review.

The new corrective measures implemented in this Budget have also enabled significant additional funding to be directed to meet ongoing demand and community expectations for frontline services, including community health and hospitals, schools, community safety, mental health, disability and child protection services.

Mr Speaker, it is important to recognise that along with the impact of population growth, the community's strong demand for services is compounded by the costs of service delivery in Western Australia. This is highlighted in Commonwealth Grants Commission data, which shows that the cost of providing the same level of services in Western Australia was 15% per capita greater than other States and Territories in 2012-13. This includes spending 41% more per capita on community safety, 17% more on health, and 10% more on schools.

A significant contributing factor to high costs is the high wages paid to police, teachers, nurses and other public servants in Western Australia compared to other States – an issue I shall return to shortly.

## **SECURING OUR ECONOMIC FUTURE**

Mr Speaker, given the challenging fiscal circumstances and pressures on the Budget, it is clear that we need to change the way that government does business to secure our economic future. This includes:

- an increased focus on tax reform, both at State and Commonwealth levels;
- modernising service delivery models and examining the potential for asset divestment;
- containing growth in public sector wages; and
- reducing taxpayer subsidies for electricity, water and public transport through reforms to both pricing and cost structures.

### ***Taxation Reform***

In keeping with our 2013 election commitment, the State Government will soon introduce legislation to increase the payroll tax exemption threshold from \$750,000 to \$800,000 from 1 July 2014 and then to \$850,000 from 1 July 2016. This measure, included in last year's Budget, will support employment by small and medium businesses in this State and benefit over 16,000 employers at an estimated cost of \$190 million over four years.

Mr Speaker, Western Australia is now reliant on mining royalties for 22% of our total general government revenue. Royalties are a growing but volatile source of revenue, with small fluctuations in the exchange rate and iron ore price resulting in large (and often unexpected) movements in revenue. Property-based stamp duty is also volatile, and is rightly regarded as one of the more inefficient taxes in the country.

However, with GST revenue expected to account for just 8% of total general government revenue in 2014-15, the State Government currently has little choice but to rely on volatile mining royalties and inefficient State taxes.

Against this background, the State Government welcomes the Commonwealth Government's White Paper processes for national tax reform and reform of the Federation. We will continue to actively participate in these processes, including continuing to argue strongly for changes to the way in which GST revenue is distributed among the States.

We also welcome the National Commission of Audit's recommendation that GST revenue be distributed on an equal per capita basis, with fiscally weaker States being compensated by additional grants from the Commonwealth.

### ***Managing Debt through Asset Sales***

Combined with modest general government operating surpluses, planned investment in infrastructure to support our rapidly growing State, totalling \$23.7 billion over the next four years, will maintain the need for increased borrowings across the forward estimates period. Net debt is forecast to reach \$24.9 billion by 30 June 2015, which is manageable and affordable.

The Government will keep a close eye on the State's debt levels, and in conjunction with sound budget management, will pursue an orderly program of asset sales. This program will be overseen by the Premier.

While no decisions have been made concerning individual assets, surplus Government land, including Health Department sites at Princess Margaret Hospital, Royal Perth Hospital, Shenton Park Rehabilitation Centre and Swan Districts Hospital are currently being assessed.

With respect to Port Authorities, the Government will consider the sale of the Kwinana Bulk Terminal and the Utah Point facility at Port Hedland Port.

The Government's continuing ownership of the Perth Market Authority, the TAB and the Water Corporation's assets, such as its wastewater treatment plants, will also be reviewed.

The Government is undertaking a review of the electricity market and following that review and implementation of market reform, the Government will also consider the sale of individual electricity generation assets, such as Muja.

It is considered that these assets do not need to be in State Government ownership; however, they will only be sold where it is in the interests of the Western Australian taxpayer. The revenue generated from asset sales will be used to reduce debt levels and contribute to the cost of new infrastructure.

### ***Wages Policy***

Mr Speaker, the Government remains fully committed to the new public sector wages policy, which caps growth in wages and conditions to projected growth in the Perth Consumer Price Index (or CPI), which is forecast to be 2.75% in 2014-15 and 2.5% in subsequent years. This will be assisted by the measures contained in the Workforce Reform Bill that has recently progressed through the Legislative Council.

Limiting wages growth is not only appropriate in the current economic circumstances, it is the fiscally responsible thing to do and will help bring Western Australia in line with other jurisdictions.

Employee expenses represent the single largest cost of the public sector, accounting for around 45% of total general government expenses. Over the five years to 2012-13, growth in Western Australian general government employee expenditure averaged 8.1% per annum, significantly higher when compared to 6.3% in Victoria and 4.9% in New South Wales.

Over this same period, general government revenue in Western Australia only grew by an average of 5.9% per annum.

It is true that stronger wages growth in this State has been fuelled by a need to maintain competitiveness with wages in the private sector, along with strong demand for services driving growth in employee numbers. This is changing. Growth in private sector wages is declining and public sector wage growth in other jurisdictions is also declining.

For the ongoing sustainability of the State's finances, it is essential that public sector wage growth in Western Australia also moderates, and is capped at projected growth in the CPI.

It is also essential that government agencies manage the CPI cap on their salaries budgets. Importantly, if wage outcomes exceed CPI growth, agencies will need to accommodate this within their approved salaries budgets, meaning that staffing levels will necessarily be lower than they would have been with a CPI wage outcome.

### ***Electricity Reform***

Mr Speaker, the Government is focused on reducing the costs – and the associated subsidy – of providing electricity. Western Australian taxpayers are currently subsidising the provision of electricity by around half a billion dollars a year. Quite simply, this is not sustainable.

We have already taken significant steps by strategically reviewing Horizon Power's business model, which has produced estimated savings of \$175 million over four years, and merging Synergy and Verve Energy into a single entity from 1 January 2014.

And, as recently announced, we are undertaking a review of the entire Western Australian electricity market. This will involve assessing the strengths and weaknesses of the electricity generation, wholesale and retail sectors within the South West Interconnected System and the incentives for industry participants to make efficient investments.

The ultimate objective is to reduce the State's costs of producing and supplying electricity without compromising safety and reliability of supply. In addition, the Government needs to reduce its exposure to energy market risks, which is why we are focusing on having future electricity generation being built by the private sector.

The Government will also investigate the current structure of electricity tariffs, including options around rebalancing fixed and variable charges to ensure tariffs are fair and reflect emerging trends in consumer use. We will also review concessions to make them simpler and more equitable. This work will be completed in time for consideration by the Government in next year's Budget process.

### ***Vocational Education and Training Reform***

Mr Speaker, from 1 January 2014, the Department of Training and Workforce Development introduced a training entitlement model – Future Skills WA – in line with the National Partnership Agreement on Skills Reform. The entitlement model shifts training delivery towards a contestable, demand-driven funding model that directs public subsidies towards State priority qualifications. As indicated in last year's Budget, to ensure the State's contribution to training is sustainable, the level of student tuition fees has had to be increased. On average, it is anticipated that the level of fees will rise from 7% of the total cost of training in 2012-13 to 19% by 2016-17.

### ***Local Government Reform***

The Government also remains committed to local government reform, and this Budget provides a \$60 million assistance package for the proposed boundary changes to metropolitan local government. This includes \$15 million in direct grant assistance to local governments, with total grants of up to \$5 million to be made available in each of the next three years. In addition, local governments impacted by the reforms will have access to a subsidised loan facility through the Western Australian Treasury Corporation from 2015-16. The Government will fund a 2% subsidy on loan interest payments for total loans of up to \$45 million, repayable over a five year period.

### ***Royalties for Regions***

Mr Speaker, Royalties for Regions is another area of reform, with this Budget containing changes to the structure of the RfR program.

From 2014-15, in addition to the \$1 billion legislated cap on the balance of the RfR Fund, there will also be an annual expenditure limit of \$1 billion.

Our decision to cap expenditure from the Fund is appropriate to ensure the State's limited funds are spent where they are most needed.

### ***Revenue and Savings Measures***

Mr Speaker, I have outlined the reform priorities the Government is pursuing that will help secure our economic future and ensure the sustainability of the State's finances over the medium term.

However, immediate action has also been required in order to deliver a general government operating surplus this year and in 2014-15. As noted earlier, these surpluses have been achieved through the implementation of new revenue and savings measures totalling \$2 billion that build on last year's Fiscal Action Plan, which will save an estimated \$8.6 billion.

The new measures include:

- the previously announced freeze on general government advertising and recruitment for the remainder of the current financial year;
- a 15% reduction in non-essential procurement by general government agencies in 2014-15;
- the introduction of a 75% interim dividend arrangement for the State's port authorities;
- a 5% reduction in the Asset Investment Program of most agencies to reflect improved efficiencies, along with some specific project deferrals;
- abolition of the \$36 registration fee concession for private motor vehicles from 1 July 2014;
- an increase in the Perth Parking Levy of \$365, to be phased-in over the next two years, with the additional revenue going towards the Perth Busport. The Government is also bringing forward the replacement of CAT buses;
- a reduction in the transfer duty exemption threshold for first home buyers from the current threshold of \$500,000 to \$430,000, which more closely represents the value of homes being purchased by first home buyers;
- an increase in the landfill levy rate on waste, with some of the additional revenue going towards the implementation of initiatives to manage, reduce, reuse, recycle, monitor and measure waste; and
- an across the board increase in land tax rates of 10% from 2014-15, to offset the impact of weaker than expected growth in property values.

I would also like to take this opportunity to provide an update on the Public Sector Commission's Enhanced Voluntary Separation Scheme. This program has been expanded in this Budget, and it is expected that 1,114 people will accept offers of voluntary separation, at a total estimated cost of \$147 million in 2013-14. This will help ensure achievement of CPI salary cap savings of over \$800 million under the Government's public sector workforce reforms. In addition, WA Police has implemented a police-only voluntary separation scheme, in which 190 non-operational officers have left the police force and will be replaced over time by operational officers.

## **EFFICIENT DELIVERY OF QUALITY SERVICES**

Mr Speaker, these revenue and savings measures have enabled the Government to allocate significant additional expenditure in this Budget to frontline services in order to meet the demands of a rapidly expanding population.

### ***Health***

This Budget provides \$8 billion for the delivery of health services in 2014-15, an increase of \$447 million or 5.9% on 2013-14. This additional expenditure will provide for approximately:

- 15,000 patients to stay and be treated in hospital;
- 33,000 patients to be treated in emergency departments; and
- over 60,000 patients to be treated as out-patients.

The 2014-15 Budget settings will ensure the long-term sustainability of public hospital services across Western Australia, with the implementation of an Activity Based Funding model for hospital services from 1 July 2014.

Currently, the State Price (which is Western Australia's average cost in delivering hospital services) exceeds the national projected average cost by around 8%. However, it is intended that WA Health will transition to the national average cost by 2017-18. This will ensure the sustainable delivery of health services in Western Australia while allowing the State's hospitals to deliver the efficiencies needed to achieve national price settings, consistent with the National Health Reform Agreement. This will be a major reform.

### ***Education***

Mr Speaker, this Budget provides a total of \$4.6 billion for the delivery of education services in 2014-15, an increase of \$188 million or 4.3% on 2013-14. Since 2007-08, recurrent expenditure on education has grown from \$2.8 billion to \$4.6 billion today – an increase of almost \$1.8 billion in annual spending.

As a result, Western Australian public schools are amongst the best resourced in the nation, with higher per student funding than any other State. Under the Liberal-National Government, our teachers are better paid across the board than in any other jurisdiction, and we have continued to start each school year with a teacher in front of every class.

Over the next four years, the Department of Education will spend an additional \$812 million to accommodate anticipated growth in student enrolments, including the impact of the exit of the half-year cohort in 2015. This will see the number of funded full-time equivalent teachers increase in 2015 by an estimated 550.

In 2015, the Government will undertake the most significant program of reforms in public schools in recent history. A Student-Centred Funding Model will be introduced, which will allocate resources to schools in a way that is both equitable and transparent, by providing funding to schools based on the specific needs of each student enrolled. An additional, one-off allocation of \$10 million has been provided to assist schools to transition to the new Student-Centred Funding Model.

Next year will also see the transition of Year 7 students to high school, bringing the State into line with the non-government sector and schools in most other jurisdictions. To prepare for this transition, the Government has invested \$230 million for facilities at high schools throughout the State to accommodate these students. A further \$22.4 million has already been invested in the *Switch* program to support primary teachers to move to secondary teaching, especially in the areas of mathematics, science, design and technology, and special education, and to assist secondary teachers looking to expand the range of subjects they can teach.

And amendments to the Western Australian Certificate of Education for implementation in 2015 will better prepare students for their working life after school, and reassure parents that their children will leave school with minimum standards of numeracy and literacy.

Mr Speaker, in last year's Budget, we announced the introduction of school fees for dependents of 457 visa holders enrolled at government schools that reflected an expectation that these visa holders should make a contribution to the cost of the education provided to their children.

While the fee was set at around one quarter of the average annual cost of educating a student in Western Australia, the Government acknowledges the potential impact of these fees on visa holder families with two or more children. I am therefore pleased to announce that we have moved to mitigate this impact by capping the fee at \$4,000 each year for the first child only, beginning in 2015, irrespective of the number of children enrolled in the public school system.

### ***Western Australia Police***

Mr Speaker, this Budget provides \$1.3 billion for the delivery of police services in 2014-15, an increase of \$83.5 million or 6.6% on 2013-14.

To maintain a strong police force and presence in the State, the WA Police will receive:

- \$25.4 million over four years to replace its Computer Aided Dispatch system, which is the frontline response to triple-0 calls;
- \$5 million in 2014-15 to maintain and refurbish ageing police stations; and

- \$1.3 million in 2014-15 to finalise the State CCTV strategy and establish CCTV infrastructure in crime hot spots.

I am also pleased to announce that by June 2014, the Government will have recruited the final 100 officers as part of the 2008 election commitment and expects to have recruited over 80 officers as part of the 2013 election commitment for an additional 550 officers. This will be built on in 2014-15, with WA Police planning to recruit another 180 officers during the year.

## **SUPPORTING AND PROTECTING THE COMMUNITY**

Mr Speaker, the Government will continue supporting vulnerable members of the community with additional funding across key social services.

### ***National Disability Insurance Scheme***

The National Disability Insurance Scheme (or NDIS) is an example of how the Government is modernising its approach to delivering services and ensuring improved support for the community. Two Western Australian trial sites for the NDIS will commence on 1 July 2014 for a two year period and will benefit around 8,000 participants.

Under the agreement with the Commonwealth, a 'My Way' trial site will cover the lower South West, Kwinana and Cockburn regions and will be administered locally by the Disability Services Commission. The second trial site covering the Perth Hills will be administered by the National Disability Insurance Agency and will use the same national model that applies in other States. Western Australia will contribute around 60% of the cost of care and support packages in both trials.

Understandably, community expectations are very high for the NDIS. However, the financial elements must be carefully managed by all Governments to achieve a sustainable scheme that will improve outcomes for persons with disabilities, their families and their carers.

### ***National Injury Insurance Scheme***

To complement the NDIS, the Commonwealth Government has proposed a National Injury Insurance Scheme to provide lifetime care and support to people who sustain a catastrophic injury from a motor vehicle, workplace, medical treatment injury or general accident.

The State Government has provided in-principle support for the introduction of a no-fault insurance scheme for motor vehicle accidents. We will shortly issue a Green Paper to inform the community about the proposed changes to motor vehicle personal injury insurance cover and seek community feedback.

### *Social Services*

Mr Speaker, this Government has made supporting the most vulnerable in our community a priority, and mental health, disability and child protection services are a big focus of this Budget.

The Disability Services Commission will receive an additional \$180 million over the next four years to meet the increased number of people with disabilities accessing support services, along with a move toward individualised funding. This is in addition to the NDIS trial sites mentioned previously.

The Mental Health Commission will receive an additional \$154 million over five years to care for people with a mental health issue. In addition, \$29 million will be provided over three years to continue the State-wide Specialist Aboriginal Mental Health Service to deliver case management for Aboriginal people with mental illness.

This Budget also provides additional funding of \$90 million over the forward estimates to enable the Department for Child Protection and Family Support to meet growth in demand for child protection services in 2014-15. As a result of this additional funding, the Department will be able to:

- support more than 4,000 children in care;
- undertake safety assessments of 18,500 children who are the subject of child protection concerns; and
- provide support for 80,000 at-risk families.

### *Essential Services*

Mr Speaker, residential electricity tariffs will be increased by 4.5%. Water tariffs will increase by 6% and public transport fares by 4% as of 1 July 2014, along with an increase in the 50 cent student fare to 60 cents.

However, the Government will continue to heavily subsidise electricity, water and public transport, with electricity subsidies and concessions totalling \$2.5 billion over the next four years, and water and public transport subsidies totalling \$2.5 billion and \$3.3 billion respectively.

For a 'representative' household, the standard basket of fees and charges will increase by \$324.18, or 6.6%, relative to 2013-14 levels. Households in Western Australia will still have amongst the lowest expenditure on State Government goods and services compared to households in other jurisdictions. For example:

- Western Australia's 2014-15 utility charges remain lower than the national average, even prior to other jurisdictions announcing any increases;
- public transport fares will remain significantly lower than those in Queensland and New South Wales, and will remain competitive with other jurisdictions; and
- motor vehicle charges will remain amongst the lowest in Australia, particularly with respect to compulsory third party insurance premiums.

Mr Speaker, on top of a total investment of \$1.2 billion in electricity-related infrastructure in 2014-15, this Budget includes additional expenditure totalling \$139 million to address the critical issue of electrical safety, comprising:

- \$85 million over 2013-14 and 2014-15 to replace and reinforce a total of 147,500 wood poles;
- \$28 million in 2014-15 to replace conductors and overhead wires; and
- \$26 million over the forward estimates for the installation of electrical safety devices in all public housing properties owned by the Housing Authority, to be funded from increased rents.

This Budget also provides for a new \$20.3 million fire station to the west of the Perth CBD and a replacement \$9.1 million fire station in Albany, both funded from a 5% increase in the Emergency Services Levy from 1 July 2014. This equates to an average increase per household per week of 21 cents.

The Government also remains committed to improving safety on the State's roads. In 2014-15 we will spend \$100 million from the Road Trauma Trust Account on road safety projects, including \$35.3 million for improvements to the Coalfields and Albany Highways and Wubin to Mullewa Road. This is an increase of \$18 million on this year's program.

### ***Sport and Recreation***

Mr Speaker, this Budget continues the Government's commitment to sport and recreation, with:

- \$5 million in each of 2015-16 and 2016-17 to maintain the Sport 4 All program (including Kidsport);
- \$10 million over three years for the new Cockburn Aquatic and Sports Complex; and
- \$3 million in 2013-14 to the Western Australian Football Commission to partially extinguish its debt.

### **INVESTING IN INFRASTRUCTURE TO GROW THE STATE**

Mr Speaker, investing in productivity-enhancing infrastructure for the benefit of future generations has been, and remains, a major priority of this Government. This Budget provides for an Asset Investment Program of \$6.7 billion in 2014-15, with total investment of \$23.7 billion over the next four years.

Of note, the delivery of key health infrastructure projects has been the hallmark of this Government. The Liberal-National Government is spending \$7 billion to upgrade and redevelop the State's hospitals and health services. This incorporates expenditure on three new hospitals for the Perth metropolitan area as well as four new major health campuses and six other new healthcare facilities in regional Western Australia, including:

- Fiona Stanley Hospital and State Rehabilitation Service, which have a total capital cost of \$1.8 billion;
- Perth Children's Hospital, with a total cost of \$1.2 billion;
- Midland Health Campus, with a total cost of \$360 million;
- Karratha Health Campus, at a cost of \$207 million; and
- Busselton Hospital, with a total cost of \$120 million.

The Government is also investing an additional \$40.1 million for critical Information and Communications Technology at Fiona Stanley Hospital.

The Government is investing \$1.2 billion over the next four years to deliver new and enhanced school infrastructure across the State. By 2017-18, the Government will have delivered an additional 45 new schools, or around 1,200 classrooms, since 2008. This includes the construction of new primary and secondary schools, additions and improvements to existing schools, the completion of 16 Child and Parent Centres, and the completion of the air-cooling program.

This Government's achievements are many and growing. Mr Speaker, since 2008 we have expanded the State's road network by more than 700 kilometres. Overall, investment in the State's roads will total \$3.4 billion over the next four years.

We have spent or committed \$615 million to maintain and expand our bus fleet and \$337 million to increase our rolling stock, including the purchase of another 66 rail cars to be delivered by 2016 at a cost of \$244 million.

We have spent \$7.3 billion on replacing and maintaining the State's electricity network and will spend a further \$1.2 billion this coming year.

These examples reflect the State Government's extensive commitment to improving public infrastructure and services – the money the Government commits to ensure that the growing population has access to quality schools and hospitals, and the commercial life of the State is well-served by modern road, rail and power networks.

But Mr Speaker, the Government is also busily transforming the city through the delivery of the following key projects:

- the Perth City Link (\$764 million), Elizabeth Quay (\$441 million) and the new Western Australian Museum (\$428 million), which will make Perth a more vibrant metropolis for our community and help us to attract and retain skilled workers and their families;

- Gateway WA, which is creating landmark road infrastructure around the Perth Airport and the freight and industrial hubs of Kewdale and Forrestfield, at an estimated total cost of \$1 billion;
- the Government also remains committed to the MAX light rail project in the longer term and expects to receive the Project Definition Plan in the coming months which will outline broad project costs and timings;
- the Forrestfield Airport Rail Link, which will branch from the Midland line near Bayswater Station to the consolidated Perth Airport terminal and continue on to Forrestfield, at an estimated cost of \$2 billion; and
- the new Perth Stadium, at a cost of \$902 million, plus \$339 million in transport-related infrastructure, to be completed in time for the 2018 AFL season.

Mr Speaker, a major component of the Royalties for Regions program in 2014-15 is the delivery of major infrastructure projects and ensuring the economic development of regional communities. This includes:

- \$169 million over the forward estimates for the new Regional Investment Blueprint initiative to develop major State-wide economic, social and community development projects; and
- a further \$515 million over the next four years for a Southern Investment Initiative to implement major projects across the Peel, Wheatbelt, South West and Great Southern regions.

## CONCLUSION

In conclusion Mr Speaker, this is a responsible Budget; it is the right Budget for its time. It is a Budget that:

- responds to the State's changing economic circumstances;
- builds on our achievements; and
- focuses on delivering essential reform while also responding to growth in demand for health, education, disability, child protection and other frontline services.

It is a Budget in which tough but responsible decisions have been made to secure our economic future.

I commend this Budget to the House.

I would now like to proceed with the formal purposes of the two Appropriation Bills, which seek the sums required for services in the coming financial year. Appropriation (Consolidated Account) Recurrent 2014-15 Bill 2014 is for recurrent services, which comprise the delivery of services and administered grants, subsidies and other transfer payments.

Appropriation (Consolidated Account) Capital 2014-15 Bill 2014 is for capital purposes, providing for asset purchases and payment of liabilities of agencies.

Recurrent service estimates of \$21,299,721,000 include a sum of \$2,279,438,000 permanently appropriated under Special Acts, leaving an amount of \$19,020,283,000 that is to be appropriated in the manner shown in the Schedule to Appropriation (Consolidated Account) Recurrent 2014-15 Bill 2014.

Capital purposes and financing transactions estimates of \$2,658,336,000 comprise a sum of \$173,368,000 permanently appropriated under Special Acts and an amount of \$2,484,968,000 that is to be appropriated in the manner shown in the Schedule to Appropriation (Consolidated Account) Capital 2014-15 Bill 2014.

Mr Speaker, I commend the Bills to the House and seek leave to table:

- Budget Speech – Budget Paper Number 1;
- Budget Statements – Budget Paper Number 2; and
- Economic and Fiscal Outlook – Budget Paper Number 3.



## TAB sale: National MP Colin Holt opposed to possible privatisation

By Jacob Kagi and Hayley Roman

Updated Fri 23 May 2014, 2:28pm

**The West Australian Government is facing a stumbling block in its proposal to privatise the TAB, with the WA Nationals indicating reluctance to support the plans.**

The gambling agency is one of a number of assets that will be placed under review and possibly sold in order to improve the budget's bottom line.

The Liberal Government does not have a majority in the Upper House and typically relies on the Nationals for the passage of legislation.

Nationals MP Colin Holt said it strikes him as a dangerous idea and he will need serious convincing to vote in favour of it.

"It underwrites a complete industry that's incredibly important to regional Western Australia," he said.

"It's a massive industry and it's of massive importance to our regional communities.

"At the moment the TAB plays a major role in underwriting that industry and I'd be very cautious about any changes."

The TAB will pay \$126 million to the racing industry this next financial year, which goes directly into clubs around the state.

That is an increase from last year when it paid \$120 million.

Mr Holt said he is concerned there will be major repercussions for regional racing if the TAB is sold.

"I think we're trying to say the industry plays a very important role in regional WA and we don't want to do anything that puts that in jeopardy," he said.

"We want to make sure it survives and thrives really and I think the TAB is an important component of that. I think we know in regional WA if we rely on commercial enterprises or commercial processes to sustain our industries, we put them at risk.

"If we're going to commercialise the TAB then in my mind we're going to put the industry in regional WA at risk."



**PHOTO:** The racing industry in WA relies on the TAB for funding. (Getty Images: Jonathan Wood)

**MAP:** Perth 6000



I think we know in regional WA if we rely on commercial enterprises or commercial processes to sustain our industries, we put them at risk.

Colin Holt

### Sale only supported with safeguards

Racing and Gaming Minister Terry Waldron, who is also a National, said earlier this week that no decision had been made at this stage to sell the TAB - although it is one of the assets under review.

Mr Waldron also said if a decision was made down the track to sell, he would be arguing that the Government should put in place safeguards to meet the needs of the racing industry going forward.

"I've said this in Parliament, that I would only support the sale of the TAB if it was in the best interests of the racing industry and the community to do so," he said.

Mr Holt said he understands the state has budget pressures and solutions have to be found.

"I just don't think the TAB is one of those solutions if it means our industry doesn't grow and add to our economic value," he said.

"I've had lots of people come to me saying they can't see the benefits."

In other racing news, a horse racing club which boasts Australia's longest-running country cup will hold its final meet tomorrow night.

Harvey Trotting Club said it has been forced to close after a long-running legal dispute over ownership of the land.

The club was established in 1936 and moved to its current location at King-Lethbridge Park in the late 1970s.

Club president Ken Nottle said its closure is a huge loss to the community.

"Since 1978, the property's been developed to probably the nicest country trotting track in Western Australia. The club has been very successful and really most of it just due to the voluntary and community effort," he said.

"There aren't many towns in WA really who can boast a trotting track and it's just another form of entertainment in a smaller town that really has been lost to the community.

"Our meetings are really well supported by the public and it's a big blow to Harvey full stop."

The club has agreed to vacate the land by July 31 but will look to host occasional meets at other tracks.

**Topics:** government-and-politics, perth-6000, wa, harvey-6220, albany-6330, bunbury-6230, geraldton-6530, esperance-6450, kalgoorlie-6430, broome-6725, karratha-6714

*First posted Fri 23 May 2014, 12:05pm*

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Ken Nottle

12/1/2016

Racing and Wagering WA CEO Richard Burt quiet on TAB privatisation after ACT sell-off | Perth Now

**perth now**  
Sunday Times



WA's racing chief says he can't comment on the potential privatisation of the TAB until the Barnett Government reaches its decision. Picture: File image

WA News

# Racing and Wagering WA CEO Richard Burt quiet on TAB privatisation after ACT sell-off

PETER LAW, PerthNow

July 31, 2014 2:45pm

WA'S racing chief says he can't comment on the potential privatisation of the TAB until the Barnett Government reaches its decision.

WA this week became the last remaining government which still owns a gambling agency after the ACT Government sold its TAB for \$105 million to Tabcorp.

WA's TAB is one of a number publicly-owned assets the Barnett Government is considering selling to the private sectors to help cut public sector debt.

12/1/2016

Racing and Wagering WA CEO Richard Burt quiet on TAB privatisation after ACT sell-off | Perth Now

Ports, wastewater facilities, the Market Authority and ex-hospital sites have also been identified as assets which could be sold off.

Racing and Wagering Western Australia CEO Richard Burt today said he had been given no indication as to when the Government would come to a decision on the future of the TAB.

Mr Burt said the Government was still considering its options and he had “no information to the contrary”.

“I really don’t want to talk about privatisation until the Government makes a decision. It’s all speculation at this stage, so let’s wait for the Government to make a decision,” he said.

“It’s speculative to be talking about what would happen or what the alternatives are.

“I’d be more inclined to get confirmation of views from the industry, but from RWWA’s point of view — which is a Government organisation — we can’t talk about something that we don’t know about.”

Concerns have previously been expressed about the impact of privatisation on the racing industry, which receives \$126 million from the TAB each year.

The TAB was announced as being potentially up for sale at May’s State Budget, just months after Premier Colin Barnett ruled-out such a move.

At the time, Treasurer Mike Nahan said the TAB was an “easy saleable asset” and that he, as well as some Cabinet colleagues “find it uncomfortable for the state owning gambling outlets”.

## Government probably will sell TAB, says Premier

### **Daniel Emerson**

Colin Barnett said yesterday that the Government “probably will” sell the TAB, his strongest indication yet after previously ruling it out and then putting the agency on a

list of asset sales for consideration. The Premier said the Government’s first round of asset sales, made necessary by the loss of the State’s AAA credit rating in September, would focus on land but the TAB could fol-

low. “I think the Government probably will sell the TAB but it’s not going to be in the first group of asset sales,” Mr Barnett said.

After the credit downgrade in September Mr Barnett told 6PR “there won’t be a sale of . . . the TAB”. WA Trainers Association president Michael Grant said the Tasmanian and South Australian racing industries had been “decimated” by privatisation, whereas WA’s was performing well.

**Extract from *Hansard***  
 [ASSEMBLY — Wednesday, 13 August 2014]  
 p5204b-5213a

Mr Mick Murray; Mr J.E. McGrath; Acting Speaker; Mr M.P. Murray; MR P. Papalia; MR C.J. Barnett

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**TAB — PRIVATISATION**

*Motion*

**MR M.P. MURRAY (Collie–Preston)** [6.07 pm]: I move —

That this house condemns the Barnett government for breaking its word in relation to the privatisation of the TAB.

In speaking to the motion, I must first say that I have never seen the racing industry in such a shambles in my time around the traps, and I have been having a bet since I was 16 years of age. I have never seen it. It is in disarray. Not only the situation with the TAB, but also other issues that I will not talk about, is impacting on the racing industry.

The TAB issue has started a domino effect. It has gone right through; the confidence has fallen out of the industry due to the Barnett government's mismanagement and comments made in this house by the minister, the Premier and the member for South Perth, who has not helped at all. I will read out a few of the comments. On 20 February 2014, in response to a question without notice, the minister said —

I am on record in this place saying that I do not support the privatisation of the TAB. I think that the TAB in Western Australia plays a really important part in the funding and ongoing success and health of the racing industry, which is extremely important to Western Australia. Talking about Racing and Wagering Western Australia, I have discussed this with RWWA on many occasions. RWWA does not support the privatisation of the TAB. I have given an assurance that when the time comes, if RWWA thought it was in the best interests of the racing industry to privatise the TAB, obviously I would listen to that. It is not about to do that, I can assure members of that. From speaking to industry people, there is not support for the privatisation of the TAB.

Then the Leader of the Opposition asked whether the government's position was that the TAB will not be privatised and the minister answered yes. How things have changed since February! Again, the minister, in March this year, said —

I would only ever consider the privatisation of the TAB if it was in the best interests of the racing industry ...

I do not think it is in the best interests of the racing industry—in fact, I do not think it is in the best interests of the state—to privatise the TAB at this stage ...

The TAB is performing very well, and I do not support its privatisation.

I move on to 7 May 2014, and an answer by the Premier to a question without notice, referring to comments he had made on 25 September 2013. The Premier said —

Yes, I had said previously that we were not going to sell the TAB ... I do not think any decision will be made on the TAB one way or the other for several years ... in the normal course of things ... one would not think that a government would own a betting agency.

There is doublespeak there. He also commented that the minister's statement that privatisation of the TAB was not in the best interests of the state was perfectly proper. What has changed? Maybe it was a \$20 000 meeting that the government has had in the past couple of weeks with Tattersall's. A secret meeting has been held between the Premier and an industry buyer; a group that has bought other TABs and runs one of the biggest gambling institutions in Australia. What has made this change happen? What will happen in the future if the TAB is sold? The TAB is there to regulate the industry, and put money back into the industry—this financial year to the tune of \$120 million. Along the way, between \$30 million and \$40 million was taken out as turnover tax, which goes straight to general revenue. We will be selling the goose that lays the golden egg. We will chop off its head, and then it will be gone, and then we will have real problems. Many people have come to see me over this time with great concerns, including breeders, trainers, owners, jockeys—all through the racing industry. We had a problem in the chasing industry, that there is no money to put back in. Racing and Wagering Western Australia itself, through the TAB, put in \$9 million upfront, but the government did not match that. We have a huge problem ahead of us, and no wonder there is no confidence in this minister and the Premier about where we are heading. We are not heading anywhere. It is a mess. The industry now, over the TAB privatisation and other issues, is fighting itself, which is not good for the industry. It is not a good look to see committeeman against committeeman, and trainer against trainer. That sort of thing is going to bring the industry to its knees.

Recently I travelled with the member for South Perth to a conference in Hong Kong about the state of Australasian racing. Many people came up to me and said, "Whatever you do, don't sell your TAB." There was one dissenter, and he was from Western Australia, but he has convinced the member for South Perth to change his position over time; he has been nobbled by one person. Before the member for South Perth went to Hong

**Extract from *Hansard***

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Mr Mick Murray; Mr J.E. McGrath; Acting Speaker; Mr M.P. Murray; MR P. Papalia; MR C.J. Barnett

Kong he opposed selling the TAB. I do not know whether or not he got a sling while he was there—I am not quite sure—but since he has come back he has had a different view.

*Withdrawal of Remark*

**Mr J.E. McGRATH:** Although I respect the member for Collie–Preston, I think he has made a very unparliamentary suggestion that I might have accepted a sling from some person. That is my thinking.

**The ACTING SPEAKER (Mr N.W. Morton):** Thank you, member, I take the point of order.

**Mr M.P. MURRAY:** I unreservedly withdraw my remark. It was a slang term, and I withdraw it.

*Debate Resumed*

**Mr M.P. MURRAY:** The member for South Perth has been convinced by others to change his position. It was not the group we were with, because people there from all around Australia opposed the idea. A Queen's Counsel from South Australia begged me not to let it happen and urged me to have a look at what happened in South Australia when the TAB was sold. The Premier of South Australia did the same thing as, Paul Lennon, the Premier of Tasmania, had done previously. He held secret meetings, and then dropped them in it. The industry has collapsed. Breeders and trainers from all around Australia wonder what they are going to do if Western Australia sells its TAB. Is the shareholder then the key person, or is the industry the key? That is a very pertinent point.

Along with that, other areas really concern me. There is a rumour coming out of the National Party—I will say rumour or gossip—that members are saying that we in the lower house should not worry about the sale of the TAB, because members will let it go through and approve it. Not wanting to embarrass the Premier, the Nationals will stop it in the upper house. I see that as very dangerous. I would like to hear later from the minister what his position really is. Judging from what he has said in this house, we cannot believe him one way or the other. His words have been swapped and changed from maybes to would-bes and could-bes.

The Treasurer, in his budget speech on 8 May 2014, flagged that the ownership of the TAB would be reviewed to manage debt. If it is going to be sold to retire debt, the money certainly will not go to the industry. That block of money will be used straightaway to retire debt. The Premier alluded to that today, in saying that we will build something else and we will not retire debt. That is in direct contrast with what the Treasurer said. The Premier himself is in the chamber. I am glad to see that he has walked in. He said on 25 September 2013 that neither the various utilities nor the TAB would be sold. That has changed, and it has been publicly reported everywhere. It will not be sold immediately, but it will be considered for sale along the way. Now that the Premier is in the chamber, I ask him: when will he tell the people of Western Australia and all the owners, trainers and jockeys, who are the base of the industry, what his meeting with Tattersall's was about? That is what the industry wants to know. It is well publicised in the press that the industry is very concerned about what the Premier is doing, because it is not getting the information it needs to do its own research. A very high profile consultant has been employed at great cost to the industry to determine whether there is any way the industry can work with the government. But the government is running a sideshow, and it is not working with the industry at all.

Let us have a look at another group of people out there—the TAB owners. Although there are 280 TAB outlets in Western Australia, it must be remembered that a lot of those are at hotel venues that derive an income from them. Eight TAB agencies are currently for sale—Wembley, Bayswater, Fremantle, Applecross, Mandurah, Waterford, Victoria Park and Bunbury. Would anyone in here, given the decisions that have been made in this room, buy one of those agencies at the moment? No, because the Premier is saying that maybe it will not be sold today; maybe it will be sold sometime in the future. He should at least give those people a chance. Some of them have planned their retirements and some of them just want to get out and move on. They have been left in no-man's-land due to the Premier's inability to sell what he is going to do, or tell the people the truth. The minister is not game to stand up to the Premier. The minister had made many statements, but he has not backed up one of them. The Premier has ridden roughshod over the Minister for Racing and Gaming. The Premier should come out and tell the industry what his meeting with Tattersall's was about, what he will do with the TAB along the way and how he will do this. Is the Premier going to privatise the TAB or not? The spinoffs from this issue include whether Ascot should be sold—although we know it cannot be sold—whether Belmont should be developed or the racecourse sold and whether more money should be put into Pinjarra. All these issues have arisen because of the Premier's indecision and unwillingness to work with the industry.

Eminent people in the industry such as Fred Kersley have spoken to me at different times about their grave concerns. He has seen what has happened in South Australia. Some races on the east coast attract half the prize money of that on the west coast, which is backed up by our very good Racing and Wagering Western Australia system. I make the point that RWWA probably needs an overhaul, and I have no problem with that. RWWA has been in existence for so long that it is probably time to look at it. When stakeholders are racing for half the prize money, the owners and breeders will start to drop off. They are the lifeblood of the industry.

**Extract from *Hansard***

[ASSEMBLY — Wednesday, 13 August 2014]  
p5204b-5213a

Mr Mick Murray; Mr J.E. McGrath; Acting Speaker; Mr M.P. Murray; MR P. Papalia; MR C.J. Barnett

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We need leadership from this government, but it is sadly lacking. The Premier is coming around the turn in the Melbourne Cup and he is last by 100 yards and is hitting the whip, but he is not going anywhere. Tattersall's can see that the Premier is a plodder. It knows he does not understand the industry. The Premier should get someone who understands the industry and work with them. That is vital.

I will get back to what the government is doing to TAB agencies. It is similar to what this government has just done to the taxi industry. The Premier came out with a statement that devalued the taxi industry. The government is now devaluing TAB agencies in exactly the same way because of its indecision and a view that is short-sighted. The government has no long-term plan, and no-one is going to buy into it. The government has to look at what it is going to do.

Let us look at the key players in the Liberal Party on the racing game. We know that the member for South Perth has been involved in sporting journalism and other issues in the industry over the years. He is also a key player in the Liberal Party, because members will remember that at one time he had the power to remove a Liberal Party leader at a barbecue in his own home—he moved him on!

In the Legislative Assembly on Thursday, 15 August 2013, the member for South Perth stated —

I am not saying that we should sell off the TAB. I stress that point very strongly. I am not in favour of selling off the TAB; rather we should outsource the operations of the TAB, as has been done in most other states ever since Victoria did it in 1994.

On Thursday, 15 May 2014, the member stated —

I have had a number of calls from concerned stakeholders in the industry about privatisation and my advice to them has been: do not be spooked by misinformation.

What information? There is no information, which is where the problem stems from. Mr McGrath continues —

Yes, the Treasurer and the Premier have confirmed that privatisation of the TAB will be considered, but it is too early to start jumping to conclusions about possible impacts on the industry or building up defences against what might happen. Moreover, I believe there could be considerable benefits for the industry coming out of a privatised model.

The first quote was from *Hansard* on 15 August 2013 and the second on 15 May 2014. What a change! The member has kicked with the wind one week and kicked against it the next week. That is so off. The government is leading the industry the wrong way and not showing any leadership. The government is moving backwards on the whole issue: no, we should not sell, and then yes, we should! Where do people go? They do not understand what the government is doing. Why would anyone invest in an industry if there is no leadership at the top and they do not know what the government is going to do with that industry?

I am sure that many members in this place would like to speak on this motion. The member for Warnbro and the member for Armadale are getting the same sort of complaints about what this government is doing. One thing we do know, which is very clear, is that most people in the racing industry say that they have always been treated with respect under Labor governments and have always had funding under Labor governments. That is not the case under this government. There is no doubt that royalties for regions chucked a few bob around to the country tracks, but the city tracks have ageing infrastructure. One of the issues that came out of the Asian conference was that we must provide top entertainment precincts to attract people in today's world. If we do not, attendances will drop. One of the strong pointers to when Perth Racing started to go backwards was the police presence at the Perth Cup, when the attendance of young people dropped off. The attendance figures dropped from 40 000 people to just under 15 000 in the year just gone. We have to do something to stop that drop-off in attendance and to encourage people back through the gates. If the Premier cannot tell us the truth about what is going on with some of these meetings with Tattersall's, I do not know how we will get that confidence back in the industry.

As I said previously when the Premier was not in the chamber, I believe he is being set up for a fall by the National Party. National Party members are telling people they will block the bill in the upper house because they do not want to embarrass the Premier in this place. If I were the Premier, I would sort that out in the cabinet room very quickly. Maybe it is time he jettisoned them while he has the numbers. The Premier might be able to get rid of a few of them there. They certainly have not done a fair job for the racing industry.

A recent article by Jay Rooney in *The West Australian* reads —

... WA Racing Trainers' Association president Michael Grant said.

“We're very concerned the State Government isn't allowing RWWA to provide all the necessary information to us. Transparency is what drives the racing industry and that's all we're asking for.

“We know the industry better than anyone and we feel we need to be a part of the process.”

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That is where the government has fallen down. It has not brought the industry with it, and they are out the back wondering where they are going to go next. This is the Premier's baby. He is the one who wants to privatise the TAB. He has pointed the finger everywhere else. He has changed his tune so many times that people cannot follow where he is going. If this proposed sale is only to retire debt, what is the industry going to live on afterwards? If it is sold and the shareholders become the main stakeholders, we know what will happen in those companies—the share price will have to go up. The racing industry will be the loser, because the first thing Tattersall's will say is that it cannot give the industry that turnover tax. We should put the pressure back on the government, because that is where the problem will be. Tattersall's will not invest \$120 million out of its pocket, as RWWA does at the moment, to keep the industry going. RWWA has done a fair job.

I was surprised that RWWA publicly stood up and ran down the government's position. I am sure there was a nod and a wink between RWWA and the Minister for Racing and Gaming to allow that to happen, because a government agency coming out against government policy is unheard of—in most cases, that is, because we know what happens to a director general when that happens, as we have seen happen in recent times. I would say that RWWA did that with help from the minister, who does not have the gumption to stand up to the Premier and say, "We're not going to do this. This is a good model. It's held in the highest regard over Australia." That is without doubt.

I also attended a Magic Millions get-together and a number of trainers were there—Bede Murray, one of the top trainers on the east coast, as well as Colin Webster and Ross Price. I made an effort to walk around and ask all those trainers what they thought about the privatisation of the TAB in WA. They begged me to stand up and be counted and make the Premier understand what will happen to their industry in both breeding terms and the returns to government. There will be a short-term gain, but then we will have problems. I know that some of my colleagues are keen to follow on. The opposition wants to keep these two issues separate. The first is about the racecourses, which is an entirely different issue from the TAB. The issue with the TAB is straight up and down: is the TAB going to be privatised and at what price or will there be a backdoor deal done because Tattersall's has paid \$20 000 to have a meeting with the Premier? Will that group get the nod? What is the Premier going to do? When is the Premier going to come out and clear the air so that people in the Western Australian racing industry know what is going to happen in the future?

**MR P. PAPALIA (Warnbro)** [6.30 pm]: I rise to join the member for Collie–Preston in condemning the government for breaking its word on the privatisation of the Totalisator Agency Board. When I say that, the Premier looks questioningly at me across the chamber, but I have to say to the Premier that I and the member for Armadale, the shadow minister, are only repeating the concerns of the racing industry. We are not making this up. On Friday, I was at Larkhill Thoroughbred Training Centre to meet with a significant number of local trainers who operate at that track and to present to Chloe Azzopardi the inaugural award that I created to recognise the most diligent jockey who trains and works at that facility. She was selected by the industry, and I commend Chloe for her courage. I think that those quite small jockeys are incredibly brave for engaging in a challenging and dangerous pursuit that requires dedication, hard work and a great deal of risk. I am pleased that I will be providing that award annually. It was great to present to Chloe that inaugural award in front of some very respected and responsible trainers and participants in the industry there last Friday.

What I have to say, however, is that there is a deep feeling within the industry across Western Australia that the Premier has betrayed them. The member for South Perth's ears must have been burning on Friday because I also talked about him. I told the group assembled at Larkhill that there is probably no-one within the Western Australian Parliament who in the past was considered to be more of an advocate for the WA racing industry than the member for South Perth. I said that he is a respected individual and people knew that his heart lay with the industry. However, I said to them that the most significant indicator with respect to what the Barnett government is going to do through its grubby deals and its short-term thinking in the way of a sellout of the industry was the change in tune from the member for South Perth. When I said that, they all nodded. They knew what I was talking about because they know that there was a time when the member for South Perth stood in this place and defied any suggestion that the TAB should be sold—defended the TAB as a magnificent institution in WA that was responsible, as I am told, for distributing hundreds of millions of dollars in recent times throughout the industry. Last year alone —

**Mr J.E. McGrath:** It was \$120 million.

**Mr P. PAPALIA:** It was more than that; it was \$130 million in 2013–14, also returning to government, through the turnover tax, in the order of \$40 million. Here we have a magnificent enterprise that returns \$40 million to government and beyond to the industry, not to the deep pockets of some bloke living on the eastern suburbs of Sydney. It does not distribute to those guys with their views out over Sydney Harbour and down the harbour to the Sydney Harbour Bridge and the Opera House so that they can quaff their wine comfortable in the knowledge that the punters in Western Australia are keeping their wallets well padded. I am not talking about those blokes.

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Our money—the distribution of our money from our industry—goes directly to those thousands of people whose direct livelihood is derived from the industry in Western Australia.

**Mr M.P. Murray:** It's 30 000.

**Mr P. PAPALIA:** I am told that the figure is more widely 33 680 people who are directly involved in WA racing, with 6 737 working directly in the industry. Over 30 000-plus more widely, but 6 737 people working directly in the industry are looking with very suspicious eyes at the member for South Perth. They know the fix is in. They know that there have been secret meetings between cabinet members and secret meetings between the Premier and people who would seek to buy this industry and take all of the profits to the east coast, which would result in a massive redirection of the money that currently goes to the industry. What happens with that money now? Where does it go? The member for South Perth knows that money does not go predominantly to the metropolitan area. The vast majority, 55 racing clubs, are small operations out of the city, in the regions, that get money to maintain their tracks and facilities and to support their local communities and economies through TAB distributions. What has happened elsewhere in this country when the equivalent of the TAB in those states has been sold? Invariably the returns from the industry have diminished. What will happen with the distribution? It will become completely bankrupt, as happened in Tasmania through the grubby deal done between the Premier in that state and the Tatts representatives, and resulted in a complete collapse of the industry there. Member for South Perth, what happened in South Australia? I have been told by the professionals in the industry in South Australia that the big operators are packing up and leaving because they just cannot make a living. The trainers are leaving that state because the returns to the industry, the distributions to the industry, have collapsed. The member for South Perth knows that is true; that is the case.

**Mr J.E. McGrath:** That is not true.

**Mr P. PAPALIA:** It is the case, member for South Perth. He does not have to convince me. He will have to look into the eyes of the people who formerly respected him as one of the defenders of their industry and tell them honestly that he believes that this is the right thing to do. The member for South Perth knows that it is not. He knows what was happening. Up until very recently, he was having those barbecues; he was having another set of barbecues. He had those barbecues in the past that resulted in a couple of changes and he had more, but then the horse that the member for South Perth was backing had a complete breakdown in the middle of the track! That horse broke down and the member for South Perth—a very big jockey—has been left without a horse. The member for South Perth has been compelled to sell his soul, because the member for South Perth knows that the Premier, the economic vandal that is the member for Cottesloe, has driven state net debt from \$3 billion to \$24 billion this year and towards \$30 billion, with no plan to tackle it. There is certainly no plan for any sales of assets in relation to the railway. We have heard that any assets that are going to be sold will just go into paying for that new debt. There is no plan for tackling debt. The Premier will have to grasp around desperately to sell what few assets are available.

It has been suggested to me that this industry might sell for a few hundred million dollars. It would be an absolute travesty if all we got in return for the sale of this industry—because that is what is going to happen; the member for South Perth is going to sell out the industry—is this tiny drop in the ocean of the huge state debt that his government through its incompetence has racked up. If that is all we will get, that will be a travesty. The member for South Perth knows that when an industry has been bought out like this in other parts of the world, not only do the distributions drop away, but also a profit-driven enterprise immediately wants more profit. The owners and shareholders want more profit. They do not want distributions to grow—and distributions in Western Australia have grown. In Western Australia, Racing and Wagering Western Australia has overseen a growth in turnover of eight per cent between 2010 and 2013, whereas on the east coast the comparative growth was one per cent. RWWA has grown that and then distributed it, so the growth in comparative distributions has also occurred. The member for South Perth knows that.

As we heard earlier, there is an argument about whether the TAB has distributed \$120 million or \$130 million back to the racing industry. Members will tell me that it is \$130 million. It grew from \$106 million in 2008–09. The minister would not dispute that. It was \$106 million in 2008–09 and it is now in the order of \$120 million. That is pretty significant growth. The minister knows that a private enterprise will not grow the distribution; it will grow the bit that goes back to the eastern suburbs of Sydney to pad the wallets of the blokes sitting by the harbour. That is their only objective. They do not care about the regional race clubs or the little regional towns where a lot of other people use the racetracks and the trotting tracks. The football clubs use them in the off-season. Shows are held in the facilities. Those are the sorts of things that do not count to a private operator based in Sydney on the east coast.

**Mr J.E. McGrath:** There are no country racetracks in New South Wales; they have all closed.

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**Mr P. PAPALIA:** I am glad that the member said that; he is supporting my argument. The precipice is getting closer. I am saying that that will occur.

**Mr J.E. McGrath:** It is wrong.

**Mr P. PAPALIA:** Okay. The member for South Perth should stand and look those people who trusted him in the eye because they do not trust him now. He knows the sort of people I am talking about whom I met on Friday. There were about a dozen people there. They were all trainers who had been in the industry for a long time. They do not trust the member. They do not trust what this government is doing. They do not believe that the government has their best interests at heart. If that is wrong, the government should come out and say that it will not sell the TAB. If there is going to be a study of the value of the TAB and the potential return from it, it should be absolutely transparent, unlike every single study to which the government refers in the public transport arena. The minister cowardly sat opposite, incapable of giving us any transparency at all in relation to billions of dollars' worth of taxpayers' expenditure. I would like to see some transparency. I would like the Premier to tell us what he was speaking about with those private operators. He should not have secret meetings about one of the great assets of Western Australia's community.

**Mr C.J. Barnett:** Sorry; I was out of the chamber but as I walked in, you were talking about secret meetings. For my benefit, can you tell me what secret meetings you were talking about or were referring to?

**Mr P. PAPALIA:** There are concerns that the Premier has been meeting with Tatts representatives and having secret meetings about the sale of the TAB. Has the Premier had meetings?

**Mr C.J. Barnett:** I want to know what secret meetings we were talking about.

**Mr P. PAPALIA:** They are the secret meetings I am talking about. I am glad the Premier confirmed that. Other political parties have also been having meetings. My concern is that they are secret as well. The only people who are not in on the secrets are the people who are directly affected by this industry and are completely behind retaining the TAB in the state's hands. Those people do not know what is happening at the secret meetings. Those people are being told in some quarters that the Premier will be stopped and that any plans he has for the sale will be stopped in the upper house, as outlined by the member for Collie-Preston. Other quarters see indications of a sellout by a very small number of people in the racing industry who have decided, for whatever reason—perhaps due to some inducement through promises that the Premier has again made in secret—that they will come out on behalf of the Premier and support his call for the sale of the TAB because maybe the Premier made them a little promise. The vast majority of people in the industry do not agree with those people.

**Mr C.J. Barnett:** What is this alleged promise? Please educate me.

**Mr P. PAPALIA:** I do not know. All I am saying is that it was a secret meeting. I do not know what the Premier said in his secret meeting with Perth Racing. I do not know what commitment he gave to Perth Racing, which suddenly changed its position. I do not know why Perth Racing suddenly abandoned the entire racing industry that had been unified in its opposition to the sale of the TAB and started to make sounds that it might be supportive. I do not know why that was. The Premier should tell me. The vast majority of those 30 000-plus people who care about this industry and who want to keep the TAB in state hands want to know what is really going on. They do not trust the Premier or the minister at the moment. They do not trust some of the other people that they used to trust. It is appalling. The only way to regain that trust is to be open, honest and transparent and engage with people in the industry and tell them what is planned. If that is what the Premier has planned, to sell it out at a fire sale and for the future of this industry to be put in complete jeopardy as a result of his short-term mismanagement, he should tell them that that is what he has planned, because they deserve to know. These are good people and they deserve to know that.

**MR C.J. BARNETT (Cottesloe — Premier)** [6.45 pm]: I am just going to make a few brief comments because there are members on this side who are closer to the industry than I am and who have more knowledge, and they will talk about some of the issues that the industry faces.

I confess that I am not a great follower of the racing industry and I do not pretend to have detailed knowledge but I did grow up in a household in which my father's greatest passion in life was horseracing. He was extremely knowledgeable. He had a punt on Saturdays—probably 10 bets at \$5 each because he was not a wealthy man. His knowledge of racing, horses, breeding and jockeys was exemplary. Although I do not follow the racing industry and I am not a punter, I grew up in a racing household. As a young boy I was dragged around to not only Ascot and Belmont but also Helena Vale, York, Northam and Toodyay—to every country race meeting. Even though I was not an enthusiast—I loved the horses—I absorbed a bit of knowledge about the industry and its people.

My father always said that he had more faith in the jockeys than the horses. As a young man I remember him supporting Damien Oliver as an apprentice. I presented the last Perth Cup to Damien Oliver, who rode the

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winner. I cannot remember the name of the winner; the expert does not know either. I was having a chat to Damien Oliver and telling him how my father admired his skill as a jockey. He followed Damien and he always had a bet if Damien was riding the horse. I have a bit of background knowledge of the industry and what drives it.

With respect to the TAB, if we had a clean sheet of paper and we were forming government today, would government have a betting agency? Probably not. It is not a natural, logical function of government to run a betting agency. That is the reality. No modern government would decide that it needs to be a bookmaker. However, the history of the industry is that is the way it has evolved so we have to deal with the reality.

Members opposite talked about secret meetings. I have been told today that apparently I had secret meetings with Perth Racing. That is not true; I have had no meetings with Perth Racing, none at all. A lot of rumour and innuendo is going around the industry.

In the precursor to the Liberal conference, Liberal members of cabinet met with a group of about 15 different organisations, companies, lobby groups and the like. One of them was Tatts.

**Mr P. Papalia:** How much did they pay for the privilege?

**Mr C.J. BARNETT:** I do not control that; I literally have no idea. Any political party has supporters and groups. Those meetings were transparent; they were entirely proper. Some 15 different companies came along and simply made a presentation about themselves, about what they were doing and about their aspirations.

**Mr M.P. Murray** interjected.

**Mr C.J. BARNETT:** The member should grow up a little bit.

To my knowledge, Tatts does not have a presence in Western Australia; it came along and simply described its history as a company. It talked about the sorts of areas it was involved in. Ministers here can verify that. It made a professional presentation at a corporate level to Liberal members of cabinet, as did other companies from a range of different industries, and lobby groups.

**Mr M.P. Murray** interjected.

**Mr C.J. BARNETT:** No, we conduct ourselves with propriety, unlike the Labor Party.

Several members interjected.

**The ACTING SPEAKER (Mr N.W. Morton):** Members!

**Mr C.J. BARNETT:** Mr Acting Speaker, I am happy to make a contribution, but I will not if these clowns opposite will not treat this topic seriously. It is a serious topic and it should be debated in Parliament.

Several members interjected.

**The ACTING SPEAKER:** Member for Collie–Preston, you have made your contribution. I have given the call to the Premier.

**Mr C.J. BARNETT:** I will make one comment with respect to the meeting with Tatts Group. It simply presented its company credentials, what it was doing and its arrangements. There were no negotiations, but the two issues were the future of Lotterywest—the Lotteries Commission of Western Australia—and the future of the Totalisator Agency Board. I made it very clear that Lotterywest would not be privatised, so members can forget that.

**Mr M.P. Murray:** You said that about the TAB!

**Mr C.J. BARNETT:** Those were the two issues that were discussed.

Several members interjected.

**The ACTING SPEAKER:** Members, please.

**Mr C.J. BARNETT:** I will happily sit down and we can conclude this debate, but if members opposite actually want a serious response, maybe they will listen.

Tatts runs lotteries, TABs and probably some other businesses. It is a diversified and very successful company. I made it very clear that the state government was not in any way contemplating selling Lotterywest. We are the only state that has a government-owned state lottery from which all the proceeds are returned to the community through health, sport, the arts and community grants, so that was the end of that conversation.

I made the point that we were considering the future of the TAB and that we would consider whether it would be privatised. I made the government's position clear, and that is on the public record. There was nothing new or secretive about that at all; it has been my public position for some time. I think the member referred back to 2012

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or whatever it was, and the issue of the TAB came up. I do not know how the rumour started—maybe members opposite can educate me on that—but there was a rumour running around on a weekend in 2012 that the state government was going to sell the TAB. I remember it well because I was out in my ute in the paddock, feeding the sheep. I had the radio on and I heard that, so I rang up Bob Maumill on 6PR and I said we were not selling the TAB, and we were not; there was no consideration of that at all. I do not know who started that rumour.

We have now moved on two or three years, and we are looking at a range of potential privatisations, and the TAB is one of them. Let me make it clear, as I have said publicly: there will be a first group of privatisations, and the TAB will not be amongst them. I can say quite clearly today that if we make a future decision about the TAB, it will not be during this calendar year.

Several members interjected.

**The ACTING SPEAKER:** Members!

**Mr C.J. BARNETT:** No decision has been made about the TAB, but there will be, and we have been very open about that. We will consider the future of the TAB, but it will not be amongst the first three or four privatisations. They alone will probably take a couple of years to roll out. The TAB is not for sale, but we may consider that in the future. Some of the issues raised are —

**Mr P. Papalia:** Shameful.

**Mr C.J. BARNETT:** Well, honest. Refreshing for the ALP, I would have thought.

**Mr P. Papalia** interjected.

**The ACTING SPEAKER:** Member for Warnbro!

**Mr C.J. BARNETT:** There are issues about the TAB and there are issues about the racing codes—the gallops, the trots and the dogs, and their funding. There is no doubt about that; that is perfectly true. There are issues about the franchise holders; we are very conscious of that, and when we look at the TAB, we will discuss the issues and consult—whatever the opposition likes—with all those interested parties. Other members will probably say a little more about this, but the opposition is focusing on the TAB; fair enough. It is not a logical role of government, but the government happens to own it —

**Mr P. Papalia:** Like lotteries.

**Mr C.J. BARNETT:** Lotteries are, because we care about the people of Western Australia.

Several members interjected.

**The ACTING SPEAKER:** Members, there are about six minutes left for this debate. It has been heard in relative silence so far and I would like to see out the last few minutes of today's proceedings in the same fashion.

**Mr C.J. BARNETT:** The environment in which the TAB operates is vastly different from what it was 20 or 30 years ago. I can remember when dad took me to the races that there would be 15 000 to 20 000 people there. How many are there today? Maybe 2 000 if they are lucky. That World War II generation liked their footy and they liked their horse racing, and they would have a punt on a Saturday. Today there is a whole range of different entertainment opportunities, including television and fixed price betting. The world has changed, and racing has found itself somewhat left behind.

**Mr P. Papalia** interjected.

**The ACTING SPEAKER:** Member for Warnbro!

**Mr C.J. BARNETT:** Some of the issues that have been flushed out in this debate needed to be flushed out, including the racing industry, by which I mean the gallops. Can the racing industry seriously afford to run both Ascot Park and Belmont Park? I would say, with only 2 000 people turning up on a Saturday, that it cannot. That is a realistic issue to look at. Can the trots continue to run Gloucester Park, which is prime real estate? It is probably losing money. Greyhound racing no longer has a facility. What is good about this debate is that it is not simply about the TAB, but about modernising the racing industry. I do not pretend to be an expert, but a lot of studies have been done and there has been a lot of debate, and maybe we should have only one prime race track in the Perth metropolitan area. I do not know whether it should be Ascot or Belmont, but I do not think there is room for two anymore, when we are getting only 2 000 people turning up on a Saturday. That is the financial issue for the racing industry, more so than what will happen to the TAB. Can we afford to have greyhound racing and trots separate, when in other parts of Australia they are combined in one facility? Maybe that makes a bit of sense, and that has been forced out into the open by this debate.

**Mr P. Papalia** interjected.

**Extract from Hansard**

[ASSEMBLY — Wednesday, 13 August 2014]

p5204b-5213a

Mr Mick Murray; Mr J.E. McGrath; Acting Speaker; Mr M.P. Murray; MR P. Papalia; MR C.J. Barnett

**The ACTING SPEAKER:** Member for Warnbro, there is only four minutes to go. I am going to call you to order for the third time. I have asked on numerous occasions for this to be heard in relative silence and you continue to interject.

**Mr C.J. BARNETT:** Yes, this motion is about the TAB, and I do not criticise that; I think it is important, but it has sparked a wider debate around the racing industry. We are not living back in the 50s, 60s and 70s; it is the 2010s and the industry no longer attracts the crowds, the participation and the betting because there are so many alternatives. Some of the practical people in the racing industry have realised that the TAB is one issue, but there is an even bigger issue, which is the future of the thoroughbred and greyhound racing industries, and this government is up for dealing with the industry to modernise horseracing, the trots and greyhounds. I hope people in the industry are also up for it, because those codes are not making any money; in fact, they are losing money. They have an industry that has had great days in the past, but it is losing money and could well fail. It would be a negligent government that simply stood back and let the horseracing industry in this state fail. We are not prepared to do that, so we are prepared to look at the future of the TAB. Who knows, if the TAB is sold, it may generate a large amount of money and it may well fund a modernisation of the industry. There are sensible people in the industry who can rise above the pettiness of members opposite and look to a long-term future. Grass tracks are beautiful, but maybe we need all-season, all-weather tracks, and maybe there is an issue for the safety of jockeys also, and fewer horse falls. There are a whole lot of issues there, and at least this government has members with some real background, such as the members for Belmont and South Perth, who know this industry intimately.

**Mr M.P. Murray:** The member for Belmont's been silent the whole way through!

**Mr C.J. BARNETT:** Well, just wait, because the member for Belmont will speak in this debate and tell members opposite something about this industry. The member for South Perth will tell them something about the financial problems that the industry faces, and the Minister for Racing and Gaming will tell them that this state government is prepared to take on the real issues of the industry.

**Mr M.P. Murray** interjected.

**The ACTING SPEAKER:** Member for Collie–Preston, there is a minute to go.

**Mr P.B. Watson** interjected.

**The ACTING SPEAKER:** Member for Albany, I call you to order for the second time.

**Mr C.J. BARNETT:** This debate is not going to finish today—no way at all.

Mr Speaker, we are willing to take on the serious issues. As I said, I am not a racing person but I have some sentimentality to my father who loved this industry and was knowledgeable.

**Mr M.P. Murray:** Did he ever back a winner?

**Mr C.J. BARNETT:** He did. His best bet—I think it was Arwon—won the Caulfield and Melbourne Cup double. He put \$1 on and he won \$2 000, which was a hell of a lot of money at that time. He kept meticulous records and he could demonstrate that he won every year.

Debate adjourned, pursuant to standing orders.

*House adjourned at 7.00 pm*



**Mick Murray** Member for Collie-Preston; Shadow Minister for Regional Roads, Racing and Gaming, Forestry, Southwest, Agriculture and Food [donate \(/donate\)](#)

## Standing for a strong Collie-Preston

### Shadow Minister: Barnett must listen to industry concern over TAB privatisation

Thursday 14 Aug 2014

#### Fast Facts:

- Key racing industry figures are concerned over the Barnett Government's plan to privatise the TAB
- The Premier and Racing and Gaming Minister appear to be at odds over the sale of the TAB
- The Premier must end the uncertainty and explain his plan for an asset that returns more than \$40million a year to the Government

The Barnett Government must listen to industry concerns about the privatisation of the TAB before pushing ahead with the asset privatisation plans.

Representatives from all major racing codes have voiced their opposition to the possible sell-off of the TAB citing the uncertainty of returns to the industry from a private operator and the poor standing of racing in other states that have privatised betting agencies.

Premier Colin Barnett said that the TAB is on his asset sell-off radar while Racing and Gaming Minister Terry Waldron said just last month while no decision had been made, it was probably not in the best interests of the State to privatise the TAB at this stage.

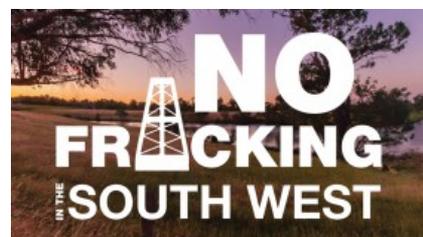
Key industry players are concerned about the future of racing in Western Australia if the TAB is privatised. WA Labor would not sell off an asset that returned more than \$40 million a year to the Government.

Comments from Shadow Minister for Racing and Gaming Mick Murray:

"There are conflicting messages from the Premier and Mr Waldron about the future of the TAB and both need to come clean on the Government's plan.

"There may be grounds to examine how Racing and Wagering WA is run and to look at ways to reduce costs in that area. However, the privatisation of the TAB would not be in the best interests of racing in WA.

"The TAB gives the government a guaranteed income stream and some of that funding gets put back into industry improvements. It doesn't make sense to sell off an asset that is providing income and supporting its base at the same time."



[\(/nofracking\)](#)



<http://markmcgowan.com.au/jobsfortheregions>



<http://www.waijobs.org.au/>

**Extract from *Hansard***  
 [ASSEMBLY — Thursday, 21 August 2014]  
 p5726c-5729a  
 Mrs Glenys Godfrey; Mr Terry Waldron

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**TAB — PRIVATISATION**

*Grievance*

**MRS G.J. GODFREY (Belmont)** [9.09 am]: My grievance today is to Hon Terry Waldron, MLA, Minister for Sport and Recreation; Racing and Gaming. Many people have contacted me concerned about recent media reports and speculation surrounding the future of the Totalisator Agency Board, which is more commonly known as the TAB. Although I covered this issue yesterday, I wish to raise it as a grievance. At a recent visit to the Belmont and Ascot tracks, accusations were stronger than usual that the sale of the TAB was imminent, and my grievance today relates to the sale of the TAB.

Many of the uninformed and negative comments I have read in the media and other sources, and from some members in this place, amount to nothing more than the claim that there is no reason for government to be involved in the gambling business. This is an over-simplified statement about an industry that employs thousands of people. That statement does not reflect the employment, sporting, entertainment and tourism potential that this industry holds. Should the sale of the TAB be up for discussion, members of the industry would appreciate being involved in a thorough and balanced debate, rather than leaving everything to shallow comments. After all, it is the future of their livelihoods at stake. Another argument that concerns me is that Western Australia should sell the TAB simply because it is what other states have done. This argument is often put forward without any discussion about what those sales have done to other states' local racing industries. Western Australia is very different from the eastern states geographically and its structure of betting. Lotterywest and the TAB, although controlled by government legislation, provide a large social dividend to the Western Australian community. Two differences are that WA does not have pokies and the racing industry provides the third-largest sporting attraction.

The sale of the TAB would be a short-term gain for long-term pain. It is my understanding that over the past 14 years at least three investigations have been made into the racing industry and two more are currently being prepared. In 2000, the first report from an independent committee chaired by Mr Ray Turner, AM, included a recommendation for a whole-of-industry governing body to be established by statute. The framework of governance that was recommended was to provide the racing industry in Western Australia with greater cohesion and the capability to develop a strategic direction. This resulted in the formation of the current Racing and Wagering Western Australia, which is known as RWWA. In 2010, the Joint Standing Committee on the Review of the Racing and Wagering Western Australia Acts conducted a second inquiry. Its report had 92 findings and made 53 recommendations. I ask the minister: which of these findings and recommendations have been implemented? In 2011, there was a third report entitled, the "WA Racing Economic and Social Impact Report". This report was prepared for the entertainment and racing industries by IER, which is a leading independent consulting and economic research firm with extensive experience in the area of economic and financial assessment. The facts from this third report are: the direct expenditure of the WA racing industry is \$550 million, which includes producing racing animals through breeding and rearing; preparing racing animals, as in training; on-course customer expenditure, including admission charges, food, beverage and race book sales, hospitality and memberships; and off-course customer expenditure, including accommodation, transport and entertainment linked to race attendance. The total number of Western Australians who work in the racing industry is approximately 33 686 people. State government tax revenue from wagering was \$34 million and the goods and services tax paid on wagering revenue was \$24 million. That is an ongoing income stream that this government has benefited from and one that future governments should also have access to.

Belmont is the home of thoroughbred horseracing in the metropolitan area. The residential buildings and stables at Ascot have been heritage listed, as has Ascot Racecourse. In Belmont we are proud of our history of horseracing and there is a racehorse in the crest of the council's emblem. Due to the importance of horseracing for economic and employment reasons in the area, I have invested a considerable amount of time since being elected to talk to people involved in horseracing and to listen to their concerns about the industry. Horseracing is not just about gambling; it is a sport. It is entertaining and it pays its own way. When I travel overseas to Singapore and Hong Kong, I always enjoy attending the thoroughbred races. They are promoted on airlines and at airports, tourist centres and hotels. The races offer a wonderful experience for tourists, including being picked up from and returned to their hotel, buffet meals and good seating. I am told this is similar to experiences in Kentucky in the United States, Ascot in England and Longchamp in France. If selling the TAB means reduced investment in racecourse infrastructure, we are missing a great tourism opportunity to promote Western Australian to Asia. I have attended the Sydney Easter carnival, which involves two race meetings and several other events. It is promoted on the airlines and makes a wonderful week's holiday in Sydney. I am yet to be convinced by the current style of the TAB advertising. Marketing of the metropolitan events needs to be improved to increase attendance figures. The current system works well; however, a closer link between Tourism WA and the racing industry would be beneficial. Minister, what is being done to promote racing on the WA tourism agenda?

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 Mrs Glenys Godfrey; Mr Terry Waldron

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Eastern states' governments have changed the structure of their racing industries. The effect that these changes have made to the industry and the community is not clear. South Australian veteran racehorse trainer Leon Macdonald has warned of dire consequences if the WA government decides to sell the TAB.

Western Australia has geographically the largest racing jurisdiction in the world, and regional race clubs are its lifeblood. Any government that operates in a fiscally challenging environment may consider the sale of assets as a means to strengthen the economy, but the TAB is not an ordinary asset. The TAB provides our budget with an ongoing income stream worth millions of dollars. Although I strongly oppose the sale of the TAB, I appreciate that it is something that the minister may consider. Should the minister do so, I ask that he consult with the industry and its many stakeholders to make it financially viable.

**MR T.K. WALDRON (Wagin — Minister for Sport and Recreation)** [9.16 am]: I thank the member for the grievance. I know that she has a great interest in the industry, which she talked about last night and again this morning. The first point I want to make is that the TAB has not been sold. The Premier reiterated that there has been no decision to sell the TAB. The Treasurer announced that because of state debt, the government would look at an orderly sale of some state-owned assets in his budget speech. As part of that process, the government will be undertaking a strategic review of state-owned assets including the TAB. However there are complexities involved and a lot of the issues the member mentioned need to be taken into account and considered. Consideration of the sale of the TAB will not come up until the second tranche of asset sales, which will not be before 2015. In the meantime, we are doing a lot of work with Racing and Wagering Western Australia and it will go through that. Since the Treasurer's budget speech, he and I have met with and discussed the issue with Racing and Wagering WA, which is the owner of the TAB and the peak body that represents racing. We also meet with the Premier from time to time to keep him informed about what is happening in the racing industry. I completely agree with the member for Belmont that the industry needs to be consulted as part of the process. I have already been doing that. I consult with the major stakeholder, RWWA, on a regular bi-weekly basis. RWWA has continued to meet with Treasury officials and other parts of government as part of this process.

I have stated lots of times in Parliament and am on the record as saying that I would only ever support the sale of the TAB if it were in the best interests of the racing industry and the community. I need to be convinced of the benefits to the industry before I would support the sale. I will continue to advocate for an outcome, whether or not it is the sale of the TAB, that produces a sustainable future for the racing industry. This is not so much about the sale of the TAB; it is about the future of the racing industry. As I said last night, the racing industry has been through some torrid times with outbreaks of equine influenza and the impact of the global financial crisis. During my time as minister, the commercial environment has rapidly changed and presented lots of challenges. Under the leadership of Jeff Ovens, his board and chief executive officer Richard Burt, the racing industry has weathered the storm. Turnover and distributions have steadily increased, producing jobs, economic development and, of course, taxation returns of about \$42.8 million to WA taxpayers. The TAB is performing well. It has grown by over 30 per cent in the last five years and turnover has increased from \$1.6 billion to \$2.143 billion in 2013–14. It is performing well and that is why we need to look at all these issues before a decision is made. The member raised the issue of other jurisdictions that have privatised their TAB. She is right; there are important lessons to be learnt from privatisations in other jurisdictions. They have all gone about it in different ways and each one has produced varying outcomes for its respective racing industry. It is important that before any decision is made, we understand this properly.

The member for Belmont also referred to country racing, which is very close to my heart. There are 55 race clubs in WA; some 52 of those are in regional areas. Let me assure members that country race clubs will play a really important part in any decisions. On a weekly basis, I see in country communities the importance of our race clubs for not only the racing industry but also those communities. The member also mentioned aspects such as tourism and entertainment et cetera. We want to make sure and I in particular need to be convinced that any sale will be—it needs to be—in the best interests to maintain those racing clubs into the future. We provided a boost to the industry. The member talked about tourism, and country race clubs were recently provided with \$2.25 million from royalties for regions to boost tourism and highlight the fantastic benefits that our country cups, such as Broome, Kalgoorlie and Bunbury, bring to regional WA. We have seen performances by Jimmy Barnes, Icehouse and Paul Kelly wrapped around these events, which has made a terrific difference to those events. We are very aware of tourism and are proactively working in that area.

The member also raised the government's response to the 2010 parliamentary joint standing committee's review of Racing and Wagering Western Australia. People may remember —

**The SPEAKER:** Hold on a minute, please. Members who are talking, please go outside and have your meeting.

**Mr T.K. WALDRON:** The government response tabled in 2011 outlined that many of the initiatives recommended had been implemented. Many others have since been addressed and we are now in the process of

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finalising the draft of the legislation to make some future legislative changes, so that has happened and is happening.

The Premier said that before we do anything, we need full consultation. As racing minister, I have already been doing that on behalf of the government. As well as meeting with RWWA regularly, I have met with various people from industry groups about the privatisation issue. That includes the recent alliance established by the industry itself, which is exclusive of RWWA, that includes racing luminaries such as Fred Kersley, Ron Sayers and David Simonette. These are people who I have worked with quite closely, who I admire greatly and whose opinions I take very seriously and take on board. I have to say that my discussions with them have been really beneficial, and, like myself, they are keen to ensure that the industry continues to have the opportunity to grow and develop. I have also met with people from TAB agencies about the issues that they will face should the TAB be privatised.

It is really a complex issue; it is not simply a decision to sell the asset and get on with it. We have to keenly and properly look at all the financial, social, economic and employment issues that surround this matter. I reiterate that, as racing minister, I will need to be convinced that privatisation of the TAB will be in the best interest and that the industry will be strong into the future. Our government will do the work to ensure that we have the right information to make the right decision that is in the best interests of the industry and the community. I reiterate that we need to continue the process we are going through. However, let us not jump the gun: the TAB has not been sold.

# Libs and Nats set for war

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The Sunday Times · 7 Sep 2014 · JOE SPAGNOLO

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WAR was officially declared yesterday between the Nationals and their governing partner, the Liberal Party, over controversial city local government mergers.

The National Party voted to torpedo Colin Barnett's plan to cut the number of Perth councils from 30 to about 14.

The Sunday Times revealed last week the Moora branch of the party was preparing to put forward a motion that the party "withdraws support from the metropolitan local government reform process".

Yesterday, the party passed the motion at its state conference in Margaret River.

The Nationals also voted yesterday to oppose Liberal plans to sell off the TAB – part of Mr Barnett's \$6 billion asset sale considerations.

The decisions signal the biggest fracture in the Nationals' alliance with the Liberals since 2008, and certainly the greatest rift since Terry Redman became the country party's leader last year.

Mr Redman said yesterday the Nationals had been willing to support city council amalgamations as long as country local government authorities were not touched.

But the Liberals had made noises about also targeting country areas, he said – infuriating the Nationals.

"While the public commentary remains that the bush will be next, the National party will withdraw support for amalgamations in the metropolitan area," Mr Redman said.

Liberals believe they can push through their local government reforms without support from the Nationals.

But a National party source said that would change if the Liberals needed support for forced amalgamations.

This week, Local Government Minister Tony Simpson is expected to receive the long-awaited recommendations from the Local Government Advisory Board.

**Extract from *Hansard***  
 [ASSEMBLY — Wednesday, 10 September 2014]  
 p6013b-6015a  
 Mr Mick Murray

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**TAB — PRIVATISATION**

*Motion*

Resumed from 20 August on the following motion moved by Mr M.P. Murray —

That this house condemns the Barnett government for breaking its word in relation to the privatisation of the TAB.

**MR M.P. MURRAY (Collie–Preston)** [4.00 pm] — in reply: What a change we have seen since the last time I spoke on this motion. The member for Belmont became very organised and gave a nicely written speech, which I am sure she had a lot of help with, in which she stated —

The sale of the TAB would bring a short-term gain for long-term pain.

We will see the truth at the end of this; we will see which way the member for Belmont votes.

Do I have 35 minutes, because I can use it?

**The ACTING SPEAKER (Mr N.W. Morton)**: Yes, you have 35 minutes.

**Mr M.P. MURRAY**: Wow! I will not rush half as much as I was going to. To be fair, I thought I had 10 minutes left in my speech. You had better check that with the Clerk.

**The ACTING SPEAKER**: No, member, you have 34 minutes. You are in reply and rounding out the debate on this motion.

**Mr M.P. MURRAY**: That changes things a little; maybe I can slow down a bit.

In the last couple of weeks I have seen one of the biggest shuffles of policy on the racing industry ever to happen, mainly on the part of the National Party. The National Party has been the greatest windsucker we have ever seen. It has said it all and no doubt when it went into its meeting, a gust of wind came out of that door that no stable would have ever withstood. Anyone who knows about windsuckers would know what I am talking about. The National Party is just full of it—full of wind. As the National Party went down to its conference, it said it would do wonders with the TAB. However, the National Party came back and it was out of wind; it had left it all in the party room. There was an explosion of sorts in that room and the wind was out—out of their sails and out of everything else that we know of. What do I mean by that? The National Party had a position that was very strongly reported in the press that it would oppose the TAB sale. I know what has happened; just like the proverbial tea bag, the Premier has come in and given them a jiggle. It was just a small jiggle and out of the tea bag came all the gunk, which went to the bottom of the cup; the National Party forgot what it went down there for, and that was to oppose the sale of the TAB.

On the way back up from the south west, the National Party got a different position. That position has an “if” on it—“if it suits us and local and country racetracks”. What a selfish position! The National Party is selling out the people in Ascot and Belmont. The National Party is selling them out because it has gone forward and put its selfish spin on this, when the whole thing is about the whole of the racing industry in Western Australia. It is not about one small part of it.

Several members interjected.

**The ACTING SPEAKER**: Members! There are a lot of interjections across the chamber, which makes it very difficult for Hansard. The member for Collie–Preston has the call and I would like to hear the member for Collie–Preston.

**Mr M.P. MURRAY**: How can we believe that the National Party will stick with that position when it changes by the day? As I have said before in here and in the previous part of my speech, it is about where it was headed. What did the National Party say to people in the industry? It told them not to worry about it and that it would not embarrass the Premier by voting against the bill in the Assembly, but it would block it in the upper house and move amendments so that country racing will be well assured and looked after. What a terrible thing to do to an industry! To put a split down the middle of a very, very strong industry that employs over 30 000 people directly and indirectly is a terrible thing to do. The member for North West Central will be at the Carnarvon Cup. I heard he has won a couple of cups up for his riding; he has done pretty well from what I hear. We will look at what happens to this industry; once it splits, it will be the old story of conquer and divide. Who will win if there is a development that means the moneys go mainly to country race areas? In talking about the country areas, I can tell members —

**Mr T.K. Waldron**: Can I say one thing?

**Mr M.P. MURRAY**: No, the Minister for Racing and Gaming cannot say anything; he had his say before. He has had plenty of opportunities to speak and it is all wind, as we know. The Minister for Racing and Gaming is the windsucker of the midwest. The secretary of the Country Racing Association of WA, John Biggs, said —

**Extract from *Hansard***  
 [ASSEMBLY — Wednesday, 10 September 2014]  
 p6013b-6015a  
 Mr Mick Murray

“We believe it would have an enormous effect on the racing industry, particularly the small community clubs throughout the State which don’t present a lot of turnover or a lot of investment as far as TAB is concerned,”

He went on to say —

“The small clubs that don’t present a turnover or a profit to the TAB are ... going to be the first ones to be affected,”

The final quote in this article from the *Kalgoorlie Miner* of 1 September 2014 is from the minister —

Racing and Gaming Minister Terry Waldron said he would only support the sale of the TAB “if it were in the best interests of the racing industry”.

Again, it was a change of position. We do not know where this minister sits. Then we pick up *The Sunday Times* of 7 September 2014; it stated —

The Nationals also voted yesterday to oppose Liberal plans to sell off the TAB—part of Mr Barnett’s \$6 billion asset sale considerations.

That is not entirely true, because it did not put the limitations put by the National Party. Then we move to the *North West Telegraph*. I am sure the member from up Carnarvon way would have looked at this; I am not too sure as it may be a bit too far into the Pilbara. The article states —

Port Hedland Turf Club president Arnold Carter, who runs six races a year including the Hedland Cup, said he was against the sale of the TAB and the State Government would have to show him some dramatic figures to change his mind. “Once you go into private hands, you don’t know how much they are going to take off before you get a distribution point,”

That is the problem. We come back to: what is being promised around the place? I believe that Tabcorp has been meeting with certain people within government and industry. I refused requests for meetings from the Tatts Group Limited because I believe our position is so clear that we do not need to meet with it. Our position is a total no to the privatisation of the TAB. It was well put on the steps of Parliament by our leader, Mr Mark McGowan, the other day. We know our position and we will stick by our position; we will not put two bob each way like the National Party, which is full of all the wind in the whole world and no substance. We will not be a tea bag that is jiggled around in a cup so that all the goodness runs out of it. We will not sell out the whole industry for the sake of retiring some debt that this government has incurred. The government must find its own way, leave the TAB alone, and get on and do the job properly. We will help the industry go forward, not backwards, as the government proposes.

*Division*

Question put and a division taken, the Acting Speaker (Mr N.W. Morton) casting his vote with the noes, with the following result —

Ayes (19)

Ms L.L. Baker  
 Dr A.D. Buti  
 Mr R.H. Cook  
 Ms J. Farrer  
 Ms J.M. Freeman

Mr W.J. Johnston  
 Mr D.J. Kelly  
 Mr F.M. Logan  
 Mr M. McGowan  
 Ms S.F. McGurk

Mr M.P. Murray  
 Mr P. Papalia  
 Mr J.R. Quigley  
 Mrs M.H. Roberts  
 Ms R. Saffioti

Mr C.J. Tallentire  
 Mr P.C. Tinley  
 Mr P.B. Watson  
 Mr D.A. Templeman (*Teller*)

**Extract from *Hansard***  
 [ASSEMBLY — Wednesday, 10 September 2014]  
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Noes (34)

|                   |                  |                    |                                    |
|-------------------|------------------|--------------------|------------------------------------|
| Mr P. Abetz       | Ms W.M. Duncan   | Mr R.F. Johnson    | Mr D.C. Nalder                     |
| Mr F.A. Alban     | Ms E. Evangel    | Mr S.K. L'Estrange | Mr J. Norberger                    |
| Mr C.J. Barnett   | Mr J.M. Francis  | Mr R.S. Love       | Mr D.T. Redman                     |
| Mr I.C. Blayney   | Mrs G.J. Godfrey | Mr W.R. Marmion    | Mr A.J. Simpson                    |
| Mr I.M. Britza    | Mr B.J. Grylls   | Mr J.E. McGrath    | Mr M.H. Taylor                     |
| Mr G.M. Castrilli | Dr K.D. Hames    | Mr P.T. Miles      | Mr T.K. Waldron                    |
| Mr V.A. Catania   | Mr C.D. Hatton   | Ms A.R. Mitchell   | Mr A. Krsticevic ( <i>Teller</i> ) |
| Ms M.J. Davies    | Mr A.P. Jacob    | Mr N.W. Morton     |                                    |
| Mr J.H.D. Day     | Dr G.G. Jacobs   | Dr M.D. Nahan      |                                    |

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Pair

Ms M.M. Quirk

Mrs L.M. Harvey

Question thus negatived.

**Extract from *Hansard***  
[COUNCIL — Thursday, 18 September 2014]  
p6520b-6533a

Hon Darren West; Hon Peter Collier; Hon Samantha Rowe; Hon Col Holt; Hon Adele Farina; Hon Robyn McSweeney; Hon Ljiljana Ravlich; Hon Helen Morton; President

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**TAB — PRIVATISATION**

*Motion*

**HON DARREN WEST (Agricultural)** [10.08 am] — without notice: I move —

That this house calls on the government to rule out any proposed privatisation of the TAB due to the —

- (a) adverse implications for regional and metropolitan racing, pacing and greyhound clubs;
- (b) adverse implications for community sport and recreation organisations; and
- (c) money being wasted investigating such a clearly flawed action.

**Hon DARREN WEST:** I rise today to make a contribution on a very, very important issue in my electorate—the future of regional racing. I refer to not only thoroughbred racing, but also trotting and greyhound racing as well as the spin-offs from the TAB back into community sport and recreation programs. Anyone who visits a country racetrack would see the importance of the backing of the TAB and putting back the funds that are injected through betting into stakes for racing, which is the cornerstone, of course, of the meetings. Many very well-known jockeys and trainers began their career on small country racetracks through the opportunities that were provided on some of the less capable horses that are bred; they got those opportunities to begin their apprenticeship in regional areas. With the privatisation of the TAB, as has been mooted—I will go into more detail during my comments—there is no doubt, members, that country racing as we know it will finish. That would be a very sad day. Therefore, the idea of this motion is to put forward the very good reasons as to why the government should not proceed with the sale of the TAB and why it should not even investigate the sale of the TAB. The government should rule this out here and now as something that it is considering.

As I have said before both in this house and outside this house, this government has completely trashed the state's finances. The government has lost this state's AAA credit rating and been totally fiscally incompetent, and it is now looking for ways to plug the holes in the financial dyke. However, the privatisation of the TAB should not be one of those ways. The government should consider changing the way it spends money, rather than looking at the privatisation of assets at all costs and no matter what the implications may be.

I will now do something that I have never done before and that I may never, ever do again. I am going to agree with something that Jeff Kennett, the former Premier of Victoria, has said of a political nature. Of course I support the work that Jeff Kennett does with beyondblue and other organisations, but when it comes to politics, I do not think there would be two people who are much further apart. On 21 August last year, there was an article in *The West Australian* by Gareth Parker, state political editor of *The West Australian*, titled "Kennett rues selling TAB in Victoria". As members may know, Jeff Kennett wreaked a trail of havoc through the state of Victoria. He brutally amalgamated local governments. He did some things as Premier that I find very, very unsavoury. One of those things was the privatisation of the Victorian TAB. If Jeff Kennett says that the privatisation of the TAB in Victoria was one of the biggest mistakes that he ever made, it clearly would be a big mistake, in my view, to privatise the TAB in this state. The article says —

Former Victorian premier Jeff Kennett said privatising his state's TAB was one of the worst decisions he has made.

That is what he said in hindsight—after the sale of the TAB in Victoria. The article continues —

As debate rages around whether the Barnett Government should follow suit two decades after Mr Kennett became the first premier to sell a betting business, Mr Kennett said it was incumbent on governments to act in the interests of the racing industry.

Of course, at the heart of this motion this morning is that very question—what is in the best interests of the racing industry, especially, in my case, as a member representing a regional seat, all the small country race clubs not only in my seat, but across the state. The article goes on to say—

"If, when we sold the Victorian TAB, we knew what was going to happen with corporate book-making, we wouldn't have done it," he said.

That should be endorsement enough that this is a bad idea and should be shelved immediately. The rhetoric from the government should be that it is not even considering this; it is not going to waste any more of the state's money investigating this; it is dead and buried and not an option. But I fear that is not the case. The article goes on to say —

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“We privatised it in the best interests of the racing industry but what happened is these foreigners have come in here knowing they have the most liberal laws to operate in any country and they are stealing TAB customers so they can dominate the market.

“They are not interested in racing, the horses or the welfare of the trainers and owners. They just see racing as a product, along with every other sport.”

The TAB has an equalisation scheme under which country meetings that would not be viable in their own right are cross-subsidised by betting in other places. A person who lives on the other side of Australia can bet on a horserace in Northam, and the proceeds from that betting will go back to that race club in Northam. I often cite the story of a couple who now live in Northam—he is a teacher, and his wife works at the Wheatbelt Development Commission—who were sitting in a pub in Coffs Harbour and saw that the trots were on at Northam and thought if that town is big enough to have a trotting track, maybe they should look at moving there; and they are still living there five years later. So, in addition to the financial benefits for country race clubs, the fact that a town is flashed up on Sky television or a racing channel somewhere and people can get involved in a race in that town raises awareness of some of our regional towns and regional race clubs. I always like to tell that very good story about how some very good people came with their skills to Northam in Western Australia because of a race that they saw on the telly.

Paragraph (b) of my motion refers to the spin-offs that are available to other sports—not just the three codes of racing that I have referred to—as a result of the TAB being in public hands. I want to quote from an article in *The Weekend West* of 13–14 September 2014 headed “TAB sale ‘threatens sports’”. The article goes on to say —

WA’s peak independent sports body says selling off the TAB would rip the heart out of community sport and recreation by robbing it of about a third of its State funding.

Not only are we now looking at gutting the racing industry, we are looking at cutting by as much as one-third, according to this article, the funds that go to other sports. The article goes on to say —

WA Sports Federation chief executive Rob Thompson said funding made available through the sports wagering account, which is topped up using TAB profits, made up 32 per cent of the \$14.3 million allocated to community sport and recreation organisations.

Mr Thompson said the account, which received \$4.5 million in sports betting income and unclaimed money in 2013–14, had grown almost 15 per cent each year, helping to bolster WA’s sport and recreation industry.

He said a privatisation of the TAB would almost certainly mean the sports wagering account would cease to exist — a “devastating” blow for junior and senior sport.

He was concerned that the significant threat to the sport and recreation industry was being left out of the debate.

I think that largely it has been left out of the debate, and it is too important an issue to leave out of the debate. I expect that the line from the government and members opposite will be, “We have not made a decision; we have not ruled the sale of the TAB in or out”—even though I will quote later in my contribution remarks to the contrary. I think that will be the position of the government. I would say to the government, in response to that: stop wasting money on the sale of an asset that should not be sold; stop wasting money on a clearly flawed idea; rule out the sale of the TAB immediately, and target that spend into something that is of more value. That is what I would call on government members to do. As I said, the state’s AAA credit rating has gone. A lot of money has been wasted by this government. The state’s finances are in disarray. Two ratings agencies have downgraded the state’s economy from AAA to AA+. The federal economy, in which there is allegedly a budget emergency, still has a AAA credit rating. The position in this state is worse than that. State debt has gone from \$3.8 billion to \$25 billion. I say to the government: do not spend any more money on a flawed idea; rule out the sale of the TAB, and spend that money on something valuable and useful.

There has been much speculation about the sale of the TAB. Usually, when there is such strong speculation, I think it is fairly safe to assume that there is something in the story. I will quote again from *The Weekend West* of 13–14 September 2014 and a feature that I often read and find very interesting called “Leadership Q+A”. This particular question and answer session was with David Hobbs, the chief executive of Greyhounds WA, and he was asked questions about what does he do in his spare time, what is his favourite television show, and what is his favourite place to go on holidays. He was also asked the very important question, “Do you think the TAB should be privatised?”, and his answer was —

It’s now looking likely that the TAB will be sold, —

This is a very senior industry player who is of that view —

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possibly in the second round of asset sales but the three codes in the racing industry—thoroughbreds, harness and greyhound—are still waiting on a consultant’s report that will tell us how we would fare if the TAB is privatised.

If a consultant’s report has been commissioned on how the codes will fare after privatisation, it is fairly safe to draw the assumption that there will be a privatisation, or certainly there is a strong chance that there will be a privatisation. His answer continues —

How will distribution be dealt with in the future? We need to be assured that we won’t be worse off under a private sale than we have been under government.

I can tell the chief executive officer that there will be a privatisation because Jeff Kennett has told us there will, given his experience of two decades ago. I think the chief executive officer is being somewhat hopeful, but I think the reality is that his worst fears will certainly be realised.

I will quote the debate that happened in the other house on this in a few moments, but a regional newspaper ran an article on it. Being a regional member, I researched the implications for regional areas. As a regional member, I thought that was my duty; I will let others make a contribution about the issues in the metropolitan area. Heather McNeill wrote a very good article headed “Discussion of TAB privatisation heats up” that appeared in the *North West Telegraph* on 3 September. The article reads —

The debate about whether to privatise the TAB continued in Parliament last month, with the sale considered as part of the State Government’s second round of asset sell-offs.

I interpolate that the asset sell-offs are a direct result of fiscal mismanagement, not because they are a good idea. The article continues —

In an often heated exchange, shadow minister for racing and gaming Michael Murray said privatising the TAB could reduce the State’s racing clubs from 55 to as low as 15.

Let us just think about that for a moment. If there are only 15 racing clubs left in Western Australia, where will the opportunities for owners, trainers, jockeys, strappers and feed suppliers come from? We will have just the elite—the very wealthy who own the horses; all the part-timers, the hobby owners and the interested souls will not have any opportunities, if we have 15 race clubs, to be involved in the racing industry. What a shame that would be. That would tear the heart out of so many of our rural communities. The article continues —

“A percentage of the turnover that goes through the betting machines goes back to those clubs,” he said.

“If that money is gone ... Leinster, Roebourne and maybe even Port Hedland will be gone because if they do not have support from the TAB, they will not survive.”

Port Hedland Turf Club president Arnold Carter, who runs six races a year including the Hedland Cup, said he was against the sale of the TAB and the State Government would have to show him some dramatic figures to change his mind.

After reading the article, I contacted the largest racing club in my electorate—the Geraldton Turf Club—which holds 19 meetings a year. Tremendous horses have run on that large provincial track—some very eminent Western Australian horses and some of our finest jockeys. The spokesperson for the club told me that without the TAB, that club is finished. That is the biggest provincial centre in my electorate and the largest club. Members could argue that Northam is a more significant club because it has the backup track should there be inclement weather in Perth, but Geraldton—a significant regional club—has told me that there is no way known it can survive in an environment without the support of the TAB. It would just about completely gut racing in my electorate, and we would all have to come down to Perth. What a shame that would be.

Another article of regional significance appeared in the *Kalgoorlie Miner*. Kalgoorlie is very famous for its racing round. The article reads —

Racing clubs in small regional towns such as Leonora and Leinster will be the first to suffer if the State Government sells the TAB, according to the Country Racing Association of WA.

Secretary John Biggs said the detriment to provincial clubs would also have a significant flow on effect in small towns where race meets are often the biggest event of the year.

Concern over the potential privatisation of the TAB has prompted the racing industry to engage consultant Ray Gunston who is in the process of preparing a report detailing the implications for the industry.

Such is the fear of the Country Racing Association of WA, it has already commissioned a report to see what the impacts will be. The article continues —

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“A race meeting in some of these country clubs is the biggest thing they have in town for the whole year and it’s important that we’re able to continue that because it does affect the morale.

That is another good reason. Not only will opportunities for the racing industry be lost, but everybody loves to dress up and go to the races. Just because people live in a regional area far from the city, why should they not have that opportunity? Those people will not have that opportunity if the TAB is privatised. The article continues —

A portion of TAB revenue is tipped back into the industry every year with distributions totalling about \$130 million in 2013–14.

That is \$130 million, members, that goes back into regional racing as a result of distributions from the TAB! The article continues —

Each club receives a certain sum of money per race 100 per cent of which must go to race stakes.

The race stakes are very important, because a winning horse has a trainer, jockey, requires feeding, has a strapper, and the owner needs to move the horse around. The racing industry has so many ripple effects in regional country towns. It is one of the best for putting money directly back into towns. I will not generalise, but most people I know who are into horses spend more money on their horses than they do on themselves. They are happy to put that money back through feed merchants and staff, and provide rural jobs and opportunities.

The article continues —

Mr Biggs said he did not think there was any doubt those distributions would fail if the TAB became privately owned.

“The small clubs that don’t present a turnover or a profit to the TAB are always going to be the first ones to be affected,” he said.

“The owners are going to want to ensure they look after wherever they can get their best returns.” Kalgoorlie–Boulder Racing Club chief executive Tim Beaver said the industry would want a guarantee from the Government that distributions would be unaffected if the TAB was sold.

This is ongoing, sustainable money coming from the TAB, not just a one-off grant to fix up the grandstand. This is the sustainable money that clubs need. The article continues —

Racing and Gaming Minister Terry Waldron said he would only support the sale of the TAB “if it were in the best interests of the racing industry”.

I think that comment might lead someone to think that it is dead in the water and it is not going to happen, but it does not seem that way when we read on a bit further.

There is some concern over the National Party’s position on the TAB. I have with me a media release from Mick Murray, MLA, member for Collie–Preston, shadow Minister for Regional Roads; Racing and Gaming. The media release states that he moved a motion in the Parliament and the Liberals and Nationals failed to oppose the TAB sell-off. The media release reads —

- Liberal and National MPs have backed the privatisation of the WA’s TAB
- Not a single Liberal or National Party MP supported WA Labor’s motion condemning the privatisation of the TAB.
- Liberal and National MPs have ignored the pleas from the racing industry and their electorates

That is what happened in the Parliament. I have the debate here; I am pressed for time so I will not read it all, but anyone who wants to check *Hansard* from that debate in the other place can.

I also have with me some comments from the Premier that appeared in the press. An article by Daniel Emerson—a very highly regarded journalist—that appeared in *The West Australian* on 1 August states that the Premier said —

... the Government “probably will” sell the TAB, ...

Can members see the many mixed messages flying around here? The racing and gaming minister has said he will sell it if it is in the interests of regional racing—it has been clearly demonstrated that it will not—and now *The West Australian* reads —

Colin Barnett said yesterday that the Government “probably will” sell the TAB, his strongest indication yet after previously ruling it out and then putting the agency on a list of asset sales for consideration. The Premier said the Government’s first round of asset sales, made necessary by the loss of the State’s

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AAA credit rating in September, would focus on land but the TAB could follow. “I think the Government probably will sell the TAB but it’s not going to be in the first group of asset sales,” ...

I think we have a fairly strong indication there from the leader of the Liberal–National government that the TAB will be sold. I think I have put some really good arguments to members on why that should not happen. I think in the interests of racing in my electorate and the flow-on jobs and quality of life that that provides, it is a silly idea. As I have indicated, there are flow-on effects for not only racing, but also other sports, and significant amounts of money are being tipped into community sport and recreation. But I would also call on the government to come out and be clear about it, rule out the sale of the TAB, and not waste any more money investigating such a silly idea. The government has wasted enough; let us get serious about the TAB and keep it publicly owned.

**HON PETER COLLIER (North Metropolitan — Leader of the House)** [10.28 am]: I will make a few comments about this issue on behalf of the Minister for Racing and Gaming. I am very conscious of racing, particularly in the regions. The Hannans Handicap was held yesterday in Kalgoorlie, my home town, and the Kalgoorlie Cup will be held next Saturday. I have attended those events a number of times over the years and have a deep personal regard for racing in the regions. Having said that, we are talking about something that may or may not occur, and I want to make that perfectly clear from the outset. The Treasurer announced in his budget speech the government’s decision to address the state’s debt issues through an orderly sale of some of the state’s assets. As part of that process, the government will undertake a strategic review of state-owned assets and that includes the TAB, and we have made that quite clear from the outset. However, as the Premier and the Minister for Racing and Gaming have regularly confirmed, the potential sale of the TAB will be considered as part of the second tranche of asset sales next year. I emphasise yet again that no decision has been made at this stage about the sale of the TAB.

The state government and the Western Australian racing industry are the TAB’s major stakeholders. The state government is the owner of the asset and the racing industry is the provider of racing product and a major beneficiary of the TAB’s wagering revenue. Since the budget was delivered in May, the Treasurer and minister have met with Racing and Wagering Western Australia, as the operator of the TAB but also as the racing industry’s governing body, to discuss this issue. RWWA therefore will play a key role in the consideration of a potential sale. I emphasise that again: it will play a key role in the potential sale of the TAB—and it is a potential sale. RWWA has met and will continue to meet with Treasury officials as part of this process.

The Minister for Racing and Gaming, as the minister responsible for racing, has stated that he would support the sale of the TAB only if it were in the best interests of the racing industry and the wider community to do so. However, as most people would understand, in the interests of the broader state finances, the government needs to look at all options. Privatisation itself is a complex issue, but it is important, whatever the outcome, that a sustainable future for the racing industry is achieved.

It is without doubt that distributions to the racing industry under RWWA’s stewardship of the TAB have grown strongly. Returns to community sport via the sports wagering account have also increased steadily over time. The government will carefully consider both these funding streams in any decisions being made.

There are of course important lessons to be learnt from privatisations in other jurisdictions. They have gone about the sale process in very different ways, all producing varying outcomes for the respective racing industries. It is important that we understand the pros and cons of these sales, and the government will certainly do that. Regional racing clubs are often the community glue and provide significant recreational and social values to the community. This will also be a key consideration. The government is also aware that TAB agents have made important investments in the business of the TAB and tens of thousands of Western Australians gain their employment directly and indirectly through the racing industry. This issue is extremely complex. It is not simply a decision to sell the asset, take the money and retire debt. The racing industry is a significant industry, contributing more than \$600 million to the state’s economy each year, and the government is well aware of the requirement to consider its future. The government will do the work to ensure that we have the right information to make a decision that is in the best interests of racing, community sport and the broader community. As I have said, RWWA will continue to be consulted on this issue, but at this stage no decision has been made.

**HON SAMANTHA ROWE (East Metropolitan)** [10.32 am]: I am very pleased to rise to participate in this debate this morning. I would like to thank Hon Darren West for bringing this motion to the house today and I put on the record that obviously it will receive my strong support. The racing industry in Western Australia is vitally important to our economy. The industry employs approximately 34 000 Western Australians. Any significant loss in revenue will clearly have flow-on effects on employees and families who work in that industry. I think Hon Darren West also mentioned that it is not just about trainers and jockeys; we are also talking about strappers, track workers, those who work in hospitality, retailers and the cleaners associated with this industry. It would have quite a devastating impact on the WA racing industry if the privatisation of the TAB were to go ahead, as has been strongly indicated by this government. We are of the view that it will most likely happen, if

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not in the government's first round of asset sales, possibly in the second round. The Premier has made very strong comments about this matter and has supported these comments. It is certainly our view that any privatisation of the TAB will have adverse impacts.

As a metropolitan member of Parliament, I will focus my comments on this motion specifically on Ascot Racecourse in Belmont in my electorate. I would like to point out that racing at Ascot Racecourse and Belmont Park Racecourse has had a proud history, and we should not diminish its sustainability for the sake of propping up this government's mismanaged budget. There have been tough times for this industry. Other forms of entertainment are already competing with racing and of course there is also online gaming, so we need to make sure that we are doing everything we can to support the WA racing industry, and privatising the TAB would certainly not achieve that. The racing industry is also important to the local economy. We know that many families are employed around the Ascot area and that would have huge implications for their employment. Some residents in Belmont and specifically in Ascot have invested millions of dollars in setting up racing-related businesses and enterprises in the area. They have purchased property in historic stable areas and there could be an adverse impact on these people if the privatisation of the TAB were to go ahead. The government also needs to consider these issues when it looks at whether it will go ahead with the privatisation.

The industry obviously offers Belmont the opportunity to be a tourist destination. Ascot racing brings in a large number of tourists each year, so it is a major attraction in the Belmont area. Racing has been conducted at the heritage-listed Ascot Racecourse since 1848 and we should celebrate this.

**The PRESIDENT:** Order! I am sure the honourable member on her feet is finding it is a bit disconcerting with members in front of her turning around and talking to members next to her.

**Hon SAMANTHA ROWE:** Thank you, Mr President. As I was saying, we should celebrate the fact that racing has been taking place at Ascot since 1848. We do not want the industry to be at risk or damaged because this state government cannot manage its budget. We know that the government has lost its AAA credit rating. We know that the state government cannot manage its finances. But why is it up to the racing industry to prop up a mismanaged budget? This is not about any benefit to WA racing; this is purely and simply about selling a state asset to patch up a poorly managed budget. The government will not get away with this. The residents of Ascot and Belmont and the surrounding communities know what is going on and why the government is doing it, so it should just come clean.

The chief executive officer of Racing and Wagering WA, Richard Burt, said in February that the reason the government will sell the TAB will not be the lack of performance of RWWA or the TAB; it will be purely a financial need. Michael Grant, the president of the Western Australian Racing Trainers' Association, said that the Western Australian TAB successfully operates in a competitive wagering environment, there is no groundswell of support within racing to change the existing structure and the WARTA is cognisant of the government's financial motivation, and nothing more.

I would like to put on the record that an article entitled "Government probably will sell TAB, says Premier" in *The West Australian* of 1 August this year states —

Colin Barnett said yesterday that the Government "probably will" sell the TAB, his strongest indication yet after previously ruling it out and then putting the agency on a list of asset sales for consideration.

The Premier said the Government's first round of asset sales, made necessary by the loss of the State's AAA credit rating in September, would focus on land but the TAB could follow.

We believe it is absolute nonsense that this government is not considering the privatisation of the Totalisator Agency Board. Mr Mick Murray moved a motion in the other place about whether the TAB should be privatised. I think it is disappointing that the member for Belmont, who has previously commented in her local paper, the *Southern Gazette*, and in the other place that she is not for the privatisation of the TAB, when push came to shove, was not prepared to cross the floor and stand up to the Premier and stand up for the Belmont community. She is all talk —

**Hon Alyssa Hayden:** How do you know?

**Hon SAMANTHA ROWE:** I am so glad Hon Alyssa Hayden asked that question. I will tell her how I know — Several members interjected.

**The PRESIDENT:** Order, members. All in your own time, not somebody else's time.

**Hon SAMANTHA ROWE:** Thank you, Mr President. An article in the *Southern Gazette* on Tuesday, 2 September, states —

BELMONT MLA Glenys Godfrey spoke against privatising the TAB in Parliament on August 20, but when pressed by Collie MLA Mick Murray as to whether she would cross the floor in a vote she said she would not.

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We now know that she did not cross the floor. The member for Belmont not only refuses to stand up for her electorate on the privatisation of the TAB, but also on the forced council amalgamations. Quite frankly, I believe the member for Belmont is asleep at the wheel; she refuses to stand up for her electorate. It is all talk!

Several members interjected.

**The PRESIDENT:** Order, members. Order! It was going very well for quite a long time. Let us get back to one person speaking at a time and that is the member on her feet.

**Hon SAMANTHA ROWE:** Thank you, Mr President. There was quite a lot of hysteria from the members opposite. I must have hit a nerve.

Several members interjected.

**The PRESIDENT:** Order! It is inappropriate, before the member even had a chance to resume her comments, that there were three interjections.

**Hon SAMANTHA ROWE:** The hysteria across the other side of the chamber is deafening and it can only mean that we have hit a nerve.

Several members interjected.

**The PRESIDENT:** Order. That time there were not three interjections, there were seven. Let us try and start again.

**Hon SAMANTHA ROWE:** Thank you, Mr President. I would like to comment on this media release. It states —

The TAB provides the Government with an ongoing revenue stream returning \$40 million each year. In addition, it provides an estimated \$120 million to the racing industry each year.

Representatives of Belmont Racing and Western Australian Racing more broadly have expressed concern at any move to privatise the TAB, believing that it will seriously damage the industry ...

*“This abandonment of the Belmont Racing Industry by Glenys Godfrey must leave people asking if they can trust her to represent their wishes” ...*

The press release continues —

*“In Glenys Godfrey’s own Parliamentary grievance, she claimed to strongly oppose the sale of the TAB and labelled any such sale as ‘short-term gain for long-term pain’. Yet when push came to shove and there was a vote on the issue in Parliament, she refused to stand up —*

— for her electorate of Belmont. I think that is highly disappointing and the member is clearly asleep at the wheel. I believe that the Western Australian racing industry deserves more.

Several members interjected.

**The PRESIDENT:** Order.

*Point of Order*

**Hon LIZ BEHJAT:** I have been listening very closely to the member on the other side of the chamber and, in accordance with standing order 45, I find her last comment that the member for Belmont is asleep at the wheel quite offensive. The member for Belmont is a very hardworking member of Parliament, and I ask the member to withdraw that comment.

Several members interjected.

**The PRESIDENT:** Members, standing order 45 is there for the good reason that we do not become a kangaroo court in this chamber in terms of condemning members in the other place. But Parliaments are a place for reasonably robust debate at times, so we all have to have a little bit of a thick skin, and I do not think the phrase used by the honourable member on her feet crossed that line. There is not point of order.

*Debate Resumed*

**Hon SAMANTHA ROWE:** Thank you, Mr President. I have only 26 seconds remaining and I want to make it clear that I fully support the WA racing industry and that I believe any move by the Barnett Liberal government to privatise the TAB will have an adverse impact. I think it is about time the government told the people of Western Australia what it intends to do with the TAB.

**HON COL HOLT (South West — Parliamentary Secretary)** [10.45 am]: It is good to have this debate during the Kalgoorlie race round. I would like to quickly congratulate my niece Jerry Noske who won the Boulder Cup last weekend on Red Blast, which is a horse from the Morton stables—so, excellent work!

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I want to put on the record that I remain completely unconvinced that the sale of the Totalisator Agency Board is in the best interests of the racing industry. That is my perspective as a regional member. I want to state some of the key stats from the “Western Australian Racing Industry Economic & Social Impact Report”. The report was released in 2012, which is only a couple of years ago. Some of the key stats are: there are 55 race clubs in Western Australia, of which 52 clubs are in regional Western Australia; there are 874 race meetings held each year, of which 570 occur in regional areas; there are 10 092 race club members, of which 6 717 are in regional areas; 54 per cent of breeders in the racing industry are located in regional areas; 43 per cent of the 16 700 people who have an ownership in racing live in regional Western Australia, particularly in the Peel, wheatbelt and south west regions; nearly 70 per cent of the 1 690 trainers registered in WA live outside the metropolitan area; 2 555 of the 6 737 full-time equivalent jobs are located in regional areas; the industry generates around \$550 million in direct expenditure; and over 50 per cent of the 33 680 people directly involved in racing are in regional Western Australia. It is a significant industry, economic driver and employer in regional Western Australia.

My concerns about the privatisation of the TAB include who will look after those regional interests if the TAB is privatised. Do we expect a commercial operator to look after those regional interests? I want to put a couple of examples to the house. In an event such as when the grandstand roof blew off the York race club, which only has a few race meetings year, but is a significant part of the social fabric for York, would a private organisation running the TAB see fit to invest in a new grandstand? If a self-serve betting machine in a remote or regional area breaks down—let us pick anywhere: Kojonup, Tambellup or Nannup—would we expect a private operator of the TAB to rush to the town to fix the betting machine? If they are making a commercial decision, they probably would not. However, as a service obligation, the operator probably should do so.

I have met with people from the racing industry and they believe that there are two main groups of people who support the racing industry in Western Australia. Firstly, there are the poor and long-suffering owners, who continually invest in racehorses, greyhounds or trotters, hoping for that one big win out of the thousands that race every week. They are integral to and actually prop up the industry. The other group of people who really continue to support the industry are the punters, who make their own choices about what they want to spend their money on and who like to have a flutter on the ponies at the weekend. They are really the biggest financial supporters of the racing industry and I am not sure, from the viewpoint of the government supporting the industry, why we would take away that major element of backing for the racing industry and put it into private hands. I am yet to be convinced, but I think it is diligent to look at the whole issue from a broader perspective. There have been a lot of changes in our communities and our society and in the ways in which we do business; it all changes continuously, at an increasingly rapid pace.

I turn to the second report of the Joint Standing Committee on the Review of the Racing and Wagering Western Australia Acts’ inquiry into the Racing and Wagering Western Australia Acts. Finding 60, at page 148, states —

While privatisation of the TAB has occurred in most other states, there is no long-term benefit for the industry in Western Australia. There is extensive industry support for the existing structure and wagering ownership arrangements under Racing and Wagering Western Australia to continue.

That was in 2010.

**Hon Adele Farina:** How many recommendations from that report has the government implemented?

**Hon COL HOLT:** I do not know.

**Hon Adele Farina:** Zero.

**Hon COL HOLT:** That was four years ago. If we consider the rapid pace of change in our lives, that is quite a long time ago. Are we to not ever say that we should go back and investigate what is now going on in the racing industry in case there is a really good reason to change what we are doing? That is the point. With regard to the motion moved by Hon Darren West, I am of the view that paragraphs (a) and (b) are quite correct, but I certainly will not commit to not looking at the industry in full depth to see what the best outcome would be for the industry. I listened very carefully to Hon Darren West’s arguments. Paragraph (c) of the motion is worded, “money being wasted investigating such a clearly flawed action”, and I had hoped that Hon Darren West would provide evidence to show that the action is clearly flawed, but all he came up with were some media releases and a comment by a former Premier who, in hindsight, said that it was the worst mistake he made, which again came from a media release. I hope Hon Darren West is not basing all of his rigorous thinking on media releases and things that have been reported in the press, because we on this side of the house will look at all the issues and make our decisions based on the best interests of the racing industry and the Western Australian people.

I reiterate that I am still unconvinced that privatisation of the TAB is the right way to go. I think the racing industry itself is taking an approach of saying, “Well, let’s look at how things are changing in terms of our

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product and the way that we sell it". We know that there are now many, many different players in the punting scene in Western Australia; the TAB is no longer the only one. There are attacks all the time from online, interstate and international betting agencies, and we would be mad to not see how that will impact on the TAB and the racing industry. That is why we need to look at those things. Again, I remain unconvinced that we need to sell the TAB because of the impacts it could have on regional racing, but let us look at it, because there are going to be impacts into the out years that are going to change how the TAB operates. I actually think the TAB is doing a really good job in response to its external pressures and I back the TAB, but the racing industry itself has employed Ray Gunston to look at this issue. He was heavily involved in the privatisation of TABs in other states, but the WA racing industry, which is opposed to the sale of the TAB, has gone to Ray Gunston and said, "Look at this on our behalf to see what the best outcome can be for our racing industry", and that is exactly what is happening. The racing industry is not putting its head in the sand like Hon Darren West is; it is actually saying, "Let's have a look and see what the best outcome is for our racing industry."

Again, all the information I have received points to the sale of the TAB not being right for regional racing, and I will keep saying that until I am presented with evidence to the contrary. But if the racing industry came to me tomorrow and said, "Actually, we think we've got this wrong; we actually think we can get a better deal doing this", then I will be prepared to listen to it. That is exactly what Hon Darren West should be doing; instead of putting his head in the sand and dredging up newspaper articles and comments from a Premier who left office 25 years ago, he should do some rigorous thinking and backgrounding and come up with an option that actually helps the racing industry into the future.

**HON ADELE FARINA (South West)** [10.55 am]: I would like to speak in support of the motion moved by Hon Darren West and commend him for moving it, because this is a very important issue in regional Western Australia. The state government has flagged that it is possibly going to sell the TAB as part of its \$6 billion asset sale to pay off its state debt, because it is unable to manage its finances. The very first question one needs to ask is: why are we selling state assets simply because this government is unable to manage its finances? Surely the government should be looking at better financial management in terms of the amount of money it is spending and where it is spending it, rather than selling off state assets.

The sale of the TAB will have a devastating impact on the racing industry, and the lack of any position from the state Liberal and National Parties is creating great uncertainty and loss of confidence in the industry. It is also devaluing the TAB outlets; a number of them are for sale but they cannot be sold because of the uncertainty that is being created by this government's inability to state a clear position, and the fact that it is taking so long to form a view on this issue one way or another.

The TAB is integral to funding racing in Western Australia, but it is also an important contributor to community sports. The industry feels very, very betrayed by the Premier and the National Party because of the position they have taken on this issue. The minister commented that he would only ever consider the privatisation of the TAB if it were in the best interests of the racing industry, but the state government has failed to provide any reassurance to the community that this sale will not go ahead, and that is really not good enough. For the government to come into this place and say, "Well, a decision hasn't been made", is again not good enough because of the uncertainty it creates within the sector.

I would like now to go through some stats. The racing industry adds \$594.6 million to the WA economy each year, and 48 per cent of that comes from regional WA. There is \$264.1 million in net wagering revenue and 55 racing clubs across the state, all but three of which are in regional Western Australia. There are more than 33 000 people employed through WA racing, including both paid employees and volunteers, and 6 737 full-time employees. A sum of \$349.3 million is generated in wages across all sectors of the industry and between 2010 and 2013, the turnover for WA wagering grew by eight per cent. We have heard statements from the minister and the government that the industry is in a mess, but the stats show that not to be the case because it has grown by eight per cent. Turnover has increased from \$1.6 billion in 2008–09 to \$2.15 billion in 2013–14, which is a 34 per cent increase. Distribution in 2008–09 was \$106 million; in 2013–14, it was \$130 million, which is an increase of 23 per cent. Again, the stats show very clearly that any suggestion that the industry is in a mess is just wrong.

There is ageing infrastructure in regional WA racing clubs and insufficient investment is currently going into racing in Western Australia under the current model. If the TAB were to withdraw the funding it provides to the industry, it would have a devastating impact on racing in regional WA and there would be many job losses as a result. The experience of all other Australian states that have privatised their TABs is that it has had a devastating impact on the racing industry. That is not a path we should go down. I do not know what further evidence the government needs to make a decision on this matter; all the evidence that exists to date strongly indicates that we should not go down this path.

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In regional WA racing clubs are very important to not only the racing industry, but also their communities. They provide significant recreational, social and economic value to their communities. The impact is on not only the racing sector, but also on community sport and recreation. Privatisation of the TAB would rip the heart out of community sport and recreation by robbing it of about one-third of its state funding. Funding made available to clubs through the sport wagering account uses TAB profits, with up to 32 per cent of the money allocated to community sport and recreation organisations coming from TAB profits. The chief executive officer of the Western Australian Sports Federation has been reported as saying that this would be a devastating blow for junior and senior sport across the state; it would impact on support for the training of coaches, administrators and officials, and many support agencies for community-based sports also rely on this funding and would be devastated without it. Parks and Leisure Australia WA president, Mark Casserly, said that losing the sport wagering account would set recreation in WA back 10 years and decimate participation in physical activity. It is important for members to understand that more than 160 community organisations utilise race club facilities and resources, and that more than 110 community organisations and charities in WA are financially assisted by race clubs. Over the past decade, sport and rec organisations have received over \$29 million in funding support. It is a significant source of funding for community-based sport and recreation groups, and they would not be able to continue the work they do without that critical funding. The ramifications of this very bad policy decision or consideration will have deep impacts on the community.

Last year Racing and Wagering WA distributed over \$12 million in participant funding—that is, race day stakes—to clubs in the south west. That included Bunbury Turf Club, Albany Racing Club, Mount Barker Turf Club, Pinjarra Race Club, Collie Race Club, Bunbury Trotting Club, Harvey District Trotting Club, Pinjarra Harness Racing Club, Albany Harness Racing Club, Bridgetown Harness Racing Club, Collie Harness Racing Club and Busselton Trotting Club. Eight south west communities were beneficiaries to varying degrees of that very important funding. It will be a significant blow to those regional communities if \$12 million is pulled out of those communities.

Ross Price is a local trainer and the vice-chair of Bunbury Turf Club. He has provided, through my office, some comments in relation to this issue. He is very concerned; his view is that once the TAB is privatised we can neither expect a private company with shareholders to grow the industry the way the WA TAB has done, nor expect the continual increases in distribution that have been experienced with the TAB. The primary concern of a private company once it owns the TAB will be its shareholders, not the industry.

**Hon Helen Morton** interjected.

**Hon ADELE FARINA:** If the minister thinks that is a laughing matter, she should look at the company law code and understand how companies operate. Their primary responsibilities are to their shareholders. The concerns expressed by Mr Price are very valid. He has also indicated that 95 per cent of all stakes paid by Bunbury Turf Club in 2012–13 were provided by Racing and Wagering Western Australia—that was over \$2 million. All those moneys are distributed direct to participants in the industry—owners, jockeys, trainers et cetera—and they keep those people employed.

Bunbury is poised to undertake a \$10 million redevelopment that has been signed off by all the parties and will see the first synthetic race-capable track installed in WA. That project is now under threat because of the uncertainty created by this government because it is unable to state a position on this issue. Bunbury Turf Club has eight permanent employees. On busy race days the club employs up to 100 people. Local trainers often employ young people with poor literacy et cetera who struggle to find employment elsewhere, so it provides a first job opportunity for young people in the area.

Racing is a long-term industry. If a person buys a yearling it is likely to be two years before it races, and until that time they have no idea whether there will be a return on that investment. Uncertainty around the possible privatisation of the TAB is really hurting the industry. Last year Mr Price indicated that he spent approximately \$500 000 at the yearling sales, and this year, due to the uncertainty, he is yet to decide whether to attend the sales.

**HON ROBYN McSWEENEY (South West)** [11.05 am]: Although I do not agree with the way the motion is worded, I think we need to discuss the issue at length. The TAB is an integral part of racing and we know that in other states where it has been sold people are saying that race clubs are in deficit. I would like to put on the record that Hon Glenys Godfrey and I have spoken many times about the TAB and the history of horseracing and I find her to be a very good local member who stands up for her community of Belmont. There is absolutely no question about that.

For those members who do not know, my great-grandfather owned Belmont and Goodwood racecourses and I have been doing research to write a book on the history of thoroughbred racing in Western Australia. I think that we should always take note of what history tells us, so I am going to go back to 1933—nineteen frozen to

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death! In 1933 the people coming through the gates for race meetings in Western Australia were decreasing and that was causing much angst amongst the racing fraternity. In 1929 the amount going through the gate of the totalisator was £255 000; five years later it had risen to only £313 000. On 15 June 1933 the *Daily News* published an article written by Albert, my great-grandfather, in which he supplied answers to what he thought was wrong with racing. The article reads —

In view of the events of the past few weeks, the question is being asked everywhere today where sportsmen gather.

Mr. A. E. Cockram supplies his answer in this article, specially written for “The Daily News”.

His views are entitled to the widest respect for there are probably few better judges of horseflesh in Australia.

In addition to owning, breeding and importing horses, Mr. Cockram has been for a long time financially and actively concerned in controlling racing clubs and courses. He is chairman of the Belmont Park Club.

According to my notes, the rest of the article reads —

Case for Reduction of Taxes and Charges.

Horse racing is considered the Sport of Kings and the great thoroughbred the King of all horses. Horseracing is the most important of all sports and has come to be an industry of National importance. Primarily horseracing has fostered the breeding of thoroughbreds and any breed of horse will be improved to a class of the thoroughbred.

Horseracing is to be given every encouragement to maintain the high standard to which it has reached.

...

Race clubs and race horses are therefore carried on to primarily improve breed of horses.

But in Australia it has come to be an industry in which enormous capital is invested and in which a great number of people depend on for employment and their livelihood.

... trainers and jockeys, stablemen, saddlers and the large number of men and women who are required on race days to manage the course depend on racing for their existence. Much capital is invested in valuable breeding studs, property and buildings.

Racing and training stables employ large staff which keep the stables in working order and many more when renewal and repairs to valuable building and property are necessary.

The same could be said today, and we all are. A lot of people depend on the racing industry. The article goes on —

Government Benefit

From all those employed in the racing industry the State and Commonwealth Governments receive revenue in taxes such as land tax, income tax, and hospital tax —

Whatever that is; I have not gone into that yet —

and from the racing club they derive many taxes that they are worth detailing.

There are taxes on totalisator investments, 1 pound per 1,000 pound. Stamp tax on tote tickets. State and Commonwealth Governments tax on course admission tickets. Tax on Stakes and Salaries, on bar purchases and on printing. In addition, the Government takes tax on dividends, fractional and unclaimed dividends. On top of all these taxes the clubs pay rates to the various municipalities.

Therefore from many monies the country benefits and the Government collect these revenues without any cost.

Racing therefore is a useful industry but there has arisen a menace which threatens to wipe it out.

The starting price evil is one which if allowed to continue will close up the racing clubs and paralyse the industry.

The racing bodies are doing all in their power to combat it but without governments, their efforts are proving unavailing.

Starting prices or away from the race course betting grows and prospers to the disadvantage of the racing clubs, the government and the industry. Yet the Governments have taken little action to stamp the evil out. Rather they hamper the clubs by imposing heavy taxes which they receive without cost,

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while in the puny fines they impose on those found guilty of starting price betting they receive little more than that which it cost to collect.

I will not read all the article. I just wanted to read that out to show that things have not changed much in those years, except for the big money that racing generates these days. I think there is half a billion dollars in prize money now, whereas back in those days the prize money was not as huge. The TAB also injects more than \$126 million into the WA racing industry. A report I read indicated that the government collects \$43 million a year from racing. The report states —

The State Government will get \$43 million in tax from a betting turnover of \$2.15 billion and the Federal Government will get \$28 million in GST revenue.

It is therefore not a small industry. I will read a letter from Michael Grant, president of the WA Racing Trainers Association—an association that is concerned and has the right to be. Whenever there is a mooted change in an industry and the industry is not given certainty, people come out and start agitating against a government.

Albert's last sentence in the article back in 1933 reads —

A conference between representatives of the Government, the racing clubs and the press should be held to discuss the situation immediately.

I do not see that anything much has changed now. However, Michael Grant wrote a reply to an editorial by Paul Murray. Paul likes a flutter himself, so I know that he is certainly not against racing. Michael Grant writes —

As a long-time participant and passionate member of the Western Australian racing industry I felt compelled to respond to the inaccuracies of Paul Murray's opinion piece in the West Australian on ... May 28, advocating the sale of the TAB.

Mr Murray says there is no legitimate reason for the Western Australian government to be involved in the business of gambling and underpins his argument by pointing to the sale of the Victorian TAB in 1994.

...

The NSW TAB was privatised in 1998; Racing NSW is currently in a funding deadlock with its state government. Two weeks ago, Racing Victoria Limited ... raised race field fees to all wagering operators in an effort to protect jobs and sustain the Victorian racing industry into the future.

Michael says that one can surely take heed from that. He goes on —

Members of the racing industry that were 'emboldened' to speak out against the Government's plan to sell the TAB were apprehensive participants who have genuine and legitimate concerns about their livelihoods and the future wellbeing of the industry they work within.

It is rare for various sectional interests of racing to unite but attendance of representatives of Trainers, Jockeys, Owners and Breeders exemplifies a growing anxiety about the lack of clarity and consultation from government.

If that is how the racing industry feels, it behoves this government to sit down with all the players concerned and discuss these issues. It is not good for the racing industry to see in the paper one day that the TAB may be privatised. I do not know whether it will be privatised, but we really need to flesh out those issues.

**HON LJILJANNA RAVLICH (North Metropolitan)** [11.16 am]: Mr President —

**The PRESIDENT:** The question is that Hon Ljiljanna —no!

Several members interjected.

**The PRESIDENT:** The question is that the motion be agreed to and Hon Ljiljanna Ravlich has the call.

**Hon LJILJANNA RAVLICH:** Thank you, Mr President, for that wonderful introduction!

I rise to support this motion. In fact, how can anybody not support this motion? There is no doubt that should the TAB in Western Australia be privatised, there will be serious adverse ramifications for regional and metropolitan racing, pacing and greyhound clubs—without doubt there will be. There will be adverse ramifications for community sport and recreation organisations—without doubt there will be. Of course, we know that this government is very good at wasting money on investigating all manner of things, and no doubt the report that has looked at whether the TAB should be privatised is no exception.

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When I first came to this place more than 17 years ago, the Court government was in power. The Court government ran a very similar agenda—spend, spend, spend, spend, spend, spend! After it had absolutely mismanaged the finances by and as a result of incompetent ministers, what did it do? It sacked public servants and started to sell the assets of Western Australian taxpayers.

I want to refer to my maiden speech from 17 years ago in this place.

Several members interjected.

**Hon LJILJANNA RAVLICH:** Members, just listen to the parallels between what happened then and what is happening now. I said —

I now briefly turn to the issue of financial management. I believe all Western Australians are hurting under the Court Government's policies. Since coming to office the Court Government has promoted a record of strong financial management which has been highlighted by its preoccupation with debt reduction. Privatisation and the sale of government assets have been the vehicle by which debt has been reduced. The Court Government refers to this as its "sale for public benefit policy", with Western Australians being told repeatedly that they will be better off as a result of privatisation, that jobs will not be lost, and that competition will reduce costs and flow ... for key services. In fact, in the recent state Budget, the Government increased AlintaGas rates by an average of 3 per cent, Western Power rates by 3.75 per cent and Water Corporation rates by approximately 4 per cent. In addition, motor vehicle licence fees, public transport fares and drivers' licence fees increased substantially. I ask the Government: Where is the public benefit?

**Hon Sue Ellery:** Hallelujah, sister!

**Hon LJILJANNA RAVLICH:** Hallelujah, sister! Absolutely!

We know that there has been an absolute and total mismanagement of the state's finances. We know that debt has gone out of control. We know that Western Australian taxpayers are being punished for it. It has nothing to do with them, it is not of their own doing, but they are being punished for it. We know that public servants cannot rely on any assurance that they will have a job; and, increasingly, businesses are folding because of the incompetence of this government in managing the state's economy.

We know also that the government is embarking on privatisations. But we do not know exactly what is going to be privatised. The government needs to stump up and be transparent. Western Australians are sick and tired of hearing the government say, "This might be privatised, or that might be privatised; oops, no, we are going over there and we are going to privatise something that you have not heard of." Western Australians do not want privatisation. They also do not want the dishonest process of how this government goes about privatisation. But, be sure, the government will pay a hefty price at the next election for any privatisation agenda. The government should pay a hefty price for the fact that it did not go to the last election and say that it was intending to privatise a whole lot of things. It is only now that the government is starting to tell the people of Western Australia about its privatisation agenda; it should be punished for that, and it will be.

I have had the pleasure of being the Minister for Local Government; Racing and Gaming. After I left Education, I went to Racing, Gaming and Liquor. I thought Education was a challenge. But when I got to Racing, I thought, "Oh, God, I don't even know whether these people are going to like me." At my first race meet, there was a big fellow who was one of the part-owners of a horse that had won. So I walked up to him, and I thought I hope he likes me, and I was introduced and he was told that I was Ljiljanna Ravlich, the new racing minister, and he grabbed me with both arms and said, "Come here, darling! I love you!" I thought that was the nicest thing that had happened to me in politics. He then said that he was my biggest fan.

**Hon Helen Morton:** Was it Eric? Does he have a racehorse?

**Hon LJILJANNA RAVLICH:** No, it was not Eric. I had never met this bloke in my life, and I thought I am going to enjoy this portfolio, and indeed I did. The point that I want to make is that as soon as I got there, the equine flu hit.

**Hon Alanna Clohesy:** An awful coincidence!

**Hon LJILJANNA RAVLICH:** Yes, an awful coincidence!

But, anyway, it ended up being a very pleasurable portfolio. I did say to them when I got there that I do not really know a lot about racing, but I do know that it is a very important industry; I know that there are many small, medium and large businesses that survive on the strength of that industry; and I know that racing is important to local economies. I have not changed my mind on any of that at all. So, for those reasons, I support the motion that is before the house.

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I want to quickly put on the public record the value of the racing industry. An article in *The Weekend West* of 15–16 February 2014 talks about a Racing and Wagering WA report that was commissioned in 2010–11 on the economic and social impact of the racing industry in Western Australia. The report found that 33 686 people, or the equivalent of one in 54 adult residents, participated in the state’s racing industry. The report found also that the state government received \$34 million from wagering tax revenue in that year. Mr Burt, the chief executive of Racing and Wagering WA, is reported in that article as saying that this figure would rise to \$42 million this year, with a further \$23 million to be paid to the federal government in GST. The report goes on to state that TAB turnover was \$1 billion in 2003–04 and will grow to \$2.1 billion this season.

The racing industry is a major contributor to the economy. The government cannot argue at any point that the racing industry is a non-performing asset. It is very much a performing asset. If we are going to privatise, the idea is that we should privatise our non-performing assets.

**Hon Ken Travers:** Like cabinet!

**Hon LJILJANNA RAVLICH:** Yes, like cabinet! We do not take a performing asset and get rid of it. Truly, we hear some dumb things in Parliament, especially from members opposite. But this idea that we should sell the TAB would have to be one of the dumbest. I will say it again: if the government sells the TAB and if it goes through with its privatisations, it will not survive the next election.

**HON HELEN MORTON (East Metropolitan — Minister for Mental Health)** [11.26 am]: Hon Ljiljanna Ravlich has been in Parliament for 17 years —

**Hon Ljiljanna Ravlich:** More!

**Hon HELEN MORTON:** — and she is still a waste of space. Unbelievable!

Several members interjected.

*Withdrawal of Remark*

**The PRESIDENT:** Order! I do not think there is a need to take a point of order. I just caution the minister. I have often said that when it crosses the line in terms of debate over issues and gets personal, that is the line that I draw. I think, minister, that that is uncalled for, quite frankly, and I would ask you to withdraw it.

**Hon HELEN MORTON:** Thank you, Mr President, and I do withdraw it.

*Debate Resumed*

**Hon HELEN MORTON:** The point I am making is that after 17 years, some ideology is being played out here that is not born in reality; and I will get to that in a little bit. It is all about this ideology-driven position about not privatising anything at all under any circumstances.

I have a very great interest in the racing industry. Most people would know that my family is heavily involved in the racing industry in a variety of ways. My husband and I have breeding properties. We have I do not know how many horses; I would not have the faintest idea. We are also involved in the educating, breaking, pre-conditioning and training. All the brothers-in-law are leading trainers in Perth. I have a nephew who is a trainer now. I have a son who is involved in that industry as well. My daughter’s partner is an auctioneer and a blood horse broker.

Several members interjected.

**Hon HELEN MORTON:** This is all about the racing industry.

**The PRESIDENT:** Order, members!

**Hon HELEN MORTON:** I have just lost two minutes, Mr President.

This is an ideology-driven argument not born of reality.

**HON DARREN WEST (Agricultural)** [11.28 pm] — in reply: In my last few seconds, I want to make the point that the uncertainty, speculation and lack of clarity from the government is what concerns the industry the most. Hon Col Holt touched on it: do not muck around doing studies; just get on and make a decision and let the industry know where it stands. That is what the industry wants.

Motion lapsed, pursuant to standing orders.



## TAB sale unlikely to pass Parliament, WA Premier Colin Barnett concedes

By Jacob Kagi

Posted Tue 21 Apr 2015, 5:55pm

**WA Premier Colin Barnett has conceded the Government would face substantial political obstacles if it sought to privatise the TAB, admitting it would not get through the current Parliament.**

The Government flagged the possibility of selling the state-run betting agency last year, with Mr Barnett saying since then he thought the TAB's privatisation could raise \$1 billion.

While the TAB's privatisation has been raised as a possibility, it has so far been left out of tranches of asset sales announced by the Government.

The idea of selling the agency, which has faced increased competition from a host of privately-owned betting companies, is complicated by the National Party's reluctance to accept it - with Racing and Gaming Minister Colin Holt one of the biggest sceptics.

With Labor also opposed, Mr Barnett admitted in Parliament today selling the agency would be no easy task.

"I think as it stands now a TAB privatisation would not get through Parliament and that is a reality," he said.

Mr Barnett said the proposal could be taken to the 2017 election if no agreement is reached beforehand.

He reiterated concerns about declining attendances at horse racing, trotting and greyhound events and said selling the TAB could give the industry a significant opportunity.

"The other problem is trying to maintain two inner-city racecourses at Ascot and Belmont is not working out, those facilities are no longer of the standard the public would expect at a sporting event," he said.

"They cannot survive in my view.

"Similarly separate tracks for dog racing and pacing aren't going to survive. People aren't going and you cannot ignore the fact people aren't going and the online and telephone punter is using other services.

"I would also suggest the TAB is going to lose market share as the years go by and that does not put racing in a good position."

The proposal to sell the TAB has faced significant opposition from elements of the racing industry, with especially strong fears for the impact it would have on the industry in the regions.

**Topics:** horse-racing, harness-racing, racing, wa



**PHOTO:** The WA Premier says he may take the sale of the TAB to the 2017 election. (Getty Images)

**RELATED STORY:** TAB sale sparks government row

**RELATED STORY:** New racing minister seeks meeting on TAB sale

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**MAP:** WA





## Liberal MP opposes TAB privatisation, raises consultation concerns

By Andrew O'Connor

Posted Wed 20 May 2015, 9:44am

**The West Australian Government's push to privatise the TAB has come under fire from a Liberal MP concerned that no proper discussions with the racing community have taken place.**

Member for Belmont Glenys Godfrey, whose electorate takes in Ascot Racecourse, said she was against privatising the TAB and is waiting to see the details of what her Government is proposing.

She was also concerned discussions between the Government and racing industry representatives had not included people from the wider racing community.

"They're talking to a group of people who I don't believe are representative of the whole community," she said.

"So until it goes out to public consultation, how can you know what everyone thinks?"

The TAB was included in a long list of public assets which will be sold as the cash-strapped Barnett Government scrambles to contain state debt spiralling towards \$36 billion by 2018.

The racing industry has so far opposed the sale, but Premier Colin Barnett has continued to argue it could provide a turning point for an industry facing rapid change in a digital betting environment.

The Premier said funds from the sale of the TAB could be used to help consolidate the industry at a single racecourse with new facilities.

He has characterised it as a once-in-a-lifetime opportunity.

But the industry is opposed to the sale, and is backed by both Labor and the Nationals, who are concerned about the impact on country racing.

Ms Godfrey has written to the Premier expressing her concerns, but said she now wanted to see exactly what support the Government would offer the industry.

"Until you see the detail, how can you know if it's a good thing or a bad thing?" she said.

Mr Barnett's Parliamentary Secretary John McGrath said the TAB sale was an opportunity for an industry at the crossroads.

"The Premier has said the Government is not going to tip money into the industry if the model is broken," he said.

The Premier and other ministers have been in discussions with racing industry representatives in recent months, as the Government tries to build support for the deal.

Mr McGrath said the industry had now appointed a special group of representatives to speak on behalf of all the racing codes.



**PHOTO:** The racing community has not been adequately consulted about the TAB sale, Glenys Godfrey believes. (Getty Images: Mark Dadswell)

**RELATED STORY:** Barnett says TAB sale could raise \$1b

**RELATED STORY:** WA Premier flags further asset sales ahead of budget

**RELATED STORY:** TAB sale unlikely to pass Parliament, WA Premier concedes

**MAP:** WA 

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- **Yahoo!7 News:** MP has doubts on TAB sale

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**Topics:** gambling, racing, state-parliament, privatisation-and-deregulation, wa

## Racing clubs worried about potential TAB sale

**Source:** Mandurah Mail (Australia)  
**Publication Date:** July 1, 2015  
**Country:** Australia  
**Source Type:** Newspaper

7/1/15 Mandurah Mail (Austl.) (Pg. Unavail. Online)

News

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WITH the state government committed to the sale of **TAB** racing in the Peel region hangs in the balance with clubs against the proposal.

Sian Hughes, general manager of the Pinjarra Harness Racing Club, said the sale of **TAB** was a major issue for all three codes of racing ??? greyhounds, thoroughbred and harness -??? in the Peel region.

???Funds generated by the **TAB** goes directly back to the racing industry to support racing clubs in the form of stakemoney for races, to employ staff, conduct race meetings and in infrastructure funding to provide the best facilities for our participants, members and patrons,??? she said.

In the Peel region approximately one in every 22 people has an involvement in the racing industry either as an employee, volunteer or participant.

Racing and gaming minister Colin Holt said the sale was simply a proposal and that he would consult the country racing industry throughout the process.

???The State Government???'s focus is ensuring an open and consultative due diligence process with the industry to make sure all the relevant information is understood,??? he said.

Ms Hughes said the Peel region had the highest proportion of harness racing industry participants in the State with more than 2000 participants in harness racing in the region.

???If the **TAB** were to be sold, a private buyer would not necessarily continue to invest back into the actual racing product, by increasing stakemoney or funding to clubs or infrastructure,??? she said.

???With the costs of keeping horses and preparing them to race, as well as maintaining racing clubs surely only rising in years to come, this could potentially make racing an unviable industry for participants to be involved in long term.???

Shadow racing and gaming minister Mick Murray labelled the plan ridiculous.-

???The **TAB** injects more than \$126 million worth of funding, and a further \$14m in infrastructure grants, to WA racing each year,??? he said.

???There has been talk of selling the **TAB** for as little as \$150m, which is a ludicrously small one-off amount when you look at how much money the **TAB** makes.???

Ms Hughes said the club was concern that Racing and Wagering Western Australia (RWWA), experts on wagering, were not being consulted in regards to the sale of the **TAB** at all.

???The sale of the **TAB** is certainly a dangerous proposal that would have dire long term consequences for our club, other country clubs and the entire harness racing industry ??? once it???'s sold there would be no going back,??? she said.

Premier **Colin Barnett** has previously said if a deal cannot be reached soon, the sale of the **TAB** may become a 2017 election issue.

## ---- INDEX REFERENCES ----

**NEWS SUBJECT:** Campaigns & Elections (1CA25); U.S. Congressional Campaigns (1US07)  
**INDUSTRY:** Athletics (1AT05); Casinos (1CA80); Entertainment (1EN08); Equestrian Events & Horse Racing (1EQ65); Horse Racing (1HO27); Marathons, Biathlons, & Triathlons (1MA39); Sports (1SP75)  
**REGION:** Australasia (1AU56); Australia (1AU55); Oceania (1OC40); Western Australia (1WE82)  
**LANGUAGE:** English  
**OTHER INDEXING:** (Sian Hughes; Colin Barnett; Mick Murray; Colin Holt)  
**WORD COUNT:** 451

## Murray Cowper MLA Member for Murray-Wellington



### RESOUNDING NO TO WA TAB SALE

**Murray Cowper** — 11 August 2015

11 August 2015

Racing and Gaming Minister Colin Holt has been urged to publicly declare the universal industry opposition his department has encountered to the State Governments' proposed sale of the WA TAB.

"The process of 'consulting' with racing, pacing and chasing owners in Country WA has turned into a universal rout against the government, in favour of retaining the TAB," Murray Wellington MLA, Murray Cowper said this week.

"I joined the "Owners' Only" breakfast sponsored by Racing and Wagering WA at the Larkhill training complex near Safety Bay on Monday and was amazed at the resounding support from owners, trainers, jockeys, and even stablehands in favour of retaining the TAB," Mr Cowper said.

"The same spirit of opposition has occurred at special consultation sessions between Bunbury and Broome

"Larkhill epitomises the success of our racing industry in WA because it serves as the training centre for many hundreds of horseowners and trainers throughout country WA.

"It has thrived since being taken over by RWWA with TAB funding, because it removes the need for country racing people to take their horses to Ascot through city traffic.

"Larkhill now serves as the winter training facility for about 70 owners and trainers in the South West when the Bunbury track closes for the winter season.

"Racing facilities provided by RWWA are also shared between Bunbury, Pinjarra and Larkhill under a system that has also greatly enhanced racing in the South West.

"TAB funding continues to underwrite all forms of racing in Country WA and that is a great bonus for what is now the second biggest industry in my electorate.

"WA cannot afford to lose the stability provided by its TAB and it is time for the destabilisation to stop," Mr Cowper said.

Media Contact: Murray Cowper – 0417 990 953

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12/2/2016

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## 'Absolute farce' in WA Parliament as Government MPs clash over TAB sale

By Jacob Kagi

Posted Wed 16 Sep 2015, 8:48pm

**Internal WA Government tensions over the proposed sale of the TAB have flared again, with numerous MPs crossing the floor and Parliament descending into scenes described by the Premier as "an embarrassment".**

Liberal backbenchers Murray Cowper, Glenys Godfrey, Rob Johnson and Graham Jacobs all crossed the floor during a Labor-initiated debate on the Government's proposal to sell the state-run betting agency.

Ms Godfrey and Mr Cowper both voted in support of a Labor motion to oppose the sale of the TAB, which was defeated by a Liberal and National majority.

At one point, seven Nationals members, including leader Terry Redman and former racing and gaming minister Terry Waldron, also looked set to vote with Labor, but they changed their mind after a discussion with Liberal Party whip Tony Kristevic.

The debate descended into chaos after four separate amendments to the original Labor motion opposing the sale of the TAB, with Parliament forced to adjourn as Speaker Michael Sutherland sought advice on appropriate procedure.

Premier Colin Barnett described the scenes as "an embarrassment for the Parliament and an absolute farce".

But the debate showed discontent within Government ranks about the potential sale of the TAB, with Mr Cowper and Mr Jacobs both admitting their regional constituents had overwhelmingly voiced displeasure about the move.

"We are here for a specific reason, and that is to represent our constituencies. I'm here to represent my constituency, of which something like 5,000 people are involved in the racing industry," Mr Cowper told Parliament.

"Not one of those people has said they wish to sell the TAB, in fact to the contrary.

"The biggest issue we have is we have a notion that we are going to sell the TAB and straight away you put uncertainty into the industry."

### Supporters of TAB sale defend move

Liberal MP John McGrath, a long-time racing advocate, defended the Government's plans, and insisted the racing industry would be no worse off under any sale.

Emergency Services Minister Joe Francis also warned the existing TAB would never be able to compete with the private sector.

"Go to Google, put in TAB WA and see the first betting agency that comes [up] is. It's Sportsbet, it's not the TAB WA," he said.



**PHOTO:** The debate in State Parliament sparked scenes described as "an absolute farce" by Colin Barnett. (ABC News: Jacob Kagi)

**RELATED STORY:** WA's TAB invests millions on new retail outlets despite possible sale

**RELATED STORY:** Liberal MP opposes TAB sale in WA, raises consultation concerns

**RELATED STORY:** WA budget forecasts \$2.7b deficit, asset sales, public sector cuts

**MAP:** Perth 6000

"How on earth do you think to think the WA TAB, run by a Government agency, is ever going to be able to compete with the rise of the online betting agencies?"

Emergency Services Minister Joe Francis

"How on Earth do you think to think the WA TAB, run by a Government agency, is ever going to be able to compete with the rise of the online betting agencies?"

After Labor's motion to oppose the sale, four amendments were moved — three from the Liberals and one from Labor.

Confusion over how to handle them brought proceedings to a halt as the Speaker attempted to clarify the proper procedure.

The Labor motion was defeated, despite the support of Mr Cowper and Ms Godfrey.

The Liberals and Nationals then used their numbers to pass a motion offering conditional support for the sale.

The motion stated the State Government would only support the sale if there was a guaranteed ongoing benefit to the racing industry, and local communities throughout WA.

**Topics:** state-parliament, states-and-territories, gambling, perth-6000

## Premier still on track to offload TAB

**Source:** West Australian  
**Publication Date:** November 6, 2015  
**Country:** Australia  
**Source Type:** Newspaper

11/6/15 W. Austl. 12

News

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Section: MAI  
Daniel Mercer

Premier Colin Barnett says he will push ahead with plans to privatise the TAB despite profits from the State-owned betting agency hitting a record high.

Mr Barnett insisted yesterday that the financial viability of the TAB would diminish in the years ahead amid the rapid growth of online and mobile sports betting services.

The Government body that runs the TAB, Racing and Wagering WA, released its annual report yesterday showing its net return dipped from \$8.9 million to \$5.9 million.

The fall was not reflected in the performance of the TAB, which increased its profitability in the 12 months to June 30 by 5 per cent to \$156 million.

As a result of the TABs performance, distributions, grants and subsidies to racing and sporting bodies jumped \$11.3 million to \$150.1 million.

Despite the rise, Mr Barnett pointed to the "extraordinary" variety of online sports betting products to predict the TABs value would be eroded over time.

"I think the value of the TAB, over time, will fall," he told ABC Radio.

"You only have to watch a sports program on television to see the numbers of different betting agencies, the extraordinary variety of options and odds they offer.

"It is too much, too much advertising, by the way. But in that market, the TAB will gradually lose market share."

As he reasserted his view that the Government should not own a betting agency, Mr Barnett also took aim at the racing industry by saying it was "pretty old and pretty tired" and needed to modernise.

His vow to offload the TAB has put him at odds with the State Opposition as well as his Governments partners, the Nationals, who say they will block it.

Mr Barnett conceded the privatisation push faced a rocky road in Parliament but was adamant about its long-term merits.

Racing and Wagering WA chief executive Richard Burt noted the TABs profitability had risen 50 per cent in the past five years and described it as a "very credible" organisation that was delivering for the racing industry.

---- INDEX REFERENCES ----

**NEWS SUBJECT:** Business Management (1BU42); Corporate Events (1CR05); Privatization (1PR92)  
**INDUSTRY:** E-Commerce (1EC30); E-Commerce Industries (1EC99); Entertainment (1EN08); Internet (1IN27); Online Gambling (1ON09); Retail (1RE82); Sports (1SP75); TV (1TV19); TV Programming (1TV26)  
**LANGUAGE:** English  
**OTHER INDEXING:** (Colin Barnett; Richard Burt)

Westlaw AU

Westlaw News



EDITION: Second  
WORD COUNT: 341

## TAB sale: Racing group urges WA Government to end uncertainty over potential privatisation

**Source:** ABC Premium News  
**Publication Date:** December 22, 2015  
**Country:** Australia  
**Source Type:** Broadcast

12/22/15 Austl. Broad. Corp. (ABC) News (Pg. Unavail. Online)

News

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Andrew O'Connor

Wednesday, December 23, 2015

The racing industry in Western Australia wants the State Government to make a clear decision on the future of the TAB and end more than 18 months of uncertainty.

The key group representing three codes of racing believes almost no progress has been made since the Government first flagged the potential privatisation of the TAB in 2014.

Michael Grant is a prominent racing identity and a member of the Racing Representative Group, a five-member team representing thoroughbred, harness and greyhound racing.

If selling the TAB was a 10-step process, Mr Grant said the WA Government and the industry had yet to kick-off.

"I'd say we wouldn't have completed step one," he said.

That first step, according to Mr Grant, is for the Government to establish a clear and properly funded process for engaging with the industry.

The Government first raised the possibility of selling the TAB in 2014, but included in its list of assets for sale in this year's May budget.

Since then it has been consulting with the industry but has run into opposition from both its alliance partner, the Nationals, and its opponents, the Labor Party.

Government yet to 'push the trigger'

While Treasurer Mike Nahan has characterised the proposed sale of the Fremantle Port as complex, Mr Grant believes the sale of the TAB is even more challenging.

He said the Government needed to make a decision.

"At the end of the day, the Government hasn't actually pushed the trigger yet and actually said, we are going to sell," he said.

"They keep talking about we haven't made a decision yet, they're still dancing around the issue.

"What's important for the Government to understand, and we have pushed them on this issue, is that the racing industry is suffering as a result of the uncertainty surrounding the sale of the TAB."

That uncertainty deepened on Monday when Dr Nahan released the Government's mid-year review of the budget.

To pay down spiralling debt, the Treasurer flagged an expanded program of asset sales, but he appeared to cast doubt on whether the sale of the TAB would proceed.

"It is politically contentious. We understand it. And the ability to get it through parliament has to be in question. So we move on," he said on Monday.

Political headwinds too strong: Nahan

The following day, the Treasurer was clearly pessimistic about the prospects of getting the necessary political support for the sale.

"I actually think that we have a commitment to sell the TAB, but I think the political headwinds are too strong," Dr Nahan said.

He said the problem was convincing the industry.

"The key task has always been to convince the industry. The resistance to [the sale of the] TAB doesn't come from the politicians, it comes from sections of the industry," he said.

"So we've had extensive discussions with the industry to convince them that it is in their and our best interest, we're not there yet."

But according to Mr Grant and the Racing Representative Group, consultation means real engagement, not just talk.

And so far, he said, that has not happened.

"We're just still waiting and that's probably been the biggest frustration because we obviously get a lot of questions asked by industry... Where you at? What's happening with the TAB? And I'd just like to be able to give them more," he said.

Mr Grant said some Government politicians, like Racing and Gaming Minister Colin Holt, had been speaking with racing industry participants in rural and regional areas.

But he said that was not the level of engagement required to develop a viable plan to privatise the TAB in a way that secured a good price for the Government, and a stable, sustainable future for the industry.

"I think if the Government was focused on engaging with the industry and making the industry comfortable and giving industry the assurances that it needs, I think the politics would take care of itself."

The Racing Representative Group has already spent \$200,000 funding the Gunston Report, a comprehensive assessment of the state of the industry and the issues that would need to be addressed for privatisation to be viable for the sector.

In October, it submitted to Government a detailed proposal for an engagement process, including a substantial request for funding to allow the industry to retain expert commercial and legal advice to prepare for the sale.

Mr Grant said the funding request, for an unspecified sum, was reasonable given the Government has initiated the privatisation and will be the principal beneficiary.

He believes the expert advice on a complex transaction will help maximise the return to Government and secure the industry's future.

"The cost associated with the funding will add value to the licence. There's no question about that," he said.

So far, the industry has yet to receive a response.

Mr Grant urged the Government to move on the issue quickly.

"We're just hopeful that the New Year will bring a positive engagement with the Government," he said.

Labor remains opposed to TAB sale

State Opposition Leader Mark McGowan said the fresh uncertainty over the TAB was exacerbating the industry's concerns about its future.

Labor opposes the sale of the TAB, and believes the Government's move to sell it is another indicator of its reckless financial management.

"The Government has said they're going to sell the TAB, they're not going to sell the TAB, they might sell the TAB," Mr McGowan said.

"They have no financial plan and no financial credibility and this is another example of it."

---- INDEX REFERENCES ----

**LANGUAGE:** English

**NEWS SUBJECT:** Business Management (1BU42); Corporate Events (1CR05); Government (1GO80); Privatization (1PR92)

**INDUSTRY:** Entertainment (1EN08); Equestrian Events & Horse Racing (1EQ65); Horse Racing (1HO27); Sports (1SP75)

**REGION:** Australasia (1AU56); Australia (1AU55); Oceania (1OC40); Western Australia (1WE82)

**OTHER INDEXING:** (Michael Grant; Mike Nahan; Colin Holt; Mark McGowan)

**WORD COUNT:** 940

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## Department of Treasury

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### TAB

The TAB provides online and retail outlet wagering services throughout Western Australia. The TAB is currently part of Racing and Wagering Western Australia (RWWA). As well as operating the TAB, RWWA is responsible for overseeing racing within Western Australia, which includes fostering development and ensuring the integrity of racing through the regulation and supervision of racing in Western Australia. RWWA distributes a percentage of the net profits it receives from the TAB in order to support the racing industry.

The racing and wagering industry has changed rapidly over recent years, with the increase in corporate bookmakers and online sports wagering. The TAB has operated successfully in Western Australia, and this has resulted in a strong racing industry. However, the consideration of a sale of the TAB provides an opportunity to address the likely challenges that will arise in the future.

The Government will continue consulting with the racing industry to develop an agreed solution for a sale and industry funding structure that will enable the Government to realise the value of the TAB, but also ensure the racing industry remains strongly supported into the future.

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# TAB privatisation in trouble as racing industry digs in against WA Government over sale

By Andrew O'Connor

Posted Wed 18 May 2016, 2:24pm

**The West Australian Government and racing industry appear to be on a collision course over the proposed sale of the TAB, with growing speculation the industry is set to withdraw its support for the move.**

There has been deepening disagreement over how the sale of the government-owned betting agency should be handled.

The WA Racing Representative Group (WARRG), an industry collective set up by the three racing codes to negotiate with the Government, now looks set to adopt an official position against the sale in the absence of a "commercially responsible engagement process".

The group will meet with Racing and Wagering WA on Friday to discuss a way forward.

Industry figures have been pushing for a funded engagement program with the Government, in an effort to ensure any sale conditions protect the long-term viability of the sector.

However two years after first flagging the privatisation of the agency, the industry remains deeply concerned at the lack of a formal process and the implications for racing.

WARRG wrote to Premier Colin Barnett more than a week ago seeking urgent clarification, after he rejected the industry's view that the sale should be a tripartite transaction involving the Government, industry and purchaser.

Mr Barnett had earlier met with the group in March to discuss the issue of engagement and consultation.

## Industry's latest concerns follow Barnett letter

In a subsequent letter dated May 10, Mr Barnett told WARRG chairman Michael Grant he stood by his public statements that the TAB privatisation would be a government, not industry, driven process.

"Your understanding of the racing industry and views about the allocations of proceeds from a sale are appreciated, however as I made clear in our meeting and which I have made clear in the media while the Government seeks to work with the industry on the this issues, it is the Government that is responsible for the sale process," the Premier wrote.

Mr Barnett said the Government sought to consult widely with the industry and get a "good understanding" of its view.

But he said he believed the two existing horse racing tracks at Ascot and Belmont were not viable.

"It is in this context that I have made clear the view of the Government that two metropolitan racing tracks are not sustainable and the latest request for funding from Perth Racing for an upgrade to Belmont is evidence of this," he said.

Mr Barnett said the sale of the TAB would follow the existing process for asset sales, with legislation to be introduced to Parliament.



**PHOTO:** Some racing clubs are worried about the loss of TAB revenue after any sale. (ABC Goldfields: Nathan Morris)

**RELATED STORY:** Barnett's TAB comments spark industry concerns over sale

**RELATED STORY:** Barnett rules out lead role for racing industry in TAB privatisation

**RELATED STORY:** Uncertainty over TAB sale as timeline thrown into doubt

**MAP:** Perth 6000



**PHOTO:** Industry leaders including Michael Grant (centre) voiced early concerns about the sale in 2014. (ABC News: Emily Piesse)

"While this will be a challenge to get through the Parliament in 2016, as I indicated in our meeting, it does not stop the Government consulting on the issue, being informed of views and undertaken analysis to better inform a sale process," Mr Barnett wrote.

## Racing industry will not run sale: Nahan

Treasurer Mike Nahan backed the Premier's position, arguing the industry had an important place and would be consulted, but would not have the final say on how the sale proceeded.

"They provide vital product, in fact they provide the essential product, upon which the business runs," Dr Nahan said.

"They will have input to it but they won't control the process. To be honest they wanted more than just an input to the process, they wanted to control the process, as if they own it. But they don't."

Dr Nahan said the Government had consulted extensively with the WARRG and provided \$300,000 to fund a report on the industry requirements for the proposed privatisation.

"This is in the public interest. The public of Western Australia own that asset and the government who represents the public of Western Australia will make the decision," he said.



**PHOTO:** Mike Nahan says the Government will listen to the industry but make its own decision. (ABC News: Andrew O'Connor)

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### More on this story:

- Asset sales could reduce debt by \$11b: WA Government
- Premier defends asset sales program
- Barnett's TAB comments spark industry concerns over sale
- Barnett rules out lead role for racing industry in TAB privatisation
- Doubts over TAB sale as timeline thrown into doubt
- WA racing minister touts for TAB as uncertainty continues
- WA racing industry wants \$500k for consultation on TAB sale

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**Topics:** gambling, states-and-territories, horse-racing, harness-racing, perth-6000, wa

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📷 WA Nationals leader Terry Redman.

■ WA News ■

## Joe Spagnolo: Nationals stubborn approach to Liberal plans costly for Barnett

JOE SPAGNOLO, Political Editor, PerthNow

May 21, 2016 8:00pm

THE WA National Party handed Colin Barnett the premiership in 2008. Now, the Nationals threaten to bring about Barnett's demise by blocking key parts of his

12/6/2016

Joe Spagnolo: WA Nationals threatening to bring down Colin Barnett | Herald Sun

## Budget rescue plan – selling off Government assets.

The National Party's continual dithering, and opposition to key elements of Barnett \$16 billion privatisation agenda (the Liberals' main proposal to reduce a projected \$40 billion state debt) has made the Premier look weak and devoid of a real plan to bring the Budget back to surplus.

And this, I believe, is showing in the polls.

Dare I say it, the WA Nationals have become to Barnett what the Senate was to Prime Minister Malcolm Turnbull before he called a Double D election – an obstructive force that stands in the way of making any real decisions.

Forget about blaming property developer Nigel Satterley for this week's savaging of the Liberal-National Government (Satterley attacked the Government over land tax hikes). This Government has been savaged for months.

Let's not forget, the first Newspoll – published in January this year – showed a Labor victory in 2017 and a plummeting of Barnett's popularity.

And when you are looking for reasons as to why the WA Government is so on the nose with voters, I would suggest that the Nationals are playing a significant role in this free fall.

Despite enjoying the spoils of being in Government and being an alliance partner (here in WA we don't call it a Coalition), the Nationals are behaving like the enemy.

The Nationals have been in an alliance with the Liberals since 2008. They have been part of Government decisions which have resulted in state debt increasing from \$3.6 billion to a projected \$40 billion.

The Nationals have opposed extended shopping hours in Perth, council amalgamations in the city and now a privatisation plan which is supposed to be the saviour of the WA Budget.

Questions put to Nationals leader Terry Redman by The Sunday Times recently show the Nationals' stubborn stance on Government initiatives.



 Joe Spagnolo.

12/6/2016

Joe Spagnolo: WA Nationals threatening to bring down Colin Barnett | Herald Sun

Q: Are there any circumstances by which the National Party will agree to the sale of Fremantle Port?

A: Based on what the Nationals were presented with last month (April) we were not able to support progressing the sale of Fremantle Port.

Q: Does the National Party still oppose the sale of the TAB?

A: The Nationals WA have always held the position that we support the sale of the TAB if there are clear benefits for the future of racing in WA and in particular, that country racing is not adversely impacted.

Q: What is the current position of the Nationals to the further deregulation of shopping hours?

A: Opposed.

Q: Can you make clear the Nationals' position on the sale/lease of Western Power's poles and wires network?

A: The Nationals WA will consider this on its merit when and if it comes on the table.

The WA Nationals have had the same strategy for several elections now: Walk as a conservative but talk as an independent.

And while this has ensured they win seats in the bush, it has come at a substantial cost to the Liberals.

The Nationals held the balance of power in the Legislative Assembly from 2008-2013.

Now, they hold the balance of power in the Upper House.

In an absurd situation for Barnett, three Nationals sit in Cabinet – Redman, Mia Davies and Colin Holt.

But on several occasions, these three ministers have walked out of Cabinet when it suits and have opposed key policies.

This has made Barnett look weak and a toothless tiger.

The Nationals need to make a decision: Do they want to be part of Government, or return to life on the backbenches?

Barnett has a right to ask himself: With friends like the Nationals, who needs enemies?

Originally published as [Nationals set up Barnett's downfall](#)

## Privatisation may render family-operated TABs worthless

2 Jun 2016, 11:14 a.m.

[\(https://www.facebook.com/sharer/sharer.php?u=http://www.colliemail.com.au/story/3944716/privatisation-may-render-family-operated-tabs-worthless/\)](https://www.facebook.com/sharer/sharer.php?u=http://www.colliemail.com.au/story/3944716/privatisation-may-render-family-operated-tabs-worthless/)

[http://twitter.com/share?url=http://www.colliemail.com.au/story/3944716/privatisation-may-render-family-operated-tabs-worthless/&text=Privatisation may render family-operated TABs worthless&via=collie\\_mail\)](http://twitter.com/share?url=http://www.colliemail.com.au/story/3944716/privatisation-may-render-family-operated-tabs-worthless/&text=Privatisation%20may%20render%20family-operated%20TABs%20worthless&via=collie_mail)

[\(mailto:?subject=Privatisation may render family-operated TABs worthless&body=Hi,I found this article - Privatisation may render family-operated TABs worthless. and thought you might like it http://www.colliemail.com.au/story/3944716/privatisation-may-render-family-operated-tabs-worthless/\)](mailto:?subject=Privatisation%20may%20render%20family-operated%20TABs%20worthless&body=Hi,I%20found%20this%20article%20-%20Privatisation%20may%20render%20family-operated%20TABs%20worthless.%20and%20thought%20you%20might%20like%20it%20http://www.colliemail.com.au/story/3944716/privatisation-may-render-family-operated-tabs-worthless/)



WA's more than 120 family-operated TAB businesses may become worthless upon privatisation, Racing and Wagering Western Australia chief executive Richard Burt has confirmed.

Responding to Opposition questioning in Budget Estimates hearings, Mr Burt said TAB licensees were not franchise owners and could provide no assurance they could derive any value from the licences upon privatisation.

He said the issue was "top of mind" but any assistance to businesses and families impacted by privatisation would be a decision of government, "similar to the issue of taxis".

Mr Burt said the Liberal-National Government had made no approach to RWWA to discuss plans for TAB licence holders in the event of a sale, nor done any analysis of the way in which other states handled their TAB licensees upon privatisation.

CShadow Minister for Agriculture and Food Mick Murray said small businesses have been left short.

"It is concerning to hear Mr Burt compare the situation to the one taxi drivers are experiencing where they have invested hundreds of thousands of dollars into a small business and been left very short," he said.

12/1/2016

Privatisation may render family-operated TABs worthless | Collie Mail

“The State Government has not contacted RWWA to discuss plans for the 68 licences post-privatisation and I question why that hasn’t happened as part of the planning process.

News  Business

“It is not good enough to say they aren’t franchises so we can cut them loose – these are small businesses that often represent the entire livelihood of a family.

“With no planning having been done to manage a transition, and none announced by the State Government, there is a very real possibility that these 120-plus family businesses will be left high and dry after privatisation.”



## TAB sale: Minister admits privatisation could see electronic gaming machines outside Crown Perth

By Jessica Strutt and Garrett Mundy

Updated Tue 28 Jun 2016, 6:27am

**Western Australia's Racing and Gaming Minister has come under fire from one of his Government colleagues over suggestions electronic gaming machine rights could be included in a potential TAB sale.**

The possible expansion of gaming options as part of the potential sale of the TAB has alarmed social welfare advocates as well as Government backbenchers.

The Barnett Government has been investigating the sale of the state-owned betting agency for the past two years, as it seeks to bring down public debt.

Racing and Gaming Minister Colin Holt has confirmed a potential buyer could also seek to gain the rights to operate gaming machines as part of a deal.

"I think what we're saying here is any potential buyer, who may be operating in other states and have that ability, might want to come to Government with a proposal that does that," he said.

"And when that proposal comes we need to consider whatever they're proposing in terms of what the outcomes are for us as a community.

"And also what it delivers for the industry on the back of a potential sale."

Under current law only Crown Casino has the right to operate such machines in Western Australia.

### TAB sale could create 'mini-casinos'

Liberal MP Murray Cowper has long opposed any sale of the TAB, and said Mr Holt was not listening to the racing industry.

"He's got a select group that he's listening too. But the vast majority overwhelmingly do not want to see the sale of the TAB," Mr Cowper said.

"And [they] certainly don't want to see any sweeteners of running some sort of gaming machines and having these mini-casinos all over Western Australia.

"I'm wondering whether or not the National Party have given the Minister, for the South West by the way, the imprimatur to go out and negotiate on behalf of Government to sell off the TAB, and in part of the deal as a sweetener, bring in pokie machines. I just think it's a pail too far."

WA Opposition Leader Mark McGowan has accused the Government of trying to open the door to poker machines in WA.

"I'm sure the Government is examining all options so they can flog off the TAB and increase its value," he said.

"So I'm saying to the Government, close the door on this, slam the door shut, bolt it closed, and never open it again."

### Country pubs could get gaming machines

Mr Holt was adamant no proposal had yet been put to Government, but the ABC understands any potential buyer of the TAB could seek to operate Keno machines in TAB outlets and country pubs, as well as virtual horse racing games known as Trackside.

The Minister said any discussions along those lines would also need to include Crown Casinos.

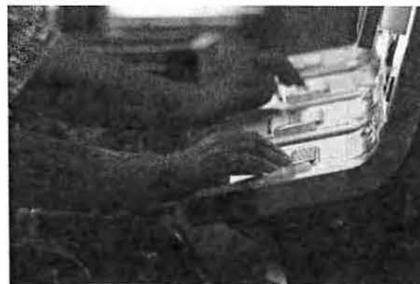


PHOTO: Only Perth's Crown casino is currently allowed gaming machines in WA. (ABC News)

**RELATED STORY:** TAB privatisation in trouble as WA racing industry digs in over sale

PHOTO: Racing and Gaming minister Colin Holt told cabinet a buyer for the TAB could seek right to operate gaming machines. (ABC News: Andrew O'Connor)

MAP: WA

### Key points:

- WA Government wants to privatise the TAB
- Gaming machines could be allowed at country pubs and TAB outlets as part of the TAB sale
- Minister says current policy is a good one

"I am sure at the moment they see themselves as the holder of those licences and would be pretty keen to retain them," he said.

But he said even without such a proposal, the TAB would still be an attractive asset to potential buyers.

"It's still a very well-run business and I think other operators in other states see it as a well-run business," he said.

"And that's why they're interested in it. It may not be about product expansion it may be just about what they do now.

The Barnett Government has historically opposed any expansion of gambling in Western Australia, and Mr Holt admitted any decision to allow a private operator to run gaming machines outside current arrangements would represent a major policy shift.

"I think that's a really good policy that this community celebrates," Mr Holt.

"We've got the lowest gambling rates in the nation. And one of the reasons is it's destination gaming machines only.

"And I think it would be a massive policy shift to move away from that."



PHOTO: Racing and Gaming minister Colin Holt told cabinet a buyer for the TAB could seek right to operate gaming machines. (ABC News: Andrew O'Connor)

## Cabinet proposal withdrawn

But he did not rule out such a move if it was presented as part of a purchase proposal from a private operator.

"I think it's one of the things you consider. But again those discussions need to be had. And we'll talk about it when the time's right," he said.

The ABC has confirmed a submission on the sale of the TAB was set to go to today's Cabinet meeting, but was withdrawn at the 11th hour.

Mr Holt released a statement after the Cabinet meeting, saying the Government had no intention of including gaming machine rights in the sale of the TAB.

The statement said any testing of the market in relation to the sale would take into consideration business models to "upgrade offerings in TAB retail outlets", but would also take into account potential social impact of such changes.

### More on this story:

- Asset sales could reduce debt by \$11b: WA Government
- Premier defends asset sales program
- Barnett's TAB comments spark industry concerns over sale
- Barnett rules out lead role for racing industry in TAB privatisation
- Doubts over TAB sale as timeline thrown into doubt
- WA racing minister touts for TAB as uncertainty continues
- WA racing industry wants \$500k for consultation on TAB sale

Topics: gambling, horse-racing, wa

First posted Mon 27 Jun 2016, 5:24pm

## Colin Barnett pushes ahead with TAB sale talks in race to privatisation finish line

**Source:** ABC Premium News  
**Publication Date:** July 12, 2016  
**Country:** Australia  
**Source Type:** Broadcast

7/12/16 Austl. Broad. Corp. (ABC) News (Pg. Unavail. Online)

News

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Andrew O'Connor

Tuesday, July 12, 2016

West Australian Premier Colin Barnett will meet racing officials again in the coming weeks as the State Government tries to secure a broad industry agreement to sell the TAB.

Premier Colin Barnett is set to meet racing officials again in the next few weeks as the West Australian Government tries to secure a broad industry agreement to sell the TAB.

The Government-owned betting agency is one of a diminishing list of assets the Government wants to privatise as part of its debt-reduction strategy.

That strategy gained momentum with the May budget , with state debt climbing to \$40 billion by 2020.

But like other key asset sales, such as the Fremantle Port, the sale process has become bogged down over disagreements on how the sale would be handled and how key stakeholders would be protected.

Mr Barnett said he was not concerned the industry may have lost faith in the Government's privatisation plans.

"Not particularly, but I'm meeting again with a group in the next couple of weeks and that's an ongoing discussion," he said.

"But the TAB is a Government-owned asset and it will be the Government that decides the terms under which the TAB is privatised."

Mr Barnett said there continued to be disagreement within the racing industry about aspects of the sale.

But he reiterated his view that this was a once-off opportunity for an industry wrestling with online betting competition, diminishing attendances and reduced numbers of owners and breeders.

He said there should not be two race courses so close to each other at Ascot and Belmont.

"I think until the racing industry can get it's mind around that, it's going to struggle. I think it's going to struggle," he said.

**"But if the TAB is sold, then perhaps \$100 million can be ploughed back into the racing industry to have state-of-the-art facilities that will attract people back to the races."**

He did not believe the industry would withdraw its support for the proposed sale.

Sale unlikely before 2017 election

"No, I don't think so because I think there's enough people in the racing industry know this is the one and only opportunity to reinvigorate, rejuvenate the racing industry in Western Australia."

But Mr Barnett said even with an agreement with the industry, a sale was unlikely before the election.

"It won't be sold before the end of this year, but I am confident that it will be sold," he said.

The Government's asset sales program has so far failed to deliver significant relief to the Government's spiralling state debt and appears set to deliver just two major asset sales by next year's state election.

The Government started announcing a string of asset sales more than two years ago, but so far has sold one significant asset - the Perth Market Authority for \$135 million.

Mr Barnett believes a second asset, the Utah Point Bulk Handling Facility in Port Hedland, will also be sold before the end of the year.

Plans to sell Fremantle Port have stalled with opposition from the Nationals, and other assets have been withdrawn in a process the Premier concedes is more complex and moving slower than expected.

"More complex now because they all require Parliamentary approval through legislation. So realistically, with the exception of Utah Point, I don't think you will see a significant privatisation this year."

Undisclosed number of bids for old power station site

Another asset still for sale is the East Perth Power Station site, trumpeted by the Government in February 2015 as a prestige location for an innovative mixed commercial and residential development.

Mr Barnett said there had been a number of bids, but he would not disclose how many.

"Very awkward to develop but that is a magnificent riverfront site so we'd love to see that developed," he said.

In an effort to bolster other land assets sales, the Government announced last June it would consider unsolicited offers for Government land or buildings.

A year later it's not clear what, if any, bids have been received or assets sold under that scheme.

"Not specifically, but there's no reason why companies or individuals can't come out, they might see an opportunity in a piece of land and make a bid, and if its an attractive one, the Government will accept it," he said.

Mr Barnett acknowledged some West Australians remained uncomfortable with the idea of selling public assets.

"I know people get very apprehensive about selling off public assets but during the course of this Government, the total assets of Government have gone up by about \$70 billion," he said.

Acting Opposition Leader Roger Cook said the failure to deliver promised privatisations was another reminder of the Government's fiscal woes.

"They can't be believed when it comes to their budget management. The Premier cannot be believed when it comes to their debt management program," Mr Cook said.

---- INDEX REFERENCES ----

**LANGUAGE:** English

**COMPANY:** MANITOBA TELECOM SERVICES INC

**NEWS SUBJECT:** Business Management (1BU42); Corporate Events (1CR05); Economic Policy & Policymakers (1EC69); Economics & Trade (1EC26); Government (1GO80); Privatization (1PR92); Public Finance (1PU60)

**INDUSTRY:** Ports & Harbors (1PO28); Transportation (1TR48); Water Transportation (1WA23)

**REGION:** Americas (1AM92); Australasia (1AU56); Australia (1AU55); North America (1NO39); Oceania (1OC40); U.S. West Region (1WE46); USA (1US73); Utah (1UT90); Western Australia (1WE82)

**OTHER INDEXING:** (Colin Barnett; Roger Cook)  
**WORD COUNT:** 825



## Nationals claim credit for racing industry change of heart on TAB sale

By Andrew O'Connor

Posted Tue 16 Aug 2016, 7:59pm

**The WA Nationals have claimed credit for convincing the state's racing industry to embrace the potential benefits of privatising the TAB after previous concerns it was being sidelined.**

The racing industry has spent two years negotiating with the State Government over the potential sale of the government-owned betting agency and has repeatedly expressed frustration at the Government's lack of engagement with the industry.

New Racing and Gaming Minister Brendon Grylls told Parliament his predecessor Colin Holt had convinced the industry to support the sale.

"The good work of the honourable Colin Holt has taken that industry from a fear campaign led by the Opposition spokesperson to an understanding of the issues and now asking the Government can we rapidly progress the Government's decision making around the TAB," he said.

Mr Holt stood down as racing and gaming minister to make way for Mr Grylls' return to Cabinet as Nationals WA leader.

The TAB was one of a string of assets identified by the Government for sale in its 2015 state budget, with the Premier initially predicting a potential sale price of \$1 billion.

But since then, negotiations with the industry have progressed slowly.

Late last month, the Premier met with the WA Racing Representative Group which handed over its long-awaited industry requirements report on the sale.

Mr Grylls told Parliament he would meet with industry representatives this week.

"This has been a very, very good process for the industry who now understand the challenges that they face, understand the opportunities that the sale of the TAB may bring to them and they're asking the Government to make a decision," he said.

"We will make our decision and make it available to the industry."



PHOTO: The TAB sale was first flagged in the 2015 state budget. (Brendon Thome: Getty Images)

MAP: WA

### More on this story:

- [Asset sales could reduce debt by \\$11b: WA Government](#)
- [Premier defends asset sales program](#)
- [Barnett's TAB comments spark industry concerns over sale](#)
- [Barnett rules out lead role for racing industry in TAB privatisation](#)
- [Doubts over TAB sale as timeline thrown into doubt](#)
- [WA racing minister touts for TAB as uncertainty continues](#)
- [WA racing industry wants \\$500k for consultation on TAB sale](#)



HERBERT  
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## Press Conference Colin Barnett 19 October 2016

Journalist Tatts and Tabcorp are looking at a merger, it's been reported. What impact on the price – what impact would it have have – sorry, on the price of any potential TAB sale here in WA?

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CB Look I don't believe it will make a difference on the price. I mean – I guess, if they weren't merged they may bid against each other, but I think today in a very sophisticated financial world, people – any bidder would just simply do their own financial modelling, analyse the cash flow that will come from a TAB. And I'm pleased that the racing industry, in broad terms, now supports the privatisation of the TAB. Again, racing's in trouble – you know, it's been declining in terms of people going to the races, revenue is not as strong as it could be. So a privatised TAB – I think, offers a lifeline to the racing industry in terms of upgrading facilities, whether it's Ascot or Belmont and regenerating that sport and that interest.

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Journalist But it would have to impact on price wouldn't it, because Tabcorp and Tatts – understanding from what Treasury have said – were the two main likely bidders for TAB, so if they're then one big conglomerate, surely that ...

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CB No – look, I don't think it will. There may well be other bidders as well. In fact, I'd expect there to be other bidders. But the Government will only sell the TAB if it gets the right price for it. And you know, you can be pretty certain what the price is going to be for these assets. Everyone knows the finances and they've put it through the analyses – it spits out a number and that's what people will bid.

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Journalist Have you got your in-principle Agreement with the racing industry, or are you still working towards that?

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CB Well, the Government doesn't require the agreement of the racing industry, but now, I think, most sections of the racing industry do agree that it's the right thing to do. And I think broadly, in terms of sort of government policy, it's not appropriate today for a government to own a betting agency. I just don't think that's not life in the 21<sup>st</sup> century.

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Journalist That was the term that you used when you said that you'd like to get an in principle

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HERBERT  
SMITH  
FREEHILLS

Agreement ...

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CB Well – yes, and I think we have now. The racing industry's come out in broad support of it. I mean they're looking for some investment in the facilities – we accept that. They're wanting to be assured that the revenue streams of the racing codes will continue and it will – that'll be part of the sale conditions.

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# Privatising TAB back on track

The West Australian · 2 Feb 2017 · Daniel Emerson, Gary Adshead and Dylan Caporn

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The WA TAB is all but certain to be privatised after the three major parties yesterday revealed they would go to the election in support of the previously contested move.

After first being touted in 2011 and added to the State Government's assets sales list in 2014, the privatisation had fallen off the political radar until Monday when the industry described continuing uncertainty as a "noose around (its) neck".

The WA Racing Representative Group has called for a "no worse off" privatisation committing \$100 million to an infrastructure fund and guaranteeing recurrent yearly funding of at least \$193.7 million from any buyer.

After being opposed at various stages by WA Labor, the Nationals and the industry and more recently put on the backburner by the Liberals, yesterday heralded a breakthrough. Premier Colin Barnett said "the position of the Liberal Government is yes, we would sell the TAB".

Opposition Leader Mark McGowan said: "If the racing industry is united and wants to sell it, then would agree with that."

Nationals leader Brendon Grylls said the industry model would "breathe new life back into the sport of racing".

WARRG chairman Michael Grant said last night: "We look forward to working with the next State government to find a positive outcome." The timing for the on-again, off-again Ellenbrook rail link has been brought forward but could still be more than 30 years away.

The final version of the Barnett Government's long-term transport plan was released online yesterday and has shifted the timing for the link — which is a spur line to Marshall Road in Malaga — so it will be ready before Perth's population hits 3.5 million in about 2050.

1 of 1 results

NewsRoom

2/3/17 Australian (Newspaper) 5  
2017 WLNR 3380922

Australian

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February 3, 2017

Section: TheNation

## Libs need last-gasp deal with Hanson

ANDREW BURRELL; EXCLUSIVE

Support for Pauline Hanson's One Nation is soaring across **WesternAustralia** ahead of next month's state election, in a dramatic shift that could deliver it lower house seats and help the Labor Party win government.

The latest Newspoll, taken exclusively for The Australian this week, suggests the rapid re-emergence of One Nation will hinder Premier Colin Barnett's attempt to win a third term on March 11.

The result will increase pressure on Mr Barnett — the nation's longest-serving leader — to negotiate a preference-swap deal with One Nation, which could be his only chance of hanging on to power.

With the campaign officially beginning this week, the Labor Party under Mark McGowan has increased its election-winning lead over the Liberal-National government.

The ALP leads by 54 per cent to 46 per cent in two-party preferred terms — up from 52-48 in the last Newspoll in October — which would deliver the party 14 more seats at the election and make Mr McGowan premier.

The Liberal Party's primary vote has slumped to just 30 per cent — its worst result in the Barnett era. Labor's primary vote also went backwards, from 41 per cent to 38 per cent.

But One Nation's share of the statewide primary vote soared from 3 per cent to 13 per cent, making it more likely the party will hold the balance of power in the upper house.

Senator Hanson unveiled her candidates for the election only last month after the party had been largely inactive in **WesternAustralia** for years.

One Nation's leader in the state, businessman Colin Tincknell, claimed last night that internal party polling was showing it could win more than 30 per cent of the vote in several seats in regional and outer-suburban areas, where the state's economic downturn was hitting hard.

Attributing One Nation's success to voters being sick of "political correctness", he said the party aimed to win the seats of Swan Hills, Darling Ranges, Baldivis, Central Wheatbelt, Roe, Moore, Pilbara, Kalgoorlie, Collie-Preston and Warren-Blackwood.

All but two of the seats are held by the Liberal-National government. "In those 10 seats, we are running second at the moment," Mr Tincknell said. "We can win them by polling 35 per cent (of the primary vote) and then picking up another 15 per cent of the vote on preferences." The Newspoll survey also asked One Nation voters about how they intended to allocate their preferences.

The flow of preferences was split roughly 50-50 between Labor and the Liberal-Nationals, which would boost Labor's chances in several conservative-held seats that it aims to win.

The Liberals are expected to attempt to strike a preference deal with One Nation, but Mr Tincknell said last night he expected One Nation would allocate preferences equally to both Liberal and Labor in different seats.

He defended the party's policy of opposing the **sale** of poles-and-wires utility **Western Power**, a move proposed by the Barnett government that would slash state debt by about \$8 billion.

"Quick fixes are not the answer (to cutting debt)," he said. "Once you privatise — the **TAB**, **Western Power**, or the ports — once we get rid of all of our assets, history tells us that the cost of living goes up.

"So when you're on the margins, when you're a pensioner or a low-income worker, you can't afford to pay more for power or going down to have a bet." Mr Tincknell said he believed debt would need to be repaid slowly, but the best way to fix the budget was to create jobs. "I'm sick and tired of McGowan, Barnett and (Nationals leader Brendon) Grylls saying we can fix the budget in one term — they're just hoodwinking the public," he said.

According to Newspoll, Mr Barnett's personal approval ratings have improved slightly but remain among the lowest ever recorded by a state leader.

Only 32 per cent of voters are satisfied with his performance and 57 per cent are dissatisfied. In contrast, 46 per cent of voters are happy with Mr McGowan and 34 per cent are dissatisfied. On the question of who would make a better premier, 32 per cent nominated Mr Barnett and 44 per cent chose Mr McGowan.

---- **Index References** ----

News Subject: (Campaigns & Elections (1CA25); Global Politics (1GL73); Government (1GO80); Political Parties (1PO73); Public Affairs (1PU31); World Elections (1WO93))

Region: (Australasia (1AU56); **Australia** (1AU55); Oceania (1OC40); **WesternAustralia** (1WE82))

Language: EN

Other Indexing: (Pauline Hanson; McGowan; Brendon; Colin Tincknell; Colin Barnett; Warren-Blackwood)

Edition: Australian

Word Count: 697

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**NewsRoom**

2 of 2 results

## NewsRoom

2/13/17 AAP Newswire 16:20:49

AAP Newswire

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February 13, 2017

### **WA:WA** Libs One Nation deal 'dirty, desperate'

By Rebecca Le May

PERTH, Feb 13 AAP - The **WA** Liberals have been warned they could lose the state election after sealing a preference deal with One Nation that the opposition has labelled dirty and desperate.

The Liberals may also have done irreparable damage to their relationship with Coalition-turned-alliance partners The Nationals after agreeing to preference One Nation ahead of the country-focused party in some of **WA's** upper house seats.

In return, One Nation would preference the Liberals above Labor in the lower house, Premier Colin Barnett confirmed on Sunday, describing the deal as pragmatic and practical.

Federal Nationals leader Barnaby Joyce warned Mr Barnett the deal could result in him losing the March 11 election.

"Colin Barnett has been around the political game a long while and should seriously consider whether he thinks this is a good idea or whether he is flirting with a concept that ultimately will put his own side in opposition," he told reporters in Canberra on Monday.

One Nation state leader Colin Tincknell said the agreement gave his party a strong chance of gaining the balance of power in parliament.

He also claimed One Nation would be preferred by the Liberals in the lower house in "many, many, seats" but refused to specify which ones.

"That is the bit that's going to make the difference for us because that'll mean we have more members of parliament," he told 6PR radio.

If the party secured the balance of power, it would use it to stymie the Liberal agenda to privatise poles and wires utility **Western Power**, betting agency **TAB** and Fremantle Port, Mr Tincknell said.

Last year, the Nationals announced their opposition to the port **sale** and after initially decrying the proposed **TAB** privatisation, claimed credit for convincing the state's **racine** industry to back it.

State leader Brendon Grylls then endorsed the **Western Power sale**, but only after securing a commitment to improve services at the edge of the network in rural areas.

Mr Grylls described the One Nation deal as "a little slap in the face".

He said he believed it would boost his party's first preference votes - adding he had received calls from people who previously were going to hand out how-to-vote cards for the Liberals but would now do so for the Nationals.

Labor frontbencher Anthony Albanese said the **WA** Liberals had "run out of ideas and they're out of time".

"This was a dirty deal done dirt cheap," **WA** opposition leader Mark McGowan said.

"We are at a serious point in our state's life. The Liberals, Nationals and One Nation are an arguing rabble."

He told AAP it was a desperate move that could backfire among Liberal voters in multicultural seats including Perth, Mt Lawley, Bicton and Riverton.

AAP RLM/GR/mo

---- **Index References** ----

Company: FREMANTLE PORT AUTHORITY

News Subject: (Business Management (1BU42); Campaigns & Elections (1CA25); Corporate Events (1CR05); Global Politics (1GL73); Government (1GO80); Political Parties (1PO73); **Privatization** (1PR92); Public Affairs (1PU31); World Elections (1WO93))

Region: (Australasia (1AU56); **Australia** (1AU55); Oceania (1OC40); **WesternAustralia** (1WE82))

Language: EN

Other Indexing: (Colin Tincknell; Anthony Albanese; Colin Barnett; Barnaby Joyce; Brendon Grylls; Mark McGowan)

Keywords: PollWA; Tincknell; update; (with; video)11000000

Word Count: 468

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Document**

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**NewsRoom**

# Tabcorp Holdings Limited

## Delivering the franking

### Upgrades to wagering forecasts, but higher industry fees remains a key risk

We have increased our FY15-17e EPS by c1-5%, reflecting the net impact of upgrades to our wagering forecasts (wagering EBITDA upgraded by c6-11%) following stronger than expected performance in 1H15. Our wagering upgrades have been partially offset from incorporating dilution from the \$236m capital raising to fund the special dividend payment (our FY15-17e NPAT has increased by c6-12%). Despite our wagering upgrades, we continue to believe that higher industry fees (i.e. race field fees) poses a key source of downside risk to TAH earnings, and our TAH EBITDA forecasts remain below consensus estimates (by c4% and c8% in FY16/17e respectively according to IRESS, with our FY15e EBITDA broadly in-line) largely due to our assumption of higher race field fees in FY16/17e, in which we assume a 50bp across the board increase (i.e. across NSW, QLD and VIC) in race field fees in each of these years. Please see our note [With friends like these](#) dated 14<sup>th</sup> May-14 for further details.

### Franking credits still provide further upside

With TAH still having over c\$290m of franking credit balances (or c35cps of value), we believe there remains potential for further capital management potential at some point in the future (our forecasts assume c2.0x gross debt to EBITDA in FY16/17 which provides c\$230-280m in debt headroom in these years assuming 2.5x max gearing).

### Investment view – Sell

Whilst we acknowledge the strong growth in wagering that management have achieved over the last 18-24 months through increased investment and enhanced marketing and promotion, TAH continues to trade at a significant premium to our valuation despite our forecast upgrades and now incorporation of value for excess franking credits and a terminal value for Vic wagering, and is now trading on a FY15/16e P/E of 24.0x/24.7x based on UBSe, a premium to the market on c20x/18x (All Ind ex Fin) despite the risks inherent in TAH's wagering licenses (e.g. risk of potential race fields fees, industry fee hikes etc).

### Valuation: \$3.65 based on SOTP (from \$3.10)

We risk weight the VIC gaming entitlement at 25%. SOTP now ascribes value for excess franking credits and a terminal value in our Vic wagering DCF (i.e. beyond FY24).

## Equities

Australia  
Casinos

12-month rating **Sell**

12m price target **A\$3.65**

Prior: **A\$3.10**

Price **A\$4.98**

RIC: TAH.AX BBG: TAH AU

### Trading data and key metrics

52-wk range A\$4.98-3.35

Market cap. A\$3.81bn/US\$2.97bn

Shares o/s 766m (ORD)

Free float 100%

Avg. daily volume ('000) 2,755

Avg. daily value (m) A\$11.8

Common s/h equity (06/15E) A\$1.61bn

P/BV (06/15E) 2.6x

Net debt / EBITDA (06/15E) 1.9x

### EPS (UBS, diluted) (A\$)

|        | From | To   | % ch | Cons. |
|--------|------|------|------|-------|
| 06/15E | 0.20 | 0.21 | 5.07 | 0.22  |
| 06/16E | 0.19 | 0.20 | 5.14 | 0.23  |
| 06/17E | 0.20 | 0.21 | 0.93 | 0.25  |

Consensus source: IBES/Bloomberg estimates. UBS EPS methodology is explained at the back of the document.

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Analyst

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| Highlights (A\$m)        | 06/12   | 06/13   | 06/14 | 06/15E | 06/16E | 06/17E | 06/18E | 06/19E |
|--------------------------|---------|---------|-------|--------|--------|--------|--------|--------|
| Revenues                 | 3,039   | 2,003   | 2,040 | 2,140  | 2,218  | 2,284  | 2,342  | 2,392  |
| EBIT (UBS)               | 592     | 313     | 322   | 341    | 340    | 336    | 348    | 357    |
| Net earnings (UBS)       | 340     | 139     | 149   | 168    | 172    | 177    | 189    | 199    |
| EPS (UBS, diluted) (A\$) | 0.48    | 0.19    | 0.20  | 0.21   | 0.20   | 0.21   | 0.22   | 0.22   |
| DPS (A\$)                | 0.25    | 0.19    | 0.16  | 0.49   | 0.18   | 0.18   | 0.18   | 0.18   |
| Net (debt) / cash        | (1,073) | (1,145) | (967) | (980)  | (875)  | (767)  | (654)  | (539)  |
| Profitability/valuation  | 06/12   | 06/13   | 06/14 | 06/15E | 06/16E | 06/17E | 06/18E | 06/19E |
| EBIT margin %            | 19.5    | 15.6    | 15.8  | 15.9   | 15.3   | 14.7   | 14.9   | 14.9   |
| ROIC (EBIT) %            | 26.3    | 12.4    | 12.8  | 13.5   | 13.1   | 12.9   | 13.3   | 13.6   |
| EV/EBITDA (core) x       | 4.1     | 7.2     | 7.5   | 9.3    | 9.3    | 9.3    | 9.1    | 8.9    |
| P/E (UBS, diluted) x     | 5.9     | 16.3    | 17.4  | 23.9   | 24.7   | 24.3   | 23.1   | 22.3   |
| Equity FCF (UBS) yield % | 18.8    | 2.3     | 10.1  | 5.1    | 5.4    | 5.6    | 6.0    | 6.2    |
| Net dividend yield %     | 8.8     | 6.2     | 4.7   | 9.8    | 3.6    | 3.6    | 3.6    | 3.6    |

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of A\$4.98 on 10 Feb 2015 18:42 EST

# Investment Thesis

## Tabcorp Holdings Limited

### Investment case

Whilst we acknowledge the strong growth in wagering that management have achieved over the last 18-24 months through increased investment and enhanced marketing and promotion, TAH continues to trade at a significant premium to our valuation despite our forecast upgrades and now incorporation of value for excess franking credits and a terminal value for Vic wagering, and is now trading on a FY15/16e P/E of 24.0x/24.7x based on UBSe, a premium to the market on c20x/18x (All Ind ex Fin) despite the risks inherent in TAH's wagering licenses (e.g. risk of potential race fields fees, industry fee hikes etc).

### Upside scenario

We derive an upside scenario valuation per share of \$4.50 by assuming an 9.0x multiple on NSW wagering, 8x for keno, media and NSW Trackside, 7x for TGS and 100% risk weighting of the Vic entitlement. Should TAH successfully grow its TGS business into NSW and QLD, and jackpot pooling across NSW/QLD/VIC drive improved player demand, we estimate c\$0.20 per share in potential longer term upside.

### Downside scenario

Our downside scenario valuation per share of \$3.00 assumes a c5% deterioration in our base FY15e EBITDA, a 7x multiple for NSW wagering and Media & International, 5x multiple for TGS, and excludes potential upside from the Vic entitlement.

### Upcoming catalysts

FY15 result – Aug-15.

Outcome from media rights renegotiations with Vic Racing (we expect over the next 3-6 months).

Vic gaming entitlement outcome (we assume during FY16).

12-month rating

**Sell**

12m price target

**A\$3.65**

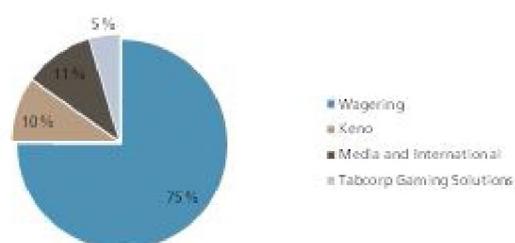
### Business description

Tabcorp (TAH) holds licenses to operate wagering businesses (tote and fixed odds) in NSW and VIC and fixed odds wagering in the Northern Territory. Its NSW licence expires in 2097 (exclusivity to 2013). TAH's Vic license is a 12-year exclusive licence to 2024 under a 50/50 JV with Racing VIC. In Jul-04, TAH completed the acquisition of TAB, whose key assets included the NSW wagering business and racing television broadcaster, Sky Channel. TAH also operates keno businesses across NSW, QLD and VIC. TAH's Tabcorp Gaming Solutions business commenced immediately after the expiry of its Vic gaming licence in Aug-12.

### Industry outlook

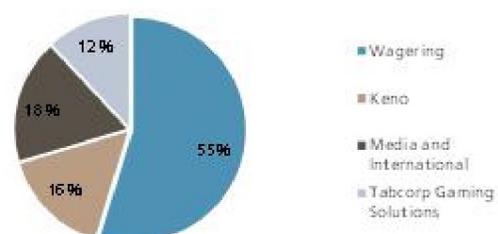
TAH's wagering and keno businesses are relatively low price point and non destinational in nature and hence we view as a less discretionary form of spend relative to other forms of gambling such as casino gaming. As such we view TAH's revenue base as relatively defensive, albeit low growth which is more in line with growth in household disposable income and CPI (2-3% pa). In more recent times TAH has been able to grow its wagering and keno businesses at a rate above CPI due on the back of capex including TAB venue refurbis and installation of self-service terminals, and new venue rollouts (keno). We forecast wagering revenue to grow by a c2% three year CAGR to FY16E.

### Revenues by segment (FY14A)



Source: Company data

### EBIT by segment (FY14A)



Source: Company data

## Incorporating higher wagering growth and impact of capital raising

### Upgrading wagering revenue growth assumptions given solid 1H performance

We have upgraded our TAH FY15-17e NPAT by c6%, c12% & c6% respectively, predominantly from upgrades to our wagering forecasts following stronger than expected performance during 1H15 (9.5% YoY EBITDA growth including media vs. UBSe of +4.3%), largely attributable to:

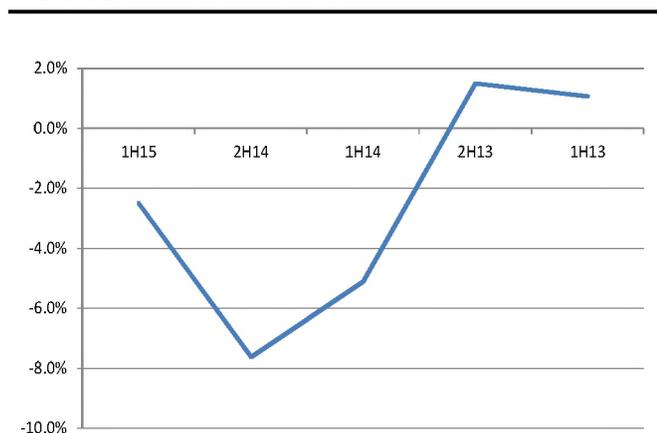
- Solid growth in NSW over VIC, reporting +8.6% YoY revenue growth vs. +3.6% VIC, driven by sports (+38% YoY vs. +19% Vic), Trackside (+16% YoY vs. +7% Vic) and racing (+5.0% YoY vs. +2% Vic).
- c33% YoY growth in fixed odds and Luxbet revenues;
- A lower than expected decline in tote revenues, down 2.5% YoY in 1H15 vs. -6.3% YoY in FY14.

**Figure 1: TAH wagering growth rates**

| In \$m            | 1H15  | 2H14  | 1H14  | 2H13  | 1H13  | 2H12  | 1H12  |
|-------------------|-------|-------|-------|-------|-------|-------|-------|
| <b>Revenue</b>    |       |       |       |       |       |       |       |
| Tote              | 663.3 | 582.6 | 680.3 | 630.7 | 716.9 | 621.4 | 709.4 |
| Fixed odds        | 322.0 | 268.3 | 243.2 | 208.6 | 195.6 | 169.1 | 152.3 |
| Trackside         | 52.3  | 42.2  | 47.1  | 42.8  | 45.5  | 40.5  | 41.8  |
| Luxbet            | 26.5  | 28.0  | 19.9  | 19.5  | 19.6  | 15.6  | 12.3  |
| <b>YoY Growth</b> |       |       |       |       |       |       |       |
| Tote              | -2.5% | -7.6% | -5.1% | 1.5%  | 1.1%  |       |       |
| Fixed odds        | 32.4% | 28.6% | 24.3% | 23.4% | 28.4% |       |       |
| Trackside         | 11.0% | -1.4% | 3.5%  | 5.7%  | 8.9%  |       |       |
| Luxbet            | 33.2% | 43.6% | 1.5%  | 25.0% | 59.3% |       |       |

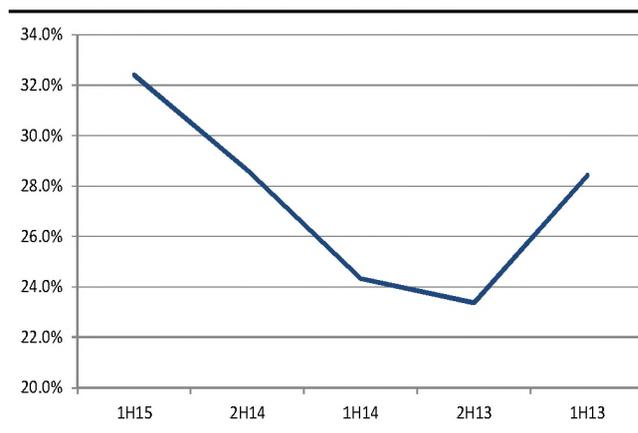
Source: UBS, Company data

**Figure 2: Tote – YoY revenue growth**



Source: UBS

**Figure 3: Fixed odds – YoY revenue growth**



Source: UBS

We now forecast 5.2% YoY wagering revenue growth (from +2.2% previous) which compares to +6.9% YoY growth in 1H15, which included some benefit from the Soccer World Cup in Jul-14 (+\$10.3m incremental revenues).

In FY16e we forecast revenue growth to moderate to +3.5% YoY (from +0.2% previously) given the solid pcp comp.

### However risks from potential higher industry fees remain

Despite our wagering upgrades, our TAH EBITDA forecasts remain below consensus estimates (by c4% and c8% in FY16/17e respectively according to IRESS, with our FY15e EBITDA broadly in-line) largely due to our assumption of higher industry fees (i.e. race field fees) in FY16/17e, in which we assume a 50bp across the board increase (i.e. across NSW, QLD and VIC) in race field fees in each of these years.

We no longer assume higher race field fees in FY15e as we assume the next fee increase occurs around Jun-15 (for further details, please see our note [With friends like these](#) dated 14<sup>th</sup> May-14)

**Figure 4: Wagering – changes to UBSe**

| In \$m          | FY15e       | FY16e        | FY17e       |
|-----------------|-------------|--------------|-------------|
| Revenue - old   | 1,609.6     | 1,613.3      | 1,637.9     |
| Revenue - new   | 1,657.2     | 1,715.1      | 1,754.0     |
| <b>% Change</b> | <b>3.0%</b> | <b>6.3%</b>  | <b>7.1%</b> |
| EBITDA - old    | 279.5       | 266.5        | 265.5       |
| EBITDA - new    | 298.0       | 296.5        | 281.4       |
| <b>% Change</b> | <b>6.6%</b> | <b>11.3%</b> | <b>6.0%</b> |

Source: UBS estimates

### Incorporating impact of capital raising

Our forecasts now incorporate the impact of TAH's 1 for 12 pro-rata accelerated renounceable entitlement offer at \$3.70 per share to fund TAH's \$0.30 per share special dividend (and in turn distributing excess franking credits to shareholders).

From incorporating our wagering upgrades, and the dilution from including additional shares on issue from the raising (+63.8m new shares or c8% of shares on issue pre-raising) has resulted in net EPS upgrades of c1-5% in FY15-FY17e.

**Figure 5: Changes to UBSe**

| In \$m unless stated   | FY15e –<br>New | FY15e –<br>Old | % Chg       | FY16e –<br>New | FY16e –<br>Old | % Chg        | FY17e –<br>New | FY17e –<br>Old | % Chg       |
|------------------------|----------------|----------------|-------------|----------------|----------------|--------------|----------------|----------------|-------------|
| Revenue                | 2,140.5        | 2,099.1        | 2.0%        | 2,218.5        | 2,129.8        | 4.2%         | 2,283.5        | 2,180.0        | 4.7%        |
| EBITDA                 | 513.4          | 496.4          | 3.4%        | 514.6          | 489.7          | 5.1%         | 513.2          | 501.6          | 2.3%        |
| D&A                    | (172.3)        | (170.0)        | 1.4%        | (174.8)        | (174.5)        | 0.2%         | (177.2)        | (176.2)        | 0.6%        |
| EBIT                   | 341.0          | 326.4          | 4.5%        | 339.8          | 315.2          | 7.8%         | 336.0          | 325.4          | 3.3%        |
| Net Interest           | (90.2)         | (90.0)         | 0.2%        | (83.9)         | (84.8)         | -1.1%        | (71.9)         | (74.9)         | -4.0%       |
| Tax                    | (82.7)         | (78.4)         | 5.5%        | (84.3)         | (76.6)         | 10.0%        | (86.7)         | (82.7)         | 4.9%        |
| <b>Underlying NPAT</b> | <b>168.1</b>   | <b>158.0</b>   | <b>6.4%</b> | <b>171.6</b>   | <b>153.8</b>   | <b>11.6%</b> | <b>177.4</b>   | <b>167.9</b>   | <b>5.7%</b> |
| Abnormals (post tax)   | 0.0            | 0.0            | na          | 0.0            | 0.0            | na           | 0.0            | 0.0            | na          |
| <b>Reported NPAT</b>   | <b>168.1</b>   | <b>158.0</b>   | <b>6.4%</b> | <b>171.6</b>   | <b>153.8</b>   | <b>11.6%</b> | <b>177.4</b>   | <b>167.9</b>   | <b>5.7%</b> |
| <b>EPS (cps)</b>       | <b>20.8</b>    | <b>20.3</b>    | <b>2.8%</b> | <b>20.2</b>    | <b>19.2</b>    | <b>5.1%</b>  | <b>20.5</b>    | <b>20.3</b>    | <b>0.9%</b> |
| <b>DPS (cps)</b>       | <b>19.0</b>    | <b>18.0</b>    | <b>5.6%</b> | <b>18.0</b>    | <b>17.0</b>    | <b>5.9%</b>  | <b>18.0</b>    | <b>18.0</b>    | <b>0.0%</b> |

Source: UBS estimates

## Valuation: \$3.65 from SOTP (from \$3.10)

Our sum of the parts valuation has increased to \$3.65 per share, from \$3.10 previously (or +18%), reflecting:

- **Wagering upgrades, net of dilution impact from raising** - Our wagering upgrades, partially offset by incorporating the impact of the capital raising;
- **Increase to Vic wagering DCF** – We have increased our Vic wagering DCF valuation to incorporate a terminal value equivalent to 50% of our FY24e license net free cashflow (vs. our previous methodology of valuing free cashflow to FY24 only, as per the 12 year license term), hence ascribing value to cashflow that TAH would likely receive beyond the Vic license expiry (i.e. from online) or benefit from incumbency on renewal.
- **Value for franking credit balance** - We now ascribe value for TAH's franking credit balance. We note that TAH had a franking credit balance of c\$383m as at 30 Jun-14 (vs. c\$375m in pcp). We assume this balance reduces to c\$290m post the special dividend (all else constant, assumes \$0.13 per share in franking credits are distributed to shareholders via the special dividend over c765m shares pre raising), or \$0.35 per share, which we 50% risk weight (i.e. we assume some risk that not all these might be monetised for shareholders in future).

Our SOTP valuation continues to assume a 25% probability of a successful outcome for TAH in its pursuit of the Vic gaming entitlement (i.e. providing some weight to the chance of a successful appeal).

**Figure 6: TAH SOTP valuation**

|                         | FY15e<br>EBITDA | EV/EBITDA<br>multiple | Value         | Description  |
|-------------------------|-----------------|-----------------------|---------------|--|
| NSW Wagering            | 146.3           | 8.0                   | 1,170         | Apply 8x on PV of FY13e EBITDA to reflect regulatory risk  |
| VIC Wagering            | 121.0           | 5.5                   | 670           | NPV of cashflows to 2024   |
| ACTTAB                  | 12.9            | 8.3                   | 107           | NPV to perpetuity  |
| NSW Trackside           | 30.3            | 7.6                   | 230           | NPV to perpetuity  |
| Keno                    | 74.9            | 6.9                   | 513           | Includes VIC licence, assumes 75% renewal rate on licenses to incorporate potential risk of license loss to perpetuity |
| TGS                     | 69.8            | 7.1                   | 493           | NPV to perpetuity, assumes 50% renewal rate on existing contracts in year 10   |
| <b>Media</b>            | 72.7            | 7.0                   | 511           | NPV to perpetuity  |
| <b>Total</b>            |                 |                       | <b>3,695</b>  |  |
| Net Debt                |                 |                       | (982)         | FY15e, excludes entitlement  |
| Vic gaming entitlement  |                 |                       | 166           | PV of the full entitlement (\$686m). Assumes 2 yrs compounding at 10% and 20% CGT / tax liab. Risk weight at 25%       |
| Excess franking credits |                 |                       | 145           | Assumes c\$307m in excess franking credits post special dividend, 50% risk weighted                                    |
| <b>Equity Value</b>     |                 |                       | <b>3,025</b>  |  |
| Shares on Issue (m)     |                 |                       | 829           |  |
| <b>Valuation</b>        |                 |                       | <b>\$3.65</b> |  |

Source: UBS estimates

**Our revised SOTP valuation implies an FY15/16e PE of 17.5/18.2x, and represents a c27% discount to current TAH pricing (based on \$4.98 per share closing price as at 10<sup>th</sup> Feb-14).**

## TAH trading at a large premium to UBSe valuation

We have seen a significant re-rate in TAH's business of late – now assuming a P/E multiple of c25x FY16e. There are, however, some arguments that suggest looking at TAH on the current trading multiple would underestimate the true valuation of the business, largely for the following issues:

- **Amortisation of VIC wagering licence** – TAH paid \$410m for a 12 year licence (in a 50/50 JV with the racing industry) in VIC in FY12 – with the financial effect that they are now amortising c\$35m pa for this intangible asset. Some argue that given the change in wagering landscape a payment of this scale will not be required to be made again – thereby underestimating the true earnings for TAH and as such this amortisation amount needs to be backed out.

**We find these arguments challenged.** We would firstly note that this new wagering licence began less than 3 years ago – at a time when the market structures were not that dissimilar to today. Further since then, we have seen TAH and TTS invest as much as c\$850m as upfront payments for wagering licences and retail exclusivity extensions – including TAH's acquisition of ACT TAB for \$106m which was the equivalent of 7.6x 1-yr forward EBITDA inclusive of synergies, and their \$75m to extend NSW retail exclusivity.

A summary of these transactions can be seen in the table below.

Figure 7: Recent Wagering Transactions

| Wagering license                 | Acquirer | Date acquired/renewed | Amount paid (\$m) | License/extension term (years) | License expiry | Exclusivity expiry | Estimated EBITDA pa (UBS e 1 yr fwd from acq'n date) | Implied multiple | Comments   |
|----------------------------------|----------|-----------------------|-------------------|--------------------------------|----------------|--------------------|--|------------------|--|
| Vic retail license acquisition   | TAH      | Jul-11                | 410               | 12                             | 2024           | 2024               | 112.0  | 3.7x             | License contains a 2 yr extension option (at the discretion of the Vic Govt)   |
| Tote TAS acquisition             | TTS      | Dec-11                | 103               | 50                             | 2062           | 2027               | 14.5   | 7.1x             | Includes 15 years retail exclusivity and 49 year license extension option  |
| NSW retail exclusivity extension | TAH      | Jun-13                | 75                | 20                             | 2097           | 2033               | na   | na               | Initial \$50m payment and remaining \$25m to be paid over 10 yrs from 2024   |
| ACT TAB acquisition              | TAH      | Jul-14                | 106               | 50                             | 2064           | 2064               | 14.0   | 7.6x             | Includes sportsbetting license with initial 15 yr term (+ 35 yr extension option) and 50 yr keno and Trackside license                                   |
| Qld retail exclusivity extension | TTS      | Jun-14                | 150               | 30                             | 2098           | 2044               | na   | na               | Includes 61 year extension in sports wagering license to 2098. License extension payments are over 4 equal instalments on 1 July 2014, 2016, 2020, 2023. |
| <b>Total</b>                     |          |                       | <b>\$844m</b>     |                                |                |                    |  |                  |  |

Source: UBS

Whilst we believe TAH paid a 'full' price for the VIC Wagering licence, we do not believe a likely outcome based on today's operating environment would be that if the VIC wagering licence came up for renewal in 2024, then there would be no need for any licence payment – and as such we do not believe one can add back the full amortisation.

We do concede however technology is changing very quickly and it is difficult to determine what the operating environment could look like in 2024 – but if it leads us to the assumption that there is no longer any value in retail wagering licences and hence there would be no requirement to make a licence payment for this business, then the downside from this for the existing TAH businesses (namely the NSW licence and the large write-down in carrying value of this asset) would be material.

We would also note the impact of this issue, whilst material, is less than the equivalent of a c100bps increase in racefields fee charges from the racing industry.

- **Vic Gaming Entitlement** - In June 2014 the VIC Supreme Court handed down their judgement in relation to TAH's c\$686m compensation claim against the Victorian Government for the non-renewal of its Victorian gaming license (expired in Aug-12), with the court finding in favour of the Vic Govt. The Court accepted the State's argument that amendments to the legislation made by the

State in 2008 and 2009 impliedly repealed the statutory provision which gave rise to the payment of the entitlement under the legislation.

Since then however TAH has appealed this decision to the full bench of the Victorian Supreme Court (and likely in the end all the way to the High Court), as we are of the view that the next judgement will be appealed regardless of which party were to win/lose. This however may imply a further 18-24 months before we arrive at a final outcome, in our view.

Whilst we take account of this issue in our SOTP valuation (where we risk-adjusted the entitlement at a 25% weighting), we do not include any potential payment through our P&L forecasts. If we were to include the full entitlement (\$687m) and grow this by 10% per annum for 2 years (interest rate awarded by the court to reflect the PV of the payment) and tax effect this (at a rate of 20%) – the P&L impact would be to add c15% to our FY16E NPAT (and hence lower the implied P/E by c15%)..

- **Franking Credits** – Whilst we have not included this value in the past (given the company has not looked to monetise these) – we believe the market will look at the value of remaining franking credits with some expectation that TAH will look to further monetise these in the future. We note post the special dividend and half year franked dividend there remains circa \$290m of available franking credits – which if fully monetised represents c35cps of value for TAH shareholders.

### What if we give TAH benefit for all 3 positive outcomes?

So what if investors wanted to add all three positive outcomes above – i.e. add back VIC licence amortisation, give them full benefit for the entitlement and price in the value of the franking credits? Even though we think this is a flawed argument as all three outcomes have significant risks/challenges – the market to some degree seems to be pricing a fair amount of these outcomes as the current price would be implying a c13.5x P/E multiple.

**Figure 8: Adjusting TAH FY16e P/E**

|  |              |
|--|--------------|
| <b>UBSe FY16e NPAT</b>                         | <b>170.6</b> |
| ...add back amortisation                       | 35           |
| ...add interest cost saving from entitlement   | 33           |
| <b>Adjusted NPAT</b>                           | <b>238.6</b> |
| TAH Share Price                                | 4.98         |
| less remaining value of franking credits       | 0.35         |
| <b>TAH share price net of franking credits</b> | <b>4.63</b>  |
| Diluted Shares (m)                             | 829          |
| <b>FY16e EPS Adjusted</b>                      | <b>16.1x</b> |

Source: UBS estimates

## Gearing forecast to remain around c2x

We forecast TAH's gearing to reduce to 2.1x by the end of FY15 from cash generation (vs. 2.3x as at 31 Dec-14) on a gross debt to EBITDA basis, adjusting for operating leases and hybrid debt (@ 50% equity rating).

In FY16/17e we forecast a modest improvement in gearing to c2.0x, reflecting our forecast for modest debt reduction and flat EBITDA across FY15-17e from assumed higher race field fees.

At gearing around c2.0-2.1x and assuming a maximum gearing limit of 2.5x in order to preserve TAH's BBB- S&P rating, we estimate c\$180m in gross debt headroom in FY15e, increasing to c\$233/280m in FY16/17e.

**Figure 9: Forecast gearing**

| In \$m unless stated                                | FY13a       | FY14a       | FY15e       | FY16e       | FY17e       |
|---|-------------|-------------|-------------|-------------|-------------|
| Gross Debt  | 1,254       | 1,094       | 1,094       | 1,044       | 994         |
| Operating leases                                    | 134         | 134         | 134         | 134         | 134         |
| Hybrid  | (250)       | (250)       | (250)       | (250)       | (250)       |
| Cash  | 110         | 127         | 114         | 169         | 227         |
| Net Debt  | 1,145       | 968         | 980         | 875         | 767         |
| EBITDA  | 464         | 486         | 513         | 515         | 513         |
| <b>Gross Debt / EBITDA</b>                          | <b>2.7x</b> | <b>2.3x</b> | <b>2.1x</b> | <b>2.0x</b> | <b>2.0x</b> |
| <b>Net Debt / EBITDA</b>                            | <b>2.5x</b> | <b>2.0x</b> | <b>1.9x</b> | <b>1.7x</b> | <b>1.5x</b> |
| <b>Debt headroom (assumed 2.5x GD/EBITDA limit)</b> |             |             | <b>180</b>  | <b>233</b>  | <b>280</b>  |

Source: UBS estimates, company data

## Tabcorp Holdings Limited (TAH.AX)

|  | 06/12          | 06/13          | 06/14        | 06/15E       | % ch         | 06/16E       | % ch         | 06/17E       | 06/18E       | 06/19E       |
|--|----------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Income statement (A\$m)</b>         |                |                |              |              |              |              |              |              |              |              |
| <b>Revenues</b>                        | <b>3,039</b>   | <b>2,003</b>   | <b>2,040</b> | <b>2,140</b> | <b>4.9</b>   | <b>2,218</b> | <b>3.6</b>   | <b>2,284</b> | <b>2,342</b> | <b>2,392</b> |
| Gross profit                           | -              | -              | -            | -            | -            | -            | -            | 2,284        | 2,342        | 2,392        |
| <b>EBITDA (UBS)</b>                    | <b>717</b>     | <b>464</b>     | <b>486</b>   | <b>513</b>   | <b>5.6</b>   | <b>515</b>   | <b>0.2</b>   | <b>513</b>   | <b>527</b>   | <b>538</b>   |
| Depreciation & amortisation            | (125)          | (151)          | (164)        | (172)        | 4.8          | (175)        | 1.5          | (177)        | (179)        | (181)        |
| <b>EBIT (UBS)</b>                      | <b>592</b>     | <b>313</b>     | <b>322</b>   | <b>341</b>   | <b>6.0</b>   | <b>340</b>   | <b>-0.4</b>  | <b>336</b>   | <b>348</b>   | <b>357</b>   |
| Associates & investment income         | 0              | 0              | 0            | 0            | -            | 0            | -            | 0            | 0            | 0            |
| Other non-operating income             | 0              | 0              | 0            | 0            | -            | 0            | -            | 0            | 0            | 0            |
| Net interest                           | (95)           | (104)          | (97)         | (90)         | 7.2          | (84)         | 7.0          | (72)         | (67)         | (62)         |
| Exceptionals (incl goodwill)           | 0              | 0              | 0            | 0            | -            | 0            | -            | 0            | 0            | 0            |
| <b>Profit before tax</b>               | <b>497</b>     | <b>209</b>     | <b>224</b>   | <b>251</b>   | <b>11.7</b>  | <b>256</b>   | <b>2.0</b>   | <b>264</b>   | <b>281</b>   | <b>295</b>   |
| Tax                                    | (157)          | (70)           | (75)         | (83)         | -10.2        | (84)         | -1.8         | (87)         | (92)         | (96)         |
| <b>Profit after tax</b>                | <b>340</b>     | <b>139</b>     | <b>149</b>   | <b>168</b>   | <b>12.5</b>  | <b>172</b>   | <b>2.1</b>   | <b>177</b>   | <b>189</b>   | <b>199</b>   |
| Preference dividends                   | 0              | 0              | 0            | 0            | -            | 0            | -            | 0            | 0            | 0            |
| Minorities                             | 0              | 0              | 0            | 0            | -            | 0            | -            | 0            | 0            | 0            |
| Extraordinary items                    | 0              | (12)           | (19)         | 32           | -            | 0            | -            | 0            | 0            | 0            |
| <b>Net earnings (local GAAP)</b>       | <b>340</b>     | <b>127</b>     | <b>130</b>   | <b>200</b>   | <b>53.6</b>  | <b>172</b>   | <b>-14.0</b> | <b>177</b>   | <b>189</b>   | <b>199</b>   |
| <b>Net earnings (UBS)</b>              | <b>340</b>     | <b>139</b>     | <b>149</b>   | <b>168</b>   | <b>12.5</b>  | <b>172</b>   | <b>2.1</b>   | <b>177</b>   | <b>189</b>   | <b>199</b>   |
| Tax rate (%)                           | 31.6           | 33.5           | 33.5         | 33.0         | -1.4         | 32.9         | -0.2         | 32.8         | 32.7         | 32.5         |
| <b>Per share (A\$)</b>                 |                |                |              |              |              |              |              |              |              |              |
| EPS (UBS, diluted)                     | 0.48           | 0.19           | 0.20         | 0.21         | 5.7          | 0.20         | -3.3         | 0.21         | 0.22         | 0.22         |
| EPS (local GAAP, diluted)              | 0.48           | 0.17           | 0.17         | 0.25         | 44.4         | 0.20         | -18.6        | 0.21         | 0.22         | 0.22         |
| EPS (UBS, basic)                       | 0.48           | 0.19           | 0.20         | 0.21         | 5.7          | 0.20         | -3.3         | 0.21         | 0.22         | 0.23         |
| Net DPS (A\$)                          | 0.25           | 0.19           | 0.16         | 0.49         | 206.3        | 0.18         | -63.3        | 0.18         | 0.18         | 0.18         |
| Cash EPS (UBS, diluted) <sup>1</sup>   | 0.66           | 0.39           | 0.41         | 0.42         | 2.0          | 0.41         | -3.6         | 0.41         | 0.42         | 0.43         |
| Book value per share                   | 2.04           | 1.93           | 1.96         | 1.92         | -2.0         | 2.03         | 5.3          | 2.13         | 2.24         | 2.34         |
| Average shares (diluted)               | 707.17         | 735.99         | 757.56       | 806.13       | 6.4          | 851.34       | 5.6          | 864.37       | 877.37       | 890.84       |
| <b>Balance sheet (A\$m)</b>            |                |                |              |              |              |              |              |              |              |              |
| Tangible fixed assets                  | 318            | 309            | 313          | 337          | 7.7          | 353          | 4.8          | 367          | 379          | 389          |
| Intangible fixed assets                | 2,618          | 2,523          | 2,561        | 2,561        | 0.0          | 2,561        | 0.0          | 2,561        | 2,561        | 2,561        |
| Investments                            | 0              | 0              | 0            | 0            | -            | 0            | -            | 0            | 0            | 0            |
| Other assets                           | 90             | 40             | 34           | 34           | 0.0          | 34           | 0.0          | 34           | 34           | 34           |
| <b>Total fixed assets</b>              | <b>3,026</b>   | <b>2,871</b>   | <b>2,907</b> | <b>2,931</b> | <b>0.8</b>   | <b>2,948</b> | <b>0.6</b>   | <b>2,961</b> | <b>2,973</b> | <b>2,984</b> |
| <b>Net working capital</b>             | <b>(312)</b>   | <b>(130)</b>   | <b>(270)</b> | <b>(148)</b> | <b>45.0</b>  | <b>(156)</b> | <b>-5.2</b>  | <b>(163)</b> | <b>(167)</b> | <b>(171)</b> |
| Cash                                   | 151            | 110            | 127          | 114          | -10.0        | 169          | 48.0         | 227          | 290          | 355          |
| Short term debt                        | 0              | (433)          | 0            | 0            | -            | 0            | -            | 0            | 0            | 0            |
| Long term debt                         | (1,224)        | (821)          | (1,094)      | (1,094)      | 0.0          | (1,044)      | 4.6          | (994)        | (944)        | (894)        |
| Preferred shares                       | 0              | 0              | 0            | 0            | -            | 0            | -            | 0            | 0            | 0            |
| <b>Net (debt) / cash</b>               | <b>(1,073)</b> | <b>(1,145)</b> | <b>(967)</b> | <b>(980)</b> | <b>-1.3</b>  | <b>(875)</b> | <b>10.7</b>  | <b>(767)</b> | <b>(654)</b> | <b>(539)</b> |
| Other debt-deemed liabilities          | 0              | 0              | 0            | 0            | -            | 0            | -            | 0            | 0            | 0            |
| Provisions & non-debt deemed liabs     | (235)          | (183)          | (188)        | (188)        | 0.0          | (188)        | 0.0          | (188)        | (188)        | (188)        |
| <b>Total equity</b>                    | <b>1,406</b>   | <b>1,413</b>   | <b>1,481</b> | <b>1,614</b> | <b>9.0</b>   | <b>1,727</b> | <b>7.0</b>   | <b>1,843</b> | <b>1,963</b> | <b>2,085</b> |
| Minority interests                     | 0              | 0              | 0            | 0            | -            | 0            | -            | 0            | 0            | 0            |
| <b>Common s/h equity</b>               | <b>1,406</b>   | <b>1,413</b>   | <b>1,481</b> | <b>1,614</b> | <b>9.0</b>   | <b>1,727</b> | <b>7.0</b>   | <b>1,843</b> | <b>1,963</b> | <b>2,085</b> |
| <b>Operating invested capital</b>      | <b>2,478</b>   | <b>2,558</b>   | <b>2,449</b> | <b>2,594</b> | <b>5.9</b>   | <b>2,603</b> | <b>0.3</b>   | <b>2,610</b> | <b>2,618</b> | <b>2,624</b> |
| <b>Total capital employed</b>          | <b>2,478</b>   | <b>2,558</b>   | <b>2,449</b> | <b>2,594</b> | <b>5.9</b>   | <b>2,603</b> | <b>0.3</b>   | <b>2,610</b> | <b>2,618</b> | <b>2,624</b> |
| <b>Cash flow (A\$m)</b>                |                |                |              |              |              |              |              |              |              |              |
| Net income (before pref divs)          | 340            | 127            | 130          | 200          | 53.6         | 172          | -14.0        | 177          | 189          | 199          |
| Depreciation & amortisation            | 126            | 151            | 164          | 172          | 4.8          | 175          | 1.5          | 177          | 179          | 181          |
| Net change in working capital          | 64             | 0              | 77           | 0            | -            | 0            | -            | 0            | 0            | 0            |
| Other operating                        | (11)           | (23)           | 17           | (30)         | -            | 1            | -            | 1            | 1            | 0            |
| <b>Operating cash flow</b>             | <b>518</b>     | <b>255</b>     | <b>387</b>   | <b>341</b>   | <b>-11.9</b> | <b>347</b>   | <b>1.8</b>   | <b>356</b>   | <b>369</b>   | <b>380</b>   |
| Tangible capital expenditure           | (150)          | (204)          | (128)        | (148)        | -15.3        | (142)        | 4.1          | (142)        | (142)        | (142)        |
| Intangible capital expenditure         | 0              | 0              | 0            | 0            | -            | 0            | -            | 0            | 0            | 0            |
| Net (acquisitions) / disposals         | 2              | 16             | (68)         | 0            | -            | 0            | -            | 0            | 0            | 0            |
| Other investing                        | (486)          | 9              | 41           | 0            | -            | 0            | -            | 0            | 0            | 0            |
| <b>Investing cash flow</b>             | <b>(634)</b>   | <b>(179)</b>   | <b>(155)</b> | <b>(148)</b> | <b>4.8</b>   | <b>(142)</b> | <b>4.1</b>   | <b>(142)</b> | <b>(142)</b> | <b>(142)</b> |
| Equity dividends paid                  | (112)          | (127)          | (60)         | (336)        | NM           | (100)        | 70.3         | (104)        | (104)        | (104)        |
| Share issues / (buybacks)              | (1)            | 0              | 0            | 236          | -            | 0            | -            | 0            | 0            | 0            |
| Other financing                        | 0              | 0              | 0            | 0            | -            | 0            | -            | 0            | 0            | 0            |
| Change in debt & pref shares           | 226            | 0              | (154)        | 0            | -            | 0            | -            | 0            | 0            | 0            |
| <b>Financing cash flow</b>             | <b>113</b>     | <b>(127)</b>   | <b>(215)</b> | <b>(100)</b> | <b>53.7</b>  | <b>(100)</b> | <b>0.0</b>   | <b>(104)</b> | <b>(104)</b> | <b>(104)</b> |
| <b>Cash flow inc/(dec) in cash</b>     | <b>(4)</b>     | <b>(52)</b>    | <b>17</b>    | <b>94</b>    | <b>NM</b>    | <b>106</b>   | <b>12.8</b>  | <b>109</b>   | <b>123</b>   | <b>134</b>   |
| FX / non cash items                    | 8              | 10             | 0            | (106)        | -            | (51)         | 52.1         | (51)         | (60)         | (69)         |
| <b>Balance sheet inc/(dec) in cash</b> | <b>4</b>       | <b>(42)</b>    | <b>17</b>    | <b>(13)</b>  | <b>-</b>     | <b>55</b>    | <b>-</b>     | <b>58</b>    | <b>63</b>    | <b>65</b>    |

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts. <sup>1</sup>Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

## Tabcorp Holdings Limited (TAH.AX)

| Valuation (x)                               | 06/12        | 06/13        | 06/14        | 06/15E        | 06/16E        | 06/17E        | 06/18E        | 06/19E        |
|---|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|
| P/E (local GAAP, diluted)                   | 5.9          | 17.9         | 20.0         | 20.1          | 24.7          | 24.3          | 23.1          | 22.3          |
| P/E (UBS, diluted)                          | 5.9          | 16.3         | 17.4         | 23.9          | 24.7          | 24.3          | 23.1          | 22.3          |
| P/CEPS                                      | 4.3          | 7.7          | 8.2          | 11.7          | 12.2          | 12.1          | 11.8          | 11.6          |
| Equity FCF (UBS) yield %                    | 18.8         | 2.3          | 10.1         | 5.1           | 5.4           | 5.6           | 6.0           | 6.2           |
| Net dividend yield (%)                      | 8.8          | 6.2          | 4.7          | 9.8           | 3.6           | 3.6           | 3.6           | 3.6           |
| P/BV x                                      | 1.4          | 1.6          | 1.8          | 2.6           | 2.5           | 2.3           | 2.2           | 2.1           |
| EV/revenues (core)                          | 1.0          | 1.7          | 1.8          | 2.2           | 2.2           | 2.1           | 2.0           | 2.0           |
| EV/EBITDA (core)                            | 4.1          | 7.2          | 7.5          | 9.3           | 9.3           | 9.3           | 9.1           | 8.9           |
| EV/EBIT (core)                              | 4.9          | 10.7         | 11.3         | 14.0          | 14.1          | 14.2          | 13.8          | 13.4          |
| EV/OpFCF (core)                             | 4.9          | 9.4          | 8.1          | 13.1          | 12.8          | 12.9          | 12.4          | 12.1          |
| EV/op. invested capital                     | 1.3          | 1.3          | 1.4          | 1.9           | 1.8           | 1.8           | 1.8           | 1.8           |
| <b>Enterprise value (A\$m)</b>              | <b>06/12</b> | <b>06/13</b> | <b>06/14</b> | <b>06/15E</b> | <b>06/16E</b> | <b>06/17E</b> | <b>06/18E</b> | <b>06/19E</b> |
| Market cap.                                 | 1,960        | 2,234        | 2,569        | 3,813         | 3,813         | 3,813         | 3,813         | 3,813         |
| Net debt (cash)                             | 945          | 1,109        | 1,056        | 974           | 974           | 974           | 974           | 974           |
| Buy out of minorities                       | 0            | 0            | 0            | 0             | 0             | 0             | 0             | 0             |
| Pension provisions/other                    | 0            | 0            | 0            | 0             | 0             | 0             | 0             | 0             |
| <b>Total enterprise value</b>               | <b>2,905</b> | <b>3,343</b> | <b>3,625</b> | <b>4,787</b>  | <b>4,787</b>  | <b>4,787</b>  | <b>4,787</b>  | <b>4,787</b>  |
| Non core assets                             | 0            | 0            | 0            | 0             | 0             | 0             | 0             | 0             |
| <b>Core enterprise value</b>                | <b>2,905</b> | <b>3,343</b> | <b>3,625</b> | <b>4,787</b>  | <b>4,787</b>  | <b>4,787</b>  | <b>4,787</b>  | <b>4,787</b>  |
| <b>Growth (%)</b>                           | <b>06/12</b> | <b>06/13</b> | <b>06/14</b> | <b>06/15E</b> | <b>06/16E</b> | <b>06/17E</b> | <b>06/18E</b> | <b>06/19E</b> |
| Revenue                                     | 3.3          | -34.1        | 1.8          | 4.9           | 3.6           | 2.9           | 2.5           | 2.2           |
| EBITDA (UBS)                                | 4.4          | -35.3        | 4.8          | 5.6           | 0.2           | -0.3          | 2.6           | 2.1           |
| EBIT (UBS)                                  | 6.2          | -47.1        | 2.9          | 6.0           | -0.4          | -1.1          | 3.5           | 2.6           |
| EPS (UBS, diluted)                          | 7.9          | -60.7        | 4.4          | 5.7           | -3.3          | 1.8           | 5.1           | 3.7           |
| Net DPS                                     | -41.9        | -24.0        | -15.8        | NM            | -63.3         | 0.0           | 0.0           | 0.0           |
| <b>Margins &amp; Profitability (%)</b>      | <b>06/12</b> | <b>06/13</b> | <b>06/14</b> | <b>06/15E</b> | <b>06/16E</b> | <b>06/17E</b> | <b>06/18E</b> | <b>06/19E</b> |
| Gross profit margin                         | -            | -            | -            | -             | -             | NM            | NM            | NM            |
| EBITDA margin                               | 23.6         | 23.2         | 23.8         | 24.0          | 23.2          | 22.5          | 22.5          | 22.5          |
| EBIT margin                                 | 19.5         | 15.6         | 15.8         | 15.9          | 15.3          | 14.7          | 14.9          | 14.9          |
| Net earnings (UBS) margin                   | 11.2         | 6.9          | 7.3          | 7.9           | 7.7           | 7.8           | 8.1           | 8.3           |
| ROIC (EBIT)                                 | 26.3         | 12.4         | 12.8         | 13.5          | 13.1          | 12.9          | 13.3          | 13.6          |
| ROIC post tax                               | 18.0         | 8.3          | 8.6          | 9.1           | 8.8           | 8.7           | 9.0           | 9.2           |
| ROE (UBS)                                   | 26.0         | 9.9          | 10.3         | 10.9          | 10.3          | 9.9           | 9.9           | 9.8           |
| <b>Capital structure &amp; Coverage (x)</b> | <b>06/12</b> | <b>06/13</b> | <b>06/14</b> | <b>06/15E</b> | <b>06/16E</b> | <b>06/17E</b> | <b>06/18E</b> | <b>06/19E</b> |
| Net debt / EBITDA                           | 1.5          | 2.5          | 2.0          | 1.9           | 1.7           | 1.5           | 1.2           | 1.0           |
| Net debt / total equity %                   | 76.3         | 81.0         | 65.3         | 60.7          | 50.7          | 41.6          | 33.3          | 25.9          |
| Net debt / (net debt + total equity) %      | 43.3         | 44.8         | 39.5         | 37.8          | 33.6          | 29.4          | 25.0          | 20.5          |
| Net debt/EV                                 | 36.9         | 34.2         | 26.7         | 20.5          | 18.3          | 16.0          | 13.7          | 11.3          |
| Capex / depreciation %                      | 124.5        | 192.3        | 109.9        | 119.4         | 112.9         | 110.7         | 109.3         | 107.8         |
| Capex / revenue %                           | 4.9          | 10.2         | 6.3          | 6.9           | 6.4           | 6.2           | 6.1           | 5.9           |
| EBIT / net interest                         | 6.2          | 3.0          | 3.3          | 3.8           | 4.0           | 4.7           | 5.2           | 5.8           |
| Dividend cover (UBS)                        | 1.9          | 1.0          | 1.2          | 0.4           | 1.1           | 1.1           | 1.2           | 1.3           |
| Div. payout ratio (UBS) %                   | 51.7         | 99.7         | 80.5         | 233.3         | 88.7          | 87.1          | 82.8          | 79.9          |
| <b>Revenues by division (A\$m)</b>          | <b>06/12</b> | <b>06/13</b> | <b>06/14</b> | <b>06/15E</b> | <b>06/16E</b> | <b>06/17E</b> | <b>06/18E</b> | <b>06/19E</b> |
| Wagering                                    | 1,637        | 1,558        | 1,575        | 1,657         | 1,715         | 1,754         | 1,788         | 1,818         |
| Media                                       | 190          | 208          | 220          | 234           | 245           | 258           | 268           | 279           |
| Keno  | 183          | 205          | 204          | 206           | 210           | 214           | 220           | 227           |
| Tabcorp Gaming Solutions                    | 0            | 82           | 98           | 103           | 110           | 121           | 130           | 136           |
| Gaming                                      | 1,079        | 0            | 0            | 0             | 0             | 0             | 0             | 0             |
| Others                                      | (51)         | (49)         | (57)         | (59)          | (61)          | (63)          | (65)          | (67)          |
| <b>Total</b>                                | <b>3,039</b> | <b>2,003</b> | <b>2,040</b> | <b>2,140</b>  | <b>2,218</b>  | <b>2,284</b>  | <b>2,342</b>  | <b>2,392</b>  |
| <b>EBIT (UBS) by division (A\$m)</b>        | <b>06/12</b> | <b>06/13</b> | <b>06/14</b> | <b>06/15E</b> | <b>06/16E</b> | <b>06/17E</b> | <b>06/18E</b> | <b>06/19E</b> |
| Wagering                                    | 242          | 173          | 175          | 185           | 182           | 167           | 168           | 168           |
| Media                                       | 57           | 58           | 59           | 63            | 59            | 62            | 66            | 69            |
| Keno  | 48           | 52           | 52           | 54            | 56            | 58            | 61            | 63            |
| Tabcorp Gaming Solutions                    | 0            | 37           | 40           | 41            | 45            | 51            | 56            | 58            |
| Gaming                                      | 244          | 0            | 0            | 0             | 0             | 0             | 0             | 0             |
| Others                                      | 0            | (7)          | (4)          | (2)           | (2)           | (2)           | (2)           | (2)           |
| <b>Total</b>                                | <b>592</b>   | <b>313</b>   | <b>322</b>   | <b>341</b>    | <b>340</b>    | <b>336</b>    | <b>348</b>    | <b>357</b>    |

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

**Forecast returns**


---

|                             |        |
|-----------------------------|--------|
| Forecast price appreciation | -26.7% |
| Forecast dividend yield     | 5.2%   |
| Forecast stock return       | -21.5% |
| Market return assumption    | 7.0%   |
| Forecast excess return      | -28.5% |

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**UBS EPS and consensus EPS**

The UBS EPS is an adjusted diluted EPS metric. It is calculated using the UBS analyst's interpretation of earnings suitable for valuation purposes divided by the diluted number of shares. This may differ to the way the consensus EPS metric has been calculated.

**Statement of Risk**

We believe the key risk to Tabcorp is any change in government regulation negatively impacting its gaming and wagering licences in key jurisdictions, along with a softer than expected consumer environment, and changes to consumer preferences.

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| 12-Month Rating   | Definition  | Coverage <sup>1</sup> | IB Services <sup>2</sup> |
|-------------------|---|-----------------------|--------------------------|
| <b>Buy</b>        | FSR is > 6% above the MRA.  | 47%                   | 37%                      |
| <b>Neutral</b>    | FSR is between -6% and 6% of the MRA.   | 42%                   | 32%                      |
| <b>Sell</b>       | FSR is > 6% below the MRA.  | 11%                   | 21%                      |
| Short-Term Rating | Definition  | Coverage <sup>3</sup> | IB Services <sup>4</sup> |
| <b>Buy</b>        | Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event. | less than 1%          | less than 1%             |
| <b>Sell</b>       | Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event. | less than 1%          | less than 1%             |

Source: UBS. Rating allocations are as of 31 December 2014.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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| Company Name   | Reuters | 12-month rating | Short-term rating | Price   | Price date  |
|--|---------|-----------------|-------------------|---------|-------------|
| <b>Tabcorp Holdings Limited</b> <sup>1, 2, 4, 5a, 5b, 13</sup> | TAH.AX  | Sell            | N/A               | A\$4.71 | 09 Feb 2015 |

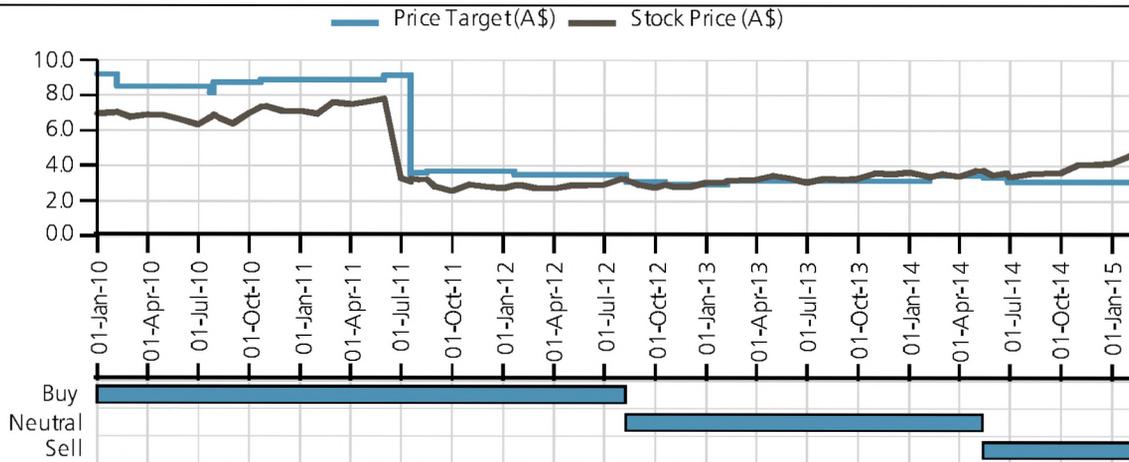
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**Tabcorp Holdings Limited (A\$)**



Source: UBS; as of 09 Feb 2015

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## Tabcorp Holdings (TAH.AX / TAH AU)

### COMPANY UPDATE

|                              |                   |
|------------------------------|-------------------|
| Rating                       | <b>OUTPERFORM</b> |
| Price (04-Mar,A\$)           | 4.24              |
| Target Price (A\$)           | 5.00              |
| Target price ESG risk (%)    | 0.0               |
| Market cap (A\$m)            | 3,525.4           |
| Yr avg. mthly trading (A\$m) | 329.9             |
| Projected return:            |                   |
| Capital gain (%)             | 17.9              |
| Dividend yield (net %)       | 5.6               |
| <b>Total return (%)</b>      | <b>23.5</b>       |

\*Stock ratings are relative to the relevant country benchmark.  
\*Target price is for 12 months.

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## Should Tabcorp ditch Victoria Wagering?

- **This analysis will no doubt raise some eyebrows** but the titular question should be on the mind of investors, Tabcorp, the Victoria racing industry, the State of Victoria. This is not a dilemma that asks Tabcorp to choose between land-based or digital wagering channels. Rather the issue is that the Vic wagering licence expires in 2024 and if retail channel exclusivity becomes worthless, the Vic racing industry will not be able to source the preponderance of its funding from an in-state licensee, e.g., Tabcorp. (As it does today.) Therefore, the racing industry *must* embark; actually it has been embarking, on a course to diversify its funding across all bookmakers. That strategic course is unsupportive of its joint venture partner and current licensee, Tabcorp. What should Tabcorp, do?
- **Our math suggests, Tabcorp can exit the JV now** and operate with greater profit out of the low-tax jurisdiction of the ACT if it can figure out a way to put its JV stake back to the Vic racing industry. But this can only happen by agreement and graceful exit. Tabcorp cannot just skip the State. Nevertheless, we think it is useful for investors to consider the valuable financial outcomes from a Victoria exit either before or after licence expiry. It is also critical for the WA Government, as it considers privatising its wagering industry, to implement a funding model for its racing industry that is not dependent upon an in-state monopoly when the monopoly actually does not truly exist.
- **We regard Tabcorp as good value.** Our DCF-based valuation for Tabcorp is A\$5.00 per share *and we effectively terminate the Vic licence cash flow in 2024.* We expect wagering revenue growth to accelerate in 2H 16 from the meagre 0.5% organic growth in 1H. A 5.6% fully-franked dividend yield seems attractive.

### Total return forecast in perspective



Source: Company data, Thomson Reuters, IBES, Credit Suisse estimates

| Performance  | 1M     | 3M    | 12M    |
|--------------|--------|-------|--------|
| Absolute (%) | -6.19  | -9.21 | -13.12 |
| Relative (%) | -10.57 | -8.01 | 0.673  |

### Financial and valuation metrics

| Year                         | 6/15A | 6/16E | 6/17E | 6/18E |
|------------------------------|-------|-------|-------|-------|
| Revenue (A\$ mn)             | 2,155 | 2,197 | 2,247 | 2,298 |
| EBITDA (A\$ mn)              | 508   | 520   | 542   | 559   |
| EBIT (A\$ mn)                | 335   | 339   | 357   | 369   |
| Net Income (Adj.) (A\$ mn)   | 171   | 182   | 193   | 203   |
| EPS (Adj.) (Ac)              | 21.59 | 21.82 | 22.96 | 24.02 |
| Change from previous EPS (%) | n.a.  | 0.0   | 0.0   | 0.0   |
| EPS growth (%)               | 9.7   | 1.1   | 5.2   | 4.6   |
| Consensus EPS (Ac)           | 21.60 | 22.30 | 23.90 | 26.10 |
| P/E (x)                      | 19.6  | 19.4  | 18.5  | 17.6  |
| Dividends (Ac)               | 50.00 | 23.00 | 24.00 | 26.00 |
| Dividend yield (%)           | 11.8  | 5.4   | 5.7   | 6.1   |
| Price/Book (x)               | 2.1   | 2.1   | 2.1   | 2.1   |
| Net debt/EBITDA (x)          | 1.9   | 1.8   | 1.7   | 1.6   |

Source: Company data, Thomson Reuters, Credit Suisse estimates

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Figure 1: Financial Summary

| Tabcorp Holdings (TAH)   |         | Year ending 30 Jun  |               |               |               |               | In AUDmn, unless otherwise stated |  |  |  |  |
|--|---------|---|---------------|---------------|---------------|---------------|-----------------------------------|--|--|--|--|
| Share Price: A\$4.24   |         | 04-Mar-2016   |               |               |               |               |                                   |  |  |  |  |
| Rating   |         | OUTPERFORM  |               |               |               |               |                                   |  |  |  |  |
| Target Price   | A\$     | 5.00  |               |               |               |               |                                   |  |  |  |  |
| vs Share price   | %       | 17.92   |               |               |               |               |                                   |  |  |  |  |
| <p>TABCORP is engaged in the provision of leisure and entertainment services (particularly in relation to gambling and hospitality). The company operates in three segments: Wagering and Racing Media, Gaming Services, and Keno.</p> |         |   |               |               |               |               |                                   |  |  |  |  |
| <b>Profit &amp; Loss</b>   |         | <b>06/14A</b>   | <b>06/15A</b> | <b>06/16E</b> | <b>06/17E</b> | <b>06/18E</b> |                                   |  |  |  |  |
| Sales revenue  |         | 2,039.8   | 2,155.5       | 2,197.4       | 2,246.8       | 2,298.5       |                                   |  |  |  |  |
| EBITDA   |         | 486.1   | 508.1         | 519.6         | 542.1         | 559.2         |                                   |  |  |  |  |
| Depr. & Amort.   |         | 164.4   | 173.5         | 180.8         | 185.3         | 190.1         |                                   |  |  |  |  |
| EBIT   |         | 321.7   | 334.6         | 338.7         | 356.7         | 369.1         |                                   |  |  |  |  |
| Net interest   |         | 97.2  | 78.5          | 69.5          | 67.5          | 65.3          |                                   |  |  |  |  |
| Reported PBT   |         | 196.6   | 258.9         | 234.2         | 289.2         | 303.8         |                                   |  |  |  |  |
| Income tax   |         | 66.7  | -75.6         | 83.1          | 96.2          | 100.6         |                                   |  |  |  |  |
| Profit after tax   |         | 149.4   | 171.3         | 182.3         | 193.0         | 203.2         |                                   |  |  |  |  |
| Associates   |         | 0.0   | 0.0           | 0.0           | 0.0           | 0.0           |                                   |  |  |  |  |
| Minorities   |         | 0.0   | 0.0           | 0.0           | 0.0           | 0.0           |                                   |  |  |  |  |
| Preferred dividends  |         | 0.0   | 0.0           | 0.0           | 0.0           | 0.0           |                                   |  |  |  |  |
| Normalised NPAT  |         | 149.4   | 171.3         | 182.3         | 193.0         | 203.2         |                                   |  |  |  |  |
| Analyst adjustments  |         | -19.5   | 163.2         | -31.2         | 0.0           | 0.0           |                                   |  |  |  |  |
| Unusual item after tax   |         | 0.0   | 0.0           | 0.0           | 0.0           | 0.0           |                                   |  |  |  |  |
| Reported NPAT  |         | 129.9   | 334.5         | 151.1         | 193.0         | 203.2         |                                   |  |  |  |  |
| <b>Balance Sheet</b>   |         | <b>06/14A</b>   | <b>06/15A</b> | <b>06/16E</b> | <b>06/17E</b> | <b>06/18E</b> |                                   |  |  |  |  |
| Cash & equivalents   |         | 126.8   | 160.0         | 153.3         | 152.8         | 151.4         |                                   |  |  |  |  |
| Inventories  |         | 4.7   | 4.9           | 5.0           | 5.1           | 5.2           |                                   |  |  |  |  |
| Receivables  |         | 39.9  | 35.1          | 35.8          | 36.6          | 37.4          |                                   |  |  |  |  |
| Other current assets   |         | 9.6   | 96.2          | 23.7          | 24.2          | 24.8          |                                   |  |  |  |  |
| Current assets   |         | 181.0   | 296.2         | 217.8         | 218.7         | 218.8         |                                   |  |  |  |  |
| Property, plant & equip.   |         | 312.6   | 325.1         | 375.3         | 392.1         | 405.1         |                                   |  |  |  |  |
| Intangibles  |         | 2,560.5   | 2,625.6       | 2,580.1       | 2,534.6       | 2,489.1       |                                   |  |  |  |  |
| Other non-current assets   |         | 51.0  | 137.1         | 59.2          | 60.5          | 61.9          |                                   |  |  |  |  |
| Non-current assets   |         | 2,924.1   | 3,087.8       | 3,014.6       | 2,987.1       | 2,956.0       |                                   |  |  |  |  |
| Total assets   |         | 3,105.1   | 3,384.0       | 3,232.4       | 3,205.8       | 3,174.8       |                                   |  |  |  |  |
| Payables   |         | 340.9   | 334.1         | 331.6         | 329.1         | 326.8         |                                   |  |  |  |  |
| Interest bearing debt  |         | 1,094.3   | 1,147.7       | 1,100.0       | 1,070.0       | 1,030.0       |                                   |  |  |  |  |
| Other liabilities  |         | 188.5   | 212.1         | 136.5         | 138.0         | 139.6         |                                   |  |  |  |  |
| Total liabilities  |         | 1,623.7   | 1,693.9       | 1,568.1       | 1,537.1       | 1,496.4       |                                   |  |  |  |  |
| Net assets   |         | 1,481.4   | 1,690.1       | 1,664.3       | 1,668.7       | 1,678.4       |                                   |  |  |  |  |
| Ordinary equity  |         | 1,481.4   | 1,690.1       | 1,664.3       | 1,668.7       | 1,678.4       |                                   |  |  |  |  |
| Minority interests   |         | 0.0   | 0.0           | 0.0           | 0.0           | 0.0           |                                   |  |  |  |  |
| Preferred capital  |         | 0.0   | 0.0           | 0.0           | 0.0           | 0.0           |                                   |  |  |  |  |
| Total shareholder funds  |         | 1,481.4   | 1,690.1       | 1,664.3       | 1,668.7       | 1,678.4       |                                   |  |  |  |  |
| Net debt   |         | 967.5   | 987.7         | 946.7         | 917.2         | 878.6         |                                   |  |  |  |  |
| <b>Cashflow</b>  |         | <b>06/14A</b>   | <b>06/15A</b> | <b>06/16E</b> | <b>06/17E</b> | <b>06/18E</b> |                                   |  |  |  |  |
| EBIT   |         | 321.7   | 334.6         | 338.7         | 356.7         | 369.1         |                                   |  |  |  |  |
| Net interest   |         | -100.1  | -77.8         | -69.5         | -67.5         | -65.3         |                                   |  |  |  |  |
| Depr & Amort   |         | 164.4   | 173.5         | 180.8         | 185.3         | 190.1         |                                   |  |  |  |  |
| Tax paid   |         | -75.2   | 2.8           | -8.4          | -96.2         | -100.6        |                                   |  |  |  |  |
| Working capital  |         | 88.8  | -4.8          | -5.3          | -3.6          | -3.5          |                                   |  |  |  |  |
| Other  |         | -12.2   | -28.6         | -35.1         | -0.1          | -0.1          |                                   |  |  |  |  |
| Operating cashflow   |         | 387.4   | 399.7         | 401.2         | 374.6         | 389.8         |                                   |  |  |  |  |
| Capex - expansionary   |         | -79.6   | -79.0         | -96.3         | -93.9         | -94.6         |                                   |  |  |  |  |
| Capex - maintenance  |         | -53.1   | -52.6         | -64.2         | -62.6         | -63.1         |                                   |  |  |  |  |
| Acquisitions & Invest  |         | -65.7   | -103.3        | -25.0         | 0.0           | 0.0           |                                   |  |  |  |  |
| Asset sale proceeds  |         | 2.1   | 0.0           | 0.0           | 0.0           | 0.0           |                                   |  |  |  |  |
| Other  |         | 40.8  | 3.2           | 0.0           | 0.0           | 0.0           |                                   |  |  |  |  |
| Investing cashflow   |         | -155.5  | -231.7        | -185.5        | -156.6        | -157.7        |                                   |  |  |  |  |
| Dividends paid   |         | -67.0   | -357.6        | -182.7        | -200.5        | -205.9        |                                   |  |  |  |  |
| Equity raised  |         | 6.7   | 235.8         | 5.8           | 11.8          | 12.5          |                                   |  |  |  |  |
| Net borrowings   |         | -154.5  | 0.0           | -45.5         | -30.0         | -40.0         |                                   |  |  |  |  |
| Other  |         | 0.0   | -13.0         | 0.0           | 0.0           | 0.0           |                                   |  |  |  |  |
| Financing cashflow   |         | -214.8  | -134.8        | -222.4        | -218.6        | -233.5        |                                   |  |  |  |  |
| Total cashflow   |         | 17.1  | 33.2          | -6.7          | -0.6          | -1.4          |                                   |  |  |  |  |
| Adjustments  |         | 0.0   | 0.0           | 0.0           | 0.0           | 0.0           |                                   |  |  |  |  |
| Net Change in Cash   |         | 17.1  | 33.2          | -6.7          | -0.6          | -1.4          |                                   |  |  |  |  |
|  |         |   |               |               |               |               | 4/03/2016 16:26                   |  |  |  |  |
| <b>Earnings</b>  |         | <b>06/14A</b>   | <b>06/15A</b> | <b>06/16E</b> | <b>06/17E</b> | <b>06/18E</b> |                                   |  |  |  |  |
| Equiv. FPO (period avg.)   | mn      | 759.1   | 793.5         | 835.5         | 840.5         | 845.9         |                                   |  |  |  |  |
| EPS (Normalised)   | c       | 19.7  | 21.6          | 21.8          | 23.0          | 24.0          |                                   |  |  |  |  |
| EPS Growth   | %       | 4.4   | 9.7           | 1.1           | 5.2           | 4.6           |                                   |  |  |  |  |
| Consensus EPS  | c       | 19.5  | 21.6          | 22.3          | 23.9          | 26.1          |                                   |  |  |  |  |
| Consensus EBITDA   | mn      | 486.1   | 508.1         | 528.8         | 551.6         | 575.3         |                                   |  |  |  |  |
| DPS  | c       | 16.0  | 50.0          | 23.0          | 24.0          | 26.0          |                                   |  |  |  |  |
| Dividend Payout  | %       | 81.3  | 231.6         | 105.4         | 105.0         | 108.2         |                                   |  |  |  |  |
| Free CFPS  | c       | 33.6  | 33.8          | 28.8          | 25.9          | 27.4          |                                   |  |  |  |  |
| <b>Valuation</b>   |         |   |               |               |               |               |                                   |  |  |  |  |
| P/E  | x       | 21.5  | 19.6          | 19.4          | 18.5          | 17.6          |                                   |  |  |  |  |
| EV/EBIT  | x       | 14.0  | 13.5          | 13.2          | 12.5          | 11.9          |                                   |  |  |  |  |
| EV/EBITDA  | x       | 9.2   | 8.9           | 8.6           | 8.2           | 7.9           |                                   |  |  |  |  |
| Dividend Yield   | %       | 3.8   | 11.8          | 5.4           | 5.7           | 6.1           |                                   |  |  |  |  |
| FCF Yield  | %       | 7.9   | 8.0           | 6.8           | 6.1           | 6.5           |                                   |  |  |  |  |
| Price to Book  | x       | 2.2   | 2.1           | 2.1           | 2.1           | 2.1           |                                   |  |  |  |  |
| <b>Returns</b>   |         |   |               |               |               |               |                                   |  |  |  |  |
| Return on Equity   | %       | 10.1  | 10.1          | 11.0          | 11.6          | 12.1          |                                   |  |  |  |  |
| Profit Margin  | %       | 7.3   | 7.9           | 8.3           | 8.6           | 8.8           |                                   |  |  |  |  |
| Asset Turnover   | x       | 0.7   | 0.6           | 0.7           | 0.7           | 0.7           |                                   |  |  |  |  |
| Equity Multiplier  | x       | 2.1   | 2.0           | 1.9           | 1.9           | 1.9           |                                   |  |  |  |  |
| Return on Assets   | %       | 4.8   | 5.1           | 5.6           | 6.0           | 6.4           |                                   |  |  |  |  |
| Return on Invested Cap.  | %       | 8.7   | 8.4           | 8.8           | 9.2           | 9.7           |                                   |  |  |  |  |
| <b>Gearing</b>   |         |   |               |               |               |               |                                   |  |  |  |  |
| Net Debt to Equity   | %       | 65.3  | 58.4          | 56.9          | 55.0          | 52.3          |                                   |  |  |  |  |
| Net Debt to EBITDA   | %       | 2.0   | 1.9           | 1.8           | 1.7           | 1.6           |                                   |  |  |  |  |
| Int Cover (EBITDA/Net Int.)  | x       | 5.0   | 6.5           | 7.5           | 8.0           | 8.6           |                                   |  |  |  |  |
| Int Cover (EBIT/Net Int.)  | x       | 3.3   | 4.3           | 4.9           | 5.3           | 5.7           |                                   |  |  |  |  |
| Capex to Sales   | %       | 6.5   | 6.1           | 7.3           | 7.0           | 6.9           |                                   |  |  |  |  |
| Capex to Depreciation  | %       | 159.7   | 159.9         | 118.6         | 112.0         | 109.0         |                                   |  |  |  |  |
| <b>MSCI IVA (ESG) Rating AA</b>  |         | <b>Credit Suisse View</b>   |               |               |               |               |                                   |  |  |  |  |
|  |         | <p>TP ESG Risk (%): 0</p> <p>TP Risk Comment: TAH for the last 9 years has been ranked number one of the Dow Jones Sustainability index for gambling firms. We note the company contributes a significant amount to the racing industry, local community and state government. Consistent with MSCI 'AA' rating, TAH has responsible gambling anti-corruption and ethical business practice policies which are stronger than peers. TAH, in our view good corporate governance, however MSCI only assigns a 5% weighting to this category. We do not incorporate any ESG upside or downside into our valuation.</p> <p>MSCI IVA Risk: Neutral</p> <p>MSCI IVA Risk Comment: CS ESG risk assessment in line with MSCI rating</p> |               |               |               |               |                                   |  |  |  |  |
|  |         |   |               |               |               |               |                                   |  |  |  |  |
|  |         | Source: MSCI IVA Rating   |               |               |               |               |                                   |  |  |  |  |
| <b>EBITDA segmentals</b>   |         | <b>06/14A</b>   | <b>06/15A</b> | <b>06/16E</b> | <b>06/17E</b> | <b>06/18E</b> |                                   |  |  |  |  |
| Wagering & Media   |         | 350.7   | 375.8         | 382.9         | 398.7         | 412.7         |                                   |  |  |  |  |
|  | % chg   |   | 7.2%          | 1.9%          | 4.1%          | 3.5%          |                                   |  |  |  |  |
|  | % sales | 20.2%   | 20.2%         | 20.4%         | 20.8%         | 21.0%         |                                   |  |  |  |  |
| Gaming   |         | 67.0  | 67.6          | 68.6          | 70.7          | 73.4          |                                   |  |  |  |  |
|  | % chg   |   | 0.9%          | 1.5%          | 3.0%          | 3.8%          |                                   |  |  |  |  |
|  | % sales | 68.3%   | 67.9%         | 64.4%         | 64.4%         | 65.2%         |                                   |  |  |  |  |
| Keno   |         | 72.2  | 66.4          | 70.4          | 75.0          | 75.6          |                                   |  |  |  |  |
|  | % chg   |   | -8.0%         | 6.0%          | 6.6%          | 0.7%          |                                   |  |  |  |  |
|  | % sales | 35.4%   | 33.4%         | 33.6%         | 34.7%         | 33.9%         |                                   |  |  |  |  |
| Corporate/Other  |         | -3.8  | -1.7          | -2.4          | -2.4          | -2.4          |                                   |  |  |  |  |
| Total EBITDA   |         | 486.1   | 508.1         | 519.6         | 542.1         | 559.2         |                                   |  |  |  |  |
|  | % chg   |   | 4.5%          | 2.3%          | 4.3%          | 3.2%          |                                   |  |  |  |  |
|  | % sales | 23.8%   | 23.6%         | 23.6%         | 24.1%         | 24.3%         |                                   |  |  |  |  |

Source: Company data, Credit Suisse estimates

## Here is our math

Financial disclosure reveals Tabcorp's Vic wagering revenue was A\$469.7mn in FY15 *but* that is for Tabcorp's 50% joint venture share. So the joint venture, in total, captured about A\$940mn from player's losses in FY15. Roughly 35% of that revenue is collected from the digital and telephone channels equating to A\$330mn in revenue. The other 60% is retail including about A\$55mn from the retail-based wagering game, *Trackside*. Now, a significant portion of retail customers have TAB accounts so they are not entirely anonymous to Tabcorp. That means Tabcorp can communicate to them.

What if Tabcorp "breaks away," somehow, from the Vic joint venture and operates an interstate wagering operation out of the low-tax jurisdiction of the ACT – very much like the UK bookmakers are operating from the NT?

Let's take a stab at what this Tabcorp ACT operation might look like. Tabcorp would need to migrate digital and retail customer accounts across to the new jurisdiction. For our math we assume that Tabcorp retains 35% of Vic wagering revenue which is less than the total digital/phone turnover today. Success, will depend on strength of the TAB brand which Tabcorp, not the joint venture, owns. It will depend on Tabcorp's ability to induce customers from their Victoria-based account to re-open an account domiciled in the ACT. But we think Tabcorp's marketing and technology is sophisticated enough to do so. In some cases, it could be as easy as sending a TAB Rewards card holder a new card with a phone number to activate the account. Look how Crownbet has secured about A\$150mn in revenue switching customers from its predecessor BetEasy and competitors in a 12-month period. Sure Tabcorp will incur some "migration costs" but these costs might amount to one year of profits.

In addition to the migrating revenue, the ACT operation in its original form has about A\$30mn of revenue from a small retail operation. But we will ignore this as we are concerned only about incremental business migrated to the ACT.

If Tabcorp captured 35% of Vic wagering revenue into a new ACT entity, that would be about A\$330mn of revenue. The gross profit from this revenue is calculated after deducting GST, racefield fees, and a small licence fee to the ACT. Let's assume that Tabcorp's new ACT wagering operation extracts revenue from about A\$2.3bn of turnover -- reflecting a blended book yield of about 13.5% (pari-mutuel and fixed odds). This yield is a bit higher than some bookmakers but lower than Tabcorp's current book yield of over 16%. With racefield fees running about 2% of turnover on average the new ACT wagering operation would incur about A\$50mn of racefield fees. GST at 9.19% of revenue amounts to A\$30mn. Let's say minor agency fees to support the small retail operation in the ACT of A\$2mn. And finally, wagering tax in the ACT which basically includes a fixed licence fee indexed to CPI of under A\$2mn and a micro-tax on international sport. So gross profit would be about A\$245mn or 74%. That GP margin is commensurate with NT corporate bookmakers.

The fixed costs to run Tabcorp's ACT business may be an incremental A\$100mn. Paddy Power Plc's Australian Sportsbet operation generates about A\$450mn in revenue and incurs about A\$220mn in opex. However, Sportsbet is a standalone operation. Tabcorp currently operates the Victoria wagering business from its combined NSW and Vic wagering infrastructure Tabcorp then passes an operating charge to the Vic joint venture. Tabcorp can lever its existing wagering infrastructure. Therefore, the ACT business we are imagining here in this research article will not have separate bookmaking, IT, credit department, data analytics etc. The only real incremental costs Tabcorp should incur relate to marketing. To gain a handle on that sum we rely on Paddy Power Australia's, financial accounts -- its marketing expense is about A\$70mn.

So with A\$245mn of gross profit and an incremental A\$100mn of opex, Tabcorp's hypothetical ACT operation could earn about A\$145mn of incremental cash operating profit. Well, as it turns out, we think Tabcorp's share of EBITDA from Vic wagering is just over A\$120mn excluding allocated overheads. This has not been disclosed but we are probably not too far off. In 2012, Tabcorp felt that the Victoria Wagering and Betting Licence would generate A\$120mn of EBITDA in FY14 but subsequent comments from Tabcorp suggest that it fell a bit short of expectations. FY15, the Vic wagering EBITDA grew modestly.

There is another area of major savings by migrating to the ACT. Because Tabcorp is operating a retail network in Vic but would operate a virtual business from the ACT, its capex would be lower. Tabcorp incurs between A\$20mn and A\$30mn per annum in Vic capex. (Tabcorp does recover some of this from Vic racing through its joint venture arrangements.) But not having a retail network would mean significantly less capex.

## Can Tabcorp extricate itself from the Vic JV and Licence? Probably not.

It is naïve to say Tabcorp can just walk away from the Vic licence and joint venture and set up shop in the ACT. Such a maneuver would attract the interference of half of Australia's lawyers. Tabcorp would undoubtedly be obligated to supply the service under its licence unless it could sell to a suitable buyer.

There are no suitable buyers. First of all there is only seven years left on the licence.

We doubt that the operators in the NT would want to acquire Tabcorp's share of the Vic licence and joint venture. In the first instance, the NT bookmakers may not have the required infrastructure readily available to run a retail wagering operation and a pari-mutuel pool. Secondly, it would mean that any transaction from a Victorian resident on the customer roll of the NT-based acquirer would attract all of the taxes and fees attached to the Vic licence rendering that bookmaker uncompetitive. So that probably rules out William Hill, Ladbrokes, Paddy Power, and especially Crownbet.

Tatts is a retail wagering operator that has the capability to acquire and operate the Vic wagering licence from Tabcorp. But, Tabcorp may not want to enlarge Tatts – already a major player and potential threat.

Another buyer could be an entity that forms part of Vic racing industry but the industry itself does not have a wagering operation – just a racing operation. So, it lacks capability, in a sense. The racing industry of WA has a vertically integrated wagering operation and we suspect that the management of the two racing industries would enjoy partnering but the State of WA is seeking to raise funds from an asset sale of the WA wagering operation and the entities of the Vic racing industry lack funds to purchase the WA operation.

So, herein lies a quandary for Tabcorp's strategy department. Then, again, Tabcorp's Board is too conservative. The company is probably not even contemplating this crazy idea. At least, that is not until 2024.

## 2024 anything can happen but investors should consider this option

In 2024, it may be that Tabcorp's technology and marketing essentially reformat the exclusivity of retail wagering. Geo-locating tech and differential pricing are too potential tools to encourage punters to use their TAB accounts while punting horses over a beer at the pub.

But, let's say there is no value to retail exclusivity. Let's say exclusivity cannot be enforced in 2024. What then? Well Tabcorp is almost certain not to renew its licence and vacate obligations to pay enormous taxes to the State of Victoria and content fees to the Victoria racing industry.

This outcome has significant potential value to investors. If Tabcorp continues for the next eight years to gather information about its customers, by 2024, Tabcorp may have success in converting most of its customers into a low-tax jurisdiction.

Imagine, today there is about A\$1.0bn wagered through the Victoria licence. In a low-tax jurisdiction, the gross profit margin is 70%-75%. As mentioned above, we think that

Tabcorp's current EBITDA from the Vic wagering licence is about A\$120mn. It could be significantly *larger* after 2024.

It is true that the Victoria racing industry will need to review its funding model and change the pricing for its content. But Tabcorp wins in that case because Tabcorp is currently carrying the largest burden of that funding and if it was to be spread amongst competitors, then Tabcorp's share of the burden is sure to diminish. Moreover, as other competitors are compelled to pay more for content, their marketing dollars diminish enabling Tabcorp to maintain or gain market share.

## Reference Appendix

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Our new “**Total return forecast in perspective**” chart helps visualize Credit Suisse and consensus views of a company’s 12-month return within the context of forecasting risks and its historical trading pattern:

**12mth Volatility** is calculated as the annualised standard deviation of weekly total return series over the past 12 months. It illustrates variability of stock returns; in other words, risk. The way to think about it is that one would rather take 10% forecast return from a stock that has 20% volatility, than from the stock that has 40% volatility. The shaded area shows the one standard deviation range based on past 12 months volatility. In statistical terms, once you make a number of brave assumptions, there is a 68% probability that the share price will end up inside that range in 12 months’ time.

**52wk Hi-Lo** is maximum and minimum daily closing price over the past 52 weeks. It is often handy to know the price momentum especially when the stock is trading close to its highs and lows: Is the stock trading close to its peak? Is the momentum against the stock?

\***Consensus is IBES consensus supplied by Thomson Reuters.** IBES is a survey of sell side research analysts, collecting a few dozen data points such as EPS, DPS, Sales, Target Price, ROE and so on. \***Mean is the average of target returns**, while the shaded area around the mean represents the range of estimates from the lowest to the highest estimate. This aids visualisation of a number of important factors such as: the range of analyst estimates; where Credit Suisse’s estimates on this stock sit relative to consensus; and where the share price is relative to consensus mean and consensus range target.

**Target return** is calculated as capital gain plus forecast dividend yield (net) over the next 12 months. For "CS tgt" we have used Credit Suisse’s target price and Credit Suisse forecast for 12-month forward dividend, grossed up for franking. For the consensus mean and range, we have used consensus target price and consensus dividend forecasts for 12 month forward.

**Companies Mentioned** (Price as of 04-Mar-2016)

**Crown** (CWN.AX, A\$12.07)  
**Ladbrokes PLC** (LAD.L, 128.3p)  
**Paddy Power Betfair** (PPB.L, 9880.0p)  
**Tabcorp Holdings** (TAH.AX, A\$4.23, OUTPERFORM, TP A\$5.0)  
**Tatts Group** (TTS.AX, A\$3.58)  
**William Hill** (WMH.L, 399.4p)

## Disclosure Appendix

**Important Global Disclosures**

I, Larry Gandler, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**3-Year Price and Rating History for Tabcorp Holdings (TAH.AX)**

| TAH.AX<br>Date | Closing Price<br>(A\$) | Target Price<br>(A\$) | Rating |
|----------------|------------------------|-----------------------|--------|
| 05-Mar-13      | 2.97                   | 3.31                  | O      |
| 17-Apr-13      | 3.10                   | 3.31                  | N      |
| 06-Feb-14      | 3.12                   | 3.40                  |        |
| 07-Aug-14      | 3.32                   | 3.73                  | O      |
| 29-Oct-14      | 3.73                   | 4.20                  |        |
| 05-Feb-15      | 4.39                   | 4.60                  | N      |
| 23-Apr-15      | 4.73                   | 5.20                  | O      |
| 22-May-15      | 4.66                   | 5.35                  |        |
| 13-Aug-15      | 4.64                   | 5.70                  |        |
| 04-Feb-16      | 4.39                   | 5.10                  |        |
| 12-Feb-16      | 4.15                   | 5.00                  |        |



\* Asterisk signifies initiation or assumption of coverage.

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O)** : The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N)** : The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U)** : The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.

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**Overweight** : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight** : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

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\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

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#### Global Ratings Distribution

| Rating             | Versus universe (%) | Of which banking clients (%) |
|--------------------|---------------------|------------------------------|
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| Neutral/Hold*      | 29%                 | (24% banking clients)        |
| Underperform/Sell* | 11%                 | (45% banking clients)        |
| Restricted         | 1%                  |                              |

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#### Target Price and Rating

##### Valuation Methodology and Risks: (12 months) for Tabcorp Holdings (TAH.AX)

**Method:** Our A\$5.00 target price for TAH.AX is consistent with our DCF (\$5.23 less next 12 months dividends of 24cps) Our DCF incorporates a beta of 0.95 and a weighted average cost of capital of 7.9%. Our OUTPERFORM rating is reflective of our positive view on Tabcorp's wagering division amidst improving product and channel mix, strong balance sheet and attractive 5.7% dividend yield. Our target price implies significant upside to TABCORP's current share price.

**Risk:** Risks to our A\$5.00 target price and OUTPERFORM rating for Tabcorp Holdings include increased competition from new wagering operators, uncertainty regarding renewal of TGS customer contracts and the inability to realise A\$14mn in EBITDA from the integration of ACTTAB

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names

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# Tabcorp Holdings Limited

## Odds factored in

### Upgrade to Neutral following underperformance in shares

TAH shares have underperformed the ASX 200 by 12% since it reported its 1H16 result in early February. The stock is now trading at a 13% premium to the market, it's lowest premium since November 2012. With market expectations having been rebased, we have upgraded our recommendation to Neutral (previously Sell).

### The market appears to be incorporating a lower growth outlook

Competition continues to build and given that less than a third of bets are now being placed in the retail channel, the new competitive focus is digital. TAH's digital share fell marginally to 29% in 1H16, but looking forward, we expect there will be an improvement on the 6% digital turnover growth reported in 2Q FY16. With wagering growth likely to remain low in the near term, TAH is expected to focus more on Keno and TGS for growth.

### Possible upside from purchase of UBET (from Tatts) or increased dividends

Given the large duplication of costs, we see the acquisition of UBET as a logical acquisition for TAH at some stage. We estimate a deal would be 14% EPS accretive in a scenario where TAH paid a 32% premium to our UBET valuation of ~\$1.25bn (assuming the mid-point of our \$50-\$65m synergy target). With that said, we don't think a deal is likely in 2016 given the underperformance of TAH shares, the WA licence overhang and the fact that discussions only ceased late last year. The positive for TAH shareholders is that free cash flow remains strong and gearing should be down to 1.6x gross debt / EBITDA by FY18E allowing TAH to comfortably retain the 90% payout ratio (excluding Vic licence amortisation).

### Valuation: \$4.13 per share (previously \$3.75)

Following a complete remodel of our Tabcorp forecasts we reduce FY16 EPS by 1% but we have increased FY17/18 EPS 3% / 8%. Our valuation increases 10% to \$4.13 per share (previously \$3.75) and our price target to \$4.15 given increased earnings and a change in valuation methodology to DCF (previously SOTP).

## Equities

Australia  
Casinos

**12-month rating** **Neutral**  
*Prior: Sell*

**12m price target** **A\$4.15**  
*Prior: A\$3.75*

**Price** **A\$4.12**

**RIC:** TAH.AX **BBG:** TAH AU

### Trading data and key metrics

|                                   |                      |
|-----------------------------------|----------------------|
| <b>52-wk range</b>                | A\$5.16-3.99         |
| <b>Market cap.</b>                | A\$3.42bn/US\$2.57bn |
| <b>Shares o/s</b>                 | 829m (ORD)           |
| <b>Free float</b>                 | 100%                 |
| <b>Avg. daily volume ('000)</b>   | 3,703                |
| <b>Avg. daily value (m)</b>       | A\$15.9              |
| <b>Common s/h equity (06/16E)</b> | A\$1.69bn            |
| <b>P/BV (06/16E)</b>              | 2.0x                 |
| <b>Net debt / EBITDA (06/16E)</b> | 1.7x                 |

### EPS (UBS, diluted) (A\$)

|               | From  | To    | % ch | Cons. |
|---------------|-------|-------|------|-------|
| <b>06/16E</b> | 0.222 | 0.220 | -1   | 0.223 |
| <b>06/17E</b> | 0.226 | 0.234 | 3    | 0.239 |
| <b>06/18E</b> | 0.227 | 0.245 | 8    | 0.262 |

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**David Fabris**

Analyst

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| Highlights (A\$m)               | 06/13   | 06/14 | 06/15 | 06/16E | 06/17E | 06/18E | 06/19E | 06/20E |
|---------------------------------|---------|-------|-------|--------|--------|--------|--------|--------|
| <b>Revenues</b>                 | 2,003   | 2,040 | 2,156 | 2,218  | 2,291  | 2,341  | 2,390  | 2,430  |
| <b>EBIT (UBS)</b>               | 313     | 322   | 335   | 339    | 357    | 365    | 378    | 387    |
| <b>Net earnings (UBS)</b>       | 139     | 149   | 171   | 183    | 194    | 203    | 215    | 223    |
| <b>EPS (UBS, diluted) (A\$)</b> | 0.189   | 0.198 | 0.215 | 0.220  | 0.234  | 0.245  | 0.258  | 0.269  |
| <b>DPS (A\$)</b>                | 0.190   | 0.160 | 0.500 | 0.230  | 0.245  | 0.260  | 0.270  | 0.280  |
| <b>Net (debt) / cash</b>        | (1,145) | (967) | (988) | (879)  | (813)  | (759)  | (712)  | (680)  |
| Profitability/valuation         | 06/13   | 06/14 | 06/15 | 06/16E | 06/17E | 06/18E | 06/19E | 06/20E |
| <b>EBIT margin %</b>            | 15.6    | 15.8  | 15.5  | 15.3   | 15.6   | 15.6   | 15.8   | 15.9   |
| <b>ROIC (EBIT) %</b>            | 12.4    | 12.9  | 13.1  | 12.9   | 14.1   | 14.8   | 15.7   | 16.5   |
| <b>EV/EBITDA (core) x</b>       | 7.2     | 7.5   | 8.3   | 8.3    | 7.8    | 7.5    | 7.2    | 7.0    |
| <b>P/E (UBS, diluted) x</b>     | 16.3    | 17.4  | 19.6  | 18.7   | 17.6   | 16.8   | 16.0   | 15.3   |
| <b>Equity FCF (UBS) yield %</b> | 2.7     | 7.4   | 8.3   | 8.8    | 7.9    | 7.9    | 8.0    | 7.8    |
| <b>Net dividend yield %</b>     | 6.2     | 4.7   | 11.8  | 5.6    | 5.9    | 6.3    | 6.6    | 6.8    |

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of A\$4.12 on 30 Mar 2016 16:41 EST

## Tabcorp Holdings Limited

Neutral (\$4.15 price target)

UBS Research **THESIS MAP** a guide to our thinking and what's where in this report

[OUR THESIS IN PICTURES](#) →

### PIVOTAL QUESTIONS

#### Q: Did Tabcorp's wagering revenue growth peak in FY15?

Yes, we think so. It is unlikely that we will see a repeat of the 6.9% wagering growth reported in FY15. TAH is doing a good job of maintaining players as betting moves away from monopoly products (retail and parimutuel pool betting) towards competitive products (online and fixed odds), but competition has intensified. In particular, we believe that four of TAH's largest five competitors have stepped up efforts in the space, meaning that growth over the next few years will likely be in the low single digit range. Keno is a likely area of positive surprise, however the business is still small (a 15% beat relative to our revenue forecasts would only move group EBITDA by 2%)...

[more](#) →

#### Q: Will TAH buy UBET in 2016?

Unlikely, in our view, though in time we believe the acquisition of UBET would be logical given the potential to extract up to \$65m of estimated synergies. With the exception of the sale of WA TAB, we wouldn't expect the ACCC to intervene with the deal this time, given the changes to the industry since 2006. We estimate that Tabcorp could pay a 32% premium to our valuation of UBET and still generate 14% EPS accretion, assuming the midpoint of our \$50-65m range of synergies...

[more](#) →

#### Q: Will TAH de-gear to 1.6x by FY18E while maintaining a 90% payout ratio?

We believe it could. While growth in wagering might be slower, we see several positives in the TAH investment case. Capex to sales of under 6% highlights the low capital intensity of the business, which in turn allows for TAH to de-gear its balance sheet to 1.6x Gross Debt / EBITDA by FY18E, while still paying out ~90% of EPS as dividends (pre-Vic Amortisation)...

[more](#) →

### UBS VIEW

**De-rate in the shares means it no longer warrants a Sell recommendation:** As a low beta play on consumer spend in NSW and Victoria, TAH is arguably well positioned relative to other consumer related businesses. We think the business is run well and as growth in smaller businesses (including international) develop, we could see more upside potential. With that said, we don't see a strong case to recommend the shares ahead of other stocks in the sector and as a result we have a Neutral recommendation.

### EVIDENCE

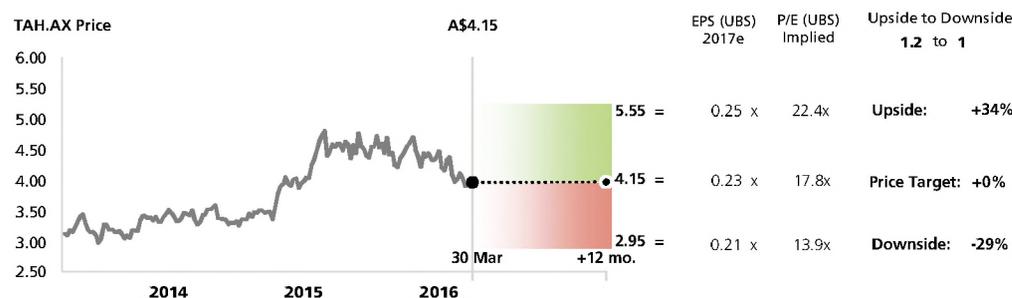
We estimate that the proportion of bets in the retail channel have fallen from 54% to 31% in the past five-years. TAH has done well at maintaining most of its customer base, but online share has slipped marginally to 28% from 29% in the past three-years...

### WHAT'S PRICED IN?

In our view, the underperformance in the share price likely means that the market is factoring in lower growth and a lower likelihood that TAH sees near term upside from M&A...

[more](#) →

### UPSIDE / DOWNSIDE SPECTRUM



[more](#) →

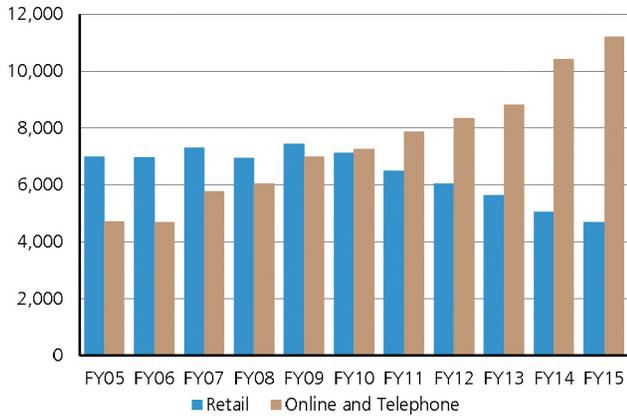
### COMPANY DESCRIPTION

Tabcorp Holdings (TAH) operates wagering (including the Sky racing channels) and Keno products in Australia as well as providing gaming solutions / services in Victoria, and more recently in NSW...

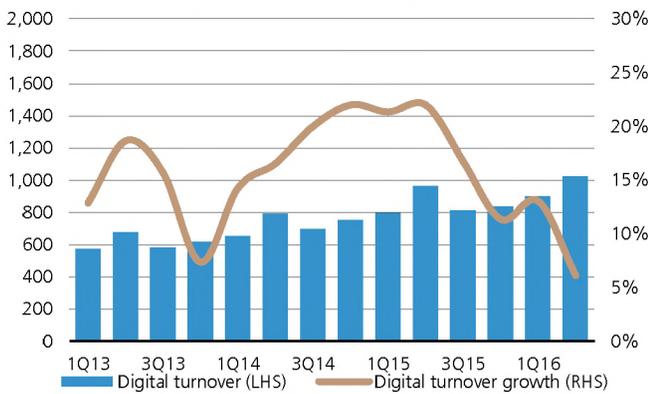
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OUR THESIS IN PICTURES

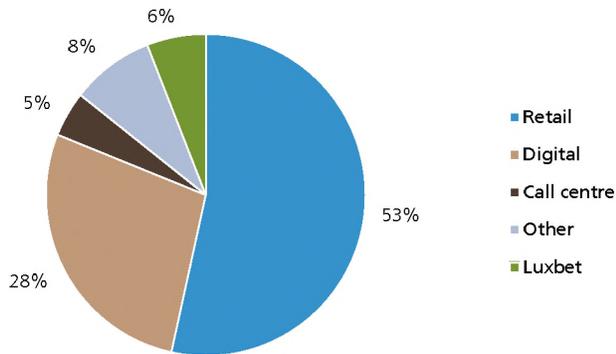
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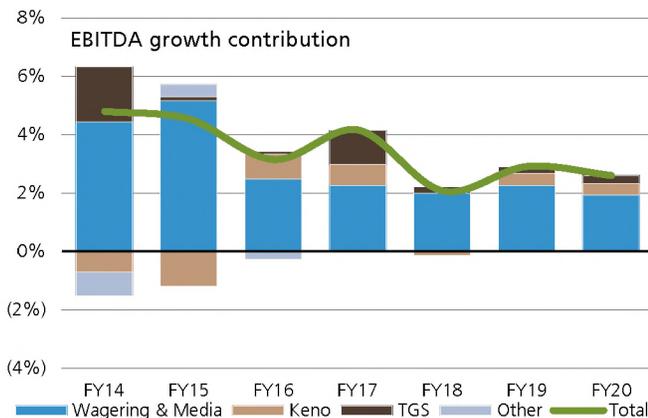
The Australian wagering market continues to move towards the highly competitive online space from retail...



... TAH has done a good job at migrating customers to its online platform with online growth of 16% over the last five periods versus the market at +19%. However, growth slowed in the most recent period...



... Given more than 50% of Tabcorp's wagering revenue is generated from retail, which is considered unlikely to grow, online growth needs to improve significantly from here...



... the outlook for Keno and TGS is positive but these businesses are small and unlikely to overtake wagering as the key growth driver of EBITDA...

PIVOTAL QUESTIONS

[return](#) ↑

### Q: Did Tabcorp's wagering revenue growth peak in FY15?

UBS VIEW

Yes. TAH has done a good job at migrating players from retail to its online platform and maintaining players wanting to switch from parimutuel to fixed odds. With that said, our view is that competition has intensified and revenue growth in wagering will likely be in the low single digit range in the near term.

EVIDENCE

We believe that four of TAH's five biggest competitors are more competitive than they were 12-months ago. The impact of this competition can be seen in 1H16 wagering growth which grew at 1.5% for TAH versus the rest of the market which grew 11.5%.

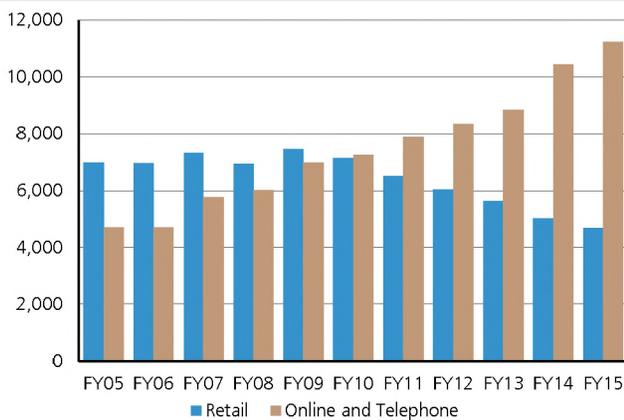
WHAT'S PRICED IN?

Expectations have been lowered and the market understands the competitive environment. Following the relative underperformance of TAH shares since the FY15 result, we think the market is now pricing in the lower growth outlook.

### Shift in consumer preference from retail & tote (monopolies) to online and fixed odds (competitive products)

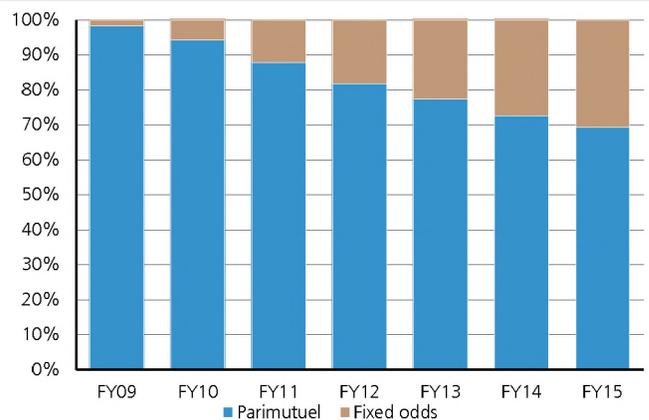
The shift in consumer preferences continues to evolve, with online betting (not surprisingly) taking share from cash based betting and fixed odd taking share from parimutuel (tote). While outside of TAH's control, this results in a negative mix shift (with the trend moving towards a more competitive environment). In our view, TAH has done a good job in adapting to these changes. The charts below show the change in trends across the market.

Figure 1: Australian Thoroughbred turnover (\$m)



Source: ARB, company reports, UBSe

Figure 2: TAB Thoroughbred sales mix (%)

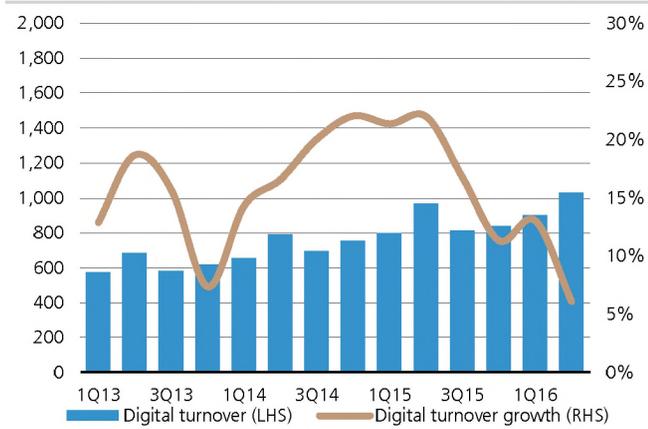


Source: ARB, company reports, UBSe

Given the shift away from retail, a key battle ground has been digital market share. Over the last five fiscal year halves we estimate that turnover in the digital market has grown at an average rate of 19% exTabcorp, while Tabcorp has grown at an

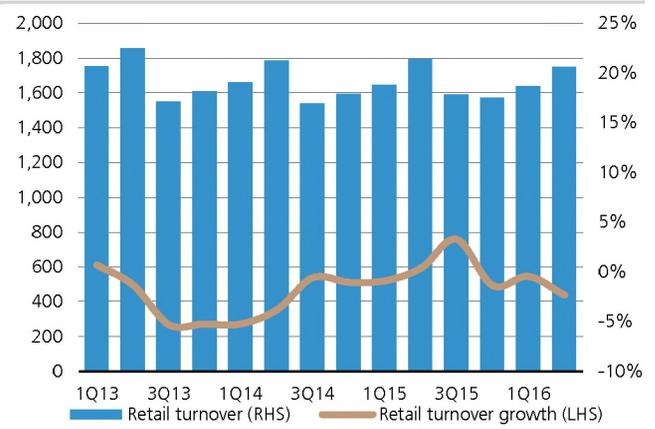
average rate of 16%, though only 9% in the most recent half (whereas the market ex Tabcorp grew at 28%).

**Figure 3: Tabcorp digital turnover / growth (quarterly)**



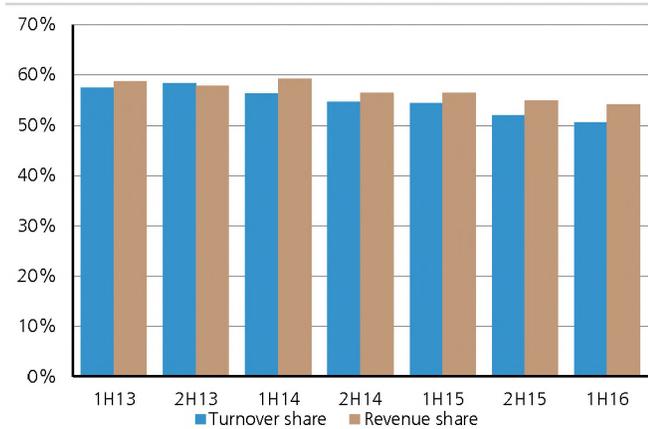
Source: Company reports, UBSe

**Figure 4: Tabcorp retail turnover / growth**



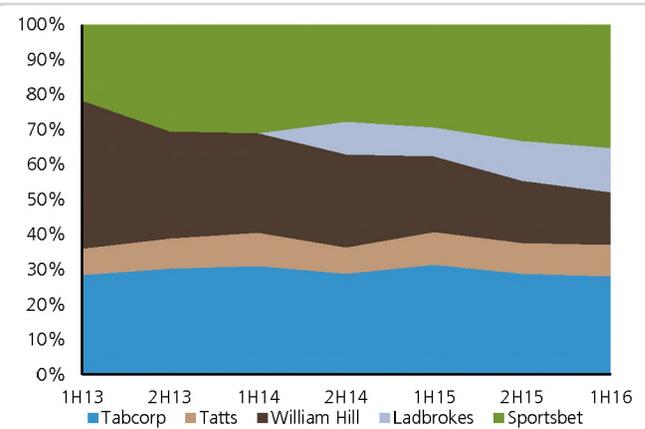
Source: Company reports, UBSe

**Figure 5: Tabcorp market share (revenue/turnover)**



Source: Company reports, UBSe

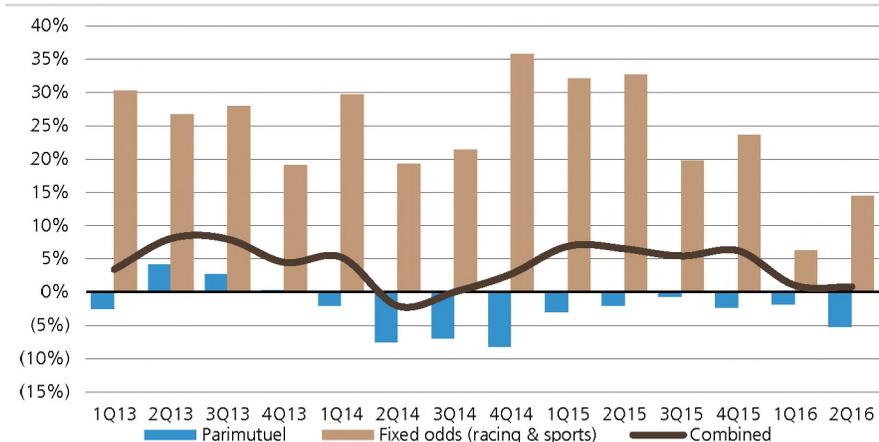
**Figure 6: Digital market share (turnover)**



Source: Company reports, UBSe

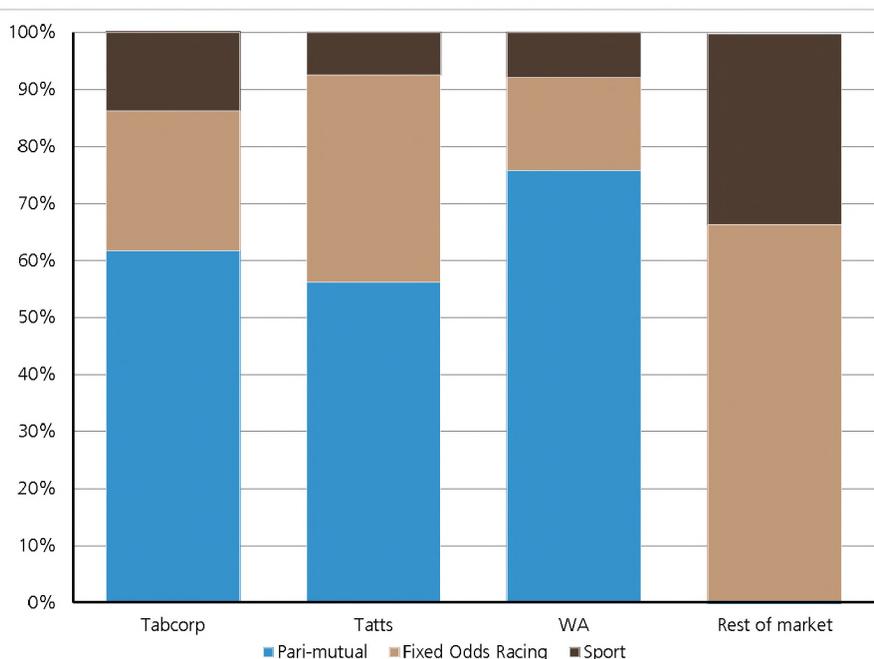
Tabcorp's revenue mix has changed materially over the past 10 years, with growth in sport and fixed odds racing outpacing growth in parimutuel betting.

**Figure 7: Tabcorp parimutuel & fixed odds revenue growth**



**Growth in fixed odds has offset the decline in parimutuel**

Source: Company reports, UBSe

**Figure 8: Business mix of Tabcorp versus the competition**

In FY15, parimutuel (tote) revenue represented 61% of wagering turnover, versus 80% five years ago.

Source: ARB, company reports, UBSe, Note: Tote derivative products are within fixed odds for "rest of market"

### Has competition intensified in the past year?

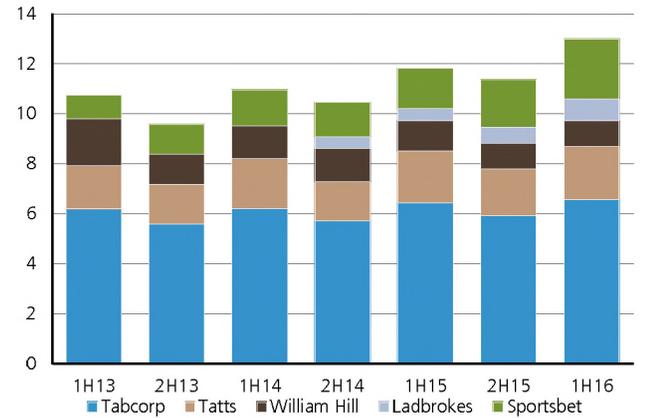
In our view, competition in the Australian wagering market is intensifying. While competition in the online space has always been very strong, the search for growth in the current environment appears to be as challenging as we have seen. The primary driver of this relates to new entrants, who have advertised heavily and have also been very active in promotional activities.

**Figure 9: Wagering revenue growth – Tabcorp vs. rest of market**

|                     | 1H14          | 2H14        | 1H15         | 2H15        | 1H16        |
|---------------------|---------------|-------------|--------------|-------------|-------------|
| Tabcorp             | (0.8%)        | 3.2%        | 8.1%         | 5.7%        | 1.5%        |
| Rest of market      | (2.7%)        | 9.6%        | 21.0%        | 12.3%       | 11.5%       |
| <b>Total market</b> | <b>(1.6%)</b> | <b>5.9%</b> | <b>13.3%</b> | <b>8.6%</b> | <b>5.8%</b> |

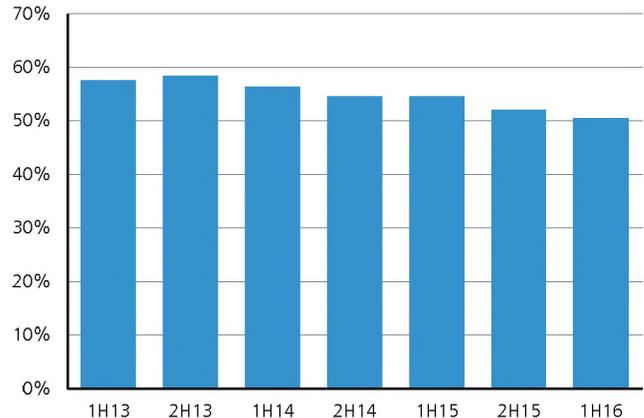
Source: Company reports. 'Rest of market' includes UBET, William Hill, Sportsbet and Ladbrokes.

**Figure 10: Australian wagering turnover (\$bn)**



Source: Company reports, UBSe

**Figure 11: Tabcorp wagering market share (turnover)**



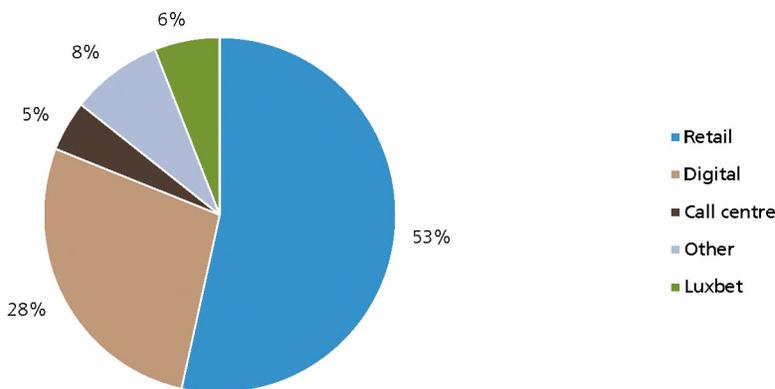
Source: Company reports, UBSe

The FY15 results from TAH's Wagering and Media division showed a strong improvement relative to FY14, with the company achieving a 6.9% growth rate in wagering revenue. In our view, this was a strong operating result which benefitted from an improved product offering and some successful marketing.

With that said; strong growth has been harder to achieve so far in FY16, possibly because the competitive environment has become more aggressive. In particular, we'd highlight three smaller brands that continue to ramp up and another major bookmaker that has now finished integrating recent acquisitions. This is in addition to Sportsbet, which continues to lead the market in revenue growth.

As a result of a more competitive wagering environment and the possibility that FY15 was an anomaly in growth, we believe the new growth outlook for TAH's wagering divisions is somewhere between 2% to 4%.

**Figure 12: Tabcorp turnover (FY15)**



Source: Company reports, UBSe

## Retail exclusivity comes at a big cost

The table below illustrates the variable contribution differential between Tabcorp (exLuxbet) relative to the bookmakers; based on an online fixed odds bet at a standard meeting on a race in another state that charges race field fees.

Given we are looking at the margins for incremental bets, we have ignored the fixed product / programme fees paid by Tabcorp in Victoria (\$77m in FY15, UBSe) / NSW (\$15m in FY15, UBSe) and the \$550k annual wagering tax payment made by the corporate bookmakers operating out of the Northern Territory.

**Figure 13: Tabcorp variable contribution versus corporate bookmakers (\$m)**

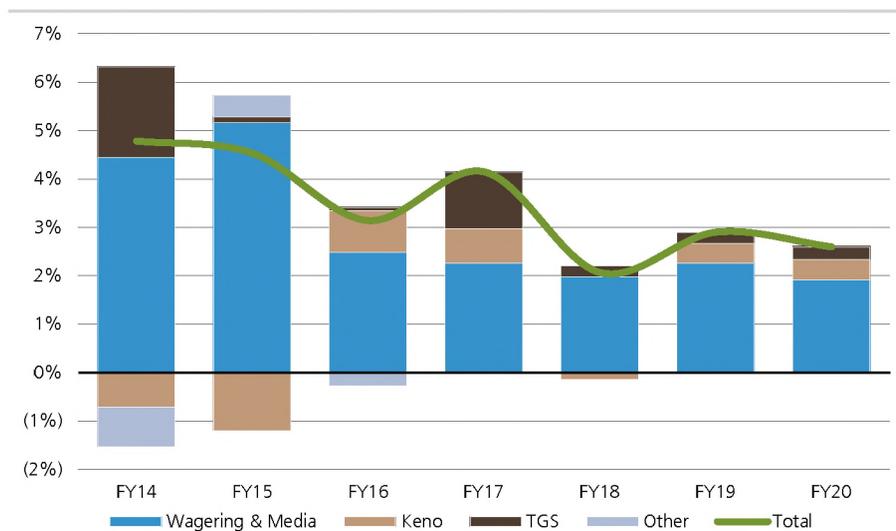
|                                     | Tabcorp<br>Victoria | Tabcorp<br>NSW | Corporate<br>Bookmakers |
|-------------------------------------|---------------------|----------------|-------------------------|
| Revenue                             | 100.0               | 100.0          | 100.0                   |
| Government tax                      | (13.5)              | (20.0)         | 0.0                     |
| Product fees                        | (15.0)              | (22.0)         | 0.0                     |
| Race field fees (based on turnover) | (14.3)              | (14.3)         | (14.3)                  |
| Wagering incentive fee              | 0.0                 | (5.9)          | 0.0                     |
| JV contributions                    | (18.6)              | 0.0            | 0.0                     |
| <b>Variable contribution</b>        | <b>38.6</b>         | <b>37.8</b>    | <b>85.7</b>             |

Source: UBSe

## Growth outside of wagering...

Wagering makes over two-thirds of TAH's EBITDA and as a result, the division is the largest driver of earnings. With the growth outlook becoming more challenging we expect there will be a greater focus on Keno (discussed in the section below) and TGS for growth.

**Figure 14: Tabcorp EBITDA growth contribution**



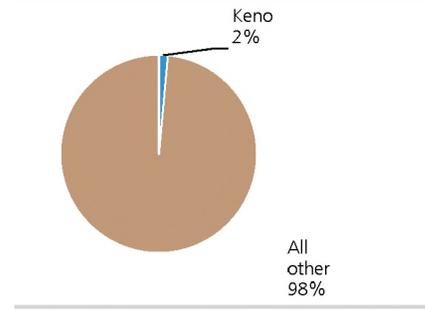
Source: Company reports, UBSe

**Positive outlook for Keno**

The Keno business contributed 13% of Tabcorp's EBITDA in FY15, and while still a small contributor at the group level the business generally delivers stable growth, and is arguably comparable to a lottery business in a lot of ways. In aggregate, (Australia wide) Keno sales have grown at an average rate of 5% over the last 20 years, broadly in line with lottery sales. However, Keno is much less underrepresented as form of gambling with total sales in FY14 accounting for 2% of Australia's \$22bn gambling industry.

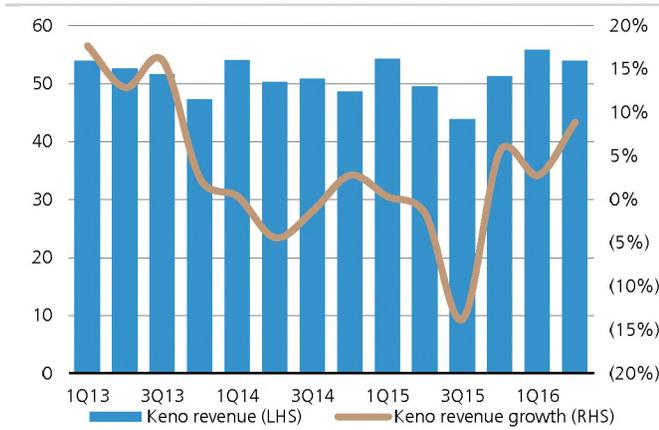
Tabcorp holds the Keno licences in Victoria (until 2022), NSW (until 2050) and Queensland (until 2047). The business has only recently returned to growth – with recent growth attributable to both the consumer environment but also assisted by increased investment to "transform the brand". This increased investment will include a rebranding, product expansion (including digital in venue) and jackpot pooling across the eastern states (Queensland is likely to be approved within the next 12 months).

**Figure 15: Aus gambling sales (FY14)**



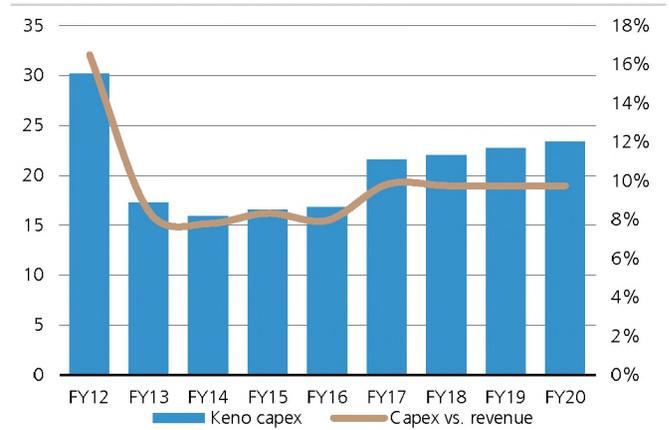
Source: AGS

**Figure 16: Tabcorp Keno revenue / growth**



Source: Company reports, UBSe

**Figure 17: Keno capex vs. revenue**



Source: Company reports, UBSe

Given the increased investment within the Keno business we see the possibility of incremental growth above UBS base case. The table below illustrates the additional EBITDA contribution to both Keno / Tabcorp assuming an additional 5 – 15% revenue growth in FY17. Despite the incremental growth, the contribution to Tabcorp is marginal (~2% when assuming 15% additional Keno revenue growth), given Keno as a portion of group EBITDA is less than 15%.

**Figure 18: Keno scenarios - growth contribution to group EBITDA (FY17E)**

| Revenue Growth        | Base case | 5%   | 10%  | 15%  |
|-----------------------|-----------|------|------|------|
| Group EBITDA revision | 0.0%      | 0.7% | 1.3% | 2.0% |

Source: UBSe

## PIVOTAL QUESTIONS

[return](#) ↑**Q: Will TAH buy UBET in 2016?**

## UBS VIEW

Unlikely. The outlook for both TAH and TTS hasn't changed materially since the companies disclosed that discussions around a nil premium merger had ceased late last year. With that said, we still see some merit in TAH buying UBET at some stage, but think that time will need to pass before the two companies revisit this idea.

## EVIDENCE

Looking at the previous concerns from the ACCC, we think the market has changed sufficiently to allow this deal to proceed. Amongst various scenarios, we estimate that Tabcorp could pay a 32% premium to our valuation of UBET (32% being considered a reasonable premium for control, given the multiples implied at that level) and still generate 14% EPS accretion, assuming the midpoint of our \$50-65m range of synergies.

## WHAT'S PRICED IN?

In our view, potential upside through the acquisition of UBET is not in Tabcorp's share price. This is possibly because the accretion of the deal is less than would have been the case when Tabcorp's share price was higher, the sale of Western Australia TAB could also be delayed (blocking a near-term potential deal), and the companies have also disclosed that they are no longer in discussions.

**Rational for a deal**

We estimate synergies of \$50 – 65m may be achievable by combining the two wagering businesses. These synergies would be driven by

- **Duplication of costs** – Across both businesses there is considerable duplication that could be rationalised - both companies operate technology development teams, fixed odds bookmakers and marketing and administration teams.
- **Operational improvements / efficiencies** – The combined business would have better access to key talent / technology and would likely adopt best practices which should drive some operational improvements / efficiencies.
- **Parimutuel pooling revenue synergies** – While hard to quantify the revenue benefit, arguably larger pools would offer greater liquidity assuming pools are merged which would support high volumes with lower volatility. Additionally, combined pools should support smaller racing events / other racing codes. We note that this revenue synergy would be subject to approval by industry / regulatory bodies.

For two businesses with combined EBITDA of \$529m (FY16e), \$50 - 65m in synergies is a significant figure (9 - 12%). We also think the risk around achieving these synergies is limited given that most of it is driven through cost duplication savings.

### ACCC concerns unlikely to materialise (unlike last time)

While the ACCC had issues around competition for upcoming licences and pooling / pricing concerns back in 2006, we believe the industry is in a different position today and as such previous concerns are unlikely to materialise should Tabcorp / UBET consolidate.

- **Competition for future wagering licences** – The ACCC specifically referenced the upcoming licence in Victoria (renewed in 2012) and retail exclusivity in NSW (which was due for expiry in 2013) – both of which were renewed by Tabcorp. The ACCC was concerned that if the merger proceeded it would reduce competitiveness for the upcoming licences.

The WA TAB is a potential issue for the ACCC, in our view. As a result, the sooner the tender process is completed, the less likely that this could block a potential deal from occurring. Arguments around wagering markets being in competition are less relevant now given the increase in online wagering operators. Bottom line, outside of WA, we think the prior concerns around upcoming licences might not be as big an issue for the ACCC given: (1) the next licences to be tendered is not until 2024, which the ACCC might view as sufficient time for the market to evolve further away from retail, and (2) the competitive landscape has changed given the entrance of corporate bookmakers (licenced out of the North Territory / Norfolk Island) which the ACCC could see as potential competition for licences in the event that TAH and UBET merge.

- **Competition for the supply of pools** – The ACCC argued that a Tabcorp / Tatts consolidation would reduce pooling suppliers (assuming consolidation of pools) for the Western Australian, Tasmanian and ACT pari-mutuel (tote) pools.

With ACT now owned by Tabcorp and Tasmania by Tatts the only state to be affected would be Western Australia (which is currently under a sale process). If WA is purchased by TAH or TTS, then in our view this may no longer be an issue.

### Financial upside potential including synergies

We estimate Tabcorp could pay up to \$2bn to acquire UBET and still achieve up to 7% EPS accretion within two years of the deal being completed. We have assumed Tabcorp's gearing position (gross debt / EBITDA) peaks at 2.5x EBITDA (pre-synergies).

**Figure 19: Tabcorp / UBET merger scenarios**

| \$m unless stated                 | Downside | Base case | Upside |
|-----------------------------------|----------|-----------|--------|
| Acquisition price                 | 1970     | 1689      | 1407   |
| Premium vs. UBSe (UBET valuation) | 54%      | 32%       | 10%    |
| Pre-synergy multiple (EBITDA)     | 14.0x    | 12.0x     | 10.0x  |
| Synergies – year two              | 57.5     | 57.5      | 57.5   |
| Post-synergy multiple (EBITDA)    | 9.7x     | 8.3x      | 6.9x   |
| EPS accretion – year two          | 7%       | 14%       | 22%    |

Source: UBSe

Note: we have assumed the deal is structured so that Tabcorp's gearing peaks at 2.5x gross debt / EBITDA (pre-synergies) while equity is raised at a nil discount.

**We estimate Tabcorp could pay up to \$2bn for UBET and still deliver up to 7% EPS accretion at the end of year two**

## PIVOTAL QUESTIONS

[return](#) ↑

## Q: Will TAH de-gear to 1.6x by FY18E while maintaining a 90% payout ratio?

### UBS VIEW

Yes. TAH is producing a significant amount of free cash flow that can be used to invest in growth projects, pay down debt or increase its dividend payout ratio further.

### EVIDENCE

Despite slower growth, we expect free cash flow to be strong and TAH to de-gear to around 1.6x gross debt / EBITDA by FY18. The capital intensity of TAH is low and we also forecast that capex / sales will be below 6% over the next 3 years. This means that TAH can maintain a payout ratio of ~90% (excluding Victorian amortisation).

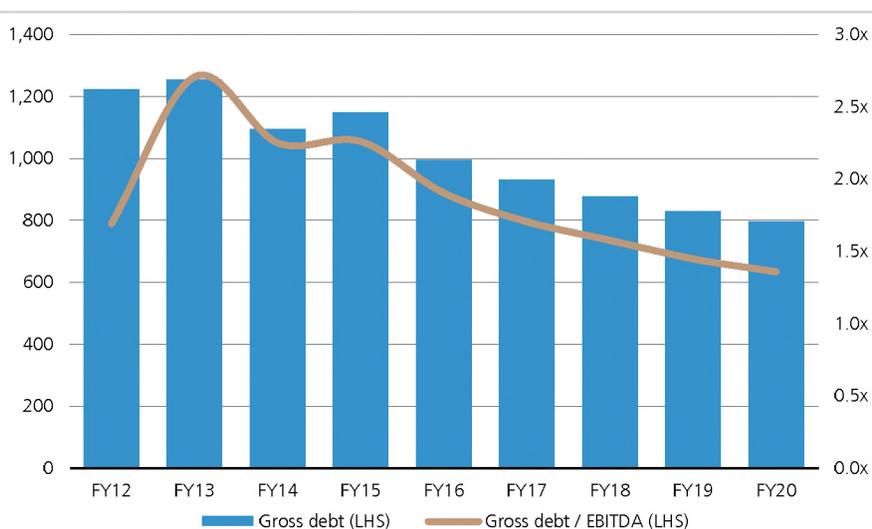
### WHAT'S PRICED IN?

Investors are aware of the free cash flow story and this has been a key reason to buy the stock. In our view, positive surprise from dividends is low but the dividend yield is healthy which should be enough to support the shares in a low growth environment.

## De-gearing balance sheet

We estimate that strong free cash flow will result in a de-gearing balance sheet, even while TAH maintains a dividend payout ratio of 90% (of pre-amortisation EPS).

**Figure 20: Tabcorp – Gross debt to EBITDA**

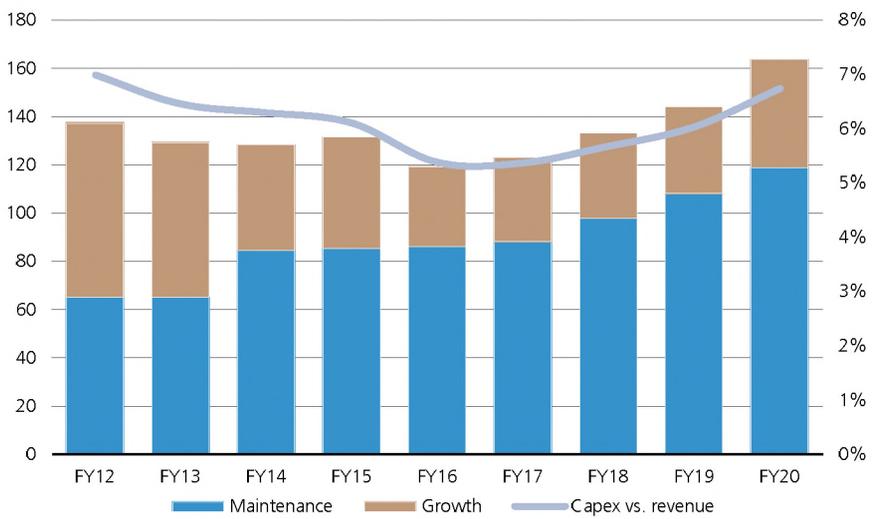


Source: Company reports, UBS

### Stable capex outlook

Part of the driver for improved free cash flow is that capex requirements are low with capex to revenue of around 6%.

**Figure 21: Tabcorp – capital expenditure vs. revenue**

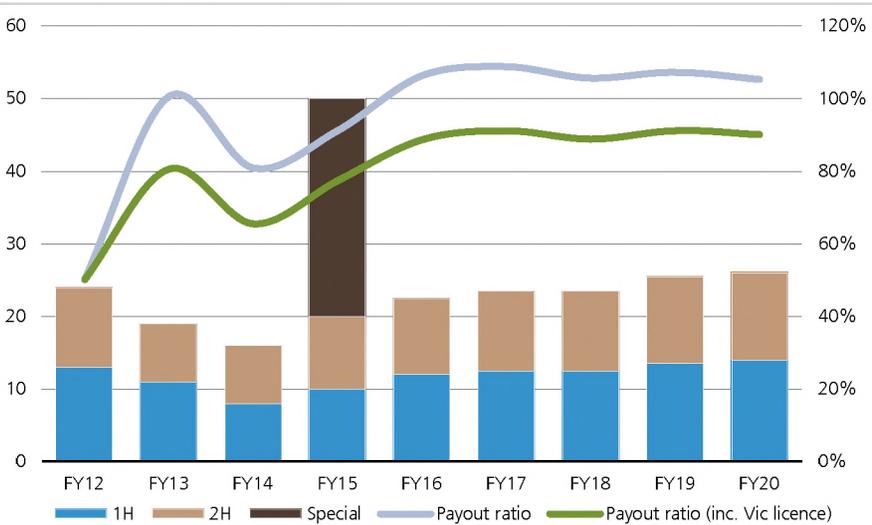


Source: Company reports, UBSe

### Likely to continue to distribute cash to shareholders

Tabcorp's dividend policy in FY16 is a payout ratio of 90% of NPAT before amortisation of the Victorian Wagering licence (~\$35m annually) which implies a payout ratio of ~105% on an adjusted basis.

**Figure 22: Tabcorp dividends / payout ratio (normalised)**



**Tabcorp's payout ratio is above 100% on a reported basis**

Source: Company reports, UBSe, note we have excluded the special dividend when calculating the payout ratio

**Valuation... should the Vic licence Amortisation be excluded from the calculation?**

Tabcorp paid \$410m for the 12 year Victorian licence (until 2024, which may be extended for a further two-year period). The licence is being amortised over its duration (~\$35m annually). There is an argument that Tabcorp may have overpaid for this licence and given the changing landscape within the industry a payment of similar magnitude in the future may not be made (UBSe assume a \$260m payment to extend the licence for another 12 years with prior arrangements carrying over).

In general, Tabcorp's reported PE (which includes the Victorian licence amortisation) is around two to three turns higher than on an adjusted basis (excluding the Victorian licence amortisation). For example, if TAH was trading on 18x earnings on a reported basis, on an adjusted basis it would be trading on around 15x earnings.

## Revisions

Following a complete remodel of Tabcorp we have reduced our FY16 EPS forecast by 1% but increase our FY17/18 EPS 3% / 8%.

**Figure 23: Tabcorp revisions**

|                   | FY16e<br>new | FY16e<br>old | FY16e<br>% Chg. | FY17e<br>new | FY17e<br>old | FY17e<br>% Chg. | FY18e<br>new | FY18e<br>old | FY18e<br>% Chg. |
|-------------------|--------------|--------------|-----------------|--------------|--------------|-----------------|--------------|--------------|-----------------|
| Revenue           | 2,218        | 2,209        | 0%              | 2,291        | 2,278        | 1%              | 2,341        | 2,348        | (0%)            |
| EBITDA            | 524          | 527          | (1%)            | 546          | 533          | 2%              | 557          | 536          | 4%              |
| EBIT              | 339          | 341          | (1%)            | 357          | 342          | 4%              | 365          | 340          | 7%              |
| NPAT (normalised) | 183          | 185          | (1%)            | 194          | 189          | 3%              | 203          | 189          | 7%              |
| NPAT (reported)   | 167          | 185          | (10%)           | 194          | 189          | 3%              | 203          | 189          | 7%              |
| EPS (normalised)  | 22.0         | 22.2         | (1%)            | 23.4         | 22.6         | 3%              | 24.4         | 22.7         | 8%              |
| DPS               | 23.0         | 24.0         | (4%)            | 24.5         | 24.0         | 2%              | 25.5         | 24.0         | 6%              |

Source: UBSe

## Valuation: \$4.13 per share (previously \$3.75)

Our valuation increases 10% to \$4.13 per share (previously \$3.75) given increased earnings and a change in valuation methodology to DCF (previously SOTP).

**Figure 24: Tabcorp valuation (DCF implied SOTP)**

| \$m unless stated                 | FY15       | FY16       | FY17       | FY18       | FY17        | DCF          |
|-----------------------------------|------------|------------|------------|------------|-------------|--------------|
|                                   | EBITDA     | EBITDA     | EBITDA     | EBITDA     | EV/EBITDA   | Valuation    |
| Wagering & Media                  | 376        | 388        | 400        | 411        | 8.0x        | 3,205        |
| - NSW wagering (exTrackside)      | 145        | 144        | 148        | 153        | 9.6x        | 1,419        |
| - Victoria wagering (exTrackside) | 106        | 113        | 117        | 120        | 7.5x        | 870          |
| - ACT wagering (exTrackside)      | 8          | 15         | 15         | 15         | 7.8x        | 117          |
| - Media                           | 69         | 70         | 71         | 72         | 6.2x        | 439          |
| - Luxbet                          | 4          | 5          | 6          | 6          | 7.7x        | 42           |
| - Trackside                       | 43         | 43         | 44         | 45         | 7.2x        | 317          |
| Keno                              | 66         | 71         | 74         | 74         | 8.5x        | 637          |
| Gaming Services                   | 68         | 68         | 74         | 75         | 7.0x        | 518          |
| Corporate costs / other           | (2)        | (3)        | (3)        | (3)        | 9.9x        | (31)         |
| <b>Total</b>                      | <b>508</b> | <b>524</b> | <b>546</b> | <b>557</b> | <b>7.9x</b> | <b>4,328</b> |
| Less net debt                     |            |            |            |            |             | (891)        |
| <b>Equity value</b>               |            |            |            |            |             | <b>3,438</b> |
| Shares on issue                   |            |            |            |            |             | 831          |
| <b>Valuation per share</b>        |            |            |            |            |             | <b>4.13</b>  |
| <b>UBS price target</b>           |            |            |            |            |             | <b>4.15</b>  |

Source: UBSe

WHAT'S PRICED IN?

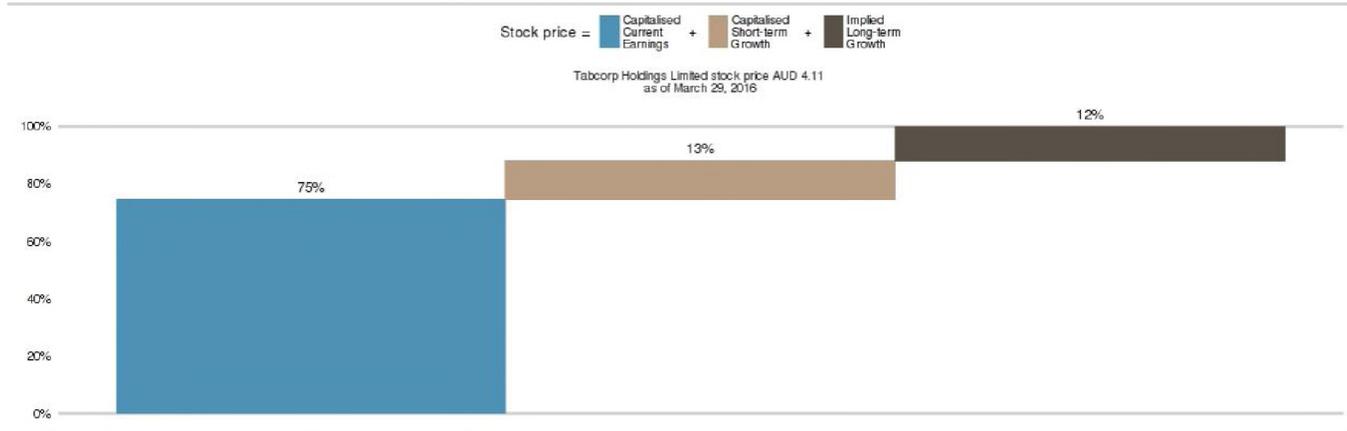
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In our view, the underperformance in the share price likely means that the market is factoring in lower growth and a lower likelihood that TAH sees near term upside from M&A.

Historically Tabcorp has been valued on its current earnings. However, since mid-2015 the market has started to price in long-term and short-term growth.

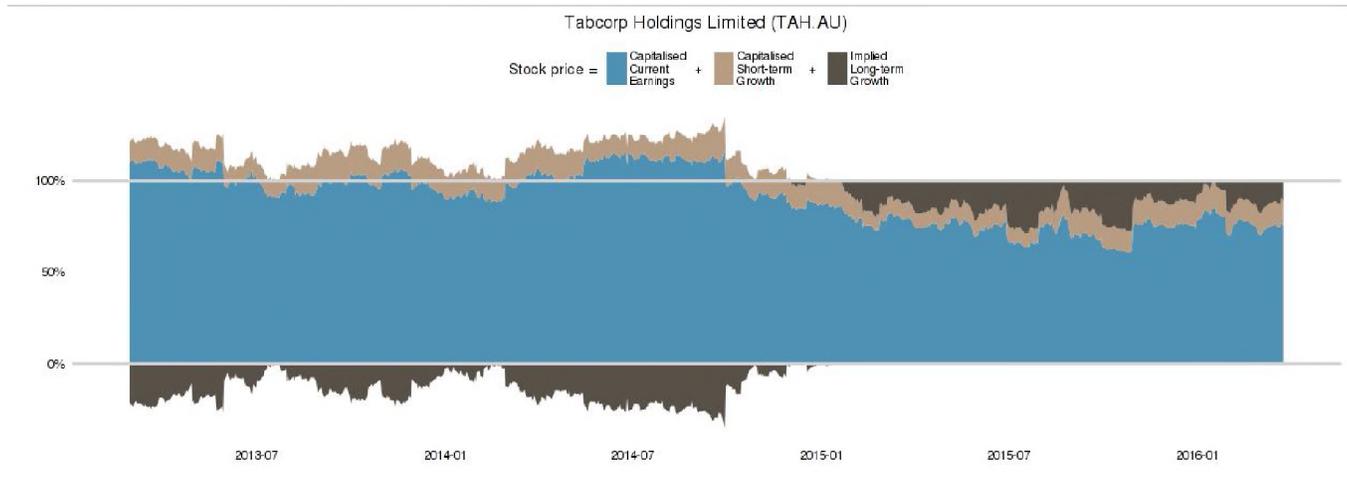
**Until recently the market has priced Tabcorp on its current earnings**

**Figure 25: Breakdown of capitalised earnings using consensus forecasts**



Source: FactSet, UBSe

**Figure 26: Time series breakdown of capitalised earnings**



Source: UBSe

Tabcorp Holdings Limited

UBS Research

## UPSIDE / DOWNSIDE SPECTRUM

[return](#) ↑

| Value drivers   | Wagering Revenue growth | Wagering Race fields vs revenue | Keno Revenue growth |
|-----------------|-------------------------|---------------------------------|---------------------|
| \$5.55 upside   | 4.1%                    | 7.3%                            | 6.2%                |
| \$4.15 target   | 2.2%                    | 7.3%                            | 3.2%                |
| \$2.95 downside | 0.4%                    | 8.3%                            | 0.2%                |

**Upside valuation (\$5.55):** We assume wagering revenues (excluding media) grow at faster rate than our base case which would be underpinned by: (1) a better wagering growth environment and (2) through Tabcorp maintaining / growing market share. Our race field fee assumptions are unchanged relative to our base case with reduced race fields unlikely under an optimistic environment. We assume that the investment in Keno also delivers higher growth than our base case.

**Base case valuation (\$4.15):** We assume wagering revenues (excluding media) grow at an average rate of 2.2% over the next four-years (to FY20), underpinned by continued growth in fixed odds / digital with parimutuel (tote) expected to stabilise in FY19. We assume that the investment in Keno delivers an average growth rate of 3.2% over the next four-years (to FY20). Under this scenario we value the Wagering & Media (73% of FY17e EBITDA) on 8.0x FY17e EBITDA.

**Downside valuation (\$2.95):** We assume wagering revenues (excluding media) grow at a slower rate than our base case due to: (1) a lower wagering growth environment and (2) market share losses. We also assume a modest increase in race field fees. Despite the investment within the Keno brand we assume a slower revenue growth relative to our base case.

## COMPANY DESCRIPTION

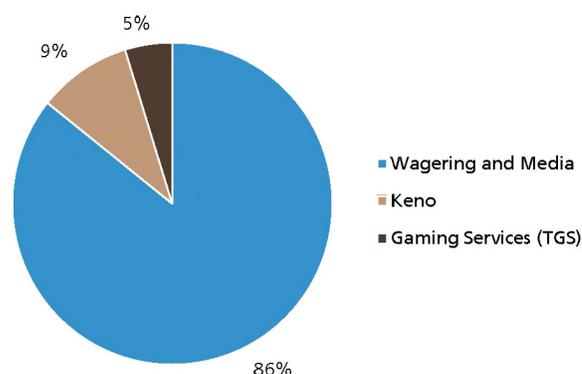
[return](#) ↑

|                             |  |
|-----------------------------|--|
| <b>Market Cap</b>           | \$3.4bn  |
| <b>Shares Outstanding</b>   | 831m   |
| <b>Industry and outlook</b> | Industrial, Gaming & Leisure                               |
| <b>Region</b>               | Australia  |
| <b>Website</b>              | <a href="http://www.tabcorp.com.au">www.tabcorp.com.au</a> |

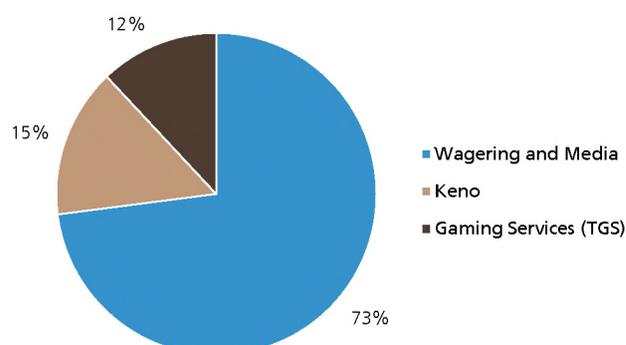
Tabcorp Holdings (TAH) operates wagering (including the Sky racing channels) and Keno products in Australia as well as providing gaming solutions / services in Victoria and more recently in NSW. Tabcorp operates parimutuel, fixed odds and retail betting in Victoria (retail exclusivity until 2024 - which may be extended for a further two-year period - through a 50/50 joint venture with Vic racing), NSW (retail exclusivity until 2033), and the ACT (retail exclusivity until 2064). Tabcorp also operates "Luxbet" which is essentially a corporate bookmaker licensed from the Northern Territory. The Keno business is exclusively licensed across Australia's eastern states (Victoria, NSW, Queensland and the ACT). The Gaming Services business (referred to as TGS) commenced immediately after the expiry of the Victorian Gaming license in August 2012. The business provides a mix of gaming expertise / specialized services, strategic advice and financing to licensed venues within Victoria and NSW.

**Industry outlook**

The wagering industry has entered a period of heightened competition given the prevalence of the corporate bookmakers and shift in consumer preference for fixed odds betting relative to parimutuel (lower margin product) and continued migration to online (a competitive landscape). The wagering market has been growing at 6% more recently, though market share has been shifting to the corporate bookmakers (42% share, UBSe) who have been growing at a faster pace. Keno has similar qualities to a lottery business generally delivering stable mid to low single digit growth – the business is also undergoing additional investment / rebranding. The Gaming Services business generally achieves CPI price rises on an annual basis. While NSW is a new market around 85% of customers are contracted until 2022 in Victoria.

**Revenues by division (FY16e)**

Source: Company reports, UBSe

**EBIT by division (FY16e)**

Source: Company reports, UBSe

## Tabcorp Holdings Limited (TAH.AX)

|  | 06/13          | 06/14        | 06/15        | 06/16E       | % ch          | 06/17E       | % ch         | 06/18E       | 06/19E       | 06/20E       |
|--|----------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|
| <b>Income statement (A\$m)</b>         |                |              |              |              |               |              |              |              |              |              |
| <b>Revenues</b>                        | <b>2,003</b>   | <b>2,040</b> | <b>2,156</b> | <b>2,218</b> | <b>2.9</b>    | <b>2,291</b> | <b>3.3</b>   | <b>2,341</b> | <b>2,390</b> | <b>2,430</b> |
| Gross profit                           | -              | -            | -            | -            | -             | -            | -            | -            | -            | -            |
| <b>EBITDA (UBS)</b>                    | <b>464</b>     | <b>486</b>   | <b>508</b>   | <b>524</b>   | <b>3.1</b>    | <b>546</b>   | <b>4.1</b>   | <b>557</b>   | <b>573</b>   | <b>588</b>   |
| Depreciation & amortisation            | (151)          | (164)        | (173)        | (185)        | 6.7           | (189)        | 2.1          | (192)        | (196)        | (201)        |
| <b>EBIT (UBS)</b>                      | <b>313</b>     | <b>322</b>   | <b>335</b>   | <b>339</b>   | <b>1.3</b>    | <b>357</b>   | <b>5.3</b>   | <b>365</b>   | <b>378</b>   | <b>387</b>   |
| Associates & investment income         | 0              | 0            | 0            | 0            | -             | 0            | -            | 0            | 0            | 0            |
| Other non-operating income             | 0              | 0            | 0            | 0            | -             | 0            | -            | 0            | 0            | 0            |
| Net interest                           | (104)          | (97)         | (78)         | (68)         | 13.4          | (64)         | 5.4          | (60)         | (56)         | (53)         |
| Exceptionals (incl goodwill)           | 0              | 0            | 0            | 0            | -             | 0            | -            | 0            | 0            | 0            |
| <b>Profit before tax</b>               | <b>209</b>     | <b>225</b>   | <b>256</b>   | <b>271</b>   | <b>5.8</b>    | <b>293</b>   | <b>8.0</b>   | <b>305</b>   | <b>322</b>   | <b>334</b>   |
| Tax                                    | (70)           | (75)         | (85)         | (88)         | -4.1          | (98)         | -11.3        | (102)        | (107)        | (111)        |
| <b>Profit after tax</b>                | <b>139</b>     | <b>149</b>   | <b>171</b>   | <b>183</b>   | <b>6.7</b>    | <b>194</b>   | <b>6.3</b>   | <b>203</b>   | <b>215</b>   | <b>223</b>   |
| Preference dividends                   | 0              | 0            | 0            | 0            | -             | 0            | -            | 0            | 0            | 0            |
| Minorities                             | 0              | 0            | 0            | 0            | -             | 0            | -            | 0            | 0            | 0            |
| Extraordinary items                    | (12)           | (19)         | 163          | (16)         | -             | 0            | -            | 0            | 0            | 0            |
| <b>Net earnings (local GAAP)</b>       | <b>127</b>     | <b>130</b>   | <b>335</b>   | <b>167</b>   | <b>-50.0</b>  | <b>194</b>   | <b>16.3</b>  | <b>203</b>   | <b>215</b>   | <b>223</b>   |
| <b>Net earnings (UBS)</b>              | <b>139</b>     | <b>149</b>   | <b>171</b>   | <b>183</b>   | <b>6.7</b>    | <b>194</b>   | <b>6.3</b>   | <b>203</b>   | <b>215</b>   | <b>223</b>   |
| Tax rate (%)                           | 33.5           | 33.5         | 33.1         | 32.6         | -1.6          | 33.6         | 3.1          | 33.4         | 33.3         | 33.1         |
| <b>Per share (A\$)</b>                 |                |              |              |              |               |              |              |              |              |              |
| EPS (UBS, diluted)                     | 0.189          | 0.198        | 0.215        | 0.220        | 2.3           | 0.234        | 6.2          | 0.245        | 0.258        | 0.269        |
| EPS (local GAAP, diluted)              | 0.172          | 0.172        | 0.420        | 0.201        | -52.1         | 0.234        | 16.1         | 0.245        | 0.258        | 0.269        |
| EPS (UBS, basic)                       | 0.189          | 0.198        | 0.215        | 0.220        | 2.3           | 0.234        | 6.2          | 0.245        | 0.258        | 0.269        |
| Net DPS (A\$)                          | 0.190          | 0.160        | 0.500        | 0.230        | -54.0         | 0.245        | 6.5          | 0.260        | 0.270        | 0.280        |
| Cash EPS (UBS, diluted) <sup>1</sup>   | 0.393          | 0.416        | 0.433        | 0.443        | 2.3           | 0.461        | 4.1          | 0.475        | 0.493        | 0.510        |
| Book value per share                   | 1.925          | 1.964        | 2.038        | 2.034        | -0.2          | 2.023        | -0.6         | 2.007        | 1.996        | 1.984        |
| Average shares (diluted)               | 737.500        | 754.420      | 796.677      | 830.431      | 4.2           | 831.461      | 0.1          | 831.461      | 831.461      | 831.461      |
| <b>Balance sheet (A\$m)</b>            |                |              |              |              |               |              |              |              |              |              |
| Tangible fixed assets                  | 309            | 313          | 325          | 316          | -2.8          | 353          | 11.5         | 389          | 427          | 474          |
| Intangible fixed assets                | 2,523          | 2,561        | 2,626        | 2,578        | -1.8          | 2,476        | -4.0         | 2,380        | 2,291        | 2,207        |
| Investments                            | 0              | 0            | 0            | 0            | -             | 0            | -            | 0            | 0            | 0            |
| Other assets                           | 92             | 51           | 137          | 159          | 16.0          | 159          | 0.0          | 159          | 159          | 159          |
| <b>Total fixed assets</b>              | <b>2,923</b>   | <b>2,924</b> | <b>3,088</b> | <b>3,053</b> | <b>-1.1</b>   | <b>2,988</b> | <b>-2.2</b>  | <b>2,929</b> | <b>2,877</b> | <b>2,840</b> |
| <b>Net working capital</b>             | <b>(245)</b>   | <b>(342)</b> | <b>(270)</b> | <b>(338)</b> | <b>-25.1</b>  | <b>(347)</b> | <b>-2.8</b>  | <b>(355)</b> | <b>(360)</b> | <b>(365)</b> |
| Cash                                   | 110            | 127          | 160          | 118          | -26.4         | 118          | 0.0          | 118          | 118          | 118          |
| Short term debt                        | (433)          | 0            | 0            | 0            | -             | 0            | -            | 0            | 0            | 0            |
| Long term debt                         | (821)          | (1,094)      | (1,148)      | (996)        | 13.2          | (930)        | 6.6          | (877)        | (830)        | (797)        |
| Preferred shares                       | 0              | 0            | 0            | 0            | -             | 0            | -            | 0            | 0            | 0            |
| <b>Net (debt) / cash</b>               | <b>(1,145)</b> | <b>(967)</b> | <b>(988)</b> | <b>(879)</b> | <b>11.1</b>   | <b>(813)</b> | <b>7.5</b>   | <b>(759)</b> | <b>(712)</b> | <b>(680)</b> |
| Other debt-deemed liabilities          | 0              | 0            | 0            | 0            | -             | 0            | -            | 0            | 0            | 0            |
| Provisions & non-debt deemed liabs     | (120)          | (133)        | (140)        | (146)        | -4.1          | (146)        | 0.0          | (146)        | (146)        | (146)        |
| <b>Total equity</b>                    | <b>1,413</b>   | <b>1,481</b> | <b>1,690</b> | <b>1,691</b> | <b>0.1</b>    | <b>1,682</b> | <b>-0.6</b>  | <b>1,669</b> | <b>1,659</b> | <b>1,650</b> |
| Minority interests                     | 0              | 0            | 0            | 0            | -             | 0            | -            | 0            | 0            | 0            |
| <b>Common s/h equity</b>               | <b>1,413</b>   | <b>1,481</b> | <b>1,690</b> | <b>1,691</b> | <b>0.1</b>    | <b>1,682</b> | <b>-0.6</b>  | <b>1,669</b> | <b>1,659</b> | <b>1,650</b> |
| <b>Operating invested capital</b>      | <b>2,558</b>   | <b>2,449</b> | <b>2,678</b> | <b>2,570</b> | <b>-4.0</b>   | <b>2,495</b> | <b>-2.9</b>  | <b>2,428</b> | <b>2,371</b> | <b>2,329</b> |
| <b>Total capital employed</b>          | <b>2,558</b>   | <b>2,449</b> | <b>2,678</b> | <b>2,570</b> | <b>-4.0</b>   | <b>2,495</b> | <b>-2.9</b>  | <b>2,428</b> | <b>2,371</b> | <b>2,329</b> |
| <b>Cash flow (A\$m)</b>                |                |              |              |              |               |              |              |              |              |              |
| Net income (before pref divs)          | 127            | 130          | 335          | 167          | -50.0         | 194          | 16.3         | 203          | 215          | 223          |
| Depreciation & amortisation            | 151            | 164          | 174          | 185          | 6.7           | 189          | 2.1          | 192          | 196          | 201          |
| Net change in working capital          | (239)          | 109          | (12)         | 4            | -             | 9            | 120.6        | 7            | 6            | 4            |
| Other operating                        | 226            | (16)         | (96)         | 87           | -             | 0            | -            | 0            | 0            | 0            |
| <b>Operating cash flow</b>             | <b>265</b>     | <b>387</b>   | <b>400</b>   | <b>444</b>   | <b>11.1</b>   | <b>393</b>   | <b>-11.5</b> | <b>402</b>   | <b>416</b>   | <b>429</b>   |
| Tangible capital expenditure           | (129)          | (128)        | (132)        | (119)        | 9.4           | (123)        | -3.2         | (133)        | (144)        | (164)        |
| Intangible capital expenditure         | (75)           | (70)         | 0            | (25)         | -             | 0            | -            | 0            | 0            | 0            |
| Net (acquisitions) / disposals         | 16             | 2            | (101)        | 0            | -             | 0            | -            | 0            | 0            | 0            |
| Other investing                        | 9              | 41           | 1            | 1            | -             | 0            | -            | 0            | 0            | 0            |
| <b>Investing cash flow</b>             | <b>(179)</b>   | <b>(155)</b> | <b>(232)</b> | <b>(143)</b> | <b>38.4</b>   | <b>(123)</b> | <b>13.8</b>  | <b>(133)</b> | <b>(144)</b> | <b>(164)</b> |
| Equity dividends paid                  | (116)          | (67)         | (358)        | (165)        | 53.9          | (204)        | -23.5        | (216)        | (224)        | (233)        |
| Share issues / (buybacks)              | 0              | 7            | 236          | 0            | -             | 0            | -            | 0            | 0            | 0            |
| Other financing                        | (51)           | 0            | (13)         | (9)          | 32.31         | 0            | -            | 0            | 0            | 0            |
| Change in debt & pref shares           | 40             | (154)        | 0            | (170)        | -             | (66)         | 61.15        | (53)         | (48)         | (32)         |
| <b>Financing cash flow</b>             | <b>(127)</b>   | <b>(215)</b> | <b>(135)</b> | <b>(343)</b> | <b>-154.7</b> | <b>(270)</b> | <b>21.5</b>  | <b>(269)</b> | <b>(272)</b> | <b>(265)</b> |
| <b>Cash flow inc/(dec) in cash</b>     | <b>(42)</b>    | <b>17</b>    | <b>33</b>    | <b>(42)</b>  | <b>-</b>      | <b>0</b>     | <b>-</b>     | <b>0</b>     | <b>0</b>     | <b>0</b>     |
| FX / non cash items                    | 0              | 0            | 0            | 0            | -             | 0            | -            | 0            | 0            | 0            |
| <b>Balance sheet inc/(dec) in cash</b> | <b>(42)</b>    | <b>17</b>    | <b>33</b>    | <b>(42)</b>  | <b>-</b>      | <b>0</b>     | <b>-</b>     | <b>0</b>     | <b>0</b>     | <b>0</b>     |

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts. <sup>1</sup>Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

## Tabcorp Holdings Limited (TAH.AX)

|   | 06/13        | 06/14        | 06/15        | 06/16E       | 06/17E       | 06/18E       | 06/19E       | 06/20E       |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Valuation (x)</b>                        |              |              |              |              |              |              |              |              |
| P/E (local GAAP, diluted)                   | 17.9         | 20.0         | 10.1         | 20.5         | 17.6         | 16.8         | 16.0         | 15.3         |
| P/E (UBS, diluted)                          | 16.3         | 17.4         | 19.6         | 18.7         | 17.6         | 16.8         | 16.0         | 15.3         |
| P/CEPS                                      | 7.8          | 8.3          | 9.8          | 9.3          | 8.9          | 8.7          | 8.3          | 8.1          |
| Equity FCF (UBS) yield %                    | 2.7          | 7.4          | 8.3          | 8.8          | 7.9          | 7.9          | 8.0          | 7.8          |
| Net dividend yield (%)                      | 6.2          | 4.7          | 11.8         | 5.6          | 5.9          | 6.3          | 6.6          | 6.8          |
| P/BV x                                      | 1.6          | 1.8          | 2.1          | 2.0          | 2.0          | 2.1          | 2.1          | 2.1          |
| EV/revenues (core)                          | 1.7          | 1.8          | 1.9          | 2.0          | 1.9          | 1.8          | 1.7          | 1.7          |
| EV/EBITDA (core)                            | 7.2          | 7.5          | 8.3          | 8.3          | 7.8          | 7.5          | 7.2          | 7.0          |
| EV/EBIT (core)                              | 10.7         | 11.3         | 12.6         | 12.8         | 11.9         | 11.5         | 11.0         | 10.6         |
| EV/OpFCF (core)                             | 20.9         | 7.1          | 10.2         | 9.8          | 9.1          | 9.0          | 8.8          | 8.7          |
| EV/op. invested capital                     | 1.3          | 1.4          | 1.6          | 1.7          | 1.7          | 1.7          | 1.7          | 1.8          |
| <b>Enterprise value (A\$m)</b>              |              |              |              |              |              |              |              |              |
| Market cap.                                 | 2,234        | 2,569        | 3,223        | 3,417        | 3,417        | 3,417        | 3,417        | 3,417        |
| Net debt (cash)                             | 1,109        | 1,056        | 978          | 933          | 846          | 786          | 736          | 696          |
| Buy out of minorities                       | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| Pension provisions/other                    | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| <b>Total enterprise value</b>               | <b>3,343</b> | <b>3,625</b> | <b>4,201</b> | <b>4,350</b> | <b>4,263</b> | <b>4,203</b> | <b>4,153</b> | <b>4,113</b> |
| Non core assets                             | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| <b>Core enterprise value</b>                | <b>3,343</b> | <b>3,625</b> | <b>4,201</b> | <b>4,350</b> | <b>4,263</b> | <b>4,203</b> | <b>4,153</b> | <b>4,113</b> |
| <b>Growth (%)</b>                           |              |              |              |              |              |              |              |              |
| Revenue                                     | -34.1        | 1.8          | 5.7          | 2.9          | 3.3          | 2.2          | 2.1          | 1.7          |
| EBITDA (UBS)                                | -36.0        | 4.8          | 4.5          | 3.1          | 4.1          | 2.1          | 2.9          | 2.6          |
| EBIT (UBS)                                  | -47.1        | 2.8          | 4.0          | 1.3          | 5.3          | 2.3          | 3.4          | 2.5          |
| EPS (UBS, diluted)                          | -60.7        | 5.0          | 8.6          | 2.3          | 6.2          | 4.7          | 5.5          | 4.0          |
| Net DPS                                     | -20.8        | -15.8        | NM           | -54.0        | 6.5          | 6.1          | 3.8          | 3.7          |
| <b>Margins &amp; Profitability (%)</b>      |              |              |              |              |              |              |              |              |
| Gross profit margin                         | -            | -            | -            | -            | -            | -            | -            | -            |
| EBITDA margin                               | 23.2         | 23.8         | 23.6         | 23.6         | 23.8         | 23.8         | 24.0         | 24.2         |
| EBIT margin                                 | 15.6         | 15.8         | 15.5         | 15.3         | 15.6         | 15.6         | 15.8         | 15.9         |
| Net earnings (UBS) margin                   | 6.9          | 7.3          | 7.9          | 8.2          | 8.5          | 8.7          | 9.0          | 9.2          |
| ROIC (EBIT)                                 | 12.4         | 12.9         | 13.1         | 12.9         | 14.1         | 14.8         | 15.7         | 16.5         |
| ROIC post tax                               | 8.3          | 8.6          | 8.7          | 8.7          | 9.4          | 9.9          | 10.5         | 11.0         |
| ROE (UBS)                                   | 9.9          | 10.3         | 10.8         | 10.8         | 11.5         | 12.1         | 12.9         | 13.5         |
| <b>Capital structure &amp; Coverage (x)</b> |              |              |              |              |              |              |              |              |
| Net debt / EBITDA                           | 2.5          | 2.0          | 1.9          | 1.7          | 1.5          | 1.4          | 1.2          | 1.2          |
| Net debt / total equity %                   | 81.0         | 65.3         | 58.4         | 51.9         | 48.3         | 45.5         | 42.9         | 41.2         |
| Net debt / (net debt + total equity) %      | 44.8         | 39.5         | 36.9         | 34.2         | 32.6         | 31.3         | 30.0         | 29.2         |
| Net debt/EV %                               | 34.2         | 26.7         | 23.5         | 20.2         | 19.1         | 18.1         | 17.1         | 16.5         |
| Capex / depreciation %                      | 176.0        | 154.5        | 159.9        | 141.1        | 142.1        | 138.0        | 135.8        | 140.2        |
| Capex / revenue %                           | 6.4          | 6.3          | 6.1          | 5.4          | 5.4          | 5.7          | 6.0          | 6.7          |
| EBIT / net interest                         | 3.0          | 3.3          | 4.3          | 5.0          | 5.5          | 6.1          | 6.7          | 7.3          |
| Dividend cover (UBS)                        | 1.0          | 1.2          | 0.4          | 1.0          | 1.0          | 0.9          | 1.0          | 1.0          |
| Div. payout ratio (UBS) %                   | 100.7        | 80.8         | 232.5        | 104.5        | 104.8        | 106.3        | 104.6        | 104.3        |
| <b>Revenues by division (A\$m)</b>          |              |              |              |              |              |              |              |              |
| Wagering & Media                            | 1,712        | 1,738        | 1,857        | 1,901        | 1,959        | 2,001        | 2,040        | 2,071        |
| Keno  | 205          | 204          | 199          | 211          | 220          | 226          | 233          | 240          |
| Gaming Services (TGS)                       | 86           | 98           | 100          | 106          | 112          | 114          | 116          | 118          |
| Others                                      | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| <b>Total</b>                                | <b>2,003</b> | <b>2,040</b> | <b>2,156</b> | <b>2,218</b> | <b>2,291</b> | <b>2,341</b> | <b>2,390</b> | <b>2,430</b> |
| <b>EBIT (UBS) by division (A\$m)</b>        |              |              |              |              |              |              |              |              |
| Wagering & Media                            | 223          | 234          | 247          | 250          | 256          | 265          | 275          | 280          |
| Keno  | 52           | 52           | 48           | 51           | 55           | 54           | 56           | 58           |
| Gaming Services (TGS)                       | 38           | 40           | 42           | 41           | 49           | 50           | 50           | 51           |
| Others                                      | 0            | (4)          | (2)          | (3)          | (3)          | (3)          | (3)          | (3)          |
| <b>Total</b>                                | <b>313</b>   | <b>322</b>   | <b>335</b>   | <b>339</b>   | <b>357</b>   | <b>365</b>   | <b>378</b>   | <b>387</b>   |

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

**Forecast returns**

---

|                             |       |
|-----------------------------|-------|
| Forecast price appreciation | +0.7% |
| Forecast dividend yield     | 8.5%  |
| Forecast stock return       | +9.2% |
| Market return assumption    | 7.0%  |
| Forecast excess return      | +2.2% |

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**Valuation Method and Risk Statement**

We believe the key risk to Tabcorp is any change in government regulation negatively impacting its gaming and wagering licences in key jurisdictions, along with a softer than expected consumer environment, and changes to consumer preferences.

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| 12-Month Rating   | Definition  | Coverage <sup>1</sup> | IB Services <sup>2</sup> |
|-------------------|---|-----------------------|--------------------------|
| <b>Buy</b>        | FSR is > 6% above the MRA.  | 48%                   | 36%                      |
| <b>Neutral</b>    | FSR is between -6% and 6% of the MRA.   | 39%                   | 28%                      |
| <b>Sell</b>       | FSR is > 6% below the MRA.  | 12%                   | 22%                      |
| Short-Term Rating | Definition  | Coverage <sup>3</sup> | IB Services <sup>4</sup> |
| <b>Buy</b>        | Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event. | <1%                   | <1%                      |
| <b>Sell</b>       | Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event. | <1%                   | <1%                      |

Source: UBS. Rating allocations are as of 31 December 2015.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

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UBS Securities Australia Ltd: Matt Ryan; David Fabris.

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| Company Name  | Reuters | 12-month rating | Short-term rating | Price   | Price date  |
|---|---------|-----------------|-------------------|---------|-------------|
| <b>Tabcorp Holdings Limited</b> <sup>4, 5, 13</sup> | TAH.AX  | Sell            | N/A               | A\$4.12 | 30 Mar 2016 |

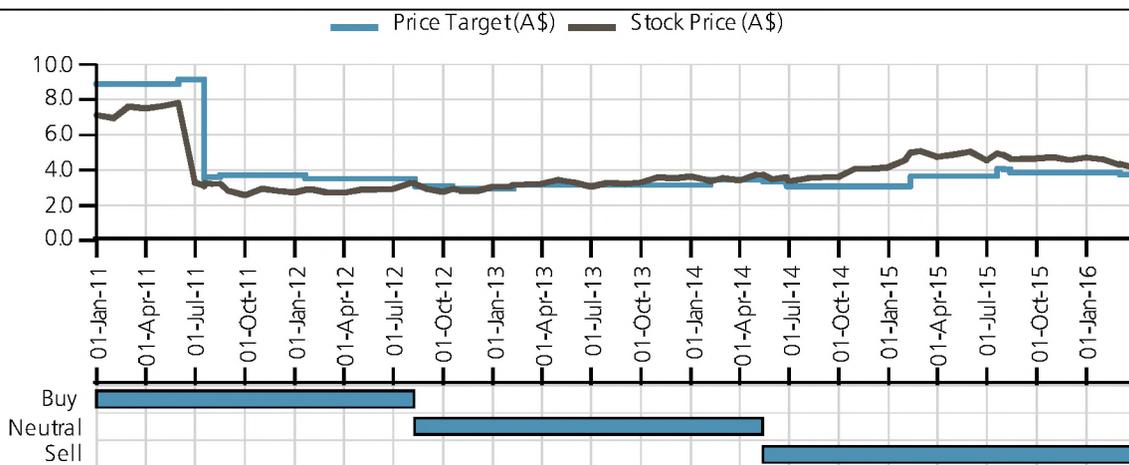
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**Tabcorp Holdings Limited (A\$)**



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## Parliament of Tasmania

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JOINT STANDING COMMITTEE

# ENVIRONMENT, RESOURCES AND DEVELOPMENT

INTERIM REPORT

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## Sale of the TOTE

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### Members of the Committee

Mr Brenton Best MP  
Mr Bryan Green MP  
Hon Greg Hall MLC (Chair)  
Hon Tania Rattray-Wagner MLC

Mr Kim Booth MP  
Mr Peter Gutwein MP  
Hon Paul Harriss MLC  
Hon Jim Wilkinson MLC

*Secretaries: Mrs Sue McLeod, Dr Colin Huntly & Mr Nathan Fewkes*



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## **INTRODUCTION**

### **APPOINTMENT AND TERMS OF REFERENCE**

The Joint Standing Committee on Environment, Resources and Development was established for a trial period from 7 April 2004 and was re-established on 30 May 2006 following the State Election on 18 March that year. The Committee as at the date of this Report was re-established by Order of the Legislative Council on 4 March 2008, agreed to by resolution of the House of Assembly on 5 March 2008.

At a regularly constituted meeting on 5 February 2009, the Committee resolved to inquire into -

- (a) the proposed sale of the TOTE. Tasmania by the Government of Tasmania; and
- (b) any other matters incidental thereto.

In announcing the Committee, the Hon. Greg Hall MLC said:

“The Committee does believe that this issue is one of great significance to the State, and it is essential that all Members of Parliament are fully briefed on the circumstances surrounding the proposed sale before we are asked to vote on it.”<sup>1</sup>

The membership of the Committee currently comprises four members of the Legislative Council – Mr Hall (Chairman), Mr Harriss, Mrs Rattray-Wagner and Mr Wilkinson; and four members of the House of Assembly – Mr Best, Mr Booth, Mr Green and Mr Gutwein.

The Committee has general jurisdiction over the following areas: Government Business Enterprises; regulation of business, commercial and industrial relations; economic and finance development; environment and land use planning; natural resources – forestry, mining and fisheries; energy; tourism; transport; and primary industry.

This is an interim report in relation to the sale of the TOTE.

As at the date of this Interim Report the Committee is still awaiting receipt of a number of documents which were the subject of summonses and addressed to the Secretaries for the Department of Treasury and Finance and the Department of Infrastructure, Energy and Resources. Once these outstanding issues have been resolved, this Committee will table its Final Report on the Sale of the TOTE.

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<sup>1</sup> Hall, Hon. Greg MLC, Media Release, January 20 2009.

## PROCEEDINGS

Advertisements were placed in the three regional daily newspapers on 7 February 2009.

19 witnesses gave verbal evidence to the Committee in Hobart and are listed in Appendix 1. 15 documents received into evidence are listed in Appendix 2. Transcripts of all public hearings are attached in Appendix 3.

The Committee held public hearings in Hobart on 6 and 19 March 2009.

## **EXECUTIVE SUMMARY**

### Timeline

The following timeline is adapted from one that appeared in the Mercury on 7 March 2009:

- “May 7, 2008:                    Treasurer Michael Aird first approached Treasury to provide advice about sale of TOTE Tasmania.
  
- November 12, 2008:        Legislation for the restructure of the racing industry is introduced to State Parliament. Mr Aird says the restructure is not about preparing TOTE for sale.
  
- November 19, 2008:        Treasury provides a Cabinet brief to Treasurer Michael Aird recommending the sale of TOTE. The brief is not signed.
  
- November 20, 2008:        Jim Cox says during debate about the racing amendment Bill: “There is no intention at this stage that TOTE is for sale.”
  
- November 24, 2008:        Deloitte Corporate Finance begins pre-paring advice on the restructure of TOTE and possible options for its sale.
  
- December 4, 2008:         Mr Aird tells a Legislative Council Government Business Enterprise committee he is “not aware” of rumours he planned to sell TOTE.
  
- December 19, 2008:        A second Cabinet document recommending the sale of TOTE is prepared for Treasury, including advice from Deloitte.
  
- December 22, 2008:        Cabinet approves the sale.
  
- January 8, 2009:            The sale of TOTE is announced.”<sup>2</sup>
  
- January 20, 2009:         Mr Greg Hall MLC suggested a review of the sale to the Joint Standing Committee on the Environment, Resources and Development.
  
- February 5, 2009:         The review was approved.

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<sup>2</sup> Stedman, Michael, “Aird denies TOTE lie”, *The Mercury*, 7 March 2009, p. 5.

This Interim Report contains information that has been gathered by the Committee to date which may assist Honourable Members of both Houses in their consideration of the proposed sale of the TOTE.

The Committee reports without recommendation.

**April 2009**

**Greg Hall MLC  
Chairman**

## **THE GOVERNMENT CASE FOR SALE OF THE TOTE**

### **TOTE Tasmania (Sale) Bill 2009 Fact Sheet**

The *TOTE Tasmania (Sale) Bill 2009* provides for:

- the Treasurer to have the necessary authority and powers to divest the whole or any part of TOTE Tasmania. This will provide certainty to potential bidders during the sale process.
- the Treasurer to sell the shares in TOTE Tasmania or the business of TOTE Tasmania;
- the Treasurer to have regard to the achievement of a fair and reasonable sale price;
- the Treasurer to facilitate the sale by entering in to contracts, giving directions to TOTE and amending the constitution of TOTE;
- the protection of employee entitlements in respect of long service leave and the RBF contributory scheme;
- transitional arrangements for the business and arrangements for employees if the business is sold;
- part of TOTE Tasmania or part of a subsidiary of TOTE Tasmania to be transferred into Crown ownership upon sale completion if they are not sold;
- the Auditor-General to review the sale of TOTE after completion and report to Parliament on this review;
- TOTE Tasmania and the Government to disclose all information to bidders, and ensures that existing commercial documents are not terminated as a result of the sale process; and
- normal governance arrangements to apply to the business until the sale is completed.

Passing the Bill will provide Parliamentary support for divestment of TOTE Tasmania and will also facilitate the sale process and provide certainty to all the parties involved.

## **TOTE Tasmania (Sale) Bill 2009**

### **Second Reading Speech**

Madam President

The Government is committed to ensuring the Tasmanian community's assets are put to their best use. In this context, the Government has reviewed its equity investment in TOTE Tasmania to determine whether it is in the public interest to retain, or whether the equity could be put to better strategic use.

The purpose of this Bill is to provide for the sale of TOTE Tasmania. This is part of the Government's reforms of TOTE Tasmania and its regulatory environment.

Honourable Members will recall that in November 2008 Parliament approved the separation of the racing and wagering operations of TOTE, with the creation of the Tasmanian Racing Board from 1 January 2009. This has enabled the TOTE to operate solely as a wagering business.

The second part of the reforms is to provide a modern regulatory framework for TOTE that is consistent with the regulation of other wagering and gaming businesses already operating in Tasmania. The Gaming Control Amendment Bill 2009 will provide such a framework.

Madam President

TOTE Tasmania currently provides funding support to the newly formed Tasmanian Racing Board, for the benefit of the Tasmanian racing industry. The Government is replacing these funding arrangements with a legally binding Funding Deed between the Government and the Tasmanian Racing Board.

The Deed provides for the Government to fund the Tasmanian Racing Board to meet its operational expenses. The Funding Deed will also provide funding for capital expenditure upon the successful sale of TOTE. I have provided details about this Deed during the Council's debate on the Gaming Control Amendment Bill.

Madam President

Let me be very clear on this point. The sale of the TOTE will not disadvantage the racing industry. On the contrary, it will provide \$40 million of funding for capital expenditure that would not otherwise have been available. These arrangements while guaranteeing the Tasmanian Racing Board's future, also place it in a clear commercial context with responsibility for improving its own performance.

TOTE Tasmania has successfully operated since 2000 as a State-owned Company in an increasingly aggressive and dynamic market. If it is to remain competitive it needs to be able to continue to expand its business both interstate and overseas and be capable of dealing with the rigours of national and international competition. There is no longer any justification for retaining the TOTE in Government ownership. Indeed there are very persuasive reasons why it should not continue to be owned by the Government.

All jurisdictions other than Western Australia and the ACT have sold their TABs. The wagering product has subsequently been successfully provided by the private sector. There is no need for the Government to continue to hold equity in a business that can be provided by the private sector.

Secondly, it is the Government's intention to reinvest the net proceeds from sale, after provision for Tasmanian Racing Board funding and sale costs, into other state assets for the benefit of the wider Tasmanian community.

Thirdly, the sale of TOTE will benefit the community and taxpayers through reduced financial risk. The Australian wagering industry is highly competitive and subject to rapid technological change. This environment presents a number of ownership risks, which are better suited to private ownership, where the business can grow without the constraints of Government ownership. These constraints include the lack of access to capital and lack of scale economies. The Government does not consider that it is either prudent or responsible to continue its ownership of the TOTE within such an environment.

The Government has retained independent expert financial and legal advisers to ensure that the State's interests are properly protected. A probity adviser has also been retained to ensure that the sale process is conducted fairly and openly.

Madam President

TOTE Tasmania currently has a successful business model and has demonstrated significant earnings growth over the last two years. Despite prevailing economic conditions, I am confident that a sale in the near future will attract significant buyer interest and yield an attractive sale price.

Both the Board and the management of the TOTE fully support its sale. The Board and the management have concluded that there are considerable constraints and commercial difficulties associated with continued government ownership of what is a successful and profitable commercial enterprise anxious to expand its business interstate and overseas.

The sale will only proceed if it is in the best interests of the State. The Bill requires the Treasurer to have regard to the achievement of a fair and reasonable price for TOTE Tasmania. The Bill also provides for the Auditor-General to review the sale of TOTE Tasmania and report to Parliament within four months on the outcome.

The community has an expectation that the sale of TOTE Tasmania will occur in a manner that:

- is administratively efficient and transparent;
- maximises financial and economic returns to the State; and
- ensures employees are treated fairly.

The *TOTE Tasmania (Sale) Bill* ensures these factors will be achieved.

Madam President.

Potential bidders for TOTE Tasmania must have certainty about the sale process and, importantly, must have the assurance that the time and resources they devote to the process will be on the basis that a sale can occur. Bidders also require the assurance that there can be timely and swift execution of the sale. The market place needs to know, particularly in the current political and economic environment, that the Parliament has authorised the sale.

This Sale Bill provides the Treasurer, on behalf of the Crown, authority to enter into negotiations for the sale of TOTE Tasmania against a framework of certainty and within defined boundaries.

The Bill provides flexibility to enable the sale of the whole, or any part of TOTE Tasmania and establishes the mechanism to transfer any remaining elements of the business back to the Crown. These provisions, which are consistent with the approach taken in other Government business sales – will enable the Government to maximise the outcome for the State.

The Bill specifies provisions that will guide the sale process, including transitional arrangements such as the treatment of existing business contracts and protection for employee entitlements.

Madam President

The Bill also defines the alternative sale structures available for conducting a sale with a proponent. Under either approach, the objective is that TOTE Tasmania is sold as a going concern.

The first approach is to sell the shares in TOTE Tasmania.

The second is to sell some or all of the assets and liabilities of TOTE Tasmania and transfer employees to the purchaser. The Bill provides for any remaining business assets and liabilities to then be transferred to the Crown.

The availability of two options is to provide bidders with the flexibility to consider their most preferred approach to the purchase of the business. This ensures that the best possible sale value is achieved.

Madam President

The Bill clearly provides for the minimum of disruption to employees arising

from the sale process. The Bill broadly provides for the maintenance of employment terms and conditions for transferring employees and the ongoing recognition of service. It also provides a clear framework within which any potential redundancies arising from the sale of the TOTE business will be managed.

The sale of TOTE Tasmania makes sense, both from the perspective of the business and the Tasmanian community. It opens the way for the involvement of the private sector in an area in which it can appropriately contribute and enables the Government to better address the State's emerging needs.

The TOTE Tasmania (Sale) Bill provides the enabling mechanism for this strategy to be implemented. It ensures that the sale will occur in a manner that ensures the greatest chance of financial and economic returns to the State being maximised, that employees are appropriately treated and that the sale process is administratively efficient.

Madam President

I commend the Bill to the Council.

## **TOTE Tasmania (Sale) Act 2009**

### **Notes on Clauses**

#### **PART 1            PRELIMINARY**

- Clause 1            Short Title.
- Clause 2            The *TOTE Tasmania (Sale) Act 2009* commences on the day it receives Royal Assent.
- Clause 3            This clause interprets key terms used in the Bill.
- Clause 4            This clause defines the business of TOTE Tasmania. It also allows the Treasurer to exclude a part of the business of TOTE, or a TOTE subsidiary from this Act or a provision of this Act. This provides the Treasurer with flexibility to sell part of the business.

#### **PART 2            AUTHORITY OF TREASURER TO SELL TOTE TASMANIA**

- Clause 5            This clause provides authority for the Treasurer to sell the shares in TOTE Tasmania and its subsidiaries, or the business of TOTE Tasmania and its subsidiaries. This clause also provides that the Treasurer must have regard to achieving a fair and reasonable price in exercising this power of sale.
- Clause 6            This clause provides the Treasurer with powers to facilitate the sale process.
- Clause 7            This clause provides that the Treasurer may direct TOTE Tasmania to take certain actions that would facilitate the sale. This is consistent with existing powers under the Constitutions for State-owned Companies and the *Government Business Enterprises (Sale) Act 2003* and removes doubt about this power of direction.
- TOTE or its Board must comply with the direction provided by the Treasurer.
- Clause 8            This clause allows the Treasurer to amend the Constitution of TOTE Tasmania and its subsidiaries. This provision allows for the constitution to be amended without tabling the amendments in Parliament as required under the *TOTE Tasmania Act*, which will allow for the sale to be expedited.
- Clause 9            This clause provides the Treasurer with the power to exempt from State tax a document prepared for the sale of TOTE Tasmania or the transfer of any unsold parts of the business to the Crown. This is consistent with the *Government Business Enterprises (Sale) Act 2003*.

### **PART 3            SALE OF SHARES IN TOTE TASMANIA OR TOTE SUBSIDIARY**

This Part contains similar provisions to those in the Government Business Enterprises (Sale) Act 2003 relating to long service leave and superannuation.

Clause 10            This clause specifies that Part 3 of the Bill relates to the sale of the shares in TOTE Tasmania and its subsidiaries.

Clause 11            This clause provides a formula for uplifting the long service leave entitlements of TOTE Tasmania employees covered by the *Long Service Leave (State Employees) Act 1994* when the sale of shares is completed. Its intent is to ensure that employees' current long service leave entitlements are not diminished as a result of sale.

The clause specifies that employees are not covered by the *Long Service Leave (State Employees) Act 1994* after the sale of shares is completed.

Clause 12            This clause provides that, if the Treasurer agrees to sell the shares in TOTE Tasmania or its subsidiaries, the Minister administering the *Retirement Benefits Act 1993* is to declare the sale agreement a prescribed arrangement for the purposes of the *Retirement Benefits Regulation 1994*. Declaration of the sale as a prescribed arrangement provides for a more favourable superannuation outcome for employees who are members of the RBF Contributory Scheme than would otherwise be the case. It allows them to receive a redundancy benefit if their membership ceases as a result of a prescribed arrangement.

### **PART 4            SALE OF BUSINESS OF TOTE TASMANIA OR TOTE SUBSIDIARY**

This Part contains similar provisions to those in the Government Business Enterprises (Sale) Act 2003 relating to the sale of a business.

Clause 13            This clause specifies that Part 4 of the Bill relates to the sale of the business of TOTE Tasmania and its subsidiaries.

Clause 14            Clause 14(1) defines transferring business.

Clause 14(2) provides that, when the business is sold, unless otherwise agreed, the purchaser assumes full legal responsibility in respect of the business sold, including any legal documents and proceedings.

Clause 14(3) provides that TOTE Tasmania is, after the sale day, discharged from any liabilities and obligations that are transferred to the purchaser on the sale day.

Clause 15      Clause 15(1) defines transferred employee.

Clause 15(2) provides that the Treasurer may transfer the employment of a person employed by TOTE Tasmania or a subsidiary to the purchaser. The Treasurer may also terminate the employment of a person employed by TOTE Tasmania, on conditions the Treasurer considers appropriate, provided that any termination is in accordance with any contract, award or agreement.

Clause 15(3) provides that before transferring or terminating the employment of a person, the Treasurer is to consult with the person in any manner the Treasurer considers appropriate including, but not limited to, consultation with representatives of the person or employee organisations to which the person belongs.

Clause 15(4) provides that any termination must be subject to and in accordance with any relevant contract, awards or agreement.

Clause 15(5) provides that each person whose employment is transferred or terminated is to be given written notice of the transfer or termination.

Clause 15(6) provides that if the employment of a person is transferred to the purchaser, that person becomes the employee of the purchaser and ceases to be an employee of TOTE Tasmania.

Clause 15(7) makes provision for any transferred employee to be employed by the purchaser for the same remuneration as was received immediately before the transfer. It also provides that except where an award, agreement or law otherwise provides, a transferred employee retains all existing and accrued rights and is entitled to claim those rights against the purchaser.

Clause 15(8) provides that an award or agreement applying to a transferred employee before transfer will continue to apply upon and after transfer except where another award, agreement or law provides otherwise.

Clause 15(9) provides that the period of service of an employee with TOTE Tasmania or its subsidiaries is taken to be service with the purchaser.

Clause 15(10) clarifies that the terms of employment of a transferred employee may be altered by an award, agreement or law after the employee becomes a transferred employee.

Clause 15(11) provides that where the employment of an employee of TOTE Tasmania is terminated, that employment is terminated immediately before the business of TOTE Tasmania is sold or on the day specified in the order. The employee is not entitled to any compensation or other payment in respect of termination except as provided by the Retirement Benefits Act 1993 or the Public Sector Superannuation Reform Act 1999, any other law, award, agreement or conditions determined by the Treasurer.

Clause 15(12) provides that the order transferring the employee under section 2 is not a statutory rule

Clause 16 This clause provides a formula for uplifting the long service leave entitlements of TOTE Tasmania employees covered by the *Long Service Leave (State Employees) Act 1994* if their employment is transferred to the purchaser. Its intent is to ensure that employees' current long service leave entitlements are not diminished as a result of sale.

The clause specifies that employees are not covered by the *Long Service Leave (State Employees) Act 1994* after the sale of shares is completed.

Clause 17 This clause provides that in the event the Treasurer makes an order under Section 15(2)(a) the agreement for sale is to be declared by the Minister administering the *Retirement Benefits Act 1993* a prescribed arrangement for the purposes of the *Retirement Benefits Regulation 1994*. Declaration of the sale as a prescribed arrangement provides for a more favourable superannuation outcome for employees who are members of the RBF Contributory Scheme than would otherwise be the case. It allows them to receive a redundancy benefit if their membership ceases as a result of a prescribed arrangement.

- Clause 18
- Clause 18(1) defines for the purposes of Division 3 the terms "transfer day" and "transferring business".
- Clause 18(2) provides that the Treasurer, if only part of the business of TOTE Tasmania or a subsidiary is sold, may transfer the whole or any part of the remaining business to the Crown and to specify conditions relating to that transfer. The transfer is to occur by order published in the gazette.
- Clause 18(3) provides that this transfer may occur before the sale is completed.
- Clause 18(4) provides that the business of TOTE or a TOTE subsidiary, other than a liability, vests in the Crown. It also provides for a liability specified in the transferring order to become the responsibility of the Crown.
- Clause 18(5) provides that on and after the transfer day the Crown assumes full legal responsibility in respect of the transferred business.
- Clause 18(6) provides that if any dispute arises in respect of a transferring employee, the Treasurer may resolve the matter and will provide TOTE Tasmania or its subsidiary with written advice.
- Clause 18(7) provides that the Treasurer's determination under clause 18(6) is final and binding.
- Clause 18(8) provides that an order under subsection (2) is not a statutory rule.
- Clause 19
- Clause 19(1) defines the transfer day as specified in the Treasurer's order in 18(2).
- Clause 19(2) provides that the Treasurer may terminate the employment of a person if the business of TOTE Tasmania or a subsidiary is transferred to the Crown under clause 18.
- Clause 19(3) provides that any termination must be in accordance with any relevant contract, award or agreement.
- Clause 19(4) provides that each person whose employment is terminated is to be given written notice of the termination.
- Clause 19(5) provides that terminated employees are not entitled to compensation or other payments except as provided by the *Retirement Benefits Act 1993* or the *Public Sector Superannuation reform Act 1999*, or any other law, an award, an agreement or any conditions determined by the Treasurer.

Clause 20 This clause provides for the de-registration of TOTE Tasmania and its subsidiaries if the respective businesses are sold. This is because these companies will still exist, without assets or liabilities, and will need to be wound up under the Corporations Act.

## **PART 5 MISCELLANEOUS**

Clause 21 Clause 21(1) defines a potential purchaser.

Clause 21(2) provides for relevant parties involved in the sale to disclose information, including confidential information to each other and to potential purchasers, their directors, employees, agents and advisors in order to facilitate the sale.

Clause 21(3) provides that a person who receives information under clause 21(2) must not disclose that information to parties other than those specified in this clause. It also provides for a penalty if the person discloses this information to unauthorised parties.

Clause 22 This clause provides that the obligations of TOTE Tasmania and its subsidiaries are not guaranteed by the Crown.

Clause 23 This clause provides for the proceeds of the sale to be paid into the Consolidated Fund.

Clause 24 This clause provides that the Auditor-General is to review a sale under clause 5 after the sale has completed and is to report to each House of Parliament within 120 days of the sale or the deregistration of TOTE Tasmania. This clause also provides that the Auditor-General must be given access to all information that the Auditor-General considers relevant to the report.

Clause 25 This clause provides protection for acts done or omitted under the Act if the act or omission is done in good faith. It protects contracts and agreements from being terminated and claims that confidentiality has been breached as a result of the sale.

Clause 26 This clause provides for matters to be excluded from the Corporations Act 2001. For example, this includes a sale under clause 5 and the amendment of TOTE's constitution under clause 8. This is a fairly standard provision for the sale of State owned Companies.

Clause 27 This clause provides for the Treasurer, by an order published in the Gazette, to exclude sale contracts from the *Trade Practices Act 1974* and the *Competition Policy Reform (Tasmania) Act 1996*.

- Clause 28 This clause provides that TOTE Tasmania or its subsidiaries or any person concerned in the management of TOTE Tasmania or a TOTE subsidiary be convicted separately of an offence unless they had no knowledge of the offence or they used all due diligence to prevent the act or omission.
- Clause 29 This clause empowers the Governor to make regulations for the purposes of this Act.
- Clause 30 This clause provides that the administration of the Act is assigned to the Treasurer.
- Clause 31 This clause provides for the Auditor-General to conduct an audit for the financial year prior to the sale. It also requires the Treasurer to table TOTE's annual report in parliament. It provides for a penalty if TOTE does not provide the necessary information to the Auditor General.
- Clause 32 and schedule 1 This clause provides for the repeal of the Portfolio legislation once all the shares in TOTE are sold, or TOTE has been deregistered and the Governor has made such a proclamation on the recommendation of the Treasurer.
- This clause also provides for section 23 of the TOTE Tasmania Act 2000 to be repealed on Royal Assent. Section 23 does not permit the company to sell its assets or main undertaking unless the sale or disposal is approved by both Houses of Parliament.

# CONFIDENTIAL

## Funding Deed

The Crown in Right of Tasmania Government  
Tasmanian Racing Board TRB

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**CONFIDENTIAL****Funding Deed dated**

**Parties**                    **The Crown in the Right of Tasmania (Government)**  
**Tasmanian Racing Board (TRB)**

**Background**

- A.        The TRB is responsible for the corporate governance, strategic direction and funding of the Tasmanian thoroughbred, harness and greyhound racing and breeding industries.
- B.        The Government has agreed to provide funding to the TRB for the promotion and development of the Tasmanian thoroughbred, harness and greyhound racing and breeding industries and for capital works to Tasmanian racing venues.
- C.        This deed represents the terms and conditions on which funding is granted.

**Operative provisions****1. Definitions and interpretation****1.1 Definitions**

In this deed:

**Adjustment Amount** has the meaning given in paragraph (a) of the definition of "Operational Amount";

**Business Day** means a day that is not a Saturday, Sunday or public holiday and on which banks are open for business generally in Hobart;

**Capital Amount** means SX;

**Capital Funding Condition** means each condition specified in clause 2.2;

**Capital Funding End Date** means 30 June 2010 or such later date as may be notified by the Government to the TRB;

**Commencement Date** means the latter of 1 July 2009 and the first Business Day after all Operational Funding Conditions are satisfied or waived;

**CPI figure** means the Consumer Price Index: Average All Capital Cities published by the Australian Statistician under the *Census and Statistics Act 1905* of the Commonwealth, or, if the index is no longer published, an alternative index reflecting the average cost of living in all capital cities of Australia as determined by the Government;

**CPI year 0** means the average of the CPI figure for the four (4) Quarters ending 30 June in respect of the Financial Year preceding CPI year 1;

**CPI year 1** means the average of the CPI figure for the four (4) Quarters ending 30 June in respect of the Financial Year immediately preceding the Financial Year in which the Operational Amount is to be paid;

**CPI indexation factor** means CPI year 1 divided by CPI year 0;

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**Financial Year** means the 12 calendar months commencing on 1 July in any year and ending on 30 June of the following year;

**Funding Term** means the Original Funding Term plus any extension pursuant to clause 3.2;

**Indexation Factor** means the CPI Indexation factor less 0.01;

**Insolvency Event** means in respect of the TRB, the occurrence of any of the following:

- (a) the TRB, or any person for or on its behalf, disposes of all, or substantially all, of its assets and/or undertakings;
- (b) the TRB ceases to carry on business;
- (c) an administrator is appointed or a resolution is passed or any steps are taken to appoint, or to pass a resolution to appoint, an administrator to the TRB;
- (d) a receiver, receiver and manager, official manager, trustee, administrator, other controller, as defined in the Corporations Act, or similar officer is appointed, or steps are taken for such appointment, over any of the assets or undertaking of the TRB;
- (e) the TRB proposes or takes steps to implement a scheme of arrangement or other compromise or arrangement with its creditors or any class of them;
- (f) the TRB is or becomes unable to pay its debts when they are due, or is otherwise insolvent;
- (g) the TRB suspends payment of its debts generally;
- (h) an application or order is made for the winding-up, dissolution or deregistration of the TRB or a resolution is passed or any steps are taken, including to pass a resolution in connection with, the winding-up or dissolution of the TRB;
- (i) the TRB is declared or taken under any applicable law to be insolvent;
- (j) a notice under section 601AB of the Corporations Act is given to, or an application under section 601AA is made by, or in respect of the TRB or, where the TRB is an incorporated association, any steps are taken in connection with the cancellation of its incorporation; or
- (k) a person appointed under a power of attorney or other instrument or arrangement with the TRB or the TRB's financiers becomes entitled to manage the business or affairs of the TRB or to perform obligations of the TRB;

**Minister** means the Minister for Racing in Tasmania;

**Operational Amount** means, subject to clause 5.3:

- (a) in respect of the first Financial Year or part thereof during the Funding Term, \$X million less the amount of any moneys received under any Previous Funding Arrangement in respect of that Financial Year (**Adjustment Amount**) whether such money is received before or after the commencement date;
- (b) for each subsequent Financial Year during the Funding Term, the amount paid by the Government in respect of the immediately preceding Financial Year in accordance with clause 5.1(a) multiplied by the Indexation Factor;

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**Operational Funding Condition** means each condition specified in clause 2.1;

**Operational Funding End Date** means 30 September 2009 or such later date as may be notified by the Government to the TRB;

**Original Funding Term** means the period as provided in clause 3.1;

**Previous Funding Arrangement** means any funding or other financial arrangement in relation to the TRB or any thoroughbred, harness and greyhound racing or breeding organisation or part of an organisation under any legislation or any arrangement with TOTE Tasmania Pty Ltd or the Government in existence before the Commencement Date;

**Sale** means the sale of the shares in and/or the assets of TOTE Tasmania Pty Ltd to a private interest.

**1.2 Interpretation**

In this deed:

- (a) headings are for convenience only and do not affect interpretation;
- and unless the context indicates a contrary intention:
- (b) an obligation or a liability assumed by, or a right conferred on, 2 or more persons binds or benefits them jointly and severally;
  - (c) "**person**" includes an individual, the estate of an individual, a corporation, an authority, an association or a joint venture (whether incorporated or unincorporated), a partnership and a trust;
  - (d) a reference to a party includes that party's executors, administrators, successors and permitted assigns, including persons taking by way of novation;
  - (e) a reference to a document (including this deed and the Treasurer's Instruction *GBE 07-44-01 Investments*) is to that document as varied, novated, ratified or replaced from time to time;
  - (f) a reference to a statute includes its delegated legislation and a reference to a statute or delegated legislation or a provision of either includes consolidations, amendments, re-enactments and replacements;
  - (g) a word importing the singular includes the plural (and vice versa), and a word indicating a gender includes every other gender;
  - (h) a reference to a party, clause, schedule, exhibit, attachment or annexure is a reference to a party, clause, schedule, exhibit, attachment or annexure to or of this deed, and a reference to this deed includes all schedules, exhibits, attachments and annexures to it;
  - (i) if a word or phrase is given a defined meaning, any other part of speech or grammatical form of that word or phrase has a corresponding meaning;
  - (j) "**includes**" in any form is not a word of limitation; and
  - (k) a reference to "**S**" or "**dollar**" is to Australian currency.

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## **2. Conditions Precedent**

### **2.1 Conditions relating to Operational Amount**

Clauses 3, 4.1, 4.3, 5.1(a), 7 and 8 do not become binding on the parties and have no force or effect unless and until each of the conditions listed below has either been satisfied or waived in accordance with clause 2.4:

- (a) the Minister's Order transferring assets and liabilities to the TRB from TOTE Tasmania Pty Ltd under the *Racing Regulation Amendment (Governance Reform) Act 2008* (Tas) is published in the *Tasmanian Government Gazette*; and
- (b) sections 42 and 46 of the *Gaming Control Amendment Bill 2009* or their equivalents are proclaimed.

### **2.2 Conditions relating to Capital Amount**

Clauses 4.2 and 5.1(b) of this deed do not become binding on the parties and have no force or effect unless and until:

- (a) each Operational Funding Condition is satisfied or waived in accordance with clause 2.4; and
- (b) the Government receives the funds which are due and payable on the completion of the Sale.

### **2.3 Notice in relation to satisfaction of Conditions**

Each party must within 1 Business Day after becoming aware of the satisfaction of any Operational Funding Condition or any Capital Funding Condition, notify the other party of the satisfaction of that condition and provide reasonable evidence that the condition has been satisfied.

### **2.4 Waiver of Conditions**

The Government may in its absolute discretion waive an Operational Funding Condition and/or a Capital Funding Condition by giving notice to the TRB.

### **2.5 Failure of Operational Funding Conditions**

If any Operational Funding Condition has become incapable of satisfaction and is not waived in accordance with clause 2.4 within 10 Business Days of the date the incapacity became evident, then the parties will negotiate in good faith an alternative funding agreement.

### **2.6 Failure of Capital Funding Condition**

If:

- (a) at any time before the Capital Funding End Date the Capital Funding Condition has become incapable of satisfaction and is not waived in accordance with clause 2.4;
- (b) at any time after the Capital Funding End Date the Capital Funding Condition has not been satisfied or waived in accordance with clause 2.4; or
- (c) the Government gives notice to the TRB that it is no longer pursuing the Sale;

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clauses 4.2 and 5.1(b) shall be deemed severed from this deed and this deed shall be read as though clauses 4.2 and 5.1(b) did not exist.

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**3. Funding Term****3.1 Original Funding Term**

The terms and conditions specified in this Deed commence on the Commencement Date and cease on 30 June 2014.

**3.2 Extension of Original Funding Term**

Subject to clauses 3.3 and 9.1 this deed, with the exception of clauses 4.2 and 5.1(b), will automatically be extended for a period of one Financial Year at the beginning of each Financial Year, commencing from the second year after the Commencement Date.

**3.3 Funding term**

The terms and conditions in this funding agreement cease to have effect on 30 June 2029.

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**4. Funding****4.1 Operational Funding**

The Government will, in order to fund operational expenses, pay to the TRB the Operational Amount during the Funding Term.

**4.2 Capital Funding**

In addition to the amount payable under clause 4.1, the Government will, in order to fund capital expenditure, pay to the TRB the Capital Amount during the Funding Term in accordance with clause 5.1(b).

**4.3 No other funding**

The TRB acknowledges that in respect of the Funding Term, the amounts payable by the Government under this deed are the only amounts that the Government will contribute to the TRB and the Tasmanian thoroughbred, harness and greyhound racing and breeding industries and the TRB will not seek any additional funding or financial assistance from the Government.

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**5. Payment of Operational Amount and Capital Amount****5.1 Payment of Operational Amount and Capital Amount**

(a) The Government will pay to the TRB the Operational Amount within 10 working days of the beginning of each financial year provided that where the Commencement Date is after 1 July 2009, the amount of the first instalment will be reduced by the Adjustment Amount; and

(b) The Government will pay to the TRB the Capital Amount on the day that is 10 Business Days after the date on which the Government receives the funds due and payable to it on the completion of the Sale. The Capital Amount must only be used to fund capital expenditure.

**CONFIDENTIAL****5.2 Withholding Payment**

Notwithstanding clause 5.1 the Government may without liability withhold the whole or part of any payment due to the TRB under this deed whilst ever the TRB is not in full compliance with any Tasmanian legislation.

**5.3 Reduction/Set-Off of Double Payment Amounts**

If the TRB receives any amount of funding or financial assistance under a Previous Funding Arrangement which relates in whole or part to any period occurring during the Funding Term (or in the case of capital funding or assistance, which relates to projects or purposes to which the Capital Amount would otherwise relate) the amounts which would be otherwise payable by the Government to the TRB under this deed shall be reduced by the amount of such funding.

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**6. Self Generated Funding****6.1 Self Generated Funding**

Nothing in this deed shall be taken as preventing or restricting the TRB from generating through its own activities income from sources other than Government.

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**7. Distribution of and Agreements Relating to Distribution of Funds****7.1 Distribution**

The Operational Amount and Capital Amount must only be distributed or used by the TRB:

- (a) in the best interests of the Tasmanian thoroughbred, harness and greyhound racing and breeding industries;
- (b) in a manner which promotes the development of an efficient and effective racing and breeding industry that accords with industry best practice;
- (c) in accordance with the TRB's obligations under the *Racing Administration Act 2004* and any other Tasmanian legislation relating to the TRB;
- (d) for the purpose for which it was provided; and
- (e) in relation to the Capital Amount, in accordance with any requirements under clause 5.1(b).

**7.2 Reporting**

The TRB must report to the Minister the amount of the Capital Amount received and spent on capital expenditure projects undertaken in each Financial Year during the Funding Term in the applicable annual report of the TRB.

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**8. Investment of Funds**

To the extent that the TRB is not obliged to distribute or expend funds received which comprise Operational Amount and/or the Capital Amount immediately, the TRB may invest such funds, provided that it does so through the Tasmanian Public Finance Corporation (Tascorp) and in doing so must comply with Treasurer's Instruction *GBE 07-44-01 Investments*.

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**9. Termination****9.1 Termination by Government**

The Government may terminate this deed:

- (a) if the TRB breaches any provision of this deed and fails within 30 Business Days of receiving notice of the breach to remedy the same;
- (b) if the TRB fails to comply with its obligations under the *Racing Regulation Act 2004* (Tas);
- (c) the TRB ceases to exist or its functions are substantially changed;
- (d) the TRB ceases to be the controlling body for all three codes of racing (thoroughbred harness and greyhound); or
- (e) if an Insolvency Event occurs in relation to the TRB.

**9.2 Effect of Termination**

If this deed is terminated then:

- (a) the provisions of this deed shall cease to have effect except for the provisions of clauses 9 and 10.
- (b) each party retains the rights it has against the other in respect of any breach of this deed occurring before the termination.

**9.3 Adjustment on Termination**

The TRB must repay within 10 Business Days of termination that part of any amounts paid to it under this deed prior to the termination date which relate to any period occurring after the termination date.

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**10. General**
**10.1 Damages**

The Government will have no liability in respect of any claim or action for any indirect or consequential loss or damage arising from or in connection with any breach of this deed by the Government.

**10.2 Notices**

Each communication (including each notice, consent, approval, request and demand) under or in connection with this deed:

- (a) must be in writing;
- (b) must be addressed as follows (or as otherwise notified by that party to each other party from time to time):

**CONFIDENTIAL****Government**

Name: **Department of Infrastructure, Energy and Resources**  
 Address: 10 Murray Street, Hobart, TAS, 7000  
 Fax:  
 For the attention of: Secretary

**TRB**

Name: **[insert relevant contact]**  
 Address:  
 Fax:

- (c) must be signed by the party making it or (on that party's behalf) by the solicitor for, or any attorney, director, secretary or authorised agent of, that party;
- (d) must be delivered by hand or posted by prepaid post to the address, or sent by fax to the number, of the addressee, in accordance with clause 10.2(b); and
- (e) is taken to be received by the addressee:
  - (i) (in the case of prepaid post) on the third day after the date of posting;
  - (ii) (in the case of fax) at the time in the place to which it is sent equivalent to the time shown on the transmission confirmation report produced by the fax machine from which it was sent; and
  - (iii) (in the case of delivery by hand) on delivery,

but if the communication is taken to be received on a day that is not a working day or after 5.00 pm, it is taken to be received at 9.00 am on the next working day ("working day" meaning a day that is not a Saturday, Sunday or public holiday and on which banks are open for business generally, in the place to which the communication is posted, sent or delivered).

**10.3 Governing law**

This deed is governed by and must be construed according to the law applying in Tasmania.

**10.4 Jurisdiction**

Each party irrevocably:

- (a) submits to the non-exclusive jurisdiction of the courts of Tasmania, and the courts competent to determine appeals from those courts, with respect to any proceedings that may be brought at any time relating to this deed; and
- (b) waives any objection it may now or in the future have to the venue of any proceedings, and any claim it may now or in the future have that any proceedings have been brought in an inconvenient forum, if that venue falls within clause 10.4(a).

**CONFIDENTIAL****10.5 Taxes, Charges, Rates, etc**

The TRB:

- (a) must pay all relevant state and local taxes, duties, levies, rates, charges and the like and any related fines and penalties in respect of this deed, the performance of this deed and each transaction effected by or made under this deed; and
- (b) indemnifies the Government against any liability arising from failure to comply with clause 10.5(a).

**10.6 Variation**

This deed may be varied by a deed executed by or on behalf of each party.

**10.7 Waiver**

- (a) Failure to exercise or enforce, or a delay in exercising or enforcing, or the partial exercise or enforcement of, a right, power or remedy provided by law or under this deed by a party does not preclude, or operate as a waiver of, the exercise or enforcement, or further exercise or enforcement, of that or any other right, power or remedy provided by law or under this deed.
- (b) A waiver or consent given by a party under this deed is only effective and binding on that party if it is given or confirmed in writing by that party.
- (c) No waiver of a breach of a term of this deed operates as a waiver of another breach of that term or of a breach of any other term of this deed.

**10.8 Further acts and documents**

Each party must promptly do all further acts and execute and deliver all further documents (in form and content reasonably satisfactory to that party) required by law or reasonably requested by another party to give effect to this deed.

**10.9 Assignment**

A party cannot assign, novate or otherwise transfer any of its rights or obligations under this deed without the prior consent of the other party.

**10.10 Counterparts**

This deed may be executed in any number of counterparts and by the parties on separate counterparts. Each counterpart constitutes the deed of each party who has executed and delivered that counterpart.

**10.11 No representation or reliance**

- (a) Each party acknowledges that no party (nor any person acting on a party's behalf) has made any representation or other inducement to it to enter into this deed, except for representations or inducements expressly set out in this deed.
- (b) Each party acknowledges and confirms that it does not enter into this deed in reliance on any representation or other inducement by or on behalf of any other party, except for representations or inducements expressly set out in this deed.

**CONFIDENTIAL****10.12 Entire deed**

To the extent permitted by law, in relation to its subject matter, this deed:

- (a) embodies the entire understanding of the parties, and constitutes the entire terms agreed by the parties; and
- (b) supersedes any prior written or other deed of the parties.

**Executed as a Deed**

**Signed, Sealed and Delivered** by the Minister for Racing for and on behalf of **The Crown in the Right of Tasmania** in the presence of:

\_\_\_\_\_  
Signature of witness

\_\_\_\_\_  
Signature of Minister for Racing

\_\_\_\_\_  
Name of witness in full

\_\_\_\_\_  
Name of Minister for Racing

**Signed, Sealed and Delivered** for and on behalf of **The Tasmanian Racing Board** by its authorised signatory in the presence of:

\_\_\_\_\_  
Signature of Witness

\_\_\_\_\_  
Signature of Authorised Signatory

\_\_\_\_\_  
Name of Witness in full

\_\_\_\_\_  
Name of Authorised Signatory



## **Gaming Control Amendment Bill 2009 Fact Sheet**

- The Gaming Control Act Amendment Bill amends the *Gaming Control Act 1993*, to enable the regulation of TOTE Tasmania's gaming and wagering activities. The Bill also repeals the *Racing (Totalizator Betting) Act 1952* and the *TOTE Tasmania (Racing Regulation) Act 2004*.
- It also abolishes the current funding arrangements between the TOTE and the Tasmanian racing industry. The new Tasmanian Racing Board will be funded directly by the State Government through a separate Funding Deed.
- The amendments provide for the regulation and financial arrangements of the TOTE or its purchaser. Specifically, amendments to the Gaming Control Act:
  - establishes a new endorsement under a Tasmanian Gaming Licence (TGL) for totalisator betting with an annual fee of 350 000 fee units (\$448 000), waived for the TOTE or its purchaser;
  - establishes an agent endorsement to allow TGL holders to participate in an agent arrangement with an external (third party) gaming or wagering provider for which it receives a commission. An annual licence fee of 5 000 fee units (\$6 400), will apply to an agent endorsement, waived for the TOTE or its purchaser;
  - provides that the holder of a totalisator endorsement must pay a fixed wagering levy of 4.7 million fee units (\$6 million per annum);
  - deems TOTE to hold a Tasmanian gaming licence with totalisator, race wagering (fixed odds), sports betting, and an agent endorsements;
  - deems TOTE's existing agent arrangements to be allowable under the endorsement. New arrangements will be subject to disallowance by the Tasmanian Gaming Commission;
  - deems TOTE's equipment (software and hardware) to be compliant for 24 months and control systems (manuals) for 6 months;
  - deems TOTE's special employees to be licensed for 12 months;
  - enables a second exclusive totalisator licence, subject to the Treasurer's written approval, to be granted by the Tasmanian Gaming Commission if the TOTE is sold;
  - establishes a period of exclusivity of 15 years after the new operator's totalisator endorsement commences;
  - sets the term of the Tasmanian gaming licence for the new

- operator to be 50 years then renewable for 49 years while the operator holds a totalisator endorsement;
- deems the new operator's equipment (software and hardware) to be compliant for 12 months and control systems (manuals) for 6 months;
  - deems the new operator's special employees to be licensed for 12 months;
  - provides that the TOTE or new operator can establish wagering rules under the licence that are allowed unless disallowed by the Tasmanian Gaming Commission;
  - provides that commission can be deducted, dividends are rounded and the fractions retained by the TOTE or the new operator;
  - authorises commission rates (take out rates) set out in operators rules are subject to maximum rates as determined by the Tasmanian Gaming Commission.
  - waives the race wagering, sports betting and agent endorsement fees for the TOTE or its purchaser while a totalisator endorsement is held;
  - limits the maximum fee payable for multiple endorsements held by any other operators (ie without a totalisator endorsement) at 450 000 fee units per annum (\$576 000);
  - abolishes the current tax on sports betting from of 0.25 per cent of turnover and race wagering (fixed odds wagering) of 1.0 per cent of turnover;
  - limits the fees for the holder of both sports betting and race wagering endorsements to 200 000 fee units (\$256 000);
  - provides that a totalisator, or any other Tasmanian gaming licence holder, may operate as an agent for a third party gaming or wagering operator external to Tasmania, for which the Tasmanian based operator receives a commission;
  - provides that unclaimed monetary prizes or dividends be paid to the Treasurer after six months;
  - provides that a totalisator operator may use retail outlets as an agent to accept wagers on its behalf;
  - provides that the actions of an outlet agent are taken to be the actions of a licence holder;
  - introduces penalties for serious offences by the outlet agents, such as allowing a minor to gamble, the outlet agent will also be held

responsible;

- contains transitional and savings provisions in respect of the operations of the TOTE and the TOTE's agents, employees and technicians as they come under the control of the Act;
- allows employees to wager on their employer's wagering activity only when off duty; and
- provides for an adjustment of the product levy payable to Tasmania by Betfair where it is also required to pay race-fields publishing fees, product fees, or levies to racing authorities for the same event.

## Gaming Control Amendment Bill 2009 Second Reading Speech

Madam President

The *Gaming Control Amendment Bill 2009* can be considered in three distinct parts. Firstly, it provides for the regulation of TOTE Tasmania's gaming and wagering activities under the Gaming Control Act and the repeal of legislation currently governing the operation of the TOTE, namely the *Racing (Totalizator Betting) Act 1952* and the *TOTE Tasmania (Racing Regulation) Act 2004*. This is achieved by creating a new Tasmanian Gaming Licence totalisator endorsement, for the conduct of pari-mutuel wagering. This is the same process that was used to provide for betting exchanges.

Secondly, it provides for a new totalisator operator, if the TOTE is sold, to be licensed and regulated under the Gaming Control Act. There are also changes to the endorsement fees and tax rates for sports-betting and fixed odds wagering that will facilitate the attraction to Tasmania of corporate bookmakers. The Government is confident that this will help to make the sale of TOTE more attractive.

Thirdly, the Bill addresses several unrelated matters that have been raised by Betfair. These matters have arisen out of administering the regulatory and tax arrangements specific to its betting exchange activities.

Madam President

Since the original TOTE operations were established, the world has changed substantially and the gaming and wagering industry in particular is now more complex and commercially oriented than ever before. At present, a self-regulatory framework is in place for totalisator operations. This essentially means two things. First, the business itself is responsible for regulatory oversight of its wagering activities. Second, in responding to new market opportunities, the TOTE is often reliant on the Government or Parliament either to approve changes to the rules under which it operates, or for legislative change to introduce new products or services. Given that the commercial world requires quick assessment and fast response times, the current arrangements

can be a cumbersome and time consuming process. This can inhibit product development. It is also the case that Government, through the relevant Minister, and Parliament, should not be involved in normal commercial decisions of TOTE. In fact, in the absence of any need for policy change, this is not an appropriate role for either. In those cases where there is a relatively low level of change required, and changes in wagering rules is a good case in point, the Gaming Commission is more technically equipped to make such decisions.

Furthermore, as the Government intends to sell TOTE Tasmania to a private sector operator, this cannot be done while the current regulatory arrangements are in place. This would open the Government to unnecessary risk in terms of accountability. It would also look to be treating other gaming providers in the State differently to have a situation in which the self-regulation model was permitted to transfer from a Government-owned entity to a new owner.

Therefore, sale or no sale, the current arrangements for regulatory oversight are no longer appropriate.

Madam President

The Bill before the House will bring TOTE under the same regulatory framework as other gambling providers in Tasmania, such as Betfair and lottery providers.

This will introduce a number of new requirements on the TOTE in relation to probity and the management of problem gamblers and consumer protection. On balance, these requirements will be no more or less burdensome for the TOTE as they are for other licensed Tasmanian-based gaming providers.

There are key regulatory considerations that have been applied to the wagering business model and these are contained in the Bill. For example, under the Gaming Control Act the TOTE will:

- have certain key employees and technicians licensed;
- establish the ability for its customers to self-exclude, or for third party exclusion;
- enable its registered customers to be able to pre-commit loss limits;

- have all its wagering equipment and systems independently tested; and
- have independent oversight of its wagering rules, its agent agreements, and the operation of its retail outlets.

Madam President

The Gaming Control Act currently provides for a Tasmanian gaming licensee to hold endorsements separately for the activities of: sports betting; fixed odds wagering; major lotteries; simulated gaming; and betting exchanges.

The amendments in this Bill provide for a new totalisator endorsement and the necessary financial and regulatory provisions needed to govern this activity. However, while other endorsements are non-exclusive, the totalisator endorsement will be provided on an exclusive basis, this being consistent with the exclusivity of licensing totalisator operations in other jurisdictions.

Bringing the TOTE activities directly under the regulatory control of the Gaming Control Act does not require significant change to the way in which TOTE activities are governed at present. However, it does need to remove some key inconsistencies between current TOTE practices, and the way other gaming providers are regulated. Bearing this in mind, the Bill provides for some transitional arrangements so that the main changes required of the TOTE, for example the validation of its systems, or the licensing of its employees where required, won't have to be in place immediately the new licence takes effect.

Madam President

Along with its totalisator activities, the TOTE currently offers fixed odds (race wagering) and sports betting products. The Bill provides for TOTE to initially be deemed to hold a Tasmanian Gaming Licence to enable it to operate its full current range of wagering activities. This deemed licence will be for an indefinite period while held by the TOTE.

TOTE also offers racing products on behalf of third parties that are licensed in other jurisdictions. TOTE offers these third party products under agency agreements, which are very similar in nature to a franchise. For example, the TOTE currently participates

in agreements with the operators of South African and Swedish international totalisator pools.

In order to deal with these agency arrangements the Bill provides for the establishment of what will be referred to as an agent endorsement. This will allow for the continued participation of TOTE in its current third party-agent arrangements.

Given that the TOTE does not conduct these activities itself, rather it is an agent under an agreement with the primary licensed operator, the annual licence fee for an agent endorsement will be set lower than other endorsements. The fee will be 5 000 fee units per annum (which is currently equivalent to \$6 400), to reflect the lesser regulatory oversight required for this type of activity.

These arrangements have also been accommodated because they are relatively common in the wagering industry and in recognition of this these endorsements will be made available to other licensed operators.

Madam President

The Bill provides for the current use of retail outlets, most of which are not actually owned by TOTE, to continue to be operated in the same way. This includes stand-alone totalisator retail outlets (that is the TOTE branded shops); retail outlets in licensed premises (such as in hotels); and retail outlets at various race courses.

Rather than licence each outlet and its employees, the actions of the outlet owner will be taken to be the actions of the primary licence holder.

However, certain disciplinary provisions will apply directly to these owner/agents for breaches of conduct, such as allowing minors to gamble, for providing credit betting; for not enforcing wagering rules as may required by the Gaming Commission; and for not complying with player exclusion requirements.

Madam President

Transitional arrangements will apply for the certification and testing of systems and equipment. This will be achieved by deeming the TOTE's existing systems and equipment to be fully compliant for an initial two-year period. This will allow time for the progressive

independent validation of the TOTE's IT infrastructure and any non-compliance issues to be addressed during that period.

Key TOTE employees requiring a special employee licence will be given a 12 month period to apply for a licence, during which time they will effectively be deemed to be licensed. Similar transitional arrangements will be given to the purchaser of TOTE, with 12 months for the testing of equipment and 12 months for the licensing of special employees.

Consistent with current practice, unclaimed winnings are held for 6 months by the TOTE. However after this period, the unclaimed winnings will be paid to the Treasurer as unclaimed monies, rather than kept by the TOTE, as currently occurs.

This requirement for the payment of unclaimed winnings to the Treasurer will also apply to all Tasmanian gaming licence holders.

Also, consistent with current business practices of TOTE, the amendments provide for the deduction of commissions from bets and for the rounding of dividends.

The roundings from dividends, which amounted to \$4.4 million in 2007-08 for the TOTE, are to be retained by the totalisator operator.

Madam President

Country race meetings remain an important part of the racing industry in all jurisdictions, but particularly in Tasmania and we need to continue to have totalisator services at those meetings. While not profitable services for the TOTE to provide, the amendments in this Bill will require that where a Tasmanian racing club needs a totalisator to operate at a programmed race meeting, or betting only meeting, the TOTE (or its successor) will be required to conduct the totalisator on behalf of that club.

This ensures that the current arrangement continues whereby the TOTE conducts the totalisator on behalf of the club. However, the Government must strike a balance between the expectations of the community and the commercial viability of the TOTE, or its successor. There cannot be an expectation by clubs that they will be able to request totalisator arrangements for any number of meetings they may wish to conduct. Therefore a limit of 40

meetings has been set that must be conducted by the TOTE or the new operator.

This is 10 more Tasmanian race meetings than the total number currently conducted by the TOTE.

Madam President

I have detailed the key changes required to bring the TOTE under the regulatory oversight of the Tasmanian Gaming Commission. However, there are some issues that the Government has considered, which are of direct relevance to the sale of TOTE. I will now deal with those matters.

Once the TOTE is sold there will need to be a new licence to the new operator. The amendments in this Bill provide in the first instance for the TOTE to be deemed to hold an exclusive endorsement to cover totalisator operations in Tasmania; and this will not be transferable to the new operator. Therefore the new operator will need to be licensed in its own right by the Gaming Commission.

Potential purchasers of the TOTE will, therefore, need to apply for a Tasmanian Gaming Licence so that they can be tested against Tasmania's strict probity tests. The licence endorsed for totalisator betting can only be granted by the Tasmanian Gaming Commission with the approval of the Treasurer. Therefore, this will ensure that only the successful bidder is granted the licence endorsed for totalisator betting and this licence will be granted for an exclusive period of 15 years after the TOTE is sold.

In addition to being exclusive for 15 years, the new operator's licence will be for a term of 50 years, renewable for a further 49 years while the operator holds a totalisator endorsement and continues to meet the probity standards required of all Tasmanian-based gaming operators. In return, the Government will be requiring that the new owner establishes a corporate presence here in Tasmania for the period during which it holds the exclusive licence endorsement.

The licence term I have outlined is consistent with licences granted to totalisators in other jurisdictions.

Madam President

The tax arrangements for the new operator have been difficult to establish. On the one hand the Government wants to be able to demonstrate to the community that this wagering opportunity is valuable and can support the commitment to directly fund the Tasmanian racing industry. However, we also need to recognise that a tax-free environment will potentially generate the greatest sale value in the TOTE business. The balance must also take into account that the tax environment here in Tasmania for totalisator activities will need to remain broadly aligned with totalisator tax regimes in other jurisdictions.

Therefore, the Government has decided that a fixed annual levy, rather than a tax on turnover, will provide the right balance. The holder of the totalisator endorsement will be required to pay a fixed annual wagering levy of 4.7 million fee units (currently about \$6 million per annum). No tax in respect of the turnover of its totalisator activities will be required.

By using a fixed levy, this will allow growth activities now and into the future to be effectively tax free. This means that the incentives will be right for the operator to grow the TOTE business.

Madam President

In addition to conducting a totalisator, potential new purchasers of the TOTE will most likely also wish to conduct the same or similar sports betting, fixed odds and other related third party race products as the TOTE currently does.

Sports betting, race wagering and agent endorsements will therefore be available to the purchaser of TOTE, but in recognition of the fixed annual levy the fees associated with these additional endorsements will be waived while these endorsements are held in conjunction with the totalisator licence.

Madam President

In preparation for the sale of TOTE I have been made aware of the possibly synergies in having corporate bookmakers establish in Tasmania alongside our totalisator operator. Corporate bookmakers are potential major customers for the TOTE through the use of TOTE to lay-off substantial bets on their books.

With corporate bookmakers basing their operations here in the State, this would enable further opportunities for joint business

arrangements between the TOTE (or its successor) and corporate bookmakers.

However, since the introduction of fixed odds and sports betting licences under the Gaming Control Act there have been no applications for such licences because of Tasmania's uncompetitive taxation regime.

Currently, the most competitive taxation regime in the nation for these activities is in the Northern Territory, where the majority of fixed odds and sports betting operators are located.

Therefore, to make Tasmania the most competitive jurisdiction for corporate bookmakers, the proposed amendments abolish the current tax rates on race wagering of 1 per cent of turnover; and sports betting of 0.25 per cent of turnover.

In addition, the endorsement fees where both a sports betting and race wagering endorsement is held will be 200 000 fee units (\$256 000) in total for both endorsements. In return, the Government will be requiring that corporate bookmakers that are licensed in Tasmania will need to establish their risk management teams in Tasmania so that the State gets the employment benefits associated with the concessions made on fees and taxes.

Madam President

Members will be aware that new governance arrangements for the Tasmanian racing industry, which came into effect in January 2009, transfer the TOTE's racing development functions to the new Tasmanian Racing Board – the TRB

By separating the TOTE from the governance of the racing industry, the proposed amendments in this Bill sever the long-standing funding nexus between the TOTE and the Tasmanian racing industry.

The current requirements for the TOTE to directly fund the Tasmanian Racing Board under the *TOTE Tasmania (Racing Regulation) Act 2004* will, therefore, be abolished. The amendments also abolish the need for tax and product levy fee

revenue from Betfair to be appropriated to the TOTE under the Gaming Control Act and then passed-on to the racing industry.

The racing industry will now enjoy funding certainty through the Deed with Government and have growth revenue opportunities to it through sponsorship arrangements and the revenue it raises directly through product fees or race-fields levies.

Madam President

As I have said, a separate funding Deed will be finalised shortly between the Government and the TRB to directly fund the Tasmanian racing industry and I am pleased to inform Honourable Members that the that it has in-principle support from the TRB. I have tabled a draft of the Deed.

Under the Deed, which will have an initial term of 20 years, the TRB will receive at least \$27 million in annual recurrent funding, and this will be indexed, together with a one-off capital payment of \$40 million. The capital funding will become payable after the sale of TOTE has been completed.

There will also be a requirement in the Deed that the TRB must not reduce stakes money.

The new funding arrangements under the Deed will commence on repeal of the current funding arrangements under section 152 the Gaming Control Act and Division 3 of Part 2 of the *TOTE Tasmania (Racing Regulation) Act 2004*.

Madam President

The other matters the Bill addresses are as follows.

Since the licensing of Betfair, race-fields publishing fees have been introduced in some jurisdictions, including Tasmania, as a means for the industry to directly receive payment from wagering operators for the use of racing products.

There is currently no nationally consistent race-fields publishing regime. Therefore, it is not possible to adjust the rate of product levy payable to the State Government by Betfair to accommodate the payment of any race-fields publishing fee paid to racing authorities in other jurisdictions. At present, our arrangements are in effect double taxing Betfair. This issue came to light on the

introduction of the race-fields legislation in NSW. Betfair have raised this with me and I have agreed to address it.

The proposed amendments will adjust the tax base applying to Betfair to take into account the actual payment of publishing fees, product fees or levies in each jurisdiction, including where they may be required under Tasmania race-fields legislation. A head of power in the Gaming Control Act will enable the product levy tax base to be defined in a regulation. This will give flexibility to deal with unforeseen but legitimate needs for change as the racing environment and the use of direct product fees evolves further.

It is also recognised that for existing Tasmanian gaming licence holders (such as Betfair) or potential licence holders that may in the future require multiple endorsements, the total endorsement fees can be substantial (up to \$1.5 million per annum for four or more endorsements). This can be a disincentive for establishing operations in Tasmania, or to expand existing activities.

The endorsement fees are largely in place to cover the substantial costs of regulating these activities, such as: requests to approve product changes; have approved and introduce new products; and validation of operator systems and financial controls. However, if the trend in future is for fewer licensed operators to increase the breadth of their gaming activities through holding multiple endorsements, there will be some economies of scale in regulating the same firm for multiple activities, compared with regulating different firms for individual endorsement activities.

In recognition of this it is, therefore, proposed to cap the total amount of endorsement fees to 450 000 fee units (\$576 000 per annum) for any one licence holder with multiple endorsements.

Madam President

Bringing the TOTE under the Gaming Control Act will expand the scope of the Tasmanian Gaming Commission to include the regulation of totalisator betting.

This will increase the regulatory work-load of the Tasmanian Gaming Commission. The increased regulatory costs of the Commission will be recovered from the wagering levy and licence fees from wagering operators.

Madam President

In conclusion, the TOTE operating environment has changed significantly from when its activities were first established and licensed. This, together with the Government's intention to sell the TOTE, makes it important that the TOTE, or a new operator, is appropriately regulated. The community needs the confidence that all of our wagering and gaming activities under licence here in Tasmania are conducted to the high standards of regulation and probity for which this state has gained significant recognition. The Government, on behalf of the community, will want the peace of mind that the regulation of the totalisator operator falls under the independent scrutiny of the Gaming Commission. The Government also wants the confidence that the risks associated with its activities in an increasingly complex and rapidly expanding commercial environment fall to the owners of the business. They are, after all, best placed to manage those risks.

The racing industry also wants certainty. It wants certainty in its funding streams so that it can confidently plan future development of the Tasmanian racing product. This will avoid it having to rely on the revenue risks associated with a direct reliance on the performance of TOTE and various tax revenue streams.

Madam President

The Gaming Control Amendment Bill will achieve these outcomes.

Let me finish by advising Honourable members that consultation has been undertaken with the TOTE in the development of the new regulatory framework and the TOTE supports the transition to regulation under the Gaming Control Act provided by this Bill.

Madam President

I commend the Bill to the House.

## Gaming Control Amendment Bill 2009

### Notes On Clauses

- Clause 1      Short title.
- Clause 2      The Act will commence on a day to be proclaimed to allow time for the Tasmanian Gaming Commission to put in place systems and process to be able to regulate the TOTE.
- Clause 3      Provides that the *Gaming Control Act 1993* is the principal Act.
- Clause 4      Provides for a range of new definitions required in the Act which among other things, provide for the TOTE (or its purchaser) to be able to conduct its current wagering business.
- Clause 5      An associate includes someone who has a financial interest in the licensed gaming or wagering operator under the Act.
- This amendment to section 4 is required to ensure that a customer is not taken to be an associate, and therefore subject to investigation, by reason only that the totalizator has provided the customer with a rebate or discount on the normal commission taken out by the totalizator operator.
- Clause 6      Amends section 76B to remove the current exemption of TOTE Tasmania from requiring a Tasmanian gaming licence.
- The TOTE will now require a Tasmanian gaming licence under the Act.
- Clause 7      Clarifies that the endorsement on the licence must show where the wagering activity occurs (i.e. the equipment and infrastructure that facilitates the wagering activity) and that such activity can only be located at an approved location.
- This is achieved by reference to an approved location.
- Clause 8      A grammatical improvement only to an existing provision.
- Clause 9      Clarifies that a sports betting endorsement is required for the conduct of sports betting (as opposed to being just an agent).
- Omits the reference to "Tasmania" as the current drafting is unclear and potentially prevents a sports betting operator from offering sports bets on events held outside Tasmania (such as the Australian Tennis open) to persons physically present at the operator's Tasmanian premises (approved location).

- Clause 10 Replaces the term “fixed odds” wagering endorsement with “race wagering” endorsement. This enables a broader definition than fixed odds to be covered under this endorsement.
- However the definition of race wagering in section 3 excludes brokered wagering (betting exchange) or totalizator wagering which are covered under other endorsements.
- Ensures that a race wagering endorsement is required for the conduct of race wagering (as opposed to being just an agent).
- Clause 11 Fixes an omission in section 76V to a reference to paragraph (e).
- Clause 12 Creates new section 76VB to establish a new totalizator endorsement for the conduct of totalizator betting, and the accepting of wagers from approved outlets.
- Creates a new section 76VC to establish an agent endorsement. This allows Tasmanian gaming licence holders to enter into agent arrangements with third party gaming and wagering providers based outside of Tasmania.
- For example, providing an internet portal from the Tasmanian gaming licence holder’s web site to the business partner’s website. An agent endorsement can be disallowed by the Gaming Commission if the business partner is considered to be an unsuitable person to be associated with.
- An agent endorsement is not required for arrangements with third party gaming or wagering operators based in Tasmania because the third party operator will already be licensed under the Gaming Control Act.
- Clause 13 Amends section 76W to clarify that a prescribed endorsement cannot be used to conduct an activity that would require a totalizator endorsement.
- Clause 14 This amendment clarifies that a licence can be for a longer term than 5 years under section 76Z, if it is provided for elsewhere in the Act (i.e. under s76ZEE). – this is the second totalizator endorsement only, which will be issued to the purchaser of the TOTE.
- Clause 15 This provides that in the case of the TOTE, it is authorised to transfer its licence to a wholly owned subsidiary of the TOTE. This may be a necessary step before the TOTE is sold, i.e. its subsidiary is sold.

Clause 16 This is required because the current legislation does not provide a process for varying an existing licence, only the conditions of a licence.

The Gaming Commission currently has to cancel and reissue a licence if a variation such as a change of address is needed.

Clause 17 This provides that when the Tasmanian gaming licence with the second totalizator endorsement (the licence issued to the purchaser of the TOTE) ends under section 76ZEE, the Gaming Commission cannot refuse to renew the licence unless there has been no breaches and the holder of the licence or its associates are suitable.

This is to give greater certainty for potential purchasers of the TOTE as the normal renewal process set out in section 76ZC does not state the reasons a licence would not be renewed.

Clauses 18,19,20 Repeals definitions and sections that relate to registered player exclusions for betting exchange operators and will now be incorporated into a broader "TGL exclusion" process in Div 7, subdivision 2 of this part, (i.e. the exclusions provisions will include all Tasmanian gaming licence holders such as a totalizator).

Customers that wish to self exclude from a venue (including a totalizator customer) can still do so under the existing exclusions provisions under Part 5 Div 3.

Clause 21 Inserts a new Part 4A, Division 5A relating to totalizator operations. The Division applies to a Tasmanian gaming licence with a totalizator endorsement.

Provides that on “changeover day” (the day the amendment Act commences) that the TOTE is deemed to hold a Tasmanian gaming licence (“the transitional licence”) with the initial and only totalizator endorsement. The TOTE is also deemed to hold an agent endorsement, a race wagering endorsement and a sports betting endorsement [s76ZED(1)].

Provides that the TOTE can transfer its licence to a wholly owned subsidiary of the TOTE with the approval of the Minister. (This may be required as part of the sale process). [s76ZED(2)]

Clarifies that the holder of the initial and second totalizator endorsement is not required to be a registered as a bookmaker and pay taxes under the *Racing Regulation Act 2004*.

Provides that upon a “terminating event” (the TOTE or its subsidiary is sold either by shares or as a business), a second totalizator endorsement can be granted by the Gaming Commission with the written approval of the Treasurer [s76ZEE(1)].

The second totalizator endorsement is for a 15 year exclusivity period. ( i.e. only one totalizator endorsement is granted for a period up until 15 years after the terminating event).

Clause 21 The exclusive totalizator endorsement is authorised under the Act for the purposes of the *Trade Practices Act 1974* and the *Competition Policy Reform (Tasmania) Act 1996*.  
(cont)

The Tasmanian gaming licence with a totalizator endorsement is granted for 50 years renewable for a further 49 years [s76ZEE (2)].

Provides for special conditions to apply to a totalizator endorsement similar to conditions that apply to a betting exchange endorsement that relate to the management of wagering funds, establishment of wagering rules and which rules can be disallowed by the Commission.

Provides that a totalizator operator must conduct programmed race meetings for race clubs (as currently occurs by TOTE as a service to clubs to enhance their special race meetings). A limit of 40 meetings is set, about 10 more than currently required. [s76ZEF(L)].

Provides for the holder of a totalizator endorsement to be entitled to commission (the take out rate from each totalizator pool) in respect of totalizator betting, up to a maximum rate as the Commission authorises. [s76ZEG]

Provides for the calculating and paying of dividends, and for the rounding of dividends as is current practice in all jurisdictions. [s76ZEH]

For example, under section 76ZEH(2), a dividend of \$1.32 has a fraction of 2 cents so the fraction becomes zero i.e. dividend rounded to \$1.30. A dividend of \$1.35 has a fraction of 5 cents so the fraction becomes 5 cents, i.e. dividend rounded to \$1.35. A dividend of \$1.38 has a fraction of 8 cents so the fraction becomes 5 cents i.e. dividend rounded to \$1.35.

In 2007-08, the amount of fractions retained by the TOTE under this method was \$4.4 million.

Provides that certain key employees and technicians of the TOTE or the purchaser of the TOTE are deemed to hold special employees or technicians licences for an initial 12 month period. [s76ZEI and s76ZEJ]

Provides for the TOTE's existing wagering equipment and systems to be compliant for an initial two year period and its control systems (operating manuals) for six months, or longer as prescribed. [s76ZEK and s76ZEL].

For the purchaser of the TOTE, the deeming period is 12 months for equipment and six months for control systems. A shorter period applies as the expectation is that the new operator will have existing systems that is likely to have already been assessed by another regulator.

- Clause 22 Inserts new heading Part 4A, Division 7, Sub-division 1 “General Protection”.
- Clause 23 Registered players of a Tasmanian gaming licence holder can establish self limits on the amount wagered. This is already in place for registered players of Betfair. [s76ZK]
- This provision gives the TOTE or its purchaser a transitional period of 12 months to establish the necessary software and systems changes before this requirement takes effect.
- Clause 24 Replaces the current exclusions provisions for Tasmanian gaming licence holders in the Act that currently apply only to registered players of betting exchanges [s76ZDH to s76ZDK] with the general provisions that will apply to registered players of any holder of a Tasmanian gaming licence, including a totalizator. [sub div 2 s76ZNA to s76ZNG]
- This provision gives the TOTE or its purchaser a transitional period of 6 months to establish the necessary software and systems changes before this requirement takes effect [s76ZNG].
- Customers that wish to self exclude from a retail outlet can do so under existing provisions under Part 5 Div 3.
- Clause 25 As an account can still be active even if no wager has been made for 2 years e.g. monies deposited or withdrawn. “If no wager has been recorded” is replaced with “if no activity is recorded”.
- Clause 26 Amends section 76ZR to define “prize” as including winnings so as to include, for example, wagering winnings from a totalizator.
- Clause 27 Inserts new section 76ZRA which requires unclaimed monetary prizes or dividends in respect of a Tasmanian gaming licence holder to be paid monthly to the Treasurer after a period of 6 months.

Clause 28 Inserts new sections 76ZZ, 76ZZAAA and 76ZZAAB to allow a Tasmanian gaming licence holder with a totalizator endorsement to establish approved outlets (i.e. TOTE's retail agencies such as in a hotel or a standalone shop) to accept wagers on behalf of the licence holder.

Rather than licence the outlets, the actions of an agent are taken to be the actions of a licence holder unless the licence holder has acted in good faith.

Disciplinary action under the Act that would apply to licence holder may also be brought against the agent for such matters "prescribed offences" i.e. providing credit, not enforcing rules, not complying with player exclusions provisions or accepting bets from a minor.

Approved outlets are allowed unless disallowed by the Commission (for example if the outlet or the agent is considered to be unsuitable). It will be a requirement to give 10 days notice to the Commission of an intention to open or close an outlet. A totalizator operator will have to give 3 days notice if there is a change in occupation of the premises.

Clause 29 Extends the ability to operate a trading account with debit and credit balances to a totalizator operator. [s76ZZAA]

Trading accounts are generally used by large customers that need to make large wagers at short notice to lay off bets for example.

The licence holder accepts any financial risk of enabling a large customer to operate a trading account.

Approval from the Gaming Commission is required to operate a trading account.

Clause 30 This provision clarifies that a licensed provider (which includes a totalizator) can give its registered players discounts.

Registered players are players that operate a wagering account with the operator.

Volume discounts are given to large customers of the TOTE on the take out rate (commission on turnover).

- Clause 31 Amends section 76ZZC to clarify a prohibition on special employee wagering only in the course of that employment applies only while the employee is on duty. Thereby allowing the employee to wager with its employer when off-duty.
- TOTE employees can already bet with TOTE whilst off duty and there are no grounds to restrict this under the Gaming Control Act.
- This is also consistent with employees of a licensed premises gaming licence holder (i.e. a hotel with gaming machines or Keno) where there is no restriction on gaming staff gaming while off duty. [s56(3)]
- Clauses 32 & 33 This provision requires that gaming equipment and control systems used by Tasmanian gaming licence holders must comply with gaming machine standards as set by the Gaming Commission. [s76ZZG and s76ZZI]
- Clause 34 Clarifies that the holder of a foreign games permit cannot conduct the activities authorised by a Tasmanian gaming licence.
- That is, a foreign games permit does not allow the permit holder to conduct a totalizator for which a Tasmanian gaming licence would be required with a totalizator endorsement. [s77J]
- Clause 35 Amends section 77V to expand the existing provision for the approval of certain contracts by the Commission to include licensed providers (any Tasmanian gaming licence holder's contracts including totalizator contracts).
- Approval is required to ensure fairness, probity and to ensure that any of the contract requirements would not be in breach of Act.
- This would cover contracts between the TOTE and its retail agents.
- Clause 36 Amends section 91 to expand the coverage of the Commission's power to establish rules to include any licensed gaming or wagering operator (including a totalizator).
- Clause 37 Amends section 92 to expand requirements relating to availability of rules to include licensed providers (any Tasmanian gaming licence holder including a totalizator).

- Clause 38 Expands the existing provision enabling the removal of persons from a venue by a venue operator to include retail outlets of a totalizator operator or an approved location of a Tasmanian gaming licence holder. [s99]
- This will cover approved outlets such as a TOTE retail outlet.
- Clause 39 Expands the existing provision enabling the detention of suspected persons in a venue by an inspector to apply to retail outlets of a totalizator operator or an approved location of a Tasmanian gaming licence holder. [s100]
- This will cover approved outlets such as a TOTE retail outlet.
- Clause 40 Expands the coverage of existing restrictions relating to minors under section 113 to include retail outlets of a totalizator operator or an approved location of a Tasmanian gaming licence holder.
- Clause 41 Amends section 125 to expand the functions and powers of the Commission to include the regulation of wagering activities.
- Clause 42 Expands the coverage of the existing provisions under section 127A relating to inspectors to include retail outlets of a totalizator operator or an approved location of a Tasmanian gaming licence holder.
- Clause 43 Amends section 130 relating to the entry onto premises by police officers or Gaming Commission inspectors to include retail outlets of a totalizator operator or an approved location of a Tasmanian gaming licence holder.
- Clause 44 Expands the coverage of the investigation of complaints under section 132 from patrons at a venue or premises to include retail outlets of a totalizator operator or an approved location of a Tasmanian gaming licence holder.
- Clause 45 Expands the coverage of the powers of inspectors under section 133 to include retail outlets of a totalizator operator or an approved location of a Tasmanian gaming licence holder.
- Clause 46 Expands the coverage of offences relating to inspectors under section 135 by including “wagering” in addition to gaming.
- Clause 47 Expands the provision that enables a betting exchange operator to keep records at a place other than at an approved location (for example in another jurisdiction if there are other premises outside of Tasmania) to all Tasmanian gaming licence holders (including a totalizator).

Clause 48 Corrects an incorrect reference section 77 should read section 77V.

Clause 49 Replaces the reference to a “fixed odds endorsement” to a “race wagering endorsement”.

Establishes an annual endorsement fee of 350 000 fee units (\$448 000 in 2008-09) for a totalizator endorsement.

Establishes an annual endorsement fee of 5 000 fee units (\$6 400 in 2008-09) for an agent endorsement.

Establishes a limit of 200 000 fee units (\$256 000) where both a sports betting and race wagering endorsement is held. This is to be competitive with other states in respect of corporate bookmaker licence fees.

In other cases other than above where multiple endorsement fees are held the endorsement fees are capped at 450 000 fee units (\$576 000).

For example:

Sports betting only - 200 000 fee units under s148A(a)

Sports betting and race wagering - 200 000 fee units (instead of 400 000 fee units) under s148A(f)

Sports betting and race wagering and agent - 205 000 fee units under s148A(f) and (dc)

Sports betting, race wagering, betting exchange and agent - 450 000 fee units (instead of 755 000 fee units) under s148A(g)

Waives the requirement to pay totalizator, race wagering, sports betting and agent endorsement fees in the case of the TOTE or its purchaser while a totalizator endorsement is held. [s148A(5)]

Clause 50 Repeals provisions relating to unclaimed winnings of Tasmanian gaming licence holders as this is now dealt with under section 76ZRA.

Clause 51 Amends section 150A by clarifying that taxation only applies where the section so provides. This clarifies that in the case of totalizator, race wagering and sports betting endorsements where no tax will be levied, section 150A does not apply.

Abolishes current taxation provisions relating to fixed odds and sports betting. (1.0 per cent of turnover for fixed odds and 0.25 per cent of turnover for sports betting).

Clause 52 Provides that betting exchange commission that is subject to the payment of the 20 per cent product levy under section 150AC is to be determined in regulations.

This is required to adjust the commission that is subject to the 20 per cent product levy in the case where the betting exchange operator is required to also pay a product fee or race fields publication fee to a racing authority for the same event.

Regulations are being prepared to commence when the Gaming Control Amendment Bill commences.

Clause 53 Establishes the requirement that a totalizator operator pay a fixed wagering levy of 4.7 million fee units or \$6.016 million per annum. (a fee unit is \$1.28 for 2008-09).

Payment of the wagering levy is each financial year.

The levy is pro rata if the operator commences the licence, or the licence ends, part way through a financial year.

If a licence with a totalizator endorsement is surrendered the Treasurer may provide a partial refund.

Clause 54 Repeals section 152 so it removes the requirement that revenue from a betting exchange operator is appropriated to the TOTE to fund the Tasmanian racing industry.

This severs the nexus between TOTE revenues and racing industry funding under the Gaming Control Act. A separate deed between the Government and the new Tasmanian Racing Board will be established for the Government to directly fund the industry.

Clause 55 Amends section 153A by replacing the reference to a "fixed odds endorsement" to a "race wagering endorsement" in respect of a gaming and wagering guarantee.

Exempts the requirement to pay a wagering guarantee by the TOTE while the TOTE is a government owned business.

A wagering guarantee is required in the case of race wagering and sports betting as there is a potential risk the operator can make losses on these products.

Clause 56 Repeals the regulation making powers relating to the guarantee provided by a betting exchange operator to make up any shortfall in funding to the racing industry because of the impact of the betting exchange operations on TOTE's funding.

This regulation is not required as funding will no longer be provided by TOTE, rather be provided directly by the Government.

Provides for regulations to deal with any transitional arrangements if required (such as in connection with bringing TOTE under the Gaming Control Act).

Clause 57 Inserts in Schedule 5 of the Act a transitional provision that deems a Tasmanian gaming licence with betting exchange endorsement to also hold an agents endorsement.

This allows Betfair to continue participation with any existing agent arrangements on commencement of this Act.

Clause 58 Repeals the *Racing (Totalizator Betting) Act 1952*. The Act that currently regulates TOTE's wagering activities; and

Repeals the *TOTE Tasmania (Racing Regulation) Act 2004*. That Act sets out TOTE's current funding obligations to the Tasmanian Racing Board.

## **APPENDIX 1**

The Committee took evidence from the following:

- Mr Tony Murray, General Manager, Racing Services, DIER
- Mr Paul Bullock, former Chair of Greyhound Racing Tasmania
- Mr Max Walker, former Deputy Chair of Greyhound Racing Tasmania
- Ms Denise Fysh, Chair, Hobart Greyhound Racing Club
- Mr Colin Howlett
- Mr Don Challen, Department of Treasury and Finance
- Hon. Michael Aird MLC, Treasurer and Minister for Racing
- Mr Kevin Ring, Secretary, Australian Jockeys' Association (Tas)
- Mr Terry Clarke, former CEO, TOTE Tasmania
- Mr Craig Coleman, CEO, TOTE Tas
- Ms Robyn Wishaw, Armidale Stud, Carrick
- Mr Kevin Neilson, Manager, Tasmanian Racing Board
- Mr Philip Swinton, President, Thoroughbred Breeders Tasmania
- Mr Graeme Russell, Former Chairman of the DRC
- Mr Walter McShane, President, Australian Trainers Association (Tas)
- Mr Tony Jeffries, North-West Coast Harness Racing
- Mr Robert Biffin, CEO, Tasmanian Turf Club
- Mr Neil Herbert, Chairman of TTC
- Mr Geoff Harper, Chairman, Tasmanian Racing Club

and a number of other witnesses who gave evidence privately.

## **APPENDIX 2**

The following papers were tabled:

- Sale of the Dampier to Bunbury Natural Gas Pipeline
- Dampier to Bunbury Pipeline Act 1997

Bullock, Walker, Fysh

- Newspaper Article – *'Racing industry "misled" over Tote sale decision*
- Tote Tasmania – Industry Funding

Mr Howlett

- Letter to Hon Minister of Racing dated 12/1/09

Ms Whishaw

- Australian Racing Board – *study on the size and scope of the Australian Thoroughbred Racing industry*
- Economic Impact of the Tasmanian Racing Industry – October 2007 – Final Report

Mr Jeffries

- Racing industry representation to the Legislative Council – 27 February 2009

Mr Harper

- Tatts Group – *TOTE Tassie for sale Research Paper*
- Oaths Act 2001 – *Statutory Declaration by Hon Michael Hodgman QC MP 17/3/09*

Mr Craig Coleman

- Report - Review of the Tasmanian Racing Industry's Governance Structure – 31/10/08

Various private emails and letters.

### **APPENDIX 3**

#### **THE JOINT STANDING COMMITTEE ON ENVIRONMENT, RESOURCES AND DEVELOPMENT MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART, ON FRIDAY 6 MARCH 2009.**

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**Mr ANTHONY MURRAY**, GENERAL MANAGER, RACING SERVICES, DEPARTMENT OF INFRASTRUCTURE, ENERGY AND RESOURCES, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** (Mr Hall) - Tony , I think that you have given evidence to parliamentary committees before so you are aware of privilege so I do not need to go through that. Thank you very much for appearing today. You have our terms of reference which is to inquire into the proposed sale of TOTE Tasmania by the Government of Tasmania and the old catchall of any other matters incidental thereto. I would like to invite you to make a presentation to the committee and then I would ask committee members to ask any questions they feel relevant.

**Mr MURRAY** - Mr Chairman, I have very little to say in my opening other than to clarify my role. I am the General Manager of Racing Services Tasmania. I am also appointed to the statutory role of Director of Racing under the Racing Regulation Act. My primary role is that I am in charge of, responsible for, the integrity of racing in Tasmania.

**CHAIR** - That is all you would like to say at this stage?

**Mr MURRAY** - Yes.

**CHAIR** - Are there questions from members of the committee to Mr Murray?

**Mr HARRISS** - In those roles which we understand you hold, Tony, in terms of integrity, probity and the like, can you describe to the committee what your beliefs are as to the sale of TOTE versus retaining TOTE in public ownership and the impacts that might have from your perspective one way or the other?

**Mr MURRAY** - From my role under the act, that is the integrity of the racing industry, I have no direct jurisdiction over the operations of a wagering operator such as TOTE. So I have no real opinion in terms of the integrity in terms of the sale because it does not currently come under my jurisdiction. Regardless of if there is a sale or not it still would not come under my jurisdiction so it will not affect the manner in which I do my business or my area of responsibility.

**Mr HARRISS** - So what cross-pollination, if any, then between your roles, your organisation, as to probity/integrity do you have with TOTE particularly given that wagering is one of the areas within any racing industry, no matter what code, that can be compromised?

**Mr MURRAY** - Under the act I have no responsibility or jurisdiction under TOTE. The only way there would be some cross-pollination is, for example, stewards from time to time may seek some information from a wagering operator in relation to activities on a particular race. If the question is the cross-pollination between my role as director of racing and the governance of TOTE, there is no cross-pollination

**Mr GUTWEIN** - Just to clarify that, in regard to matters of integrity with TOTE as it currently stands, you have no role or responsibility whatsoever?

**Mr MURRAY** - No, I do not.

**Mr GUTWEIN** - Who does?

**Mr MURRAY** - At this stage I think it is better asked of Mr Coleman. My understanding is that it falls within the realm of a cross between self-regulation and some form of relationship with Treasury, although I think the minister has indicated that TOTE may well come under the Gaming Control Act - I think he is looking at that into the future. That is more appropriately a matter for the minister.

**Mr BOOTH** - Have you had discussions with the minister, the Treasurer or anyone in government regarding the proposed sale?

**Mr MURRAY** - In relation to the proposed sale, no.

**Mr BOOTH** - So no-one has talked to you about it at all?

**Mr MURRAY** - No, the only discussion I had was when the minister called me aside at the Devonport Cup this year - which, from memory, was 7 January - and advised me that the next day he was going to announce the sale of TOTE. That is the first and only conversation he has had with me in relation to the sale of TOTE.

**Mr WILKINSON** - How long have you been involved with TOTE, Tony, in your current position?

**Mr MURRAY** - I was appointed in August 2003, so five-and-a-half years.

**Mr WILKINSON** - How long have you been involved in the racing industry?

**Mr MURRAY** - I have been involved in the racing industry for 23 years. Up until now it has been a regulatory role in New South Wales across the Department of Gaming and Racing. I was a TAB agent for a little while and I worked in Harness Racing New South Wales as racing manager and deputy CEO. I have worked generally in racing regulation for a period of approximately 23 years.

**Mr WILKINSON** - So it would be fair to say that you have a good understanding of the racing industry?

**Mr MURRAY** - I would hope so.

**Mr WILKINSON** - Was that understanding of the racing industry at all tapped into by the Government in order to ask whether they should or shouldn't sell TOTE?

**Mr MURRAY** - No.

**Mr WILKINSON** - Not at all?

**Mr MURRAY** - No.

**Mr WILKINSON** - Were you aware of any conversations prior to, say, 4 December in relation to selling the TOTE?

**Mr MURRAY** - We went through a restructure process last year, from August through to November or December. During that restructure process the matter of the sale of TOTE was raised at the forums we conducted.

**Mr WILKINSON** - When were the forums?

**Mr MURRAY** - There were two main workshops: one was at Bellerive on 26 September and one was at Launceston on 1 October at the racetrack, so we had two workshops for the whole of the industry.

**Mr WILKINSON** - And part of the workshop time was spent on whether TOTE should or shouldn't be sold?

**Mr MURRAY** - No, the workshop was involving the restructure of the industry. There was a presentation by myself on integrity matters, a presentation by Mr Coleman on commercial matters. It was facilitated by Global Value Management and they had various sessions within the workshops. One of them was about the issues confronting the industry at the moment and some persons at each workshop raised the possible sale of TOTE.

**Mr WILKINSON** - Was the Treasurer there?

**Mr MURRAY** - No, he was not.

**Mr WILKINSON** - When whoever it was raised the possible sale of TOTE obviously that was spoken about, whether it should or shouldn't be sold.

**Mr MURRAY** - There was some general discussion. Mr Coleman was looking after the integrity matters and in his response - and again I am only going from memory - he said something along the lines of 'TOTE is not currently for sale'.

**Mr WILKINSON** - Are you aware of any business case that has been prepared in relation to the sale of TOTE?

**Mr MURRAY** - No.

**Mr WILKINSON** - Have you seen any business case?

**Mr MURRAY** - No, I have not.

If I may, Mr Chairman, I didn't finish Mr Booth's question. He asked me had I had any conversations and I was discussing those workshops. During those workshops and during the consultation the issue of TOTE being sold was raised and was also raised in the media. At that time I had a private conversation with Mr Coleman and asked him, 'What is going on here?' and he said words to the effect, 'It has always been my belief since taking over the role that TOTE would

be better in private hands'. He also made a comment to the effect, 'TOTE could be sold regardless of this restructure'. Then we followed up from there and basically said this restructure is not about the sale of TOTE. I asked him that question privately and he said no, the restructure is about a whole range of other issues and challenges facing the industry. We returned to the focus of progressing with the consultation for the restructuring ultimately to make a recommendation to the minister. That is the only conversation I had in terms of the sale of TOTE.

**Mr WILKINSON** - Does the restructuring make it easier to sell TOTE?

**Mr MURRAY** - Mr Coleman's advice to me was no.

**Mr BOOTH** - Did you get the impression that Mr Coleman's view was that it would be sold regardless?

**Mr MURRAY** - No, from my recollection I cannot recall him saying that, no.

**Mr BOOTH** - When the Treasurer told you on 7 January that it was to be sold, can you detail that conversation?

**Mr MURRAY** - He just called me aside and said, 'Just to let you know I am going to announce tomorrow the intention to sell TOTE'.

**Mr BOOTH** - What was your reaction to that?

**Mr MURRAY** - I said to him words to the effect, 'The perception of the industry will be the restructure was about the sale of TOTE'. He responded to me with words to the effect, 'Well, it wasn't, Tony, it was to do with all these other issues we had to deal with'. I said to him, words to the effect, 'That is my understanding and I approached the restructure along the lines it was needed for the racing industry and had nothing to do with the sale of TOTE'.

**Mr BOOTH** - Did you ask him what day he woke up in the morning and decided to sell TOTE, like what that process was?

**Mr MURRAY** - No, I did not, it was a very brief conversation.

**Mr BOOTH** - You must have been somewhat shocked, without putting words in your mouth.

**Mr MURRAY** - I do not think that shocked is the word. I have worked for government for the last 23 years and governments of the day of whatever political persuasion are entitled to make policy decisions. I have seen governments of all persuasions make all sorts of decisions, so I really have no reaction to it other than to appreciate the fact that he had told me before it was publicly announced.

**Mr BOOTH** - Given the undertakings that they had made during the consultation in Hobart and Launceston, it is completely opposed to what people were advised at those meetings. Is that correct?

**Mr MURRAY** - At those meetings, as I said, Mr Coleman, answered the questions along the lines TOTE was not for sale. My understanding is that at that time it was not for sale. Again, it is probably a question to ask Mr Coleman.

**Mr BOOTH** - Yes, I am just trying to see if there was any other indication of how long they had been intending or what the process was, whether there was some other consultation.

**Mr MURRAY** - Not with myself and not to my knowledge.

**Mr GUTWEIN** - Mr Murray, with regard to the conversation, you indicated that you had a private conversation with Mr Coleman during the process that was occurring last year. Was either on either of those dates, the 26 February the forum in Hobart or the October one in Launceston?

**Mr MURRAY** - It was separate to those two. It was when the matter became quite relevant within the media.

**Mr GUTWEIN** - Can you think roughly when that was?

**Mr MURRAY** - Some time between those two dates. I cannot put dates on it but there was some front page back page news/allegations about it and it was at that stage that we had a private conversation.

**Mr BOOTH** - You saw those reports so did you phone him?

**Mr MURRAY** - I did not specifically make an appointment to see him it was just at the time were we preparing for the next presentation or meeting I raised it with him. My concern was it was taking the focus off what we were trying to do. This restructure was really important for the future of the Tasmanian industry. My concern was that the media attention on TOTE and the focus on TOTE were taking away from the real purpose of the restructure.

**Mr GUTWEIN** - Whether you are prepared to answer this or not, you said, I think, that you have around 23 years' experience in the racing industry?

**Mr MURRAY** - That is correct.

**Mr GUTWEIN** - Do you have an opinion as to whether or not the sale of TOTE, taking it away from government ownership and placing it in private hands, would be a good thing or a bad thing for the industry?

**Mr MURRAY** - From a professional viewpoint my role is that of integrity, regulation. I do not have the full facts or the full knowledge of what it would possibly bring to the industry. From a professional viewpoint, I do not think that I have enough information to make an informed comment. From a personal viewpoint, I will make two comments. As I said earlier, I believe the Government of the day is entitled to make decisions in relation to assets, but I also think the racing industry of the day, under these circumstances, is entitled to seek some guarantees from government in terms of future funding.

**Mr BOOTH** - What about from a probity point of view? You mentioned that you do not have and role in probity arrangements within TOTE and its currently government enterprise. From that point of view, I guess the implication is that you are satisfied or you do not, in fact, have to look. Do you see that there is a threat in the future, or even currently, in terms of the potential for race rigging or other probity issues, particularly if it fell into private hands, that an owner could get inside information about the size of the pools or other information that would

not be generally available or to manipulate races by the commissions and so forth?

**Mr MURRAY** - Race rigging in itself would not fall under the domain of TOTE. A wagering operator's pools, for example, are public knowledge. Anyone can go into the Internet at any stage. If we are rigging, stewards are in charge of race meeting. That is my area of expertise. We look after the integrity of racing, and whether TOTE be in private or public hands would not impact on the way that we ensure that racing is conducted with the highest level of integrity.

**Mr BOOTH** - Would you not see that integrity or probity issues would be any different whether it was in private hands or in the current arrangements?

**Mr MURRAY** - Not for the conduct of racing, no.

**Mr GUTWEIN** - I am wondering, Mr Murray, if you have a view on the type or length of guarantee that might be required under a sale. Obviously the industry benefits to the tune of tens of millions of dollars. In fact, I think the chairman's report indicated \$23 million to \$25 million in the last year alone. If a sale were to proceed, those guarantees, what time frame would you think was reasonable?

**Mr MURRAY** - I think that is a matter properly for the racing industry itself. I would not offer a view. One could argue a whole variety of time periods, but it is not a matter for which I have the current knowledge or expertise to offer a fully informed opinion.

**Mr WILKINSON** - You did mention your personal view was that if it was to be sold there should be some guarantees. What guarantees should be given?

**Mr MURRAY** - I said my personal view, just for clarity, was that the racing industry should be able to negotiate some form of guarantee in terms of future funding levels. I would assume the racing industry needs some guarantees for surety into the future. Then I suppose you come back to the current situation. They already have some guarantees through the legislation of what TOTE has to pay the industry and so it comes down to what guarantees they would have under a sale as opposed to without a sale.

**Mr WILKINSON** - Are you throwing the ball by saying that there should be guarantees? I am trying to find out what guarantees. I know you are probably in a difficult position.

**Mr MURRAY** - It is not my area of responsibility or expertise. Things we are talking about are stake money, breeding schemes and programming race dates. None of that is under my current area of jurisdiction or responsibility. I do not think it is appropriate that I make a comment because I do not have all the information and I am not fully informed.

**Mr WILKINSON** - Who do we ask?

**Mr MURRAY** - I would suggest that Mr Coleman or the racing industry itself obviously is appearing before the committee, so I am sure they will have some ideas to provide the committee.

**Mr BOOTH** - Given your experience in the industry outside of the probity arrangements, your history in the industry and as a personal comment, not in

your role as director, what would you say could be the consequences on the industry if there were not those guarantees, hypothecated, if you like, or part of the legislation in terms of sale inquiry requiring some prescribed levels of support? For example, if an owner decided to simply not provide any support, what would the consequences be in your view?

**Mr MURRAY** - Obviously the racing industry depends on funding but we need to understand that the change in the landscape of wagering throughout Australia and internationally means that racing has to become more self-sufficient. We need to be exploring other market to sell our products - for example, Asian markets. The racing industry traditionally has relied upon guarantees, upon handouts through TABs and arrangements through governments more so than ever before. The racing industry must learn to fend for itself and seek other sources of revenue. That is one part of the revenue and the guarantee but they also need to go out and source other areas of revenue. That is what this restructure was all about and that is why I think it is really important to go through the reason for the restructure. The racing industry has never faced so many challenges. We look at corporate bookmakers, betting exchanges, race fields legislation, the breakdown of the gentleman's agreement - traditional sources of revenue are being usurped by new sources of revenue through race fields legislation, selling your product overseas, trying to gain sponsorship and so on. There is a whole range of things facing the racing industry. The guarantee through a TAB or government is but one area. The racing industry must learn to be more self-sufficient. This restructure about taking away from the three code councils and putting into one professional Tasmanian racing board was about meeting the challenges facing the industry and being able to promote and maximise the revenue back to the industry, which wasn't possible under the old structure.

**Mr WILKINSON** - The restructure was done with consultation with all the bodies in the industry, wasn't it?

**Mr MURRAY** - Yes. As I said, Mr Coleman and I held two workshops, one in the north and one in the south. We met with the three code councils, we held individual meetings with clubs and associations as required, so there was an extensive consultation before we went through.

**Mr WILKINSON** - So there was extensive consultation with the industry itself before it went through?

**Mr MURRAY** - Yes, there was.

**Mr WILKINSON** - And you believe that that was important?

**Mr MURRAY** - Yes, it was essential.

**Mr WILKINSON** - Why do you believe it was important?

**Mr MURRAY** - I think in any sphere of endeavour, whether it be government or private, you need to take the views of your stakeholders into account before you make any significant changes to a structure.

**Mr WILKINSON** - Would you suggest that there is a significant change in that now TOTE, if it is to be sold, is going out of the hands of government into the private sphere?

**Mr MURRAY** - No, I don't think it makes any difference. My concern with the talk about the TOTE sale during the restructure was that it was going to take the industry's eye off the real issues. The restructure, certainly from my viewpoint, had absolutely nothing to do with the sale of TOTE.

**Mr WILKINSON** - I hear what you're saying. You may have misunderstood the question. I accept what you are saying, that there was extensive consultation had with the industry prior to the restructure. Let's give it a tick. The reason for that is because it was necessary to keep the stakeholders informed as to what was taking place. In relation to the proposed sale of TOTE, would you accept that the stakeholders weren't spoken to, weren't kept in the loop, as they were kept in the loop with the restructure?

**Mr MURRAY** - They are two separate issues. In terms of the restructure, which was under my joint control, we made sure that there was extensive consultation. I am not aware of any consultation the minister has or has not had. All I am aware of is his announcement of the proposal to sell TOTE. I am also aware that that is dependent upon being passed by both Houses of Parliament, hence this committee will be given the opportunity to hear the views of industry. I am not aware; I can't sit here and say I am aware of the consultation that has taken place.

**Mr WILKINSON** - But you would be aware whether some consultation had taken place? I have had an extensive involvement in sport in a number of different fields. When I was in one field I was aware of what was taking place in another field just with the general conversation that flows. When I was in charge of Football Tasmania, I was aware of what the players were thinking because of general conversations that take place after a game or in the world of football at the time, likewise cricket or swimming. Are you really saying that you are so insulated in your position that you are not aware whether conversations were taking place with stakeholders in relation to the sale of TOTE or not?

**Mr MURRAY** - I am not aware of any conversations with stakeholders in relation to the sale of TOTE.

**Mr BOOTH** - I am not actually conceding that there was agreement in full knowledge by the industry codes to the racing restructure but setting that aside, is it a fair thing to say that the agreement that you achieved ultimately for a restructure was based on the understanding of all of those participants in the consultation processes that in fact TOTE would not be sold? Had the Treasurer announced they were going to sell TOTE during that consultation, what I am suggesting is that the outcome might have been different in terms of an agreement.

**Mr MURRAY** - That is a hypothetical question, which is difficult to answer. All I can say is that when we went to the workshops there were a number of issues raised and within the report of the workshops the sale of TOTE was but one of a number of issues. I think even in the report it prioritised the issues in terms of the ranking from the opinions of the workshop. Again, from memory, TOTE certainly wasn't high on the list; it wasn't number one, from memory. My point is that there was a whole range of other issues which the industry acknowledged - and I went through them before. Hypothesising, it is difficult to know whether the industry would have been any different. I think what they were seeking at the workshops was some assurance of future funding if TOTE was sold rather than questioning whether TOTE should be sold.

**Mr BOOTH** - Who owned it, basically?

**Mr MURRAY** - The future funding. What they were saying as an issue at the workshops was - and again this is just from memory - not will TOTE be sold or not, but what guarantees will we be provided if TOTE was sold? So to hypothesise and answer on the basis that there are some guarantees for future funding if TOTE was to be sold, I don't think it would have changed the opinion of the industry in supporting the restructure.

**Mr BOOTH** - However, I suppose then a corollary of that is that any sale would need to provide exactly the same levels or greater support into the future indefinitely than they already get through the current arrangements. Submissions that people have put to me are generally based around the culture of racing being destroyed as a result of changed arrangements. The Asian racing situation, for example, is raising some serious concerns in regard to the culture of racing.

**Mr MURRAY** - In my 23 years in racing the most difficult thing to do in the racing industry is to change culture. The racing industry are the most wonderful people you can ever come across but they're very much traditionalists and racing is very much based on tradition and that is how it should be. It is very hard to change the culture of people. I would think, hypothesising, if TOTE was sold and the guaranteed levels of funding met with the approval of the industry and were at least as good as would have been the case if TOTE were not sold, I think the industry would move on fairly quickly and focus on what the real issues are and that is the challenges facing the industry.

**Mr BOOTH** - So you would see that important, that the funding arrangements be locked into a sale arrangement effectively, some form of support guarantee?

**Mr MURRAY** - I don't know in which form it would come. I think the industry is entitled to some guarantee of future funding.

**Mr BOOTH** - But whether it comes through government or a sale arrangement -

**Mr MURRAY** - I can't really offer an opinion.

**Mrs RATTRAY-WAGNER** - Mr Murray, do you believe that had the Government of the day - and I appreciate you said they have every right to make policy decisions - waited until the new structure of the racing industry was bedded down, so to speak, this would have been a more palatable proposed sale?

**Mr MURRAY** - I will be very selfish and say I would have preferred a greater period of time. The restructure was about putting a structure in place to quickly face the challenges and get resolutions on a number of issues. It is a really important time for racing. This is a very personal and selfish view because I think the restructure was very important in its own right. I repeat: the Government of the day has its right to make an announcement and make a decision on any matter under its area of responsibility, so I am certainly not criticising the timing, I am just stating my personal view.

**Mrs RATTRAY-WAGNER** - Do you believe that the new board format has had time to settle into its new role?

**Mr MURRAY** - They are on a very steep learning curve, there's no doubt about that. They are doing a very good job initially. They are out there consulting with the industry. The chairman of the new board, Don Abell, in my opinion is doing an excellent job. He is engaging the industry, he is understanding the industry. It is early days but I have nothing but optimism for the future of the role of the new board.

**Mrs RATTRAY-WAGNER** - So with that board engaging with the stakeholders and industry players obviously this particular process is taking away from what they might well be concentrating on?

**Mr MURRAY** - I would have thought that they are just moving ahead with the job at hand. That is as they should be. In terms of the transitional arrangements under the restructure, the funding, the budget is as it was previously up until 30 June. No doubt they are developing their strategic plan and their future budgets and all those types of things. My understanding is and my belief would be that it would be business as usual from their viewpoint.

**CHAIR** - Are there any further questions to Mr Murray?

**Mr BEST** - In camera I would like to ask some questions.

**CHAIR** - The committee will now move in camera. I would ask everybody apart from the committee and people involved if they would move to out the back again and we will proceed as soon as that is done.

**Mr PAUL BULLOCK**, FORMER CHAIR, GREYHOUND RACING TASMANIA, **Mr MAXWELL WALKER**, FORMER DEPUTY CHAIR, GREYHOUND RACING TASMANIA, AND **Ms DENISE FYSH**, CHAIR, HOBART GREYHOUND RACING CLUB, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

**CHAIR** (Mr Hall) - Thank you very much. I understand you are all appearing on behalf of the greyhound industry and I do not know whether any of you have given evidence before a parliamentary committee before. However, I will talk about privilege and restrictions on reporting so that you are clear on that. Everything you say to this committee is protected by parliamentary privilege. This is to allow you to speak freely. However, once you have left this committee room I must advise you not to specifically discuss your written or verbal evidence with anyone until the committee has made its report to the Legislative Council. You are free to speak generally about any issue to anyone but please do not refer specifically to anyone about the evidence you give to the committee until a report has been published on this.

I now invite you, whoever is the spokesperson, to talk and remind you to keep in the back of your minds all the time that we have specific terms of reference and that is the proposed sale of the TOTE Tasmania by the Government of Tasmania and any other matter incidental thereto.

**Mr BULLOCK** - Mr Chairman, first of all I would like to thank you very much for hearing us today because I was not available next week and to your secretary for fitting us in today. Thank you very much.

**CHAIR** - It is a pleasure.

**Mr BULLOCK** - I know some of the members, particularly Peter Gutwein. I have known Peter a long time, since he was a kid playing football. It is nice to see one familiar face here.

I will give a bit of the background because I don't reckon many people really know me. I started in racing in the early 1950s with my father working horses on St Marys Pass, which was gravel - the road from St Marys to Conara then was gravel, so it was a long time ago. Racing has always been part of my life. Unfortunately I did not have enough money to get into horses so I got into the next best thing, which was greyhounds. It was a pleasure to get involved with greyhound racing and the people in the industry. I owned, trained and bred for a period of 40 years and then I got involved in the administration in 1989 with the Launceston Greyhound Racing Club and was chairman in 1990. I then worked for the Racing Authority, as it was in those days when Michael Martin came from New Zealand, as the racing manager for greyhound racing. I looked after the Hobart club when they had their licence taken off them. I also took over Devonport when they handed theirs in. Mr Caylee became the chairman of the authority and we were worried about Devonport continuing. My suggestion to the authority at that time was to convert to a day meeting and get Sky Channel, if possible, and to race every week of the year if possible.

Around 1999 or 2000 I was elected to the greyhound council and I have been a member for the last nine years. Three of those years I was deputy chairman to my colleague, Max, and the last three years and when the council was wound up

on 31 December 2008 I was chairman. One of the things that the council has done with the clubs - Denise is here today and is the chairman of Hobart - we have made sure that the clubs through the council are viable. Each club has received somewhere between \$76 000-\$80 000 a year to make sure they have made a profit at the end of the year.

When I went to the work meetings that the Director of Racing, Mr Murray, and the CEO of TOTE, Mr Coleman, presided over, along with John Lennon from his organisation, we were given a guarantee that TOTE would definitely not be sold. When the announcement came some seven days after the councils had been wound up, I am certain that people such as Bruce Freeland, Dick Bertram, Doug Martin - who were the instigators of the Tasmanian Totalisator Board which came into effect in 1973 - probably turned over in their graves.

For those who aren't racing minded, if they go back through the history of racing in New South Wales and Victoria, TAB was introduced to wipe the SP bookmaker in the local pub out of business, if possible. In New South Wales the result was enormous because they have a large population, and so has Victoria. The bookmakers, in my opinion - and I worked for two or three of them in Launceston over a period - were leeches. They took everything and put nothing back. Here we had an opportunity to have something for Tasmania that was going to put something back into racing. I can still remember the late Bruce Freeland saying at the time, 'This will really be good because we are going to appoint the Premier as one shareholder and the Treasurer as the other'. That has been the ploy ever since 1973. I believe that the Director of Racing and the CEO of TOTE either didn't know that the minister had intentions of selling TOTE or were accomplices for the workshops of getting rid of the councils to enable them to sell TOTE. I would say our code, and having spoken to the other two codes at recent meetings in Launceston in two previous weeks, it has got to the stage now that we don't trust the minister. That is a pretty defaming statement, I know, but we don't trust the minister.

One of the problems we have had with all of it is that there has been no consultation with the three codes, no consultation with racing and we have not seen a business plan. Anyone running a business usually has a business plan. This bloke just says sell. We might get \$30 million from somewhere and in today's economic climate we do not think that is on. So we are very disappointed, we have an industry where there are 3 000 people involved, we have a greyhound industry where we race three times a week and distribute probably \$40 000 a week in stake money and if we have not got that \$30 million, and it is no good saying we have a guarantee, because that money might not be there with the economic climate we have at the moment.

We are going to be up so and so in the boat. It will just be damn hopeless. We have got a milking cow in what is now TOTE Tasmania because of the change in the name sometime back but at the moment they are almost guaranteeing us an income for racing.

We do not wish to go to the Government of the day and say look we know you have got education and we know you have health and we know you have got roads and we know that you have got police et cetera, but we really want \$30 million.

Because the Government are likely to say to us sorry this year you can only have \$21 million. Or only \$18 million. With TOTE Tasmania we have got at

least a guarantee at this stage of having enough money to do what we are doing at the moment.

The greyhound industry at this moment, and this is only from my point of view and I may be biased because I am the former chairman of the council, we have three clubs with \$200 000 each in their bank account, we have a council that gave the new racing board around about \$200 000 to do the job plus another \$55 000 for promotion.

I wish the new person replacing me at the Tasmanian Racing Board all the very best. He has a huge job in front of him to represent greyhound racing with very little knowledge of administration but very good on welfare. They have dropped him really in the soup because I do not think that the new board knows where they are going.

That is with all due respect to those seven people that have been appointed. I really believe that if we want to do our best we need to retain TOTE Tasmania. Otherwise I can see racing being shot in the foot. The spin-off from racing is huge.

We race three times a week which means people travel three times a week, they pull into service stations three times a week, there are a new set of tyres three times a week, there is a mechanic somewhere that needs to work on their car. It is a huge employer. We look after the farmers with disposal of stock et cetera.

If we have not got TOTE and we have not got the income to race for what we are racing for now people will drop out of the game. The other thing is that if there are less meetings, if trainers can only race once a week like the gallops do half the people in our industry will drop out simply because they need to be able to compete twice a week and by having three meetings a week there is a chance that you can race twice a week and get an income.

Otherwise we are dead in the water. If you people cannot see that maybe you should not do the job you are doing. I will pass over to my Deputy Chairman.

**CHAIR** - I might just ask you a question first. I hear what you are saying and I will be the devil's advocate first up. In other jurisdictions, that is in other States, TOTE has been privatised. In South Australia I understand it has been done rather poorly, in Victoria it is working quite well and it has opened up new opportunities. Now if the industry, such as yourselves, were enshrined in legislation some guarantees how would you view it then?

**Mr BULLOCK** - Mr Chairman, if you listen to the chairman of the thoroughbred breeders in Victoria, in 2012 they will be \$40 million to \$80 million worse off. And they have all the guarantees in the world.

**Mr BOOTH** - It is pokie guarantees, isn't it?

**Mr BULLOCK** - Yes, it is pokies and Tattersalls who aren't allowed to have the licence anymore. If another body put their hand up and say, 'Yes, we want to take it over', the first thing people want is the money for their shareholders. It is not really good when you pick up the *Examiner* and you read that Tattersalls have made \$143 million profit and they are looking at buying TOTE Tasmania. When it has not been through Parliament, it has not been discussed with the

industry, there is no business plan and you say, 'Please put your hand up and support it' it is not on!

**Mr BOOTH** - Thank you, Paul. I want to drill down into what you said that you were guaranteed at the meetings. Presumably that was the Hobart one on 26 September and Launceston on 1 October. Are they the meetings?

**Mr BULLOCK** - Yes, and there was a follow-up meeting at Campbell Town which I could not go to but Max did go to and the guarantee was given again.

**Mr BOOTH** - In what form was that guarantee given?

**Mr BULLOCK** - It was given in writing. In the last handout that was given out at Campbell Town it was given out in writing that TOTE will not be sold.

**Mr BOOTH** - Do you have a copy of that which you can give the committee?

**Mr BULLOCK** - No, but I am certain that the place and people who have put together a nice brochure for the MLCs have got it and will supply it at a later date, but it is available.

**Mr BOOTH** - Would the greyhound racing industry, in your view and the combined view perhaps here, have supported the industry restructure had you known that TOTE was going to be sold?

**Mr BULLOCK** - There is nothing wrong with change. Getting change right is the problem. Personally and I do not speak on a personal level, Kim, because we have not discussed it, I was quite pleased to not be involved anymore because I have just had a quadruple bypass and I was looking to lay down the tools. But we had a survey back in October that we put out to see how the industry felt. I do not have that with me today but the industry was 50/50 whether we should have the council or not. I do not think the majority of our code or the other two codes understood exactly what their code councils were doing and that is probably our fault rather than the industry's fault.

You are aware with the people you have dealt with in all codes, but we have a lot of people in each code that their education is not the greatest. Some of the kids who work as stable hands and kennel attendants et cetera, do not want to go to school. It is the only place they can find a niche in life. So therefore their education standard is not greatest and they say, what do we have these people for? It is like me saying, what do we have the Legislative Council for. I am pleased they are there but a lot of people are not.

*Laughter.*

**Mr WILKINSON** - Keep talking.

**Mr GUTWEIN** - The lower House shares your view.

**Mr BULLOCK** - They probably do, Peter. But, seriously, I have been involved in a couple of organisations, and Peter knows only too well that I started the Junior Football Association in Launceston back in 1973. I used to write a page, and this is digressing a bit, for the *Sunday Evening Express* and I had a cartoon drawn up by one of the guys. We had the kids in around playing with a big steel fence around with the parents outside and sometimes you feel the same about

greyhound racing. I wish we could keep them out there and just race the dogs because you really struggle at times to understand the mentality of some people.

From my point of view, the council did its job. It was not always liked by everybody but we did our job to the best of our ability.

**Mr GUTWEIN** - You said that, under TOTE, you are guaranteed income each year. How does that work and what arrangements are currently in place?

**Mr BULLOCK** - We get 16.9 per cent of the profit and whatever else is dished out by Betfair. TOTE, of course, handle the Betfair money. Last year there was \$4.75 million of Betfair money distributed to the three codes and then they must have done a little bit better than people thought because we received another \$93 000, probably a couple of months into the season. We had a reduction previously because we thought the previous Premier, Mr Lennon, handled the money badly when he gave so much to the interdominion and just about robbed harness racing right throughout Australia. This made it very difficult, where at one carnival that was in South Australia they had to hold a whole lot of heats in Melbourne, otherwise they could not afford it.

The money that we have received every year has increased slightly. It has been by CPI. Last year I think we received \$48 000 from TOTE out of the TOTE profit, additional to what we had previously. We received another \$93 000 from the Betfair money which was additional. Then TOTE paid a \$125 000 bonus to each code. I can give you the figures for that because, unfortunately, the greyhound council in 2006 through freedom of information applied to get the actual figures from TOTE because they didn't want to give them to us. I can give you a copy of that today.

We have done our very best to pay out as much as possible. In the last 12 months we had paid out 79.81 per cent of our allocation. We had used about 20 per cent for administration. Everything that could possibly be pay out to the industry and the participants has been paid out. We have never had a problem with TOTE as such as they say, 'This is your lot'. We have to work with what we have. We have never been in a position to argue that we want a bigger share. We have told them on several occasions we want 19.6 per cent, or 20 per cent if we can get it, but we have always finished up with around 16.9 per cent of the total pool. This year we will pay out about \$2 360 000, including our administration.

The clubs themselves - and Denise is very heavily involved with the Hobart club and is doing a very good job - with the administration of the money et cetera are in a situation where they get 3.55 per cent of TAB on-course and off-course turnover of a Thursday night. The clubs get somewhere between \$80 000 and \$90 000 because the council has always paid the salary of the racing manager, which is around \$56 000. He manages all three clubs and does all their bookwork, works with the accounts and makes absolutely certain that every dollar that is spent is accounted for.

**Mr GUTWEIN** - How many people are involved in dogs in the State?

**Mr BULLOCK** - I can't give an exact figure, Peter, but there are 600-odd involved registered, but of course we have a lot of hangers-on as well. There are a lot of people involved as silent partners in greyhounds, as they are in horses et cetera.

We have a lot of people who help out at home who aren't registered. My guess would be there are somewhere between 700 and 1 000 people involved.

**Mr WILKINSON** - When you say 'involved', what do you mean?

**Mr BULLOCK** - Helping with training, cleaning kennels, cleaning yards. A lot of people are voluntary and help catch dogs. A lot of people go to maybe Brighton or the straight track at Mowbray - they can't go there any more because TOTE controls it - but we have always had people put their hand up to help out somewhere. Racing is a social industry and people forget that racing is really about bringing people together. The Launceston Cup carnival might not have been as good as it has been in the past but it gets people together and it is a day out. Greyhound racing is a very social industry. We just had the greyhound dinner at Mowbray in February and there were 190 people there. Getting 190 people to anything of a night socially is very difficult, as we all know. You have been involved in football, it has dropped off a bit to what it used to be. I have been involved in football with North Launceston and Beauty Point. It is not quite what it could be today but racing is very social. All three clubs have their social side of living in hand and care about it.

**Mr WALKER** - I have been involved since 1971, trying to train and breed dogs. In the late 1970s I became chairman of the Greyhound Owners, Trainers and Breeders Association. Back in those days it had a bit of punch, we conducted things for the Hobart Thousand. There was always a bit of feeling between the owners and trainers and the HGRC because if they blackballed you you couldn't become a member. They had a bit of power then. I left the Hobart area and went to Dover so I wasn't so involved with administration but I became involved in the late 1990s by becoming the Deputy Chairman of the Racing Council for three years. I came back on as chairman for three years and, at that time, I represented Tasmania on the Greyhounds Australasia which meant meeting every three months, overseas, in New Zealand or each of the other States and from time to time. I stepped down from that job and let Paul have a crack at it, and I have been the deputy chairman since that time.

I, like Paul, became involved with greyhound racing because, while I was always a bit of a punter, it was too costly for me to be involved in horses, and I thought I had given up football, which I didn't, but I needed the exercise for another 10 or 12 years. I have always taken the position of an underdog and I think that fits our situation very well because we have been the underdog in the three codes for quite a while.

One thing that Paul probably did not stress as much as he could have is the fact that we do not trust the administration. One of the reasons we do not trust them is the fact that back in 1999 Paul Lennon came to us and said, 'Look, get rid of your so-and-sos running this show and we will put some extra dollars in your pocket'. What was done was we dropped from 19.7 per cent to 16.9 per cent out of the total allocation. It went on from there.

**Mr GREEN** - When was that?

**Mr HARRISS** - In 1999.

**Mr WALKER** - We have been battling from that every since. When the Betfair money came around, we went from 16.9 per cent to 9 per cent for a time. When the big trots episode was on, we were duded again. We were able to prove our

case, I thought, and they said, 'Oh well, yes, we can bridge you up to 19.7 per cent but it has to be new money. We can't take it off the other codes'. We have been told lies along the way.

Tony Murray said today that they had two meetings - we had three meetings. It was supposed to be consultation. The first two might have been. We had agreed to meet on a Friday, what happens? They want to put us on on a Thursday night when they know jolly well that people couldn't attend because they have their dogs to race on a Thursday night so two of us went to Campbell Town. Therese Kingston, who was my co-speaker at the time, asked Mr Murray, 'Why are we meeting on a Thursday night? We'd been promised a Friday when everyone could come'. His reply was, 'Well, I'm sorry, Therese, but most of them couldn't come on Friday', so he put it on Thursday night. She had the audacity to get up and ask, 'Who at this meeting can't attend tomorrow?'. There was one fellow out of the whole meeting.

We have been duded all the way through and so it is easy for us to understand why we think that we are getting shunted again. We do not believe Michael Aird for one minute. We were told on 15 December there would be no sale - this is members of TOTE, of course - and we find three weeks later, 'Oh, she's up for sale, fellas'. We cannot believe him for a minute.

I am happy to answer any questions.

**CHAIR** - Thanks. We might move on to Denise, if you want to have a few words and then we will ask questions.

**Ms FYSH** - I have only been in the administration of the club for about six years, but I would like to go back to the question that Mr Booth asked of whether we would have had the same thoughts to splitting racing and wagering had we known in the beginning, that TOTE was for sale. I know from my perspective we would not have supported it until a great deal of discussion was had on the sale of TOTE.

I believe that the industry was deceived by the Government during those workshops inasmuch as it seems obvious now that TOTE was going to be sold at the time of those workshops because the only way you could achieve the sale of TOTE was to separate wagering and racing. I believe that we were deceived that it was better for the industry should that be divided when in fact it was done so TOTE could be sold. Otherwise the announcement would not have been seven days after the new board started.

So I agree, and I think that the industry as a whole agrees that we have been deceived by this Government, that we have no trust in this Government and any guarantees that the Government at this point is going to say they will give, we have no trust in.

I think that there are a lot of areas that need to be brought forward. It cannot be done because nothing has been discussed with the industry re the sale of TOTE. We have to look at our breeding, we have to look at our training facilities, we have to make sure that in the long term these things are going to be addressed; that enough money is there to make sure that the facilities can grow so that the industry across the three codes can grow. But until there is some discussion with the industry I do not think that the Government would ever get any support for the sale of TOTE Tasmania.

**Mrs RATTRAY-WAGNER** - I am aware that there is an agreement that when the Betfair fund exceeds \$5 million that the greyhound arm of racing will actually get up to that 19.7 per cent. Can you tell me what sort of agreement, is it a written agreement?

**Mr BULLOCK** - There is not an agreement in writing. We discussed it with the acting CEO of the new racing board, Mr Lottering, at the time, and Van Ransley who does not work there anymore. We discussed it with them and they said we will consider the 19.6 per cent. A lot of things that are done in racing are not exactly written all the time.

I am probably at fault but I have always taken peoples word on a handshake. Obviously it does not work a lot of the time. And after one person who is in this room was on ABC Radio at 10.45 a.m. I do not believe him either. Because he treated today as a joke. A great laughing point for Mr Best on radio. The sale of TOTE at 10.45 this morning.

**Mrs RATTRAY-WAGNER** - So there is not an actual written agreement?

**Mr WALKER** - There was an understanding given, Tania, that that would take place and as I said earlier it was to be on any new money not the allocation that would have gone back. So if TOTE makes a heap of money we were promised 19.7 per cent of the surplus of what they would have considered normal and anything from Betfair as well.

**Mrs RATTRAY-WAGNER** - But not what you would consider a formal agreement as well.

**Mr GUTWEIN** - In regard to any consultation since 7 January with your industry by the Government has any occurred?

**Mr BULLOCK** - None whatsoever.

**Mr GUTWEIN** - Has anybody spoken to you at all about any consultation coming forth?

**Mr BULLOCK** - Not from the Government's point of view. The three codes met in Launceston three weeks ago today and Chester Bullock and Joel Wallace from the pacing, Pam Cassidy and myself from greyhound racing and Mrs Wishaw from Armidale Stud had a meeting on the Friday. We had a follow-up meeting with five of the MLCs who live in the northern part of the State last Friday re the sale. And if you want their names I am quite happy to provide those. There was Don Wing -

**CHAIR** - We are aware of those.

**Mr BULLOCK** - We have had a couple of meetings. I was very impressed with Mrs Wishaw's soapbox in the *Examiner*. For those people who have not read it, there is a copy available here if you require it. That is it in a nutshell. The whole industry, it is not just greyhound racing, the whole racing industry is absolutely disgusted with the contempt that the Minister for Racing has shown towards the industry.

**Mr GUTWEIN** - May I ask you a question? You have said that you do not trust the minister -

**Mr BULLOCK** - I do not trust the minister, Peter, because not only has he lied and said TOTE will not be sold, but the people who are out there -

**CHAIR** - Order. Have to be careful about casting aspersions there in that regard.

**Mr BULLOCK** - I believe that the minister has lied. That is me. Sorry, I say it as I see it and I believe that the people who were working for him, the Director of Racing and the CEO of TOTE who done the workshops et cetera, if they knew TOTE was going to be sold, they lied. If they did not know, they were led astray by the minister.

**Mr BEST** - For fear of leading with the chin.

**Mr BULLOCK** - No, I am not.

**Mr BEST** - No, me, not you. I am interested and there is no double edge here. With your code, how often do you meet, just together, do not worry about the political aspect of it, just as a group to discuss issues?

**Mr BULLOCK** - We meet every month as a council right up until the end of December. Since then, as far a statewide thing goes, no, we have not. Gary Sutton from Devonport and Pam Cassidy from Launceston were in Launceston with the MLCs. Denise, unfortunately, was not there and Denise's partner trains greyhounds and it is not easy to get everywhere you want to be at certain meetings. I reckon she has done it pretty hard to get here this morning.

**Mr BEST** - No, that is fine. I am interested, though, because we have heard quite a bit about the views of interest versus business and the social aspect you spoke quite in depth about. As a code you must have some policies about some of these issues that you have written down?

**Ms FYSH** - What issues?

**Mr BEST** - Issues about how you see, moving forward, how you see yourselves in terms of business and how you see the social aspect?

**Mr BULLOCK** - One of the things that happens, and Max and Denise are in the same position as I am, I go to two greyhound meeting a week most of the time. Over a period of nine years I think I know almost everybody in the industry by their first name and they all know me. If they have a concern they have usually come to me when I was deputy chairman of the council and expressed their opinion and I have taken it back to a meeting where it has been discussed with the council and the clubs. We have had club and council meeting in Campbell Town et cetera to get the feel of the industry. That is personal consultation. That is the best we can do and I think that is the way it should be done in this instance and it has not been done.

**Mr BEST** - Finally, what is the collective view that you take?

**Mr BULLOCK** - The collective view of greyhound racing is not to sell TOTE.

**Mr BEST** - Okay.

**Mr BULLOCK** - The other issue is, had we had some consultation and a business plan we may not think that way but we have had nothing.

**Mr GREEN** - It flows on pretty well from what was just said really because what we are talking about today is the potential sale of TOTE and knowing that sale of TOTE has to go through both Houses of Parliament. So, consultation with respect to business plans and all of the other things associated with that will have to satisfy members of Parliament prior to it being sold.

The issue that I want to put to you is whether or not, given that it is likely that a position to ensure that the industry is looked after financially into the future, would be legislated and if it was, would the code then be satisfied that the industry therefore would be looked after on into the future and could look to build on the existing infrastructure et cetera that you have?

**Mr BULLOCK** - My answer is that irrespective of what happens we are prepared to look at anything but, for God's sake, please present something. Talking to accountants is probably the right thing to do in a business to sell it if it is worth money. Knowing the fickle industry of racing and the present Government we have, of which you are a member, we do not know.

**Mr GREEN** - It is fair enough for you to suggest that, and you have every right to do so, but I would say that from the Government's point of view we are taking industry very seriously and have always tried to ensure that the industry moves forward. If the sale of TOTE ensures that the industry has the opportunity to move forward, would the code be satisfied with that and focus on the issues associated with racing, et cetera, and doing all the other things that you enjoy doing?

**Mr BULLOCK** - I could not exactly answer for the industry.

**Ms FYSH** - It would also depend on how that was structured and where we sat within it, and what was available within that for future development of the racing industry. I would like to ask, was that decision to sell TOTE a knee-jerk decision that happened overnight because I just find it incredible that a government could do that? Is it good business practice to make a knee-jerk reaction overnight to sell TOTE Tasmania?

**Mr GREEN** - You are not asking me that question because I am not in a position to answer the question. What I am trying to put back to you is that if all of the things that you are concerned about with respect to the longevity of your particular code were satisfied as part of this process overall, would your code move on and concentrate on all of the things that you are good at, concentrating on running the greyhound meetings and so on?

**Ms FYSH** - I do not think we are going to have an option there. The alternative is what - that you will not sell TOTE?

**Mr GREEN** - We may not and we may not get the price, who knows?

**Mr WALKER** - What is the price?

**Mr GREEN** - I don't know.

**Ms FYSH** - Exactly. We do not seem to know a great deal except that the Government wants to sell it.

**Mr WILKINSON** - Am I right in saying that the real concern I can see over the last half hour is the lack of communication and that things were said which turned out to be not correct, that is that the Government was not selling then suddenly it was? I suppose it is a bit like being put on a plane and not knowing where you are going to. If you knew where you are going to you might say, 'Yes, I like that place, that's where I want to be', or, alternatively, 'No, I don't. We're going to get into trouble if we finish up landing there'.

**Ms FYSH** - But if you knew where you were going you may never have boarded the plane to begin with.

**Mr WILKINSON** - Yes, that is what I am saying.

**Mr BEST** - Sorry to interrupt, my question was really about the plane that you want to get on.

**Mr BULLOCK** - It would be absolutely lovely, Brenton, to have a look and say, 'Yes, we do' or 'No, we don't'. Seriously, most organisations that I have been wrapped up in do that first and then ask you for an answer, not say, 'We're going to do it' and then we have to argue about it.

**Mr BEST** - I take that point and I have that message loud and clear. What I am interested in is how you, as an organisation, see yourself moving forward. I hear what you have said, you do not want the sale of TOTE, but I am keen to know what strategies you see that will enhance, say, the interests, business end and the social end for yourselves. That is what I am keen to know about.

**Mr BULLOCK** - This is a difficult one. I think Craig Coleman, since he has been the CEO of TOTE, has done an outstanding job by getting the Betfair deal on-line with turnover, et cetera. I do not have a problem there. They are not bad people and I am not against them personally, but the whole issue is - and this is the bottom line all the time for me but it may not be for the other two people who are here because we have not been coerced to give you the one answer - there has been no consultation, there is no business plan, no-one wants to talk about it. It does not matter which politician you ring at home, 'Look, there's going to be a hearing in Hobart'. What is the problem? Let us talk about it because we will never get it fixed if we do not talk about it. What Jim says about communication is correct.

**Mr BOOTH** - What I am interested in is you have clearly said that you are opposed to the sale, is that because you think the culture of your industry will collapse, basically be ruined, if it proceeds? Is that the risk that in fact you will lose your industry as a result of the sale?

**Ms FYSH** - It is definitely a risk but until we see something on paper we do not know how big that risk is or where on the ladder the greyhound industry is going to sit. How far under the other two codes are we going to sit? South Australia is a glaring example of how to get it wrong. They have fought for 10 years to get back on their feet.

**Mr BOOTH** - Are there other intangible benefits that flow as a result of government ownership of TOTE at the moment that are not included in the stakes and

bonuses and so forth, so whatever you provided to the industry that would be part of that like access to the training facilities, say, or facilities generally that might be taken away by a private operator or a charge imposed?

**Ms FYSH** - We are still trying to get our head around the new structure. We are very early into the new structure and trying to get our head around who now has responsibility for this trial track or that race track or where to go for particular funding. We are still trying to get our heads around this. On top of that, there is this. It is difficult to bring the two together.

**Mr BULLOCK** - There are a lot of issues in our industry that need attention. I believe, and according to some administrators, there is a problem with the Brighton training track that part of it is going to be taken away for soccer. I do not think there is a lease to the place. I know that the Launceston Greyhound Racing Club still has not signed heads of agreement for Mowbray and they have been there since 2004, that is five years ago.

**Ms FYSH** - Hobart has not either.

**Mr BULLOCK** - These are all little administration issues that no-one seems to get to because they do not want to discuss it.

**Ms FYSH** - And no-one knows whose job it is.

**Mr BOOTH** - Is it a lot more than just the stakes?

**Mr BULLOCK** - Yes, a lot more.

**Ms FYSH** - It goes a lot deeper.

**Mr BULLOCK** - The stakes are part of it and that is thing that concerns us with the sale of TOTE, but there is maintenance and track maintenance.

**Mr GREEN** - What about Sky Channel?

**Mr BULLOCK** - It is a huge problem, Bryan, because at the moment I think TOTE and Sky Channel have signed an agreement up to the end of June. There is some doubt about Hobart staying on Thursday nights because it has become first track of the pay packet when everything can come in for nothing. It is where Sky Channel and the two major players, Victoria and New South Wales, once again, can get a product in that is not costing them anything, race field legislation and fees for buying their product. Tas TOTE will have to buy from New South Wales and Victoria what they are going to bet on. It is a whole changing world. Mind you, some of this was created by Greyhound Racing Authority of New South Wales originally -

**Mr GREEN** - Does it have an impact on potential dividends?

**Mr BULLOCK** - Yes, it does.

**Mr GREEN** - Changes on Sky can impact on your dividends overnight.

**Mr BULLOCK** - That's right.

**Ms FYSH** - Even down to how much time they allot you. If they do not give you a couple of minutes running into your race your turnover can be down \$10 000 or \$20 000 and you are talking a minute.

**Mr BULLOCK** - The other issue is that you are getting to is that if Hobart was taken off Thursday night and put on Tuesday morning there is going to be a huge downturn -

**Mr GREEN** - There is.

**Mr BULLOCK** - in TAB turnover. I understand that fully. I have discussed it with Sky Channel, I have discussed it with TOTE Tasmania.

**Mr GREEN** - Does Sky make those decisions or is it part of the -

**Mr BULLOCK** - I think Sky are dictating to the industry everywhere in Australia.

**Mr GREEN** - Yes.

**Mr BULLOCK** - The other issue with that is it is only New South Wales by Tabcorp. They always show the New South Wales races irrespective thereof and the rest are fill-ins. It is interesting to note that Victoria and New South Wales have the same number of programs on each occasion, the other States are just -

**Mr BEST** - I am interested in that you know a lot more about greyhound racing -

**Mr BULLOCK** - No, I do not.

**Mr BEST** - Where would be the top three or four places in the world for greyhound racing? Are we one of them?

**Mr BULLOCK** - Australia is one of them.

**Mr BEST** - How would you rate it if, as you said, Australia is one?

**Mr BULLOCK** - There is no doubt.

**Mr BEST** - What are the others?

**Mr BULLOCK** - Ireland, United Kingdom, America, Macau, Vietnam, Sweden and New Zealand. I went to New Zealand about 12 months ago and could not believe how far in front of us they are with stake money. The minimum stake in New Zealand is \$2 900 and they are there by default with their screening of a Sunday afternoon. No-one wanted to race Sunday afternoons so they did and their TAB turnover went up something like 78 per cent. Just as now everybody wants to get on Thursday nights and Sundays in Australia with Sky Channel, the little people are getting forced out of the game.

The other thing is, since the mines have folded in Western Australia, TAB turnover has gone down something like 43 per cent in the last two months and people in Western Australia were buying greyhounds from the eastern States, to race over there, that were miners and those miners have either lost their job or they have come back to the eastern States and some of those dogs have gone by the wayside.

**Mr BEST** - So out of that, just a quick answer. Where would be the most turnover or the most betting out of those places that you have named?

**Mr BULLOCK** - I think, population wise, probably the United Kingdom.

**CHAIR** - Thank you very much for presenting. You have done that with passion and I think we have heard it loud and clear. I must just remind you again, though, that what you have said in here is protected by parliamentary privilege. However, it is a different matter outside that door. Thank you very much to the three of you and we will keep going with our hearings.

**Mr BULLOCK** - Once again, Mr Chairman, thank you for hearing us today because I would not have been available next week.

**THE WITNESSES WITHDREW.**

**Mr COLIN HOWLETT WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.**

**CHAIR** (Mr Hall) - Colin, you are aware of our terms of reference. I think you may have given evidence to a parliamentary committee before, and you heard what I read out in regard to parliamentary privilege. Are you okay with that?

**Mr HOWLETT** - I understand, Mr Chairman.

**CHAIR** - Okay. I will ask you to make a presentation.

**Mr HOWLETT** - Mr Chairman, unlike my former colleagues, I will read most of my notes. Unfortunately I do not have enough money to own a greyhound, a harness racer or a galloper. So that is my position.

**Mr GREEN** - I fly pigeons.

**Mr HOWLETT** - I am thinking about flying pigeons, Bryan. If you tolerate me reading this, it is in two parts.

**CHAIR** - That is fine.

**Mr HOWLETT** - I have written a letter to the Minister for Racing which I would certainly like to share with you.

Objection to the sale of TOTE Tasmania. The three racing codes in Tasmania provide significant employment to a broad range of individuals involved in small businesses, including tourism, in this State. Historically, the three codes of racing provide socioeconomic benefits to rural communities who are unable to provide the diverse job opportunities in more populated areas.

We wish to submit that private enterprise's first obligation is to its shareholders and not to the individual owners providing the product. Many examples exist where governments have forced transfers of ownership of publicly-owned enterprises and pledged its intervention would provide improved economic and customer service.

In many instances when governments decide to sell a public profitable enterprise it has a pecuniary interest to prop up a poorly managed budget. We wish to submit that in the case of the proposed sale of TOTE Tasmania the Government must be accountable to the industry shareholders and in any sale contract must make provision for realistic, long-term finance (indexed) for the infrastructure, breeding and prize money.

**Mr GREEN** - Excuse me Colin, when you say 'we' who are you talking about? Are you talking about the general public?

**Mr HOWLETT** - I am talking about many people in the greyhound industry and I am talking about -

**Mr GREEN** - But you say 'we must' as if you are representing a committee or somebody else. Are you on your own?

**Mr HOWLETT** - I am representing life members of the greyhound industry; I am representing many people who are unable to come along and attend the meeting today.

**Mr GREEN** - You are saying that we must be satisfied -

**Mr HOWLETT** - Do you want to discredit my attendance?

**Mr GREEN** - Not at all. I am asking the question whether you are representing yourself or representing another group because it sounded as though you were talking about a committee or somebody else who -

**Mr HOWLETT** - I am talking about the racing code and if you let me go through the entire process, you will probably learn more of where I am coming from.

**Mr GREEN** - Fair enough, Colin, go right ahead. I was only trying to help.

**Mr HOWLETT** - There is a little heading 'Sustainability for the greyhound industry'. Historically the greyhound industry has been treated as the poor relation by governments over many years. And I have heard that repeated and inferred many, many times this morning.

The TCA on the Hobart Domain accommodated greyhound racing and training activities for a long period of time until the racing authority/Government needed additional reasons to spend significant funds to upgrade the harness racing track at the Royal Showgrounds at Glenorchy.

The racing authority was keen to secure funds for the harness racing and training facility at the Royal Showgrounds, however, they needed additional justification to obtain government funds. Eventually all greyhound activities accommodated at the TCA ground were transferred to the Royal Showgrounds.

No say, similar to what is proposed at the moment. The transfer of greyhound racing to the Royal Showgrounds presented many challenges linked to infrastructure and many difficulties relating to the shared facilities.

People who are in the operational side of greyhound racing would be able to share those challenges with you with lures breaking down, boxes not working properly, track disintegrating to the point where race meetings had to be postponed and all those sort of challenges. And that is the intent and the spirit of what I am saying about challenges.

Subsequent to the greyhound racing and training being transferred to the Royal Showgrounds the southern Tasmanian component of the greyhound industry incrementally lost its independence and became more reliant on outside influence.

That statement is purely focused towards the Government. The greyhound code had more sustainability at the old TCA grounds because they had an independent lease arrangement with the principle of the TCA and in many respects people would argue that they had more future there had they not been manipulated and taken away from their principle home.

For numerous reasons some greyhound participants preferred to use privately-owned training facilities. However, over time the privately owned facilities in

southern Tasmania disappeared. Thirty years ago there would have been 10 to 12 privately-owned training facilities for greyhounds, some of which were registered with the national body. My family had the first semi-circular track at Richmond registered during Mr Morgan's administration at the TCA ground. You had to go through a process there to go the tracks registered but that was one particular track. Many others were registered under the national greyhound regime.

Greyhound Owners, Trainers and Breeders Association was active in asking the Government to provide funding to commission and operate a much needed straight and circle greyhound training facility. Again, we were unsuccessful in obtaining funding. However, the GOTBA was mindful that the racing authority was starving the industry of infrastructure facilities and without alternative training facilities the greyhound industry would not be sustainable.

The following events have been documented and are in a separate briefing covering the GOTBA and the Howlett family providing funding for developing two training tracks on crown land at Brighton. The events over the past 23 years regarding the intent and spirit of the industry, which was intended to be a 99-year lease occupancy for the greyhound code, of approximately - and there is debate about whether it is 11 hectares or 12 hectares, but it is in that area of ground - 11 or 12 hectares of ground at Brighton which adjoins the horse training facility at Brighton. It is on the south-eastern end of the trialling facilities for harness racing and gallopers. Our understanding is that it is still under the one title. Historically the greyhound industry has not had the influence of other codes and in many respect has been handicapped from the provision of sustainable infrastructure. The racing authority, to the best of our knowledge, has not put money into training facilities other than on the proper principal racecourse venue.

Sometimes under difficult circumstances our participants have struggled to remain in the industry, which makes a significant contribution to the Tasmanian economy. Following large sums of money being spent on the horse training complex at Brighton, TOTE Tasmania is currently mowing grass on the straight greyhound track at Brighton. To the best of the greyhound code industry that is about the only dedicated money off the racing track proper that has been provided.

Employment and downstream benefits - racing authorities must recognise that the three codes of the racing industry provide significant employment throughout rural Tasmania.

Financial support for the other industries - historically governments have provided financial support for industry employment, however there is little evidence of the three industry codes receiving recognition in the same way. In fact, it is extremely difficult to access individual greyhound industry infrastructure programs which would support sustainability.

Essential tools required for a sustainable future for the greyhound industry - to provide sustainability the Government must enter into a legal contract providing a 20-year blueprint plan acknowledging that greyhound racing is an industry and future allocation of funds to be indexed to CPI for the provision of infrastructure, stake money, which must be fair and equitable and be performance-based.

The reason we say that is that is the greyhound, as I understand at this very moment, from a betting point of view, is producing a very significant amount of

betting revenue to TOTE Tasmania. In fact, it is getting very close to the galloping code.

The greyhound code must be provided with a fair percentage of revenue produced from betting turnover which must be divided into infrastructure, development and stake money. The allocation of funds must be tied, indexed and distributed to an independent group delegated by the code to represent the entire participants.

The Joint Standing Committee on Environment, Resources and Development are requested to reject the sale of TOTE Tasmania, based on not being in the best interest of the industry and the Tasmanian economy.

I certainly would like to be questioned on some of these things but, in the end, I thank the committee for providing me with the time to produce this.

**CHAIR** - Thank you, Colin.

**Mr HOWLETT** - I have a letter here that went to the minister.

**CHAIR** - Do you want to table that?

**Mr HOWLETT** - Do you want me to table it rather than read it?

**CHAIR** - Yes, you can table that, if you wouldn't mind.

**Mr HOWLETT** - This deals entirely with the Brighton fiasco with land. Mr Chair, there are two or three additional copies here if any individual member would like one.

**CHAIR** - Thank you.

**Mr GUTWEIN** - Colin, I am sorry I missed the first couple of minutes of your presentation. You mentioned that the greyhound code needs a 20-year blueprint and that under that there would be provision made for infrastructure spending for stake money etcetera. You said that it needed to be performance-based; I am wondering what you meant by that and how that fits in.

**Mr HOWLETT** - The reason we say that is simply that governments will say that they cannot guarantee revenue from government to government. In our view, it would be quite simple if it was performance-based, providing the Government is not permitted to run down an industry and that is the way it appears at the moment. As I said, and I am repeating myself, the greyhound code has no influence, politically or otherwise, or it doesn't appear to have had any influence over the years that I have been involved.

I was a long-life member of the Greyhound Owners, Trainers and Breeders Association and some 23 years ago I had seven or eight years involved with the association. That is how my family and I became involved with Brighton because we knew it was absolutely essential. If it is performance-based, and the Government is not allowed to run down the code, which it appears it is doing at this very moment, providing that is treated fairly from a performance-based point of view, I think we are talking about revenue earned from betting. At the moment the greyhound industry is producing very close to the amount of money that the gallopers are producing, well in excess of the harness racing. I think it could be very close to a photo finish between the amounts of money that the galloping

code and the greyhound code are producing in revenue. The argument would be that if they do not perform and they are treated fairly - and that will have to change because they have never been treated fairly - they would be quite happy to have it performance-based on betting turnover.

**Mr GUTWEIN** - That is fair enough.

**Mr HARRISS** - I want to go from the back of that. I want to know, Colin, do you have the statistical data to support that statement that you are getting close to the contribution that the gallopers make?

**Mr HOWLETT** - I do not have it here but I am sure I can access it for the committee.

**CHAIR** - If you could do that, thank you. You can provide that to the secretary when you can.

**Mr BOOTH** - Colin, thank you for your statement so far. What do you see as the threats if TOTE were privatised? Where do you see the greyhound industry being in the future?

**Mr HOWLETT** - Without being facetious, at the moment we getting our grass mowed on the straight track, which was provided by private money, and the Government absolutely did not, to my knowledge, put one cent into that. So the pluses are, at the moment, that TOTE Tasmania has been good enough to have the grass mowed on the straight trialing track at Brighton. That is a plus. We have made the evaluation that there is a better risk that TOTE Tasmania will treat the industry fairer; if we can prove to the politicians that we are not being treated fairly, we think there is a better proposition with the TOTE.

Needless to say, at the moment, at the Brighton Council the Government seems to be running a coordinated effort to incrementally squeeze the greyhounds out of the Brighton trialing facility. It is questionable whether, in fact, what the Brighton Council is doing is fair and reasonable from a planning perspective because, as I understand, that entire 11-12 hectares that we speak about is annexed as one title to the Brighton training complex. When the straight track went in there and the circle track was put in there, we were told that we did not have a planning problem because that section of ground, that 12 hectares, was already zoned for training purposes.

**CHAIR** - Colin, I think we need to move back to the core issue that we are here for today and it is about the sale of TOTE. I understand that is an issue that you have.

**Mr HOWLETT** - With the greatest respect, Chair, it is linked very closely to the sale of TOTE. If you rule differently I will have to accept that but I would think you are being a bit hard on me if you say it is not linked.

**Mr BOOTH** - Chair, for confirmation, it was following from a line of questioning about the effect of the sale. What Colin is detailing is a general support in the industry, off-track and on-track. I think it is relevant in terms of what I asked him.

**Mr HOWLETT** - The facility up there is extremely important for the future sustainability of the industry, for training, for people who want to use the facility to get the best performance out of their product for race nights. A lot of people do not like training their product on the track on which they race. I do not

understand the technicalities but they will tell you and I can provide that information if you so desire. It is absolutely imperative that the racing code does not lose that 12 hectares of land that was originally intended.. We were duded. I have heard comments here earlier where I believe the industry was duded, because when we went in there the intent and spirit was that we had a 99-year lease on that 11 or 12 hectares of land, which was growing white wattles at the time.

**CHAIR** - Okay, I understand the nexus.

**Mr BOOTH** - Do you think the total aggregated industry as whole would be able to come up with a blueprint for the future in terms of your funding needs, support, and infrastructure to maintain your present culture?

**Mr HOWLETT** - I am absolutely certain they could come up with a business plan. The answer to that is, yes, we can. But on past performance, I would not like our chances.

**Mr BOOTH** - So there is a lack of trust in what the Government -

**Mr HOWLETT** - There is a local trust. As I say, it is unfortunate but the greyhound racing code has never had the interest, really. Geoff Pearsall was the only elected member that I can remember who took an interest in greyhound racing. It was about the time he was minister that this took place at Brighton - 23 or 24 years ago.

**Mr BOOTH** - In terms of a privatisation and sale of TOTE, the areas that you would lose out on would be generally the off-track support that you are currently getting, off the racing track support?

**Mr HOWLETT** - Private enterprise is generally interested in bottom lines and unless there is a very robust legal contract, there is no way. You only have to cast your mind back to other public enterprises that have been sold. It is always said it has been for the benefit of the customer but it generally does not turn out that way. There is the lack of trust. There is the lack of previous support. There is the lack of private money being spent to provide these facilities that are now being eroded.

**CHAIR** - Thank you. Are there any further questions to Colin? Do you have a closing statement, Colin?

**Mr HOWLETT** - I thank the committee for hearing me. I plead with members of the Legislative Council not to pass this bill to sell TOTE Tasmania unless there are long-term legal and binding contractual arrangements to protect us. In my view, the galloping code will be okay. They have the right doors to open and they will be okay. I am very concerned about, to a lesser degree, the harness racing and the greyhounds, and the greyhounds are the ones that always miss out.

**Mr BEST** - A long-term contract for funding for the codes; is that what you are saying?

**Mr GUTWEIN** - That is a blueprint you are talking about, is it?

**Mr HOWLETT** - I am talking about a proper strategic plan with objectives to keep the industries, with particular reference to the greyhounds, vibrant and robust and producing revenue for the State of Tasmania.

**Mr BOOTH** - You feel that the obligation of Government, before they consider a sale, is to make sure they consult with you, get that blueprint, look at it and factor in whatever arrangements are made?

**Mr HOWLETT** - Absolutely.

**CHAIR** - Thank you.

**THE WITNESS WITHDREW.**

**Mr DON CHALLEN**, DEPARTMENT OF TREASURY AND FINANCE, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** (Mr Hall) - Welcome, Mr Challen. Don, you are well aware of our terms of reference and that is the proposed sale of TOTE by the Government of Tasmania and any other matters incidental thereto. I will hand over to you if you would like to make a statement and then you can take some questions from the committee.

**Mr CHALLEN** - I thought it might help if I made a brief statement outlining the structure and process that the Government has in mind in relation to the restructuring of the industry around TOTE and the sale. Members of this committee would be aware that some legislation has already been before the Parliament last year, and is now in place, that had the effect of separating the funding of the racing industry from the gaming operations of TOTE. That legislation established the Tasmanian Racing Board, which is now in place. It has left the TOTE as a business that is entirely focused on its gaming activities. Apart from that, the status quo hasn't changed and in particular the nexus that exists in the existing legislation between the income of the TOTE business and the funding of the racing industry has not changed.

The Government has in mind to bring two further pieces of legislation before the Parliament. One will be a set of amendments to the Gaming Control Act and the other will be a piece of legislation authorising the sale of the TOTE business. The amendments to the Gaming Control Act will break the funding nexus between the income of the TOTE and the racing industry. That will be replaced by a direct funding arrangement under which it is proposed there would be a funding deed, a legally-binding agreement between the Crown and the Tasmanian Racing Board. That will become the basis for the funding of the racing industry in the future. In addition, these amendments to the Gaming Control Act will provide for the licensing of the totalisator activity that is undertaken by the TOTE at present and bring the TOTE within a regulatory framework that is identical to the framework that other operators in the gaming industry are currently subject to. The mechanism we have in mind to do that would be the creation of a new totalisator endorsement under a Tasmanian gaming licence. If you are familiar with the Gaming Control Act, it creates a number of endorsements under Tasmanian gaming licences. There will be a new one for a totalisator licence and the TOTE will initially be deemed to hold one of those. Obviously there will be the usual structures of taxes and fees that go with the endorsements under the act but beyond that the entire suite of regulatory infrastructure that applies to all other gaming activities will then apply to the TOTE, or ultimately after the sale to a private operator of the TOTE. So we are moving from a regulatory framework in which the TOTE has been subject only to self-regulation to bring them under exactly the same regulatory model that applies to all other operators.

The legislation for the sale of the TOTE will be pretty familiar to you; it will just have the standard requirements that are necessary for us to get a business sold. And once we have the suite of legislation in place the plan is then to go through a very conventional sale process for the sale of the TOTE, pretty much along the lines of the one that we used for the sale of Hobart International Airport Proprietary Limited in the course of last year.

We have engaged some advisors to help us with this process. We have a financial advisor who initially we engaged to help us with some of the industry aspects of the restructuring. Their contract also provides for them to advise us in relation to the sale. We have engaged legal advisors and we have also engaged a probity adviser.

With that Mr Chairman, I am happy to hand over to the committee for any questions you would like to ask.

**CHAIR** - Don, I might ask the first question of you. Can you give any indication of when any of those particular pieces of legislation might come before the Parliament?

**Mr CHALLEN** - It is probably a matter best addressed to the Treasurer whom I understand will be with you later this afternoon.

**CHAIR** - Okay. When did Treasury start analysing this proposed sale? Can you recall that?

**Mr CHALLEN** - Yes. We first began work on options in relation to the restructuring and the sale on 7 May in 2008.

**CHAIR** - Okay. And a business case for the sale, has that been prepared?

**Mr CHALLEN** - A business case for the sale, no.

**Mr WILKINSON** - Don, if I might. You have said that Treasury began work on the restructuring and sale -

**Mr CHALLEN** - Options for.

**Mr WILKINSON** - Options for, yes, in May. Is that the same with all GBEs?

**Mr CHALLEN** - I do not understand the question.

**Mr WILKINSON** - What I am asking is do you always look at options in relation to all GBEs as to whether they should or should not be sold?

**Mr CHALLEN** - Always is probably putting it a little strong. Let us say that we have the government's business portfolio under regular review and there are various trigger points at times that occur like changes of government and changes of minister where we might have a fresh look at the government's business portfolio. But Treasury has been providing advice to Treasurers probably for more than a decade that we felt that the TOTE business was not one that any longer sat very well inside a government business portfolio. Our reviews of the government business portfolio would have had it in a category that had it available for sale if a government was of a mind to do that.

In this particular case we had a discussion with the Treasurer around 7 May which led to me internally commissioning some work that has ultimately grown in advice to government that has led to a decision that the Treasurer announced on 8 January 2009, as I recall. Which has ultimately led to these announcements.

**Mr WILKINSON** - At the start of December 2008, how far were you down the track of giving that final advice to the Treasurer to allow him to make a decision with obviously the rest of government to sell?

**Mr CHALLEN** - We were well advanced. We had provided a series of discussion papers to the Treasurer on what needed to be done to restructure the business and ultimately sell it; about how you would go about a sale if the government was of a mind to do that. We had provided advice to the Treasurer that if he so chose he could take to Cabinet to seek approval for the sale.

I emphasise that at that stage no decisions had been made.

**Mr WILKINSON** - Do you know when that went to Cabinet?

**Mr CHALLEN** - Yes, I do. The Treasurer approved the cabinet minute for transmission to Cabinet on 19 December. I am not authorised, Mr Chairman, to reveal the next piece of information but I have specific approval in this case. Cabinet approved the sale of the TOTE on 22 December, which is my birthday, Mr Chairman - very auspicious.

**Mr WILKINSON** - That is right, I will remember that. That has thrown me off what I was going to ask as a matter of fact. I will defer.

**Mr GUTWEIN** - So that we are clear, Mr Challen, prior to early December - in fact I know it was 4 December - in an upper House committee Mr Aird said that there was no intention to sell TOTE at that stage. In the lower House a couple of weeks earlier, on 20 November, Mr Cox spoke, on behalf of the Treasurer and Minister for Racing, and he said numerous times that TOTE is not for sale. Had the advice received by the Treasurer or by government prior to 20 November on the recommendation to sell TOTE, been received?

**Mr CHALLEN** - No.

**Mr GUTWEIN** - On what date was that received by government?

**Mr CHALLEN** - It would have been in a minute we provided to the Treasurer on 19 November.

**Mr GUTWEIN** - My question was, was the advice received before 20 November?

**Mr CHALLEN** - The day before, yes.

**Mr GUTWEIN** - So it was?

**Mr CHALLEN** - I do not know when it was received. It was signed by me and left the Treasury on 19 November. Often, these things take at least 24 hours to get to the Treasurer's office.

**Mr WILKINSON** - Don, the question I was going to ask concerned the restructuring and the selling. Did the TOTE have to be restructured or the racing legislation that we had before us towards the end of last year in relation to restructuring, did that have to take place for the sale?

**Mr CHALLEN** - Yes. The restructuring could take place without the sale, but you could not have sold that business in the form it was prior to that restructuring.

**Mr WILKINSON** - Was the restructuring partially done in order to allow it to be placed for sale?

**Mr CHALLEN** - The restructuring was done because it was a good thing to do. It was in the TOTE's interest and in the interests of the racing industry. One of the things the restructuring has done is to much improve the focus of the TOTE as a business and I think it has positioned us to put the funding of the racing industry on a much better and more secure, more certain footing going forward. All those things were a good idea, but you could not have sold the TOTE business without doing the restructuring. Decisions were made that government would proceed with the restructuring and bring the legislation that came to Parliament late last year forward a long time before any decisions were made in relation to the sale.

**Mr WILKINSON** - What I am wondering is, was the sale always part of the reasoning behind the restructure? I understand the argument that was used -

**Mr CHALLEN** - It depends in whose mind. In my mind, yes, because I was advising the Government to proceed with the sale all along. In the Government's mind you will have to ask the Treasurer because the Government considered the issues in sequence. It considered the advisability of proceeding with the restructuring and did not give the sale any particular attention. Then late last year, as you know, it turned to consideration of whether they would proceed with the sale. On 22 December Cabinet made a decision that they would and the Treasurer announced that publicly on 8 January.

**Mrs RATTRAY-WAGNER** - Mr Challen, can I take you back to February 2003 - and I know that is quite a way back. There is a document called 'Government Business Divestment' which states in a table that TOTE would be an unlikely candidate for a sale. Can you tell me what happened between 2003 until when you arrived at the decision that TOTE was a good thing to sell? I need to understand how things have changed quite significantly.

**Mr CHALLEN** - I would have to review that document and the circumstances of it, but it no doubt reflects the thinking of the time. It probably reflects the thinking of the minister and the Government of the day that they were not interested in selling the TOTE. We prepare assessments like that of the government business portfolio from time to time and they reflect the realities of government policy of the day.

For instance, if you saw a document like that today, you would not see the three electricity businesses listed in a column for sale because the government policy of today is definitely not to sell those businesses. One thing that changes is a willingness on the part of government to consider selling certain businesses and the other is changes in market conditions. In 2003 not as many Australian governments had sold their government-owned totalisator businesses as now have. It is just that circumstances change through time.

**Mrs RATTRAY-WAGNER** - It also states that the divestment of any business should not occur until a thorough due diligence process has been conducted. Do you consider that that has happened?

**Mr CHALLEN** - We have just about completed that. We are in the process of doing it at the moment.

**Mrs RATTRAY-WAGNER** - Is there no actual final due diligence material that we could look at at this point in time and say that is the right thing to do and so the sale should proceed?

**Mr CHALLEN** - With respect, I do not think you should look at that due diligence material ever. I think for that to get into your hands would seriously put at risk the price that we might get for that business. I would certainly counsel you not to ask for it.

**Mr BOOTH** - Chair, I was going to ask that the committee order the disclosure of all those documents, including the due diligence reports. In fact, I am somewhat concerned from what I have just heard that the decision to sell TOTE may have been made well before both Houses of the Parliament were advised. In order to get to the bottom of that, we are going to need to look at the contract regarding the restructure which is also advising the sale. Was that with Clayton Utz?

**Mr CHALLEN** - No, the advisers are Deloitte. Clayton Utz are our legal advisers. Mr Chairman, this committee summonsed me to produce a wide range of documents, which I have with me.

**CHAIR** - Did you say you have these documents with you?

**Mr CHALLEN** - I have them in my briefcase. I am proposing to pass them to the committee, after I have made a statement in relation to the material, at a convenient time to your committee and the contract that Mr Booth is referring to is in that folder.

**CHAIR** - Would you like to make that statement now or Kim, have you finished your questioning?

**Mr BOOTH** - Certainly, either way, Chair, I am happy for Mr Challen to make that statement. I have not finished this line of questioning.

**CHAIR** - Okay. We will do that in camera when you give that.

**Mr CHALLEN** - It might be convenient to do this at a later stage of the hearing.

**Mr GREEN** - Yes, that is exactly right. I was going to say that they are going to do that in camera.

**Mr BOOTH** - What date was the contract about the restructuring and advising of the sale that was made with Deloitte? You did mention it before but I didn't get that.

**Mr CHALLEN** - The contract with Deloitte was signed on 11 December. They started work for us before that. They were advised on 24 November 2008, that they had won the mandate and they began work for us on that date but we did not sign the contract until 11 December 2008.

**Mr BOOTH** - But weren't they contracted to do the restructure advice?

**Mr CHALLEN** - Not to us.

**Mr BOOTH** - I made a note that you said you had a contract for advice with someone and I think you said it was Deloitte at the time - the same people to do with giving advice about the restructuring of the industry.

**Mr CHALLEN** - But they were only commissioned to start that work on 24 November.

**Mr BOOTH** - After the restructuring had been passed through Parliament.

**Mr CHALLEN** - No, the restructuring had not been passed through Parliament at that stage.

**Mr BOOTH** - November last year?

**Mr CHALLEN** - I don't think so.

**Mr BOOTH** - The industry restructure regulations went through on 23 November.

**Mr CHALLEN** - In any event, that is when they commenced -

**Mr BOOTH** - I am somewhat confused here. You contracted Deloitte to advise on an industry restructure, from what you have said -

**Mr CHALLEN** - No, not on the industry restructure, on the restructure of the TOTE.

**Mr BOOTH** - Did they give you advice about the restructure of the industry itself?

**Mr CHALLEN** - Not prior to that, no.

**Mr BOOTH** - At the date it went through the House, sometime at the end of November, you engaged with Deloitte to give you advice about how to sell TOTE?

**Mr CHALLEN** - We engaged with them to give us some advice in relation to restructuring TOTE. A second part of the contract goes on to give advice in relation to the sale, but in fact they have hardly done anything under the second part of that yet. Most of the work that has been done to date has been on the structure of the business, what you have to do to make sure it is a viable business going forward. They have been doing a due diligence exercise for us as part of that contract.

**Mr BOOTH** - Will you be tabling that contract and the documents?

**Mr CHALLEN** - Yes.

**Mr GUTWEIN** - I have two questions and one is in regard to due diligence. On 24 November you contracted Deloitte to look at the restructuring of TOTE, including the due diligence required for a sale?

**Mr CHALLEN** - Yes.

**Mr GUTWEIN** - That is one month almost to the day before Cabinet approved the sale of TOTE. Would that be normal to be as pre-emptive as that?

**Mr CHALLEN** - We needed the work done.

**Mr GUTWEIN** - Even if there wasn't going to be a sale?

**Mr CHALLEN** - You will see when you see the contract that it is structured in such a way that there are two distinct bodies of work - they are quite separate - and I don't have to proceed with the second body of the work - and I don't want to - if the Government did not proceed to approve the sale. I structured the contract in such a way that the restructuring of the TOTE business advice I could get and then I could get the adviser to go on and give me the advice in relation to the sale.

There is something I would like to add, Mr Chairman, but I don't want to say it in public. I can add it later, if you like. I will explain to you why I structured the contract that way.

**CHAIR** - I accept that advice. We'll keep that until later.

**Mr GUTWEIN** - The other question is in regard to the decision-making process of government. I think you were asked a question earlier about whether or not a business case had been prepared for the sale of TOTE and you said that it hadn't.

**Mr CHALLEN** - Yes.

**Mr GUTWEIN** - On what basis did you provide advice then to government that it should proceed with the sale if the business case wasn't prepared? On what basis would Cabinet have made a decision to proceed with the sale of TOTE if there wasn't a business case prepared?

**Mr CHALLEN** - I don't understand this interest in a business case. It is not normal to do a business case when you are going to sell something. It is next to impossible to do that until you know what you can get for selling it. The reality is that, as part of the sale process itself, the final step before you recommend to the Government that it proceeds to sell to the selected bidder, is that you provide advice that the outcome of the sale will produce a preferable outcome to maintaining ownership of the business. I don't understand the interest in a business case.

**Mr GUTWEIN** - Could you explain the basis of the advice because perhaps that included the information that might be included in the business case?

**Mr CHALLEN** - The advice was around whether a totalisator business was something that was a good thing to have in the government business portfolio. Our view is, and has been for some time, that there is no particular reason for a government to own a totalisator business. Why would you? We had some connections between our totalisator business and the funding of the racing industry that provided a bit of an attachment within some quarters inside the public sector intending to own the TOTE, but that was a bit of an oddity. When you take that away and replace it with something that provides better and more certain funding to the racing industry, you are then left with a business that has no particular reason for being within the government business portfolios, in the same category as the Printing Authority. Why would you own a printing authority?

**Mr GUTWEIN** - In regard to that advice and using the Printing Authority as an example, any business has, hopefully, a profit at the end of the year. It would

provide either dividend to government or tax equivalents. The TOTE, quite separate to the functions of the Printing Authority, provides a much greater benefit to Tasmania than what it simply declares in profits or the dividends to government or tax equivalents.

**Mr CHALLEN** - Does it? What benefit is that?

**Mr GUTWEIN** - The Chairman of Racing indicates that TOTE in the last 12 months has paid around \$23 million to the Tasmanian racing industry and that would be a benefit to Tasmania, would it not?

**Mr CHALLEN** - If the racing industry gets the \$23 million from somewhere else, there is no particular benefit from having the TOTE to the racing industry. The only benefit is that a racing industry needs a certain level of funding.

**Mr GUTWEIN** - Mr Challen, that goes to where my question was going, if I could finish. That advice to government and that provided advice as to how that sort of benefit to the Tasmanian racing industry might be protected under any sale.

**Mr CHALLEN** - Yes. What we have proposed and what I understand the Treasurer is proposing to do is to put in place a funding deed with the Tasmanian Racing Board in which the funding to the racing industry would come directly from the government budget. So the racing industry, instead of having an uncertain stream of income coming from the TOTE, subject to the vagaries of how the TOTE business performs, will have a certain stream of revenue like other things that are funded by the Government.

**Mr GUTWEIN** - Are the parameters of that deed in the document you are going to share with us or not?

**Mr CHALLEN** - No, they are not.

**Mr GUTWEIN** - Are you at liberty to share the parameters of Treasury's view in regard to that deed?

**Mr CHALLEN** - No, these are matters that are under policy discussion at the moment and that question is best put to the Treasurer.

**Mr WILKINSON** - I suppose one question could be, Don, was the advice received? Is it classed as ideological or philosophical advice or based on hard-nosed accounting and economic analysis?

**Mr CHALLEN** - It is definitely hard-nosed and it is definitely based on analysis. I do not think it is ideological or philosophical. But what businesses governments need to own are subject to a bit of fashion. Fifty years ago there were different views around about what were good things to be in government business portfolios and life is different now. Totalisator businesses were owned by probably all State and Territory governments in Australia up until a decade ago and now we are amongst the last to get rid of them. Likewise, 50 years ago I imagine every government had a construction business like our old department of construction and probably they all had government printers as well but now nobody does. You could say it is, in part, subject to a bit of fashion.

**Mr WILKINSON** - Why now? Is it because -

**Mr CHALLEN** - Sorry, if I may just finish that bit.

**Mr WILKINSON** - Yes.

**Mr CHALLEN** - Our view is that governments are not bright at being business owners and they are better off to confine their ownership of businesses to things that really need to be inside the government business portfolio.

Why now? We think this is a good time. The TOTE business has been performing well and there is no certainty that the business will continue to perform well. It is a very cut-throat, competitive business that it is operating in. So why wouldn't you exploit an opportunity to sell it when its value is probably at a relative high?

**Mr BOOTH** - Do you have a formal analysis of that or is that just a personal opinion?

**Mr CHALLEN** - It was a personal opinion based on, I confess, not huge expertise of the industry, but we have subsequently taken advice on that from expert industry advisers which confirms it.

**Mr WILKINSON** - Without sitting from outside in the upper House, Don, one could argue that the economy has been travelling well over the last x amount of years. Tasmania is still doing well, it would seem, as opposed to other States and certainly countries. But there are going to be difficulties with the budget as a result of GST and as a result of duties, payroll tax maybe, et cetera. Was the major reason for the sale in order to allow the Government to continue to fund things which they would not have otherwise have been able to fund if they do not sell the TOTE?

**Mr CHALLEN** - The decision was not directly made around particular budget pressures that existed at a point in time. But for a few years, the Government has been putting a particular priority on infrastructure spending, one I strongly support. The experience with the airport sale demonstrated the benefit that you can get from divesting yourself of a business that you do not really need to own in terms of having some money available to put into significant pieces of infrastructure - our irrigations schemes, our transport hub, road upgrades and the like. So selling a business that is ripe for sale is attractive when we can put the funds to good use, particularly on infrastructure.

If you hold the view, as I do, that the Government does not need to own this business, why would you keep it? Why wouldn't you put it into public infrastructure?

**Mr BOOTH** - It is not for the benefit of the industry that it is being sold, then? It is clearly to grab the cash and put it into something else?

**Mr CHALLEN** - I would not characterise it like that, Mr Booth. But no, it is not for the benefit of the industry, though I think that the industry will be better off as a result of these arrangements. It is an act of faith that the TOTE business is going to continue performing well. If I was a member of that industry I would be very happy to have my uncertain revenue stream tied to the fortunes of the TOTE replaced by a very certain and secure income stream coming directly from the Budget.

**Mr BOOTH** - I am intrigued in regard to what you said about the business case and your view that in fact it would not require a business case in this regard because you are simply selling the business on. I do not think I'm in conflict with what the Auditor-General's evidence was this morning that clearly you should have a business case prepared that takes into account all of the aspects, both social and economic, of the value of TOTE to the industry as a whole and that you would actually have to look at that. From a probity point of view that would be the appropriate thing to do. What have you got to say about that?

**Mr WILKINSON** - Certain evidence was in camera.

**Mr CHALLEN** - It doesn't matter; I do not know what he said so I cannot react to something I did not hear. Let me reiterate; I do not agree that it is necessary or appropriate to do a business case before you make a decision about whether you sell a business like this. You need to do what you would do in a business case at the final stage when you know what the market value of it is. How would we have done a business case for the airport sale, for instance. What price would you put on it to decide whether it was better sold or retained?

**Mr GUTWEIN** - That is ridiculous, Mr Challen. You must have had a bottom-line figure that a business case would support to say, 'Well, okay, if we do not get that price then we will not go to market'.

**Mr CHALLEN** - Indeed, but that is the retention value.

**Mr GUTWEIN** - So have you done a business case on that basis for the TOTE?

**Mr CHALLEN** - No, I have already answered that question. We have not done a business case for the sale of the TOTE. We will at the final stage before we recommend that the Government goes ahead and sells it. We will show them what the analysis looks like and compare the sale price that is available to the chosen bidder with the retention value of the business. If the sale price exceeds the retention value then we will recommend selling it and if it doesn't we won't.

**Mr GUTWEIN** - Then how can you justify the money that is obviously involved to this point in going through the process in engaging Deloitte's to look at his and do due diligence before taking it to the market to know whether or not? If indications early on through the process are that  $x$  can be achieved but you know that you need to get  $y$  to even make it worthwhile going forward, how do you put in place those sort of decision-making deal-breakers, if you like, that would stop you going right through to the end of a sales process where you actually get to a point where  $x$  price is achieved and you say, 'Well, gee, it has taken us six months but no, that is not going to do the job for us. I wish we had pulled out earlier'? That is a ridiculous proposition.

**Mr CHALLEN** - With respect, I do not think that any of my propositions are ridiculous.

**Mr GUTWEIN** - Well, I think that one was.

**Mr CHALLEN** - I do not think that it was and I take offence at being told my propositions are ridiculous. We have done some analysis on what the range of possible proceeds from a sale is and that analysis gives us a degree of confidence that the proceeds of the sale will exceed the retention value of the business. But that is not a business case; that is just a bit of analysis that gives

you some confidence that a recommendation to government that this business is suitable for sale is a good recommendation.

As I have said twice now, when we get to the end of this process we will have to give a recommendation to government on whether they proceed knowing then that the final bid price either exceeds or does not exceed the retention value. It is possible we will get all that way down the track and find that the offered sale price does not exceed the retention value, in which case we will say to the Government, 'Do not proceed'. I think that is a fairly unlikely outcome in view of the analysis that we have done and the advice that we have received from our expert advisers.

**Mr HARRISS** - I think it is important to keep developing this point as people are going because I was going to go down the business case path.

**Mr BOOTH** - Do you not think, Mr Challen, that there should be a social licence to sell something like this. The sale of a GBE that provides a lot of ephemeral benefits beyond just the raw dollars that come back into the Government needs to be considered, which is what the business case, one would have thought, should have assessed - the actual contribution that TOTE makes, not just revenue flows to the Government but industry support. A lot of that, from what we have heard, is ephemeral, intangible. It creates community, it maintains the culture of racing and it keeps the people that provide the product alive and sustained and so forth. There is a huge amount of concern out there in the different industry codes that TOTE's sale could destroy the culture of racing and the culture of their industries and associations, because that is the picture that has occurred since the tri-co-location and in fact even earlier than that. The people that provide the products are going to be losing their social activities and culture and microeconomic activities that flow from that big family of people involved in racing. Therefore, why is it that you seem only to have a focus on the actual dollars that flow to the Government, the retention value of TOTE based on dollars alone?

**Mr CHALLEN** - The operations of the TOTE provide two sorts of benefits. They provide a flow of funding that at the moment goes to the racing industry and they provide employment and payments to contractors and so on, so they have a place in the overall economy. It does not matter who owns the business; if the business is here and is operating then all those other benefits, other than the flow of funding to the racing industry, will continue. Government does not have to own it. Look at the airport. The Government does not own the airport anymore but planes still land, people park their cars, the shops sell goods, people at the airport are still employed.

**Mr BOOTH** - With respect, sure the airport has changed. They are now a business and you are paying twice as much to park your car than you used to so there has actually been, I would argue, quite a detriment to the average person who goes out to the airport. They might be able to get a better cup of coffee, perhaps, or something like that through privatisation but what about something as complex as an industry which has been based around something like TOTE for a fair while? What I am putting to you is that there are a lot of things that are difficult to actually assess, unless you analyse it with some sort of social impact study at least. You can do the economic stuff in terms of the value of the airport itself in terms of income streams to the Government, but the economic and social activity around TOTE at the moment and around the industry needs to be analysed to make sure that you are getting the full social licence to sell the business off

because it is a lot more than just the income stream. Unless you protect that and know what it is then it could have a detriment on the industry.

**Mr CHALLEN** - I just have to say I do not agree with you. Putting aside the benefit that the racing industry gets from funding - and we have an alternative way, a better way of doing that - apart from that, all of the benefits that you get socially or economically from the existence of the TOTE will continue with somebody else other than the Government owning it. I do not think there are ephemeral benefits. I think the culture of the industry and the way it relates to communities and so on comes from the racing industry and the funding that comes to the racing industry. It has nothing to do with the TOTE at all. The connection between the TOTE and the racing industry is just an accident of history.

**Mr BEST** - With the tracks, the ownership of the venues, who owns them?

**Mr CHALLEN** - Those bits that were previously owned by the TOTE, under the legislation that has already been passed by the Parliament, will go to the Tasmanian Racing Board. It has not actually happened yet. There is a transfer notice that is in the process of being sorted out so the mechanics of getting the old racing assets and liabilities that were with the TOTE into the hands of the Tasmanian Racing Board has not happened. As I understand, it is being worked on at the moment, but it will happen.

**Mr BEST** - At the moment, although I do not expect you to be able to answer this in detail, who owns the tracks? Are some owned by TOTE and some not?

**Mr CHALLEN** - Mr Best, I do not know in detail. I understand in concept that TOTE owned some of the infrastructure and some of the infrastructure was owned by racing clubs. Nothing will change, apart from the fact that those bits that were owned by the TOTE will become owned by the Tasmanian racing industry but beyond that, this is not my field.

**Mr BEST** - This might be commercial-in-confidence here, but is that part of the deed, looking after those facilities?

**Mr CHALLEN** - The deed is about funding. It is about how much money the industry is going to have for its recurrent funding and its capital works. The ownership of assets has already been dealt with in the legislation that Parliament passed last year and all that remains is just a little bit of mechanical stuff to move the assets from TOTE's books onto TRB's books. A rather simple thing in concept but a bit messy in practicality.

**CHAIR** - Members, I am aware that we have probably a considerable amount of work to do in camera and we are down to about 18 minutes or so to go for Mr Challen.

**Mr HARRISS** - Don, just going back to your comments about 7 May last year when you first started assessing options. You said something to the effect that you had a discussion with the Treasurer around that time about the possible sale. Who initiated that discussion?

**Mr CHALLEN** - That particular discussion I do not recall, Mr Harriss. There had been conversations going on around these issues since Mr Aird became Treasurer. He became Treasurer in March 2006, if I remember rightly, and I have been having conversations with him around the government business portfolio and around things like the airport and the Printing Authority and other

businesses since then. So there would have been a conversation that took place a couple of days before and you will see in this pile of information I am going to leave with you some e-mail exchanges with Mr Aird's office in which I was given authority to commence some work, and I commenced work. You will see e-mails from me to my staff asking them to do various things to get stuff under way.

**Mr BOOTH** - With regard to the TOTE at the moment, there is no dividend coming back to the Government, I believe, and it has not come back for a few years, is that correct?

**Mr CHALLEN** - We have arrangements for a special dividend in place that has been suspended. I would have to check, Mr Booth, I do not recall off the top of my head.

**Mr BOOTH** - Yes, I thought legislation went through that absolved them of a couple of years of non-payment and, in fact, the legislation was that no-one had to pay a dividend. I may be wrong but I thought that is what we passed.

**Mr CHALLEN** - It does not ring a bell but I would have to take the question on notice.

**Mr BOOTH** - But in terms of cash, you do not think there has been a dividend coming back and after years suspended or otherwise, a special dividend?

**Mr CHALLEN** - My understanding is, and I would have to check, but I do not think there has been any direct benefit to the budget from the operations of the TOTE for some time.

**Mr BOOTH** - So if it were to be sold, if that was the decision that it was sold, where would the extra fat come for the person who bought the business if they are already incapable of paying a dividend? Isn't that going to rack up the race day charges? They have to get an income stream somehow, so how are they going to do it?

**Mr CHALLEN** - They are not capable of paying a dividend to government because they are paying all of their income to the racing industry. They are still a very viable, profitable business. It is just that everything that comes out of the TOTE business ends up in the racing industry.

**Mr BOOTH** - As far as the public are concerned, we own TOTE and the budget is all out of the public purse. So let us say the net return at the moment might be going from TOTE to the racing industry. Are you saying, sell it and then transfer that obligation back to the budget, consolidated revenue?

**Mr CHALLEN** - Yes.

**Mr BOOTH** - So, somewhere, the person who is buying TOTE is going to want to make more than the current return to the industry otherwise they are not going to buy it, are they?

**Mr CHALLEN** - They, I expect, will look at the opportunities for growing the business with synergies with their existing businesses, all the usual things. People will see it as a desirable asset simply because it provides a good, steady return. There is an awful lot of superannuation money around at the moment just

desperately looking for good yield and secure businesses. So that is one of the reasons we think that is an attractive business to sell at the moment.

**Mr BOOTH** - But if that yield was available in that business, it ought to be coming into it now and flowing back to the racing industry.

**Mr CHALLEN** - But it is flowing to the racing industry, that is the point.

**Mr BOOTH** - If it is going to be of no net benefit then, other than allowing a privatised operator to bring in additional revenue -

**Mr CHALLEN** - The net benefit is, we are going to get the sale proceeds.

**Mr BOOTH** - But I think the detriment will be to the race day participants, the people that park their cars. All sorts of things are going to happen as a result of a privatised TOTE.

**Mr CHALLEN** - No, because those things depend on the funding of the racing industry and they have nothing to do with the TOTE.

**Mr BOOTH** - With respect, that is not correct. I am talking about in terms of the globalised pool of money, whether it be a public asset owned by TOTE or whether it be consolidated revenue. If there is a cost shift from the support of the racing industry, away from TOTE and back to consolidated revenue, unless we get that back as a benefit somehow through some taxation on TOTE turnover or something, I cannot see this isn't going to result in increased charges, like at the airport.

**Mr CHALLEN** - I find your thought process a bit obscure.

**Mr BOOTH** - I am sorry that you can't understand those complex issues.

**CHAIR** - We seem to be going around and around in circles here. At this stage we only have 15 minutes left. We need to move in camera. Therefore I would ask that people clear the room.

**THE HONOURABLE MICHAEL AIRD, TREASURER, WAS CALLED AND EXAMINED.**

**CHAIR** (Mr Hall) - Thank you for appearing before the committee, Michael. Obviously being a minister of the Crown, you do not have to be sworn in. At this stage I will invite you, Treasurer, to make a brief statement to the committee and then I will open it up for questions.

**Mr AIRD** - I think there are a number of issues in play at the one time and my view is that we have, on one hand, a racing industry and, on the other hand, a wagering industry and I have always had a view that I did not think it was a government function to run a wagering industry but it was a government function to support the racing industry. So from very early on in my time as Treasurer I had a view that I thought TOTE should be in a position where it could be divested at some stage. Obviously that takes in a lot of judgment and a lot of information in terms of understanding the markets and where we can go from there.

I think it is fair to say that over a period of time, initially, I did not think TOTE had enough value in it to be an asset which was suitable for divestment. I now believe the time is right and that is why we announced that we are prepared to divest TOTE.

Obviously there has been some concern about the racing industry and the funding model for that, and I think that is a legitimate concern for them and I am working with the Tasmanian Racing Board to put in place a funding model which should be in place for the duration of 20 years. There are two components for that funding model.

One would be in terms of capital expenditure and the other would be on the operational expenditure, and I have said that the racing industry will be no worse off than it is now in terms of its funding. We have not concluded our discussions about that but I believe we will be able to get to an agreed position. It is my intention to sign a deed with the Tasmanian Racing Board which will give allocations over a time frame. With the model that I am looking at the deed would endure for 20 years. There would be initial allocations for four or five years on a rolling basis and we would negotiate the sixth year within the second year, if you can understand the methodology. That would allow us plenty of time to understand how we would make those allocations and obviously that would have to be transferred by virtue of the Consolidated Fund.

With the wagering issue, the principle is whether TOTE is part of core government business. If you say it is, obviously there is a difference of opinion about that. The other question is whether this is the right time? I have satisfied myself over a period that now is the right time and -

**Mr BOOTH** - How did you satisfy yourself of that?

**Mr AIRD** - A number of different things. Basically after observing what is occurring with wagering industries generally around Australia and what is happening in Victoria, I think we can extract optimum value out of TOTE now, considering that it has had a 30 per cent growth in turnover. In any divestment you have to in a data room show the data that will encourage someone to offer the optimum price. If you compare TOTE's revenue performance with that of similar wagering

operations you will see that they are out-performing them in terms of turnover and that -

**Mr BOOTH** - Have you advice as to that? Did you actually get formal advice or -

**Mr AIRD** - There is a range of areas of advice and one is my knowledge of those potential organisations that might be interested in this type of asset.

**Mr BOOTH** - Personal knowledge?

**Mr AIRD** - Yes, personal knowledge. In the end, this is a judgment call. We took some advice from Deloitte about the appetite of the market, the potential bidders and whether they had enough capital to actually buy it.

**Mr BOOTH** - So you actually sought advice from Deloitte as to whether you should sell or not?

**Mr AIRD** - I know there has been some discussion generally about it. Deloitte were engaged for two parts really. They were engaged in terms of the separation of the wagering from Racing Services and I also sought preliminary advice from them in terms of the market at the time, if you like, if I wanted to support the divestment. So Deloitte were engaged at that level and by the time that I had signed off on a cabinet submission on 19 December I had had advice in terms of that information from Deloitte.

**Mr BOOTH** - For the market appetite?

**Mr AIRD** - Yes.

**Mr WILKINSON** - When was that?

**Mr AIRD** - That was part of the cabinet submission.

**Mr WILKINSON** - What was the date?

**Mr AIRD** - In terms of?

**Mr WILKINSON** - One, when you asked for that advice from Deloitte and, two, when you got it?

**Mr AIRD** - I need to go back and check the actual dates, but I do know that I wanted commentary from Deloitte in preparing the cabinet submission, so it would been probably around the 19th - I actually know that on 19th I had that information.

**Mr WILKINSON** - The 19th of?

**Mr AIRD** - December.

**Mr BOOTH** - Can you table any advice for us?

**Mr AIRD** - It is a cabinet submission.

**Mr BOOTH** - You can table that.

**Mr AIRD** - No, I cannot.

**Mr BOOTH** - We might have a different view on that.

**CHAIR** - Can you give the committee any indication on when the legislation might be tabled?

**Mr AIRD** - We are preparing basically three pieces of legislation. I had hoped today to give you a draft of the TOTE sale bill. It is still in draft form. I will give it to the committee when I am satisfied that it is a closer final draft than it is at the moment. There are bits that I am not satisfied actually give a true indication about what we intend to do and how we intend to divest that.

**Mr GUTWEIN** - I was wondering what part, if any, the Commonwealth's mid-year financial report might have played. It would have been released, I think from memory, in early November or thereabouts, and it showed that we would lose around \$300 million over this year in the forward Estimates with GST funding.

**Mr AIRD** - No. Let me be very clear about this. The time frame for making a decision was not affected by our fiscal position. It is true that through a successful sale we will gather some capital and that would be put to good use but that would be a transparent process in any event, it will not be part of this budget. It will not be factored in.

**Mr GUTWEIN** - Mind you, the problems that we face are going to be more far reaching than this budget as you well know.

**Mr AIRD** - I think it is a legitimate question. I am not saying that it had a capacity to affect; it is not going to affect our operational balance in that sense. The allocation will be in terms of investing in asset and therefore it will not be affecting our current expenditure to that degree.

The methodology will be that it will probably come in into the operating balance and affect the income of that and it will go to the Consolidated Fund to the operating balance and then it would be allocated in a way that would be identified in the various accounts it would be put to and that would affect most probably the fiscal balance but not the operating balance per se.

In other words, it is a bit similar that in the budget sense some of the allocations to nation building and so on it can throw artificial surpluses that do not represent your underlying business and how we are actually operating and what the ongoing operating costs are. Those types of events, in terms of transfers, will come in and affect your operating surpluses. To be quite frank, I would not sell the airport now in the current atmosphere.

**Mr BOOTH** - The superannuants would probably sell it back to you.

**Mr AIRD** - I did not say that as a provocative statement, I am just using it as an example.

**Mr BOOTH** - They would be pretty happy to get their cash back because what you are saying is it is not worth what you got for it now.

**Mr AIRD** - No, well -

**Mr BOOTH** - That's the corollary of what you are saying.

*Members interjecting.*

**CHAIR** - Order.

**Mr AIRD** - In fairness, let me finish what I was intending to put forward to you. We sold that at the peak market, no doubt about that. That was a timing issue. I believe that now is the time to sell TOTE. I know there is a strong appetite. There may be some local appetite to be a bidder and I know there will be some national and there could be some international as well and that is what I want to ensure occurs because I want a good competitive process to ensure we extract the optimal value from it.

**Mr GUTWEIN** - We heard this morning from the greyhound industry.

**Mr AIRD** - I heard they were very complimentary.

**Mr GUTWEIN** - I think it would be worth watching television tonight. I don't think I need to explain - you'll catch up in about an hour-and-a-half about what they had to say.

Obviously, one of the key issues that we have is the racing industry and their concerns about being supported. You've mentioned that there'll be a mechanism and a deed. I don't think that was something that we discussed in camera; I think that is something we can talk about. We know from the annual report that somewhere between \$20 million and \$30 million was paid to the racing industry last year. In fact, I think the chairman says in his annual report that last year it was \$23.5 million or something, in funding, that went to the racing industry. Will the deed reflect that type of amount?

**Mr AIRD** - Yes.

**Mr GUTWEIN** - The other question I have in regards to what you said about the rolling five years; I'm presuming that you get to year two, you renegotiate another five years which takes you through to six years so you're actually going to have 14 or 15 renegotiations of the deeds throughout the 20-year period?

**Mr AIRD** - That's the thing; you can have any variation of that if you like. If you go into four-year time frames, basically, we would be in the forward estimates, we think, in four-year terms but it could be five years. There's a bit of a mythology about the funding relationship now because everyone says that TOTE's a cash cow for the racing industry, but there's no guarantee of that. What we're saying is that we're prepared for a 20-year deed to wear any risk and we guarantee for the first time ever a 20-year funding model. I can give you an indication; I think that there should be an allocation of around \$40 million capex. The Tasmanian Racing Board would then deal with the allocations from that; they would work out the priority.

**Mr GUTWEIN** - So, \$40 million over the 20 years?

**Mr AIRD** - No. This would be dependent upon the sale. There are two ways to do it. You could just have a capital injection of \$40 million straightaway and they could have the benefit of that or you could have a phased approach over the term of the original four-year allocation. I haven't determined the proper model because I haven't completed my discussions with the TRB. Basically, the racing service's

costs are, in totality, whatever the allocation of the different funds going in, round about \$32 million. What I'd be prepared to do is to provide a guaranteed amount in the deed for x dollars and allow some avenue for the TRB to capture the sponsorship and the race field's revenue that is going to be generated in the future. That gives them a growth path for their own revenue but this underwrites the basic requirements that they have -

**Mr GUTWEIN** - And you've indexed that through?

**Mr AIRD** - Yes, we've indexed that through and we have thought about that a bit. We think, in terms of CPI, that we would try to get a fixed percentage to try to flatten out CPI variations. We are in interesting times -

**Mr GUTWEIN** - We are in interesting times.

**Mr AIRD** - And perhaps the best way to do that would be to settle on a percentage rather than just CPI so then they can plan with some certainty rather than just have the variations of CPI. We don't know when the Reserve Bank is going to come back and say CPI is important.

**Mr GUTWEIN** - And then it is back out of the bottle again.

**Mr WILKINSON** - We are jumping all over the shop, but we started off by asking about the time frames; is it fair to say that you received advice from Treasury that TOTE should have been sold or should be sold either 19 or 20 November of last year?

**Mr AIRD** - That would be about right. I think there was a brief that came through from Treasury around that time.

**Mr WILKINSON** - At that time, had there been any information that you'd seen from Deloitte or any other body suggesting that it should or shouldn't be sold?

**Mr AIRD** - Not that I can recall, no. In terms of making an assessment the annual report really highlights the financial performance of TOTE.

**Mr WILKINSON** - I can see over the last four years, from 2005 onwards, it has increased dramatically - well, not dramatically but certainly significantly and I can see it would be a good time to sell. But one could also argue the opposite, that it is a long-term one, and I suppose that is the argument.

**Mr AIRD** - Okay.

**Mr WILKINSON** - But in relation to 19 November or 20 November, there was advice that you were aware of at about that time that TOTE should be sold?

**Mr AIRD** - Yes. I have a time line that says 19 November, a minute to me with EEO, a cabinet minute for approval.

**Mr WILKINSON** - So was it at that stage that you would have spoken to others in relation to putting a proposal to Cabinet that it should be sold? Is that the way it goes?

**Mr AIRD** - When you say 'others'?

**Mr WILKINSON** - Other members of the Government maybe, or members of TOTE.

**Mr AIRD** - I did not canvass this very widely and you will notice here that even as late as 19 November when I got the original minute I did not approve it. I was satisfied that by that stage it should be sold but until then, until you sign off, it is not for sale. I was prepared then, as I am now, to back my judgment with the right information. I know that TOTE is a good business, I know there is an appetite for it and I also know that there are changes afoot within the industry that I think are going to be an interesting challenge, and I do not think government should be involved in that.

**Mr GUTWEIN** - In the wagering industry?

**Mr AIRD** - Yes, the wagering industry.

**Mr WILKINSON** - In relation to the restructuring of the industry which, as you know, occurred with final legislation around about November of last year, was part of the reasoning behind that that certainly it made it easier to sell, as you would be aware, and it makes it cleaner to be for sale, as you would be aware or should be aware?

**Mr AIRD** - As I started out by explaining, there are two parts here. It is true that they may have converged or crossed over at various stages but it was always my view as Minister for Racing that I wanted three distinct parts of TOTE - that is, the radio station, the wagering business and the racing business. In terms of being organised for divestment, that was a key decision in how we can separate those things. The other determinant was that it was always my intention to bring TOTE under the Gaming Commission and bring it under the Gaming Control Act, and we are going to do that in any event.

While the separation was never a motivation, I think you needed to have the separation in any event. To be quite frank with you, until you make a decision to divest you have not divested. I think the separation was important for good accountability and regulatory reasons. I think that indicates my belief that we needed to have the Gaming Control Act as a way of regulating the wagering business.

**Mr WILKINSON** - In relation to the knowledge now that you are wishing to sell, what is the difference between this year and last year? Some might well argue that with the GST down, as was stated by Peter, with stamp duties obviously going to be down, maybe payroll tax et cetera, there is going to be a hole in the budget and this is one way of filling that hole.

**Mr AIRD** - It does not actually, though.

**Mr WILKINSON** - It won't fill it completely. Does it fill it at all?

**Mr AIRD** - I will be quite frank with you. In relation to the operating costs, the ongoing recurrent, it does not fill the hole in terms of the pressure on the operating balance. It can assist in the allocations of capital works and infrastructure and so on - that is true - but it is not a direct fiscal mechanism, and that is why I was drawing the example. That, really, nearly is a coincidence. In my view, if I did not think there were a strong appetite and a strong competitive position relating to the sale, I would not be proceeding with it.

**Mr WILKINSON** - So you are saying the major difference now between January 2009 as opposed to January 2008 is the fact that you believe now is the right time as opposed to 2008, because there was still an increase in 2008, as you know? You could still argue the same questions that your view, and other people's views perhaps in government, was that the Government should not be involved with a TOTE. It would just appear to be thoroughly coincidental that here we are, hard times, let's sell.

**Mr AIRD** - That is very simplistic assessment.

**Mr WILKINSON** - Yes, it is. It is one that can be made though, is it not?

**Mr AIRD** - There are people around who will make these assessments, including politicians, and I understand they can make that judgment. If you look at the value in TOTE, you will see that the growth is there and the potential is there, and there are other aspects of the industry you have to put in international and national context.

**Mr GUTWEIN** - And the fact that we have a hole in the budget is just convenient timing.

**CHAIR** - Order.

**Mr AIRD** - But it is not going to go to the budget.

**Mr GUTWEIN** - But at the end of the day it is going to be able to be spent. It will become taxpayers' funds. Let us not muck about with it.

**Mr AIRD** - I agree with that.

**Mr GUTWEIN** - And I understand it will not hold up the operational problems that we have.

**Mr AIRD** - Of course. We believe that the results of the sale will be put to good use. In a political sense we will make judgments about that, the same way as you will or Mr Booth will say that it's a waste, or that we could do better with that, or whatever. I think that is a legitimate argument. I am quite happy to have that argument and we will have it.

**Mr GUTWEIN** - It is a reasonable debate.

**CHAIR** - Mr Wilkinson has the floor.

**Mr WILKINSON** - You can see the growth in TOTE over the last four years, and the last year especially. One could argue that in hard times betting increases - there is evidence to suggest that wagering increases - therefore the value could increase by January 2010, and if that is the case one could well argue why sell now. Why sell now when people wanting to purchase the TOTE may not have the same amount of money available now as they might have next year, or vice versa.

**Mr AIRD** - No, it could be worse.

**Mr WILKINSON** - You are saying it could be worse?

**Mr AIRD** - It could be worse. In assessing those types of opportunities and risks, my firm belief is that we will extract maximum value out of TOTE now.

**Mr BOOTH** - But you do not have any advice to that effect. It is a gut feeling.

**Mr AIRD** - No, we have advice, as I indicated, from Deloitte to say that the market is right for this.

**Mr WILKINSON** - That was going to be my last question. In relation to that, the only way you could make that decision, I want to suggest, is if you had independent professional advice to suggest yes, now is the time to sell, and are you saying that is what you got?

**Mr AIRD** - No, what I am saying is this: it is same judgment I made with the selling of the airport.

**Mr BOOTH** - So that was a gut feeling as well?

**Mr AIRD** - No. You know, you talk to people, you understand what's going on in the market. There are people involved in the industry, there are people involved in banks, there are people involved and -

**Mr BOOTH** - With respect, as the Treasurer, surely you'd actually seek broader counsel than the old mate at the pub, surely.

**Mr AIRD** - I did seek advice from Deloitte who gave preliminary advice to say the market was there.

**Mr BOOTH** - When was that?

**Mr GUTWEIN** - What date was that?

**Mr AIRD** - I've mentioned it before. That advice was incorporated in the cabinet submission that I signed on the 19th.

**Mr BOOTH** - But the advice was sought prior to that, obviously?

**Mr AIRD** - Yes.

**Mr GREEN** - With respect to some of the questions that were asked about the industry itself and the racing board, a lot of the discussion you've briefly answered a moment ago but the various codes, of course, are concerned about the proportion that they get from those funds. Is it then entirely up to the racing board and their ability to lobby through the racing board to achieve the best outcome for their particular code or is there some other mechanism that is being considered?

**Mr AIRD** - No-one was really satisfied with the old model. I believe that the new model allows for the best opportunity in the fact that all the codes have to meet with the board at various stages to put their view. Yes, it is up to the TRB to make their decision about how they allocate the resources. My job is to say, 'Here's \$40 million cap ex. You make your judgments about how best to spend that'. I base that \$40 million on a reasonable understanding about what are going to be the future developments in the racing -

**Mr GREEN** - That's capital expenditure but I'm talking about stakes money and -

**Mr AIRD** - Yes, and in turn the TRB will be making decisions about that and we will be ensuring that they won't be any worse off as they are -

**Mr GREEN** - But if the revenue were coming from TOTE, as it does now, the same position would exist; that is, that they would still make decisions about how that allocation goes.

**Mr AIRD** - Under the old model -

**Mr GREEN** - Yes.

**Mr AIRD** - TOTE would make those decisions.

**Mr GREEN** - So if it is never sold, if we don't get the right price for it and it's not sold?

**Mr AIRD** - Under the model now, we are saying that we can give greater security to the funding of the racing industry than ever before by signing a deed.

**Mr GREEN** - If a new entity buys it, it will be regulated?

**Mr AIRD** - We haven't quite determined the regime that will be in place in terms of taxation or licence fee and so on. We haven't determined that. To be quite frank, we need to get through this exercise we are talking about now but I am thinking about the model and obviously Parliament will have to consider that.

**Mr GREEN** - But the expectation is obviously that there are funds coming back to the Government as a result of their operation.

**Mr AIRD** - There will be some returns back to the Government, yes.

**Mr GREEN** - Yes. Some of the line of questions is that it is gone forever and that you don't get anything back at all.

**Mr AIRD** - No, what I am saying is that under the present arrangement with TOTE there's no guarantee of any of the funding. What I am actually providing is greater long-term security than they've ever had before. If you were relying on TOTE, you are relying on a wagering industry. I just make this point: the racing industry here contributes 6.5 per cent to the total TOTE turnover. That's why there needed to be a separation. This is a very serious wagering business and you can see where the growth factor is in its wagering business and really that's what we are trying to capture now, the value in that and put it to work for the Tasmanian people. That includes a very substantial commitment to the racing industry.

**Mr BOOTH** - There is something I do not understand here in your theory. You have this plum tree at the moment with TOTE which is at the moment looking after the industry, providing for the industry. It is like an internalised cash or income stream that is used by the industry to keep itself going. You are proposing to get rid of that plum tree, sell it to someone else. You are going to get the cash that you get out of that sale and you will put that back into some capital expenditure to improve some of the tracks and facilities that they need now but from that point on, once you have expended the value of TOTE which may or may not exceed that amount - we do not know what it is going to bring - you may have

the benefit of a bit more cash in consolidated revenue that has come back from the sale, surplus from the cap ex, Effectively, but from that point on that is no longer going to make a yield specifically that you could hypothecate across to the racing industry itself. Isn't that then going to shift the yearly cost back to consolidated revenue, which will be seen as a grab out of public cash to compete against the hospitals and schools and all of those sorts of things, and be subject to a more politicised outcome rather than the industry being seen to be self-supporting through the current ownership of TOTE as a GBE model?

**Mr AIRD** - Quite frankly with regard to TOTE, only 6.5 per cent of the industry is contributing to the revenue here. It is growing in other areas of wagering. Quite obviously we have over 10 years assiduously assisted the industry, and not without some criticism.

**Mr BOOTH** - That is the point I am making.

**Mr AIRD** - We are prepared to make a long-term commitment to the industry to satisfy their interests and other legitimate interests. They are a legitimate business and they are a generous stakeholder in providing that assistance. No, they will not be subject to the bidding of the Consolidated Fund because we will have a legally binding deed that will determine the level of funding. That will be the obligation that we will have to fulfil in terms of the Consolidated Fund.

**Mr BOOTH** - Just moving on; I realise we are going to run out of time and I cannot follow that any further so thank you.

In answer to a question I asked in the House yesterday, I think, you got back to me and said that Claytons was contracted on 6 January to prepare sale documentation. When did you start negotiations with Claytons to give them the brief that they could accept a contract on anyway?

**Mr AIRD** - I do not have that detail but it would have been some time prior to that. I can try to find it.

**Mr BOOTH** - Can you provide that for us?

**Mr AIRD** - Yes.

**Mr BOOTH** - The other point, just fairly quickly, in terms of the advice; we had that exchange previously in regard to whether or not you just got it from the old mate down at the pub. Are you saying that, basically, generally if you are going to sell a GBE, whoever the Treasurer is at the time and I suppose you cannot talk about other treasurers, you would be content to go on your personal understanding of the industry and gut feeling in talking to various people to confirm whether or not it is a good idea to sell it or not?

**Mr AIRD** - I was supported by Deloitte. They provided the advice.

**Mr BOOTH** - You said that was preliminary advice.

**Mr AIRD** - Deloitte are involved. We will continue an association with Deloitte.

**Mr BOOTH** - Will you provide that advice from Deloitte?

**Mr AIRD** - I am not going to be providing advice, and I do not mean any disrespect. This has been the subject of some discussion with people here. My responsibility, basically, is to ensure that I don't, and neither should anyone here, jeopardise any potential optimum sale; that is the obligation. I will give you the information that I can as long as we understand that I am not going to provide dollar figures or anything that could actually artificially influence the market. With regard to the first part of your question, I think my judgment in making the call has been pretty good in terms of the divestment of asset. Some people were sceptical about the value we would get from the airport. I was never ever sceptical and I am not sceptical here.

**Mr BOOTH** - You thought you would get \$40 million according to the *Age*.

**Mr AIRD** - No, that is not right.

**Mr BOOTH** - The headline says '\$40 million from airport expected' and you got \$350 million so your judgment could be a fair way out.

**Mr AIRD** - That article is not right.

**Mr GREEN** - Obviously some members are going to want to ask some questions in camera.

**CHAIR** - Yes, they are. We are down to about 15 minutes or so left so I had Mr Gutwein's one last question.

**Mr AIRD** - Can I just say that I really want this to be pretty thorough. If you want to go beyond 15 minutes I am happy to cooperate with the committee. I want to make it clear. I can indicate to the committee I am happy to come back.

**CHAIR** - At the end of the day we will be fixing another time and place so we can finish it off.

**Mr AIRD** - Well, perhaps you want to give me some questions on notice, Mr Gutwein.

**CHAIR** - Today we have a priority to finish.

**Mr GUTWEIN** - Just so I am clear, I will just run you through some of the dates that we have. On 19 November there was advice provided by Treasury to you that we should proceed with the sale, is that right?

**Mr AIRD** - Yes.

**Mr GUTWEIN** - On 22 December Cabinet looked at that Treasury advice plus advice that was included in the Treasury minutes from Deloitte, is that correct?

**Mr AIRD** - There was an initial minute to me that I did not approve. Then there was a revised cabinet minute sent to me reflecting the changes that I required and that I signed on 19 December and I took it to Cabinet on 22 December.

**Mr GUTWEIN** - That included the advice from Deloitte?

**Mr AIRD** - Yes.

**Mr GUTWEIN** - Due diligence is under way now, is that right?

**Mr AIRD** - I will be quite frank - I will put everything on hold until we have continued this. I did not want to be seen to be presumptuous.

**Mr BOOTH** - We would never suggest that.

**Mr GUTWEIN** - I will remind you of that at some other stage.

**Mr AIRD** - When I am.

**Mr GUTWEIN** - Are Clayton Utz still preparing the sales documents?

**Mr AIRD** - Yes.

**Mr GUTWEIN** - So that is not presumptuous.

**Mr AIRD** - I do not know what information -

**Mr GUTWEIN** - No, that is all right.

**Mr AIRD** - but in fact there is no -

**Mr GUTWEIN** - I am just playing with you there.

**Mr AIRD** - I would prefer it if you did not play with me, Mr Gutwein.

**Mr GUTWEIN** - The question I do have is do you have a business case that supports the sale?

**Mr AIRD** - No, there is no such animal, to be quite frank. A multiplier and all those types of things come into play and people will make some judgments. Until you get this information to a data room and you know that there is some contestability and some serious bidders that is of concern, it is going to be the market that determines the business case. It is not something you put in the front window of a shop and say, 'Here it is, go buy it'.

**Mr GUTWEIN** - I would have thought, though, that to support a sale like this you would have a figure in mind, that you would be able to say, 'If that is achieved, we know that we can achieve our aims. If that figure is achieved we can support the racing industry, we can do the other things we want to do'. I would have thought as a matter of course that you would have had some understanding as to what that was before you would proceed to go to the point where you are going to throw it to the market.

**Mr AIRD** - Yes.

**Mr GUTWEIN** - So you have that figure. I am not going to ask you, I just want to know whether you have it.

**Mr AIRD** - Yes, I have a figure in my head here.

**Mr GUTWEIN** - In your head?

**Mr AIRD** - I am not going to put anywhere, any time, a figure. People can make judgments about figures and it would be a judgment call because you are trying

to anticipate. Some bidders will seek greater value than others because it will have facets of the operation of TOTE that they want to get hold of.

**Mr GUTWEIN** - With the greatest of respect, you have provided to the committee today some figures, that is, capital expenditure of \$40 million. We know that there needs to be support to the racing industry on an annual basis and we know what's being currently provided. You don't need to be a genius to work out a present value of what lump sum you might require to be able to provide that support. So, in providing those details, you've actually probably provided sufficient information to anybody that actually wants to work through that and say, 'We can work out what the bottom-line figure is to the Tasmanian Government', with the greatest of respect.

**Mr AIRD** - That's okay; you don't have to say that - greatest respect. The fact is that I have to satisfy some interests here in terms of the racing industry; I have to provide some certainty and I am prepared to put those figures there to satisfy them. That means that when we put forward a deed, or whatever, of understanding, we wear the risk.

**Mrs RATTRAY-WAGNER** - I'd just like to get clear in my mind, Treasurer, why you couldn't have shared some of your thoughts about the sale of TOTE when you were doing the restructuring. What was so secretive that you needed not to share it with the industry and I guess also why you couldn't share it with the scrutiny committee back in early December?

**Mr AIRD** - Well, I hadn't determined that it was for sale.

**Mrs RATTRAY-WAGNER** - But if there had been some processes going on, could you not have said, 'We're doing some really light work on this'?

**Mr AIRD** - Well, that could have an effect upon a range of players, including the staff of TOTE. There are 300-odd employees in TOTE. When we made the announcement on the Thursday, having made the decision on the Monday, we put in a very serious communication strategy with the employees to make sure that they understood the nature of the process. Similarly, there are a whole range of things that you might consider or prepare for or get preliminary information on that you don't want to go on with. If Deloitte had come back and said, 'Hey, this is not going to work for you', I'd have to really consider that and ask why. I would have really quizzed them. But they didn't say that. Therefore, the issue of making a decision only occurred on 22 December and whatever thoughts or considerations that I may have might have ended up being nothing. It is only after you conclude the deliberations and thoughts about what is going on that you can make a decision.

**Mr WILKINSON** - People have stated, and stated in these hearings we've had today, that they were receiving assurances that TOTE wouldn't be sold pretty well up until the time that there was a sudden, as they call it, backflip. What's your comment about that?

**Mr AIRD** - If you look at all my statements about this, I've always said that I was casting my eye over assets and I'm sure you've gone back. I've always said that, as Treasurer, I am looking at assets and I'm looking at their core function to government and -

**Mr GREEN** - We've bought one - the power station.

**Mr AIRD** - Yes, well that's true; part of one. That aside, I have always been open about that and we've had discussions in the Legislative Council about it and I've said it in answers to questions; I've said it, in fact, in answer to the honourable member for Apsley.

**Mr BOOTH** - But didn't you specifically say that it's not going to be sold?

**Mr AIRD** - No.

**Mr BOOTH** - But you led people to believe before -

**Mr AIRD** - No.

**Mr BOOTH** - Well, certainly our House was led to believe that TOTE would not be sold.

**Mr AIRD** - No, I didn't.

**Mr BOOTH** - Well, what -

**Mr AIRD** - I know you've referred to things in the past, to the second reading speech that was made in terms of the separation. If you read that speech in the context of that bill, you will see that that is entirely consistent because we were saying that the separation of the wagering organisation, the racing services, was not about the sale, and it wasn't. People can make a judgment about does it help or not but I can tell you the motivation is not that. That separation would have occurred whether we proceeded with the sale or not.

**Mr BOOTH** - When you gave that assurance, when people asked you the because they wanted to know whether TOTE was sold, whether that was part of it, at they felt deluded into supporting the industry restructure because they had the assurance that TOTE would not be sold. Have you not effectively misled those people, at least by omission, by not saying, 'Okay, you want to know if it is going to be sold. Today I have not made the decision but tomorrow I probably will because I have made up my mind that clearly I will.

**Mr AIRD** - You cannot say you probably will make a decision. You either make a decision or you don't. If you look at my statements they have always reflected that as Treasurer I was casting my eye over the assets, and I have said that quite consistently.

**CHAIR** - Okay, thank you. We have now cut ourselves very short of time so we will now move in camera. I would ask that everybody else vacate the room. Thank you very much for your attendance this afternoon.

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THE JOINT STANDING COMMITTEE ON ENVIRONMENT, RESOURCES AND DEVELOPMENT MET IN COMMITTEE ROOM 1, PARLIAMENT HOUSE, HOBART, ON THURSDAY 19 MARCH 2009.

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**Mr KEVIN THOMAS RING** WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** (Mr Hall) - Thank you, Kevin. Please focus just on the main term of reference, which is the proposed sale of TOTE by the Tasmanian Government, and just give your opinion, particularly coming from your perspective as representing jockeys and having been a jockey.

**Mr RING** - Our association has spoken in depth about this. In fact we had a meeting last week about the subject of the sale of TOTE. Our members are not against the sale of TOTE. What our members are worried about is whether the jockeys and racing will be looked after in the same way as previously, and whether the Government will have a declaration in place that will be binding even with changes of government and changes over the years so that the same percentage of money, if not more hopefully, will be given back to racing. That is the jockeys' biggest fear with what is happening.

**CHAIR** - Yes, future sustainability.

**Mr RING** - We have all been reading about the sale of TOTE and the for and againsts in different articles and comments, but we have not heard a comment yet from the minister as to safeguards on racing, especially the financial aspects, and that is a concern. There are a lot of rumours as to who is buying et cetera, and until it is actually resolved we won't know who it is.

**CHAIR** - No, we have no idea.

**Mr RING** - It is just speculation at the moment. We hope it will result in the same situation as before, if not better, and wonder whether anything will be put in place to safeguard racing.

**Mr HARRISS** - Flowing from that then, Kevin, can I conclude that your association has not been engaged by the Government in any negotiation? You have said you have heard the Treasurer or the minister making comment, so is that a reasonable conclusion?

**Mr RING** - That is a reasonable conclusion.

**Mr HARRISS** - What is your feeling about that as an association?

**Mr RING** - As an association we like to think that we are fairly important in the whole scheme of racing in this State. We are a sub-branch of the Australian Jockeys Association as of last year. If our State association was not informed we would have liked our Australian Jockeys Association to have been informed. We think that this whole sale is very important to everyone and we feel we are a big part of that, and that the jockeys should be aware of what is happening. We have a small number of jockeys at the moment compared to previous years and if they are unsure as to how things are going I think we will lose more.

**Mr HARRISS** - Have they made an approach to the Government?

**Mr RING** - No, they have not made an approach.

**Mr HARRISS** - Yet the sale is on our doorstep. The Treasurer would, I presume, be desirous of having legislation in front of the Parliament fairly shortly. I suppose one could then argue that if your association, your jockeys, are not properly taken account of and the sale proceeds but you have no assurances before the sale, you would be a little concerned. Would you?

**Mr RING** - We have concerns. We have not made an approach, but thought as a courteous thing that the Government would have made an approach to us, even in writing.

**CHAIR** - Has there been nothing at all?

**Mr RING** - Nothing at all.

**CHAIR** - You have had no consultation.

**Mr RING** - No consultation. That is a concern to us. As I said, there has been no information as to the long-term stability of racing in this State financially.

**Mr WILKINSON** - Kevin, it seems to me from over the last couple of weeks asking a few questions around the place that people in your situation, not only the jockeys but other people in your situation, are saying you do not know whether it is a good thing or not as yet because you do not know what certainty there is going to be for the racing industry if TOTE is sold. Is that right?

**Mr RING** - That is right.

**Mr WILKINSON** - Am I right in saying that you are not really against it, it is only a lack of communication that leads you to not knowing whether to agree with it or not?

**Mr RING** - That is right. We are not against it because we can see that if handled right this could be good for racing in general in this State financially. We have always been of the view that, especially over the last 10 years, there has been a lack of race meetings in this State for our members. That is one of the reasons for the shortage of jockeys here. If there can be an input of more finances through the sale of TOTE then that would be good, but we do not know.

**Mr WILKINSON** - You obviously have plenty of experience in the industry. Have you any idea as to what has happened interstate where TOTEs have been sold, how their industries are going?

**Mr RING** - I think South Australia is a fairly good example. There are problems at the moment but they are only minor compared to what has happened over the last few years with the sale of racetracks et cetera. Their industry, from our association's point of view, has halted.

**Mr WILKINSON** - If - and I do not know yet because we are in the same position to some degree as you are - TOTE were to be sold, what would be a way of, in your opinion, ensuring that the industry would have the same if not better return than it has had over the last few years?

**Mr RING** - I am not an expert on it but I honestly think there should be a greater percentage of money returned to racing. I have always thought that. Racing is a very good industry for this State, financially for the Government. People from TOTE will tell you things are always being put in place to try to earn extra money for TOTE and the Government. I would like to see a little bit more put back in. We have great prize money for our big races but I would like to see the board put more money in over a 12-month period to create more money especially for our members, and also more race meetings.

**Mr WILKINSON** - It would seem to me that with any proposed sale the Government would need to ensure that whoever purchased TOTE would have to give some type of agreement in writing, in a contract, to say that they would be willing to put back into the industry a figure not less than whatever they decide is appropriate.

**Mr RING** - That is right. There has to be a guarantee as far as we are concerned and it has to be a binding guarantee that if there is a change of government and a change in the status quo then that money percentage-wise has to keep coming back in, if not more over the years. There has to be something in place.

**Mr WILKINSON** - Because you could say there is uncertainty if it is left with government to decide how much money you are to get. In hard economic times there is going to be an argument around the cabinet table, I suppose, or the treasury tables as to how much racing can get as opposed to health, education et cetera.

**Mr RING** - I would like to see something where the new racing board was able to have an input and have a binding contract. Not so much keeping government away from that aspect but have a binding contract with the Tasmanian Racing Board that will stay for years to come.

**Mr GUTWEIN** - Over what period of time, Kevin?

**Mr RING** - I would say a 20-year period. To me that would be fair. Then it can be readdressed in that period. Anything could happen in 20 years. It could be sold again. But there has to be something that is binding. I think a 20-year period would be very good.

**Mr BOOTH** - Kevin, are you concerned then in terms of long-term future stability and support of the industry that, by selling TOTE and leaving the stake money and support for the industry coming directly from government, politics will get in the road of industry during that 20 years? Guarantees are only worth the paper they are written on, as you know. Does that concern your industry? It certainly concerns me and people who have made submissions to me have stated that they do not want it to be taken out of TOTE because at the moment it is actually an industry that is self-supporting, whereas if it comes back then it is seen as a dividend from the public purse, that politics are getting in the way of the industry being sustainable.

**Mr RING** - My opinion is that politics have gotten in the way of racing for a fairly long time. I came to this State in 1989. Racing was going very well in the early 1990s. To me, over the last 10 years - or maybe a little bit longer - politics have gotten in the way of racing. Racing is a very large industry and it is a sport. Politics and sport do not really go hand in hand. It has been proven in other

sports. I think politics may get in the way of this too much. I think it needs to be handled by the businesspeople who will be buying TOTE and the racing board.

**Mr BOOTH** - Just to clarify that, you do not have a concern either way, if TOTE was sold and then the Government put money into racing rather than TOTE putting money into racing as it does now, that then politics might get in the road of the future of that money coming directly from government to racing? At the moment it appears to be a bit more at arm's length.

**Mr RING** - I have a concern that it may get in the way. The Government gets their percentage out of racing and I think they should leave it at that. They should not interfere in the process of it, especially between TOTE and the racing board, as far as their percentage goes. The racing board - now different to how it used to be - controls all three codes. They should be allowed to handle them as they see it, with no interference. But they should be funded the same as it is at the moment, if not better over the period of years once TOTE is sold. These security things should be put into place to make sure it is. To me, over the 10 years racing has declined in this State. Some of our carnivals are quite big. The mainlanders love it, prize money-wise. But as for the general local racing population, it is declining as far as I am concerned. The chances of our jockeys earning a reasonable living - especially from our association's point of view - has declined with the declining numbers as well.

**Mr BOOTH** - You speak as though there is an inevitability of the TOTE being sold. Would you rather have the support coming from TOTE to the industry or from the public purse to the industry in the future?

**Mr RING** - I think the public purse would be a more concrete step rather than the sale of TOTE. That's not saying we are against it, we just think from the public purse. For what is put into the TOTE over the years percentage-wise I think it has been fairly good but from the top down it hasn't been handled in a way that look's after the industry's people.

**Mr BOOTH** - So if that distribution was handled properly, the TOTE model funding the industry and TOTE being owned by the Government as it is at the moment is better than TOTE being sold and the money coming from the public purse?

**Mr RING** - We don't know until something is put in place, until the minister tells us what is happening if it is sold, what guidelines will be put in place and what will be put in place to look after the people in the industry. At the moment we are only guessing.

**Mr GUTWEIN** - Your association is a sub-branch of the Australian Jockeys Association. What has been the situation in, say, South Australia or Victoria where it has been privatised? Has it been better for jockeys or worse? Could you explain why in either case?

**Mr RING** - Victoria has been terrific for jockeys. If I was 30 and still riding I wouldn't be here, I would be in Victoria where you have a chance to ride every day of the week. Even if you are a battling rider, you can ride on a Saturday at non-TAB meetings or on Mondays, Tuesdays - which is very average but you can pick up some rides. But, apart from that, you can make a good living riding barrier trials. Their fees are better, there are more of them. Even race riding, they are \$160 a ride, whereas here we get \$130 and they are riding them every day of the week if they can. In trials they are getting over \$50 a ride and you could ride 10, 15,

maybe 20 trials at Cranbourne, for instance, and earn a week's wages just riding trials, plus you are riding track work. There is a young rider over there at the moment, Dean Larson, who battled here but he has done well over there, not through getting a lot of race rides or winners but making a good living. He now owns two houses and I think he's got a little business going as well, just from that. From a jockey's perspective, Victorian racing has been terrific.

**CHAIR** - It is more a function of economies of scale, Victoria being a bigger State rather than the way the organisation is?

**Mr RING** - Yes, numbers and population betting-wise, but it has been handled very well. Racing is still in a very good position financially. Then you go to South Australia -

**CHAIR** - You mentioned South Australia and I just want to follow up on that. You mentioned that is a bit of a dog's breakfast at the moment, but you also talk about tracks being sold off. That was a separate issue from what happened since the TOTE had been privatised there, was it?

**Mr RING** - Yes, it's a separate issue to what has been going on at the moment. For instance, David Hayes, one of the leading trainers in Australia, has scaled down his team at Lindsay Park in South Australia. He has even sent horses over to Western Australia to be trained because their racing is going well. He has scaled things down to the point where he is not training horses at Lindsay Park anymore. He does have runners in South Australia - and David Hayes is a very good businessman - but from that point of view he's even set up a place at Euroa in Victoria because he knows that's the place to be. Western Australia and Victoria are the places he wants to be; they are the places he knows he's going to earn the money.

**CHAIR** - The model Western Australia currently operates under is the model we have here in Tasmania.

**Mr RING** - It is, it is very similar. That was discussed last year at the forums for the new board.

**CHAIR** - So would you go down the track of saying, 'If it ain't broke, don't fix it', or not?

**Mr RING** - That is right, to be honest. This new board is new. They are feeling their way. But I think it will be very good in the long-term, but with the sale of TOTE, that is a different ball game.

**Mrs RATTRAY-WAGNER** - Kevin, you talked about the restructure from last year. What input did your organisation have in that restructure and also, would you mind telling the committee whether you asked the question whether the restructure had anything to do with the potential sale of TOTE and whether it would have made any difference to your support?

**Mr RING** - I asked the question a few times. Once was at one of those forums at Mowbray Racecourse and it was also asked by a member of the AWU because all our jockeys are members of the AWU. It was asked at the forum at Bellerive as well. I also asked at some meetings at the Thoroughbred Racing Council whether the TOTE was going to be sold and the answer was always no, and it was a very straight no. It is felt in the industry a bit that the new board was set

up so they could separate TOTE and the board because previously TOTE had a lot of input into the racing part of it, especially tracks and maintenance and things like that. Whether it is correct, the feeling was that the new board was set up to separate TOTE so that it then could be put on the market and sold.

**Mrs RATTRAY-WAGNER** - Would your association's support for the restructure have remained the same had you known that?

**Mr RING** - If we had known that there was to be a sale of TOTE we would have asked why it was being sold and we would have asked at the time whether there was a guarantee that the same set-up would be in place for the financial reasons for racing. We would not have been against it as long as it was known that everything would remain the same financially.

**Mrs RATTRAY-WAGNER** - In your opinion, is your industry disappointed at the fact that the Government and the minister have chosen not to take the industry and your association along for the ride in the sale?

**Mr RING** - Yes, we are. We would have liked to have known last year, and we would like to know now what guidelines will be in place as far as the racing the concerned.

**Mr BOOTH** - Kevin, how definite was this no when you asked the question a number of times? Was it an equivocal or an unequivocal no?

**Mr RING** - There was no thought put into it. It was straight off and done.

**Mr BOOTH** - Were you left with any impression that it was being considered or that there was a process in place?

**Mr RING** - We always thought it was going to happen. It was no surprise when we read at the start of this year that the TOTE was being sold. I think it was in the media within a week after the new board started. It was no surprise to us, let's put it that way.

**Mr BOOTH** - Basically you did not believe them when they told you no, then, or did you believe them when you asked them?

**Mr RING** - I do not think anyone believed it, to be honest. That is the opinion of a lot of people I have spoken to in racing. I don't think anyone believed them. You hear a lot of rumours, and especially in racing, but if it is said often enough you start to think it is true; and it was said plenty of times.

**Mr GUTWEIN** - Kevin, I want to bring you back to a point Mr Booth raised earlier in regard to the level of consultation. My understanding of what you said was that there had been no contact with the Jockeys' Association regarding the possible proposed sale of TOTE, nor have you been contacted since to provide input in regard to concerns or suggestions you might have about the proposed sale of TOTE. Is that correct?

**Mr RING** - The minister and the Government say they want to sell TOTE and that is fine, but we are disappointed that they did not let everyone know. They should do it officially in writing and give the reasons to the racing groups. As far as the running of racing is concerned, which has been put to me by the Racing Board, it is separate from the TOTE, especially now with the new board. It has been put

to me by the board that we cannot tell the Government that we don't think they should sell TOTE because that is the business of the Government. But it is also the business of the people that make a lot of money for the Government through racing as well; as far as we are concerned, racing depends on TOTE.

The TAB was set up as an agency years ago to fund racing, but it also helps fund a lot of capital programs as well for hospitals and things like that but it was also set up to make sure that racing survived. Therefore we think that we should have some say or be informed, at least, about what is happening.

**Mr WILKINSON** - Kevin, you were saying that you do not believe that racing is as good now as it was when you first arrived in 1989. Secondly, you say that you do not know whether it is a good idea, it would seem, to sell TOTE because you do not know what the price would be and what racing would get out of it, and that there is no certainty for you. And, as I understand it, you say that there has to be more improvement in racing, more race meets, more this, that and one thing and another as you have described over the last half-hour. How are we going to do that, we might ask, if there is not a change in the ways things are dealt with?

**Mr RING** - One of the things that has been discussed by trainers, jockeys and owners is that we do not need the big prize money for those cups, not as big anyway. Money can be evenly disbursed over the year, with more minor race meetings, say mid-week, and we used to have a fair amount of mid-weeks years ago.

The jockeys, trainers and owners would be quite happy for those mid-weeks to have less prize money than, say, a Sunday meeting. At least it gives everyone a chance to earn some money and make a decent living out of it. The money needs to be spread across the board more evenly, and not just for those January and February race meetings.

**Mr WILKINSON** - So whether TOTE is sold or not, your major concern is as you have just described?

**Mr RING** - Yes. It has been explained to us by TOTE and the board also that they want quality, and that is fine. These people in business are talking about quality, but you have to have quantity to get quality and we are not doing that with the number of race meetings we have. There are fewer owners coming into the racing and there are fewer horses about because of a lack of chances to earn a living and a reasonable amount of money. So they are either getting out of racing or going interstate.

**Mr WILKINSON** - You are saying, aren't you, that the bigger the base of the pyramid the higher it goes?

**Mr RING** - Yes. I can understand that they want quality but the quality that we are getting over that two-month period when we have so much prize money is all coming from the mainland. People will certainly bet on them and that is what TOTE are trying to do and I can understand that; people will bet on them a lot more because they know the horses. Fifteen years ago we had some very good horses in this State that were able to go to Melbourne and win cups and reasonable races and we have not had those horses for a number of years because of the decline in racing in this State, as far as I'm concerned.

**Mr BOOTH** - Kevin, from your understanding of the Treasurer's proposal to sell TOTE, do you think that it is being done for the good of the industry or for the good of Treasury?

**Mr RING** - I cannot answer that until I get more information, but as it stands from just sitting back and hearing and reading and different things, I think that it is for the good of Treasury at the moment.

**Mr BEST** - Just quickly, Mr Chair, I was a bit late this morning as it was a 5 a.m. start at Liffey Falls, so I am sorry. First of all Kevin, congratulations on all the work that you have done with workers compensation for jockeys and other gains. I am sure that other committee members would be aware of the fine work that you have done there for jockeys. If we were to dot some of the key recommendations that you are making about quantity, where do you think that could take the industry over the next 10 years?

**Mr RING** - I think we could end up with more jockeys here and more owners, but it will take time. In the first five years, say, over a 10-year period it is not going to improve a lot because people are going to be a bit dubious about investing here, but I think it will improve. There is a decline in jockey numbers across the board across Australia but I think the decline in this State is very low; we have a higher percentage than anywhere. I think with some of the suggestions I have put forward today that eventually we will have more owners, more horses, more jockeys and even more trainers - probably more professional trainers.

**CHAIR** - Kevin, our time has expired, unfortunately. Thank you very much. The information you have given to the committee has been very informative. We have about 12 witnesses today so we have to keep rocking along.

**Mr RING** - You'd better drink lots of water.

*Laughter.*

**CHAIR** - Thank you very much. We appreciate your coming in.

**THE WITNESS WITHDREW.**

**Mr TERRY EDWARD CLARKE WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.**

**CHAIR** (Mr Hall) - Terry, you have been before parliamentary committees before and so you are aware of privilege and all those sorts of things.

**Mr CLARKE** - Yes.

**CHAIR** - Obviously you are aware of our terms of reference, which is to inquire into the sale of TOTE and whether that is a good thing, bad thing or whatever. What I would invite you to do is to give your evidence to the committee, make some opening statements if you like, and then give the committee a chance to ask questions, bearing in mind that we are on a very tight time frame of 30 minutes per witness.

**Mr CLARKE** - I will make some opening observations, Mr Chairman, and then I would like to deal with a number of issues which have been stimulated by this decision by Cabinet to sell TOTE Tasmania.

Up until December 2008 there were two States in Australia where the racing industry, in my opinion, was set to really develop and had a good base. Those industries were in Western Australia and Tasmania and both were operated by combined wagering and racing bodies. In the other States, where privatisation has occurred in one shape or form, they are all in some trouble regarding their future funding - and I will come back to that later.

It appears to me - and I am making observations at the moment - that this decision is driven by two issues. One is that there is some value in the TOTE now that was not there years ago, so let's jump in and grab it before it disappears, and the threat of expulsion from SuperTAB might well be the driving motivation there.

The other one is an ideology that governments should not own gambling businesses, and I would like to challenge that later as well. The solution is, 'Well, let's fix the racing industry up. We'll put them on a budget and they won't need to complain anymore because they've got a guaranteed income - but hang on, there was no mandate to do that'. If I take Mr Aird's evidence at face value, I don't claim to be the world's best mathematician, but that tells me that the citizens of Tasmania need to fund something over \$900 million in the next 20 years. They were not asked whether they wanted to do that, so there has been no public interest test as to whether or not this is a good decision. That is in stark contrast to when the Labor Party came to power in 1998 when they had a mandate to merge racing and wagering.

The second issue is that the Tasmanian racing industry now, whether they like it or not, is exposed to sovereign risk. If we do not think sovereign risk is real for the industry we only have to look at Melbourne and what happened to Tabcorp and Tattersalls, who were encouraged into privatisation on the basis they would get back some \$600 million for their licence fee if they were not reallocated the licence in 2012. But the Government there has come in and said, 'No, we are not honouring that pledge; you can take us to the courts if you do not agree'.

The second thing is that without the TOTE, this organisation that has been created, the Tasmanian Racing Board, will effectively be going to the market with one hand tied behind its back. It will have very little power or ability to win its way compared to now with the TOTE, and I'm talking nationally and globally. The other thing that should be worrying people if they're interested in public finance is what incentives will there be for the Tasmanian Racing Board - I don't care whether it's a State-owned company or GBE - where are the market forces that are going to drive efficiency, or is it just going to roll back up to the Government and get caught up in the negotiating for each annual budget?

They are my observations. I think there are issues of public finance principles that are being violated here. I don't understand how a submission can go through Cabinet without the consultation section being filled in, without the economic and social impact, without the licence fees for the new operator having been determined, or the period or the licence. Worse still, if we listen to Mr Aird's evidence, we're just negotiating the deal with the racing industry now, so how did the Government take a decision to sell the TOTE? Where or when was the economic or public benefit test done?

I will now address a few issues that come out of this which I think might be of interest to the committee. TOTE Tasmania effectively provides half of the economic stimulus. In 2005-06, that was estimated to be \$74 million, so if you sell off the TOTE to some company that takes it out of this State, you're looking at effectively impacting half of the impact on GDP in this State. As I said, if you take the face value figures given in evidence, that suggests something like \$900 million is going to be paid out of the coffers to run racing for the next 20 years.

By the way, the new owner won't have any real necessity to put money back into Tasmania because with the product fee regime, if the Tasmanian racing is not of a quality that fits the new owner's perspective as far as offering product to the wagering punters - and they are the ones who in the end will determine what the new owner bets on - then he has no obligation unless it's part of the deal to put product fees back into Tasmania. If it's part of the deal, then it's going to impact the price.

As to the relationship between TOTE and racing, Mr Challen, I note, said that his decision was a personal one, 'based on, I confess, not huge expertise of the industry' - so again, he got some experts to help him. I would like to ask the committee, what do Japan, France, Ireland, South Africa, Sweden, Norway, Hong Kong, Macau and Singapore have in common? Why is the British Government trying to sell its TOTE to the racing industry? The one thing in common globally with all the major racing industries is that it is one organisation. Racing and wagering is the supply and demand side of the equation.

When the Western Australian Government review was under way into the future administration of that industry, I met the chairman and he told me that the Tasmanian model was the best they had identified after a widespread review. That is what they implemented, apart from the fact that they put probity into the organisation, whereas we argued it was the public good and should be funded for the wider public benefit.

**Mr WILKINSON** - Terry, what year was that review, please? Can we be provided with a copy of it?

**Mr CLARKE** - I think Craig might be able to help with that; I don't have that with me here.

Subsequent to the WA decision, New Zealand went the same way, combining racing and wagering into one organisation. In contrast, the most recent example of the privatisation of the TAB in Australia was the sale of SA TAB. Not only did the government there have a massive early return on its purchase price, but it also lost taxation on \$80 million of wagering that we got here at TOTE Tasmania. That's because the punters want to stay in the big pool, and the same thing is going to happen here if you move out of the SuperTAB pool. More importantly, it's brought South Australian racing to its knees because the relationship with UNiTAB has not delivered the amount of revenue and income that they need. I understand recently the tax rates have been adjusted to acknowledge that.

Mr Aird quotes that activities in Victoria are a factor in his decision to sell TOTE. From my work with the industry in that State, the racing industry is very unhappy about being prevented from bidding for the parimutuel licence post-2012, and I can tell you from contact within the Government that the industry has tried hard to convince the minister to change his mind and let them bid for the licence. Racing and wagering are inextricably linked; they are the supply and demand sides of the one industry. By separating the wagering from racing and selling off the TOTE, the industry's bargaining power will be significantly impacted, such that the Tasmanian Racing Board, in my opinion, will have little capacity to achieve the targets for selling this racing nationally and globally that Mr Coleman has announced as part of the justification for the split in the administration. It is a suboptimal outcome and the decision to do this in Tasmania is not going with the trend nationally or globally, it is actually going against it.

Indeed, I recently had a phone call from the managing director of one of the two major thoroughbred transport companies in Australia, and I quote him. He said:

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'What is going on down there? Have people got rocks in their heads selling off the TOTE?'

The third issue is the impact of funding racing from consolidated revenue. At the time of the incorporation of TOTE Tasmania, an investment bank was engaged to define the options for an appropriate financial relationship between the industry, government and TOTE. The consultants were critical of the option of direct funding of racing, noting it would make the allocation of funds largely a recurrent political issue, based around lobbying and negotiations which would tie up resources that could be better used elsewhere, as there is no direct interactive economic relationship between the Government and the racing industry. The consultants considered it difficult to conceive that a proper incentive structure could be established in such circumstances. Even more importantly - and I see you have had the head of Treasury giving you evidence - in their 2003 Regulatory Impact Statement to the National Competition Commission, the following is what the Treasury said five years ago:

'Retention and exclusivity for TOTE Tasmania's parimutuel wagering activities is the best model for providing stable, long-term and reliable sources of funding for the racing industry. This view is because the interests of TOTE Tasmania and the racing industry are aligned. This nexus creates market incentives for both the

TOTE and the racing industry to maximise outcomes for both parties.

The TOTE has a direct interest in maximising funding for the racing industry to make it more appealing to the public as a betting product and likewise, the racing industry has an incentive to provide the appropriate racing product mix and quantity demanded by the public to maximise betting opportunities and therefore funding by the TOTE.'

Again, quoting:

'This market would not exist if the Government rather than TOTE funded the racing industry as it would no longer share the TOTE's success.'

I ask, what has changed the Treasury's stated position? Has someone been leaned on?

Mr Challen claims the connection between the TOTE and the racing industry is just an accident of history. The connection between racing and the TAB was never an accident of history. It was because of the racing industry that governments established a TAB in all States.

In Victoria the industry claimed ownership rights over the TAB and this was tested in the High Court at the time of its privatisation with the case being based on the fact of the funding of the assets of the TAB from profits withheld from the industry.

In a debate over the TOTE Tasmania Bill 2000 the then Minister for Racing, Paul Lennon, said in his second reading debate response, quote:

'We are enabling the industry to capitalise its assets for the first time in history, whilst at the same time continuing the government guarantee which underpins the industry now ... We are moving it to a State-owned company under this legislation, and on our way through, are recognising' -

The Government is saying this -

'what the High Court recognised during the sale of the Victorian TAB, that there is in fact some ownership right of the racing industry in the TAB. This legislation is better than what the Victorian racing industry gets in terms of its share of the profits of the privatised Tabcorp.

They get a profit. Here we are giving them earnings before interest, tax, depreciation and amortisation and that is quite unusual ... They get it off the top and that maximises the amount ... they get 25 per cent there ...'

It is worth noting the member of the Legislative Council responsible for taking this bill through the upper House was none other than Mr Aird. I believe therefore, and I want the committee to take this in, the industry should now argue that whatever the sale price is for TOTE Australia, 25

per cent of the proceeds should be provided to the TAB and this is in addition to the funds that the Treasurer has already identified he is prepared to give.

A minor issue in Mr Aird's evidence was that he said that he needed to separate out the three assets of the TOTE; the radio station, the TOTE and the racing business. The radio station loses about \$700 000 a year. There are probably two logical buyers - Radio Sport 927 and UNiTAB, if they are a buyer. Whichever way it goes, if that was a separate issue it would be a fire sale.

That indicates a misunderstanding of the importance of the integrated nature of the industry; without that radio station some 40 per cent of the business would potentially be at risk. If it is going to be sold as a statewide radio network then you would simply undermine the value on that basis of the licence.

Another issue which Mr Aird raised, is there are changes within the industry that I think will be an interesting challenge and I do not think the Government should be involved in that. Any potential buyer would be well aware of what those issues are and would already have discounted the price. He knew that is was likely because a proportion of the business only exists because TOTE co-mingles its board with SuperTAB. That is what we lost. Also it is widespread industry knowledge that most of TOTE's growth since 2007 has been attracted by rebates to punters to improve their returns and a potential buyer would clearly discount this business if it is not prepared to offer the same rebates.

The major characteristics of a successful TAB are strong local racing, access to a betting pool of more than \$1 billion, a competitive taxation regime and position against other forms of gambling and state-of-the-art IT equipment and software. All this would suggest to me that, unless it is a strategic buy and that seems unlikely without the buyer having access to one of the three Australia pools, the buyer may seek to pay the purchase price over a period on an earn-out basis, no doubt frustrating the Government's reinvestment plans; albeit, we do not know what assets they are going to put that money in and how it is going create more benefit than the existing arrangement.

The seventh issue is, another reason for selling a State-owned company is that it is not performing or could be perceived to perform better in the private sector. Since the establishment of the current arrangement, funding to racing has increased by more than 90 per cent and the organisation has never called on the Government to fund its operational activities. Because of its expertise and experience it has become the fastest-growing TAB in Australia.

In 1997, KPMG did a report for the Government and there were consultants who looked at the ACT about the same time. Both consulting groups could not see how the TAB could survive in the then turmoil in the market. It has, 12 years on and it is stronger than ever. I reject completely therefore, the ideologically-driven view that governments should not own TABs. Providing the racing wagering are operated together, and I am sure the Western Australian Government reached this view, the public benefits test will mean the overall social and economic benefits will outweigh the risks to the Government of the gambling business. If it is operated as an incorporated company, it is operated properly and ministers keep out of the day-to-day business, then they should have no reason to be concerned that is it going to come back and bite them.

**CHAIR** - Terry, I am aware that we are down to about 10 minutes, so if you can just encapsulate what you have to say.

**Mr CLARKE** - I can finish there, Mr Chairman. I do have another point to make later.

**CHAIR** - Yes, thank you. You gave us a multitude of information at 100 miles an hour, so we are probably still all absorbing that. That was good.

**Mr CLARKE** - I am happy to provide it to you as a paper, if you wish.

**CHAIR** - It is on *Hansard*. If you want to table that it would be handy.

**Mr BEST** - We have the picture; you are not happy.

**Mr CLARKE** - As a citizen I am a bit concerned when someone whacks \$900 million on the budget and we were not asked, as people, whether or not we wanted that to happen. It is a very convenient way to say, 'Don't worry about the risk, I'll look after it. I am sorry, I do not agree. As we saw with Tabcorp and Tattersalls, sovereign risk is just that, it is sovereign risk and it exists in western governments as it exists in any other form of government.

**Mr BOOTH** - Terry, in your previous role with TOTE, was the sale of TOTE ever discussed before, at any level?

**Mr CLARKE** - No, it was not.

**Mr BOOTH** - When did you first become aware of it?

**Mr CLARKE** - I will put it to you this way, since I left TOTE as far back as in January 2008, I asked if I was to roll up with the right amount of money to do a MBO, how would I go? I was told it would be well received.

**Mr BOOTH** - Who did you ask?

**Mr CLARKE** - I prefer not to comment.

**Mr BOOTH** - Not the Treasurer?

**Mr CLARKE** - No, it was not the Treasurer and I guess I have then picked up things through the press and I knew that despite the Treasurer saying on WIN Television, on 10 November, it was not on their mind, I know that at the Oaks on 6 November there was discussion in the committee room with the VRC. Amongst people who had been invited there was just the Treasury in the sale of the TOTE. Clearly, it was on people's minds before 10 November.

**Mr BOOTH** - They had been invited to assist.

**Mr CLARKE** - To assist the Treasury in the sale of TOTE.

**Mr BOOTH** - Who were those people?

**Mr CLARKE** - Again, I am happy to give you that name in camera.

**Mr BOOTH** - Perhaps the Chair or someone can ask that in camera in regard to that just to clarify it.

**Mr WILKINSON** - Will we take that opportunity at the end of this session?

**CHAIR** - If it is quick we can do that.

**Mr BOOTH** - Just to clarify, what you are saying at the moment is that the industry is supported okay through TOTE and that model could take it in the future, whereas it becomes then a political risk and an argument every year for funding and support of the industry.

**Mr CLARKE** - It goes further than that because not only is the industry caught up in the machinations of the budgets, you actually weaken the organisation that runs racing because it no longer goes to the table with the ability to talk across the full range of wagering. If you are going to try to sell Tasmanian wagering into Asia, for example, it would certainly assist if you had the TAB there who is buying product on the other side. That is an issue which I know is part of the process to justify the separation and selling of Tasmanian product into Asia. The fact is that up until 2014, 2016 Sky Channel control all the vision rights of Racing Tasmania. So anything you sell you are going to get half-rights for it anyhow. So you are going to have to sell a hell of a lot of product, for example, if you wanted to economically justify putting lights on at Mowbray.

**Mr GUTWEIN** - You mentioned right at the end of the presentation - and if I can just commend you on that, I thought that was very well presented - that ministers should keep their hands off the day-to-day running of the business. Implicit in that is that in the past that has not been the case?

**Mr CLARKE** - That is absolutely the case. TOTE and the racing industry reaches out so far into the community that in my experience - 10 years at the head of it - you are in daily conflict because people do not get enough money or this dog had not been listed - a whole range of issues that all of you are well aware of. They go to the minister and they lobby the minister. The minister's support staff think they better get involved. A classic case with the current arrangement with people here is with the hotel down in the Channel. There was clearly no economic case for putting a TAB in there and yet we have spent weeks and weeks arguing because someone in the minister's office had that view. This is not consistent with operating a State-owned company. If you set up a company, you set up the board. It operates under Corporations Law and, as far as government is concerned, it should restrict its input to the strategic plan and the policies. If you are going to go around trying to solve every minor complaint from the racing industry and the betting public then you are effectively, instead of walking away and saying that this is a matter for the TOTE to solve, getting involved needlessly. In those circumstances I can understand why you probably would want to get rid of it, get it off the book.

**CHAIR** - The committee will now move in camera for a couple of minutes. Would you switch off any recording devices. We will not be long and then Mr Craig Coleman will be the next witness.

**Mr CRAIG COLEMAN** WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** (Mr Hall) - Mr Coleman, you are aware of the privilege issues that run as you have given evidence before. For the benefit of members of the gallery and the committee, Mr Coleman may wish to give some evidence in camera as well, but we will start off in open committee. Craig, I would ask you to make an opening statement, if you would, please.

**Mr COLEMAN** - First of all, I would like to thank the committee for the opportunity to appear before you today and to provide some comments.

Understandably there has been a great deal of interest in the sale of TOTE Tasmania within the Tasmanian racing industry. As I perceive it, the concern is about the continuity of funding, and certainly they were remarks that were echoed this morning by Kevin Ring in his presentation from the industry, and I think that is an entirely valid concern. The Tasmanian racing industry for the past 10 years has received a substantial increase in funding and, as Terry Clarke, the previous witness, indicated, that increase has been in the order of 90 per cent over that time. The profits that are generated by TOTE Tasmania and paid to the racing industry - this is my position - are a distribution of government funds. The Government owns the business, it was set up by the Government and it has chosen, as it did when it formed the company in 1999 and then formed the State-owned company in 2001, to distribute all its profits to the Tasmanian racing industry. So what we are actually getting in the Tasmanian racing industry is government funds.

The Tasmanian racing industry, in addition to the government funds, is provided with considerable other concessions in the form of dividend holidays. I know that has been of considerable debate in other committees and forums within the Parliament. It gets money from Betfair and direct capital injections from the Government, the most recent being the \$22.6 million that was paid to the industry in 2002. Operational funding for racing from TOTE Tasmania alone this year is \$23.8 million. The Tasmanian industry has seen the success of TOTE Tasmania in recent years and is understandably nervous about its future funding and the impact if TOTE Tasmania is sold. I consider this a strong vote of confidence in the management of TOTE Tasmania and for that I would like to acknowledge the fine work of the board and the management team of TOTE Tasmania. I suppose, in many respects, this probably makes it the right time now to sell the company.

Funding from TOTE Tasmania is but one form of investment in the Tasmanian racing industry. Many Tasmanians invest in the industry through ownership of horses, dogs and, more importantly, through investment in properties dedicated to breeding and training of horses and dogs. For some the investment is motivated by passion for the industry; however, it is important that an appropriate economic return must be considered for those individuals. In my view, the certainty of future funding by government, either through TOTE Tasmania or directly, is an important key element in encouraging that ongoing private sector investment in the racing industry. In this regard, I note the Minister for Racing has already committed the Government to a long-term funding deed, and he spoke of that when he appeared before the committee a couple of weeks ago. That funding deed, as I understand it, will be for 20 years and has agreed

amounts of funding with the Tasmanian Racing Board, which accords exactly with the requirements of Mr Ring this morning.

As I understand it, the industry has been guaranteed a level of funding independent of the commercial operations of TOTE Tasmania, and that is a very important point I'll come back to in a moment. This resolves many of the concerns expressed about what private ownership of TOTE Tasmania may mean to the local industry, and I will touch on some of those concerns as they were referred to by Mr Clarke in his evidence, particularly on the sale of the South Australian TAB. The committee received evidence on the first day of the hearing that the sale of the South Australian TAB was a significant cause of the decline of the racing industry in that State. By way of contrast to TOTE Tasmania, when SA TAB was sold it was returning a loss to the operator. It was virtually stripped of all its profits by the Government of the time. Indeed, following the sale, turnover decreased further, and Mr Clarke referred to that in his evidence this morning. Funding for racing in South Australia is directly - and I emphasise 'directly' - related to the turnover of the TAB in that State, so as the turnover increases or decreases so too does the funding for racing in that State.

I can fully understand that the racing industry would be concerned if the Government was to implement a funding model similar to that model in South Australia, but this is not what the Government is proposing. I understand that the Government is proposing to enter into a long-term deed with the Tasmanian racing industry, which would provide a level of certainty of funding independent of and separate to the turnover of TOTE Tasmania. I encourage that approach because at least the industry will have some form of certainty about its funding model.

I would also like to address some of the comments that were made at the committee on the first day of hearings. The former chairman of the Tasmanian Greyhound Racing Council, Mr Bullock, raised two issues of concerns to him and his former council with respect to the guaranteed levels of funding for the greyhound code. The second matter was in respect to the potential sale of TOTE Tasmania during the industry consultation. Again, that matter was referred to by Mr Ring this morning, so I will address those two points.

It has been asserted that TOTE Tasmania advised the greyhound council that it would increase the level of funding for that code received from funding from Betfair in excess of \$5 million; however, TOTE Tasmania did not formalise its commitment in writing. I have here in evidence copies of several letters which passed between the code council and Mr Bullock and TOTE Tasmania which refer specifically to that guarantee. Mr Bullock further asserted that in written documents handed out during industry forums, and in particular the industry forum at Campbell Town, there was a commitment that TOTE would never be sold. On this point I will read from the document - and there is a copy of this document incorporated in the papers that I've handed the committee this morning.

The comment was made that as TOTE Tasmania is not on the market, therefore there is no provision in the proposed legislation dealing with any hypothetical future sale. That falls well short of saying that TOTE will not be sold. Indeed, on a number of occasions during the consultation process, when asked about this question, I expanded my comments to say that the Tasmanian racing industry could never be guaranteed that the TOTE would not be sold. This Government, or indeed any future Labor or Liberal governments, may well decide to sell TOTE

Tasmania, so there's no guarantee in future. To rely on an organisation for the bulk of your funding appears to me to be madness. You need to broaden your income base so that the industry has a good and sustainable future well beyond the single-point sensitivity of TOTE Tasmania. I made that point quite clear at a number of those forums.

I also want to make comment as to why I was so motivated to see the implementation of the industry restructure which was approved by the Parliament last year. There are several papers here which refer to the documented process that we went through there, including board papers from the TOTE Tasmania board when the formation of the Tasmanian Racing Board was first raised and pursued in July and August 2003, almost some six years ago now. So this has been on the agenda for the company for several years and was first raised in public forums in 2004, but didn't proceed at that time for a number of reasons.

I again raised the prospects with the TOTE board in July 2008, and the process of the formation of the Tasmanian Racing Board as a governance model started in July 2008, well before any consideration of the sale of TOTE Tasmania was on the agenda. I, along with a number of other executives, developed that model within the company, and we were firmly of the view that we needed a model which took a one-industry approach to promoting the industry in Tasmania, and wasn't caught up in the fracturing of the three codes competing for their own individual positions, which was the case previously.

There are a number of people within the industry and I received lots of comments through the process. Indeed, I received a copy of a survey done for the greyhound code where 57 per cent of the constituents expressed a vote of no confidence in the old code structure. They were the motivations for me to take forward the industry restructure, it had nothing to do with the sale. Indeed, I would have said that TOTE Tasmania could have been sold regardless of whether the restructure occurred.

As the Minister for Racing indicated last week - and referred to by Mr Clarke this morning - we have restructured the company into three entities: a media entity, a racing entity and a wagering entity; not ostensibly to sell, but because of the efficiencies of running the business in that way. Any one of those entities could have been hived off from the business and could have proceeded forward without the other two. That is all I would like to say about that at this time, but I may have a further comment on that later, Mr Chairman. In conclusion, in my view, the restructuring of the Tasmanian racing industry has nothing to do with the sale of TOTE Tasmania.

**CHAIR** - Okay. Any questions?

**Mr BOOTH** - When did you first become aware that the Government was interested in selling TOTE?

**Mr COLEMAN** - I have made no secret over the last four or five years that I have had an interest in seeing the TOTE pass into private ownership. I have raised those observations with a number of people, including the Government, over that time. So when did I first have those discussions with the Government? Maybe three, four or five years ago.

**Mr BOOTH** - So with this current proposal to sell, when did you start discussing with the Government the prospect of its being sold? Not from your position in the

past that you thought it was a good idea, but with the Government specifically to do with selling it?

**Mr COLEMAN** - The first discussions I would have had on the possibility for sale would have been in May or June 2008.

**Mr BOOTH** - What form did those discussions take?

**Mr COLEMAN** - 'Is it worth considering?' - it was no more than that. Of course I was very keen on the notion of it being worth considering.

**Mr BOOTH** - In your mind, when did you believe the Government would proceed or was seriously considering the sale?

**Mr COLEMAN** - I really had not formed a view on that. There needed to be some consideration about the appropriate process. There needed to be advice on that and ultimately it is not for me to sell the TOTE, it is for the Government to sell it. I am part of what gets sold but they make those decisions.

**Mr BOOTH** - Was it in your understanding that it would be sold back in October last year, for example, or prior to that, prior to November last year?

**Mr COLEMAN** - That it would be sold, no, it was not my understanding. My knowledge of it being sold would have come in late December.

**Mr BOOTH** - How were you advised of that?

**Mr COLEMAN** - I was advised that it had been to Cabinet and that Cabinet had considered the sale of TOTE.

**Mr BOOTH** - Did you know it was going to Cabinet?

**Mr COLEMAN** - No.

**Mr WILKINSON** - Was there an increase in activity? Proposed sales do not drag along at snail's pace. If there is to be a sale or a decision to sell there is a bit more activity just prior to that happening. What I am suggesting is that you would have noticed that increase in activity, in terms of discussions with you, looking at business plans et cetera.

**Mr COLEMAN** - No, there were none of those discussions.

**Mr WILKINSON** - None with you?

**Mr COLEMAN** - None with me.

**Mr WILKINSON** - And you were not aware of any?

**Mr COLEMAN** - I was not aware of any, no.

**Mr BOOTH** - Were you shocked when you heard that it was going to be sold?

**Mr COLEMAN** - Pleasantly surprised or pleased.

**Mr WILKINSON** - I am not in government so I do not know, Craig, but I have been involved in private enterprise for a number of years and the Legislative Council for a number of years. People know what is going on around them. Are you saying that this was so cloak and dagger that you did not have any idea as to what was going on around you?

**Mr COLEMAN** - No, it is not fair to say that. In response to the question, did I know that TOTE was going to be sold? No, I did not know that TOTE was going to be sold until December. Was I aware of any consideration of the potential value of the TOTE over that time? The answer is yes, I was. Was I directly involved in any activity? No.

**Mr WILKINSON** - You were not aware that that activity was increasing. Can I take that to be -

**Mr COLEMAN** - I do not know that that is a fair characterisation of what actually occurred.

**Mr WILKINSON** - That is what I am trying to find out, you see?

**Mr COLEMAN** - My understanding is consultants, Deloitte, were engaged to give advice on the structure of the company under the Gaming Control Act and they were subsequently engaged to give advice on whether it was appropriate to sell the company. If that is an increase in activity, I was aware of that.

**Mr BOOTH** - Did they approach TOTE at all in regard to that then? Deloitte were engaged to consider selling the TOTE off, so surely they must have approached TOTE and discussed the business operation, model and the finances of it - what you owned, what you didn't?

**Mr COLEMAN** - All of those discussions occurred subsequent to the announcement of the sale of TOTE.

**Mr GUTWEIN** - Mr Coleman, are you telling us that the Cabinet made a decision to sell TOTE without there being any direct involvement by yourself, the CEO of TOTE, in regards to the value that might be ascribed to that asset should it go to sale?

**Mr COLEMAN** - I think we need to be clear on the decision the Government has made. The decision is the Government has an intention or a desire to sell TOTE given the right circumstances. Those circumstances have yet to be identified and finalised, so saying that TOTE is on the market today is wrong, it is not. Indeed, one of the key processes that needs to be dealt with is the passage of legislation through both Houses of Parliament and a price will need to be achieved which satisfies the Treasurer and the Government in particular. To say it will be sold, there are a lot of things -

**Mr GUTWEIN** - I said the decision had been made to sell TOTE by Cabinet which I think was certainly how the decision by Cabinet was portrayed; that the Government had decided that they would sell the TOTE. It seems a little strange that as CEO you were not involved in providing any advice to either Deloitte or to Government about the potential value of TOTE prior to Cabinet making that decision.

**Mr COLEMAN** - If we are going to get into some of those questions I would rather answer them -

**CHAIR** - Any further questions? If not, we will have a short time in camera again.

**Ms ROBYN LOUISE WHISHAW WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.**

**CHAIR** (Mr Hall) - Thank you very much for coming along. What I might do is just read a couple of lines on parliamentary privilege, Robyn, because you may not have given evidence to a parliamentary committee before.

**Ms WHISHAW** - No, I have not.

**CHAIR** - Basically what it says is that everything you say to this committee today is protected by parliamentary privilege. This is to allow you to speak freely. However, once you have left the committee room, I must advise you not to specifically discuss your written or verbal evidence with anybody until the committee has made its report to the Parliament. You are free to speak generally about the issue to anyone, but please do not refer specifically to anyone about the evidence you give the committee until the report has been published. Our main term of reference is the proposed sale of TOTE by the Government of Tasmania, so I will let you make some remarks.

**Ms WHISHAW** - Firstly I would like to introduce myself. For those of you who don't know me, most of you, my name is Robyn Whishaw. I am a manager and part-owner of Tasmania's oldest and largest stud, Armidale, at Carrick in northern Tasmania. I have been involved in breeding and racing horses for over 30 years. My children, the eldest of whom is now home working full-time in the business, are fourth-generation farmers and third-generation horse-breeders. Our business currently employs six full-time staff, with 12 part-time staff during our busier times of year. We also provide a large amount of work for an equine vet, two farriers, two transport companies, a chaff supplier, a fencing contractor, a hay-making contractor and an irrigation company, as well as numerous others.

I would like to make the following points regarding the proposed sale of TOTE, and also ask you the following questions. How do we know just what we are being asked to comment on when the Government has not consulted with our industry at all about this proposed sale and, furthermore, has not given any indication at all of how the sale will work and how the industry will be funded? Amazingly, they did not even consult the TOTE chairman, Craig Coleman, on the sale of TOTE. How can Premier Bartlett possibly claim to have an open, transparent and accountable government?

In December 2007 Mr Michael Aird released a study showing the importance of the racing industry to Tasmania's economy, and I have a copy here. It found that the industry generates more than \$74.1 million output for the economy, directly employs over 2 500 people, and many more indirectly and part-time. A study done in 2000 by the Australian Racing Board - and I also have a copy of that - had that figure at nearly 5 000 in Tasmania being full-time employed. It also generates a total construction contribution of over \$73 million. It is a most valuable industry for Tasmania and one that has shown significant growth trends in recent years.

TOTE turnover was up substantially last year, from \$387 million to \$498 million in just 12 months, a growth rate of 30 per cent. The racing industry is labour-intensive and provides employment for a subset of people with unique labour

skills who may struggle to find work elsewhere. Over 50 per cent of those employed are from rural areas. The employment levels have continued to grow as the industry grows, and the industry largely has not been dependent on government subsidies.

It is very important to note that TOTE was formed to fund the racing industry, to maximise return to stakeholders, and to free the Government from having to fund racing. TOTE was developed to make sure the industry and all the stakeholders were able to progress and reinvest in the future of building a better industry, and this has been very successful. Consider that England, with its wonderful racing, steeped in tradition, bets over twice as much in dollars as Australia, yet it races for less than a third of the prize money. Why? Because Australia has had the best betting and funding system in the world, and that is TOTE. Remember that. Australian racing is the envy of many overseas countries, certainly the envy of the English.

Sadly, other States that have sold their TOTE to private enterprise are starting to suffer. You only have to talk to the administrators in New South Wales, Victoria and South Australia to hear of their grave concerns for the future funding of racing, yet both Western Australia and the ACT, who still have government-owned TOTES, are booming. Has our Government taken the time to look at Western Australia and how their TOTE works to see if their model would be appropriate for Tasmania? In fact, Mr Clarke said earlier that Western Australia based their model on Tasmania with a few changes. It is working brilliantly.

What options has our Government explored? If they have explored any options they certainly have not told us. It is difficult not to be cynical about the timing of the announcement of the sale. Just as the Government has totally changed the structure of the administration of racing, taking it away from TOTE and the race clubs and has formed a new Government-appointed board, it announces suddenly the time is right for TOTE to be sold, right when racing's voice has been disbanded and the new Government board has barely had time to meet. We can be certain the new board members are not going to question the Government's timing in the sale of TOTE now, are they?

I do not doubt that private enterprise would run TOTE more efficiently. But private enterprise will have an obligation to shareholders to maximise their returns. Where will the profit go? It is most likely that an interstate buyer, or an overseas buyer indeed, would be interested in buying our TOTE. They therefore will take the profits out of the State. This will in turn have an enormous negative impact on the State's economy. The way it is at the moment, the profit from TOTE goes back into the State, is spent in the State on building the industry, on employment, and tourism and all the other things that the industry generates. I am asking you if an outsider buys it, where will the profits go and how will this affect our economy? Has the Government done a study on this? It would be nice to see if it had. Remember why TOTE was set up in the first place: to fund the industry.

Aren't we - those that have invested long, hard hours and financial commitment to the racing industry over many years and for my family over three generations - the shareholders of TOTE? For as we work hard to grow our industry and employ more and generate more money, so TOTE too has profited and grown. This in turn has kept the growth spiral onwards and upwards. What I would like to know is how our Government is going to offer protection to our industry and to the livelihoods of all those people and families who have worked so hard to build

a viable racing and breeding industry in Tasmania. Without that huge effort and financial commitment by so many the Government would have no TOTE to sell.

It is rather sad to think that we have been so successful in building such a vibrant industry and TOTE that our Government has now forgotten the fundamental reason it was developed in the first place and can only see the dollars it can get from the income of selling it. I think it is important to consider that we must also be aware that governments cannot promise things in perpetuity. Mr Aird may well talk about 20-year promises. I am sorry, but that is all it is: it is only talk. Besides, for me, 20 years is nothing. My youngest son, who aspires to come back to the stud and assist in running the business, will only be in his 30s in 20 years' time. Mr Aird most likely will be long gone but my children will be in their 30s. Twenty years is not long enough, I am sorry.

I challenge our Government to provide a funding model that is not static, that can grow as racing grows as TOTE has done; a model that is sensitive to the needs of the industry and can guarantee us a strong, growing and progressive industry into the future; an industry that can continue to be a major economic and social contributor to our wonderful State of Tasmania. They need to provide us with a model that is better than TOTE. I believe that the racing industry would prefer to stay in the commercial world rather than be dependent on a government for future funding. That is what will happen if TOTE is sold: the Government will have to fund it. I have done the maths and I was alarmed to hear Mr Clarke say that that is the equivalent of \$900 million over 20 years.

Finally, I would like to strongly recommend that this committee make a recommendation that the sale of TOTE be put on hold until a proper transparent inquiry can be held to allow thorough investigation of the pros and the cons, and most importantly to allow for public input from those who rely on the industry for their livelihood and income. Thank you.

**CHAIR** - Thank you, Robyn. I understand the passion you have for the industry and how long you have been in it. You made some very good points. I put a question to you hypothetically, in response to a statement towards the end of your deliberation that you would rather see the racing industry take their chance with the commercial world rather than having a funding model, and you were rather sceptical about the 20-year time line. What happens if there are other commercial pressures which really impact upon TOTE, and they couldn't deliver what they've been delivering in the past? Would it not be better then hypothetically - I am being the devil's advocate here - to have a funding model which delivers some certainty, even though it's for only 20 years?

**Ms WHISHAW** - I can see your point, yes. I think TOTE has performed well, and it's properly managed - and I would say that the management has been good; you only have to look at the growth of TOTE. In fact, someone was saying there has been 90 per cent growth over 10 years, is that right? It has grown enormously. Obviously, we face a lot of challenges with gambling, and someone like Mr Clarke or Mr Coleman would be in a much better position than I to understand the complexities of those. But from talking to the people in the industry and being reliant on the industry myself, I would think we would rather compete in the marketplace than rely on a government which ostensibly is also competing in the marketplace to get its funds to supply the industry.

I would much prefer that, I would prefer to compete in the marketplace as we have. I think TOTE can continue to grow with good management, and we

obviously need to look to Asia for markets, but we have the right personnel to do that. Also, it will force our industry to continue to upgrade and be competitive.

**Mr BOOTH** - Thanks for the evidence; it is pretty unequivocal that what you're saying is that you don't want it sold. You are representing Armidale Stud, but do you have a broader connection, do you think that what you're saying is broadly what your industry wants?

**Ms WHISHAW** - I talk to a lot of people in the industry, obviously, through my clients. This is something that a lot of people in the industry are very alarmed about. Certainly the way it's been done has been very alarming because there's been no consultation at all, and yet we have a government saying they are going to. Why wouldn't you go to the industry, why wouldn't you go to the Chairman of the TOTE and asked him about it? It seems farcical that he wasn't asked, but I am not a politician. Talking to the people that I talk to, and I wrote an article in the *Examiner* which was published on Launceston Cup day and I had a number of calls regarding that; people are very concerned.

**CHAIR** - That article certainly raised some interest. Soapbox, I think it was called, wasn't it?

**Ms WHISHAW** - Yes. I am sorry, people don't trust the Government in that we know a government's promise will only last as long as that government is in, and then it can be changed. The industry feels that it has experienced good growth over the years that TOTE's been formed; it has made good progress, so why change? States that have changed are in trouble. In the States and the countries sticking with this model, racing is very sound and growing. All right, when the economy is tough it will not grow as quickly, that is life. We will go through a tough time now, but I think when times are good, if people put in the hard work then we have had the growth and that's exactly what TOTE has done.

I think the general feeling that I get from grassroots - and I certainly can't speak for the whole industry - is that they're very alarmed, that the Government cannot come up with a model which can't be changed, can't be taken away from us, that can cope with growth - and I can't see how they can come up with a model that's flexible enough, but I'm not that smart so perhaps they can - as TOTE has. As we've grown, TOTE's grown, they feed off one another. Can they come up with a model like that?

**CHAIR** - Following what you were saying, for instance you were going on a line there, I understand the recent yearling sales were less than satisfactory.

**Ms WHISHAW** - Disastrous. We certainly expected they would be down.

**CHAIR** - Obviously an economic downturn comes into play there as well. What percentage do you think can be attributed to the uncertainty around the sale? Some trainers have said to me it was all to do with that.

**Ms WHISHAW** - We'd all have to guess at exactly what it was to do with. We certainly expected a downturn based on other sales figures around Australia. You would have expected a 25 per cent to 30 per cent downturn. I think there's certainly a lot of uncertainty in the industry and unrest about this sudden proposal. One minute TOTE is not for sale and the next minute it is for sale. One minute we have a say in our industry, the next minute there is a new

government-appointed board who are not going to stand up and fight against this because they have been appointed by the Government.

We feel that no-one is representing us. Who have we to speak out? The industry feels very uncertain but there is no way that you could guess how that influenced the sales. I think that it was a negative impact but of what amount I do not know.

**Mr BOOTH** - Why do you think the Treasurer is selling it then?

**Ms WHISHAW** - I would like to look inside his head and be able to answer that. It would appear on the surface for someone naive and ignorant like myself that perhaps he is a little bit short of funds. If he looked at it long term and what it is going to take to fund the industry over the next 20 years, \$900 million is a lot of money and that probably does not even allow for growth. I am sure that it would not be based on the 30 per cent growth we have had in the last year or the 90 per cent growth we have had in the last 10 years. I think that figure is probably just what we are at now, plus the CPI index.

**Mr BOOTH** - Would you have accepted effectively the assurances prior to the announcement that it was for sale, but in fact it was not for sale?

**Ms WHISHAW** - Yes. Why should we do otherwise? The question was repeatedly asked. I must admit, though, being a bit of a cynic, that as soon they started to separate TOTE from the administration of racing a lot of us in the industry were saying that the next thing they would be saying is that TOTE was for sale. I was talking about it with a vet back in October; we were joking about it, saying we would hear TOTE was for sale.

**Mr BOOTH** - Do you feel that the industry has been misled by the Government?

**Ms WHISHAW** - Definitely. And I do not think the industry trusts the Government at all, if, face to face, they cannot answer you honestly.

**Mr GUTWEIN** - So absolutely no contact with the industry throughout last year?

**Ms WHISHAW** - None whatsoever that I know of. I am only a State's leading breeder; why would they ask me?

**Mr GUTWEIN** - You have also been quite prominent in your public statements on this and in Letters to the Editor as well.

**Ms WHISHAW** - Well, if I don't, who else is going to?

**Mr GUTWEIN** - Have you have been contacted after making those public statements?

**Ms WHISHAW** - Yes, I have and perhaps I might need to say something in camera regarding that. I have been contacted by a lot of the industry too.

**Mr GUTWEIN** - Just before we go in camera, are you aware of any other contact being made with anyone else in the industry or any formal process being put in place because obviously it appears over the last month to six weeks a lot of concerns have been raised, a lot of people out there are raising issues. Are you

aware of any formal process that has been put in place by government or any other body to actually begin to engage?

**Ms WHISHAW** - This is the only formal process that I know of where some public have been asked to comment. I imagine I was asked to comment because I made a noise. Many people have stopped me in the street and rung me up. Some have written to me and e-mailed me to say good on you for being brave enough to speak out; we need someone to speak out for the industry because we have no-one now because they have just disbanded our voice.

**Mrs RATTRAY-WAGNER** - Robyn, obviously the new structure has taken away what you perceive as your voice, but do you still as an industry stakeholder meet on a regular basis?

**Ms WHISHAW** - No, not as a group. We have been trying to. Since this has happened I have been trying to form a group of stakeholders so that we can have a voice so that when issues like this happen someone, an elected person, can speak for the industry. It is very hard, the Government has just disbanded it, the new board only came into being on 1 January and then this is thrown on us, so it takes a little bit of time.

We are in the process of trying to get a body together because we feel that the new racing board, being all government appointees - I am not saying that they do not have the interest of racing at heart because I think that they will have - they cannot be seen as going against government policy otherwise they will be asked to move on down the road and someone else will fill the seat.

**Mrs RATTRAY-WAGNER** - Thank you.

**CHAIR** - We will go in camera. We will be short.

**Mr KEVIN NEILSON** WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** (Mr Hall) - Kevin, are you au fait with parliamentary privilege and all that sort of thing?

**Mr NEILSON** - I have read the documents. I think I am fairly familiar with it.

**CHAIR** - Okay, I will not go through it again.

Kevin, thank you very much for appearing. You are the manager of the Tasmanian Racing Board - or TRB - therefore I will invite you to make a statement if you would like and then open up the proceedings for members to ask some questions. Thank you.

**Mr NEILSON** - I need to clarify my position. I am not the manager of the Tasmanian Racing Board.

**CHAIR** - Aren't you? That is what is said on the running sheet.

**Mr NEILSON** - No, I am the Manager of Harness with the Tasmanian Racing Board.

**CHAIR** - Okay, thank you.

**Mr NEILSON** - The original request for me to appear before this committee was in my capacity as CEO of Harness Racing Tasmania. As a result of the legislative change Harness Racing Tasmania ceased to exist from 1 January 2009 and the roles and responsibilities simply were taken over by the Tasmania Racing Board. My current position, as I said, is Manager of Harness with the TRB. When I was asked to appear before the committee I reviewed the minutes of Harness Racing Tasmania board meetings for any indication of the position of HRT concerning the possible sale of TOTE Tasmania.

As the racing restructure consultation leading to the abolition of the co-councils and the formation of TRB was announced in August 2008, I checked the minutes from then to 1 January 2009, and there was no reference to any HRT position on the sale of TOTE Tasmania. That is not a surprise because the sale was announced on 9 January, after Harness Racing Tasmania ceased to exist. During the racing restructure consultation I do recall some individuals making aside comments such as, 'This looks as if it may be set up for sale', but those comments were sort of there one moment and gone the next. At least one HRT council member made a similar comment and said it was just a one-liner. So I suppose, in conclusion, HRT has never had a position on the sale of TOTE Tasmania as the notification of that sale was made after the entity ceased to exist.

**CHAIR** - Thanks, Kevin. Questions from the committee to Kevin?

**Mr GUTWEIN** - Do you have a position on the sale of TOTE Tasmania?

**Mr NEILSON** - Do I personally, Peter?

**Mr GUTWEIN** - Yes.

**Mr NEILSON** - No, I do not. The reason for that is that in my current role as Manager of Harness I am concerned about the day-to-day running of harness racing in the Tasmanian racing industry. I know that the Tasmanian Racing Board is working with the minister at the moment to put in place a funding model for the future. I am leaving the Tasmanian Racing Board to do their job while I go ahead with my job, so I do not have a personal position on the sale of TOTE Tasmania. I do not understand the reasons it is being put up for sale. I have not researched them. I genuinely do not have a position on it.

**Mrs RATTRAY-WAGNER** - What about your industry, though? Do you think there is any position generally from people you know and speak with, other than the people who have said, 'This could well be a set-up for a sale' prior to the restructure?

**Mr NEILSON** - There is a two-part answer to that. I am aware that there is an entity that has got together and canvassed clubs and put a petition forward objecting to the sale of TOTE Tasmania. I have not seen that bit of paper. I do not know what the wording is.

The second part of that answer is that I am sure that what the industry wants is security of funding. The minister has given an undertaking that he would look at a 20-year plan in regard to the funding of the racing industry. The racing industry has had secure funding in the past. If you go back to about 2000 when TOTE Tasmania came in and the legislation required that x number of units were paid back to the racing industry to sustain that industry.

In fact, TOTE exceeded that by a long way in the subsequent years from 2000 to 2008. They initially were sole provider of funding for racing. As we went through the early 2000s, entities such as AAMI, Wrest Point Casino and other sponsors came on board and provided a minimal amount of funding for racing - a very important amount but minimal. Then, of course, with 2006 the licensing of Betfair came in and, as such, funding flowed to the racing industry from Betfair. That is about 25-28 per cent of our funding. So the climate is changing in regard to where funding for racing comes from but TOTE still provides an enormous amount of funding. Into the future, I think the industry just wants surety as to the funding into the future and I do not think they care where it comes from, as long as it is secure.

**Mr GUTWEIN** - Kevin, whilst you might not have a personal opinion about the sale of TOTE, obviously the outcome of the sale is very important for harness racing. If the outcome was not as good as it currently is, would the sale of TOTE be a good thing?

**Mr NEILSON** - It is a hypothetical question.

**Mr GUTWEIN** - I can understand your reasons for not wanting to have a personal position in this room, but in the position that you hold, obviously the outcome of any sale is going to have a direct and material impact on harness racing in Tasmania in some way. Either it is going to be better for the industry, it is going to be the same or it might be worse. From what you understand of what is going forward, is the sale going to be better or worse for the industry, and if it were to be worse but perhaps better for the other codes, would you be supporting it?

**Mr NEILSON** - First of all, I have confidence in the Government in regard to how they have handled racing in the last eight to 10 years. They have put us on a very high pedestal, comparatively speaking, as far as stake money is concerned, and especially the support that they have given harness breeding through their funding and also through TOTE Tasmania has been sensational. I obviously would not condone anything which reduced the funding to racing into the future. It is a hypothetical question, but if TOTE was sold and the funding went down, in hindsight, obviously I would not support it.

**Mr GUTWEIN** - Fair enough.

**Mr NEILSON** - But there is a lot of hypothetical in that.

**Mr BOOTH** - Just following on from Peter's question, are you concerned then that the funding at the moment effectively is being taken out of the political domain to a fair degree, because TOTE exists as a racing entity that funds its stakes and so forth, whereas if it was transferred back directly from consolidated revenue to support the stakes that a strong political argument would occur each Budget as to what the public would see as the public purse paying for the racing industry, and therefore be subject to the whims of whatever was in - the political pressure?

**Mr NEILSON** - I think no matter whether it is health, education or racing, it is always at the whim of the Government at the time in regard to the support for it.

**Mr BOOTH** - Yes, but that is the point I am making at the moment. If you are queuing up for a hospital bed, you are not necessarily going to look at what money TOTE puts back to support stakes, whereas if it is a direct Treasury contribution from consolidated revenue, budgetary and portionary, that goes to support that industry, then you are competing, aren't you, more directly? That is the point I am making.

**Mr NEILSON** - Yes, let us get this clear. The current funding is through until the end of this financial year. With the restructure, the funding that the code councils have has been transferred across to the Tasmanian Racing Board and the funding is secure until 30 June. As I mentioned before, I know at the moment that the TAB's main priority in the past two month has been to work with the minister to get a funding model up and going, and I believe that process is almost complete now. Again, I refer to the statement that Mr Aird made to this committee at the first sitting when he said he was looking for long-term surety, and I had noticed the figure of 20 years was mentioned. Does that answer the question?

**Mr BOOTH** - Well, you have answered it how you want to. The question I was really concerned about was whether, in fact, from an industry point of view you would have more security if you funded through the yield from the racing industry itself, which is effectively and directly hypothecated, if you like, back into the industry rather than Treasury having to grab for cash, selling off the TOTE and putting that into consolidated revenue, and then hooking up a deal that gives you 20 years of certainty in the sense that it becomes a political issue if you get funding. That is the point that I am making.

**Mr NEILSON** - In regard to the funding from TOTE Tasmania, or an entity like TOTE Tasmania, their performance has been outstanding in the last couple of years. We all know the figures, so I will not go through those again. Who knows what

will happen with regard to the racing industry in Tasmania, or worldwide what will happen with betting and so on? It is really a hypothetical, again. As I said, I want a funding model that is guaranteed, whether from the racing industry itself or from consolidated revenue through the government budget each year. To me it does not particularly matter and I do not know which one is better at the moment but I have a lot of faith in what the Government has done in the last eight to 10 years.

**Mr BOOTH** - Do you think the industry should have a plebiscite with all three codes to decide whether TOTE should be sold?

**Mr NEILSON** - My answer to that would be, provided all the information is given to them about why the sale of TOTE is proceeding, yes. But I do not think a plebiscite is much good unless people have all the information in regard to why the sale has been put up and so on.

**Mr BOOTH** - Do you know why it is being sold?

**Mr NEILSON** - No, I do not.

**Mr BOOTH** - The Government should be transparent about why it wants to sell it?

**Mr NEILSON** - I do not know what the processes have been with other entities that have been sold, like the Hydro and so on. I do not know what the process is in regard to how much information is given out.

**Mr GUTWEIN** - We tried with the Hydro. I think Tony Rundle would be appalled.

**Mr NEILSON** - Sorry, had the wrong one there.

**Mr GUTWEIN** -How are your members reacting at the moment? One of the concerns that I am hearing from the industry more broadly than we have heard to date and Robyn Whishaw, concerns the lack of consultations concerning them. Do you believe that former members of Harness Racing Tasmania, as they exist now, are concerned about the sale? If so, what could be done?

**Mr NEILSON** - I understand that you are interviewing one of those former members this afternoon, Tony Jeffries. Tony would be able to give you a straight-from-the-horse's-mouth answer to that, I would suggest. The industry wants security of funding into the future. That is my summary of what the industry thinks about it.

**Mr BOOTH** - In regard to that, when the pokie licence was given out and a lot of betting money went into pokies there was a lot of concern at the time that that money should have been hypothecated straight back into the industry. It did not happen to the detriment of the industry. I did not support that contention myself. Do we not have a similar situation where the business that supports the industry at the moment by being set up over the years partially through government support but effectively through industry self-generation is now to be plundered by the Treasury, but unless there is absolute guarantee, there is 100 per cent hypothecation, then you might end up in the same situation as when the pokies were set up which stripped away a lot of the gambling money?

**Mr NEILSON** - When the pokies were set up there was a concern in regard to the lack of funding coming back to racing, but time has shown that the Betfair model

and also the performance of TOTE Tasmania, I believe, well and truly made up for any perceived shortfall.

**Mr BOOTH** - There was \$200-odd million lost on pokies. There are a couple of hundred million coming out of the gambling pools for poker machines. It is a fair bit when you consider the \$23 million that goes back to TOTE from the State.

**Mr NEILSON** - I answer that question on the basis of the stake money available to participants in Tasmania. While we would all like it to be higher, it stacks up very well compared with other States in Australia and that is the base on which I say it has turned out pretty well.

**CHAIR** - Kevin, thank you very much for your time.

**THE WITNESS WITHDREW.**

**Mr PHILIP GEOFFREY SWINTON WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.**

**CHAIR** (Mr Hall) - I invite you to give some evidence or make an opening statement and then let the committee ask you some questions.

**Mr SWINTON** - First, my position is Secretary of the Devonport Racing Club and also President of Thoroughbred Breeders Tasmania. In those two capacities I have a strong interest in the sale of TOTE Tasmania.

**CHAIR** - You are a mixed grill.

**Mr SWINTON** - I suppose so. Both organisations are looking for a good future for thoroughbred racing in the State. I will make a statement from each of those entities. First, the Devonport Racing Club has enjoyed a very good association with TOTE Tasmania and has handed over staffing responsibilities and so forth to them over the last three or four years. We have seen a lot improvements to the track and, having seen Launceston come on line, we are looking for more improvements for that racecourse moving into the future and for racing on the north-west coast.

As far as thorough bred breeders are concerned, once again we have enjoyed a very good relationship with TOTE Tasmania. TOTE is a wonderful supporter of the thoroughbred yearling sales, which have gone from strength to strength over the last few years with the advent of Magic Millions coming on board. We owe a lot to TOTE for high average prices for a lot of breeding studs. Robyn spoke to you earlier, she runs one of the largest studs in the State, along with Graeme McCulloch, ourselves and Bowthorpe. We have all seen a lot of improvement in the breeding side of things and we are all investing quite heavily in the industry. Obviously when the sale of TOTE Tasmania was first mooted in early January, we were all seeking some long-term surety as to the future in which we were going. Both organisations, the Devonport Racing Club and Thoroughbred Breeders Tasmania were, I suppose, taking a position of opposition to the sale of TOTE simply because we did not have information as to a long-term funding model.

We are not saying it is necessarily a bad thing, but until we are given that sort of information it is difficult for us to make a positive comment towards it. The sale of TOTE to private hands could be a great thing for the racing industry in Tasmania. As we all know a private operator tends to run that type of business more efficiently. However, we would need to see a long-term funding model before we could support it.

**Mr BOOTH** - Philip, you mentioned that it could deliver potentially better outcomes if it was run by private enterprise, but are some of those efficiencies and things that the industry would then lose as a result of it no longer being a government business intangible? After all, a government business is seen to be a public facility which does, by its very nature, have to deliver certain other benefits that are non commercial directly.

**Mr SWINTON** - Yes, that is very true, Kim. I suppose one of the things with TOTE at the moment being a government business is that it is quite easy for us to justify

the fact that TOTE is putting in \$27 million or whatever it is to racing because you can say that has been generated by TOTE Tasmania.

Having spoken to the Treasurer who said, eventually the money is coming out of one big pool anyway, it does not matter which organisation is generating that money. But obviously it is a far easier model for everybody to relate to if they know that is where it is coming from, it is funding racing. We have had some great increases in stakes and so forth in the past. If that is no longer there we will be competing with every other entity in the State money out of the consolidated revenue. It is going to be far more difficult to justify, I would have thought, than the model we have at the moment. But, once again, if it is run very efficiently and generates more turnover then it could be a positive in the industry if there is a funding model in place that the industry benefits from.

**Mr BOOTH** - Where do you see those efficiency gains occurring? That is where I was saying in terms of the intangibles that are provided.

**Mr SWINTON** - TOTE Tasmania is probably entering a difficult phase at the moment where they have lots of legislation issues with other States that they need to deal with. I know that they have been very proactive overseas and that is a big growth area. Depending on who was to buy the business they would need to find some niche markets, but that is not my area of expertise.

**Mr BEST** - Thank you very much for your contribution today. We heard earlier from representative jockeys of their view about quality being important but also quantity. I am just interested in your view. Could that be solved with more funding so that there could be more events? Maybe I could simplify the question by simply asking what would be the key features that you would be looking for in a funding-model agreement?

TOTE Tasmania and Magic Millions going forward with a very successful sale has brought a lot of new people into the industry, which in turn has helped the local economy. It has brought a larger pool of horses coming through. From a thoroughbred perspective, there have been insufficient races for those horses to compete in. I know that there is a view in some quarters that we need to get quality instead of quantity and there are various ways to do that. We are doing some work at the moment on some modelling for that. Going from approximately 68 to 78 race meetings per year would probably satisfy the demand and supply issues we have at the moment. Whilst that would require some extra funding, we believe that there are other areas that we could get funding from - some of the larger races and so forth. No matter which funding model we look at, we have to constantly be increasing our stakes pool because, whilst I heard Mr Neilson say earlier we have done very well in comparison with Victoria and New South Wales in their country racing, we have to keep growing because otherwise we will stagnate and fall behind. The industry is very vibrant at the moment and we need to continue that.

**Mr BEST** - Is there a set percentage? Is it CPI? How do you work out how the increments need to keep adjusting?

**Mr SWINTON** - The benchmark that we have been working on is Country Racing Victoria. We were about 85 per cent of their stakes money and I believe that we are about 100 per cent of it at the moment. We are getting interest now from Victoria with people bringing horses over here or trainers relocating from Victoria, and that is all a good thing for our industry. We need that positive vibe

to continue. An issue that we have had just recently is that unfortunately our sales this year were 41 per cent down in late February, just before the Launceston Cup. Obviously the economic climate has contributed to that but also I think the uncertainty in the local industry with the announcement of the sale of TOTE without any model as to where we are moving in the future has probably caused some of our local buyers and trainers to be a little apprehensive this year and to stand back to see where the industry is going.

**Mr BEST** - When you said 'pool of horses coming through' you were talking Tasmanian, is that right?

**Mr SWINTON** - Yes.

**Mr BEST** - When we are talking about the funding model, what are you proposing there? Are you suggesting that the funding model needs to be worked out and decided upon well in advance of any proposed sale of TOTE?

**Mr SWINTON** - It would certainly be very difficult to go backwards from what we have at the moment. Once again, as I said, if it goes into private hands it becomes more profitable. It could be a huge winner for the State, it really could, as long as we have some surety from the industry that some of that money will be going back into the industry to benefit in the long term.

**CHAIR** - Philip, you talked about, and I think we may have had some prior evidence that there need to be more race meetings in the State. There was always a bit of a contrary view that we have a very small pool of jockeys here and that some horses have gone to the knackery in the last few months. I think you were painting a bit more of a positive picture, saying that there are trainers coming in and wanting to train horses here.

**Mr SWINTON** - That is right, yes.

**CHAIR** - In a general overview of the racing industry, are more race meetings required within the State at this stage? Is that something that you would support?

**Mr SWINTON** - Yes, they are. I have spoken to Don Abell in regard to this. Whilst he did not know which way it would be he said to come forward with the proof. We are actually working on some modelling at the moment that shows that that is in fact the case.

**CHAIR** - The other thing you talked about was the performance of TOTE and how they had performed quite well in the last few years. Given the very competitive commercial environment that they operate in and there may be external forces which may impact in the future upon their viability and therefore that would deliver less return to the Tasmanian people and obviously to the racing industry, is that a concern, you being within the industry? I know that's a bit of a hypothetical. Is that something you would be concerned about, you would prefer to have a guaranteed funding model from consolidated revenue rather than from TOTE itself?

**Mr SWINTON** - It is a hypothetical question, but I suppose you can only go back on their performance over the last few years, which has been very strong. You would hope that in any competitive environment, which hasn't no doubt been the

case over the last few years, they have performed very well. So as an industry, we would hope that would continue to happen.

**CHAIR** - So you are not aware of any things that might be looming on the horizon in terms of pressures that may diminish their performance?

**Mr SWINTON** - Certainly race fields legislation, which you are probably well aware of, which means we need to buy our product and sell our product well. I believe they have done very well, especially with their Internet side of the business with looking at opportunities outside of Australia, and so forth, so the industry I think would be very positive in all their aspects in respect to TOTE Tasmania.

**Mrs RATTRAY-WAGNER** - Just following on from the Chair's line of questioning, there obviously was evidence earlier today from a person saying that too few get too much, and the stakes are not evenly spread. Obviously the Hobart and Launceston cups are examples of that, and then there's not enough for the smaller race meetings. Do you support that theory?

**Mr SWINTON** - It's an interesting idea. Certainly leading up to the thoroughbred sales this year, first, second and third in the majority of our larger races all went out of the State, so that was a negative for the State. However, if we have a horse good enough, we will take it to the mainland and try to win their prize money, don't worry about that. It's quite difficult for us to limit the opportunities of mainland competitors to come over here. It's a good thing when they come over here because hopefully it raises standards that we need to have in Tasmania, but I think there's probably a balance.

I think at the moment maybe we do have some of our races a little too high, and some of that money could be directed to minor races. I don't think it would make a lot of difference if we were to take a percentage off most of those larger races; it wouldn't affect the horses who came over, it wouldn't affect our fields, but it certainly would help the local industry here 52 weeks a year.

**Mrs RATTRAY-WAGNER** - That was the message that I was getting out in the public as well. You said your particular organisation is working with the minister to look at a funding model. Has that happened only since the announcement's been made for the proposal to sell TOTE?

**Mr SWINTON** - No, it was Mr Neilson who said that; we haven't been working with the minister on that at the moment. We've had meetings as a group with Don Abell, and we are developing a plan at the moment to send to the racing board that will show that the facts and figures as to why we need more race meetings.

**Mrs RATTRAY-WAGNER** - You haven't had any direct conversations or meetings with the minister in regard to -

**Mr SWINTON** - Not formally, no.

**Mrs RATTRAY-WAGNER** - What about informally?

**Mr SWINTON** - Yes, I have spoken to him informally about it.

**Mr BOOTH** - I am intrigued just in regard to your comments that if TOTE was sold into private enterprise then it would do a lot better, there is more potential. Given that it is a government business enterprise supposed to work on a corporate

model, implicit in that, then, is that TOTE isn't performing to capacity or there's some undetermined or undisclosed capacity that they should be going into. What are those areas, or is that just a generalisation?

**Mr SWINTON** - It is only a generalisation, I think that probably comes just from dealing with businesspeople in general. I suppose if you're out there in the private sector then you could probably run a little bit leaner and meaner. As far as the industry is concerned, I suppose we are very pleased with the way that TOTE has performed, but for it to go to private enterprise then there may be other opportunities that come with that.

**Mr BOOTH** - Correct me if I'm wrong, but I'm assuming that would mean that if it went better, the Government would have to have some sort of taxation model in place to take some of the funding back out of that increased pool or better performance, that business, that would somehow then be redistributed back to the industry.

**Mr SWINTON** - Certainly it's difficult for us to comment on it at the moment because we haven't seen any funding model at all.

**Mr BOOTH** - So at this point of time, where you are sitting, is it a fair assumption that the decision to sell TOTE is in fact a Treasury-driven imperative as a grab for cash rather than for the good of the industry? Or do you think it is taken for the good of the industry?

**Mr SWINTON** - I thought the timing of it was interesting in that on 11 November there was an announcement that there was a new era in racing and the board was selected and announced on 28 December and then the sale was announced on 8 January. That seemed probably to a lot of people that it was something that had been considered beforehand. I suppose it is hard to know. I mean, we have not been told the reasons for TOTE's sale, so any answer to that would only be a guess.

We have spoken a lot about ongoing funding with stakes, but another really important issue to look at is infrastructure. Whilst Launceston has just had a major track upgrade and it is an unfortunate situation that we have Launceston, Devonport, Brighton and Hobart all probably needing new tracks all at the one time, another very important thing to look at as we move forward is where that infrastructure money is going to come from.

**Mr BOOTH** - Just one question in regard to the funding model in the future which you are looking at if the TOTE was sold. Doesn't it concern you that you would be queuing up for money, even if it was a long-term commitment? I mean, there is no such long-term commitment with football, for example, or pogo-stick riding or any other activity that occurs. Doesn't that then put the industry at risk of the whims of politics each budgetary session, and it becomes an election issue?

**Mr SWINTON** - It certainly does.

**Mr BOOTH** - I have been very critical of the Government in the past in terms of their prioritisation of funding streams to the racing industry when you have issues with health and education and road infrastructure, all sorts of things, and that is an argument that has been perennial, it keeps coming up, whereas at the moment with the TOTE funding the industry directly you do not have that white noise coming across each budget. Nobody looks at it and says racing is getting all this

money because it is actually seen to be a self-generating thing which to me, from the industry perspective, is much more desirable. Is that a fair comment?

**Mr SWINTON** - It is a fair comment, yes. From my dealings with people in other States, I sit on the board of Thoroughbred Breeders Australia and there are a number of studs that have been looking at opportunities in Tasmania and I think they are probably sitting back now and waiting to see what happens before making any commitment, but certainly the industry is seen as being very vibrant down here at the moment and I would hate to see that go backwards.

**CHAIR** - Thank you very much, Philip, for your presentation. We will no doubt talk again.

**Mr SWINTON** - We will, thank you.

**THE WITNESS WITHDREW.**

**Mr GRAEME JOHN RUSSELL WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.**

**CHAIR** (Mr Hall) - Mr Russell, we invite you to introduce yourself and make a statement and then we will ask you some questions.

**Mr RUSSELL** - My name is Graeme Russell, I am Vice-Chairman of the Devonport Racing Club and an ex-committee member of the Thoroughbred Racing Council which, as you aware, no longer exists. So I am here to represent the racing club of Devonport and see where everything goes.

**CHAIR** - We have given our terms of reference, the proposed sale of TOTE. Do you have an opinion or has the club formed an opinion as to whether it is a good or bad thing?

**Mr RUSSELL** - I have not really formed an opinion and, I guess, listening to a lot of the others as well - because we have not had a lot of information on the conditions of sale of the TOTE and all the other things that are going on - it is really a 'not knowing' situation as yet. We have spoken at our committee meetings and it all comes out the same - 'Give us some information on why it is going to be sold and what the conditions will be when it is sold'.

**CHAIR** - Has it created some anxiety within the club?

**Mr RUSSELL** - I think it has because even a lot of our committee members have backed off on buying horses at the yearling sales. I settled for one. I do not have a race horse at the moment because I have just held back because I am not sure -

**CHAIR** - You might be saving money.

*Laughter.*

**Mr RUSSELL** - Or making money. Until the decision has been made to either sell or not to sell, and with the new racing council as well, nobody really knows what is happening in the industry.

**CHAIR** - So I suppose the sooner that Parliament make a decision in that respect so we know which way we are going, it could be an advantage to the industry.

**Mr RUSSELL** - That is exactly right.

**Mrs RATTRAY-WAGNER** - Graeme, in your mind, had this proposed sale been held off, say, for 12 months while the new racing structure is bedded down, so to speak, do you believe that would have been more beneficial and your part of the industry may have had more time to digest what was going to happen?

**Mr RUSSELL** - I think it probably would have been a good idea to move the industry forward a little slower than it is. It seems that everything is trying to happen right at the one time and when you talk to a lot of the trainers and owners they all ask the same question, 'What the hell is happening at TOTE? What's going on with the industry?'. There are a lot of 'don't knows' at the moment.

**Mr BOOTH** - Drilling down on what you said in regard to buying horses at the sale, for example, you said you no longer have any horses yourself. Had the sale not been announced, would you have proceeded in the same environment as pre the announcement and bought horses?

**Mr RUSSELL** - I probably would have. If I went to the sale I probably would have bought two but I decided not to go because I am a bit of a sucker when I go to an auction - I seem to put my hand up.

*Laughter.*

**Mr RUSSELL** - So, yes, I possibly would have looked at buying, but just at the moment the industry is in a little bit of an unsure situation so I thought maybe I would just hold off for 12 months.

**Mr BOOTH** - So is it a reasonable thing to extrapolate from that then that the industry is concerned that the sale or privatisation of TOTE might be detrimental to the industry?

**Mr RUSSELL** - I do not know. This is going back to what I said a while ago, but I think it is just that the industry does not know. I think if the industry was told that the conditions of sale would be that the money would go straight back into the racing industry it would be different. If we have to sit and look at our money for racing coming out of consolidated revenue, maybe there is going to be a lot of public reaction out there that we are taking money away from hospitals and education and all the rest of it, whereas now, you still read in the media that we still have a few problems like that, but at least now we know that the money for racing is coming from racing.

**Mr BOOTH** - So do you see a need to sell to privatise TOTE under the current arrangements? Is there any reason that you see why it ought to be sold?

**Mr RUSSELL** - Not particularly, unless of course the conditions and whatever comes out of the sale make a big improvement to our racing industry. If we can get more race meetings and improve the balloting system - and the only way I believe we can improve that is by having more race meetings - I believe the sale would be a good idea, but the timing of it is probably not just quite right.

**Mr BOOTH** - From where you sit in the industry, and given the positions that you hold and have held, there has been a lot of white noise about the potential for a sale, which was denied; in fact it was unequivocally stated that it wasn't going to be sold. Were you shocked when you heard that it was going to be sold?

**Mr RUSSELL** - I was actually, because we were told at, I think it was our last or second-last Thoroughbred Racing Council meeting, that there was no intention of TOTE being sold.

**Mr BOOTH** - When was that?

**Mr RUSSELL** - That was probably a month before the Tasmanian Racing Board took over. Whether it was a quick decision after that or not, it's -

**Mr BOOTH** - Do you feel you were misled in regard to this?

**Mr RUSSELL** - Probably a little, yes, but by whom we don't quite know.

**Mr BOOTH** - Do you think that the industry should have a plebiscite on the sale, all codes, an industry-wide plebiscite in terms of whether the industry accepts it should be sold or not?

**Mr RUSSELL** - I don't think you could do that until, as I say, the information gets out and things are a little more transparent about how it's being sold, maybe who the contenders are for buying, and that sort of thing.

**Mr GUTWEIN** - How much capital might be required to bring some of the other racetracks up to scratch, so to speak? We've heard this morning that money has been spent in recent years, on Launceston for example, but Devonport particularly?

**Mr RUSSELL** - I reckon for Devonport we'd be looking at \$12 million to \$15 million to bring it up to scratch. I probably believe Launceston is a fantastic track now with the new StrathAyr. We're looking at some prospects at the moment so that when the board comes to us and tells us they're going to spend a heap of money at Devonport, we can say, 'This is what we'd like' or 'This is not what we'd like', instead of being able to say, 'Oh, we don't know'. We are looking at a StrathAyr against the other tracks like Geelong has, the synthetic tracks. We are getting some information together as a club for that.

**Mr GUTWEIN** - Over what sort of time frame do you think that upgrade would occur, or is it important that something is done with Devonport relatively quickly?

**Mr RUSSELL** - I think it's very important that in the next two or three years something's done at Devonport. We found a problem last year when Launceston was closed, and the racing industry really struggled to have enough because our track's not up to scratch enough to race through the winter. We had two or three meetings cancelled, so more horses get balloted out, owners get frustrated and trainers are crabby. Yes, it becomes very important, I think, that we have the three tracks up and running.

**Mr BOOTH** - Are you concerned that there might be a strategy for a two-track model in Tasmania?

**Mr RUSSELL** - I don't believe so. A lot of people talk about that, but I don't believe it's possible that you could run Tasmanian racing on two tracks. I think it's important that if we had to have two tracks we'd never survive.

**Mr BEST** - Pretty much from my reading of what you're saying is that your view in relation to the sale of TOTE really would be dependent upon what might be the situation in the funding model. If you could see that, then you could actually probably give the committee a firm view either way, couldn't you?

**Mr RUSSELL** - For sure, yes. As I said before, it could be a wonderful thing for racing, but it's probably like a motor car that no-one's ever seen.

**Mr BEST** - In that, there are some matters that have been raised about things that people would like to see in a funding model. Do you have anything other than what's been said today, or would you like to enforce some of the things that may have been said today?

**Mr RUSSELL** - Not really, no. I think from what I've heard from two or three speakers today, everyone's is of virtually the same opinion. We need some transparency and to find out what the reasons are and what the conditions of sale are, then we can sit down and make a fair assessment.

**Mrs RATTRAY-WAGNER** - Graeme, it was said previously today that for your particular part of the racing industry to grow and have more opportunity for the horses to race, so from your perspective do you believe that Devonport needs to be upgraded for that to happen?

**Mr RUSSELL** - Definitely.

**Mrs RATTRAY-WAGNER** - In your mind, does there need to be a commitment for that \$12 million to \$15 million to be committed before that next part could well and truly take place.

**Mr RUSSELL** - Yes, definitely. I do not believe there has been money spent on Devonport in a major upgrade for probably 15 to 20 years. I am not sure. The track at the moment requires really heavy maintenance all the time just to keep it up and running so that we can race on it.

**Mrs RATTRAY-WAGNER** - That is at the level that you already race at. That is not being able to extend out those opportunities for racing people?

**Mr RUSSELL** - That is right.

**Mrs RATTRAY-WAGNER** - To get equal coverage across the State, Devonport would need that \$12 million to \$15 million, in your mind?

**Mr RUSSELL** - In my mind, I am sure it would, yes.

**Mrs RATTRAY-WAGNER** - Are you supported by the rest of your organisation on this issue?

**Mr RUSSELL** - Yes. It was stated by TOTE before all this happened that they were verbally guaranteeing that Devonport would be the next upgrade. But now this is all happening it all up in the air again.

**Mrs RATTRAY-WAGNER** - Ahead of Launceston lights?

**Mr RUSSELL** - No, Launceston lights would be going ahead and the next major restructure would be Devonport.

**Mr BOOTH** - In terms of the politics, you make it clear that, if it were to be funded out of consolidated revenue, how would you feel going out and competing against football, health, education and so forth for an annual support for stakes and so forth?

**Mr RUSSELL** - I guess it would make it much harder, wouldn't it? You are also competing against football, hospitals, health and all the rest of it, but you are also competing against the public because of the look of it, more than anything. Even though maybe the money is going into Consolidated Revenue and then coming out and going into racing.

**Mr BEST** - Your money would be going into it.

**Mr RUSSELL** - Yes, but it probably does not look quite as good if it is coming straight from racing back into racing.

**CHAIR** - Graeme, thank you very much for your evidence. We appreciate your coming down and wish you all the best. Have a safe trip back.

**Mr RUSSELL** - Thank you.

**THE WITNESS WITHDREW.**

**Mr WALTER McSHANE** WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** (Mr Hall) - You are aware of the issues that surround privilege and that sort of thing?

**Mr McSHANE** - Yes.

**CHAIR** - You are au fait with that?

**Mr McSHANE** - Yes.

**CHAIR** - You do not need me to explain those to you?

**Mr McSHANE** - No.

**CHAIR** - Thank you very much for coming along. You know what our term of reference is. I will just read that to you again - we propose to inquire into the proposed sale of TOTE by the Government of Tasmania and any other matters incidental. I would invite you to make an opening statement if you like and then we will ask you some questions.

**Mr McSHANE** - Paul Lennon did a great job when he designated a lot of money to the racing industry because it is a very important industry, as racing is all over Australia. He engendered a lot of confidence in racing when he put as much money aside as he did - albeit much of that money was misspent - not his fault, he cannot do everything. A lot of that money was misdirected and had it been given to the racing industry it would have been spent ever so much better, but that is not the way it all happened.

I consider racing very much as a confident sport and business. From my point of view it is a business and a sport. What has happened since Mr Aird took over and misled us has destroyed one heck of a lot of confidence right throughout the industry from the breeders to the owners to the trainers and perhaps jockeys because we cannot get jockeys to stay in this State.

We are in a shocking situation where we are flying jockeys in every Sunday to ride horses, then on a Monday we go looking for people to train our horses for the other six days of the week. People are not here and they won't come and stay here because our industry is a little bit too small. We have asked for more racing to make it more viable for all of us but this has not happened, the money was not available.

We were pretty comfortable with TOTE and our spin-off from TOTE to keep the industry in a reasonably sound situation. We thought we knew where we were going. We were promised by Paul Lennon that we would be looked after and that all the legislation was in place to maintain the racing industry and when the word came out that the racing industry and TOTE were to be split we were pretty quick to work out why. I was in the room when we put the question to Mr Aird as to whether that was going to be the case, no less than three times in one session. He denied it thrice, and there was no cock there to crow after he said it.

**Mr GUTWEIN** - When was that?

**Mr McSHANE** - I cannot tell you the date. It was in his rooms in the Executive Building.

**Mr GUTWEIN** - Can you give an indication of which month?

**Mr McSHANE** - I have a shocking memory. I have had a lot of falls off horses and my short-term memory is non-existent. Someone else that you will possibly have in this room today could tell you; it was in the spring.

**Mr BOOTH** - Well before the racing restructure bill went before the House.

**Mr McSHANE** - Yes it was. The writing was on the wall and when we put it to him directly he denied it three times at least so we thought maybe it was not going to happen. We read in the press that he said it was not happening, it was not happening until he signed the sale, or the whatever it was - the bill for the future sale of it. And that is when it happened, he said.

But it happened nine months before that when took the racing administration out of the hands of TOTE, or he put it in train. Confidence went and, as we have seen in the yearling sales a couple of weeks ago, it was not the economic recession that caused the fall in prices, it was not that, because Tasmania is rather a small industry but we need x number of horses to run our racing industry.

It seemed that we had too many horses because we did not have enough races for the horses that we had bred here so when it came to the sales we were expecting a little bit of a downturn but not to the extent that it happened. Now we have a glut of horses, we have service fees and studs that are going to feel a huge impact and it has been caused by indecision and by lack of confidence. The confidence has gone because we do not know where our funding is coming from.

We are told by the man that denied it thrice, to believe him, he will make sure that we are funded. We cannot believe that, nobody in their right mind could believe that anymore. Whether we are going to be correctly funded or not we do not know.

We already have the problem in the industry that we do not have enough racing, and we have a shortage of personnel. I have 15 horses in work at the moment. On Monday morning I had no riders. A couple did not turn up and the rider that I had been using is back in Melbourne riding track work over there for somebody who won't give him rides during the week.

They want to live in Melbourne, they want to live in the big smoke; they will not come and live in Tasmania because we are a backwater to them but they do not mind coming on Sunday and taking our money and going back to Melbourne, but we do not have a big enough industry here for them to want to be here.

With the lack of confidence we have with the sale of TOTE, should it happen, we feel in a very precarious situation.

**CHAIR** - Even prior to this mooted sale of TOTE these issues existed under the existing regime, then? There were not enough race meetings and there was a lack of personnel in terms of jockeys and everything else even before this?

**Mr McSHANE** - These were pre-existing issues. We were hoping for an improvement. We have been fighting to get the two big cups put back where they should be.

**CHAIR** - To reduce the prize money and then spread that more equitably.

**Mr McSHANE** - Spread it throughout the industry, put on more race meetings. We have worked out that by bringing the two cups back to \$300 000 and \$250 000 instead of \$400 000 and \$300 000, we could put on another four race meetings. That would help quite a bit.

**CHAIR** - Would they still attract quality fields even if you reduced both of them?

**Mr McSHANE** - Oh, yes. We have a meeting next Tuesday and one on Wednesday. We have 213 horses nominated, and that's in two days. Then there's another race meeting the following Sunday which will attract probably another 110 or 120 nominations. Quite a few of those horses will be balloted out because some of them are concentrated too much in the maiden and the lower grades. There is quite a big number of horses here, but if we are not on Sky Channel they don't want us. Our local administration are not keen to spread money around midweek if we're not on Sky Channel. That's where we're left, with a huge glut of horses to be balloted out, a breeding industry that's hit the wall. A lot of horses went home to the studs after the sale, and they'll be more or less given away; people will be trying to give them away to trainers so that they cut their own costs back because it's costing them to take them home when they expected to sell them.

**CHAIR** - So there is not a shortage of horses, that's not an issue?

**Mr McSHANE** - No, it's the personnel. We're not training our own personnel here anymore. They're going to Melbourne.

**CHAIR** - Are you concerned in terms of future funding and capex for the courses, capital works? Is that another issue? We know Launceston has been done.

**Mr McSHANE** - There was a lot of money spent at Elwick, in one silly place: the grandstand that's used once a year. Yet our tracks that people all over Australia see on Sky Channel every week are in a shocking condition and they are quite stupid because one of them is so narrow that you can only have 10 horses running on it. A spit of rain and you have all sorts of problems and biases where horses tear up the outside fence, or into the inside fence or somewhere, and people over Australia look at it and say, 'What the ... are you doing out there, why are they out there, and why are they in there, why are they all crowding in there?' It's because the track is just not good enough. All the money was spent on the grandstand which is empty on race day, and nothing was spent where it should have been spent on the tracks, where the horses are and where the betting was done that gives the TOTE its funding.

**CHAIR** - Could you argue that perhaps a new privatised entity might have done that better than what's been done in the past?

**Mr McSHANE** - Yes - if only they'd listened, but I am afraid they would not listen. TOTE was given a job that they had no expertise in whatsoever. None. They spent the money exactly how they felt like spending it.

**CHAIR** - That's turning the argument around a bit, isn't it, if you had the devil's advocate and the funding was secure? I know Mr Booth raised the issues of competing against health, and all those sorts of issues, and that is a real problem as well.

**Mr McSHANE** - That was a problem at the time, no doubt, but the funding was there. The way it was spent was another issue.

**Mr BOOTH** - To clarify this, are you saying that you hold the current minister responsible to a large degree for the collapse of the yearling sales?

**Mr McSHANE** - To quite a big extent, yes. The confidence of the industry went straight down when he said that he was not selling TOTE and then he did a backflip and said, yes, he was. Then he told us to believe him. No-one could or would believe him after that and so where the funding was coming from has been a question in everyone's mind ever since. Confidence has gone rock bottom again.

**Mr BOOTH** - Do you think the industry would like a new minister in that regard to restore some sort of confidence?

**Mr McSHANE** - If TOTE was left as our benefactor, I am quite sure that confidence would be restored.

**Mr BOOTH** - If TOTE remained in public hands?

**Mr McSHANE** - If it remained in the hands of -

**Mr BOOTH** - As a GBE, yes, under the Government.

**Mr McSHANE** - Yes.

**Mr BOOTH** - To get this straight, with regard to the long-term future of the industry, your view is that you prefer TOTE not to be sold but to be managed, setting aside the management issues with TOTE, but you would prefer the TOTE to remain in Government ownership rather than being sold.

**Mr McSHANE** - Correct. The change in administration will possibly be quite okay. That will not be a big issue. It is just about in place and ready to work but the funding is the problem that everybody feels is dangerous. We are in a precarious position with no-one telling us where funding is coming from.

**Mr BOOTH** - If the TOTE was sold and the Treasurer says - and you have said that you cannot believe him, but setting that aside - a funding model was set up with some capital expenditure and so forth, would you still be concerned that you were competing with health, education and so forth every year in a budget rather than it coming straight across from TOTE? Is that fair to say?

**Mr McSHANE** - That is quite fair to say, yes. I do not know that Treasury is all that rapt in the racing industry, even though they should be. I do not know that they are all that keen because there are a heck of a lot of votes coming from other directions.

**Mr BOOTH** - Do you see the danger you spoke about in terms of funding as being that it would then become a political issue rather than it just being within the industry?

**Mr McSHANE** - Yes, and a lot of those politics would not be conducive to the person in racing because there is a lot more weight thrown to education and health. People perceive racing to be a sport of the rich but it is not. It is an industry for people across the board and it employs one heck of a lot of people.

**Mr BOOTH** - Yes, it is a huge engine-driver of the economy, there is no doubt about that.

**Mr McSHANE** - Yes, I am in all its areas; the feed business, the breeding business and the training business. I know how many people are dependent on it.

**Mr BEST** - If you had a good funding model and, say, there was some arrangement and whatever the outcome was that there was a move towards more events, an expanded amount of money being invested and some surety with some agreement as to what the funding model would be, what would your thoughts be about that? Would you not be interested in that, rather than have it stay as it is?

**Mr McSHANE** - At this point we have had no funding model put to us. We have no idea what is in Mr Aird's mind except that there will be an amount of money coming from Treasury. We have had Mr Challen look at us before and he is not all that keen on racing. Should it be Treasury's decision as to what sort of money would be given to racing, we would be very scared of that situation. But if a model, as you say, was put to us with some surety -

**Mr BEST** - Yes, I think that is probably a bit of a reserve aim in a sense that if you had an organisation that was keen and very dependent on having a successful racing industry in Tasmania, you would have to have a good funding agreement, otherwise people are just not going to put horses into races and things like that. We will see the things that you are talking about continue while this hiatus exists. So there would have to be some common interest at some stage.

**Mr McSHANE** - Yes, if we could see it -

**Mr BEST** - That is right; it needs to be seen.

**Mr McSHANE** - and we could restore some confidence then we would sit a little bit more comfortably, but at the moment there is no comfort at all. There are people who would have gone to those yearling sales and bought another yearling who did not go - and refused to go - because there is not enough racing and their horses were being balloted out. We have Mr Aird's - well, we will not call it a lie but there is no other word for it; you cannot say one thing and then completely reverse it. It is just not on.

**Mr HARRISS** - Walter, I think a common thread coming from most industry participants is that, as Brenton has just visited, if there was the notion of a guaranteed funding model, then the industry might be relaxed about things. I hear what you are saying about lack of trust and so on in the current Racing minister, but it occurs to me - and I have discussed it with Kim and Peter as the day has gone on - that if the racing minister was to produce a model which had a perpetual fund flowing to the industry, and I am thinking particularly of when the Trust Bank was sold and there was an amount of money hived off, untouched by

Treasury, which generates interest every year, and the interest from that capital fund goes to community funding untampered with by the Government of the day - you would not be subject to the whims of the Government of the day - it occurs to me that if they get a sufficiently high price for TOTE the Government could say that they are immediately going to put a capital fund into a special account which generates a perpetual revenue stream straight to the industry, with no politics involved in it, how would that appeal to you?

**Mr McSHANE** - That appeals to me no end.

**Mr BEST** - But you need to see that, don't you? And that is the problem you have at the moment.

**Mr McSHANE** - Yes, that is right.

**Mr BEST** - You are saying there is nothing to see, is there?

**Mr McSHANE** - It has to be more than written.

**Mr BEST** - You have to see that. I do appreciate that.

**Mr HARRISS** - It could be, as the Trust Bank sale process was, built into the legislation. Once it is in there no governments in the future can do anything about it unless they come back to the Parliament to tamper with it. So if the Racing minister is not keen to build in such a process to this legislation when he introduces it to the Parliament, and if the sale of TOTE is a reasonable proposition, but if the guaranteed revenues for him is what is necessary to the industry and the Parliament amends the Treasurer's legislation, too bad for him if he does not accept it.

**Mr McSHANE** - That is the sort of thing we need put before the racing industry right now - without question.

**Mr HARRISS** - That is the clear common thread that is coming from the majority of people who presented to us, that the funding stream needs to be guaranteed and you need to be able to trust what you are being told.

**CHAIR** - Clearly that is something that, as representatives of yourselves, the Parliament will have to make a decision on one way or the other, given certain information we may get from the Treasury.

**Mr HARRISS** - We might ask the Treasurer this afternoon why he has not produced a model such as that. Is it too simple? We will ask him this afternoon.

**Mr McSHANE** - To be in racing you must realise that everybody trusts everybody to a degree, until it comes to race day, when tactics and competition are very, very strong. When we walk away from the racecourse we still all trust one another. Owners trust the trainers and trainers try to trust the jockeys as much as they possibly can -

Laughter

**Mr McSHANE** - and we go home and lick our wounds or count our few bucks, whatever we can do, and get ready for the next week.

**CHAIR** - It is a bit like farming, isn't it?

**Mr McSHANE** - Yes, exactly the same.

**Mr BOOTH** - Put a jockey on your cow.

**Mr McSHANE** - I reckon farmers are the best owners any trainer can have because they are used to relying on rainfall and markets and everything else to survive, and that is what we do in racing. We have to rely on the whole game for our dollar, so confidence is what we need and if we can have confidence in our funding structure I am sure we can pick ourselves up and go ahead.

**Mr BOOTH** - Had it not occurred that the Treasurer suddenly woke up one morning and announced it was going to be sold, did you have confidence prior to that that the TOTE model was delivering reasonable returns, apart from the way it was being run internally, with the income stream coming back in terms of stake money and so on?

**Mr McSHANE** - Yes, we felt pretty confident. We felt that TOTE was ours. We know it isn't but we felt that TOTE was ours and we were supplying the product and were getting some of that return back to the industry. It was a good union.

**Mr BOOTH** - So there is no way that you could say that the decision to sell TOTE had anything to do with the industry deciding it should be sold?

**Mr McSHANE** - No, none whatsoever.

**Mrs RATTRAY-WAGNER** - Mr McShane, thank you for your honest and frank assessment. I am interested to know what would be your view - and I appreciate what Mr Harriss has said about a secure funding model - but do you feel that a secure funding model would assist you and the industry in the infrastructure requirements that are obviously required, because the tracks are not up to complete standard. Launceston is fine but I hear that Devonport needs upgrading and there were some issues with Tattersalls Park as well out at Elwick, so do you feel that that secure funding model would be enough to secure your support for the sale of TOTE without some sort of firm commitment from the government of the day about future funding for infrastructure?

**Mr McSHANE** - Well, I would feel that would have to be written into the agreement because it is integral that there must be capital works taken on every year to keep all the courses and training tracks et cetera up to standard. That would need to be built in as well.

**Mrs RATTRAY-WAGNER** - So there would need to be some consultation and discussion with industry stakeholders about what they see would be required into the future. Would that be a fair assessment?

**Mr McSHANE** - That is fair, and I think the new racing board that has been set up would be quite capable of producing those sorts of figures to go along with stake money.

**Mr BEST** - It was put to us that Country Racing Victoria has a formula based on funding and that we were at 100 per cent same formula for funding here?

**Mr McSHANE** - Yes, we were.

**Mr BEST** - Do you agree with that model?

**Mr McSHANE** - Yes, I think that is our standard for Tasmania. I will just put one little thing to you. The southern club wanted the Hobart Cup to be \$500 000 - that is what they want next - which is quite stupid. At \$400 000 the Hobart Cup was a group 3 race, yet at \$300 000 the Adelaide Cup is group 2. Can you work that out? I can't.

**Mr BEST** - No. Why do you think?

**McSHANE** - Why are we \$400 000 for a start? We shouldn't be because we are just - there is a term but I won't use it.

**Mr BEST** - But you do not have a theory on that?

**Mrs RATTRAY-WAGNER** - Too few are getting too much.

**Mr McSHANE** - No, we are above ourselves; we are above our own population and our standard, so we are inviting Melbourne to come over here and take it and I realise we need Melbourne horses to come here and lift our cup profile, and they do, but it has become a little bit too much that they come and take all the prize money out of the State. How can we as an industry benefit from that? When all that money is gone, what are we going to spend on getting better horses; where do we get them from? There is no money here, it has all gone, the big money is gone, and we are left to buy cheap horse because we cannot afford dear ones. We are told to go out and get better horses so we can compete, but what are we going to buy them with? If we do not have a vibrant industry here, where does the money come from?

**CHAIR** - Thank you very much, Walter, that was very good. We appreciate your coming. You obvious have had a diverse range of interests within the industry over a long time so we appreciate the benefit of your knowledge. Thank you very much.

**Mr McSHANE** - Thank you.

**THE WITNESS WITHDREW.**

**Mr TONY JEFFRIES** WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** (Mr Hall) - Thank you very much for coming down, Tony. Are you aware of privileges and restrictions on reporting, and all that sort of stuff?

**Mr JEFFRIES** - Yes. I shouldn't open my mouth outside the inquiry if there's anything of controversy.

**CHAIR** - Yes; basically you're covered by privilege here, but outside you're not. So the bottom line is don't refer specifically to anyone about the evidence you give to the committee until the report has been published.

**Mr JEFFRIES** - No, I'm pretty calm, pretty cool.

**CHAIR** - Thanks, Tony. What I would invite you to do is to make a statement if you would like, particularly related to our terms of reference on the sale of TOTE.

**Mr JEFFRIES** - I have a written submission which I will read, and if there are questions as we go, fine; if not, I can answer the questions after. I will just give a bit of background to myself. My name is Tony Jeffries, and I have been involved in the harness racing industry for over 40 years as a breeder and owner. I have held the following positions in the administration of harness racing at different times. I have been the secretary-treasurer of the North West Light Harness Association; I have been president of the Ulverstone Pacing Club; secretary, treasurer and president of the Burnie Harness Racing Club; and a member of the Tasmanian Harness Racing Council, which was recently disbanded after the TRB was brought to bear. I also currently am a member of the North West Light Harness Association, a member of the Devonport Harness Racing Club, a member of the Burnie Harness Racing Club, a member of the Tasmanian Breeders, Owners, Trainers and Reinspersons Association and also a member of the Launceston Pacing Club.

**CHAIR** - Is that it?

*Laughter.*

**Mr JEFFRIES** - And I have recently retired from Westpac Banking Corporation after 40 years' service, with the past 25 years involved in commercial and business banking as a manager.

I now want to talk about the sale of TOTE Tasmania. As I understand it, TOTE was originally set up some 40 or 50 years ago for the benefit of racing in Tasmania. Some gentlemen by the name of Bruce Freeland, Dick Bertram and Doug Martin were the early committee members who lobbied the industry to convince them that TOTE would be a long-term winner for the whole industry, which it has been. Last year, TOTE contributed some \$30 million or thereabouts to cover stakes and infrastructure for all codes.

TOTE Tasmania is a company whose shares are held by the Treasurer and the Minister for Racing in trust for the Crown - and, hopefully, the racing industry. The constitution of the company is a schedule to the TOTE Tasmania Act and can only be amended by a special resolution passed by both Houses of Parliament. TOTE Tasmania is operating as a successful business and is

charged with promoting the development of the racing and breeding industry, and promoting Tasmanian racing and wagering on it.

Why would you sell an asset that generates \$30 million for the racing industry? I would suggest that last May, when Treasury became aware of the global financial crisis about to arrive, Mr Don Challen looked in the cupboard to see what would generate substantial cash to help balance the Budget, and there was TOTE Tasmania. Challen, who is a numbers man, has given no thought to the industry participants or their families, or the 2 700 people directly employed and the many others indirectly employed. He has gone to the minister and said, 'The TOTE has to go', and the minister and his advisers have misled the industry on the pending sale and also actually misled the Parliament of Tasmania, especially the upper House.

I go back to the question: why would you sell a major asset which generates \$30 million per year, funding the racing industry without any call on consolidated revenue? At the moment TOTE covers the cost. Why would you sell it when we are experiencing the biggest global financial crisis in the past 50 years? Why would you sell anything that is worth a lot of money at this stage? Why would you sell when the expected price - and there have been many mentioned or bandied about - is virtually a fire sale price, from the figures that I have heard. At this time, would we not be better to hold onto TOTE Tasmania until the markets settle down and we have better times?

The minister has failed to produce a business plan for the sale of TOTE. How will the industry be funded going forward? Will the Minister for Racing have to go to Treasury along with Health, Housing and Education for funding? Where will racing fit in those priorities? Where will racing be next year when the recession sets in and the money is tight and hospital patients are in the streets? They are having a few problems in Launceston.

What long-term guarantees will the racing industry have? There is talk of a 20-year funding program being set up; I think the minister mentioned that. What happens when money is tight; what happens with a change of government? How can the industry and its participants plan for the future if something is not set in concrete? What will happen to participants' families, who are looking to set up their children for a future in the racing industry? Do they stay in Tasmania or do they go somewhere else?

Barry Rattray is a prime example. He has four young fellows, one of them representing the Australian harness racing industry driving in Onslow, I think - it is overseas - but what will those kids of participants now do in the future? Why would you sell a business that generates \$30 million per year to cover the costs of racing to then have to take your cap in hand to Treasury for your funding in the future? Where are the guarantees? Who will cover the costs of upgrades and maintenance of all tracks, facilities, grandstands et cetera? We have a current situation today where the following facilities are in need of upgrade or maintenance basically now. One of them, Brenton, is Spreyton racecourse's thoroughbred track, where major works are required to bring it up to date.

**Mr BEST** - Yes, \$12 million to \$15 million.

**Mr JEFFRIES** - At the Devonport harness racing track the lights are 30 years old now, unreliable and need to be replaced. Light towers are under investigation as to safety, and the grandstand needs a major upgrade. I understand the Brighton

training complex is in urgent need of upgrade and maintenance. I am also aware that part of the complex is constructed on land not even owned by TOTE Tasmania, so I am pretty sure there are a few problems there. As to the Hobart harness racing track, even though we spent \$16 million there recently or even more, I understand that the top and bottom corners are in need of major works due to the camber being out of kilter.

These four items need many millions to bring them up to date or up to standard. Who will pay for this? I understand the Tasmanian Racing Board, in the legislation, can borrow money. That is very handy, but if they have to borrow money, who is going to pay it back or how are we going to pay it back?

I think you may have this. A recent article in the *Examiner* newspaper dated 17 March by one of Australia's most experienced racing administrators has urged that we look at what has happened upon the sale of TOTEs in other States.

**CHAIR** - Yes, we have that.

**Mr JEFFRIES** - We need to do some research to ensure Tasmania does not end up like South Australia after their foray into selling their TOTE. They are on the bones of their knees and selling assets to try to maintain their industry. If we finish up dependent on the Government of the day to cover our annual operating revenue we could be going back to the 1970s and racing for \$1 000 per race, the breeding industry could be devastated and 2 700 employees looking elsewhere for jobs. Why would you sell a business that generated \$30 million per year without touching consolidated revenue and put us in a position where we rely on Treasury at each budget to fund the racing industry? I would implore this committee to look very closely at this sale; short-term gain for long-term pain.

This industry employs 2 700 people directly and many others indirectly. I suggest that the TOTE be left alone and allowed to get on with its charter promoting the development of the racing and breeding industry, and promoting Tasmanian racing. I am sorry I have repeated myself several times throughout this, but remember this industry employs 2 700 people directly, and many indirectly, is funded by TOTE Tasmania and generates \$30 million per annum. Why sell and then rely on funding from consolidated revenue which is under pressure, the most pressure it has seen in 50 years.

I also have - and I think Mr Gutwein might have a copy of this - the racing industry representation. This was to the Legislative Council on 27 February. The greyhound racing industry, thoroughbred racing industry, harness racing industry, and so on all signed this particular piece of paper suggesting that we totally oppose the sale of TOTE. If that's not officially in, I would like to present it. I think that you have a copy of this, an appropriate reference from Ms Whishaw.

**CHAIR** - Yes, we have that one as well.

**Mr JEFFRIES** - I suppose that is my concern. The minister does not have or has not mentioned a business plan, he hasn't mentioned a funding plan. I think from May last year they've said, 'TOTE is about the best thing we have to sell, we have no debt on it. Let's put it to the market and let's see how we go'. I have heard figures bandied about, and you guys would have heard most likely from \$100 million to -

**CHAIR** - Yes, I think that's something we'll leave alone.

**Mr JEFFRIES** - I am seriously saying that we really should not sell the TOTE unless we have complete guarantees. I don't know what guarantees we can put in place. In the last 20 years we have had an election every four years, I think, there's going to be one soon. Various different things are happening, we need to build some hospitals, and all sorts of things. How can the minister guarantee the same funding we've been getting with annual increments, and so forth?

**CHAIR** - Thanks very much for that presentation, Tony. Obviously you asked us a lot of questions that we can't answer; we don't know because we're not the Government. If the Treasurer or the racing minister came up with a set of guarantees, if you like, that might persuade this committee or the Parliament, and we think it's in the best interests of the industry, how would you feel about that?

**Mr JEFFRIES** - I think that the industry and the guys I have been speaking to, and the people I am involved with, and so on, are fearful. If we are given a guarantee and gets rid of the TOTE, there are also other areas that rely on consolidated revenue for funding and where may racing sit in the pecking order? I know Don Challen doesn't think about racing, in fact I am led to believe that he is suggesting no more racing in Tasmania, we'll just bet on Melbourne and Sydney and elsewhere.

I just fear that even if they do give us guarantees and so on, how will they ensure that for the next four or five elections that will be \$50 million which will increase by CPI each year, and so on, and all the way through, when a change of government can throw it out? I don't know. Obviously we need to obtain from Treasury, from the minister, an idea of what his plans are. What is he going to do?

**Mr GUTWEIN** - Tony, I do not want to put words in your mouth but is the first step that needs to be taken in all this that information needs to be provided? Is it as simple as that? The sense that I get is that you are in exactly the same situation as I am and other members on this committee are to a large degree. That is, currently there is no detail in the public arena in regards to what was being proposed and how the racing industry may benefit. It is obviously very difficult for the racing industry to say, 'Yes, that will be very good for us' or 'No, it would be very bad for us'.

**Mr JEFFRIES** - That would be a start. I think the minister and the Treasury have to come clean and put us in the picture. It could well be that TOTE Tasmania have discovered that Sky Channel is going to abandon them and that their foray into South-East Asia and other things that were sold to us at the original TRB set-up may have fallen in a hole. It may well be that we have to get as much money for the TOTE as quickly as possible. I do not know, but no-one is coming forward to tell us why.

**Mr GUTWEIN** - Following that through, has there been any approach to any of the clubs - you are involved in a multitude of them - or organisations by anyone from government or anyone in a position to provide some information on this situation?

**Mr JEFFRIES** - As far as I understand, no. Back when the TRB was being instigated and so forth the legislation went to the upper House first on Christmas Eve, I

think. People like myself were grasping to get a hold of the legislation to have a look at it, we were trying to interrupt members of the Legislative Council when they were debating it. That was brought on very quickly. We said, 'This has all been set up for the sale of TOTE'. 'No, definitely not'. Since the announcement of the sale of TOTE, that has been it. If it were not for, I suppose, people contacting other people and so forth this committee may not have existed. There might not have been the opportunity here to put our case or to try to understand or find out why we are selling the TOTE. What is the benefit for the racing industry?

**Mr BOOTH** - Are you saying, Tony, that you were informed that TOTE was not going to be sold?

**Mr JEFFRIES** - That was put, I think, in the first few days after it came out, that the board was going to be rehashed. I know in Harness Racing we had problems where, I think at one stage the minister appointed a member for the council without even going to the people to get a vote and so forth. That may be part of our fault because we did not nominate anyone. There were a few things going on there. The whole idea in having the Tasmanian Racing Board was to clean that up. Lo and behold, when you think back it was to set the TOTE up for sale.

**Mr BOOTH** - Do you think that you were misled?

**Mr JEFFRIES** - I am very sure that we were misled. Why? It was asked in the Parliament and the minister denied that the TOTE was for sale. He told the Parliament - or his representative did; I think it may have been Mr Cox.

**Mr BOOTH** - Now that the councils no longer exist, how would you get a plebiscite if the members of the industry - as we have heard evidence from yourself - have not been involved in any consultation, there has been no information released, there is no business plan but you would have to look at it if it were provided? How would you, in your view, be able to make a satisfactory response to the industry if such information was provided? Or is that not possible?

**Mr JEFFRIES** - When the TRB was set up we had forums and so forth. I am very sure that, if something was put on the table and we could see where we were going and so forth, the industry would consult and talk with one another - all three codes - and go forth from there. The minister would need to put a very good case to the industry based on the fact that we are in a global financial crisis. I do not know but I assume that the Government is suffering fairly substantially from a lack of money, GST receipts et cetera are all going to be down the drain and next year TOTE might be sold and we would have to go to the Government and ask for money to maintain our industry. South Australia, New South Wales and Victoria are currently having major discussions about where their future funding will be coming from, and I have already mentioned that South Australia is in diabolical strife. If we sell the TOTE we are going to rely on consolidated revenue and then we are going to be saying we need hospitals, we have an ageing community and we need to look after education and so on and so forth. It is a big fear.

**Mr BOOTH** - With your experience in the commercial banking field that you spoke of, and the Treasurer has said that they are talking about a 20-year model, what sort of dollars would this involve? Thirty million dollars today in 20 years' time would be what? What do you anticipate you would be wanting?

**Mr JEFFRIES** - I'm not positively sure about \$30 million, but I think that there was \$27 million in stake money, there was a lot of infrastructure and they covered the cost of that. Say, \$30 million plus. What is inflation now - 4 per cent? Over a 20-year period you would be talking \$40 million times 20, which equals \$800 million.

**Mr BOOTH** - But if you got \$30 million support in 20 years' time that would be -

**Mr JEFFRIES** - TOTE are currently trading very well. We have been led to believe that they are branching off into South-East Asia, that they have all these markets that may be coming on line. TOTE could be generating for the racing industry \$100 million to \$200 million. We are talking billions of gambling dollars in South-East Asia where they are looking at the moment.

It would be marvellous. If someone can buy the TOTE for a fire-sale price and they continue to go down the track that they are it would be a great windfall for someone.

**Mr BOOTH** - Irrespective of what TOTE can generate and if someone is going to buy it, they are not going to buy it to lose money, they are going to buy it to generate money and income. We have heard in evidence that it is going to penetrate the Asian market and generate more returns et cetera, but in terms of the support today, is it fair to say the industry at the moment is fairly happy with TOTE providing the support for the industry for the stakes and so forth?

**Mr JEFFRIES** - At this stage stake money is good. Mind you, the other States are catching up on us pretty quickly so there is definitely a need for some minor adjustments to stake money, I think some increases. But at the moment it is going along fairly well.

**Mr BOOTH** - So if TOTE's business model improved over the years you would expect more money would flow to the industry and so it would be a symbiotic sort of relationship.

**Mr JEFFRIES** - Absolutely.

**Mr BOOTH** - Were there to be a sale of TOTE then the support package that would have to replace that, looking 20 years down the track, you would not be looking at \$30 million in 20 years' time, you would be looking at more like \$200 million?

**Mr JEFFRIES** - Definitely not. Ball park figures. You can throw as many figures around as you like but \$100million would not be unrealistic.

**Mr BOOTH** - In other words, if it was a funding model that locked you into an annual thing of \$30 million for the next 20 years, in 20 years' time you would just be bankrupt.

**Mr JEFFRIES** - There would definitely have to be the rises and falls and so on. You talk about CPI and those things; you all know about that and they would have to be put in there. I do not know how you can predict 20 years out but if you are only going to be in government for the next 12 months we can bandy around as many figures as you like.

**Mr BOOTH** - Setting aside the fortunes of governments and the fact then that you would have political pressure every year on the budget to get your funding, if there was a model put in place that in fact took it away from the political pressure, and I am not entirely sure how you would do that, but were you able to set up a structure that was exempt from political machinations every budget, that model would have to guarantee -

**Mr JEFFRIES** - It would be preferable and you have to use your commonsense a bit here also. Down the track what is going to be more important? We have an ageing population, we have pressures on our hospitals already, we have different aspects of education being brought along now which are going to cost money, all these things affect the budget situation. Racing it depends entirely on -

**Mr BOOTH** - To keep it level pegging now there would have to be a substantial increase in dollar terms.

**Mr JEFFRIES** - If they come up with a 20-year plan that can be put in concrete that cannot be affected by a change of government, that cannot be affected by the fact that we need a new hospital here and we need to do something with the LGH and so on and so forth, then definitely industry, I would consider, would be keen to look at it.

**Mr BOOTH** - It would have to meet at least today's level of support in 20 years' time..

**Mr JEFFRIES** - We are talking about infrastructure as well. I mean, in 20 years' time the infrastructure could be falling down. You need to continually upgrade your infrastructure and you continually need to maintain it as well.

The facilities at Hobart need to be upgraded to a certain degree, and I mentioned the harness racing track. I don't know about Spreyton and Devonport harness racing. There is some talk of a try situation there. Who knows? It could cost \$50 million to build something like that so there are plenty of things that need to be addressed now as well as in the future.

**Mr BOOTH** - If the codes were able to have more interaction with TOTE in terms of the outcomes to the industry, is the TOTE model the preferred one over the years?

**Mr JEFFRIES** - TOTE has been good to racing. Every relationship has its ups and downs and so forth but at this stage I think we are on a winner.

**Mr BOOTH** - Are there other more ephemeral things than just stake money that are important to maintain TOTE, to maintain the culture of racing, for example?

**Mr JEFFRIES** - Exactly. Some people might say it only employs 2 700, we could do without it, but the community involved in racing in the country areas and those sorts of places is a sort of folklore. You have families who have been involved in the racing industry for years, be it all three codes and so forth, and some of those are looking to the future to establish a future in racing and so forth.

If we do not have a solid, concrete model going forward there are a lot of people that would be affected. The older people who are involved can manage but the youngsters coming through - trainers, owners, drivers, jockeys, and we have a shortage of jockeys - would want to ensure that they have a future.

**Mr BOOTH** - A TOTE model with some change. I am not saying it is perfect as it is but basically a TOTE model.

**Mr JEFFRIES** - TOTE has been supporting racing for the last number of years and they have been able to improve the product. They have different things coming on board now - first four and first six, there are different betting entities and betting types coming on board that will help keep them solvent. I go back to the fact that the possibilities with South-East Asia and those places are phenomenal.

One thing I have not mentioned in the whole of this is Betfair. Betfair have come into the racing game as well and they have put some funds in so the relationship there should be fostered as well.

**CHAIR** - I am just being the Devil's advocate here. I think you mentioned before that whilst TOTE have done a very good job they are in a very competitive environment.

**Mr JEFFRIES** - Absolutely.

**CHAIR** - There may be some issues out there that you and I do not know about and -

**Mr JEFFRIES** - Absolutely. Wouldn't it be lovely to know, Greg, that we have hit a great big bump, we have a problem or this has not worked out or this won't work out or our computer systems are out of date and we have to spend millions and millions of dollars. If that were the case, fine, but no-one has come forward with any of this information. They may well have done a good job. We had the equine influenza last year and they were able to get through that, recover, increase their turnover and increase their income so I think TOTE is not doing too bad.

**CHAIR** - Are there any further questions from the committee?

**Mr BEST** - I think Tony has put it pretty well. Obviously there are some matters we are going to have to follow up later this afternoon.

**Mr JEFFRIES** - There is so much concern out in the community and I know the racing industry involves gambling and can be construed by many of the do-gooders as an evil thing. It is not evil - it employs 2 700 people and the industry needs to know from the Government what they are at.

**CHAIR** - Thank you very much, Tony.

**Mr JEFFRIES** - Thank you very much for the time.

**CHAIR** - It's a pleasure; you have a long and broad interest in the industry.

**Mr JEFFRIES** - Exactly, and I think we need to know that if this is for a short-term gain because there's a big black hole and so on, why sell it at a bad time? Keep it for 12 months and see where we go.

**Mr BOOTH** - So in your view, the decision that has been announced isn't necessarily for the good of the industry.

**Mr JEFFRIES** - As we understand it, definitely not but, as I said, there may be a massive statement this afternoon from Treasury that may put us in the picture.

**Mr BOOTH** - Do you know anyone who's been consulted in the industry about the sale of TOTE?

**Mr JEFFRIES** - Not as far as I know, but, as I said, I don't know about thoroughbreds or greyhounds. I'm pretty sure from the greyhound man that there hasn't been much consultation there. I mean, TOTE was originally set up for the benefit of racing, but the bean counters have said, 'Gee whiz, look at this! We've got no debt on this business, it's going well, things are looking good. What can we get for this?'

**Mr BOOTH** - Do you think that depoliticises the whole deal as well, the fact that TOTE's there generating its own income? Is that valuable for the racing industry?

**Mr JEFFRIES** - As I said, don't throw the baby out with the bathwater because we will go from an industry or an asset that's generating income to service that particular industry. If we sell that, okay, we might get \$1 billion or \$2 billion, who knows, but that will be gone into consolidated revenue, and then we'll be going cap in hand to Treasury saying, 'We're the racing industry and we need our money this year. How are we going to go?'. They will say, 'Oh, look mate, we've got hospitals, we've got education, we've got all sort of things that need money. You fellows are sort of down here, so we can only do so much'. Why sell an asset at this very stage, when the global financial crisis is still coming? I'd say Mr Challen is an intelligent man, and he has picked it up back in May and said, 'We need to be prepared to cover the shortfall and so forth'. Why sell something at a fire sale price that can generate this sort of income going forward, when maybe in 12 or 18 months or two years it could be worth twice as much?

**CHAIR** - Okay, thanks very much, Tony. Have a safe trip.

**Mr JEFFRIES** - Thanks a lot. I'll have my ear to the ABC news at about five o'clock tonight.

THE WITNESS WITHDREW.

**MR ROBERT BIFFIN AND MR NEIL HERBERT WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.**

**CHAIR** (Mr Hall) - Welcome, Mr Biffin and Mr Herbert and thank you for coming along. You both understand the rules of parliamentary privilege and are au fait with all that. I do not know how you are going to do your presentation but if you would like to make an opening statement with particular reference to the sale of TOTE and then we will allow the committee members to ask questions. We have only a 30-minute time slot so it must be fairly short.

**Mr HERBERT** - We were advised TOTE Tasmania was not on the market and therefore there was no provision in the new Tasmanian Racing Board legislation dealing with any future sale, hypothetically or otherwise. We want to know whether there was any stakeholder input. On 8 January we received a letter from the Treasurer, the Honourable Michael Aird, advising of the Government's intention to sell TOTE. The letter stated, 'This will improve TOTE's competitiveness'. We cannot see how that can be when it has had a negative impact on all the other States.

Under the new proposal of the Tasmanian Racing Board, the Director of Racing, the Racing Appeals Board and the Integrity Assurance Board will all be funded from the State Budget. It also stated, and I quote, 'I can guarantee that the Tasmanian racing industry will not be worse off with these arrangements'. Shouldn't the guarantee state that we would be better off? The letter also states that the proceeds of the sale will be reinvested into other State assets. I point out that the privatisation of the TAB in South Australia has been a disaster and that State now has unfunded capital works and low prize money. It beggars belief how the minister can guarantee future funding arrangements from future governments. With changes to social and economic circumstances we would be competing with all other submissions to Treasury including health, hospitals, schools, housing et cetera.

May I remind the committee that the TRB legislation was passed with no business plan, no cost-benefit study, no funding formulas for prize money or maintenance, and at the moment I think the new Tasmanian Racing Board is in negotiation with the Government for funding. To me, you have sold the farm and now you are trying to negotiate some cattle back onto it.

There are questions that I believe should be answered. There has been no study on the impact of racing. Will the new owner want input into the time slots in allocating Sky Channel when product goes overseas? Will the current number of TOTE outlets remain? Will Tasmania benefit in racing funding tied to growth in turnover globally? New owners may not care, as 94 per cent of turnover is generated from products outside the State now; their interest may only be in obtaining a licence. Also, the Betfair agreement is due for renewal in 2011. Will they still be in Tasmania? As it is half-owned by the Packer Group, they may wish to move it to Sydney or overseas, and they are not liable to put in \$5 million a year if that happens. Also the current Sky Channel arrangements end in 2012. At this stage, we pay them to take our products.

So in summary, if a sale is pursued then the industry needs concrete arrangement, specific clarification, transparency, integrity protection for stake money tied to growth and capital expenditure with long-term sustainability, not words, which is all these things are at the moment.

**Mr BIFFIN** - I know under the present model that levels of funding are not guaranteed, but I thought I read somewhere that this would provide surety of income. I am not quite sure what that means, but that is a concern. I guess with the minister's commitment or statement that the racing industry will not be worse off, we need to make sure that that actually is carried out and the racing industry is not worse off. I am not sure how we do that. What does the term 'worse off' mean? Does 'worse off' allow for reasonable growth? Who decides what 'worse off' is? These are things I do not understand. The statement was also made that the sale of TOTE would provide opportunities to increase funding to the Tasmanian racing industry. I would like to see what those opportunities are, how significant they are and the time lines for when they would be introduced. The funding model would have been mentioned by everybody who has come in and we would like to see a funding model which details how we will not be worse off, how we will grow and how we will maintain confidence in the industry.

There are a lot of participants in the industry who have put a huge amount of money into infrastructure, just to mention one Alwyn Shaw. How do we guarantee these people that they can have a five or 10-year plan and continue to spend the millions of dollars they are currently investing? That relates to a lot of the participants. There is a huge amount of money tied up. At the moment there is a lot of concern about future funding and whether it is worthwhile staying in the industry and they should continue to commit funds. This all seems to be taking place during the latest restructure transition period for the Tasmanian Racing Board, although I am not sure that they even know what they are doing at this stage.

It seems to me there is unreasonable rush to get this through. The timing to me is very surprising. I would have thought that the Tasmanian Racing Board would have been giving advice to the industry but I do not know whether they can or cannot. But they certainly are not in a position to do that at the moment and there is no-one advising the racing industry on the ramifications of this whole thing. There are a lot of questions being asked. There is a lot of negativity. A lot of people are frightened. They are worried about their future and they want to see more concrete information.

**CHAIR** - Thank you very much.

**Mr GUTWEIN** - You raised a number of issues. We heard from a witness earlier today that the current concern in the industry had contributed to the very poor result at the yearling sales. Would that be your view as well? I think it was suggested that nationally sales were down 15-25 per cent but in Tasmania we took a 41 per cent fall. I am wondering whether or not that negativity in the industry played any part in that and what your view might be on that.

**Mr BIFFIN** - I think that it may be one of many things that may have formed a part. I do not think that it was necessarily the biggest part. It would depend on who you were speaking to and which part of the industry they belong to. Certainly that would have been in the mix of things as it was a national trend. We are linked to the national economy and apparently a planeload of buyers never made it to

Tasmania. There were quite a few different things and that could have been part of it.

**Mr GUTWEIN** - Following on from that in regard to time frame, there is legislation to go before Parliament and the Government has to provide information on a range of matters. How critical is it of the industry or the bodies that you represent that the Government provides information in a timely fashion and how long would the industry stand for the current status quo to remain that is no information before it before it starts to have a very detrimental effect on the industry? How soon do you need to know what is going on?

**Mr HERBERT** - Obviously as soon as possible. With the introduction of legislation we need the information as quickly as we can possibly get it. As you say, the negativity at the moment is because of unknown quantities which I stress from everything that we have seen you could say are words. There is nothing that is concrete evidence about whatever will happen, or may happen, with the exception of the minister saying that we will not be disadvantaged. Unfortunately I do not think it is good enough to evaluate anything in that light.

As far as we were concerned, the TOTE was established to provide funding to this industry. If you sell it without any of this information, we do not know and nobody knows where that could end up in three years' time. We could be sitting around this table and going to turn the key in the front door and then we all go home. You cannot expect the studs to look at investing when they do not know where they are going and the industry in general. It has probably been said that the industry employs around 3 000 people. You take that on board. There is a lot of negativity in the industry full stop. I do not know where you would want to invest. I just made reference to a new owner hypothetically with the board room in Sydney or Hong Kong or wherever. They are obligated as directors to make as much profit for their new organisation so they may decide in two years' time to close all the TOTE outlets as a business risk. There are a lot of people - I do not know how many outlets there are, probably 70 or 80 in Tasmania - and those people would be unemployed.

**Mr BIFFIN** - We are not saying that the sale of TOTE is a bad thing. We do not have the information to have an opinion, I think. Is one of the reasons the fact that the Government is looking for money to pay off other debts or to source other projects? What came first?

**CHAIR** - We cannot answer some of those questions because we are not the Government.

**Mr HERBERT** - They are the questions being asked of us.

**CHAIR** - Of course, yes. I realised that.

**Mr BOOTH** - From an industry point of view, can either of you give us a single reason it would be a good thing to sell TOTE? Given that you did not know it was going to happen, was it something that you were thinking in your own minds, 'Gee, they should sell TOTE. That would be good for the industry.'?

**Mr BIFFIN** - From my personal opinion, I think TOTE has been motoring along beautifully in the last couple of years. Turnover has been increasing. I must give credit to the new CEO, Craig Coleman. Everything was positive and it seemed that turnover was up, they were on top of things and competing very

well against the other States and TOTE companies. From my personal point of view I was surprised. But I do not have the information. I do not know whether it is good or bad. We just desperately want information.

**Mr BOOTH** - Does it sound satisfactory for a racing minister to be so disengaged from the industry that it appears that there is no trust in what they are saying?

**Mr HERBERT** - Because of the boutique nature of Tasmania, as I said earlier, TOTE was established as a funding stream for that situation. It is an obvious situation that if that goes offshore or to anywhere, there are board rooms which have to be satisfied. It is as I mentioned with Betfair. The contract that they had here for five years to put in \$5 million a year will be finished in 2011. They could pick that up and put it in England. They have their licence now so they could put it in any State of Australia. When they could not they used Tasmania to get the licence.

**Mr BOOTH** - I want to drill down a bit on that because it is something that has been troubling me but you are the first person who has raised it in the committee. The problem is that it may be that somebody may purchase TOTE simply to get the licence. What implications do you think that may have in terms of the future of all racing codes in Tasmania were somebody to purchase it for the licence? Where do you see that could lead potentially?

**Mr HERBERT** - I am flying a kite at the moment but by the same token if they have a licence to operate TABs or TOTE or whatever they wish to call it, the thing that I am nervous about, because of our boutique nature, is do they have then the effort of putting our product globally and saying to Sky Channel and to this industry here, 'For us to make money and everything else we want you to race on Monday from 6 o'clock until 10 o'clock in the morning.'? That is a hypothetical, I know. But where is our control? We have absolutely no control over it whatsoever.

**Mr BOOTH** - Could it lead potentially to a sort of teletrack-type situation or maybe them buying product off others around the world?

**Mr HERBERT** - I think, being realistic, that will probably halfway happen anyway, because to go global you have to race at certain times. We actually support our industry going global to generate income.

**Mr BOOTH** - I do not know the answer to this so I am in the dark with regards to what one could do with that licence, but is it possible hypothetically for a person, a company or an organisation to purchase TOTE, therefore purchase a licence and then simply decide to take the product from wherever they want?

**Mr HERBERT** - They could go to the Northern Territory and set up to bet on racing as such everywhere but they would make commercial decision on whether it was worth it.

**Mr BOOTH** - So what you are saying then in answer to that - and it is hypothetical - is that potentially they could have no Tasmanian product if they wanted to?

**Mr HERBERT** - At a board level they could make that decision quite easily.

**Mr BOOTH** - They would make those decisions in the interests of the company.

**Mr HERBERT** - Of their shareholders, that's right.

**Mr BOOTH** - So there would no longer be any imperative for a new owner to do anything in terms of making sure there were plenty of races happening in Tasmania then? That is your view?

**Mr HERBERT** - Yes, as I said earlier, I find it very difficult to know how a government of the day can guarantee what will happen to a government in 10 year's time.

**Mr BOOTH** - Absolutely. You cannot rule from the grave, so to speak, if you are not the government.

**Mr HERBERT** - That is right.

**Mr BOOTH** - My concern is that apart from the effect on the culture of racing it actually puts the funding of racing into a political domain so that each year you have to go with your begging bowl.

**Mr BIFFIN** - Exactly, and that is one of our big concerns.

**Mr HERBERT** - That is our big concern.

**Mr BOOTH** - Further to that, from what you have said and if the licence was sold and somebody decided that they could make more money out of camel racing than running races here, it could ultimately mean that the industry could collapse in terms of the racing industry because the people who provide the product would be here but they no longer have anywhere to put their product. Is that a reasonable assumption?

**Mr BIFFIN** - Well, that should not happen because isn't the minister guaranteeing that the industry won't be worse off?

**Mr BOOTH** - But do you believe him?

**Mr BIFFIN** - Well, we do not want to say we disbelieve him but we want to see the cold, hard facts. If the purchaser is successful in operating what he has purchased or if he is not, my understanding is that it will not affect the money that will go to the racing industry because we will be negotiating separately from that, so we will not know whether it is successful or not so really it shouldn't have any effect on the funding of the Tasmanian racing industry, but that is where I have trouble understanding that too.

**Mr HERBERT** - I have trouble in understanding exactly what you said. If we get into that situation the industry would be with everybody else in negotiating State budgets and all sorts of situations.

**Mr BOOTH** - And even if the money went into the industry, if the people who owned the licence decided not to put it through SuperTAB or some other system, where would your stakes come from?

**Mr BIFFIN** - The minister.

**Mr BOOTH** - He would just provide the -

**Mr BIFFIN** - Well, that is all we can understand at this stage.

**Mr BOOTH** - So were a sale to be considered by the industry it would be something you would need to see in the legislation that said that an owner of that licence would have to support product provided by the Tasmanian racing industry to the level it is now at least or presumably growing. Would that be a reasonable summation?

**Mr HERBERT** - We would want that, and growing. The fact is that if you stand still you go backwards in any situation, so we are looking at a growth where we may accept some of our races going tele-track, hypothetically, to generate income as we have to move to that thing.

The only reason I raised the licence situation was that there could be corporations that are looking at a licence, and I don't want to go back to Betfair but they came here so they could get a licence and they have got into Australia now, so they could move that offshore here tomorrow morning and we'd get nothing, so that is why I raised the licence. If an international company in Europe sought the licence and then after three or four years' time looked at the returns sitting around the boardroom, they could say, 'We don't need this'.

**Mr BOOTH** - To support the industry that you are talking about in terms of racing, even if it were tele-track, you would want that to be here, not camel racing in the Northern Territory.

**Mr HERBERT** - Oh yes, of course.

**Mr GUTWEIN** - On one hand a 20-year deed in regard to providing surety of funding for the racing industry moving forward has been talked about, so that is obviously something that you guys would definitely require information on, but then in regard to any new purchaser, as part of one of the conditions of sale would it be important that a certain amount of Tasmanian racing product was always going to be a part of what they were doing?

**Mr HERBERT** - Yes.

**Mr GUTWEIN** - You would be looking for that sort of guarantee.

**Mr HERBERT** - We would be looking for something in that light, and I don't know how you tie that in because the more conditions, for want of a better word, that you put into the contracts, hypothetically I would suggest that the more it would bring the price down.

**Mr GUTWEIN** - Well, it normally would.

**Mr HERBERT** - Yes, and if you try to tie into all these guarantees that they have to take Tasmanian product and they have to do this and that, one would assume that the price would come down. That might still suit them if they just want the licence.

**Mr GUTWEIN** - You gentleman obviously know a lot more about racing than I do - and hesitate to say it, but a number of other people on this committee as well. Are there any threats that you can see on the horizon to TOTE as it currently operates at the moment? You have both said that TOTE has been doing wonderfully well the last couple of years and that has certainly been echoed by other participants in the industry. Are there any threats that you can see to

TOTE and its current operations as it currently stands, whether on an interstate or an international basis from your understanding of the industry?

**Mr HERBERT** - Without looking at the international thing, as Robert and I and the industry have said, we have been very happy with the progress and where TOTE has been heading. We had really been looking forward to going international, globally and so forth, until it raised its ugly head that we might be selling it. We were really looking forward to moving forward the industry and TOTE, to be quite truthful.

**Mr BIFFIN** - I would have thought the product would have been something that would have concerned them.

**Mr GUTWEIN** - Is that Sky Channel?

**Mr BIFFIN** - Yes, it is. The Sky Channel coverage would have been the main problem on their minds but they seem to be reasonably confident that they could come out the other side of that pretty positively.

**Mr GUTWEIN** - How much sway does Sky Channel have in regard to the timing of your race day events? How much of the dog do they wag, so to speak?

**Mr HERBERT** - Well, it is a large slice at the moment; that is why TVN, which was New South Wales and Victoria, started their own. The fact is that we all need to get our product locally, interstate and overseas, so we need Sky Channel. Obviously they have a very big input into it and they are looking for 24-hour, seven-day-a-week operations so they can put it around the world. So, yes.

**Mr BIFFIN** - At the moment we have a binding contract but that only has a few years to go and then they will be -

**Mr HERBERT** - To 2012.

**Mr BIFFIN** - looking at us very closely because it is a commercial decision on their behalf so they will be looking where best to position us to maximise their turnover.

**Mr GUTWEIN** - I am trying to get an understanding. Post-2012, how realistic or unrealistic is it that Sky Channel might put a proposition to Tasmanian racing? You said before that it might be a 6 a.m. Monday morning start because you need to meet the needs of some other international market. What sort of chance is there of that actually occurring?

**Mr BIFFIN** - There'd be a fair chance, I would think.

**Mr HERBERT** - I reckon there'd be a very good chance.

**Mr BIFFIN** - They would want us to go off Sunday racing to some sort of mid-week racing.

**Mr GUTWEIN** - And even sometimes during the night, to fall in line with the time frames?

**Mr HERBERT** - It could be, which is probably not a bad time frame if at night we are to go to places like Singapore and into Asia, and maybe even to North America

on those time frames. But what we were saying there was that it would depend on who acquired it and whether they had the clout to go to Sky and say, 'We can make millions more if we race in the 6 to 10 a.m. time slot on a Monday morning'. I do not know where we stand to negotiate in that situation.

**Mr BOOTH** - Even if you were to consider a 20-year deal, setting aside that I am not entirely sure how you would even do that or if you would get a plebiscite of your industry, but hypothetically, if this deal came down the line, what then? Does it concern you that if a 20-year deal were made, what happens in year 21?

**Mr BIFFIN** - Twenty years is not a lot of time.

**Mr HERBERT** - Twenty years is not a lot of time. Betfair was great - five years - but that is up and there is nothing stopping them taking their bat and ball and going anywhere in the world now they have their licence.

**Mr BIFFIN** - Personally, I find 20 years a disappointing period.

**Mr HERBERT** - Because we are trying to build.

**Mr BIFFIN** - We are talking about a massive industry and you are giving them 20 years, so the panic will start to set in after seven or eight years and then you have 10 years of people losing confidence and getting out of the industry because they need surety.

**CHAIR** - Thank you, gentlemen, for your input. I wish you a safe journey back up the highway.

**THE WITNESSES WITHDREW.**

**Mr GEOFFREY ALLAN HARPER WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.**

**CHAIR** (Mr Hall) - I invite you to make a statement to the committee on where you see things with regard to our term of reference - that is the sale of TOTE - and then members will ask you some questions.

**Mr HARPER** - I am Chairman of the Tasmanian Racing Club. I have also acted for and owned a company which made a bid to buy TOTE Tasmania some two years' ago. I am also a part of the consortium, which includes the Tasmanian Racing Club, which is putting forward that it would like to make an offer to buy TOTE Tasmania, if it is for sale. There is a number of issues which I am across but I believe I can give a fairly broadbased and informed opinion as to why I think that TOTE Tasmania, under the current circumstances, should not be sold.

**CHAIR** - As long as we do not get into figures concerning commercial confidentiality.

**Mr HARPER** - I will quote figures which have been gleaned out of TOTE annual reports and one out of a Merrill Lynch annual report which probably does not carry much weight since they have just had a \$10 billion bailout and \$15 billion loss in three months. If these are the people that have been quoted around the place there is probably not a lot of credibility floating around. The consultation with respect to dividing TOTE in the industry was an absolute sham. We arrived with Global Value Management at Bellerive. I talked to the minister's representative at the time who said, 'The legislation has already been drafted. This is just window-dressing'. I left about three-quarters of the way through. It was an absolute waste of time. If this is what it is about it -

**Mr HARRISS** - When was that, Geoff?

**Mr HARPER** - On 26 September, with Global Value Management. I sat next to the representative of the minister at the table and said, 'Do you have the legislation prepared?' He was very reticent about saying it. I persevered with the point and he said, 'The draft legislation has been prepared'.

**Mr GUTWEIN** - That was for the restructuring of the industry?

**Mr HARPER** - That is for the restructured industry and the separation of TOTE Tasmania from the racing industry. In real terms was there consultation? In my opinion, no. The confusing issues for all in the racing industry are, what are the terms and conditions of the sale? Does the TOTE merely manage the industry on behalf of the Government? I would like to put forward in the papers which I will leave today the statutory declaration from the Honourable Michael Hodgman which makes the point that Totalisator started it all in about 1890 and has historically been there over a number of years. The Government was approached to manage the totalisator industry on behalf of the Government. They were never given ownership of it, never indeed contributed any capital to start off the industry. There is an argument to ask, who owns TOTE Tasmania?

**CHAIR** - Are you saying you would like to table that statutory declaration?

**Mr HARPER** - Yes, I would. Thank you. The confusing issue for the industry is, what are the terms of sale? Second, what level of licence fee does the

Government propose to charge, if any? The minister's statement to this committee in the first instance is known to the Tasmanian Racing Club. What is currently for sale? The current date to provide this is totally insufficient to allow any decision on what is for sale, the revenue to be charged and what is required. Their contact point was Mr David Willingly, a partner at Deloitte Corporate Finance and I requested information on the sale. I rang him, e-mailed and got an immediate response. The close of expressions of interest was for the 16 January. When I contacted him since then, apart from the fact that he does not return his e-mails or his phone calls now, I was told that there would be no information available until the end of March; the Government did not know whether it was selling.

**Mr BOOTH** - Can I just clarify that. Are you saying that you received information by 16 January and that was the close of expressions of interest?

**Mr HARPER** - In the Merrill Lynch papers here there is a description of Tattersalls and Tabcorp wishing to buy TOTE and it says expressions of interest close on 19 January 2009.

**Mr BOOTH** - Was the announcement to sell was made publicly on 6 January?

**Mr HARPER** - Yes, on 6 January. Through the racing club, having contacted Deloitte to ask what was for sale I was told they would not know what was for sale until the end of March, as the Government had not decided.

**Mr BOOTH** - That is extraordinary.

**Mr HARPER** - It is unbelievable.

**Mr BOOTH** - So you had two weeks and you had to read an ad in the paper and technically that would have been the only means to find out. It was only because you sought out Deloitte that you knew when they were closing, or was there an ad in the paper?

**Mr HARPER** - This popped up on a Merrill Lynch web site and that is when we were told the expressions of interest were closing. According to this, 'the Government of Tasmania has announced their intention to sell TT in a competitive bidding process by 30 June 2009 and expressions of interest are due on Friday 16 January.'

**Mr BOOTH** - What date was that? Is there a publication date?

**Mr HARPER** - It's dated 22 January 2009.

**Mr GUTWEIN** - Just for clarification, what document is that?

**Mr HARPER** - It is a Merrill Lynch proposal which relates to TOTE Tassie being for sale and it goes through the likely buyers for TOTE Tasmania and what their current interests would be judging by the current level of capital purchases within the industry, for example Tabcorp is involved in the redevelopment of the casino in Brisbane, so they might not have the capital to bid for it.

I want to make the point that clearly it said, there are two logical options to sell TOTE Tasmania. I would say that the Tasmanian Racing Club and the entities it is dealing with would be the third, but it really boils down to there being really

only one entity in the market place that would be interested, Tattersalls. That is the conclusion that they come back with.

**CHAIR** - Would you be able to table that document, Geoff?

**Mr HARPER** - I am certainly happy to leave a copy and table that document, yes. I do not need to quote from that so I will leave that with you now.

In the divesting by TOTE of the racing assets and its assets within the balance sheet which would be the leases on the Tasmanian Racing Club and others, it has now put itself in the situation of being a trading company. It does not particularly own any assets apart from intellectual property, leasing and some property which it has no asset holding on. It may hold other small parcels but then you go to the balance sheet and there is nothing significant there. Anyone buying it is buying a trading company based on the licences which it currently has. I think it is important to understand that.

What has not been accounted for is if it is sold to an interstate company, what would they be looking for? If you sell TOTE on its 2006 turnover figures and you are only selling it based on turnover with no asset input, it is worth somewhere between \$800 000 and \$1.3 million. We have a certified valuation from a licensed valuer. As I said, we looked to buy the company at that stage. If you are buying TOTE licences only, without any capital infrastructure that goes with it, that is about the price.

**Mr BOOTH** - What date is that?

**Mr HARPER** - That is the 2006 valuation and it was valued on 22 December 2006 by Horton International accountants. Unfortunately because of the information within that I am not prepared to divulge it but I am happy to discuss any access to figures.

**Mr BOOTH** - What prompted you to get a valuation in 2006? Was it to put in a bid to buy it or was there some process happening there?

**Mr HARPER** - We had excellent relationships with Racing Victoria at the time and it was about the Belfair time as well. Racing Victoria had come back and said that if TOTE Tasmania was for sale they recognised that Tabcorp in Victoria's licence was coming up in 2011. What they did not have was a vehicle to run a TAB wagering business out of. The integration of Racing Victoria and Racing Tasmania and having the TOTE licence that they could utilise to begin with would be advantageous to the Victorian industry and the Tasmanian industry. With that they linked to us a certain number of guarantees, which have been made public previously, that it would be advantageous to go down that path as far as prize money, capital investment and continuity were concerned.

They have certainly continued on since then with apprentice training and others while giving those things FOC back to the Tasmanian racing industry as well. The potential of having only a retail company to asset strip the services on the ground and just leave Tasmania bare of any TAB is an absolute realism.

The lower the tax regime the more the economic value of TOTE Tasmania is, but then industry becomes reliant on State budget allocation. The value and determination of the economic net worth of TOTE is dependent upon the customer mix. These are not old figures but they are fairly close to the mark.

Twenty people provide approximately 40 per cent of TOTE turnover and 60 per cent of that is electronic in nature and will ultimately stay with current TAB pool destination.

When you look at the balance of dividends paid throughout Australia, the market is so sophisticated and so computerised that people are able to transfer money around on each race they want to bet on to get the best results on punting throughout Australia. You may find a horse in, say, Queensland paying \$6 on the TOTE and it is paying \$3 in Victoria. You will find by the end of the jump of the race it is still paying \$3 in Victoria but it is paying \$4, \$3.50. These people know how much money to put on and what is required to get it down and still make a commensurate return on where it is.

You are talking about a very sophisticated market. If we are looking at potential purchasers of TOTE you have to be able to punt into a new pool. As an example, if Tattersalls were interested in buying it they still have to be able to punt in the Victorian pool but the Victorian pool is not going to let them punt into that and not let them have that outlet.

You have to be in a position to ensure that the current levels of turnover, the percentages of money coming out of Tasmania, are allocated evenly across the distribution pools. You will not get that by getting any other purchaser apart from Tabcorp.

The problem with Tabcorp is sitting back there knowing that if it does nothing in 2011 it is going to get all that money anyway. Forty per cent of the local turnover, which is bulk punters, has to go into that pool because it is the only way they get a dividend. You have 60 per cent of punters sitting out there who contribute very little to the bottom line and yet if the professional punter moves out and punts in Victoria, 60 per cent of the punters are going to be carrying 100 per cent of the overheads.

There is real concern there for the genuine buyers in the marketplace for TOTE. When you sit back and listen to the history of what has been said, there are clearly only two players in the Australian marketplace capable of fitting TOTE into their pool. One is Tabcorp and the other is UNiTAB.

Why would Tabcorp do anything? And they have tried it before and the information is provided, they tried to move Tasmania out of their pool, which automatically gives them 40 per cent of TOTE's major turnover having to be punted into their pool because they are the only ones that hold enough money to do anything with, So Tabcorp can sit back and do nothing - they will get 40 per cent of Tasmania's business in 2011 and they will get that on the bulk users' benefit. When you are servicing 20 to 30 people and providing 40 per cent of the turnover it has to be a great business acumen. If Tabcorp happen to want to buy here they would, in my opinion, buy, take the 40 per cent and cut the other 60 per cent loose. The other 60 per cent is either going to make phone calls to them to get into their business or they are going to drop off the punting market. That is the problem I see with the current marketplace situation at the moment.

The contracts with Tasmania come up, I believe, in about the year 2011, whether the contract for TOTE is to remain with Tabcorp comes up at that stage. That is, incidentally, about the time that the Sky contracts and the product supply agreements with the Tasmanian racing industry come into negotiation again. So

there is some real sort of note there to be had whether or not these things are going to be fulfilled.

Tabcorp have already made it known - they said they did not want Tasmania in the pool and fortunately for Tasmania we have a contract which allows us to stay - I think it is to 2011, which has certainly been a real advantage. Otherwise we would finish up like other TABs of South Australia, Northern Territory and Western Australia, having to move off into a smaller market.

Tasmania is the victim by TOTE of its own success. Tasmania has done particularly well in getting professional punters here and working the system legally really well and I think they are to be commended for that. Where does the Tasmanian racing industry go in its value? If you sell TOTE off you have to lose intrinsically half its value or half its net worth. If the figures being quoted around, figures that are quoted in that report - maybe \$115 million, maybe it is worth \$120 million - if you have to pay a royalty back to the Tasmanian racing industry commensurate with its current needs it is probably about \$1 million - \$1.5 million.

But in relation to the payments required by the racing industry, you are looking to sell a \$300 million to \$400 million investment to get the returns that TOTE is currently getting out of that. When you look through the numbers of what TOTE's efficiency is - and these are numbers which were provided by our accountants on the basis of a valuation we have had done - TOTE Tasmania's collection of revenue is 10 times less efficient than the Victorian industry's.

I have raised the issue previously at the meeting in Campbell Town about the need for TOTE to go through the self-examination process with external people to make sure that we are getting the best value for dollar. That has never been looked at and never been followed through but you can't get away from the numbers that are in the paperwork. The numbers say that TOTE is inefficient and should be looked at and whether it is a new management structure - I think some of the people on the management team are outstanding but there are inherent systems in place which may not be in the best interests of racing.

The idea of offering a 20-year deed back to industry on funding, when you look at that in depth the first four years' funding is guaranteed, the next four years you are in the mix with health and all the other industries within the State. But again, if TOTE is paying industry in excess of \$20 million a year in output, for a 10 per cent return on asset you are talking \$200 million, so TOTE has to be valued at \$350 million to \$400 million and if they get \$350 million to \$400 million there is some sort of relativity to say - and I would be one saying it - sell.

But to look at amounts less than \$250 million it is just laughable, it really is in the light of return on investment. Commercially it would not be a good proposition to sell TOTE unless you are in the \$300 million to \$450 million range. With only one potential bidder in the marketplace that is all you have to go on because if TOTE Tasmania goes the way it is currently going and is sold to, let us say, UNiTAB, then the turnover or the money that UNiTAB is getting to punt back into Victorian Tabcorp is not going to exist so they are not going to have the same sized pools around for local punters to invest in to get similar returns, so automatically those punters have to get out of the UNiTAB pool and get into the Victorian pool and that is where the strength and the weight of the money is. That is where we really sit with it.

In my opinion, there is not a lot to be offered by the sale. Also too, and I think this is really important, the minister made a statement to the committee that he believes he can negotiate a satisfactory outcome on capital and prize money with the new Tasmanian Racing Board. This is the board that he recommended to Cabinet; he signed the appointment papers for it. Isn't that the ultimate conflict of interest? He is asking a board that he has appointed himself to tick off a 20-year funding deal for the racing industry, which in real terms is only four years because after four years you go back to renegotiating what is the current budget structure within Tasmania.

I think if you do the numbers on TOTE it clearly demonstrates that the worst position we could be in is to sell to TOTE for less than \$350 million-\$400 million. If you sell it for that there is some relativity of saying it is a good purchase, but to do anything else, the income that is currently being derived from TOTE does not warrant selling it for less, and I believe when you only have one player in the marketplace capable of wanting to buy it, that is it. Paul said it would be nice to get an overseas person in to buy it, but to me there is no reality there. There is no Asian company, no British company, there is no-one out there - or North American companies as well - that would be interested in buying it. The marketplace, according to the documentation which I tendered, clearly says that that is an Australian-based marketplace with either Tattersalls or Tabcorp.

**Mr BOOTH** - Setting aside its value, in terms of the best interests of the racing industry in Tasmania for all codes, do you think it is in the best interests of the industry to sell TOTE and therefore fall victim to your own current funding arguments and accept whatever deal they try to stitch up for 20 years, or is it in the best interests in the industry to keep TOTE as a funding stream going sideways back into the industry?

**Mr HARPER** - I think there is only clearly one answer to that. It would be absolute lunacy to sell TOTE Tasmania when you have a negotiation coming up with a major corporation such as Tabcorp in the year 2011. Tabcorp have already indicated that they want Tasmania out of the pool. That would be absolutely catastrophic for the Tasmanian racing industry. The Tasmanian Government, through TOTE, is the only body that can negotiate with Tabcorp on a level playing field. I would not want any other entity in Australia, whether it be UNiTAB in New South Wales or whatever, trying to negotiate Tasmanian racing staying in a large pool such as Tabcorp, which is the only pool to be in. It has the best racing, the best quality of money flying in and out of there, and the best-managed dollar - a dollar spent is a dollar rewarded. It is by far the best way to go.

There is no reason to want to go anywhere but the Tasmanian Government and TOTE Tasmania, in my opinion, are the only ones who can guarantee that we will stay in. I would rather be sitting in front of the High Court with the Tasmania Government and TOTE Tasmania in front of a united racing industry arguing that we should be back in the pool and that it is a State rights issue of discrimination against a smaller State, than selling the place off, because if you sell it off you walk away from it.

**Mr BEST** - Mr Harper, you mentioned that you had some discussions about your interest in purchasing TOTE.

**Mr HARPER** - Yes, that is right.

**Mr BEST** - When would that have been? When did you first become interested, so to speak?

**Mr HARPER** - In 2006. We then approached Michael Aird and we also approached the Premier, Paul Lennon, at the time about our interest in it and were told categorically that TOTE was not for sale.

**Mr BEST** - Can I just ask or is it commercial-in-confidence - I do not want to put you in a bad position and we can go in camera if you like - what has been your interest in purchasing TOTE? It is okay if you do not want to answer.

**Mr HARPER** - No, no, I am more than happy to say. I have been involved in the racing industry for 40 years. I have done very well in my own business interests and I have had so much enjoyment out of racing that I believe there is a lot more that business and the business community can give back. The contacts I have made through racing have been excellent, both in my business and others. The interest in buying TOTE Tasmania was purely on behalf of the industry, because at the end of the day, you have a locked-in supply of money at 4 per cent and you have the ability to take out the Tabcorps and the UNiTABs of the world, who are 10 per cent returners to their shareholders; they have a large 'other expenses'. Tasmanian racing, managed under an efficient TOTE structure, should be able to return 10 per cent to 15 per cent more money to the racing industry and possibly 5 per cent to 10 per cent into government revenue than any industry owned by UNiTAB, Tabcorp or any private enterprise.

**Mr BEST** - Yes. We did hear from some witnesses about other key matters that they thought would be important in the overall context of some sort of a funding agreement, if one were to exist. We heard also that the formula being used in Country Racing Victoria has been a funding formula. I am just interested in your views about that. Do you see that as a good funding model to base something upon? Would you like to make other comments about what could be constituted as good funding models that we could consider?

**Mr HARPER** - I do not think Tasmania has the maturity and I do not know why they have not because the question has been asked several times. Tasmania has a unique business model and that business around Saturday and Sunday racing and other feature race days tying into a national and an international grid.

We have never done a business plan which is for the betterment of the racing industry. We know that certain races have better prize money and TAB turnover is better on some race meetings than others, it is better at different times. There is an array of things that should be put in place. It will never be done if TOTE Tasmania sits out there - this is not a criticism of TOTE - and the new racing board sits here. The new racing board is trying to program races that can be contrary to the best interests of the TAB. The TAB structure with the racing industry under it was the best, most efficient corporate entity that Tasmania has had in my 25 years managing racing. That is not to say it was perfect -

**Mr BEST** - No.

**Mr HARPER** - There is a lot of improvements on both sides, the racing industry and others.

**Mr BEST** - What do you think the best structure would be? You could say that one, or do you have a better one in mind?

**Mr HARPER** - The best structure I believe we could go to is one where TOTE took control of the racing industry again but there was greater representation and maturity on the racing board that represented racing Tasmania interests, not the sectionalised clubs or anything like that. The corporate law in Australia has now changed so much and I am sure we have all served on certain boards where people say, 'Directors on the other board I sit on have told me to vote for this'. That has been illegal in Australia for the last 10 or 15 years, and yet it still goes on in every lower board you sit on. TOTE Tasmania's board should be able to rise above that level and introduce a system of punting and turnover, feature races and governance within the Tasmanian racing industry which would be an absolute role model and advantage.

Why would it be? First, because it would be efficient. People at the club level give their time free of charge so there is a saving there. Second, TOTE Tasmania would not be paying 10 to 15 per cent, other taxes to shareholders and living or dying on the stock exchange. At the end of the day, TOTE was established to provide the racing industry with funding; it was not to provide the Government with the whim of being able to sell it when they felt like it. It was a revenue stream. What is the problem here? The revenue stream has become too good and people are looking at us and saying we are short of money for here, we are short of money for there. We are not attuned to paying out a direct share of taxes on where we are going, but we have a business where - these figures might not be accurate - about \$20 million a year roughly gets paid out in the way of stake money and prize money, and \$10 million or \$15 million is being taken out in capital investment within the industry.

Based on the current TOTE turnover, and that turnover has improved exponentially from where it was, this is a great business giving a great return both to the State and to the racing industry. If someone comes up and says, 'We are able to get a return on that and sell it off so we are going to finish up with a yield of 15 to 20 per cent so therefore it makes sense out of - let's say - selling it for \$100 million, we can pay the racing industry \$20 million a year and another \$15 million in capital investment'. What you are saying is the first year, as I read these papers, we are looking to pay \$35 million out of the \$100 million the Government collects and four years down the track the racing industry is going to be negotiating with the new racing board and the racing board with the Government saying, 'We need more funds'. They are saying they have decided to build the new hospital on a greenfields site and they need the funds for that. It is going to be a drip-fed industry.

At the end of the day, if you want Tasmania to prosper there have to be businesses that do well and employ people. I think if you look at the racing industry it is the best employer of the unemployable people within Tasmania and it is a real grassroots movement which interlinks society, from corporates right down to stable hands and others. I think a successful racing industry, as they have anywhere else, is a real underpinning of society and where it is going.

**Mr BOOTH** - Do you see the sale of TOTE being detrimental to the long-term interests of the racing industry?

**Mr HARPER** - If the sale of TOTE achieves the \$400 million to \$500 million being mooted, I would seriously say it is probably not a bad deal.

**Mr BOOTH** - But how would you see that supporting the industry in the future?

**Mr HARPER** - If TOTE were to be sold, and there is an argument about who actually owns TOTE anyway, for \$500 million I would want to be sitting down with government saying, 'We do not have a deed for 20 years, we actually have a contract or a contractual deed for 20 years which details the funding and the progression of funding out of the \$500 million grant which we have given back to government'. TOTE can generate around \$35 million to \$40 million on the \$450 million turnover, which was the last turnover I saw, so they have to be generating somewhere about \$35 million to \$40 million.

I want to go back because you raise a good point there. I asked the honourable Michael Hodgman to ask the question in Parliament two years ago along the line of how much the State Government raised out the TAB in the 1990s by way of revenue to go to consolidated revenue. In the years, I think 1992-98, the State Government collected \$92 million in funding out of TOTE and out of the racing industry that went directly to consolidated revenue.

The point I ask and raised before is, there needs to be an inquiry into the running of TOTE and the cost in how it is managed to ensure that what we are selling is actually what we believe is in the balance sheet. As I said earlier if the ratio was 10 times less efficient than Tabcorp, and there is certainly a scale of economy there, then we are possibly selling something whose economic value we really don't know.

**Mr BOOTH** - It could be worth a lot more than it appears at the moment.

**Mr HARPER** - Absolutely. To round it up, if \$30 million is coming out of TOTE to go to the racing industry, a \$300 million investment at 10 per cent is a great return in the market place at the moment. To buy an investment that returns \$30 million, what is it really worth? To sell it for anything less than \$450 million to \$500 million is just throwing money away.

**Mr BOOTH** - Moving on from that, the question is, what in 20 years' time? If you have a deal, and we have talked about the vagaries of different political machinations as to funding streams even in the last 20 years, but even if you have a watertight contract, what then?

**Mr HARPER** - From what I understand of the ministers statement to the committee, it is not that. He has clearly stated that the funding will be locked in place for four or six years and at the end of the fourth year we are going to sit down and renegotiate or negotiate what the level of funding would be. From the industry's position in the first six years you know where you are. At the end of the fourth year you will be told in the seventh year what you will get. That puts you back into the level of where the State Government is and what its budgetary requirements are.

**Mr GUTWEIN** - We will need to get that clarified and we have Mr Aird coming in. I must admit my understanding was that rolling five-year contracts would be negotiated on an annual basis so that you would have surety moving forward on a five-year basis. I would need to look at that but that was my understanding of it to be fair to him. That would mean that in your second year you were actually negotiating out to your sixth year and then third year and so on.

**Mr HARPER** - The seventh - continually.

**Mr GUTWEIN** - But by doing it that way you roll across election periods.

**Mr HARPER** - To me it does not matter if it rolls over election periods or not, it is only as good as the contract that is actually put in place and quite frankly I think we have no confidence. If you look back at the abalone industry and see how the deeds changed from what the original deed was, it is alright to talk about short-term contracts, but when you are talking about things in the long term society changes, everything changes so much, you would not want to be locked into something like that.

**CHAIR** - Geoff, unfortunately we have gone over time. Thank you very much for your valuable input today.

**THE WITNESS WITHDREW.**

**THE HONOURABLE MICHAEL AIRD, MINISTER FOR RACING, WAS RECALLED AND FURTHER EXAMINED.**

**CHAIR** (Mr Hall) - We will start this last segment. It has been a long day and we have the most important player of the lot, the honourable Treasurer. Welcome, Treasurer. We will have a short session in open committee, and then we'll move into closed, if that's okay with you. Is there anything you'd like to say just to start off with?

**Mr AIRD** - Mr Chairman, there appear to be three threshold questions that the committee is considering, but you may correct me. The questions appear to be: do you believe there is good reason to divest TOTE from public ownership; do you believe the processes that were undertaken to achieve that decision which I took, along with the Government, were appropriate in the circumstances; and does this allow for security of funding, a sustainable funding model of some sort into the future?

Obviously, I have answered the first question; that's why I am here. In answer to the second question, I am satisfied, given all the circumstances, all the stakeholders including the employees, principally, that I've handled the process appropriately and have engaged in proper process, but the committee may make a different judgment because I understand there has been some evidence put forward in committee which has been a bit critical, surprise, surprise.

**CHAIR** - You got off pretty lightly today.

**Mr AIRD** - No-one defamed me? I am not going to defame myself, but I just hope there's some restraint amongst members here.

Then you get to the other question of how you satisfy the racing industry's funding model. I put forward a model before. I have a slight variation to that model in that I would proceed with the deed whether or not we had a sale of TOTE. The advantage of a deed is that it does give security. There is no funding model in Australia now that actually provides security to the racing industry; there are models that have provided a level of assistance to the racing industry over a period of time but there is no guarantee per se. A deed overcomes some of the concerns about the vagaries of political interference and, depending on the terms and conditions of the deed, would get to, I think, a reasonable position of security for the racing industry and allow for proper management of the racing industry that I think is essential.

That is the proposition that I would bring to the table. A deed would be signed with the Tasmanian Racing Board which would secure funding for the racing industry. I have indicated before the committee and publicly that the industry should not be worse off or disadvantaged from the present funding arrangements, therefore there would be some level of indexation. The only part of the deed which would have a condition precedent would be the capital injection into the racing industry, but that would have to be subject to the sale.

Other than that, in terms of what exists now, we could ensure that the deed could be sustained whether or not there was a sale of TOTE. That is a variation really to the proposition I put before; I remember having a discussion with the committee in terms of linking the sale to a deed. I believe under any particular

situation you'd be able to have a deed which would sustain the long-term interests of the racing industry.

**CHAIR** - Thank you. Are there any questions of the Treasurer on those points he has made?

**Mr GUTWEIN** - I was wondering how far down we can drill or whether we wait until we go in camera. Just in regard to a couple of things I think you said last time and certainly clarified something that was discussed this afternoon, still on the rolling five-year basis?

**Mr AIRD** - That was the initial proposition, and if there was a variation of that which led to a similar outcome but didn't lead to a huge distortion. I think we have to understand that the racing industry actually contributes to a turnover of about 6.5 per cent. That is understood in terms of the wagering industry. The racing industry has some claim to the benefits of the sale of TOTE probably beyond that 6.5 per cent, but nonetheless I think we can work out a model that is a long-term sustainable guarantee model of the deed. That is not subject to any political interference once it's signed. A deed can be varied by a consent of parties, of course, and I think that would be the most secure.

To be quite frank with the committee, I have looked for a way where I could provide the greatest level of security under the provisions, and the most secure model in terms of the legal position of a deed is, I think, the most secure way and legal way of supplying security and sustainability to the racing industry.

**Mr BOOTH** - Minister, you said that you've engaged in proper process in regard to this. Who did you consult with in the industry before you decided to announce the sale of TOTE?

**Mr AIRD** - As I explained before, my position is that while they are the beneficiaries of a wagering industry and their interests need to be satisfied with the process, if I had gone through that process I would have caused a lot of instability within TOTE and there are about 300 employees to be considered. I had to satisfy myself that we could get value out of the sale of TOTE and ask whether it was necessary for it to be in State hands, and whether we could provide some security back to the racing industry. I believe I can do those things and I am satisfied in terms of my decision making that I have engaged in a proper process.

**Mr BOOTH** - Who did you consult with then? We have not had a single person from the industry who has expressed any confidence in you whatsoever, and none of them had been consulted. You are talking about an industry, but I cannot quite reconcile proper process with not consulting with anyone. But setting that aside

-

**Mr AIRD** - Let us not set it aside. What we are selling is a wagering industry. We are selling a wagering business, not a racing business. The interest of the racing industry is to secure funding - bottom line. I understand that. I think that we will be able to do that and satisfy the industry. Those who have been critical of the process are concerned about their future. I understand that.

**Mr BOOTH** - Who did you consult with?

**Mr AIRD** - We went through this last time. I am not going to do that again.

**Mr BOOTH** - With respect, I am asking you a question. It is not up to you to say you are not going to deal with anything in here if somebody wants to ask a question.

**Mr AIRD** - I do not want to waste the committee's time.

**CHAIR** - We went through those questions last time. The Treasurer gave the answers with regard to stakeholders. A lot of them have criticised the process, others have said it depends on what the Treasurer comes up with.

**Mr BOOTH** - In regard then to the deed, you said that you will prepare a deed whether you sell TOTE or not. When did you decide that you will prepare a deed?

**Mr AIRD** - I had discussed with the committee before that I thought a deed would be an estimate of securing funding for the industry.

**Mr BOOTH** - Yes, but when did you decided that you would do that? You discussed it with the committee before that you would prepare a deed to guarantee the future of the industry on the sale of TOTE.

**Mr AIRD** - I do not have a date in my head so I cannot answer that.

**Mr BOOTH** - It is just that you said that you think you should have a deed whether we sell TOTE or not.

**Mr AIRD** - That is right. Before I was saying that it would be a condition precedent in terms of the sale. I reflected upon the conversation I had with the committee. I said to the committee then that I would go away and think of the attitudes put forward by the committee. I have done that and I think by creating the opportunity for a deed to be signed, whether TOTE is sold or not, handles the issue of security or whatever.

**Mr BOOTH** - Is that something on which you have come to a conclusion since you appeared before the committee the first time?

**Mr AIRD** - I have firmed in my view that that is the best way of securing a long-term, sustainable funding model for the industry. That was following on from the committee's deliberations.

**Mr GUTWEIN** - On another matter, although there are a number of issues I want to drill down on the deed so I do not want to get away from that, but we will do that in camera. Today we heard an interesting criticism of the way that you and the Government have handled it and that the recent yearling sales, which I understand around the country were down by between 18 and 25 per cent but in Tasmania took a 41 per cent hit. Criticism has been raised today that the uncertainty in regards to the TOTE sale had an impact and exacerbated the situation, making it worse in Tasmania than it was in the other States. Would you accept that as a valid criticism? Importantly it appears from every witness that we have heard today that everybody is concerned about the lack of information that is available to them. What process will you be undertaking to ensure that the industry is informed to remove any perception of uncertainty in regards to going forward?

**Mr AIRD** - There are a couple of questions. One, I could be held responsible for a lot of things but I do not think the downturn in yearling sales can be directly attributable to that. It is more to do with the broader economic climate that we are in rather than any decision made by the Government. That is my observation. No-one has ever raised that issue with me before other than -

**Mr GUTWEIN** - As I say, it was raised in a couple of -

**Mr AIRD** - If it was raised here, that is fine but I think it is stretching things to attribute this to me or the Government's decision. There has been a drop in sales around the country. Everyone knows about that in terms of the returns that people are getting from their stock. I think the variation is more to do with the market than any influence that we brought to bear by this decision on the market. In answer to the other part of the question, what I would tend to do is to produce two pieces of legislation, one to amend the Gaming Control Act and the other a TOTE sale act and, at the same time, I would table the deed.

**Mrs RATTRAY-WAGNER** - Minister, you indicated that you thought that the process was appropriate leading up to the announcement of the sale and you highlighted the fact that you were concerned about unrest with the 300 TOTE employees. Can I put it to you that the 2 700 people within the racing industry are probably as concerned about their future? Do you acknowledge that they are just as important?

**Mr AIRD** - In terms of legitimate stakeholders to this they are a legitimate stakeholder in the racing industry. What we are divesting here is a wagering industry and my interest is to ensure that the general community can benefit from the assets that are held, not just the racing industry, this is a broader view. This is a view that I have about the community not just the racing industry. This sale has the potential to benefit every Tasmanian not just the racing industry. The racing industry is not the only stakeholder in terms of the value that we could extract from the sale of TOTE. I expect that we would be able to invest in other assets which will benefit the whole community.

No-one has been more supportive of the industry than I have and this Government. In fact, when we came into government the industry was on its knees and we have managed to build and sustain it. You think of the resistance we had with Betfair.

**Mrs RATTRAY-WAGNER** - Praise has been given today to the former Premier.

**Mr AIRD** - That is fine. I do not mind where it goes but it has to be acknowledged that we have built up the industry. We do not intend to do anything that is going to negatively affect it.

**Mrs RATTRAY-WAGNER** - Moving on, and I am probably fortunate that I am not making the decisions that you are making I had not thought about the process I would take but I think that I would probably have engaged some more consultative means. That is my view. We have heard an opinion today that any conditions attached to the sale of TOTE to secure funding for the industry, may diminish the value of TOTE. Do you agree that that could be the case?

**Mr AIRD** - It depends what the conditions are. I do not know. Most sales have conditions on them and some of those conditions can affect the sale depending

on the nature of the conditions. There could be a range of conditions, and some of them may affect the value.

**Mrs RATTRAY-WAGNER** - Have you thought about what some of those conditions may be?

**Mr AIRD** - Yes, I have thought about some of them but I have not concluded any of them yet.

**Mrs RATTRAY-WAGNER** - But they may diminish the price or they may not.

**Mr AIRD** - Some of them may be worthwhile in terms of the overall benefit to the Tasmanian community and the industry generally. We will be making a judgment about that in terms of what we say will be conditions precedent if we get Parliamentary approval to sell. Obviously we will go through other stages to work out what other conditions we want to impose.

**Mr BEST** - I have some key feedback from some things put to the committee in relation to any funding model you might be thinking about being to continue to attract new people into the industry, the pool of horses coming through. They wanted to go from 68 to 78 races a year. I do not know how achievable some of that is. There is also a view that I think they want to canvass and that is how the stakes might eventuate between the two larger cups of the year and how that could be shared across with more race meetings? I do not know how achievable that is, but that is some of the feedback. From what I have gauged in evidence here, people seem fairly comfortable with the formula that has been used from the Country Racing Victoria but there could be some special circumstances with those two cups et cetera.

One of the big issues has been what might be included in some arrangement regarding infrastructure. I am from Devonport and I have heard of some upgrading needs in the Devonport area of \$12 million to \$15 million.

**Mr AIRD** - That is true, I acknowledge that.

I have views about the capital expenditure that needs to be invested into various racetracks around Tasmania. I think Spreyton does need to be upgraded. Whether it needs to be an all-weather track or a synthetic track I do not know; that is why we have a racing board to deal with that.

I am not here to micro-manage, in fact this highlights the issue that we have put a Tasmanian racing board in place. The intention is that it will become a State-owned company, that it will determine the outcomes of the racing industry and that racing people will take control of racing. They will be determining the level of capital that they wish to put into various racetracks around Tasmania.

My responsibility is to ensure that there is a level of capex available to the board, that there will be an injection of an amount that needs to go to the board and I am prepared to do that at the conclusion of the sale. I cannot find the amount of capital to invest in that from the circumstance we are in at the moment so, in answer to your question, those decisions will be made.

In terms of race meetings, already we have announced with TOTE that there are lights going in at the TOTE racing centre and Launceston will create more meetings, probably around about 11 more, which will open up another part of the

market for us. There are other aspects that I think can create avenues for us to fill niche markets in terms of racing but a simple answer to your question is that most of those decisions should be made by the Tasmanian Racing Board. The discussion here is about how we put the resources to the Tasmanian Racing Board so it can make those decisions.

**Mr BEST** - Just finally on that, from what I have picked up there have been people who have been pretty aggressive and heated about the situation -

**Mrs RATTRAY-WAGNER** - Did you find that?

**Mr BEST** - Just slightly.

When you start drilling down with this in discussion, mostly it is around the context of what the funding agreement might be, I suspect, and how that works out.

**Mr AIRD** - I think that is right.

**Mr BEST** - I realise there are two separate issues at stake.

**Mr AIRD** - I understand that and I am keen to address that issue.

**Mr BOOTH** - Just to be clear for the committee, Treasurer, you are not selling the racing business, you are selling the wagering business -

**Mr AIRD** - That is correct.

**Mr BOOTH** - and you are doing it for the benefit of the whole of the State, not just the racing industry?

**Mr AIRD** - That is correct.

**Mr BOOTH** - Implicit in that then is that the racing industry would be better off retaining TOTE?

**Mr AIRD** - No.

**Mr BOOTH** - How can it be that this is better for the Tasmanian population?

**Mr AIRD** - One does not negate the other.

**Mr BOOTH** - How is that?

**Mr AIRD** - It does not negate it. I am putting forward a model that guarantees them a future in terms of funding. In terms of long-term sustainability they will be out of the political hurly-burly, they will not have to do any lobbying, they will not have to anything other than get about their business running the racing industry the way they want to do it.

**Mr BOOTH** - So they will be better off?

**Mr AIRD** - In my view they will be a lot better off. They will be better off than any other funding model anywhere else in Australia.

**Mr BOOTH** - How will the Tasmanian community be better off than any other? You cannot have it both ways.

**Mr AIRD** - Of course you can, because the amount we will get from the sale will be able to benefit Tasmania so we can invest in other assets.

**Mr BOOTH** - The overall sale price will give you enough money to do both you say? So the wagering business in itself will be worth a lot of money?

**Mr AIRD** - I am not going to be drawn into price or -

**Mr BOOTH** - No, I am not asking for the price.

**Mr AIRD** - Obviously if I did not think I could do all that I would not be putting it on the market, would I?

**Mr BOOTH** - So why didn't you tender out the pokie licence? I mean, if it is a wagering -

**Mr BEST** - Mr Chairman, relevance.

**Mr BOOTH** - No, that is a reasonable question. If the pokie licence in fact was not for the benefit of the community, and that money was got by selling the licence, why is it that this wagering business has to be sold off but the pokie licence was given away?

**Mr AIRD** - It is two totally different -

**Mr BOOTH** - They are both wagering businesses, aren't they?

**Mr AIRD** - They are different types of businesses. There are a lot of reasons for renewing a deed - I don't know if you want me to keep on going with this but I am happy to - there are a lot of advantages in having a deed. In fact there is another committee investigating this matter so I don't know if it is entirely reasonable to go into this. The Public Accounts Committee is looking at this, isn't it?

**Mr BOOTH** - I do not know.

**Mr AIRD** - As far as I know they are.

**Mr BOOTH** - You do not want to answer this.

**Mr AIRD** - No, in any event there can be real advantages in ensuring that you have a strong industry. The fact that you do not have competitive pressure in terms of a deed can lead to advantages to the operator and to the community generally. We are addressing that issue and I will make a further announcement about that tomorrow.

**Mr BOOTH** - Could you not then extrapolate that to say that the racing industry would have been better off maintaining the TOTE for what it was set up for in the first place, which was to support the racing industry and therefore be able to not have to go to that auction every year for funding through consolidated revenue?

**Mr AIRD** - The TOTE's business is a wagering business. It has changed dramatically as a business. Only 6.5 per cent of its revenue is generated out of Tasmanian

racings activity. TOTE has been built up as a large business by virtue of the activities of TOTE as a wagering business, not as a racing services business.

**Mr BOOTH** - Are you saying TOTE was not set up to look after the racing industry?

**Mr AIRD** - What I am saying is the nature of the business has changed dramatically and the benefits to the industry have changed dramatically. Under the model we are putting forward they will still have access to sponsorship money at racefields. There was no such thing as racefields before, no such thing; there is a new stream of resources going to the racing board that they would never have had before. We now have Betfair, and they get the benefit of that, so the whole nature of wagering has changed in Tasmania and indeed in Australia.

**Mr BOOTH** - How would you propose they would be funded beyond the 20 years then?

**Mr AIRD** - Twenty years seems to me a reasonable threshold. You can put aspects into the deed if you wanted to work out renegotiation renewal clauses. There are ways of doing that if you wanted to.

**Mr BOOTH** - Is that contemplated?

**Mr AIRD** - I think there has to be some provision, and I think 20 years is reasonable. Whether you have a renewal period at, say, year 15 or year 10 and then beyond that, the next 10 years, I do not know, but we will certainly be addressing that issue.

**CHAIR** - If there are no further questions, thank you very much for your attendance. We will move to camera, Treasurer.



## Tatts buys Tote Tasmania

**Source:** Australian  
**Publication Date:** December 2, 2011  
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12/2/11 Australian (Newspaper) 21

News

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Section: Finance

**ACQUISITIONS:** Tatts Group has agreed to buy the Tasmanian TAB (Tote Tasmania) for \$103 million as the company seeks to expand into the state

The acquisition would be funded from existing loan facilities and cash, Melbourne-based Tatts said

Tote Tasmania provides Tatts Group's wagering subsidiary, TattsBet, with access to the Tasmanian racing and sports wagering market

The business would become part of the TattsBet pooling and fixed price wagering systems in Queensland, Northern Territory and South Australia

The transaction is subject to various regulatory approvals, including ACCC approval

Premier Lara Giddings said the transaction was fair and reasonable given the significant commercial risks associated with the business

"This sale is a great outcome for the people of Tasmania and will mean the state will no longer be directly exposed to the significant risks associated with ownership of a betting agency in an increasingly competitive wagering market," Ms Giddings said

The state will also continue to receive the annual wagering levy from Tote of more than \$6.5m per annum (indexed to the Hobart CPI)

The Tasmanian Racing Industry funding arrangements will be unaffected by the sale of Tote as there are no direct funding links between the Tote and the Tasmanian Racing Industry. However, as part of the transaction, the state has negotiated an agreement with Tatts to maintain certain service obligations, including the provision of ongoing access to the TattsBet pool, wagering on Tasmanian racing and a free-to-air racing radio service

Ms Giddings said Tatts had a strong track record as a leading wagering and lotteries operator. The transaction is expected to complete by the end of March.

---- INDEX REFERENCES ----

**COMPANY:** TATTS GROUP LTD; TATTSBET LTD

**INDUSTRY:** Entertainment (1EN08); Sports (1SP75); Equestrian Events & Horse Racing (1EQ65); Telecom Services (1TE09); Casinos (1CA80); Auto Racing (1AU97); Telecom Service Pricing (1TE06); Horse Racing (1HO27); Telecom (1TE27)

**REGION:** Tasmania (1TA12); Australasia (1AU56); Oceania (1OC40); Australia (1AU55)

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**EDITION:** 1 - All-round Country

**WORD COUNT:** 274



## WESTERN AUSTRALIAN RACING TRAINERS' ASSOCIATION

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# Wolfe Warns Against Privatisation Of TAB

May 20, 2014

Leading Great Southern trainer Steve Wolfe has urged the Western Australian racing community to lobby again

Wolfe warns any change to the current administration would have a significant and detrimental impact on the

"Once you privatise anything it becomes a one track interest and that is profits to the shareholders," Wolfe said

"Governments can say they will put things in place but governments can change legislation and change statem

"It will be alright for the first two years but after that they will break and pillage the system and we will be in a k

"I know high profile people in Queensland and they say they are going to be in dire straits because of privatisat

"We have come off a 25 year boom and if the government think selling the TAB is going to save us we are in tro

"I don't have an association with a party but as a racing industry we need to be lobbying the opposition.

"When you are involved in a sport and industry that has been very good to me and other people let's keep it str

"RWVA has set up racing in WA and we don't need to lose that.

"I am mortified about selling the TAB."

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# Racing chiefs oppose TAB sale

Steve Butler and Gareth Parker - The West Australian on May 21, 2014, 2:40 am



Worried: WA Racehorse Trainers Association president Michael Grant and trainer Fred Kersley at Belmont. Picture: Mogens Johansen/The West Australian

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## WA racing leaders have predicted a "scary" future for their industry over the potential sale of the TAB by the State Government.

As the industry prepares to hold an emergency meeting over the issue at Belmont Park today, legendary WA horseman Fred Kersley reflected the growing mood of his racing peers by expressing concern for a move they fear will run their financial lifeblood dry.

Kersley, who ignited the State's racing industry in the early 2000s with his turf superstar Northerly, said the disastrous results of TAB privatisation in South Australia, Tasmania and Queensland were worrying.

"I have fears for the future of racing if that happens," he said.

"It takes the control away from racing and you'll be just waiting on handouts from the private company. It's a scary thing being talked about and it's a huge worry for the industry."

Racing and Wagering WA yesterday confirmed revenue growth of 6.8 per cent for the past nine months and a profit boost of nearly 6 per cent. Since RWWA's inception in

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12/8/2016

Racing chiefs oppose TAB sale - The West Australian

2003, its annual distribution to the industry has more than doubled to a record \$126.1 million this year, with a further \$4 million to go to the Department of Sport and Recreation and \$14 million in grants committed for infrastructure projects.

The State Government will get \$43 million in tax from a betting turnover of \$2.15 billion and the Federal Government will get \$28 million in GST revenue.

WA's three racing codes - thoroughbred, harness and greyhounds - will this year get an extra \$6.5 million.

WA Racing Trainers Association president Michael Grant said the increased distribution and turnover was proof the current model under RWWA was working for an industry that directly employed nearly 34,000 people. "In anyone's language, it's a good business and it's guaranteed," Mr Grant said.



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"If the Government is going to look at selling the TAB, we need to be a part of the process and get assurances that the level of distribution would be guaranteed.

"Unless they can guarantee it, all they are doing, based on previous sales in other States, is guaranteeing the demise of the WA racing industry."

Leading WA racehorse owner Bob Peters said he wanted more information, but had initial concerns. "My thoughts are that is not a good idea, that we're running quite well as we are and we should stay as we are," he said.

Though Premier Colin Barnett and Treasurer Mike Nahan have indicated a level of willingness to sell by placing the TAB on their list of assets to be further investigated, opinion is divided in Cabinet. During a parliamentary Budget estimates hearing yesterday, Racing and Gaming Minister Terry Waldron said that while no decision had been made, he did not believe the sale would be in the best interests of the WA racing industry.

Dr Nahan has acknowledged that finding a sustainable funding solution for the industry was a necessary condition of any sale, but he and Mr Barnett have both made noises about whether it was "appropriate" for the Government to continue to own a betting business.

Mr Barnett said last night that the Government recognised the economic benefits of the TAB and its important relationship with the local racing industry. "We will be very mindful of these considerations when reviewing the available options," he said.

The West Australian

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Fallen AFL star Ben Cousins has been fined after pleaded guilty to breaching a violence restraining order taken out by the mother of his children, and been granted his freedom - for now.



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The pilot has been taken to hospital.



WA gas crisis risk in two years



12/8/2016

Racing chiefs oppose TAB sale - The West Australian

WA could be hit with a domestic gas supply crunch within two years if there are delays to a processing plant at Chevron's \$45 billion Wheatstone LNG project near Onslow.



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A young Australian woman horrifically injured in a scooter crash in Bali is expected to wake from a coma today after a marathon 13-hour facial operation in Perth.



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# NEWS



## Talk of potential TAB sell-off concerns WA horse racing industry

Updated Thu 22 May 2014, 10:03am

**The Western Australian horse racing industry has held an emergency meeting at Perth's Belmont park to address concerns the TAB will be sold off.**

The industry said that similar moves in Tasmania, South Australia and Queensland have proved disastrous to their local racing industries.

In the recent state budget, the WA Government flagged the TAB as one of several state assets that could be privatised in an attempt to reduce the State's debt.

WA Racing Trainers Association President Michael Grant told ABC local radio that trainers are concerned over the potential loss of profits from the TAB, which supports thoroughbred, harness and greyhound racing.

"One of our main concerns is obviously having seen the devastating effects associated with the sales of TABs in other states - so our concerns are well founded," he said.

"And the TAB under racing and wagering WA is a good strong performing business that returns the profits to the industry.. that filters down to prize money, and that's what drives the industry.

Mr Grant said the industry, which employs 30,000 people and is worth more than \$600 million a year to the local economy, retains a lot of confidence from the TAB.

"If a private enterprise comes in and purchases the TAB, they've got a responsibility to return the profits to shareholders," he said.

"When you have a private enterprise that has to return profits, you can't see anything a decline in distribution which shrinks the industry.

"The racing industry turns over \$70 million a year to the government in taxes; if it's not broke, why try to fix it?"

"I can't see a longer-term upside from the sale of the TAB."

### WA Government not selling TAB: Waldron

Racing and Gaming Minister Terry Waldron said at this stage the government was not intending to sell the TAB.

"I'm of course aware of the interests of the board of state finances, and the Government has made a decision to review and look at the state-owned assets, including the TAB," he said.

"At this stage, no decision has been made on the sale ... if down the track, the government did decide to sell the TAB I would certainly argue for a strong recognition and safeguards to be put in place and meet the needs of the racing industry going forward."

Mr Waldron said a potential sale of the TAB is something he has discussed in the past with Racing and Wagering WA, the government body overseeing the three codes of racing in WA.



PHOTO: The horse racing industry is concerned about a potential lack of profits flowing back into racing. (Brendon Thorne: Getty Images)

MAP: Belmont 6104

I can't see a longer-term upside from the sale of the TAB.

Michael Grant, WA Racing Trainers Association President



PHOTO: Racing industry representatives gather at Belmont in Perth to discuss their concern. (ABC News: Emily Plesse)

"We have talked about the pros and cons of privatising the racing industry in Western Australia since I've been minister, and RWWA has always said that if they thought it was in the best interests of the industry, they would let us know that," he said.

"I think the success of the commercial operation that RWWA is running, at the moment the returns are good, and that is why I've said that I don't think now is the time to consider selling it, but it will be reviewed and the government will make a decision along with other state assets.

"I've said this in Parliament, that I would only support the sale of the TAB if it was in the best interests of the racing industry and the community to do so."

**Topics:** horse-racing, belmont-6104, ascot-6104

*First posted Wed 21 May 2014, 1:38pm*

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## Trainer warns of TAB sale

Steve Butler - The West Australian on May 22, 2014, 5:25 am



Picture: Hollands Graphics

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### Veteran South Australian racehorse trainer Leon Macdonald has sent warnings of dire consequences to the WA Government if it decides to sell the TAB.

As WA racing officials forged a united front yesterday at Belmont Park, calling on the Government to include them in negotiations on any proposed sale of the valuable utility, Mr Macdonald painted a bleak picture of the fallout from a similar sell-off in the State where he has plied his trade for the past 45 years.

"I'd be saying, 'Just don't do it,'" the Caulfield Cup and Victoria Derby-winning trainer said.

Mr Macdonald said the 2001 sale of the SA TAB for \$43.5 million to what was then known as TAB Queensland, had been devastating for the SA industry. TAB sales in Queensland and Tasmania have also caused industry heartache.

"It was detrimental to SA racing, all the profits went to Queensland and it stagnated our prize money," he said.

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12/8/2016

Trainer warns of TAB sale - The West Australian

"I said to my accountant the other day that I thought there would only be a handful of trainers making a living out of the game here now and he said I was wrong - it was only four."



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WA Racehorse Trainers Association president Michael Grant told yesterday's meeting that the WA industry was geographically the world's biggest racing jurisdiction and contributed more than \$590 million a year to the local economy.

Perth Racing chairman Ted van Heemst said he supported an investigation into selling the TAB but said there was a current information gap which had left the industry "dealing in the dark".

He accused the Government of ignoring a strong contributor to its annual coffers.

Shadow racing and gaming minister Mick Murray said selling the TAB would be akin to killing the goose that is laying the WA racing industry's golden eggs.

**The West Australian**

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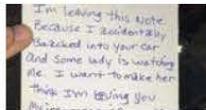


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Labor plans 20 per cent cull of high-paid bureaucrats

Mark McGowan will today reveal plans to save tens of millions of dollars from the State Budget by culling WA's best-paid bureaucrats.



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Peel Thunder and East Perth have been capped at fielding a maximum 15 AFL-listed players in any WAFL final from next season.



WA gas crisis risk in two years

WA could be hit with a domestic gas supply crunch within two years if there are delays to a processing plant at Chevron's \$45 billion Wheatstone LNG project near Onslow.



12/8/2016

Trainer warns of TAB sale - The West Australian

### Light plane crashes south of Perth

A light plane with one man on board has crashed at Serpentine Aerodrome in Hopeland after an engine failure, authorities say.



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### At last, some good news for the Wildcats

The Perth Wildcats have finally received good news on the injury front with Jameel McKay and Matt Knight cleared to play in tomorrow night's clash with Melbourne at Perth Arena.



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11

**TAB — PRIVATISATION**  
**Wednesday 13 August 2014**

*Motion*

**MR M.P. MURRAY (Collie–Preston)** [6.07 pm]: I move —  
 That the house condemns the Barnett government for breaking its word about the privatisation of the TAB.

\*\*\*\*\*

**MR P. PAPALIA (Warnbro)** [6.30 pm]: I rise to join the member for Collie–Preston in condemning the government for breaking its word on the privatisation of the Totalisator Agency Board. When I say that, the Premier looks questioningly at me across the chamber, but I have to say to the Premier that I and the member for Armadale, the shadow minister, are only repeating the concerns of the racing industry. We are not making this up. On Friday, I was at Larkhill Thoroughbred Training Centre to meet with a significant number of local trainers who operate at that track and to present to Chloe Azzopardi the inaugural award that I created to recognise the most diligent jockey who trains and works at that facility. She was selected by the industry, and I commend Chloe for her courage. I think that those quite small jockeys are incredibly brave for engaging in a challenging and dangerous pursuit that requires dedication, hard work and a great deal of risk. I am pleased that I will be providing that award annually. It was great to present to Chloe that inaugural award in front of some very respected and responsible trainers and participants in the industry there last Friday.

What I have to say, however, is that there is a deep feeling within the industry across Western Australia that the Premier has betrayed them. The member for South Perth's ears must have been burning on Friday because I also talked about him. I told the group assembled at Larkhill that there is probably no-one within the Western Australian Parliament who in the past was considered to be more of an advocate for the WA racing industry than the member for South Perth. I said that he is a respected individual and people knew that his heart lay with the industry. However, I said to them that the most significant indicator with respect to what the Barnett government is going to do through its grubby deals and its short-term thinking in the way of a sellout of the industry was the change in tune from the member for South Perth. When I said that, they all nodded. They knew what I was talking about because they know that there was a time when the member for South Perth stood in this place and defied any suggestion that the TAB should be sold—defended the TAB as a magnificent institution in WA that was responsible, as I am told, for distributing hundreds of millions of dollars in recent times throughout the industry. Last year alone —

**Mr J.E. McGrath:** It was \$120 million.

**Mr P. PAPALIA:** It was more than that; it was \$130 million in 2013–14, also returning to government, through the turnover tax, in the order of \$40 million. Here we have a magnificent enterprise that returns \$40 million to government and beyond to the industry, not to the deep pockets of some bloke living on the eastern suburbs of Sydney. It does not distribute to those guys with their views out over Sydney Harbour and down the harbour to the Sydney Harbour Bridge and the Opera House so that they can quaff their wine comfortable in the knowledge that the punters in Western Australia are keeping their wallets well padded. I am not talking about those blokes. Our money—the distribution of our money from our industry—goes directly to those thousands of people whose direct livelihood is derived from the industry in Western Australia.

**Mr M.P. Murray:** It's 30 000.

**Mr P. PAPALIA:** I am told that the figure is more widely 33 680 people who are directly involved in WA racing, with 6 737 working directly in the industry. Over 30 000-plus more widely, but 6 737 people working directly in the industry are looking with very suspicious eyes at the member for South Perth. They know the fix is in. They know that there have been secret meetings between cabinet members and secret meetings between the Premier and people who would seek to buy this industry and take all of the profits to the east coast, which would result in a massive redirection of the money that currently goes to the industry. What happens with that money now? Where does it go? The member for South Perth knows that money does not go predominantly to the metropolitan area. The vast majority, 55 racing clubs, are small operations out of the city, in the regions, that get money to maintain their tracks and facilities and to support their local communities and economies through TAB distributions. What has happened elsewhere in this country when the equivalent of the TAB in those states has been sold? Invariably the returns from the industry have diminished. What will happen with the

distribution? It will become completely bankrupt, as happened in Tasmania through the grubby deal done between the Premier in that state and the Tatts representatives, and resulted in a complete collapse of the industry there. Member for South Perth, what happened in South Australia? I have been told by the professionals in the industry in South Australia that the big operators are packing up and leaving because they just cannot make a living. The trainers are leaving that state because the returns to the industry, the distributions to the industry, have collapsed. The member for South Perth knows that is true; that is the case.

**Mr J.E. McGrath:** That is not true.

**Mr P. PAPALIA:** It is the case, member for South Perth. He does not have to convince me. He will have to look into the eyes of the people who formerly respected him as one of the defenders of their industry and tell them honestly that he believes that this is the right thing to do. The member for South Perth knows that it is not. He knows what was happening. Up until very recently, he was having those barbecues; he was having another set of barbecues. He had those barbecues in the past that resulted in a couple of changes and he had more, but then the horse that the member for South Perth was backing had a complete breakdown in the middle of the track! That horse broke down and the member for South Perth—a very big jockey—has been left without a horse. The member for South Perth has been compelled to sell his soul, because the member for South Perth knows that the Premier, the economic vandal that is the member for Cottesloe, has driven state net debt from \$3 billion to \$24 billion this year and towards \$30 billion, with no plan to tackle it. There is certainly no plan for any sales of assets in relation to the railway. We have heard that any assets that are going to be sold will just go into paying for that new debt. There is no plan for tackling debt. The Premier will have to grasp around desperately to sell what few assets are available.

It has been suggested to me that this industry might sell for a few hundred million dollars. It would be an absolute travesty if all we got in return for the sale of this industry—because that is what is going to happen; the member for South Perth is going to sell out the industry—is this tiny drop in the ocean of the huge state debt that his government through its incompetence has racked up. If that is all we will get, that will be a travesty. The member for South Perth knows that when an industry has been bought out like this in other parts of the world, not only do the distributions drop away, but also a profit-driven enterprise immediately wants more profit. The owners and shareholders want more profit. They do not want distributions to grow—and distributions in Western Australia have grown. In Western Australia, Racing and Wagering Western Australia has overseen a growth in turnover of eight per cent between 2010 and 2013, whereas on the east coast the comparative growth was one per cent. RWWA has grown that and then distributed it, so the growth in comparative distributions has also occurred. The member for South Perth knows that.

As we heard earlier, there is an argument about whether the TAB has distributed \$120 million or \$130 million back to the racing industry. Members will tell me that it is \$130 million. It grew from \$106 million in 2008–09. The minister would not dispute that. It was \$106 million in 2008–09 and it is now in the order of \$120 million. That is pretty significant growth. The minister knows that a private enterprise will not grow the distribution; it will grow the bit that goes back to the eastern suburbs of Sydney to pad the wallets of the blokes sitting by the harbour. That is their only objective. They do not care about the regional race clubs or the little regional towns where a lot of other people use the racetracks and the trotting tracks. The football clubs use them in the off-season. Shows are held in the facilities. Those are the sorts of things that do not count to a private operator based in Sydney on the east coast.

**Mr J.E. McGrath:** There are no country racetracks in New South Wales; they have all closed.

**Mr P. PAPALIA:** I am glad that the member said that; he is supporting my argument. The precipice is getting closer. I am saying that that will occur.

**Mr J.E. McGrath:** It is wrong.

**Mr P. PAPALIA:** Okay. The member for South Perth should stand and look those people who trusted him in the eye because they do not trust him now. He knows the sort of people I am talking about whom I met on Friday. There were about a dozen people there. They were all trainers who had been in the industry for a long time. They do not trust the member. They do not trust what this government is doing. They do not believe that the government has their best interests at heart. If that is wrong, the government should come out and say that it will not sell the TAB. If there is going to be a study of the value of the TAB and the potential return from it, it should be absolutely transparent, unlike every single study to which the government refers in the public transport arena. The minister cowardly sat opposite, incapable of giving us any transparency at all in relation to

billions of dollars' worth of taxpayers' expenditure. I would like to see some transparency. I would like the Premier to tell us what he was speaking about with those private operators. He should not have secret meetings about one of the great assets of Western Australia's community.

**Mr C.J. Barnett:** Sorry; I was out of the chamber but as I walked in, you were talking about secret meetings. For my benefit, can you tell me what secret meetings you were talking about or were referring to?

**Mr P. PAPALIA:** There are concerns that the Premier has been meeting with Tatts representatives and having secret meetings about the sale of the TAB. Has the Premier had meetings?

**Mr C.J. Barnett:** I want to know what secret meetings we were talking about.

**Mr P. PAPALIA:** They are the secret meetings I am talking about. I am glad the Premier confirmed that. Other political parties have also been having meetings. My concern is that they are secret as well. The only people who are not in on the secrets are the people who are directly affected by this industry and are completely behind retaining the TAB in the state's hands. Those people do not know what is happening at the secret meetings. Those people are being told in some quarters that the Premier will be stopped and that any plans he has for the sale will be stopped in the upper house, as outlined by the member for Collie–Preston. Other quarters see indications of a sellout by a very small number of people in the racing industry who have decided, for whatever reason—perhaps due to some inducement through promises that the Premier has again made in secret—that they will come out on behalf of the Premier and support his call for the sale of the TAB because maybe the Premier made them a little promise. The vast majority of people in the industry do not agree with those people.

**Mr C.J. Barnett:** What is this alleged promise? Please educate me.

**Mr P. PAPALIA:** I do not know. All I am saying is that it was a secret meeting. I do not know what the Premier said in his secret meeting with Perth Racing. I do not know what commitment he gave to Perth Racing, which suddenly changed its position. I do not know why Perth Racing suddenly abandoned the entire racing industry that had been unified in its opposition to the sale of the TAB and started to make sounds that it might be supportive. I do not know why that was. The Premier should tell me. The vast majority of those 30 000plus people who care about this industry and who want to keep the TAB in state hands want to know what is really going on. They do not trust the Premier or the minister at the moment. They do not trust some of the other people that they used to trust. It is appalling. The only way to regain that trust is to be open, honest and transparent and engage with people in the industry and tell them what is planned. If that is what the Premier has planned, to sell it out at a fire sale and for the future of this industry to be put in complete jeopardy as a result of his short-term mismanagement, he should tell them that that is what he has planned, because they deserve to know. These are good people and they deserve to know that.

**Extract from Hansard**

[ASSEMBLY — Wednesday, 20 August 2014]

p5653b-5668a

Mr Peter Watson; Mrs Glenys Godfrey; Mr Mick Murray; Acting Speaker; Mrs Michelle Roberts; Dr Mike Nahan; Mr John McGrath; Mr Terry Waldron; Mr Bill Johnston

**TAB — PRIVATISATION***Motion*

Resumed from 13 August on the following motion moved by Mr M.P. Murray —

That this house condemns the Barnett government for breaking its word in relation to the privatisation of the TAB.

**MR P.B. WATSON (Albany)** [5.17 pm]: I stand to talk about the selling of the TAB. First of all, I refer to the report of the Joint Standing Committee on the Review of the Racing and Wagering Western Australia Act titled “Inquiry into the Racing and Wagering Western Australia Acts”. I will let members know who comprised the committee. The chairman was John McGrath. Hon Alyssa Hayden and John Bowler, the then member for Kalgoorlie, also served on the committee. He finished up going to the National Party and got shafted. He was nominated by the Goldfields–Esperance Development Commission to be chairman, but he was shafted by the Premier and the Leader of the National Party when they put in another National Party member. I think John Bowler regrets going to that group. Hon Matt Benson-Lidholm, Hon Max Trenorden and Peter Watson were the other members of the committee. The committee made some findings, including this one, which the member for South Perth strongly supported —

**Finding 60**

While privatisation of the TAB has occurred in most other states, there is no long-term benefit for the industry in Western Australia. There is extensive industry support for the existing structure and wagering ownership arrangements under Racing and Wagering Western Australia to continue.

**Mr J.E. McGrath:** What year was that?

**Mr P.B. WATSON:** It was 2010. I am sure that things have not become that bad; there were also some other recommendations. The Premier said in Parliament today that the racing industry had to get things right, that we could not have two tracks and that its infrastructure is bad, but when this report came before the house, those were the things that we said the government had to do. The government has not acted on any of these findings that we know of, otherwise we would not have the issue we have today. It was interesting to hear the Premier say that we could not have two tracks, but there is a good reason for having two tracks, given the number of horses in the Perth metropolitan area. If we have only one track, where will we train our horses? Given the number of horses we have at Ascot and Belmont at the moment, it would not be possible for everyone to train their horses in the morning when there is racing in the afternoon or the evening at the same track, unless we are going to build a world-class, all-weather track at one of the stadiums.

**Mr J.E. McGrath:** Or a training complex.

**Mr P.B. WATSON:** Or a training complex.

**Mr J.E. McGrath:** Nothing’s impossible in this world; you know that.

**Mr P.B. WATSON:** Yes, I know, but when we have a tight government like the member for South Perth’s that will not give back the money it takes from the racing industry, we are always going to have this problem. If members talk to anyone in the racing industry, they will say what a tremendous job the Labor government racing minister Hon Nick Griffiths did. I cannot say the same for my friend the member for Wagin; I can only go on what I hear from the industry.

**Mr J.E. McGrath** interjected.

**Mr P.B. WATSON:** No, the member for South Perth has had his say. We know what he thinks, but he has been nobbled—we all know that! I do not want to have a crack at him because he is my friend and I know that he really wants to be on this side of the house!

I turn now to the money that comes from the TAB to support racing in regional Western Australia, which is the lifeblood of Western Australian racing. This is where all the racehorses come from; they breed them in the regional areas, although some people go to New Zealand to get their horses bred. In regional areas there are the trainers, the strappers, the track workers, the farriers, the feed merchants, the truck drivers —

**Mr J.E. McGrath:** The farmers.

**Mr P.B. WATSON:** Yes, the farmers are the only ones who can afford to race down our way!

All these people are part of the industry, and if we do not get the money for regional areas—I cannot see how selling the TAB will achieve that—people are going to suffer. As I say, regional Western Australia is the

**Extract from Hansard**

[ASSEMBLY — Wednesday, 20 August 2014]

p5653b-5668a

Mr Peter Watson; Mrs Glenys Godfrey; Mr Mick Murray; Acting Speaker; Mrs Michelle Roberts; Dr Mike Nahan; Mr John McGrath; Mr Terry Waldron; Mr Bill Johnston

lifeblood of Western Australian racing and trotting, although one would not think so to see how little money is spent in our area.

I will provide members with some key facts and figures. The racing industry adds \$594.6 million to the WA economy. Production and preparation of racing animals generates more than \$220 million to the WA economy, and 48 per cent of that comes from regional WA. There is \$264.1 million in net wagering revenue; 55 race clubs; 33 680 people directly involved in WA racing, including paid employees, employers and volunteers; 6 737 full-time employees; and \$349.3 million generated in wages across all sectors. Over the period 2010 to 2013, WA wagering turnover grew by eight per cent, yet the Premier stands in Parliament to say that the industry is losing money. These are facts and figures that cannot be disputed, but as we know, the Premier has his own spin on things; it is called “Col’s way”, and if no-one else agrees, he will go ahead with it anyway.

Over the past six years, racing industry distributions have grown from \$106 million in 2008–09 to \$130 million for 2013–14—a 23 per cent rate of growth! That is funny; I am sure the Premier said there was no growth in the industry. Projections under the current model determined forecast growth of 23 per cent in 2018–19, in the vicinity of a \$147 million distribution. Where are we going to get money like that if we sell our TAB? Racing and Wagering Western Australia delivers funding to racing equivalent to 7.1 per cent of racing turnover.

I will give members the statistics for the last six years. The 2008–09 turnover was \$1.6 billion; it is now \$2.15 billion, an increase of 34 per cent. Revenue for 2008–09 was \$273 million; for 2013–14, it was \$366 million, or 34 per cent. In 2008–09, tax was \$56 million; in 2013–14, it was \$70.6 million, or a 26 per cent increase. Total expenses for 2008–09 were \$120 million; in 2013–14, they were \$133 million, up 10 per cent. Distribution for 2008–09 was \$106 million; in 2013–14, it was \$130 million, up 23 per cent. More than 160 community organisations utilised race club facilities and resources, and more than 110 community organisations and charities in Western Australia are financially assisted by race clubs. I know that our trotting club in Albany has a rodeo once a year and trade fairs, and just this week in Albany, the Australian cross-country championships are being held for schoolboys, schoolgirls and seniors.

**Mr D.A. Templeman:** Are you pulling on the boots?

**Mr P.B. WATSON:** I am pulling on the boots, but only to do the official opening.

**Mr D.A. Templeman:** That’s a bit of a cop-out, isn’t it?

**Mr P.B. WATSON:** Just check with my body. My head wants to do it, but down here does not want to do it.

**Mr D.A. Templeman:** I’ve heard that from you before!

**Mr P.B. WATSON:** Mr Acting Speaker, I seek protection from my own colleague, please!

**The ACTING SPEAKER (Mr I.M. Britza):** Okay, thank you very much, members.

Several members interjected.

**Mr P.B. WATSON:** From someone of the size of the member for Mandurah!

**The ACTING SPEAKER:** Thank you!

**Mr P.B. WATSON:** As I say, the schoolboys and schoolgirls cross-country event will be held at the Albany race club on Monday, and more than 600 athletes will be coming to Albany to compete at the weekend. Of the 55 race clubs in Western Australia, all but three are in regional areas.

Let us now look at some of the interstate models. The Victorian TAB was privatised in 1992. Since that time, the funding provided to the Victorian racing industry has increased largely on the basis of being entitled to a share of poker machine revenue. However in 2012, a new licence agreement was entered into that eliminated the industry’s entitlement to poker machine revenue. The racing industry in Victoria is now exposed wholly to the performance of wagering, and a minimum performance obligation is in place until mid-2015, at which time the industry forecasts a drop in revenue of \$20 million per annum.

The New South Wales TAB was privatised in 1997 in a 99-year contract known as the TAB distributions. The Northern Territory struck a five-year deal from 2011 to 2016, worth \$66.7 million, and South Australia privatised its TAB in 2003. South Australia has removed wagering taxation as the industry funding arrangement to put in place a privatisation that is not sufficient to sustain its racing industry. Accordingly, the South Australian government has effectively passed the wagering tax onto the racing industry to support a declining rate of funding being provided by Tattersalls. I think the member for Collie–Preston mentioned the other day that people are pulling out of South Australian regional racing left, right and centre. The stake money for Saturday afternoon racing in South Australia is a joke. All the top trainers in South Australia take their horses to Melbourne.

**Extract from *Hansard***

[ASSEMBLY — Wednesday, 20 August 2014]

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Mr Peter Watson; Mrs Glenys Godfrey; Mr Mick Murray; Acting Speaker; Mrs Michelle Roberts; Dr Mike Nahan; Mr John McGrath; Mr Terry Waldron; Mr Bill Johnston

**Mr J.E. McGrath:** It is a struggling state compared with Western Australia.

**Mr P.B. WATSON:** If we are doing so well, we should be much better off than South Australia and get more money for our racing industry. Money is tight in this government. It puts huge amounts of money into Elizabeth Quay and a stadium, but not into the racing industry, which employs all these people I have talked about. The government does not put money into infrastructure in regional areas, and the Premier talks about getting rid of one of the tracks in Perth. The Premier talks about what the racing industry should be doing. I agree that the racing industry has a big part to play in this, but selling the Totalisator Agency Board of Western Australia is not the solution. The Premier talks about selling the TAB, which provides funding for all of these things that are not receiving enough funds at the moment. I want to know: if the TAB is sold, where will the industry get this money from?

The member for South Perth has stuck his head up from the back bench, but he has done an about turn. He said repeatedly that Western Australia could not sell the TAB. The member for South Perth and I talked about this issue when we were members of the Joint Standing Committee on the Review of the Racing and Wagering Western Australia Acts. I have referred to the report of that committee. We travelled interstate with that committee and everywhere we visited people said that we should not sell the TAB. We were told by people in every state that had sold its TAB that it had killed the industry. The member for South Perth has changed his opinion; I do not know why. It is up to the member to live with that, but I do not know how he sleeps at night.

**Mr D.A. Templeman:** He has been won out and won back.

**Mr P.B. WATSON:** He has, and the sting has gone in.

Tote Tasmania was acquired by Tatts Group in March 2012. Legislative arrangements were put in place to cap wagering tax at \$6 million per annum plus CPI. No industry funding obligations were put in place and the government funded the industry at a fixed rate of CPI less one per cent, with a proposed efficiency dividend. Tote Tasmania turnover is down by 73 per cent. Queensland privatised its TAB in 1999.

**Mr J.E. McGrath:** Whose fault is it that turnover is down? The product must not be good enough for people to wager on.

**Mr P.B. WATSON:** No; it is because the TABs had been privatised.

**Mr J.E. McGrath:** Does that stop people having a bet? Have they shut all the TABs in Tasmania?

**Mr P.B. WATSON:** I am saying that TAB revenue dropped in all states that sold their TABs. The member is saying that it is the fault of Tasmania, South Australia, New South Wales and Victoria and that the outcome in WA will be better than everywhere else.

**Mr J.E. McGrath:** We do most things better.

**Mr P.B. WATSON:** I know we do, but the facts show what will happen if the government goes down this path. Why does the government not listen? I know that the Premier does not listen. We have seen that with local government amalgamations and in all his decisions. It is Col's way or the highway.

**The ACTING SPEAKER:** Member, it is only a technicality but when you refer to the Premier, you need to use his name or his electorate.

**Mr P.B. WATSON:** I could use some of the words that the people of Albany use, but I would probably get thrown out.

**The ACTING SPEAKER:** Member, it is a technicality.

**Mr P.B. WATSON:** I appreciate that, Mr Acting Speaker.

I am a regional member and my main concern is with racing and trotting tracks, most of which are in regional areas. The Premier has said that there will be lots of consultation throughout the state, and I hope that happens. The Premier came in here today and said that the vibes he is getting from the industry are that people want this to happen. The Premier is indicating that he did not say that. That was the impression I got from what the Premier said, although debate was interrupted before he finished speaking. Regional WA is struggling. I have said this before and I will continue to say it: if the government sells the TAB, all the investment that is going into regional Australia to the trainer, jockey, apprentice, track workers, the person who looks after the track, the truck driver who transfers the horses from one place to another, the farrier, and the feed guy up on Albany Highway will be gone—all these people depend on racing, trotting and gaming. The industry is huge. The Premier said that not many people go to the races. The member for Collie–Preston has shown me an uncorrected *Hansard*, and all I can say is that he did say it! If I was allowed to quote this, I would say that the Premier did say it.

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**Mr C.J. Barnett:** I did not say that. You implied a majority. I never said “majority”. I said that more people are starting to think about it.

**Mr P.B. WATSON:** I cannot understand why people in this place have changed their view. The member for South Perth had a strong opinion on this. We sat and talked about this issue on the RWWA inquiry and afterwards, but all of a sudden he has changed his view. I have great admiration for the member for South Perth, but I do not know whether he has been nobbled. He held such a strong view, but he has changed his mind. His view had great support in the racing industry and now he has changed his mind. I do not know whether someone said to the member that if he changed his mind, everyone would follow him. I do not think they will. The people I speak to in the industry are deadset against selling the TAB. It is up to the government to come up with a policy and ways that all those people in regional areas will be looked after—the people employed at the racetracks. If the government comes up with something that the majority of the industry supports, I will support it, but not the way things are at the moment. I speak to people in the industry at the airport and in Albany; we have trainers in Albany. The people in my electorate are deadset against the sale of the TAB. I want the Premier to prove that people in regional areas involved in trotting, racing and gaming will be better off. That is the Premier’s job. I think he will find it very hard to do that. Good luck, because if he looks at all the facts and figures I have referred to today, selling the TAB has not worked anywhere else in Australia. I think selling the TAB will be a tremendous mistake not for the government but for the people involved in the racing industry.

**MRS G.J. GODFREY (Belmont)** [5.37 pm]: I rise to make a contribution to this motion on the privatisation of the TAB. This is an important issue in Belmont. I have been contacted by many people concerned with a recent media report and speculation surrounding the future of the Totalisator Agency Board, more commonly known as the TAB. At a recent visit to the Ascot racetrack, accusations were stronger than usual that the sale of the TAB was imminent. Many of the uninformed and negative comments I have read in the media and other sources, and heard from some members in this place, amount to nothing more than a claim that there is no reason for a government to be involved in the gambling business. This is an oversimplified statement about an industry that employs thousands of people. The statement also does not reflect the employment, the sporting, the entertainment and tourism potential that this industry holds. Should the sale of the TAB be up for discussion, members of the industry would appreciate being involved in a thorough and balanced debate, rather than leaving everything to shallow statements. After all, it is their future and their livelihoods at stake.

Another argument that is of concern to me is a statement that WA should sell the TAB simply because it is what other states have done. This argument is often put forward without any discussion on what those sales have done to local racing industries and communities in other states.

Western Australia is very different from the eastern states, both geographically and with its structure of betting. Lotterywest and the TAB are controlled by government legislation and provide a large social dividend to the Western Australian community. One example of the difference is that WA does not have pokies. The sale of the TAB would bring a short-term gain for long-term pain.

I refer to something mentioned earlier—a quote from Jeff Kennett that was given to me yesterday when he was reported in *The West Australian* as saying that he was wrong to have privatised the TAB. The article states —

The outspoken Kennett forecast a financial catastrophe for the racing industry and eventually more sport under the current betting model.

In making “an admission I don’t often make”, Kennett said one of his reforms as Victoria’s premier was wrong: to privatise the TAB.

It is my understanding that over the past 14 years, at least three investigations have been made into the racing industry. In 2000, the first report from the independent committee chaired by Mr Ray Turner, AM, included a recommendation for a whole-of-industry governing body to be established by statute. The framework of governance recommended was to provide the racing industry in Western Australia with greater cohesion and the capability to develop strategic direction. This resulted in the formation of the Racing and Wagering Western Australia Act 2003, known as the RWWA act. In 2010, following the inquiry conducted by the Joint Standing Committee on the Review of the Racing and Wagering Western Australia Acts, the second report was released. This report contained 92 findings and 53 recommendations. How many of these findings and recommendations have been implemented? In 2011, there was a third report called “Economic and Social Impact: Report on the Western Australian Racing Industry”. This report was prepared for the entertainment and racing industry by IER, a leading independent consulting and economic research firm with extensive experience in the area of economic and financial assessment. I have summarised some facts from this third report, which I think the member for Albany quoted from. The direct expenditure of the WA racing industry is \$550 million. This includes expenditure on producing racing animals under breeding and rearing, preparing the training of racing animals, on-course customer expenditure on admission, food, beverages, a race book, hospitality and membership, and

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off-course customer expenditure such as accommodation, transport and entertainment, which are all linked to race attendances. The number of Western Australians who work in the racing industry is approximately 33 686. The state government's tax revenue from wagering is \$34 million and the GST paid on wagering revenue is \$24 million. That is an ongoing income stream that this government has benefited from and one that future governments should also have access to. Currently, two further reports are being prepared. One of these is by Ray Gunston and the other is by Deloitte Access Economics.

In the metropolitan area, Belmont is the home of thoroughbred horse racing. The area known as Ascot has been heritage listed as "residential and stables" to protect this industry. The Ascot Racecourse is also heritage listed. In Belmont we are proud of the history of horse racing and a racehorse is depicted in the crest of the council emblem. Due to the importance to the area of horse racing for economic and employment reasons, since being elected I have invested a considerable amount of time in talking to those involved and listening to their concerns regarding the industry as a whole. The concerns are complex. Horse racing is not about just gambling; it is a sport, it is entertaining, and it is part of Australian history and culture.

When I have travelled overseas to Singapore and Hong Kong, I have always enjoyed attending thoroughbred races. They are promoted on the airlines and at airports, tourist centres and hotels and they offer a wonderful experience for a tourist. This includes being picked up from and returned to the hotel, a buffet meal and good seating. I am told it is similar in Kentucky in the United States, Ascot in England and Longchamp in France. If selling the TAB reduces investment in horse racing infrastructure, we will miss a great tourism opportunity to promote Western Australian racing to people in Asia. In Sydney I have attended the Sydney Easter carnival. This involved two race meetings and several other Sydney events. It is promoted on the airlines and makes a wonderful week's holiday in Sydney.

I am yet to be convinced about the current style of TAB advertising. Marketing of metropolitan events needs to be improved to increase attendance figures. The current system works well; however, a closer link between Tourism Western Australia and the racing industry would be beneficial. I would like to now quote from *The West Australian* of Friday, 15 August, as follows —

Sydney racing's autumn extravaganza, The Championships, will be more than a one-hit wonder with the New South Wales government confirming a \$10 million commitment to 2015.

Premier Mike Baird made the pledge yesterday and said while this year's inaugural staging of The Championships was successful, next year's event promised to raise the bar.

He went on to say that this year over 50 000 people attended the two-day event, and with greater brand awareness and more time to prepare, next year it will be an even bigger and better event. The article continues —

Racing NSW says a reduction in the wagering tax will allow the racing industry to finance the autumn racing carnival and secure the sport's future in NSW.

In the eastern states, governments have made changes to the structures of their racing industry. I am told that disastrous effects have been associated with the sale of some of the TABs in other states. South Australian veteran racehorse trainer Leon MacDonald has warned of the dire consequences if the WA government decides to sell the TAB. MacDonald said that the sale of the South Australian TAB for \$43 million in 2001 to the TAB Queensland had been devastating for the South Australian industry.

Western Australia has geographically the largest racing jurisdiction in the world, and regional race clubs are the lifeblood of many country towns and communities. The Broome Cup and the Kalgoorlie round are very popular and bring large crowds to these regional towns. The towns coordinate other events to benefit tourism and the local businesses. Accommodation is often fully booked months ahead. Visitors generally stay for the whole event program, and the local businesses benefit from the business that tourists generate. The country events are getting better by including entertainment for young adults and children. Over the past five years the distributions to the racing industry has grown by 23 per cent. This racing season we will see distributions exceed \$130 million. A guaranteed investment into the racing infrastructure and a reduction in the wagering tax are needed.

In closing, any government that operates in a fiscally challenging environment must consider the sale of assets as a means to strengthening the economy. The TAB is not an ordinary asset in that it provides our budget with an ongoing income stream worth millions of dollars each year. More so, it is an asset that supports an important industry—important through its contribution to tourism and the tens of thousands of Western Australians it employs.

I now refer to the *Hansard* of Wednesday, 13 August, and quote the Premier, who stated the following —

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We are looking at a range of potential privatisations, and the TAB is one of them. Let me make it clear, as I have said publicly: There will be a first group of privatisations, and the TAB will not be amongst them. I can say quite clearly today that if we make a future decision about the TAB, it will not be during this calendar year.

This is quite important. I was being lobbied. Several people came to see me, wanting time to prepare the reports I have spoken about. One of these people was Ray Gunston, and this morning I spoke to a person from Perth Racing.

Another matter, which has nothing to do with the government and the sale of the TAB, is the media report on the sale of the Ascot Racecourse. The Ascot Racecourse is made up of eight separate lots, most of which are freehold, but two of which contain a crown grant in trust. Perth Racing wants what is best for the industry, and to get that outcome it has employed Deloitte to get the best business model for the industry. As was reported, the sale of Ascot is the least desirable option; however, that did not come out in the paper.

**Mr C.J. Barnett:** The racing industry cannot sell Ascot. It is a state government asset, so it is not its to sell.

**Mrs G.J. GODFREY:** No, and it alarmed a lot of people when they saw it on the front page of the paper.

In closing, although I strongly oppose the sale of the TAB, I appreciate that it is something that the government may consider. I ask the government to consult with the industry and its many stakeholders, as it is the stakeholders who will ultimately bear the brunt of such a decision.

**Mr M.P. Murray:** Are you going to swap sides and vote on this side then?

**Mrs G.J. GODFREY:** No, I am not.

**Mr M.P. Murray:** Then you are talking absolute rubbish.

**Mrs G.J. GODFREY:** I am not; you're rubbish.

**The ACTING SPEAKER:** Order, members! Member for Collie–Preston and member for Gosnells —

**Ms E. Evangel** interjected.

**The ACTING SPEAKER:** Order, member for Perth, I am on my feet. We are not on the horse track.

**Mrs G.J. GODFREY:** In summarising, with that —

**Mr M.P. Murray:** The question I asked was: on which side are you going to vote?

**Mrs G.J. GODFREY:** I never got to finish talking while I was on my feet. If only you'd button it!

*Withdrawal of Remark*

**Mr M.P. MURRAY:** Unparliamentary words were spoken by the member for Belmont, something that members would probably hear in a horse yard.

**The ACTING SPEAKER (Mr I.M. Britza):** Members on my right, I never heard the point of order. I realise that a word was spoken. I was trying to hear what she said and I never heard it because of the racket. If it was an unparliamentary word, then I ask that the member withdraw it.

**Mrs G.J. GODFREY:** No, it was not unparliamentary. If I was at the racetrack, I would have called him something worse than that.

**The ACTING SPEAKER:** Once again, member for Belmont, I cannot hear what you are saying because of what is going on in the chamber. Would you give me your answer again, please?

**Mrs G.J. GODFREY:** I will not withdraw it because it was not unparliamentary.

**Mrs M.H. ROBERTS:** I realise that the member for Belmont is a new member in here but the member for Collie–Preston made an interjection on her and said that she was talking rubbish. Of course, that is not unparliamentary and that kind of thing is said all the time. However, there is a difference between saying someone is talking rubbish, for example, and directly insulting a member by saying that they are rubbish. That is a subtlety that the member for Belmont clearly does not understand. Members cannot directly hurl a personal insult at a member in this place. They can, of course, criticise what a member is saying by describing it as rubbish, and that is what the member Belmont needs to consider.

**Dr M.D. NAHAN:** I seek some clarification. It is my understanding that the member for Collie–Preston was complaining about not the issue of rubbish, but the accusation that he should button up, and his belief is that the accusation to button up is unparliamentary.

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**The ACTING SPEAKER:** I did not hear the word. However, worse things are said in this chamber and I just ask that we be careful about how we speak in this chamber towards one another and show the height of respect. Member for Belmont, I ask you to remember that.

*Debate Resumed*

**Mrs G.J. GODFREY:** I will always defer to your guidance, Mr Acting Speaker. I will not support this motion and I will tell the member for Collie–Preston why, if he keeps quiet for a moment.

**The ACTING SPEAKER:** Address the Chair, please, member for Belmont.

**Mrs G.J. GODFREY:** I do not support the motion because of the words —

That this house condemns the Barnett government ...

That is all members opposite do. All they see is a half-empty glass. I do not support the motion because of its wording.

**MR J.E. McGRATH (South Perth — Parliamentary Secretary) [5.56 pm]:** I am very surprised that this motion has even been brought back today because I am sure I heard the Premier make it very clear last week, when he rounded off last week's debate with a short but outstanding contribution, that no decision had been made on the privatisation of the TAB. However, he said that the option of privatisation will be looked at by this government. He also said nothing will happen in this calendar year. I know that all members heard that. The Premier also said today that if the Western Australian government goes down the path of looking at the privatisation of the TAB, which I gather is more than likely, there will be thorough consultation with the industry. What more than that could opposition members want?

Several members interjected.

**The ACTING SPEAKER:** When members on my left were on their feet, I was looking to be sure that the member was asking for the interjection. If the interjection comes from a member three or four times, and the member on his feet does not take the interjection, I will be forced to call the member who interjects. Member for South Perth, you will have to make it clear that you are taking the interjection.

**Mr J.E. McGRATH:** Thank you, Mr Acting Speaker. I have got big shoulders. I do not think I have heard personal attacks made on a backbencher the likes of which were made on me last week, but I am happy to accept that. This is not a decision that must be made in a debate such as the one we are having today. This decision must be made by a government that believes it is the right decision to make and then it must consult with the industry. As part of that process, I am sure that all the problems that people such as me see confronting the industry at the moment, will be put before the government. I would be very surprised if the government did not ask the industry what its requirements were if the government wants the industry to go along with what the government is proposing to do. Where does the industry need assistance? The Premier said that we should not expect the government to sort out the issues that are now starting to emerge in the racing industry. For instance, at the Ascot and Belmont racecourses the average paid attendance by the public is 188 people, which does not include members, owners and trainers. A couple of weeks ago, Perth Racing announced that its model is unsustainable.

**Mr P. Papalia** interjected.

**Mr J.E. McGRATH:** The member had his say last week, and I will mention him a little later—I am saving a bit for him. Ascot and Belmont racecourses are the jewel in the crown for the Perth racing industry. If Perth Racing is having problems, something is wrong. If Perth Racing cannot make a profit on its operations at Ascot and Belmont Park in a given year, there is something wrong with the model, which filters right back through the racing industry. The Premier also nailed it when he made one very important point: he said that this might be an opportunity to modernise the racing industry that is struggling to keep abreast of rising costs, dwindling attendances and ever-increasing infrastructure needs. The member for Albany mentioned the review into the Racing and Wagering Western Australia that we dealt with. I must admit as chairman I asked whether we should look at the subject of privatisation. My committee said that it was not part of the terms of reference of our review, so we should not do it. We did not, in fact, look at privatisation at any length or in any depth, but we put in our report that the industry was very comfortable with the system as it was at that moment.

A member interjected.

**The ACTING SPEAKER:** Member for Albany, you are not in your seat.

**Mr J.E. McGRATH:** Let us look at the debate. We have had personal attacks on me by the member for Collie–Preston, who said I have changed my position. Would I be the first person in the world to have changed their position on something? Of course, I always believed that the TAB should never be privatised; that was my view up until events of more recent times. I went to a meeting in Hong Kong that the member for Collie–Preston

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also went to and we saw how the global face of racing through wagering is changing by the day. We were told that for the first time in history of racing around the world—that is horseracing, harness racing and probably greyhounds—betting on sport will outstrip wagering on racing. That is a big worry because betting on sport does not provide a lot of income for the racing industry. We are seeing the world changing. Young people growing up now are saying they can have their 10 or 20 bucks on West Coast or Fremantle to win a game, but racing is a lot more difficult for them to comprehend—they have to look at the form of the horses and all that—and consequently, we are seeing this spiralling growth in betting on sport. We are also seeing massive growth in betting on fixed odds. All those people such as Jeff Kennett who say we should go back to the old days of just having a TAB have to remember that when the TAB was first formed, it had no competition. The starting-price bookies had all been put out of business and to have a bet a person had to go to a TAB agency. The windows were all frosted because under the act the TABs were told they had to regulate gambling, not promote it. Now we have the TAB promoting gambling because it has to as it is in a competitive world. If a person did not bet with the TAB, they had to go to the racetrack; they could bet on the tote at the races, which was linked to the TAB, or they could bet with bookmakers. We live in a completely different world today.

The member for Warnbro said that he spoke to a group of trainers at Lark Hill last week, and I would probably know a few of those trainers, and he basically told them that I had sold out the industry and they all nodded and agreed. I am not surprised, the member for Warnbro is a very convincing person, but I hope that in that group there were not any people who were involved when I worked very hard to have the jockeys' workers' compensation sorted out.

**Mr P. Papalia** interjected.

**Mr J.E. McGRATH:** Hang on—let me finish.

I hope there were no jockeys there because of the work I had done to help them with workers' compensation. I hope there was no-one from the Bunbury Turf Club there, because one of the reasons I became more involved in this than ever was when the people from the Bunbury race club complained that Racing and Wagering Western Australia could not provide funding to build a new all-weather track at Bunbury, which is the biggest training centre outside the metropolitan area. It has a stalls area that is so small and restricted that people are in danger of getting kicked in the morning at track work. RWWA has been able to find some money to fix up the stalls, but the big, grand plan of a new all-weather track is not going to happen.

Several members interjected.

**The ACTING SPEAKER:** Members, the member for South Perth has the floor.

**Mr J.E. McGRATH:** This is why I made a speech some weeks ago when I was accused of saying that we must privatise. All I said to the industry was that we have to look at all options. Even the member for Albany admitted that the government might have to come up with a proposition to the racing industry that will be more beneficial to it than the system we have now and can set it up for the next 50 years in this world of global competition. All I said to industry was that it should just listen; it might not agree with what the government wants to do and it can say so, but it should not shut the door. At the time the trainers put up a big wall and said, "That's it, we don't want to talk to the government."

**Mr P. Papalia:** Just so you know, I didn't say to them that you sold out, what I said was that you had changed your tune and that is the best indicator, because you would be considered one the closest friends of the racing industry in Western Australia in the Parliament —

**Mr J.E. McGRATH:** I am.

**Mr P. Papalia:** I said that to them. I said a good indicator that Colin Barnett is going to sell the TAB is that you had changed your tune. Before you said you didn't want it to be sold and now you're saying you do, and I said that is an indicator that he has made up his mind.

**Mr J.E. McGRATH:** What has happened is that I have seen the world is changing in wagering, and I see this as a challenge for the TAB the way it is structured at the moment. That is the only reason I say let us have the conversation. I have not been to the Premier and told him we should privatise the TAB. I was in Hong Kong with the member for Collie—Preston and I said to some of the people there from RWWA that I did not think there would be a privatisation and that I thought it was off the agenda. The next minute I got an email saying that the Treasurer, in his speech—I am very sorry I missed budget day, Treasurer!—said that we will look at a number of privatisations and asset sales, and one of them might be the TAB. That is when the floodgates opened.

**Mr P. Papalia:** Before the election, you guys said you wouldn't sell it. That's why they're upset.

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**Mr J.E. McGRATH:** I cannot recall that.

Anyway, let us get back to Jeff Kennett, the former Premier of Victoria. A lot of people, and I knew this would happen, have been very selective in picking up what he said today. He did say that if he had known that the growth of corporate bookmakers would be as massive as it is now, he would not have privatised the TAB back in, I think, 1994. I cannot understand how privatising the TAB has led to the growth of corporate bookmakers.

**Mr M.P. Murray:** He actually called them a cancer on racing.**Mr J.E. McGRATH:** Yes, I know.

Corporate bookmakers have appeared because in the Northern Territory they have been allowed to be licensed, and with the internet now, a bookmaker does not have to go to a racetrack and stand there with a bag around his neck taking bets—the world has gone a bit quicker than that. People can now bet on a mobile phone or an iPad. Wherever they are in the world, they can bet with their TAB or corporate bookmaker app or whatever. Jeff Kennett was interviewed the day after making the statement, and when I heard him I nearly fell out of the car. I was late getting to the party room meeting because I thought I had better listen to this! He was carrying on about how bad corporate bookmakers are and said, “You know; I must admit I don’t know a lot about the racing industry, but I do have some interests and I have some involvement. I’ve got a share in a couple of horses. In fact, I had a bet yesterday.” The interviewer asked him who he bet with, and he answered that he bet with a corporate bookie. The interviewer said that that was a bit of a double standard and Kennett said that was the only account he had. The interviewer said that here he was telling the world that the corporate bookies are that bad and we should all bet with the TAB, and Jeff Kennett said, “Yeah, you’re right. I probably should get rid of that account.” This man, the former Premier of Victoria, is who our racing industry is now saying is the guru who knows what we should do, but I think he is still living in the 1950s. He was also the former Premier who said last year after Hawthorn had lost a couple of games that they should sack the coach, and they went on to win the AFL grand final. What he did say that I agree with was that the racing industry as it is currently structured is unsustainable beyond the next seven years. He was talking about the Victorian racing industry. However, this is a worldwide trend. He said the model is flawed in a number of areas, and he is calling for a strong independent national body to take charge of the industry. I do not think that will ever happen, because traditionally the states have always controlled the racing industries and their wagering. What has happened to the industry is that its costs are rising much faster than revenue, and Kennett said this caused an unsustainable gap—an infrastructure gap. Anyone who was on that committee with me, member for Collie–Preston, would understand that one of the main problems the industry told us about was that Racing and Wagering Western Australia could not keep up with the demand for infrastructure. In fact, at a budget estimates hearing in 2013, I asked a couple of questions of the minister, and one was referred to Richard Burt, the CEO of RWWA. He said that the infrastructure needs of the industry were about \$70 million and that —

... to address the \$70 million of current infrastructure needs, we will require assistance. I do not think it is in the interests of Western Australia for the racing industry to be consolidated to the level that would be required;

In other words, we would be shutting down tracks to get enough money to build the infrastructure. Mr Burt continues —

it would be highly undesirable, both socially and for communities. RWWA needs to work with the government to have, in a timely fashion, these infrastructure needs met.

The Premier has not said that he would not support some sort of infrastructure fund to help the racing industry, but he has said that the industry first needs to get its house in order. There are two racetracks—Belmont Park and Ascot. I would never have thought about selling Ascot, but when the club that runs the two tracks says that it cannot make any money out of it—it is like running a shop when there are no customers—what can it do? They have to close down. Perth Racing has commissioned a report from Deloitte. We need to wait to see what happens with that report, but I am pretty sure that the report will say that Perth Racing’s business model is unsustainable. I love Gloucester Park; I spent 20 years of my life working there covering harness racing. It is one of the great harness racing tracks in the world, but the industry is struggling so much that it must ask itself whether it can afford to stay there or sell up—the land is probably worth a couple of hundred million dollars—and move to another site, build a course and have some reserve funds to put into an investment as a future fund. These sorts of things are happening in other states. In New South Wales, the racing industry sold Harold Park.

To get back to Jeff Kennett, a newspaper article published today states —

Racing Victoria chief executive Bernard Saundry said Kennett had misrepresented the relationship between corporate bookmakers and the industry.

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Bernard Saundry is the prime industry statesman in Victoria. He is the chief executive of Racing Victoria, which is the equivalent of our Racing and Wagering Western Australia. The article continues —

Saundry said some of Kennett's comments "needed to be set straight" and said RV had established a "very valuable" joint venture with the TAB and 300 wagering operators.

He said the industry's racefields policy meant the wagering operators paid a "fair price" to bet on Victorian racing.

Whenever someone bets on a Victorian race, just as when anyone around the world bets on a Western Australian race, under race fields legislation the wagering operator has to pay a fee for doing that. The article continues —

Saundry dismissed Kennett's "toothless" claim against the ARB, saying the ARB would be bolstered by an upcoming merging with Racing Information Services Australia and the Stud Book.

Another thing that was raised was the Queensland TAB. People have said that that did not work. I remind members that a recent re-signing of the contract for Tatts Group to run wagering in Queensland—I think it is a 25-year contract—will put another \$4.5 billion back into the industry. All the talk that privatisation will be the end of prize money and the end of funding for country clubs is wrong; it is not going to happen. When a government goes into an agreement with a partner—if that were to happen—it would be set out that there would have to be a return to the racing industry that would see the industry sustained. That is a commitment that the Premier has made, and if the government decides to go down that path, that is a discussion it would have with the racing industry. How much money does the industry need to sustain itself? How much does it need for infrastructure? Where are the greatest infrastructure needs? All the Premier is saying to the industry is that the government does not want to tell the industry which tracks to keep and which to sell. The government makes the laws and sets the rules, and would be prepared to support the industry, as governments of both persuasions have done in the past, but the industry needs to become proactive and look at some way of modernising an industry that is probably under more threat now than it has been in its history.

**MR T.K. WALDRON (Wagin — Minister for Racing and Gaming)** [6.15 pm]: I want to start by saying that the TAB has not been sold. I need to make that clear, because people are talking as if the TAB has been sold, and it has not. It was said last week that the industry was in a shambles. I do not think the industry is in a shambles. It faces challenges in different areas, but a lot of good things are happening in the industry. The member for Albany stated that the racing industry in regional Western Australia is struggling, but I do not think it is struggling in regional Western Australia. It has issues, but it is not struggling, and in the racing area Western Australia Country Cups funding has received a big boost. Let us get a couple of things right from the start.

The Treasurer, in his budget speech, addressed the government's decision to tackle the state's debt issues through the orderly sale of some of the state assets. We have heard all about that. Part of the process the government will be undertaking is a strategic review of state assets, and the TAB will be included. We all know that that is in the second tranche to be looked at. The Premier has said it lots of times but I will reiterate: no decision has been made at this stage for the sale of any assets, but the process is currently being undertaken and needs to run its course. Since the Treasurer's budget speech, the Treasurer, the Premier and I have met with Racing and Wagering Western Australia and discussed what the options are and looked at all the issues. RWWA is the owner of the TAB, and it is also the peak body. We have met with it to discuss the issue, and it continues to work with Treasury, which is a good thing. It is a major stakeholder and will play a key role in the consideration of any potential sale. We need to make sure that people understand that. As I said, RWWA has met and continues to meet with Treasury officials as part of this process, so it is involved as the peak body of the racing industry and the owner and operator of the TAB. The Premier has confirmed publicly that the sale of the TAB will be considered as part of the second tranche, which will not be this year. I wanted to make those points clear from the start.

I am on the record as stating that I would support the sale of the TAB only if it were in the best interests of the racing industry and the community to do so. I have been consistent in saying that. Back in February I made that comment and I said then that I did not think the time was right for the sale of the TAB, and that I would need to be convinced that any sale was in the best interests of the industry and the community. That is what it is about; it is really about the industry. That remains my position as Minister for Racing and Gaming. Of course I am aware that, in the interests of broader state finances, the government needs to look at all options, and it should look at all options. The TAB is one option the government is looking at. I am not against privatisation, but as Minister for Racing and Gaming I will continue to advocate an outcome that produces a sustainable future for the racing industry. This whole debate is not so much about the sale of the TAB; it is actually about the future of the racing industry, and that is what I am about as the minister. The process will look at all the things that everybody has talked about. Some good points have been raised on both sides in the debate and they will be looked at and taken into account. If we were to sell the TAB, we would have to tell the racing industry what

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guarantees et cetera were in place, and that is what I am interested in if we are to go down that path. Maybe we will not go down that path, because there is much work to be done between now and when any decision is made.

I also point out that the racing industry has been through some torrid times in recent years, with equine influenza, the global financial crisis and a commercial environment that, as has been made clear, has been changing rapidly and has presented many challenges to the industry. It is really important to state, however, that under the strong leadership of Jeff Ovens and his board, and chief executive officer Richard Burt, RWWA has done a terrific job. It will always be under criticism in some areas because, like the government, it must make decisions at times, and it does not always agree with everyone. I know what it was like when I first became minister. There were some great challenges, but RWWA has weathered the storm, and as has been made clear here, distributions have steadily increased over time. It has done a good job with the TAB. It has produced jobs, it has led to economic development and it has provided a taxation return to WA taxpayers. I commend the member for Albany for providing his statistics. I was going to go through those statistics about the distributions but he went through them all. He looked at the figures. What he is saying is basically correct. The GST comes off taxation, so the net taxation benefit is about \$42.8 million. I will correct him on that but his other figures were right. I take those figures into account. The figures are there for all to see. The TAB has performed well. It has increased its distribution and its turnover. The government must consider that carefully.

**Mr P. Papalia:** You referred to the process payout. Is there a formal inquiry beyond the Deloitte inquiry that Perth Racing has commissioned? Is an actual government inquiry going to be commissioned?

**Mr T.K. WALDRON:** No, we are working through a process that involves RWWA and Treasury. I will talk about how I have consulted with the industry and industry groups, which I have met with. I will answer that as I go.

The government has to consider all those figures and statistics, which are correct, while considering privatisation. As racing minister, I want to ensure that we enable the racing industry to continue to grow and develop for a lot of reasons that have been mentioned by members on both sides of the house. There are important lessons to be learnt from privatisations in other jurisdictions. They have gone about those privatisations in different ways with varying outcomes. I will not go into the detail of it, but poker machines and all that comes into it. We have to be very careful when we compare apples with apples because sometimes there is no comparison. It is important that the pros and cons of these sales are considered strongly as part of the process that we are going through. We need to take that into account.

Country racing has been mentioned. I am particularly keen to ensure that our regional race clubs are well supported. That should be a key consideration of the process. Regional race clubs are very important in country WA. They are the community glue. They provide significant recreational and social value to the community. I get to see that regularly in my role as racing minister and as a local country member of Parliament. That really needs to be taken into account. The future of these regional race clubs is very important, not just to the racing industry but to communities out there. We need to take all these things into account before we make any decisions. I reiterate that it is not so much about the sale of the TAB; it is about the future of the industry.

As well as meeting with RWWA regularly, which I do, I have also met with various other industry groups to discuss the privatisation issue.

**Mr M.P. Murray:** What about Tatts? Did you get a meeting with Tatts?

**Mr T.K. WALDRON:** No, I have not met with Tatts. This includes the recent alliance that has been established by the industry itself, exclusive with RWWA—I meet with RWWA regularly—which includes racing luminaries such as Fred Kersley, Ron Sayers and David Simonette. They are highly respected people. I listen to those people, and I take their views seriously. My discussions with them have been very beneficial. Like me, they are keen to ensure that the racing industry continues to have the opportunity to grow and develop. That is the focus. That is what it is about.

I also met with TAB agencies. That was raised last week. I will continue to consult as racing minister, as I have always done. One thing I learnt coming from country WA is that we need to keep listening to the people we represent. I represent the racing industry and that is why I listen to what they have to say. This issue is extremely complex; it is not a simple decision to sell the asset and just get on with it. As I said before, it is good that we are looking at this. It has thrown up lots of different debates, and it is good that we have those debates. At the end of the day, I am yet to be convinced—I would need to be convinced—that it is the right way to go but I have an open mind on it because if we can get a better outcome for the racing industry and the community, that is what we should be doing. The process is a really good one. It has a way to play out. I have always discussed the future of the industry with RWWA. It has an open mind. It is looking down the track at possibilities in the future. I am

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working with RWWA on that. No decisions have been made but RWWA keeps talking to the industry and talking to me about it. I have an open mind on the future of the industry.

**Mr M.P. Murray:** What about the member for Belmont? Have you spoken to the member for Belmont?

**Mr T.K. WALDRON:** The member for Belmont has her opinion on it.

**Mr M.P. Murray:** I didn't ask that. I asked if you'd spoken to her.

**Mr T.K. WALDRON:** I have spoken to her. I think the member for Belmont is raising a grievance with me tomorrow. I will speak to her again tomorrow.

**Mr M.P. Murray:** She is starting to sweat a bit.

**Mr T.K. WALDRON:** Who?

**Mr M.P. Murray:** She is starting to sweat a bit.

**Mr T.K. WALDRON:** I think the member knows my position. My position has been completely consistent right through this and it will stay consistent.

**Mr P. Papalia:** What is the process? What does that mean? What is the time frame? What is the manner in which the consultation is going to be conducted?

**Mr T.K. WALDRON:** The consultation has been very much between me and RWWA and the industry. Obviously, I talk to the Premier and the government about what I am doing. The Premier knows that I am meeting with these people and listening, and I convey what is being said to the Premier. I will continue to do that. I know that RWWA is going through a lot of stuff with Treasury—looking at all the stuff that has been talked about. It will be taken forward from there. I do not know the exact process that will take place from there. The Premier has said that again there will be further consultation with the industry. Industry reports are being done. We need to look at those reports. The government has every right to look at the future of the TAB.

**Mr P. Papalia:** But it's a very substantial matter involving hundreds of millions of dollars, so it should be done in a transparent fashion so we can see that we are getting value for money.

**Mr M.P. Murray:** The Treasurer jumped the gun, not us; we're responding to the Treasurer's speech in the main.

**Mr T.K. WALDRON:** The debate the opposition is having suggests it has already been sold. It has been a good debate. The Premier said the sale will be considered. Members opposite can go through *Hansard* to see how many times we have said that. They know that. When something is considered, it is considered. We are in the early stages of that. It is not part of the first tranche, as members opposite have been told. When we get to that stage, further consultation will take place. I am being proactive about that now, as is the government, RWWA and Treasury, because the more work we do now, the better the picture we will get. As I said, the position is that the sale of the TAB will be considered. I need to be convinced that it is in our best interests. That is what I have said consistently. I will leave it at that.

**MR W.J. JOHNSTON (Cannington)** [6.27 pm]: I thought the Treasurer was going to get up and say something. Was the Minister for Racing and Gaming the lead speaker for the government in this debate?

**The ACTING SPEAKER (Mr P. Abetz):** I would not know. Can somebody clarify that?

**Mr W.J. JOHNSTON:** I am told that the Premier was the lead speaker. We have already heard from the lead speaker. I was not quite sure.

I rise to participate in this debate. I will mention the forgotten code, which is greyhounds. Greyhounds WA is very important to the electorate of Cannington because it occupies leased territory out there at the showgrounds. The showgrounds belong to the Canning Agricultural, Horticultural and Recreational Society. It is a not-for-profit organisation. I disclose that I am a proud member of CAHRS. I also make the point that before I became the member for Cannington, I used to go to the dogs every so often with some of the community groups that I belonged to as a parent in the local area. Of course I attend now as a member of Parliament but it is not like that was the first time I went after I was elected. I have been going to the dogs off and on over the years while living in the local area.

When we count the transport infrastructure, inflation and all these things, the government will spend every cent of \$2 billion building a stadium for a range of sports, particularly the Australian Football League. If we divide \$2 billion by 60 000, then multiply that by the regular attendance at the Cannington track and if we were to support the greyhound industry by exactly the same amount in support for the AFL, it would get \$25 million for improvements to the track out at Cannington. Of course we know what needs to happen out there: the track needs to be moved from its current location at the front of the leased space and put out at the back of the

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location. It is interesting to note that the government has allowed—in fact, cabinet has endorsed it—a new lease from Greyhounds WA for the facilities at Cannington. The lease has been entered into on the basis that the dog track will move from its current location to the area that is called the trotting track, which is the training track out the back, yet the government has not yet allocated the money to facilitate that move. I understand that another \$10 million is needed from government to cover the gap between the amount available to Greyhounds WA and the amount needed to complete the move. I make the point that proportionate to the crowds it is nowhere near as much as the amount being given to the Australian Football League. That figure is on the basis of the AFL filling the new Perth Stadium every time and taking an average crowd for the dogs. If we base it on the maximum crowd for the dogs, the figure would be over \$100 million, because the largest crowd for the dogs at Cannington is over 4 000 people. As I have said in this chamber previously, the largest dog crowd in Australia is the dog crowd for the two premier events for Cannington Greyhounds, which is the Perth Cup in February and the New Year's Eve event on 31 December each year.

The great thing about members of the greyhound crowd is that they are not pretentious. They do not go out there to sip champagne; they go out there to have a beer and a chat and maybe a bit of a flutter. When I went out there once with my son and daughter and their Little Athletics Australia club, I watched the kids racing the dogs for the last 50 metres of the straight. The dogs started at the end of the straight, ran past the corner and back around to the finishing post for a lap and a quarter, and the kids lined themselves up at the finishing post and tried to race the dogs to the corner. That was a family atmosphere; it was a picnic atmosphere. People can go out there and have a buffet feed at the restaurant, and if they go out there with a community group, like I did before I was a member of Parliament, they know that they will have a good family evening with no hassles. It is a great crowd. Sure, some serious punters go out there as well as personalities from 6PR catching up with Millsy when they are there for the Perth Cup. It is a great night out. That is why 4 000 people go there, which is a really big crowd. Compare 4 000 people with the largest Western Australian Football League crowd this year, which was 6 000. It is actually a very substantial number of people. I looked up the figure for the average crowd, which is about 2 000—and people think greyhound racing is a niche pastime! The overall average crowd at Cannington is 720. On a Wednesday weeknight when it is raining in the middle of winter there is still an average crowd of over 700. As I said, that is one-third of the average number of people who attend a WAFL match. Greyhound racing is actually a well-supported sport, much more so than people give it credit for when we consider the number of people participating in it. They get onto Sky Racing, of course, because that is where all the racing codes are. Sure, it is not like the WAFL on the ABC, but it is a much bigger part of sport in Western Australia than people give it credit for. The Premier talked the other day about the small number of people—he said it was about 51—who turn up for a dog race. There is probably an occasional dog race that attracts a small crowd. Of course, the Northam races attract virtually nobody, but Northam races are not designed for a crowd. There is no crowd facility at the Northam track. That is not what it is about. It is about providing another opportunity to get betting on TV for a TV audience. It is deliberately designed in that way. If we count the number of races at Northam and divide that by the crowd numbers, we get a very low figure. However, the average actual attendance at Cannington is over 700, even in the middle of winter when rain is bucketing down. I am averaging that crowd into the whole week. I am sure the member for Mandurah knows the average crowd number down there. Mandurah also gets a significant number of people. In the 2012–13 financial year, attendance at Cannington was 72 289 and 39 979 at Mandurah.

I am sorry that I missed the Perth Cup this year, but last year I was pleased to be there when Miata won the cup. It was a fabulous night. My son, of course, is underage and could not bet. However, I placed a bet and he was very excited when we won and insisted on sharing half the winnings because he reckoned that he was the only person in the crowd who picked Miata as the winner! Unfortunately, I do not think that was right.

**Mr T.K. Waldron** interjected.

**Mr W.J. JOHNSTON:** Yes, there were quite a few. Of course, the return was pretty low, so giving up half of my winnings to my son reduced my winnings even further! The Minister for Racing and Gaming has been to the races. I am sure he has a very busy program and has lots of demands. He does not get along to the Perth Cup every year, but I know that he has been there, as we have sat and chatted out there on a number of occasions, and there is certainly a representative of the minister there each time.

I want to make the point, too, that there are 164 casual jobs at the Mandurah and Cannington tracks but very few casual jobs at Northam. I know from my experience in the electorate of Cannington that a lot of people have a casual job at the dogs. They work just those two nights, Wednesday and Saturday, and that provides a little bit of extra income to make a difference to their family budget, so they are important jobs in my community. I go along to the track and chat to people working in the restaurants, a number of whom are constituents in my electorate. Every time I have been able to, I have been very keen to talk about the importance of the jobs that are created by the Cannington dogs. I make the point again that on a proportional basis, even taking into account the

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average crowd and not the maximum crowd, the government to be fair should be looking to put in a substantial amount of money. If the government were to make the same contribution that is being provided to the AFL stadium, it would put \$25 million into the track. Of course, Greyhounds WA is not asking for that much; it is asking for less than that. It certainly justifies that investment.

I make the point, too, about all the trainers and owners involved: many are in the greyhound or dog breeder area at the southern end of Cannington and at the southern end of Gosnells. I know that the member for Gosnells has a retired greyhound as a pet. Another important part of what is done out there is making sure there is a future for those dogs.

**Mr C.J. Tallentire:** They make sure there is a future for those dogs instead of putting them down.

**Mr W.J. JOHNSTON:** I know people are surprised to hear how docile the dogs are. I was talking to others and the member for Gosnells about how it is hard to get the damn animals to exercise enough, and they start to put on weight.

**Mr T.K. Waldron:** It is an excellent program.

**Mr W.J. JOHNSTON:** Yes, it is an excellent program.

**Ms L.L. Baker:** So is Off the Track. Do you know what that is?

**Mr T.K. Waldron:** No.

**Ms L.L. Baker:** It is the program run by Racing and Wagering for thoroughbred race horses. There are 15 000 of them slaughtered every year, so it is a good program.

**Mr W.J. JOHNSTON:** Obviously, I am putting in a bid to support the greyhound track. The Canning Agricultural Horticultural & Recreational Society makes the point that it was its initiative to build the track in the first place. Even though the club acknowledges that it has had the benefit of the lease over that time, the government and people say that the land does not belong to the greyhound club; therefore, it is a bit odd, because the other codes all have their own track. However, CAHRS makes the point that it was the one that paid for the original infrastructure, and subsequently it has been developed further. The infrastructure of the building is no longer up to standard. It is almost literally falling down. Even if the dog track did not have to move from its location, we would still have to spend a significant amount of money to bring the crowd facilities for the track to a proper standard. Given that it needs to be relocated to the back of the facility, we may as well spend money on the new location rather than on upgrading the existing location. It is important to understand that moving the dog track is a very major and important part of facilitating development in my community, because it provides ongoing security for the Canning Agricultural Horticultural & Recreational Society. CAHRS is one of the very few metropolitan agricultural societies that have adapted to modern times. It has a very, very good active membership beyond old-fashioned discussion of agriculture and it owns its own land. Unlike some other metropolitan shows, which use council-owned facilities, CAHRS uses its own facilities that it owns freehold. That is an important difference. Moving the dog track facilitates the continued development of its facilities to guarantee their ongoing future as part of its own business plan.

The ag society will agree to cede a portion of the land to complete Liege Street through to the Gerard Street bridge, which will provide a way of getting across the railway line without people having to go across a level crossing. I have talked 100 times in this place about how important that is. It is not the central component, but it is a bonus from moving the dog track. There are a lot of good reasons for the government to invest in this. People look down on greyhound crowds but, as I said, proportionate to the West Australian Football League crowd, it is not that small; it is quite large. The dog track had 4 000 at its major event compared with 6 000, which was the largest crowd at a WAFL match this year; I just looked that up on my computer before I spoke. It is more than just a niche sport. Many people are involved in training and owning dogs and all those other aspects of the industry. I think it is very worthy of the continued support of government.

I will conclude with a couple of remarks about the report from the committee in the last Parliament. I cannot remember its proper name now.

**Mr J.E. McGrath:** The racing and wagering acts review.

**Mr W.J. JOHNSTON:** Yes, the Joint Standing Committee on the Review of the Racing and Wagering Western Australia Acts. I want to point out two recommendations. Recommendation 27 states —

That the Minister for Racing and Gaming in conjunction with the Treasurer reviews the rates of tax for totalisator wagers and fixed odds wagers in sections 4 and 5 respectively of the *Racing and Wagering Western Australia Tax Act 2003* with a view to enabling Racing and Wagering Western Australia to compete more effectively.

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[Member's time extended.]

**Mr J.E. McGrath:** You may as well take an extension in the whole debate.

**Mr W.J. JOHNSTON:** I will sit down at 10 to seven, so the member for South Perth will be happy. The response from the government was —

The Government will consider the Committee's finding that RWWA needs a wagering tax regime that is consistent with other Australian jurisdictions in order for it to compete more effectively.

This issue will be further assessed by Minister for Racing and Gaming in conjunction with the Treasurer.

It would be interesting to report back on how that consideration is going, because it was clearly an important issue in the committee's report. I also note recommendation 32, which states —

That virtual racing and Keno should not be expanded to TABs and licensed premises.

The response of the government was noted, and there is nothing in the section for comments. I know that the government gets approached constantly; it does not have to ask. I know this happens. All sorts of organisations and businesses in the community would love to have keno on licensed premises. I imagine that many would like to have virtual racing, and it would be more reassuring for all the codes, including the greyhounds, if the government responded positively to that.

**Mr J.E. McGrath:** Would you support keno and virtual racing?

**Mr W.J. JOHNSTON:** No.

**Mr J.E. McGrath:** That is why the report is probably worded against it. We knew we would not get your support.

**Mr W.J. JOHNSTON:** That is the thing I am getting at, parliamentary secretary. The response from the government is that it has noted the recommendation, but it has not said that it agreed to it, and it has made no comment about that recommendation. It would be more reassuring to all the codes if the government said that it agreed with the recommendation of the committee, because, obviously, a proliferation of gaming options would be detrimental to the income of the TAB. We already have keno in Western Australia; it is played at the casino. One of the great things about WA—it also brings challenges—is that we do not have poker machines all over the place. We do not have dozens and dozens of betting options as other states do. That means that we have fewer social problems arising from gambling, but, equally, we have the problem of funding the industry out of the revenues of the TAB. I imagine that the parliamentary secretary considered that an important recommendation, and it would be great if the government positively responded to it rather than leaving it hanging. I have only about 180 seconds to go before the member for Collie–Preston speaks.

**Mr J.E. McGrath:** Has he settled down? Has he cooled off?

**Mr M.P. Murray:** He's hungry!

**Mr W.J. JOHNSTON:** Who? Is the member for Collie–Preston referring to me or to himself?

When the Premier was asked a question about the TAB in the chamber one day, he gave a long answer. One of the things he said was that he did not know whether it was right for a government to own a gambling organisation. The government owns two gambling organisations—the TAB and Lotterywest. Plenty of voracious people want to buy the TAB and just as many would love to buy Lotterywest. Western Australians spend more on lottery products proportionately than people in any other state, so Lotterywest is probably the prize that those gambling companies would be after. The argument that the government should not own a gambling organisation is an argument in favour of privatising and selling Lotterywest, and I do not think people in this chamber would support that. Government members have to be careful about making their arguments about why we should sell the TAB, because every logic that says we could sell the TAB is the same logic that says we could sell Lotterywest. That is why the Labor Party is opposed to it. We do not want to sell the TAB as we do not think it is in the interests of the industry, and we do not want to sell Lotterywest because we do not think it is in the interests of the people of Western Australia. It would be good to have a bit of reassurance on all these issues, and particularly for me, on the funding for the upgrades of the Cannington dog track.

**MR M.P. MURRAY (Collie–Preston)** [6.50 pm] — in reply: Firstly, can I thank all the speakers on this motion tonight. The debate has been quite good, and it shows what the political process is all about. We have flushed out some of the different views of the government. The Treasurer has a different view from the Premier; the Premier has a different view from the Minister for Racing and Gaming; the minister has a different view from the member for South Perth; and the member for South Perth has a different view from the member for Belmont. But none of those people has listened to the industry. What an amazing debate we have had tonight! The views

**Extract from *Hansard***

[ASSEMBLY — Wednesday, 20 August 2014]

p5653b-5668a

Mr Peter Watson; Mrs Glenys Godfrey; Mr Mick Murray; Acting Speaker; Mrs Michelle Roberts; Dr Mike Nahan; Mr John McGrath; Mr Terry Waldron; Mr Bill Johnston

have been flushed out, and the government does not have a common position. The government says the industry is not in turmoil. If there is no leadership, of course it is in turmoil. The member for South Perth said one thing in one *Hansard* and another in another *Hansard*. The minister said it will be done only if it is in the best interests of the industry. The Treasurer said it will be sold to retire debt. The Premier said we might do it in the future. We know what that means. We know that he is going to do it, but he is going to have all these secret meetings with Tatts, and others, and try to get a price and work out how much he can scoop off the top, and the industry can have a bit around the bottom. What a mess it has been! Then what about the member for Belmont! She totally opposed the government's position, but she then got cranky because I said that she should come and vote with us on this side! I do not understand the logic of what the debate has been about tonight. There has been no logic whatsoever. That is what is wrong with the industry at the moment.

I am happy to hear that the minister has met—it must have been in recent times—with the TAB agencies. However, unfortunately for them, they have been left in limbo, because this government does not have a position on this matter. As I said the other night, eight or nine of those businesses are up for sale. Would anyone in the chamber buy one of those businesses from a government that does not know where it is going on this issue? Those poor people will be strung out, and strung out for I do not know how long—until the Premier decides, I suppose.

There stands the problem. The industry itself had to go out and bring in people to do its own research, when in real terms it is the government's decision and the government should have been out there leading the pack. But the government did not do that, and so the industry had to fork out from its own pocket for that research—although even that is confusing, because somewhere along the line I read that Racing and Wagering Western Australia has put some money into that research. How does that work? RWWA members stood on the footpath, in front of their offices, and said, "We do not support the privatisation of the TAB." That is another group—a very strong interest group—that is doing a good job, but no-one is listening to the individual groups, and there is no way that they are being brought together, through the minister or the Premier, to get on and say how they are going to do it. We heard that there is plenty going on. But there is no coordination. In the end, if we want to kick a goal, we have to get all the team to kick the ball the same way. Of course, we have the fullback on the wrong side—the member for Belmont! She would be kicking the ball back over her shoulder instead of kicking it out in front. In her speech tonight, she has been trying to support the industry, because she is very, very nervous about an election coming up in two years' time, because this decision will impact immensely on her area. I understand that nervousness, because I have been there, on 43 votes—a few less than the member has. I understand those pressures. Where are we going and what are we going to do?

Jeff Kennett has been run down by the member for South Perth for his very bland and straightforward comments. Jeff Kennett has said that privatisation of the TAB would be a mistake. Of course the industry is going to come out against that. It is obvious that it would be no different from what the minister would be doing with RWWA. The minister would be saying, "Haven't you got anything to say? Get out there and discredit what has been said." Jeff Kennett is a very well-respected politician from the east coast. We all know that. Also, being a Hawthorn supporter, he is very similar to the member for South Perth—he yells at them one day and claps for them the next.

But, in saying that, I am looking at what has been good in this debate tonight; and, that is, we have flushed out where we are going—or if we are going. It is a good bus to be on! We are not sure whether it is going to leave the station and whether it is going to go down the road, reverse, go sideways, or go down the side street and get jammed down there somewhere. We do not know. We heard the member for Cannington talk about the industry in his electorate. The minister was asked in estimates about where the money will be coming from for a grandstand in Cannington. That is a huge grandstand. We have brought it down in size so that it can have only 500 people in it. A grandstand—a garden shed would be more appropriate in that area!

The minister said in estimates that he is looking for the money. I am always looking for a few bob, too. Has the minister found any money—that is the point—for the greyhounds? I do not think so, because I have not heard it in here, and I did not hear the minister answer the question from the member for Cannington. That may be a small part of the industry in number, but it is a vital part in the overall betting picture and it returns one of the best returns from the TAB. It is right at the top, in front of galloping and also in front of harness racing. Why that is being pushed out on the side I will never, ever understand.

**Mr M. McGowan:** They don't like the dish lickers!

**Mr M.P. MURRAY:** Yes!

On top of that, there are 55 race clubs in this state. Have all those race clubs been consulted? The member for South Perth was with me in Hong Kong when a QC from South Australia told us that all their race clubs in the outer areas are closing or have closed. That is because there was no money coming back to support them, as the

**Extract from Hansard**

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Mr Peter Watson; Mrs Glenys Godfrey; Mr Mick Murray; Acting Speaker; Mrs Michelle Roberts; Dr Mike Nahan; Mr John McGrath; Mr Terry Waldron; Mr Bill Johnston

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TAB does. A percentage of the turnover that goes through the betting machines goes back to those clubs. That is what keeps them viable. If that money is gone, we will probably end up with not 55 clubs in Western Australia, but around 15 or 20, and they will be the ones in the outer metropolitan areas, and a few major races like the Broome Cup and the Kalgoorlie Cup. Leinster, Roebourne and maybe even Port Hedland will be gone because if they do not have support from the TAB, they will not survive. We can go around and look to the major sponsors, but that is very difficult to do year in, year out.

It was also interesting—I have it in my notes—to hear about the football stadium, but I will brush over that because the member for Cannington did a very good job in making that comparison.

When we look at this industry, it is very important and vital to this state, both directly and indirectly. This is an industry that employs, both part time and full time, 30 000 people. Some of the people who are in these jobs—I do not mean to be demeaning to them—are not necessarily the most educated people, but they love it to death. What they pick up in wages on a Friday is not going to buy them a castle, that is for sure, but it is more a labour of love than anything else. We look at that—30 000 jobs—and yet we have a government that has not been able to put together tonight, or last week, a reasonable proposal that the opposition can look at.

We have seen the crocodile tears from the member for South Perth because he got picked on last week. I have left him alone this week because I did not want him to be crying in here, but what about the savage attack on me from the member for Belmont! It was so heart-breaking that I had to get protection from the Chair! It was really, really bad.

If we look at the overall picture, it comes back to something that is very simple. The government has gone out and made statements, but it has not had anything to back up those statements. The government has stated that it is going to privatise, and then we heard the handbrake coming on and the wheels skidding, and up popped the minister saying, “No, no, no; only if it is relevant and the industry wants it”, and then we had the Premier saying, “No, but maybe into the future”.

Debate adjourned, pursuant to standing orders.

*House adjourned at 7.00 pm*

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# Liberal backbencher Murray Cowper voices opposition to sale of WA TAB

Bob Maumill

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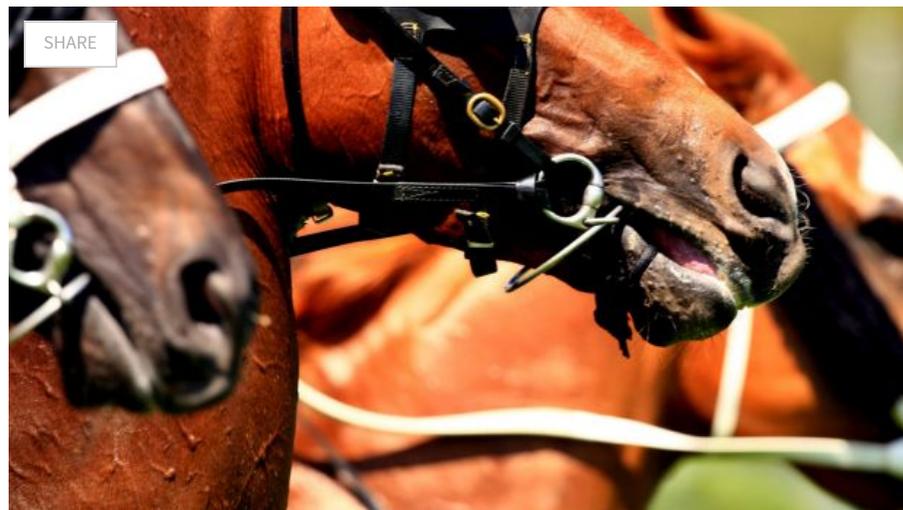
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Liberal Party backbencher Murray Cowper is the latest government member to criticise [the decision to sell the WA TAB](#).



There's huge interest in buying the country's last state-owned tote. Photo: Jenny Evans

Mr Cowper has issued a strongly worded press release emphasising the importance of the TAB to the Western Australian racing codes.

He has called on Racing and Gaming Minister Colin Holt to "commission an independent economic impact study to determine all of the consequences to the racing industry in WA if the TAB is sold".

Mr Cowper joins fellow backbencher Glenys Godfrey in criticising Barnett government plans to sell the home grown wagering operator.

In criticising the proposed sale, Mr Cowper predicts that if the TAB is sold there will be "devastating consequences for the racing, training,

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and breeding industries in the state, particularly in country areas ".

"These sections of the industry have enjoyed a unique stability since the TAB was introduced by the Liberal government of Sir David Brand in 1961," he said

The WA TAB was originally created to arrest the flow of funds away from the racing codes and into the hands of the 206 privately operated betting agencies that were "bleeding racing dry".

In pushing for an independent commission to examine the impact of any sale on racing, Mr Cowper warned the government that "country race clubs, trainers, and breeders and owners share my concern".

His assertion of deep concerns within the thoroughbred and racing industries is supported by news that two petitions are circulating in thoroughbred and harness circles demanding the Barnett government backs way from a sale.

Mr Cowper believes the federal government is pushing strongly for the TAB to be sold.

"The state government must determine whether it is prepared to sacrifice TAB-funded standards that are the envy of other Australian states by bowing to a federal directive to sell the TAB," he said.

Before the TAB can be sold the Barnett government must gain the approval of State Parliament.

The Labor opposition has emphasised it will oppose a sale, believing selling the TAB would direct vital funds away from the racing industries and put thousands of jobs at risk.

"To get a sale through parliament Mr Barnett will need the support of the National Party," Mr Cowper said.

"Lots of country breeders, trainers, and owners share my concern that Minister Colin Holt and his National colleagues have shifted their stance on the issue from opposition to a sale to supporting the sale".

Mr. Cowper has been in close contact with a group of Liberal members of the South Australian parliament who he said had warned that "a South Australian decision to sell of the State's TAB had virtually destroyed country racing, and seriously eroded the breeding and training industries".

Some proponents of the sale believe now is the time to do it.

One backbencher told Fairfax Media: "Now is the time to sell. The TAB is doing well, now is the time to cash in".

But that suggestion was scoffed at by a number of owners and trainers.

Trainers Bob McPherson and Vern Brockman were among a group of owners and trainers who met with Glenys Godfrey to present their views and offer support in her opposition to the sale.

"I have voted Liberal all of my life," Mr McPherson said.

"But to suggest you sell something that has benefited the racing codes and generated millions of dollars for the broader community through taxes paid to the state government, is just plain stupid. And

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through taxes paid to the state government, is just plain stupid. And to say that one of the reasons to sell the business is because it is doing well is rubbish."

"What is the matter with these people? The TAB is doing the job it was created to do, that is, bring stability to the industry and protect the jobs of thousands of Western Australians.

"This is crazy politics, why on earth would Colin Barnett start this bunfight and cause all of this uncertainty? The TAB is a WA success story, Colin Barnett should leave it alone."

***Maumill on Sunday runs on Radio 6PR from 9am to 12noon.***

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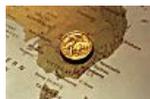
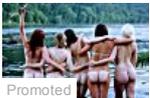
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 Trainers and breeders fear the racing industry will not survive if indexation of stakes is stopped.

Local sport

# Racing reeling after stakes setback

SIMEON THOMAS-WILSON, Mercury

July 11, 2015 12:00am

**CUTBACKS** to stakes money risk leaving the Tasmanian racing industry on the brink of collapse, leading figures say.

The industry has been rocked by news Racing Minister Jeremy Rockliff will ignore their pleas to continue the indexation of stakes money.

One of the state's top thoroughbred trainers David Brunton said racing could not afford for stakes money to no longer rise in line with CPI.

"If they do that they will kill racing," Mr Brunton said.

Fellow trainer and prominent thoroughbred breeder Graeme McCulloch said there had to be another way savings could be found.

12/12/2018

Racing reeling after stakes setback | The Mercury

"We can't survive on any less than what we've had at the moment ... the industry cannot afford to go backwards," Mr McCulloch said.

Mr Rockliff has reconvened a meeting of the Racing Industry Working Group, which prepared a report into the sustainability of the Tasmanian racing industry, later this month.

Industry sources said he had called the meeting to tell them stakes would not continue to rise with CPI.

The Government has refused to release the report, which is understood to recommend indexation continues.

Mr Rockliff would not directly address the industry's concerns yesterday.

"As I've made clear on numerous occasions, we will not provide additional funding for the industry given the Budget circumstances we inherited and our commitment to reinvesting in health, education and public safety," he said.

"The Government will make an announcement about our response to the well-known challenge the industry is facing later this month."

Mike Jones, treasurer of the Tasmanian Pacing Club and secretary of Light Harness Tasmania, said stakes needed to be increased so the industry could keep up with the yearly rise in costs.

"The industry needs stakes to survive, how can you keep up with your costs?" he said.

Stakes are the lifeblood of racing, an industry that returns \$104 million to the Tasmanian economy each year and provides 1000 full-time equivalent jobs.

The former Labor government devised a funding model for racing after its sale of TOTE Tasmania in 2011. The industry had been largely self-funded by TOTE revenues previously.

The central plank of this model is a 20-year funding deed that is indexed annually at a rate of CPI less 1 per cent and is now close to \$30 million, and includes a stakes allocation of more than \$22 million.



📷 Racing Minister Jeremy Rockliff.

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But there has been strong evidence to suggest this funding and Tasracing's other revenues are not enough to sustain the industry.

Opposition racing spokesman Scott Bacon said if stakes weren't increased it would be a broken promise by the Government.

"A February 26 press release said 'boosting stakes across all three racing codes will be a priority for a majority Liberal Government, as this is the key to driving growth in the industry'," he said.

"Presumably the Liberals' announcement this month will be an increase in stakes money. Anything else would amount to another broken promise."

A 2013 Tasracing discussion paper identified saving strategies that included not increasing stakes by CPI, reducing feature race stakes and reducing base stakes.

# Racing Queensland facing 'financial disaster'



Amy Remeikis

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The state's racing body is standing on the precipice of financial disaster, with Racing Minister Bill Byrne pointing to an "overly optimistic" and even "naive" culture which has left Racing Queensland on track for a \$28 million loss.

Mr Byrne said he was not interested in playing "the blame game" and was instead looking at how the industry can move forward.



Racing Minister Bill Byrne and interim Racing Queensland chief executive Ian Hall Photo: Amy Remeikis

The issues were not uncovered until the MacSporran report, which was ordered in the wake of the live-baiting greyhound scandal.

Mr Byrne, who was sworn in as Racing Minister the same day the ABC aired its investigation into live-baiting in the greyhound industry, said he had "no inkling" of any issues until KPMG was sent in.

"And that is one of the reasons perhaps why I am not so inclined to be accusing the previous government of lack of attention here," he said.

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Racing Queensland facing 'financial disaster'

"Right up to the point of when Ian [Hall] went into Racing Queensland, I was completely unaware of the financial issues facing Racing Queensland.

"So if there is any upside to the greyhound inquiry, it has revealed these matters to me, which I was completely unaware of."

Opposition spokeswoman on racing Jann Stuckey said the government should be ashamed of the way it had treated Racing Queensland and its former board members.

"Today we hear of a consultation process to get racing back on track, but this is too little too late," Ms Stuckey said.

"... In Parliament today the Minister broadcast a range of accusations about the management practices of RQ yet former members of the board were denied any opportunity to consult the Government on these matters.

"Stakeholders have echoed these sentiments, reading about industry developments in the media because Labor is focussed on tearing down and shaming an entire industry rather than fostering a co-operative environment."

The [Crime and Corruption Commission has also been called in to investigate four people](#) over matters involving Racing Queensland.

Mr Byrne would not expand on who was involved or what the investigation was in relation to.

"By process of deduction, people might draw the wrong conclusions," he said.

"Let's just say they are not being referred to CCC for matters associated with tiddly winks. We are talking about substantive serious issues and that is the way they are being treated.

"But it is entirely counter-productive to the interests of the individuals or the interests of anybody else to start naming them or speculating on what the substance [of the allegations are]."

Betting trends moving away from corporate agencies and not planning for wet weather were among the issues which has left Racing Queensland in the red for five successive years, with the majority of its revenue sourced from wagering.

Interim Racing Queensland chief executive Ian Hall said 61 per cent of the body's revenue was spent on prize money.

It would now begin consultation with the industry on how it addressed the issue.

"The plan is over the next three months, we'll have consultation with the industry, get ideas, see what we can do better as an industry," he said.

"To bring the industry together. That seems to be one of the messages I am getting from talking to people, is that the industry hasn't before all got together to work together, they have all had their own particular points of view.

"My intention is to bring the industry together to work through

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MARK McGOWAN

## MARK McGOWAN

WA LABOR LEADER

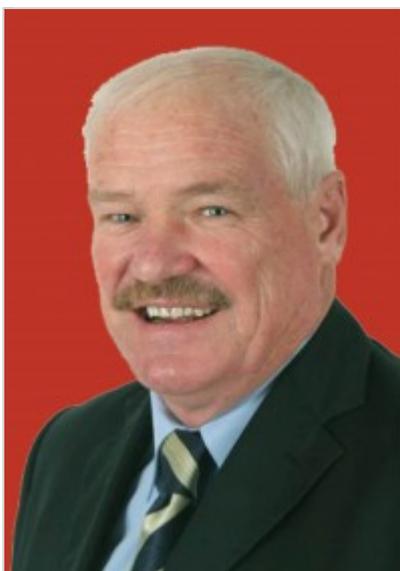
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### Racing Queensland 'haemorrhaging funds' under privatised TAB

Wednesday 22 Jul  
2015

#### Fast facts:

- False pre-privatisation funding assumptions have left Racing Queensland in crisis
- Queensland Government has had to intervene to save loss-making racing authority
- Colin Barnett and Treasurer Mike Nahan announced in the 2015-16 State Budget that they will pursue privatisation of WA's TAB



[\(/images/blog/Mick Murray.jpg?zc=2\)](/images/blog/Mick Murray.jpg?zc=2)

The Barnett Government must heed warnings from Queensland about the dire condition of its racing industry under a privatised TAB.

Racing Queensland announced last week it was burdened with "mounting and unsustainable losses" which the Queensland Government blamed on false assumptions about racing funding made pre-privatisation.

Queensland Racing and Gaming Minister Bill Byrne told his state's racing industry last week that pre-privatisation "revenue assumptions from the past were wrong" and "built on rivers of gold that didn't exist".

Racing Queensland, said by Mr Byrne to be "haemorrhaging funds", posted a \$12 million loss for 2014-15 and will register a \$28 million deficit for 2015-16. Queensland's TAB was privatised in 1999.

Shadow Minister for Racing and Gaming Mick Murray said the Queensland case should act as a stark warning to the Barnett Liberal-National Government that WA's TAB must remain in public hands.

Comments from Shadow Minister for Racing and Gaming Mick Murray:

"I can't imagine a more clear warning about where WA racing may be in 10 or 15 years if Colin Barnett decides to sell the TAB.

"The numbers don't lie and Queensland's Racing and Gaming Minister has now had to intervene to try and restore some sort of workable future for their industry.

"Colin Barnett will be out of public life in 10 or 15 years' time so similarly it would be left to a future minister to clean up any mess he makes of the TAB.

"Former Victorian Premier Jeff Kennett said last year that Victoria had about five years before their industry became completely unsustainable and now we have an even more blunt warning from Queensland.

"This development will make it very difficult for the WA racing industry and race followers to have any faith in any assurances the Barnett Government makes about industry funding under privatisation,

"The WA racing industry is universally opposed to privatising the TAB and it is only because of the Barnett Government's disastrous, self-inflicted financial situation that we are seeing the TAB put up for sale."

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# Opposition: TAB privatisation led to Racing Queensland's 'disastrous' finances



Ray Sparvell

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A projected \$40 million loss in the Queensland racing industry over two years has been cited by the state opposition as a stark warning to Colin Barnett on the proposed sale of the TAB.



WA Labor says Racing Queensland's financial woes are a warning to Colin Barnett over the potential sale of the WA TAB. Photo: Jenny Evans

Opposition spokesman Mick Murray said on Wednesday the Barnett government needed to heed the disastrous experience of Racing Queensland, which announced last week it was burdened with "mounting and unsustainable losses".

But Racing, Gaming and Liquor Minister Colin Holt argued Mr Murray's assertion draws a long bow on a privatisation that happened

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12/7/2016

## Opposition: TAB privatisation led to Racing Queensland's 'disastrous' finances

Murray's association drew a long bow on a privatisation that happened 16 years ago.

"The wagering industry is facing strong headwinds nationally. It is clear to me that the reports from Queensland relate to the financial management of the racing business, not wagering, and that new management has highlighted these issues," he said.

The Queensland industry's financial problems were confirmed last week by Racing Queensland acting chief executive Ian Hall.

"Over the past five years, revenue has increased by only 20 per cent, while direct operating expenditure has increased by 32 per cent," he said.

Queensland Racing and Gaming Minister Bill Byrne told his state's racing industry last week that revenue assumptions from the past were wrong.

"The problem is stark. The finances of Racing Queensland had a foundation built on rivers of gold that didn't exist," he said.

His office was contacted on Wednesday to clarify whether it was claiming those assumptions dated back to the original privatisation.

Racing Queensland posted a \$12 million loss for 2014-15 and projected a \$28 million deficit for 2015-16.

Mr Holt said threats to the local racing industry's wagering income was the reason he was seeking to engage the WA industry during a consultation process.

"It is important the industry understands how the wagering side works and I encourage all WA industry participants to read the Ray Gunston report to the Western Australian Racing Representative Group," he said.

"This report was conducted on behalf of industry regarding the foreseeable threats and opportunities to the TAB, privatised or not."

The opposition spokesman maintained the Queensland experience should act as a clear warning to the Barnett government that **WA's TAB must remain in public hands**.

"I can't imagine a stronger warning about where WA racing may be in 10 or 15 years if Colin Barnett decides to sell the TAB," Mr Murray said.

He said the Queensland experience would make it very difficult for the WA racing industry and race followers to have any faith in any assurances the Barnett government made about industry funding under privatisation.

"It is only because of the Barnett government's disastrous, self-inflicted financial situation that we are seeing the TAB put up for sale," Mr Murray said.

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## Fears Tasmanian racing professionals will leave state after Government delivers blow to prize money

By Ellen Coulter

Updated Sun 26 Jul 2015, 2:43pm

**There are concerns racing industry professionals will leave Tasmania after a decision by the State Government that will result in reduced prize money for the industry.**

Under a 20-year funding deed, Tasracing is required to maintain industry prize money in real terms each year.

But the State Government is now removing that indexation requirement, saying the industry needed more flexibility to become sustainable.

Tasracing has proposed spreading the reduction across the three codes, with thoroughbreds losing \$1.6 million, harness racing \$791,000 and greyhounds \$564,000.

The body plans to implement the changes from October but will endeavour to provide a CPI increase to prize money from 2016-17.

Racing Minister Jeremy Rockliff said the industry needed to grow and prosper.

"Unfortunately, the model set up under the previous government was simply not sustainable," he said.

"So we've had to make some difficult decisions to get this racing industry up on a sustainable footing.

"We want a self-sustaining racing industry without having to take money from health and education in order to prop up that industry."

### Government has broken its promise, says Opposition

Opposition racing spokesman Scott Bacon said the Liberals promised to increase stakes money before the election.

"And now they've effectively done exactly the opposite," he said.

Mr Rockliff said the previous government relied on band-aid measures to address Tasracing's funding gap, which was \$3-5 million.

"I won't wear any criticism at all from the Labor party, who were warned back in 2009 - so, six years ago - that the model that they set up was simply not sustainable," he said.

Light Harness Tasmania secretary Mike Jones said the decision was disappointing.

"This is another blow that's going to really make people sit down and think now, 'Am I getting a fair return for my effort?'" he said.

"I would suspect that people will start to walk away.

"We've only got maybe a dozen professional trainers and they're going to seriously sit down and think, 'How can I survive on this?'"

Topics: government-and-politics, horse-racing, tas

First posted Wed 22 Jul 2015, 9:09pm



PHOTO: There are fears new rules will prompt racing professionals to quit Tasmania. (Getty Images: Robert Cianflone, file photo)

MAP: TAS

**Extract from Hansard**

[ASSEMBLY — Wednesday, 16 September 2015]

p6486b-6498a

Speaker; Mr Mark McGowan; Mr John McGrath; Mr Mick Murray; Mr Terry Redman; Mr Joe Francis; Dr Graham Jacobs; Mr Murray Cowper; Mr Paul Papalia; Mrs Michelle Roberts; Dr Kim Hames; Mr Bill Johnston; Mr Brendon Grylls; Ms Janine Freeman

**TAB — PRIVATISATION***Matter of Public Interest*

**THE SPEAKER (Mr M.W. Sutherland)** informed the Assembly that he was in receipt within the prescribed time of a letter from the Leader of the Opposition seeking to debate a matter of public interest.

[In compliance with standing orders, at least five members rose in their places.]

**MR M. McGOWAN (Rockingham — Leader of the Opposition)** [2.46 pm]: I move —

That the house opposes the sale of the Western Australian TAB.

This is an excellent opportunity for every member of this house to explain and vote in accordance with what they believe on this issue. I will go through the reasons shortly, but the opposition is very clear in its position on this important issue for jobs, the racing industry and regional communities in Western Australia. Our position is absolutely clear cut. I have been reading and I have heard about positions expressed by members of the National Party and the Liberal Party on this issue. This is the opportunity for every member of this house to put their money where their mouth is on this very important issue for communities across Western Australia.

Just so that people understand the position of the Western Australian TAB, it is publicly owned but independently run. The system has been in place since 1961. It was put in place by Sir David Brand at that time to get rid of starting price bookmaking and other nefarious activities that were going on. The model in Western Australia is unique across the country. It ensures the maximum return to the racing industry. The proceeds from racing go back to the industry or to the government in taxes, and there is a small component that goes to the community benefit. That is a unique model. Other states across Australia have sold their TABs. They have a model under which a significant component of the proceeds from the industry goes to shareholders. That is a legitimate model for racing. It operates in other states, but I would argue, and the opposition would argue, that it does not operate as effectively in the interests of racing as the model we have in Western Australia.

**Mr J.E. McGrath** interjected.

**Mr M. McGOWAN:** It is interesting that the member for South Perth is interjecting. He has the view that the TAB should be sold; that is his view. That was the view of other state governments when they sold their TABs, but as we know from meeting and talking with industry representatives in other states, they regret it, virtually to a person. They regret the change from the former model to a new one. Some people would say that Western Australia is out of touch. The Premier would probably say that we are out of touch with the modern direction of the other states and the like. The member for South Perth would probably say that as well. However, in Western Australia sometimes we do things differently, and, I would argue, sometimes we do things better. An interesting case regularly raised is the fact that we do not have poker machines in Western Australia. Some people would argue that that is bad, but I would argue that it is good.

It is a unique model in Australia but a model that works for us. As a former Minister for Racing and Gaming, I know that by having the TAB in public ownership but independently run that the government's involvement in interfering with the administration of racing is virtually zero. Once a year it ticks off on the strategic development plan and that is it. Racing and Wagering Western Australia runs the industry, the TAB is the organisation that distributes the proceeds and the industry gets the benefit. What is wrong with that? Industry likes it and I think it works well. There is a range of speakers on this matter, but I will just quote. Racing and Wagering Western Australia on 7 July this year put out its annual report, if you like. I want to quote a few bits from it —

... Racing and Wagering ... approved a record \$136.4million of funding to industry for the racing season commencing 1 August 2015. This represents a 7.9% increase for the 2015/16 financial year, an additional \$10million in fund allocations.

...

The continued increase in funding allocation has been made possible by the strong performance of the TAB.

In the coming year there will be a 7.9 per cent increase in the proceeds to the racing industry. What other industries in Western Australia are growing at that rate? Can anyone name any in the current environment? We have an interesting model in Western Australia that returns to the industry. In Western Australia, 33 600 people are directly involved in racing and it provides 6 700 full-time jobs. The industry estimates that \$349 million in wages and around \$590 million is added to the Western Australian economy. On top of that, the industry provides contributions to what is called the sports betting account of around \$4.5 million a year. These proceeds from the racing industry are being used for community purposes—a bit like Lotterywest, but the money does not

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come from lotto and scratchies and the like. Where do those grants go? They go to Lifeline WA, Sea Rescue Fremantle and the Riding for the Disabled Association of Western Australia. In fact, over the last few years, more than \$30 million has been distributed to organisations in Western Australia such as Royal Life Saving WA, the Australian Paralympic Committee and organisations dealing with people who are suicidal and the like across WA. The racing industry in Western Australia makes contributions to those community organisations. Do members think that the major corporates who own the TAB in the eastern states make those contributions? Does anyone think they do? Of course they do not. They operate in the interests of their shareholders. As I said, that is a legitimate model if we want to do that, but we have a unique model in Western Australia that maximises the returns to the racing industry and the owners involved. The one thing that we must understand about the racing industry is that it wants the stakes and the returns to the industry. That is the basic thing that the industry wants. Whenever anyone talks to people in the industry, the first thing they want to know is what the return will be. People who are going to invest in a racehorse or other aspects of the industry, they want to know that they will achieve the maximum return for their investment. If some of that return is being siphoned off to shareholders, there is less in it for the industry. Therefore, we are saying that the shareholder model is not the best model for the industry in Western Australia. I will quote to the house what the chairman of Racing Victoria, Mr Robert Roulston, said.

**Mr J.E. McGrath:** He was chairman but he is not anymore.

**Mr M. McGOWAN:** Good point—he was the chairman, member for South Perth. That is great. Mr Roulston had this to say about it, and I quote —

“As soon as you privatise, I understand you can take an amount of money up front for it, but you’re giving away part of the future returns to shareholders, so it’s not ideal,” ... “Those shareholders, and therefore the directors of the company, may have quite different objectives to those of the industry and its needs.

“So philosophically, I can’t see any reason why if you’ve got a very good vertically integrated model—which WA has—why you would move away from it unless there was a desperate need for a large injection of capital up front.”

Those last few words are the Premier’s argument: a large injection of capital up-front. I will deal with that in a minute. The head of racing in Victoria said that. We know what Jeff Kennett had to say about it —

**Mr J.E. McGrath:** And he has gone back on it.

**Mr M. McGOWAN:** Maybe he has, maybe he has not, but we know what he had to say about it. We also know what the former Minister for Racing and Gaming had to say about it; he objected to it strenuously. We also know that the Premier back in 2013 said that the government would not do it. Numerous other people across the racing industry—Fred Kersley, you name it—are saying that this is not the right way for racing to go in Western Australia. What are the reasons? First of all, shareholders will come first and the racing industry will come second. The second point is that regional racing will miss out. Country racing is very concerned about this because as soon as we go to that model, the race meets in country towns that perhaps do not return so much will fall by the wayside. The third point is that there will be job losses in the industry. If we have the Tatts Group or Tabcorp running the industry in Western Australia, what will be the first thing that it will do? It will look to cut costs. These big organisations are run out of Brisbane and Melbourne, so what will they do? If they have the call centres and staff and all those things to run the industry in Melbourne or Brisbane, what will they do? They will see what services run in Western Australia can be moved over there. A call centre can run just as easily from Melbourne as it can in Perth. The TAB itself employs in the vicinity of 400 people. A lot of those jobs are administrative jobs that can be done in the eastern states just as well with today’s technology. Jobs could very well be lost. Actually, let us be frank: they will be lost if the TAB is sold.

I will now turn to the issue around the up-front capital. The Premier always says that we would like better facilities. That is a good argument; better facilities would be great. Belmont Park and Ascot Racecourses are old and they could be better. However, if Belmont is sold, we will lose the winter track. The racing industry always says that it needs a summer and a winter track. The industry knows this, and I have been out there in the morning as well. Due to the condition of the track and the damage caused to the track by horse activities and the like, the industry needs two tracks. The industry says that it needs a winter track. However, if Belmont Park is sold, those proceeds could go towards upgrading Ascot Racecourse. The government does not need to sell the TAB in order to upgrade Ascot Racecourse, Lark Hill racecourse or the like. If the industry agrees to sell Belmont, which it owns, the proceeds of that would be enormous and could go towards upgrading Ascot without selling the TAB. I would argue that the Belmont–Ascot issue is separate to the sale of the TAB and that it is a decision for the industry. It is not a decision for the government to make. The industry owns it and it has, as I understand it,

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a long-term, 1 000-year, lease over Ascot, so it is the industry's decision. The real reason that the government wants to sell the TAB is that it has made such a hash of the state's finances and it is scrabbling around for anything to deal with it. If that means, as we have seen, getting somewhere between \$200 million and \$600 million—we are not sure what the government expects to get—that is what the government will do in order to pay off some of the \$33 billion additional debt it has accrued. I would argue to the government, to ministers on the other side, that they should think of the jobs, the return to the industry and the fact that regional racing will suffer. They are all the issues and this government should deal with the issue of the TAB on its merits, not just because it has made a mess of the finances.

**MR J.E. McGRATH (South Perth — Parliamentary Secretary)** [3.00 pm]: I want to reply to some of the comments made by the Leader of the Opposition. There are three aspects to the situation with the TAB. The first—a point that the Premier has made many times—is whether the government should be in the business of running a betting or gambling operation.

**Mr M.P. Murray:** What about Lotterywest?

**Mr J.E. McGRATH:** With all due respect, there is a lot of difference between Lotterywest and a betting and wagering agency.

The second aspect is the changing face of the wagering landscape around the world, which has been mentioned many times in this place. Challenges are facing racing jurisdictions all over the world. New York State has 15 million people and there are three racetracks. Eight million people live on Manhattan Island, and it is talking about shutting down one of its racetracks. Do members know why? It is because attendances are dwindling and the cost of maintaining infrastructure is the biggest challenge for the racing industry worldwide. The third aspect is the future of the racing industry. The Premier has said—I agree with him—that it is time for the industry to modernise. I have been involved in the industry for a long, long time. I can go back to when the Western Australian Turf Club sold a big parcel of land at Bull Creek and used that money to build a brand-new grandstand at Belmont Park. That grandstand was state-of-the-art, it was world-class, but that was 40 years ago and infrastructure like that does not last forever. A review has just been done by Racing and Wagering Western Australia, which was carried out by GHD, because RWWA said that it needed to look at the assets that are owned by the racing industry. The Leader of the Opposition mentioned that the assets—Belmont Park and Ascot Racecourses—are principally owned by Perth Racing. Of course they might be separate from what happens with the TAB, but GHD identified that \$154 million needs to be spent to upgrade existing facilities and build new ones for the racing industry.

**Mr P.B. Watson** interjected.

**The SPEAKER:** Member for Albany, I call you to order for the first time. I know that you shout at the member for South Perth on the bowling green, but please.

**Mr J.E. McGRATH:** I chaired a committee inquiry into RWWA and back then we were told by RWWA that infrastructure was the biggest challenge facing the industry.

**Mr P.C. Tinley** interjected.

**The SPEAKER:** The member for Willagee is on three.

**Mr J.E. McGRATH:** Back then, RWWA said that funding was needed for infrastructure and a ballpark figure for that was about \$70 million. That was in 2008. Now in 2015, we need \$154 million if the government is going to support the racing industry to modernise itself. A new track is being built for the greyhounds at Cannington. The industry does not even have the money to build a grandstand. It will get a blow-up grandstand from somewhere in Dubai because it cannot build a proper grandstand.

**Mr M.P. Murray** interjected.

**The SPEAKER:** Member for Collie–Preston, I call you to order for the second time. I think you are trying to seek the call; you are next!

**Mr J.E. McGRATH:** What I am saying is that the opposition—pardon the pun—is putting the cart before the horse. Why would it oppose the privatisation of the TAB when it does not even know what the benefits might be? The government does not even know at this stage because proper due diligence is being done, as the Minister for Racing and Gaming has pointed out at industry forums around the state. Do members know what? At the end of the day, it will not be up to people in this Parliament to decide what happens to the racing industry. The racing industry will decide. This government intends to take the racing industry along with it. We are very confident that we will get the support of the racing industry because, as part of this deal, the only way that the

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Speaker; Mr Mark McGowan; Mr John McGrath; Mr Mick Murray; Mr Terry Redman; Mr Joe Francis; Dr Graham Jacobs; Mr Murray Cowper; Mr Paul Papalia; Mrs Michelle Roberts; Dr Kim Hames; Mr Bill Johnston; Mr Brendon Grylls; Ms Janine Freeman

funding can be unlocked and provided to the racing industry to improve infrastructure is if the TAB is privatised. I will give members a couple of examples.

The GHD report stated some of the things that are badly needed if this industry is to continue. Remember that GHD recommended that Belmont Park should probably be sold. Last year, Perth Racing had Deloitte do a report on Perth Racing's viability. The report was never really made public, just the executive summary, and Deloitte stated that we cannot continue to exist running two racetracks because running Ascot and Belmont Park is an unsustainable model. I am a racing person—I love Belmont Park and Ascot—but we have to face reality and look to the future. It was great 40 or 50 years ago when people had to go to the races to bet. Now, people can bet on their mobile phones; they do not have to go to the course. Racecourse crowds are diminishing. The world is changing. Racing is becoming a global event. Even in Victoria, the industry cannot get big crowds to racetracks until it has its big carnivals. There are big carnival days, but at other times of the year, just the regulars go to the races. GHD reported some of the spending that the industry needs—\$43 million to redevelop Lark Hill. I would have thought that the member for Warnbro would welcome with open arms a redevelopment at Lark Hill. If the Leader of the Opposition said to the people of Rockingham that they were getting a racetrack, that that will be where the winter racetrack is—there will be winter racing and that could be at Lark Hill—a lot of his constituents would probably love to be able to go to a very handy racetrack. Another thing that GHD recognised was the need for on-course stabling. People have told us at meetings with the minister and the Premier that where young people or retired jockeys go, who want to become horse trainers, is another challenge for the racing industry. The only way they can do it now is buy a property. The industry needs to set up on-course stabling, as happens all around the world and in every other state of Australia. It could be put in at Lark Hill for \$43 million.

**Mr R.H. Cook:** What's that got to do with selling the TAB?

**Mr J.E. McGRATH:** I am saying that RWWA does not have the funding to do all this work. RWWA basically has to keep the prize money at a level that will encourage new owners and existing owners to stay in the game. Cutting prize money back to build infrastructure will affect the viability of the sport. The government is saying, "Here is a once-in-a-lifetime opportunity." Who knows what the sale of the TAB will produce in revenue? We do not know; the figures have not been done. That is why I think you guys are jumping ahead of yourselves until the blueprint comes out and the government can say to the industry, "This is what we are prepared to offer you." In the meantime, the government is saying to the industry, "You come and tell us what your needs are if you want to modernise, go into the future." Another thing identified in the GHD report is that Gloucester Park can stay for another 10 years, but the Gloucester Park facilities are ageing. It needs \$80 million spent there. The Byford Trotting Training Complex needs \$9 million. This is a huge amount of money. An upgrade is needed to the Pinjarra harness racing track, including lights. The member for Murray-Wellington would appreciate that. I have always asked why there would not be lights at the trotting track at Pinjarra where thousands of holidaymakers go every year in summer; in the old days, it had lights and people would go there in their thousands to have picnics on the lawn and watch the trots. It was a huge community event. Under this plan that the government is prepared to look at, Pinjarra could get lights. Pinjarra is a great track—probably a better track to race on than Gloucester Park.

The Leader of the Opposition made some points about the TAB, under its current model, returning a maximum return to racing. The government has already said to the racing industry that it will be no worse off. The government will guarantee ongoing funding for racing. If the system is not any good now, Leader of the Opposition—this is not a criticism of Racing and Wagering Western Australia because I think it is a well-run organisation—why can RWWA not come up with the funding for this very vital infrastructure for the industry? Training facilities are very important, because without horses there is no racing.

*Amendment to Motion*

**Mr J.E. McGRATH:** I move —

To delete all words after "house" and insert —

notes that the state government has listed the WA TAB on the asset sales list and, as part of the asset sales process, the state government will consider all impacts on racing in Western Australia to ensure the racing industry's ongoing sustainability and that the racing industry across the state benefits from any sale.

**Mr J.E. McGRATH:** Mr Speaker, I go on.

Several members interjected.

**Mr J.E. McGRATH:** The Leader of the Opposition and I have history on this. When I was in opposition, the current Leader of the Opposition was the Minister for Racing and Gaming. I came up with a suggestion—

**Extract from *Hansard***

[ASSEMBLY — Wednesday, 16 September 2015]

p6486b-6498a

Speaker; Mr Mark McGowan; Mr John McGrath; Mr Mick Murray; Mr Terry Redman; Mr Joe Francis; Dr Graham Jacobs; Mr Murray Cowper; Mr Paul Papalia; Mrs Michelle Roberts; Dr Kim Hames; Mr Bill Johnston; Mr Brendon Grylls; Ms Janine Freeman

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because I support the racing industry, although a lot of people say that I do not—and I said, “Minister, if we want to get horses to our Perth carnival, why does the state government not underwrite a plane to bring the horses over?” I did not say pay all their fares; I said underwrite it. The minister got up and said “What?” In a very shrill voice he said, “Why would we pay for eastern states horses to come over to Perth and take Western Australian prize money back?” Do members know what happens now? RWWA underwrites a plane every year for horses to come across to the Ascot carnival.

We have to live in a modern world. The world is changing, Leader of the Opposition. The Melbourne Cup used to be a race for a tin-pot welder, then the Victoria Racing Club decided to globalise and a lot of the local trainers did not like it. Bart Cummings did not like it. He complained and said there should be 10 or 12 spots just for Australian horses. Do members know what has happened? It is the greatest race in the world. Before Bart Cummings passed away, he won it two or three times as an international race. We have to look to the future.

Whatever happens, the government will be talking to the racing industry all the way through. Government does not want to tell racing what it should do. We want the racing industry to come to government and tell us that this is where it would like to be in 30 or 40 years’ time. The Premier is going down to Lark Hill Thoroughbred Training Complex soon to look at the facility, because the Liberal-National government wants to support the racing industry. I think the opposition should not have moved a motion like this at this early stage in proceedings while work is going on with the racing industry. The opposition talks about people being opposed to the privatisation of the TAB. I will tell members who is not opposed, publicly anyway: the chief executive of RWWA. He has said at every meeting with industry groups that RWWA is not opposed to privatisation. The government wants to guarantee that the industry is better off.

Several members interjected.

**Mr J.E. McGRATH:** It is true. The deputy chairman of RWWA, Bob Pearson, has said the same thing: that it wants a better deal for the industry. This government is prepared to give the industry a better deal.

**MR M.P. MURRAY (Collie–Preston)** [3.14 pm]: I rise to speak against the amendment to the motion. Certainly many, many errors have been made because the focus has been on the thoroughbred racing industry alone. There are two other codes that also have an interest: the chasing and pacing industries that no-one from the government has spoken about or, probably, to. It seems to be all about the thoroughbred racing industry and the selling of tracks that do not impact on those two industries. There was a slight mention of Gloucester Park being around for another 10 years, so I am glad there was one small mention.

Let us have a look at what has happened to the chasing industry under this government: it has been absolutely decimated. The government made some promises, but when it got to the final hurdle it never helped the industry out. RWWA put money up, not the government; \$13 million that should have come from the government came out of RWWA’s bankbook. The government asks why there are no facilities: it is because the government has not backed it up.

I will go a little further into that and the narrow focus of the government’s speakers on Perth, and Perth alone. Let us look around the countryside at the number of people directly involved in the industries. In the Kimberley: thoroughbreds, 364 people; harness racing, three people; and greyhounds, two people. In the Pilbara: thoroughbreds, 322 people; harness racing, three people; and greyhounds, 61 people. In the midwest there are 1 041 people directly associated with the thoroughbred industry; harness racing, 45 people; and greyhounds, 24 people. If we come down further to the Gascoyne, there are 216 people involved in the thoroughbred industry, and 32 people in the greyhound industry. Think about these figures. In the wheatbelt there are 2 403 people involved in the thoroughbred industry; 925 people involved in the harness industry; and in the greyhound industry there are 226 people. Moving to the Peel area—I am sure the member for Murray–Wellington has some interest in this—there are 929 people involved in the thoroughbred industry; 2 144 people involved in the harness industry; and 867 people involved in the greyhound industry. In the south west there are 1 862 people involved in the thoroughbred industry; 1 603 people involved in the harness industry; and 212 people involved in the greyhound industry. In the great southern, down in the member for Albany’s area, there are 926 people involved in the thoroughbred industry; 346 people involved in the harness industry; and 17 people involved in the greyhound industry. Government members never mentioned any of those people in the other areas who at times rely on those picnic meetings to keep the town going. The meetings are the social highlight of the year. They bring the people into town. If the owners and trainers fill up their tanks after towing the float down, it will cost them \$100 to \$150 at the local service station. That income will go. It is a community issue; it is not only about the racing industry.

But let us have a look around the place and ask what the National Party has to say about this? Nothing! Its members went to its conference saying “We don’t support the sale of the TAB”; they came back saying

**Extract from Hansard**

[ASSEMBLY — Wednesday, 16 September 2015]

p6486b-6498a

Speaker; Mr Mark McGowan; Mr John McGrath; Mr Mick Murray; Mr Terry Redman; Mr Joe Francis; Dr Graham Jacobs; Mr Murray Cowper; Mr Paul Papalia; Mrs Michelle Roberts; Dr Kim Hames; Mr Bill Johnston; Mr Brendon Grylls; Ms Janine Freeman

“maybe”. They are still the same—sitting on the fence. The minister did a trip virtually around Australia. He went up to the Pilbara and over to Bunbury. I was on my deathbed, but I went to the meeting in Bunbury to listen to the minister. The member for Murray–Wellington put the minister on the spot and said, “Okay, minister, you are the worst-briefed minister I have ever seen at any meeting, but let’s put it to the vote in this room here now.” When the hands went up, it was 60–nil against the sale of the TAB. I think it was the same in Albany.

**Mr P.B. Watson:** It was the same in Albany.

**Mr M.P. MURRAY:** Then the member for Murray–Wellington said to him, almost literally, “Get on your horse and go!” He was a bit ruder than that, to be quite honest—I would not have said those things. But he told him, “There’s your opinion. Listen to it, and go back into your box.” So that tells members what people think in country areas.

Thirty-three country tracks have shut down in South Australia. That means that 33 small country towns do not have a social function once a year. I think it is great; a few years back I went out to Yalgoo and saw the people all dressed up in their finery. Some of those people only get dressed up once a year. Caravans from all over the place had come there just for that race meeting. Again, the local pie shop was sold out. That is when the people make their money for a quarter of the year.

Let us look further into the funding that comes back to the state government. There is \$40 million of turnover tax—never, ever chop the head off the goose that lays the golden egg. There is \$33 million raised from the goods and services tax turnover. That \$70 million will be gone from state coffers. The Leader of the Opposition mentioned the sports funding of, I think, \$4 million that will not go into groups like the Riding for the Disabled Association. Those sorts of groups will not get their funding and will have to line up and beg.

Then we move across to Queensland. What happened to the Queensland racing industry, just recently? It has gone back to the government after privatisation, asking for \$30 million. Do members know what the industry and the Tatts Group told me? They have said, “Oh no, they run it badly. They run the racing area badly.” Why? It is because the Queensland racing industry did not have any money coming in. We need to be very, very careful about this because we could destroy what I see as a well-run and profitable industry. Racing and Wagering Western Australia is doing a magnificent job. As much as I have criticisms about some smaller areas about what it does and how it does it, overall no other state has the same increases in prize money as Western Australia has—none. There might be individual races that have a bonus put on them to make sure all the major racing people go there, such as the Melbourne Cup. We here in Western Australia have a chance to grow, because we have a good model, and to not go down the drain under the proposed privatisation. We should have another review. The member for South Perth was the chair of a committee that looked all around the place. The state government had its chance. It came back with so many recommendations but very few of them have been implemented. At the last count, five out of something like 40 recommendations were adopted. The number is so small because the government did not support the industry.

Let us look today at whether the member for Belmont is going to vote for or against the privatisation of the TAB. Let us see what the member for Murray–Wellington does; he has made a lot of noise and brought a lot of petitions into this house. Is he just all wind? He is a big fella, but he could be full of wind. Let us look at what happens there and see whether these people have got the gumption to stand up for the future of their communities.

**MR D.T. REDMAN (Warren–Blackwood — Leader of the National Party)** [3.21 pm]: I just want to make a couple of comments in a couple of capacities. One as the minister representing the Minister for Racing and Gaming in this house, and also as the Leader of the National Party, because the National Party has made some statements publicly on this position. The point that the member for South Perth highlighted was that no decision has yet been made about the sale of the TAB.

Several members interjected.

**Mr D.T. REDMAN:** There has been no decision. Members opposite are running a story on the premise of a decision that has not even been made.

Several members interjected.

**The SPEAKER:** Members!

**Mr D.A. Templeman** interjected.

**The SPEAKER:** Member for Mandurah, I call you to order for the first time.

**Ms M.M. Quirk** interjected.

**Extract from Hansard**

[ASSEMBLY — Wednesday, 16 September 2015]

p6486b-6498a

Speaker; Mr Mark McGowan; Mr John McGrath; Mr Mick Murray; Mr Terry Redman; Mr Joe Francis; Dr Graham Jacobs; Mr Murray Cowper; Mr Paul Papalia; Mrs Michelle Roberts; Dr Kim Hames; Mr Bill Johnston; Mr Brendon Grylls; Ms Janine Freeman

**The SPEAKER:** Member for Girrawheen, do you want to get called?

**Mr D.T. REDMAN:** I just want to go through a few facts. First of all, in the 2014–15 budget speech by the Treasurer there was an announcement that the government would look at a number of asset sales. That is on the table. The Premier even announced that as a part of the second tranche of those sales we would consider the sale of the TAB. Both the former and current Minister for Racing and Gaming made the point publicly that they would make the decision based on the best interests of the racing industry. Those are the facts and the issues that are on the table.

Just to be clear about the Nationals' position, I want to read out the motion that was passed at the National Party's conference in Margaret River. The Nationals' motion was that the Nationals do not support the potential sale of the state-owned TAB without a demonstrated and preserved regional benefit. Quite rightly, the National Party members of Parliament will reflect the interests of the lay party.

As far as the procedure goes, there is an analysis of the TAB happening now, which the member for South Perth talked about. That will consider the level of due diligence about the issues and the risks and the challenges, and the advice that government needs to have a plan in order to make a decision around that. One of the key issues that will be discussed, no doubt, will be any criteria that are attached to a sale. We can go from a position of selling it as is, which is just a clean sale, and the industry or whoever buys it will make its decisions accordingly, or we can have some conditions or criteria that sit around the sale. Depending on where members sit on that issue and what conditions are set around the sale, that will affect not only the sale price, but also the potential benefits that might flow back to the industry and, from our perspective, regional Western Australia. There are a lot of things to be discussed and issues determined in terms of how a sale may or may not proceed. Ultimately, it comes back to a cabinet decision. It comes back into cabinet and the ministers sitting around the table will make the call. If the decision is made to have a sale, albeit a conditional sale, legislation will come into this place and will need to be passed. There are more than enough decision-making points for any member of this house to make a call on whether they think the decision that is made or is not made is the right one.

From the industry's perspective, the minister wants to ensure that we have a sustainable industry going forward. From our perspective, a very important issue is the country racing circuit, as the member for Collie–Preston pointed out. Races such as the Landor races are held once a year. They are iconic. There are a lot of things to consider.

The other point that we have many discussions about is the changing wagering landscape. This is a really important point. I am not sure I know the answer to this and that is why I am chasing the due diligence about how we should consider this issue. On Monday night I was watching on television the change in the federal leadership. I was watching it just before all the members of the Liberal Party went into the Liberal party room. We saw Malcolm Turnbull walk down with a team of people behind him and just after that we saw Tony Abbott walk behind him. My son was on his phone and he was giving me the odds of who was going to walk out of that party room as Leader of the Liberal party and the future Prime Minister of Australia.

**Mr B.S. Wyatt:** Did he win?

**Mr D.T. REDMAN:** He actually just missed the bet, because it was shut down as the last person walked into the room.

I am making the point that the wagering landscape is very, very different from what it used to be. These are challenges of a state government–owned wagering sector. It is eight per cent of the wagering sector. Therefore, it is somewhat vulnerable to the wagering market as that landscape changes. We need to consider all those issues as we take this debate forward.

This is of concern to the National Party. Obviously the impact that it will have on the regions will be significant to us and we will take all those issues into account. We hold a view that we think the amendment that has been moved could be more explicit, so I would like to move an amendment to the amendment.

*Amendment on the Amendment*

**Mr D.T. REDMAN:** I move —

That the amendment be amended by deleting all the words after “government” where it first appears and to insert —

only supports the sale of the TAB if there is a guaranteed ongoing benefit for the racing industry.

**Extract from Hansard**

[ASSEMBLY — Wednesday, 16 September 2015]

p6486b-6498a

Speaker; Mr Mark McGowan; Mr John McGrath; Mr Mick Murray; Mr Terry Redman; Mr Joe Francis; Dr Graham Jacobs; Mr Murray Cowper; Mr Paul Papalia; Mrs Michelle Roberts; Dr Kim Hames; Mr Bill Johnston; Mr Brendon Grylls; Ms Janine Freeman

**The SPEAKER:** Are you finished? You are moving an amendment; are you still speaking or is that the end?

**Mr D.T. REDMAN:** I will just make a couple of closing comments, Mr Speaker.

In summary, no decision has been made.

Several members interjected.

**The SPEAKER:** Members!

**Mr D.T. REDMAN:** I support the principle of asset sales to deal with the state budget challenge, and the Nationals will rightly look at all the due diligence that is presented as they go before cabinet to make a decision.

**Mr P.B. Watson** interjected.

**The SPEAKER:** Member for Albany, I call you to order for the second time.

**Mr D.T. REDMAN:** We will always look out for and look after the interests of regional Western Australians. It is amazing how members opposite stand on their hill and talk about their legitimacy in regional Western Australia. They have no credibility out there.

**Mr M.P. Murray:** Twenty million dollars!

**Mr D.T. REDMAN:** I know where \$20 million was!

Several members interjected.

**The SPEAKER:** Members!

**Mr J.M. FRANCIS (Jandakot — Minister for Emergency Services)** [3.28 pm]: I want to make a couple of points, and I will try to simplify what is obviously becoming a fairly complicated issue for some people. Firstly, I want to make it crystal clear that it is the role of any responsible government to consider the assets that are owned by the state on behalf of the taxpayers of Western Australia, and whether or not it is the role of government to own those particular assets. I will make this point firstly. If it is right for the commonwealth government and commonwealth Labor governments to realise that it is not the role of the commonwealth —

Several members interjected.

**The SPEAKER:** We are getting the wall of noise.

**Mr J.M. FRANCIS:** If it is right for the commonwealth government and previous commonwealth Labor governments to realise that it is not the role of government to run the Commonwealth Bank against Westpac, to run Telstra against Vodafone and Optus, or to run Qantas against other airlines, surely it is right for us to consider whether it is the role of state government to run a betting agency against Sportingbet, Betfair, Centrebet, Intrade, Paddy Power, Tom Waterhouse and a range of different online betting agencies. I am not trying to be provocative here; I just want to —

**Mr W.J. Johnston** interjected.

**The SPEAKER:** Member for Cannington, I call you to order for the first time. Member for West Swan!

**Mr J.M. FRANCIS:** I am not trying to be confrontational—just hear me out.

I want to point out a couple of complexities involved in the massive shift from bricks and mortar retail gambling buildings—the old TABs—to the online industry. The Leader of the National Party was right the other day when he was talking about his son. Every single person in the world is now moving to online betting agencies and away from bricks and mortar. I know that the TAB is in this space, but let me give members an example of some of the complexities that face online gambling agencies right now. People can talk about Sportingbet and Centrebet and compare them with Intrade and Betfair, which are not run by bookmakers but are betting exchanges that have punters betting against each other. If people want to make money out of gambling, they back high and lay low. There are people out there in front of computers with programs and who have written all the little hacks so that they can play bookmakers, betting agencies and betting exchanges off against each other to try to make a quid. Good luck to them if that is what they want to do; it is probably ethically no different from playing the stock exchange.

Right now people can bet online before the bounce-down or the race starts, but they cannot bet online in Australia while the game is in play. People can pick up the phone and change their bet, they can bet or they can lay, but they cannot do it online from within Australia. People can probably illegally download an app on their phone or put an IP gateway changer into their computer so that if they are in New Zealand, they can bet online in Australia with an Australian betting agency while the game is in play. People cannot do that here, but they can

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probably illegally trick Australian betting agencies into thinking that they are in Australia and they can therefore bet online.

There is another issue, for example, that free enterprise will always beat red tape. Waterhouse might be in front of the courts at the moment, so I will choose my words carefully. I think the Waterhouse betting agency has worked out a way that people can get their phones to record a message that can go through all these things. Anyway, the point is —

**Mr R.H. Cook** interjected.

**The SPEAKER:** Member for Kwinana, I call you to order for the first time.

**Mr J.M. FRANCIS:** The point is that this industry is changing so quickly. Does anyone seriously think that a state government-owned betting agency is going to be anywhere near competitive in this space in the next 10 years—seriously? Not to mention that the bricks and mortar buildings that they now own are soon going to be worth a lot less than they were 30 years ago. If members do not believe me and they have the internet in front of them, go to Google and put in TAB WA and see what the first betting agency is that comes in. It is Sportsbet; it is not the TAB WA. TAB WA cannot even get its search engine optimisation right today; they cannot even get that. How on earth do members think the Western Australian TAB, run by a government agency, is ever going to compete with the rise of online betting agencies? It is only right that any responsible government seriously considers whether this is the role of a state government-owned agency on behalf of the taxpayer. Are we better off not being involved in betting either financially, with future valuations of both the assets and the market, or ethically?

**DR G.G. JACOBS (Eyre)** [3.33 pm]: Unlike the member for South Perth, I am not an inherent racegoer, but as my duties as a member of Parliament require, I attend race meetings in the regions—in Esperance, Kalgoorlie and the goldfields. Last year, I went to a race meeting and the president of the race club was standing at the gate. My wife and I were walking in, and he said to us, “Graham, I will let you in if you promise me that you won’t sell the TAB.” To which, I replied, “I will do my due diligence in this area, but I assure you that whatever we do will be for the benefit of the industry.” He let me in, but every time I go to the races—I am going to the Boulder Cup on Sunday—I get the same message.

Although the member for South Perth said that negotiations are in the early stages, this issue has been around for me and other regional members for some time. We get this issue every time we go to the races. As a member—regional members would understand this—I have to give a very good argument, but we have not had that debate. We have not had that due diligence. As the member for Eyre, can I go to the president of the race club and say that I believe that this move will benefit the racing industry, and the community, by the way, because of these reasons, and here they are: one, two, three? No, I cannot do that. We have not got there. Although this is early in the process, member for South Perth, I think it is late enough that I as a member and other members for regional Western Australia can go to the racing industry with substantive facts and argument showing why, if we did sell the TAB, they would get tangible benefits, because it is about maintaining and upgrading their tracks and infrastructure and stakeholder money. It is for the benefit of the community. The member for Collie–Preston made a very good point about communities and the benefit for communities.

I support the amendment before us which states —

To delete all words after “government” with the view to inserting the following words —

... only supports the sale of the TAB if there is a guaranteed ongoing benefit for the racing industry.

*Amendment on the Amendment*

**Dr G.G. JACOBS:** I move —

To amend the amendment by adding after “the racing industry” —  
and local communities throughout WA

**MR M.J. COWPER (Murray–Wellington)** [3.37 pm]: I would like to remind members in this place that we are here for a specific reason: we were voted here by our constituents. I am here to speak on behalf of my electorate, which has, as pointed out by the member for Collie–Preston, something like 5 000 people involved in the racing industry, whether it be in the Murray, Harvey or Waroona Shires, and not one of those people has said to me that they wish to sell the TAB. In fact, to the contrary. I have had similar experiences to the member for Eyre when I go to the track where I am the patron. I recently travelled far and wide from the top to the bottom of the state with the member for Belmont, and everywhere we went not a single person said that they support the sale of the TAB.

The biggest issue we have is that we have a notion that we are going to sell the TAB, which has straightaway put uncertainty into the industry. Down my way, we have breeders, buyers and horse agistment places, and this

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notion has put a shiver of uncertainty through the industry. I have not much more to say, but I will say this. There is an opportunity for Western Australia on our time zone to go into Singapore, Hong Kong and Shanghai. We can compete on the mobile phone. Yes, it is a changing landscape and we need to move with the times, but there is a huge opportunity for racing in Western Australia to become the absolute mecca of racing in not only Western Australia, but also across the whole Asia-Pacific region if we get it right.

People in the Murray-Wellington electorate have said in the strongest possible terms that the government should not sell the TAB. Members should look at what happened to the former Premier of Victoria Jeff Kennett, who said that he rues the day that he ever sold the TAB.

*Amendment on the Amendment*

**MR P. PAPALIA (Warnbro)** [3.39 pm]: I move an amendment on the amendments moved by the Leader of the National Party and the member for Eyre —

To delete all words after “government” with the view to inserting —  
only supports

And delete the words after “TAB” and insert at the beginning —  
does not support

So that the words to be inserted will read —  
does not support the sale of the TAB

This debate began as a debate on the sale of the TAB. Sadly, it descended into a debate about who sold out on the TAB. For decades, the member for South Perth was an advocate for retaining the TAB, and was the author of a report as a committee member that argued to retain the TAB. But he is now selling out in favour of the Premier’s spurious arguments—his desperate need to have a list of assets to sell. The Premier’s only motivation is not the interest of the industry, not the interest of people in racing, not the interest of thousands of people to whom the member for Murray-Wellington referred—none of that; his only interest is to try to provide himself with a fig leaf to cover the poor mismanagement of the state’s finances over the last seven years. He wants to say something to the credit rating agency, “Please don’t remove my AA+; please don’t take that. I’ve already lost the AAA; I cannot afford any more loss of credibility.” That is the only motivation for the sale of the TAB. In September 2013, the Premier said that he would not sell it. He has broken that promise. In September 2013, he promised the people of Western Australia that he would not sell the TAB. The National Party has the numbers, so if it decided to join the backbench members of the Liberal Party who have integrity on this matter and vote with the Labor Party, it would be able to deny the government even a remote possibility of selling the TAB. If National Party members were true to their word, they would stand with the people of the regions—those 55 clubs other than Perth Racing that benefit from the TAB. Perth Racing is one club that the Premier talks to. There are 55 other clubs around the state, across thoroughbreds, across pacing and across greyhounds. None of them want the TAB sold.

As we heard from the member for Murray-Wellington, if National Party members go out and witness those people’s views, they will very rapidly come to the conclusion that the sale is a bad idea. People know that they are the beneficiaries of a well-run organisation. It is the premium organisation of its kind across the nation. It generated \$136 million in disbursements this year. During the last four years, it grew disbursements to the industry—\$40 million in tax to the taxpayer, besides the \$30 million over the last 10 years distributed to worthy organisations around the state, as the Leader of the Opposition indicated, such as the Riding for the Disabled Association. I happen to have a lot of interest in Riding for the Disabled. I am the patron for Riding for the Disabled in the Peel region. I can guarantee that members in this house are patrons of their local Riding for the Disabled organisations right around the state or, at the very least, are good supporters of it. It is undeniably a fine organisation, as are the other organisations that over the last 10 years have benefited from over \$30 million in grants from TAB proceeds. On 5 September, Riding for the Disabled held the state games, a major event as a result of a grant from the community TAB grants system. More than 1 000 riders of all ages with physical and intellectual disabilities attend centres around WA. We all know about it and we know its value. The Riding for the Disabled operations manager, Kelly Mansfield, said, “A lot of what happens for Riding for the Disabled would not be possible without the partnership it has with the community TAB.” That is just as true of organisations such as Lifeline, Fremantle Sea Rescue, Anglicare, the Cerebral Palsy Association of Western Australia, the Salvation Army and Radio Lollipop. More importantly, they are vital contributions that will evaporate the moment shareholders on the east coast are the beneficiaries and not the people of Western Australia.

Those thousands of people in the racing, pacing and chasing industries in Western Australia whose employment is derived from these industries know that the government cannot guarantee the disbursements from that industry once the TAB has been sold. Once it has been sold, we will lose control. At the very best, the government will

**Extract from *Hansard***

[ASSEMBLY — Wednesday, 16 September 2015]

p6486b-6498a

Speaker; Mr Mark McGowan; Mr John McGrath; Mr Mick Murray; Mr Terry Redman; Mr Joe Francis; Dr Graham Jacobs; Mr Murray Cowper; Mr Paul Papalia; Mrs Michelle Roberts; Dr Kim Hames; Mr Bill Johnston; Mr Brendon Grylls; Ms Janine Freeman

give them a mirage of confidence that they will get disbursements for a couple of years. Once the industry changes, the company will manipulate the proceeds. Ultimately, industry shareholders on the east coast will benefit and our product will suffer.

I was amazed that the member for Jandakot spoke. What an extraordinary contribution for him to lecture the likes of the member for Murray–Wellington and the member for Collie–Preston on racing—extraordinary. He was suggesting that somehow the TAB was on the back foot. The WA TAB is part of the new industry. It is leading the race. It is leading the surge towards taking on the new digital age. It is winning and that is why it is an attractive asset and why companies on the east coast want to buy it—first, because it is a prime competitor and, second, because it is a really good asset. Those companies will strip that asset from which revenue streams the taxpayers of Western Australia, industry in Western Australia and thousands of people benefit. One of those is the Lark Hill Apprentice Jockey of the Year, which I sponsor every year. This year I presented the award to Ashley Carmichael, a young woman at Lark Hill. Last year it was Chloe Azzopardi. Young people like that see the racing industry as their future, as a potential employment opportunity and the trainers who support them —

**Mr J.E. McGrath:** They will be looked after.

**Mr P. PAPALIA:** Does the member for South Perth know what? They do not want the TAB sold. As I was presenting young Ashley with a voucher worth \$300 to buy saddles and other equipment, I talked to Bob McPherson, David and Jenny Harrison and Greg Holme at Lark Hill. I guess he will have to confront the Premier himself when he gets the opportunity. None of them want the TAB to be sold. By the way, member for South Perth, if the government were to sell Belmont Racecourse, it would not have to sell the TAB to do up Lark Hill and provide all the other facilities required at Lark Hill for it to be the second track. It is already a magnificent track; it just needs a few more facilities. It should absolutely have community stables. Sell Belmont Racecourse and do it that way. Tell Perth Racing to do that; do not tell it to support this spurious, ridiculous argument to sell a fine asset in the TAB. The member for South Perth knows that he has sold out on this one. All the Nationals have sold out on it. They will suffer in their communities because the 55 clubs around the state outside Perth Racing will not tolerate it. I commend the members for Belmont and Murray–Wellington for having the courage to stand up. A lot of other members on the Liberal Party back bench also want to do it. They are a bit skittish at the moment, but I reckon they might get some backbone when their constituents confront them. A lot of constituents out there are deadset against the sale of the TAB and they do not trust the man over there. They do not trust the “emperor” dictating to them, suggesting they will get a —

**Mr P.T. Miles** interjected.

**The SPEAKER:** Member for Wanneroo, I call you to order for the first time.

**Mr P. PAPALIA:** The Barnett government has lost all credibility across a range of areas and activities, but he has no credibility with this one.

**The SPEAKER:** Now we have to deal with a list of amendments. The first one, moved by the member for South Perth, is that the words after “house” in the original motion be deleted.

*Division*

Amendment (words to be deleted) put and a division called for.

Bells rung and the house divided.

*Point of Order*

**Mrs M.H. ROBERTS:** I understand that the bells had stopped ringing and people are not entitled to change sides.

**The SPEAKER:** You cannot change sides after the tellers are appointed. So that is it. The bells are still ringing.

**Mr B.J. Grylls:** Just make it clear what we are voting for.

**The SPEAKER:** We are going to. Member for Midland, the tellers have not been appointed. People can move sides until the tellers are appointed.

**Mrs M.H. ROBERTS:** Can I inquire, Mr Speaker, whether it is in order for the Liberal Party Whip to use undue pressure to get people to change sides.

**The SPEAKER:** The question is that the words to be deleted be deleted.

*Division Resumed*

**Extract from Hansard**  
[ASSEMBLY — Wednesday, 16 September 2015]  
p6486b-6498a

Speaker; Mr Mark McGowan; Mr John McGrath; Mr Mick Murray; Mr Terry Redman; Mr Joe Francis; Dr Graham Jacobs; Mr Murray Cowper; Mr Paul Papalia; Mrs Michelle Roberts; Dr Kim Hames; Mr Bill Johnston; Mr Brendon Grylls; Ms Janine Freeman

The division resulted as follows —

Ayes (33)

|                   |                    |                  |                                    |
|-------------------|--------------------|------------------|------------------------------------|
| Mr P. Abetz       | Ms W.M. Duncan     | Mr R.S. Love     | Mr J. Norberger                    |
| Mr F.A. Alban     | Ms E. Evangel      | Mr W.R. Marmion  | Mr D.T. Redman                     |
| Mr C.J. Barnett   | Mr J.M. Francis    | Mr J.E. McGrath  | Mr A.J. Simpson                    |
| Mr I.C. Blayney   | Mr B.J. Grylls     | Ms L. Mettam     | Mr M.H. Taylor                     |
| Mr I.M. Britza    | Dr K.D. Hames      | Mr P.T. Miles    | Mr T.K. Waldron                    |
| Mr G.M. Castrilli | Mrs L.M. Harvey    | Ms A.R. Mitchell | Mr A. Krsticevic ( <i>Teller</i> ) |
| Mr V.A. Catania   | Mr C.D. Hatten     | Mr N.W. Morton   |                                    |
| Ms M.J. Davies    | Mr A.P. Jacob      | Dr M.D. Nahan    |                                    |
| Mr J.H.D. Day     | Mr S.K. L'Estrange | Mr D.C. Nalder   |                                    |

Noes (24)

|                  |                  |                  |                                     |
|------------------|------------------|------------------|-------------------------------------|
| Ms L.L. Baker    | Dr G.G. Jacobs   | Ms S.F. McGurk   | Mr R. Saffioti                      |
| Dr A.D. Buti     | Mr R.F. Johnson  | Mr M.P. Murray   | Mr C.J. Tallentire                  |
| Mr R.H. Cook     | Mr W.J. Johnston | Mr P. Papalia    | Mr P.C. Tinley                      |
| Mr M.J. Cowper   | Mr D.J. Kelly    | Mr J.R. Quigley  | Mr P.B. Watson                      |
| Ms J.M. Freeman  | Mr F.M. Logan    | Ms M.M. Quirk    | Mr B.S. Wyatt                       |
| Mrs G.J. Godfrey | Mr M. McGowan    | Mrs M.H. Roberts | Mr D.A. Templeman ( <i>Teller</i> ) |

Amendment (deletion of words) thus passed.

*Motion, as Amended*

**The SPEAKER:** We will move on to the next amendment about which I want everyone to be clear in their minds. It is the amendment moved by the member for South Perth. Then there was a further amendment moved by the Leader of the National Party, which deletes all words after the word “government”. Do members want me to read it out so it is clear? We are dealing with the member for South Perth’s insertion of words, but there is an amendment to those words by the Leader of the National Party. This is what the member for South Perth moved to insert —

notes that the state government has listed the WA TAB on the asset sales list and as part of the asset sales process, the state government will consider all impacts on racing in Western Australia to ensure the racing industry’s ongoing sustainability and that the racing industry across the state benefits from any sale.

The Leader of the National Party has moved an amendment deleting all words after “notes that the state government”, so we have to agree whether you want to get rid of this amendment moved by the member for South Perth by deleting all the words after “notes that the state government”.

The question is that all words after the words after “state —

*Point of Order*

**Dr K.D. HAMES:** I am still confused, because I think we have to insert the member for South Perth’s words first to get to the word “government” and after we have “government”, we delete the rest of the amendment and support the Leader of the National Party’s amendment. If that is wrong, I need an explanation.

**The SPEAKER:** That is wrong, because if we do that and it is carried, the amendment is carried. We are trying to get words that are acceptable as an amendment. Is everybody clear?

**Mr D.T. REDMAN:** I just want to get clarity that if we support the amendment being put to the house now, are we able to get to the amendment that the National Party moved?

**The SPEAKER:** Yes, this is the amendment.

**Mr F.M. Logan:** Follow the bouncing ball!

**Mr D.T. REDMAN:** Further to that, I thought there was then another amendment that came from the member for Warnbro.

**The SPEAKER:** There is, but that is dealt with after your amendment is dealt with, depending on whether it is successful. The question is that the words after “that the state government” in the amendment moved by the member for South Perth be deleted.

**Mr W.J. JOHNSTON:** Mr Speaker —

**Mr V.A. Catania:** Follow the ball!

**Extract from Hansard**

[ASSEMBLY — Wednesday, 16 September 2015]

p6486b-6498a

Speaker; Mr Mark McGowan; Mr John McGrath; Mr Mick Murray; Mr Terry Redman; Mr Joe Francis; Dr Graham Jacobs; Mr Murray Cowper; Mr Paul Papalia; Mrs Michelle Roberts; Dr Kim Hames; Mr Bill Johnston; Mr Brendon Grylls; Ms Janine Freeman

**Mr W.J. JOHNSTON:** That is exactly what I am trying to do. The member for South Perth has proposed certain words. The Leader of the National Party has moved that those words be amended, the member for Eyre has moved that those words be amended and the member for Warnbro has moved that those words be amended. How can they be dealt with in the order being proposed? Surely, we would deal with the member for Warnbro's amendment first, because he moved an amendment to the amendment moved by the Leader of the National Party. Once that resolution is dealt with, we would deal with the member for Eyre's amendment, because he is also dealing with the Leader of the National Party's amendment, and then we would deal with Leader of the National Party's amendment, which amends the words moved by the member for South Perth, and only then would we be in a position to deal with the member for South Perth's amendment.

Several members interjected.

**The SPEAKER:** Members!

**Mr W.J. JOHNSTON:** Otherwise, we would be agreeing to words that we might not agree to. We might choose to vote for words that we might not otherwise agree to. We might choose to vote in favour of an amendment to a set of words.

**Ms R. Saffioti** interjected.

**The SPEAKER:** Member for West Swan, I am trying to listen to a point of order.

**Mr W.J. JOHNSTON:** We might want to support an amendment moved, say, by the member for Eyre, and then, if we are defeated, not support the Leader of the National Party's amendment. We have to go backwards; otherwise, we do not get an opportunity to vote for the words we support. These are amendments to the amendments, not amendments to the original position put by the member for South Perth.

**The SPEAKER:** Before any words are inserted, we must create the blank in which to insert the words. If members want to vote against the amendment of the member for South Perth, you create the blank, and then we fill those words with the amendment from the Leader of the National Party. That is how it works.

**Mr B.J. GRYLLES:** I seek clarification here. If the house defeats the amendment moved by the member for South Perth, do we then have the opportunity to go on to the subsequent amendments?

**The SPEAKER:** Yes, the one from the Leader of the National Party.

**Mr B.J. GRYLLES:** If the house defeats the amendment of the member for South Perth, can we move on to subsequent amendments?

**The SPEAKER:** You move to the next amendment. You move to the subsequent amendment moved by the Leader of the National Party.

**Ms J.M. FREEMAN:** It interests me that what the member for Cannington was saying holds true, because if we cannot vote firstly for what the member for Warnbro did in terms of that amendment, we cannot then vote for what the member for Eyre did. I understand that what you are saying, Mr Speaker, is that we need to create the vacuum; we need to remove the words. I understand we need to remove the words, but if that then goes through and the words are removed, we would then have to come in essence back to what the member for Warnbro moved. It may solve the point if the member for South Perth withdrew his amendment.

*Motion, as Amended, Resumed*

**The SPEAKER:** We have now moved into private members' time. We can move a suspension of standing orders to complete this process; otherwise, this business is suspended under standing order 61.

REPORT TO  
WESTERN AUSTRALIAN RACING  
REPRESENTATIVE GROUP  
(WARRG)



ON THE POTENTIAL  
PRIVATISATION  
OF THE  
WESTERN AUSTRALIAN  
TAB  
(WATAB)

Prepared by :  
Ray Gunston  
November 2014

Including  
Executive  
Summary

To the Reader,

This Report has been prepared for the Western Australian Racing Representative Group (WARRG) to assist in the deliberations of the WA Racing Industry in relation to the potential privatisation of the Western Australian TAB (WATAB) by the Western Australian Government. The objective of this Report was to explain what privatisation means, to explain how wagering works and how a TAB operates, to describe what a privatisation of WATAB might mean, and to discuss the possible implications for the WA Racing Industry of a potential privatisation of WATAB. It makes no recommendation, and was not asked to, on whether or not the privatisation of the WATAB should occur.

This Report has provided all of these explanations and discussions to the extent possible recognising that this was required to be done outside of Racing and Wagering Western Australia (RWWA) as WATAB sits within RWWA. These matters are covered in detail in Chapters 3-6 of this Report.

The Executive Summary in Chapter 2, together with Chapter 7, provide an overview of those Chapters and suggest some positions and approaches that the WA Racing Industry may wish to adopt in relation to a potential privatisation of WATAB. Major recommendations, proposals, and key propositions have been shaded in the Executive Summary for your clearer reference.

Privatisation of a TAB is a complex matter with many moving parts, I trust this Report helps you understand it better.

Ray Gunston

November 2014

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The Western Australian Racing Representative Group (WARRG) has been formed to represent the interests of racing industry participants in Western Australia in relation to the potential privatisation of the Western Australian TAB wagering business (WATAB). WARRG commissioned Ray Gunston to assist the Group in relation to this matter with the following Terms of Reference and Scope of Work:

### 1.1 Aim of Engagement

The aim of this consultancy arrangement is to provide advice on what privatisation of a TAB involves, the issues that it raises for Racing Industry Participants, the financial and other implications for the Participants, and to assist the Participants in their engagement with all relevant stakeholders in this regard.

Ray Gunston will work with and provide direction to the Racing Industry Participants in this exercise, and represent them in engagement with, presentations to, and meetings with all stakeholders, including the Premier and Treasurer of the State who are proposing the privatisation.

A major objective is to ensure Racing Industry Participants are able to make informed and considered responses to any request from the Government for them to put the Industry's position(s) in relation to the privatisation of the TAB.

### 1.2 Scope of Work

The scope of the work to meet this aim of engagement is as follows:

- Explain the concept of a privatisation of a TAB to Racing Industry Participants, including reference to models applied elsewhere.
- Establish a current base-line position of the Western Australian racing industry for communication to industry participants and the Government, covering areas including:
  - the value chain/constituent parts of the industry
  - the financial flows and position
  - current structures
  - the current industry risk allocation of wagering flows
  - the demographics, social perspective and workforce of the industry
  - the infrastructure and asset base situation and investment requirements
- Outline and assess the potential implications to the Racing Industry Participants of a privatisation of the TAB in terms of :
  - industry finances
  - industry structure
  - industry sustainability
  - scenario analysis of potential impacts
- Discuss the different privatisation structures and their differing implications for the Industry and the Government.

- Discuss the impacts of privatisation on country and provincial racing clubs, participants, and communities.
- Set out the pros and cons of the privatisation of the TAB compared to non-privatisation.
- Discussion of the outlook for the WATAB and the Australian wagering industry generally, and its implications for privatisation.
- Consideration of Racing Industry Participants potential stances on their preferred position in the event of privatisation of the TAB in the context of :
  - financial commitments/position for the industry
    - no worse off perspective – definition?
    - alternative positioning
  - certainty of the level of ongoing racing industry funding
  - risk position of racing industry in relation to wagering flows
  - operational and capital funding perspectives in this regard
  - structure of the racing industry/racing authorities/TAB relationships and financial/product arrangements
- Suggestions on potential strategies the Racing Industry Participants may wish to consider in relation to the potential privatisation of the TAB and the structure of such a transaction, including consideration of matters such as:
  - asset consolidation/rationalisation by the Industry
  - the racing administration structures into the future
  - Racing Industry information generation and presentation to educate all stakeholders on the actual industry economic and financial position.

### 1.3 Approach

It is currently proposed that the work for this assignment will be primarily conducted in Perth and Melbourne and will include the following activities:

- research and analysis by Ray Gunston as required to undertake the scope of work.
- interviews with relevant West Australian Industry participants, these to include sufficient numbers within each of the following groups to get a materially representative analysis of key issues for each group:
  - Breeders
  - Trainers
  - Jockeys/drivers
  - Owners
- interviews with Racing Industry Participant Committee members and/or other relevant racing code representatives, and meetings with the Committee to ensure full coverage of issues and information and to agree appropriate direction. This includes obtaining whatever information Committee members and other officers of the Codes may have to assist with the assignment.
- meeting (if possible) with the Asset Sales Taskforce and with relevant Ministerial Advisors.
- interviews and/or meetings with relevant Board members and executives of Racing and Wagering Western Australia (RWWA) and major race clubs.

## 2.1 Introduction

The privatisation or sale of a TAB in Australia is a complex exercise with many moving parts and with a range of stakeholders, primarily the Racing Industry, involved in the process and dependent upon the outcomes. This Report raises a wide range of issues and concerns for the WA Racing Industry in any potential privatisation of the Western Australian TAB (WATAB), including in particular the racing industry funding model to ensure the WA Racing Industry is at the least no worse off. The WA Racing Industry cannot support any privatisation of WATAB which does not appropriately address all of these issues and concerns.

If a privatisation of the WATAB is to occur, it is critical that the Western Australian Government has engaged with, and then agreed with, the Western Australian Racing Industry in relation to key parameters of the potential privatisation prior to commencing the formal privatisation process with experienced wagering operator buyers, including experienced buyers of Government-owned gambling assets. This criticality lies in ensuring that the interests of both the WA Government and WA Racing Industry are protected in such a complex tri-partite situation.

## 2.2 Privatisation of WATAB

WATAB sits within the operations of Racing and Wagering Western Australia (RWVA) and hence currently is not a separate, saleable entity. Privatisation is the process of moving a government-owned business or operation into private sector ownership. This can occur in a number of ways but primarily through sale to a private or publicly listed company. If the WA Government is to sell or privatise WATAB it will need to clearly establish and separate out the exact nature of the wagering operations of RWVA it is actually selling.

It is the wagering operations of WATAB that provide the funds that enable RWVA to make a range of payments in the form of distributions, subsidies, grants, the costs of racing operations and integrity, and other payments to fund the WA Racing Industry. So in forming any view of whether privatisation of WATAB is or is not in the interests of the WA Racing Industry, the Industry needs to consider whether having this wagering operation in the hands of an external private operator will put the WA Racing Industry in a better or worse position than it currently is with WATAB being internal to RWVA, in relation to :

- the amount of funding the WA Racing Industry receives annually from the wagering operations of WATAB
- whether the way in which the amount of this funding would be determined annually will not adversely affect the risk profile of those flows for the WA Racing Industry immediately and into the future
- the security of ensuring such funding is legally guaranteed to the WA Racing Industry
- funding availability in addition to this for WA Racing Industry infrastructure maintenance and development.

These can only be conclusively answered in discussions of the details of a potential WATAB privatisation with the WA Government given that “the devil is in the detail”.

So the WA Government, if it is to privatise the WATAB, will need to put in place a wide range of arrangements including the following in whatever forms that they (after engagement with the WA Racing Industry) may determine (some of which currently exist within RWWA):

- A wagering licence and/or wagering operator's licence for a term to be determined that authorises the wagering operator to conduct exclusive retail tote and fixed odds wagering and perhaps other products under certain conditions and requirements, and contains the racing industry funding obligations (no such formal licence currently exists as RWWA's wagering authorities sit within its own Act).
- The WA Racing Industry Funding Model under which WATAB funds the WA Racing Industry so that the Industry is at the least no worse off.
- The legislative framework under which this new model will operate
- The legal structure under which the wagering operator is to operate – whether it is required to enter into a form of joint venture with the WA Racing Industry or stand alone with or without industry funding arrangements
- A Racing Program Agreement under which the wagering operator and the racing industry determine the annual racing program for the State.
- A Wagering Tax
- Racefield Fee flows and arrangements for the wagering operator
- Arrangements for various financial elements including GST, unclaimed dividends, fractions and other subsidies
- Pooling arrangements, if required
- Arrangements with TAB retail outlets
- Arrangements with Racing Clubs for on-course wagering

### 2.3 The WA Racing Industry's Proposed Privatisation Position

The requirement for the local racing industry to be paid/funded for the production of its racing product has been encapsulated in all privatisations of TABs around Australia, with specific linkage to, and value and industry funding levels provided for, the exclusive nature of the retail wagering licences provided to the TAB. Such a requirement currently is contained in Clause 50 of the RWWA Act. This payment for use of racing product has also been established in Racefield Fee legislation around Australia. Whilst there is the prospect of arguing over actual ownership of WATAB and the WA Government's right to sell it, and also to raise the question of racing program product rights ownership, it is recommended that the WA Racing Industry not seek these actions if the WA Government, in any potential privatisation process, agrees to and accepts a at the least no worse off racing industry funding model to be met by the new WATAB operator, and to appropriately addressing all the other matters raised in this Report. These must be encapsulated in legislation, licence and contract which link the resulting obligation to fund the WA Racing Industry by the WATAB wagering operator to, and as a condition to the granting of, the exclusive retail TAB wagering licence.

As stated above, this commitment to secured no worse off funding and no worse off risk of the WA Racing Industry must be achieved through engagement with the WA Government prior to any privatisation process of WATAB formally commencing.

The engagement with the WA Government by the WA Racing Industry on this basis would need to deal with a number of concerns about potential privatisation of WATAB. These concerns include :

- the implications of privatisation on WATAB's premium punters and hence WA Racing Industry funding
- similar concerns if a new TAB operator was able to move WATAB account customers to other jurisdictions
- will the new wagering operator have the operational flexibility under its licence to drive revenue through product and process improvement free of bureaucratic delays / restrictions
- appropriate wagering tax settings
- the structures post a privatisation need to ensure the WATAB wagering operator is required to act in the best interest of the local WA Racing Industry.

These and a number of other issues raised in this Report are all matters to be worked through with the WA Government by the WA Racing Industry to ensure the Industry is no worse off in funding and risk profile terms in the event of WATAB being privatised.

Without such engagement and appropriate comfort on these issues the WA Racing Industry interests cannot be protected under a privatised model. In this case the WA Racing Industry could not support a privatisation of WATAB.

It is important to address one matter at this point. It is entirely possible to sell/privatise WATAB with essentially all the current financial settings ( ie, no worse off) whilst the potential buyer can meet their obligations to their stakeholders. Whilst this will depend upon reasonable price and structural expectations on behalf of the WA Government and the buyer, the buyer should be able to meet shareholder return and taxation payment requirements from the synergy benefits able to be extracted from the purchase. Whilst again "the devil is in the detail", the WA Racing Industry and WA Government should believe there is an ability to constructively engage to achieve acceptable outcomes from a privatisation if that is the direction the WA Government wishes to pursue.

## 2.4 WATAB/RWWA Performance and Outlook

Given the importance of the funds generated by WATAB to the funding of the WA Racing Industry, the wagering performance of WATAB, in terms of both wagering turnover and net wagering profitability, is an extremely important element in any assessment of the overall performance and operations of WATAB and RWWA. However, RWWA also has responsibility for the critical role of Principal Racing Authority (PRA) for all three racing Codes in Western Australia ensuring the integrity and quality of the racing product is maintained to sustain the WA Racing Industry and to ensure it drives the wagering activities based on this product.

Over the six year period to 2013 WATAB/RWWA has been the most successful of the larger TABs in the country in relation to turnover growth. It is estimated that this growth figure for WATAB of 39.1% would reduce to somewhere just above 18% if premium customers were excluded from the figures – this is still above the growth rates of TAB's in these other States.

In assessing wagering performance it is important to understand the historical perspective of WATAB and its current situation in the Australian TAB and general wagering landscape. With the challenges of insufficient scale, extended government ownership over longer time periods than other larger and medium sized TAB's, and limited product offers and/or quality of these offerings, leading to less scope to invest in technology advancement, the WATAB previously lagged other TABs.

However, in more recent times WATAB has in essence been catching up in terms of product and technology offers to these other TABs as reflected in its out performance of other Australian TABs in terms of wagering turnover growth. These developments and investments are continuing and suggest that WATAB has the capacity to maintain this out performance for up to five years until the catch up is essentially complete.

This catch up has been made possible through solid management within RWWA of the various factors that have contributed to this performance. Whilst the growth of premium punters turnover has contributed significantly, a number of other improvements in the fixed odds product more recently, ongoing improved retail presentation and product offer, investment in the wagering system and in the digital platform, and improved pooling services and management arrangements have all contributed. Further fixed odds upside, racewalls, and increased self-service terminal rollout will accompany these developments for medium term benefit.

It needs to be recognised that this is occurring within an increasingly competitive wagering environment within Australia, both in terms of increased TAB competition as well as substantial corporate bookmaker growth. WATAB under any ownership structure will be challenged in the future to achieve anything more than the general low turnover/revenue growth outlooks for TABs as retail wagering (particularly pari-mutuel) continues to fall, replaced to varying degrees by generally strong fixed odds growth but at the risk of lower margins.

Accordingly, while the WA Racing Industry has been rightly generally pleased with the funding growth that has flowed from WATAB/RWWA's performance, the "if it ain't broke, don't fix it" argument against privatisation of WATAB needs to be reconsidered in this light. The benefits of, and need for, scale within a larger wagering operation in this wagering industry has clearly been evident in the consolidation of TAB's throughout Australia into the two major Groups – Tabcorp and Tatts.

It must also be noted that these scale issues had led to WATAB/RWWA correctly seeking to pool their pari-mutuel betting with Tabcorp's SuperTAB pool, and outsourced fixed odds pool management to William Hill. However, these pool dependencies are a potential risk longer term, even with existing contracts in place, making considerations such as Racing Industry ownership of WATAB a highly questionable strategy in this instance.

Accordingly, subject to many issues raised in this Report being acceptably resolved, the WA Racing Industry should acknowledge that the privatisation of WATAB is, on balance, likely to occur at some time over the next few years. Even given this situation, the WA Racing Industry should only countenance such a privatisation of WATAB if the racing industry funding model leaves the WA Racing Industry in a at the least no worse off funding position that reflects these past, present and future WATAB wagering performance perspectives. In addition, such countenance should be predicated on governance and licence frameworks that ensure the WA Racing Industry is protected in terms of its risk profile and has a no less favourable standing in the context of a potential privatisation and future wagering licence process outcomes.

It would appear that the focus on this off-course wagering objective growth by WATAB/RWWA has led to a broadly held view, and general agreement, that the racing product integrity, quality and promotion obligations of RWWA's responsibilities have probably received less attention. Reasonable funding growth has generally moderated major criticism in this regard from the WA Racing Industry. Recent actions by and discussions with RWWA indicated acknowledgement and acceptance of the need for greater focus in this regard. Similarly, the focus of WATAB/RWWA on off-course wagering has also resulted in less support to on-course wagering which operates pursuant to the Racing Club on-course licences, contributing along with declining attendances and corporate bookmaker competition to a significant decline in on-course totalisator turnover. This is also receiving more attention from WATAB/RWWA, and is an area of potential growth with or without privatisation.

## 2.5 The Western Australian Racing Industry

### - Funding and Value Chains

This Report, with the help of using some data from the IER Report on the WA Racing Industry two years ago, reflects the size, economics, participation and importance of the WA Racing Industry to Western Australia. This Report then delves into the components parts of the funding of the WA Racing Industry, and the value chains of each racing Code in the Industry, to understand the financial models of the WA Racing Industry and its participants.

The funding of the operations of the WA Racing Industry in producing racing animals and racing product is largely provided in an operational sense by punters and owners. Punters who bet with WATAB/RWWA and/or with other wagering operators on WA racing provide the funding base from which WATAB/RWWA meets its obligation to fund the WA Racing Industry. Owners provide the funding to buy racing animals and meet the costs of training and racing these animals to provide the racing product. Whilst

each of these sources fund the production and maintenance of the racing animals broadly equally, WATAB/RWWA also meets many of the costs of the administrative and regulatory oversight and integrity of the racing industry and the racing event. Other WA Racing Industry participants obviously invest time, effort and money to achieve appropriate return from these funding sources to sustain their involvement in the Industry.

With this funding context, the overall perspectives to then take from the value chain analysis of the WA Racing Industry are:

- The distributions, subsidies and other payments made to the participants in the WA Racing Industry by RWWA from its WATAB wagering operations have just been sufficient to support the Industry, but on many indicators there has been some significant Industry contraction in recent times.
- Given that the WA Racing Industry has calibrated to the current funding levels, despite increased costs growing faster than returns in most cases, there is no room in the value chains for any less funding from wagering.
- With the punters and owners being the major funders of the WA Racing Industry, and for owners the investment being largely aspirational and seeking intangible returns, any reduction in the wagering contribution to the WA Racing Industry which reduces stakes prizemoney would quickly also reduce owners' investment (based on an acceptable loss context) leading to a higher leverage downwards to racing industry funding than just the distribution reduction.
- The code value chains illustrate that whilst a small number of participants in the Western Australian Racing Industry generate a reasonable return from racing, most are not. It is an Industry in which a small number of people in each segment tend to take a disproportionate share of returns leaving a number to battle financially within the model. In many cases, particularly with owners and some breeders, it is not racing that has created wealth, it is external wealth, and in fact racing tends to reduce this wealth. Racing may often be called a sport of kings, but in most cases it attracts "external" kings, it does not create them in a wealth sense from Western Australian racing.
- Accordingly, there are many in the WA Racing Industry who know nothing else and generate little return but the passion of the Industry. Many employees would have some difficulty finding alternative employment, and operate around minimum wage rates (if that).
- In many cases Racing Clubs survive through voluntary and honorary roles at Board/Committee and operation levels, with Clubs as a whole only breaking even financially on the back of various subsidies paid by RWWA from its wagering returns. Combined WA Racing Club financial figures reflect that there is no capacity to reduce funding to the WA Racing Industry without significantly damaging the financial position and hence potential sustainability of many of Western Australia's Racing Clubs.
- Given the tight operational financial position of the WA Racing Industry, and the need for property holdings availability to breed and train animals for racing, property assets for those who can obtain them become not only operational assets but represent the only form of retirement/superannuation they hold, the value of which is often tied to the sustainability of the industry.

- With its current settings, the WA Racing Industry is effectively just self-funding on an operational cashflow basis, but infrastructure funding to maintain and improve, and keep safe, existing facilities is an ongoing challenge.

Accordingly, the Western Australian Racing Industry currently is somewhat calibrated in a fragile fashion to the current funding structures in terms of distribution, subsidies, the costs of racing operations, and other payments from WATAB/RWWA, whilst the WA Government nets over \$40 million per annum from the Wagering Tax.

Any action that reduced funding to this current balanced but fragile situation would therefore clearly very quickly and directly disrupt this position and lead to significant pull backs across the WA Racing Industry as there are no real buffers to absorb any significant reductions in funding. So any racing industry funding model that did not sustain the current funding levels, nor provide some certainty on future funding, would not only immediately impact the WA Racing Industry but would also quickly reduce investment given the hit to confidence it would represent. Some signs of this are already evident from the current uncertainty in the WA Racing Industry from asset infrastructure and TAB privatisation discussions.

## 2.6 Privatisation Issues and Positions for the WA Racing Industry

There are a number of issues that the WA Racing Industry needs to take a position on and engage on with the WA Government at the appropriate time in relation to a potential privatisation of WATAB, but many of them can only be determined when the process of potential privatisation is clearer – “the devil is in the detail”. Clearly the principles of “No Worse Off” can be broadly espoused now, and some specific privatisation positions can be established

### 2.6.1 No Worse Off

#### 2.6.1.1 No Worse Off Funding

The fragile calibrated financial model of the WA Racing Industry as explained in this Report necessitates a “no worse off” funding position as being the current level of distributions, subsidies, incentive/bonus schemes, the racing administration and integrity costs of RWWA, and other payments made by RWWA to Racing Clubs and Industry participants. Going forward, given the comments on the WATAB/RWWA expected medium term wagering performance, no worse off would be reflected in mandated minimum total payment levels to the WA Racing Industry from the WATAB wagering operator over the next five years reflecting the estimated expected WA wagering industry performance in wagering turnover growth from WATAB in a no privatisation scenario. It would be anticipated that this performance could at least be based on an expectation of continuing recent growth rates which have been around 3.5% growth per annum. This will need to be formally assessed through detailed forecasting by RWWA. Of course, this would provide a minimum mandated level of future payments, with better wagering growth performance by a privatised WATAB providing higher payments to the WA Racing Industry. After that time the WA Racing Industry would be exposed to wagering industry performance generally, but should look to a process to review the ongoing WA Racing Industry funding model at that point so that it is based off conditions and performance at that time.

### 2.6.1.2 No Worse Off Risk

In the context of risk, a funding model such as that proposed above would be a major risk mitigant that would put the WA Racing Industry closer to a no worse off risk profile. The other considerations here are :

- potentially the joint venture model structure for the WATAB and the WA Racing Industry to partially replicate the current RWWA model
- leaving the new “Racing Western Australia” racing / PRA entity with the existing cash reserves of RWWA held to smooth fluctuations in future WA Racing Industry funding that might result from variances in wagering performance.
- provisions within legislation, the licence and/or contractual agreements that require the wagering operator of WATAB to act in the best interests of the WA Racing Industry, and if it does not then the potential for changed terms.

These would need to be discussed with the WA Government in any potential privatisation process.

### 2.6.2 Other Privatisation Issues

Some commentary on specific areas that are relevant for the WA Racing Industry to consider if WATAB was to be privatised are:

- (i) **The Wagering Licence** – that it is an exclusive retail totalisator licence for pari-mutuel and fixed odds betting, with an obligation to meet WA Racing Industry funding. If it is to be a long term licence the WA Racing Industry should look for the licence to include shorter term review points to test the appropriateness of the racing industry funding model and operation of the licence – either through shorter exclusivity terms or similar trigger points. The WA Racing Industry would prefer to see a flexible and timely approval process for products and channels within the licence to obtain a wide product range that drives revenue for the wagering operator.
- (ii) **The Legislative Framework** – the major focuses here for the WA Racing Industry are:
  - That the legislation and licence requires the wagering operator to enter into a contractual funding model with the WA Racing Industry
  - That the legislation incorporates a no worse off (or no less favourable) requirement on any licences into the future (including this one) for the WA Racing Industry if privatisation occurs
  - That the legislative framework is not too restrictive on the operations of the new wagering operator to ensure that returns are not inhibited
- (iii) **Structure** – it is too early at this stage to suggest a preferred WA Racing Industry position other than to state that a model under which the Government and not the wagering operator funds the industry must be avoided. Racing Industry ownership of the WATAB is not recommended.

- (iv) **Racing Industry Funding Model** – other than the requirement for the WA Racing Industry to be “no worse off” in relation to funding, the matter of the appropriate model cannot be determined at this stage. Total reliance of a profit share model is however not recommended. Many other aspects of the potential privatisation need to be understood before a view on the desired racing industry funding model can be formed.
- (v) **Racing Program Agreement** – other aspects such as structure will heavily influence how the Racing Program Agreement process is to work, but it requires an integrated Tri-Code grouping for the WA Racing Industry (which Racing Western Australia – RWWA without wagering – could bring given its existing in-house capabilities).
- (vi) **Wagering Tax** – this is a WA Government issue other than it reduces the amount of funding available to the WA Racing Industry, but it is important for the new wagering operator and the WA Racing Industry to get certainty around this matter longer term to lock away the appropriate racing industry funding model into the future.
- (vii) **Racefield Fees** – a “no worse off” position in relation to racefield fees at present is unclear but would probably involve the wagering operator offsetting payments against the WA Racing Industry funding and Racefield Fee income flowing to the WA Racing Industry. It is recommended that this offset mechanism for the new wagering operator under a potential privatisation be limited to no more than the amount of incoming Racefield Fees received by the WA Racing Industry each year.
- (viii) **Other Financial Arrangements** – matters such as GST reimbursements, Fractions and Premium Player Rebates will sit with the WA Government and a new wagering operator to agree if a privatisation was to occur, but outcomes would need to be considered in finalising the Racing Industry Funding model. It would be recommended that unclaimed dividends on racing be paid to the WA Racing Industry after the 7 months as set in legislation at present.
- (ix) **On-course Wagering Arrangements** – this is an area that has lacked focus by RWWA up until recently, and an area of some potential upside to all under any future models. Accordingly, this is an area, particularly for Racing Clubs, but also the entire industry, that would need to be dealt with appropriately in a potential privatisation, including consideration of the suggested improvements listed in Section 6.2.1.1.1 of this Report.

## 2.7 Other Considerations for the WA Racing Industry

### 2.7.1 WA Racing Industry Governance in a Privatised Model

A refocused RWWA without wagering (Racing Western Australia) could effectively continue to operate the PRA functions as currently. The Tri-Code representative body structure appears to have worked reasonable well. This should also help the WA Racing Industry meet its many challenges by giving it the opportunity to act as a Sport rather than Codes.

### 2.7.2. WA Racing Industry Asset Infrastructure

#### Efficiency / Rationalisation

With little or no capacity to fund infrastructure maintenance and development requirements across the WA Racing Industry from its operational cashflow break-even situation, it is critical that the entire WA Racing Industry be prepared to address the issues of improved efficiency and rationalisation of infrastructure to sustain the WA Racing Industry in an integrated fashion.

The WA Racing Industry must pursue funding alternatives for infrastructure in any potential privatisation process (or even if it does not occur), but to have any success in this it needs to commit to pursuing such efficiency / rationalisation processes.

### 2.7.3 WA Racing Industry Engagement with the WA Government

#### Over Potential Privatisation of WATAB

The objective for the WA Racing Industry if the privatisation of the WATAB does proceed is to be able to engage with the WA Government early in its process deliberations to work with and agree with the Government the acceptable positions on the many issues of a privatisation that have been outlined in this Report. It is recommended that the WA Racing Industry seek such engagement and interaction with the WA Government prior to any formal discussions or processes commencing with potential bidders and/or a formal sale commences.

To ensure that the WA Racing Industry's, and the WA Government's, best interests are met in the privatisation process, it is critical that the Government is very clear on the objectives to be achieved in the privatisation/sale for the WA Government and the WA Racing Industry, and on funding models, structures, key licencing parameters and legislative and contractual frameworks to present to potential bidders. Where relevant, these will have been agreed with the WA Racing Industry and formally documented as the basis for seeking proposal bids from potential bidders in such a potential privatisation.

In this context, the Western Australian Racing Representative Group will need to obtain a mandate from the WA Racing Industry to undertake such discussions with the WA Government, and seek a commitment from the WA Government for such engagement at the front end of a potential privatisation process. Such engagement must come with a requirement for obtaining agreement between the WA Government and WA Racing Industry on the relevant industry issues identified in this Report for a potential WATAB privatisation.

This early engagement and agreement on positions for a WATAB privatisation between the WA Government and the WA Racing Industry is considered to be the best risk mitigation strategy for the “sellers” when dealing with experienced wagering operators, and some who have also been involved in previous privatisation processes.

It is particularly important for the WA Racing Industry to have a clear and documented commitment with the WA Government on the privatisation framework. Such a process occurred within the 2012 wagering licence bid process in Victoria, based on the no less favourable (ie, no worse off) requirements within the legislative licencing provisions surrounding the new licence.

This chapter explains the background and operations of the Western Australian TAB, (WATAB), and then briefly explains what privatisation is, outlines relevant Australian examples of privatisation and how they occurred, and sets up the basis for determining the potential implications for WA Racing Industry participants of a privatisation of WATAB.

### 3.1 The West Australian TAB (WATAB)

#### 3.1.1 History

The Western Australian Totalisator Agency Board (WATAB) commenced operations in 1961 as a public authority under the Totalisator Agency Board Betting Act 1960 to replace the approximately 206 licenced off-course betting shops, legal in Western Australia since 1958. The initial TAB was established through assistance in funding from the thoroughbred and harness racing codes. Betting was expanded to include greyhound racing with the introduction of such racing to Western Australia in 1974.

The WATAB continued to expand its bet types, including the introduction of fixed odds sports betting in 2000, and hence to grow its wagering turnover. In 2001 the Government received a report called Future Governance of the Western Australian Racing Industry – A Report to the Minister for Racing and Gaming, October 2001 – a study commissioned by the Minister to be conducted by the Western Australian Racing Industry Review Committee, at the end chaired by Mr. R. H. C. Turner, to examine the entire racing industry (the Turner Report). An outcome of the Turner Report was the introduction of Racing and Wagering Western Australia (RWWA) in August 2003, and the transfer of WATAB's wagering responsibilities to RWWA in January 2004 (at which time the Totalisation Agency Board ceased to exist of a legal entity).

RWVA currently operates the wagering activities under the TAB and TABtouch brands as the primary and online brands respectively, through its Marketing and Retail Divisions with support provided by the corporate support divisions of RWVA. Racing Operations and Racing Integrity are also responsibilities of RWVA and are performed through the Racing and Racing Integrity divisions of RWVA. The structure of RWVA is outlined in the following section.

#### 3.1.2. RWVA

RWVA is a body corporate (and not a public authority) and operates under the Racing and Wagering Western Australia Act 2003 (the RWVA Act). RWVA is not a Crown agency, is not subject to Ministerial direction, and is not a public sector body. For appropriate accountability reasons it is subject to the Financial Management Act 2006, reports to Parliament, and is required to submit certain plans and information to the Minister for approval. The RWVA Act established RWVA as the controlling authority for thoroughbred, harness and greyhound racing in Western Australia, together with the responsibility for off-course TAB wagering (on-course wagering licences are held directly by the Racing Clubs). This happened in two stages.

## EXPLAINING THE WATAB, RWWA AND PRIVATISATION

Effective 1 August 2003, RWWA assumed the principal racing club/controlling authority responsibilities of the Western Australian Turf Club, the Western Australian Trotting Association, and the Western Australian Greyhound Racing Authority. On 30 January 2004, as indicated above, the Totalisator Agency Board Betting Act 1960 was repealed and RWWA assumed responsibility for the conduct of off-course TAB wagering.

The structure through which RWWA undertakes these responsibilities is as shown in Chart 3.1.2 on the next page, with a number of divisions overseeing its various activities:

CHAPTER 3

EXPLAINING THE WATAB, RWWA AND PRIVATISATION

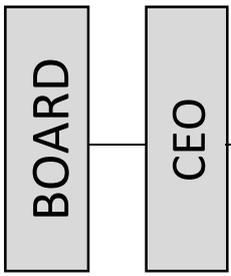


CHART 3.1.2

| COMMERCIAL  | MARKETING   | RETAIL   | RACING INTEGRITY  | RACING   | INFORMATION SERVICES  | BUSINESS SERVICES   | HUMAN RESOURCES  |
|---|---|--|---|--|---|---|--|
| <ul style="list-style-type: none"> <li>Major contract negotiation and structuring</li> <li>Broad industry intelligence and monitoring</li> <li>Key strategic interfaces</li> <li>Commercial assistance on strategic and major operational initiatives.</li> </ul> | <ul style="list-style-type: none"> <li>Responsible for Internet, Mobile and Call Centre Channels, all wagering products, and management of RWWA's premium business.</li> <li>Manages marketing, advertising, and promotion, social media and Loyalty CRM activities</li> <li>Manages wagering brands</li> <li>Racing Radio and TABForm publication</li> </ul> | <ul style="list-style-type: none"> <li>Responsible for the retail TAB network</li> <li>Interacts with 319 agencies (as at 2012/13) throughout the network</li> </ul> | <ul style="list-style-type: none"> <li>Responsible for all matters pertaining to proper conduct and integrity of racing in WA</li> <li>Includes stewards from all three codes and Racecourse investigators</li> </ul> | <ul style="list-style-type: none"> <li>Responsible for racing operations</li> <li>Activities include               <ul style="list-style-type: none"> <li>fixture planning</li> <li>racing systems and information maintenance</li> <li>handicapping and grading</li> <li>stakes supervision</li> <li>vision contracts</li> <li>major event support</li> <li>overall strategic directions of the racing industry in WA.</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>Provides technical, consulting and support services for delivery of wagering services</li> <li>Technical support for:               <ul style="list-style-type: none"> <li>All RWWA wagering and racing information systems</li> <li>Data communication network</li> <li>Ticket machines</li> <li>Information security</li> <li>Racing Radio</li> <li>All wagering related technical infrastructure</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>Responsible for financial management and strategy, Risk and business continuity systems.</li> <li>Wagering compliance</li> <li>Audit and legal matters</li> <li>Administration of licencing and registration</li> <li>Business intelligence functions</li> </ul> | <ul style="list-style-type: none"> <li>Responsible for:               <ul style="list-style-type: none"> <li>Development and implementation of HR management</li> <li>Management of workplace and employee related functions</li> <li>Supports managers on recruitment, induction, performance management</li> <li>Payroll services</li> </ul> </li> </ul> |

### 3.1.3 Ownership of the TAB

In discussions around many of the privatisations of TAB's throughout Australia over the last three decades the question has been often asked as to the actual ownership of the TAB, the potential to argue beneficial ownership by the Racing Industry, and the ability of a Government to "sell" the TAB in a privatisation. As will be discussed later in the sections on privatisation in this Report there are many models as to the form of privatisation and what this can mean in terms of the structure of the privatisation or sale.

Whilst legal opinion could be sought to obtain more precision to this question in the case of WATAB, it would appear that any challenge to the ability of the Government to sell WATAB would be significantly problematic and the likelihood of success highly uncertain. Key matters/assets in the value and operation of a TAB, as are more fully explained in Section 6.2, are the infrastructure, networks and contractual arrangements underpinning the actual wagering operations of the TAB, the licence/authority/permission or similar granted ability from the Government to legally operate a betting agency (particularly an exclusive retail-based TAB operation), and access to the product on which the wagering is conducted - that including the race program, the races, the animals, the numbers, and the vision of the racing event.

Accordingly in any consideration of ownership and/or ability to sell or privatise, it is the ability to transfer these three value drivers to another party for consideration that would appear to largely determine the answer. In this context it would appear that the Racing and Wagering Western Australia Act 2003 confers all these to RWWA in that the Act confers on RWWA the ability to conduct off-course wagering (in effect the "licensee"), in accordance with this "licence" RWWA is permitted to own terminals and enter commercial agreements to undertake this off-course wagering, and as indicated above is the controlling authority and assumed the principal racing club/controlling authority responsibilities for the three codes, thereby owning and therefore ensuring access to the product on which wagering is conducted.

It would therefore appear that particularly with the last of these factors also sitting with RWWA and not specifically or by default with the WA Racing Industry, there is limited ability for the Industry to argue any rights to ownership of WATAB and/or RWWA. However, as it would appear that perhaps this issue has never been fully tested legally, and given the manner in which the WATAB was established and funded, there is some uncertainty as to the outcome of a challenge to WATAB ownership, however unlikely.

This issue would best not be pursued, given its propensity to be both a long drawn out court case and potentially very expensive for all parties, if the Western Australian Government appropriately engages with the Western Australian Racing Industry early in any potential privatisation of WATAB to agree the parameters that protects the funding and sustainability of the Industry if such a privatisation eventuates.

In a related and probably more positive context, it is however in the same section of the RWWA Act which confers the functions and powers of RWWA in relation to gambling (Part 5 – Specialised functions in relation to gambling), and particularly Clause 50, that the Western Australian racing industry needs to focus its attention. That is Clause 50(c) which requires RWWA as part of its gambling function:

“to develop and implement a scheme for the distribution of net profits and to negotiate funding agreements with individual racing clubs”.

It is under this clause that the current distributions, subsidies and other payments to WA Racing Industry participants and to Racing Clubs are made annually by RWWA.

The key linkage created here, and recognised within this Clause 50, is that of the exclusive nature of the retail off-course wagering licence being linked to the requirement and obligation to fund the WA Racing Industry. That is, the quid pro quo of getting such exclusivity, which is an extremely valuable asset to the wagering operator, given that retail turnover represents over 60% of WATAB/RWWA's total turnover, is to take on this WA Racing Industry funding obligation. In any potential privatisation of WATAB, such exclusivity (which currently sits with WATAB) will therefore need to be linked to WA Racing Industry funding obligations through the legislative and licencing processes, encapsulating a no worse off position for the Industry in this regard.

This exclusivity is what gives value in the privatisation of a TAB in terms of the proceeds of sale and accordingly has been a critical element of all TAB privatisations. The no worse off (or more specifically the no less favourable) provisions for the Industry Funding Model is a feature of the enabling Victorian legislation.

The ability to grant and enforce retail exclusivity clearly sits with the Government within the wagering licence framework and is therefore a fundamental provision of the licencing process within a potential privatisation. As discussed, with such exclusivity and therefore the ability to generate the profitability that such exclusive access gives to the wagering operator, the wagering operator is required to accept the obligation to fund the local racing industry under what is essentially a tripartite arrangement between the Government, the racing industry and the wagering operator.

If a privatisation is to occur, the RWWA Act will need to be amended in a number of areas to deal with the different ownership model and the matters outlined above, and more particularly this Part 5 of the RWWA Act. Therefore, what happens to Section 50(c) in any potential privatisation process is of particular focus for the racing industry. This is discussed in more detail in various parts of this Report, and particularly in Section 5.2.2.1.

### 3.1.4 The Operations of the WATAB

So to be entirely clear, the WATAB does not actually exist as a separate entity and is part of RWWA. As outlined above it operates through various business divisions of RWWA. Under the RWWA Act, the actual functions in relation to gambling of RWWA are essentially:

- (i) ensuring on-course wagering by bookmakers and racing club totalisators is conducted in accordance with the Betting Control Act 1954.
- (ii) to operate an off-course totalisator wagering service on races and certain sporting and other events
- (iii) to operate on-course totalisator wagering services for racing clubs when requested by the clubs

- (iv) to operate a fixed odds wagering service in relation to races and certain sporting and other events.

These are the TAB-type activities currently performed by RWWA, with the obligation for them to then satisfy section 50(c) as outlined above in relation to distributions to the WA Racing Industry.

The first of these functions outlined above in (i) is a compliance and regulatory oversight function that does not represent an actual gambling activity by RWWA itself and hence does not form a function that would represent a TAB activity, and would not form part of the functions that may be privatised. It is a wagering integrity responsibility that would be expected to stay under WA Government ownership.

#### 3.1.4.1 Pari-mutuel Betting

The activity covered under (ii) and (iii) above as an off-course totalisator wagering service and for on-course tote service provision represents what is called pari-mutuel betting. Pari-mutuel betting is a betting system in which all bets of a particular type on a specific event are placed together in a single pool. A prescribed percentage of that pool is to be paid back to winning bets (the prize pool) with the rest retained by the TAB as a commission to pay taxes, meet its costs, and to pay other requirements such as WA Racing Industry distributions in the case of RWWA. Accordingly, as the pool grows from the bets being placed the amount available to be paid for winning bets grows. The TAB is able then to display the potential dividends (winning bet payouts) that could be paid at that time for the bets placed at that time for each alternative result if the race or event occurred at that moment. This is determined by dividing the prize pool by the amount of bets on each outcome assuming that is the winning outcome. As time progresses until the race or event occurs and further bets are placed these different outcomes and the possible dividends keep moving with the amounts of bets into the pool and with the relative amounts bet on the different outcomes. This continues until bets can no longer be received when the race or event commences, at which time the actual dividends (prize payout) will be determined upon receipt of the results of the race or event. Therefore under this form of betting the punter does not know the prize dividend they will actually receive until after the race or event has finished irrespective of when they placed the bet.

Pari-mutuel betting of this type is only provided by TAB's in Australia, and therefore is either known as TAB or Totalisator or Tote betting in this country. As will be explained in Section 4.3.2 of the Report, a number of corporate bookmakers in Australia do offer products called Best Tote (TAB) Odds – they are essentially re-selling TAB dividends, not running a totalisator pool.

Accordingly in pari-mutuel betting the totalisator receives the set percentage of all bets placed and its return is not affected by the result due the dividend payouts being determined by the final amount of winning bets being divided into the prize pool.

These pari-mutuel approximate dividends leading up to a race, and the final result dividends actually payable after the race, are those that are displayed on screens throughout retail TAB outlets, race tracks and through internet and mobile devices in

respect of Tote or TAB odds for WATAB, Victorian (known as SuperTAB or S-TAB), NSW or Tatts, which are the four totalisator pools operating in Australia.

So in the case of WATAB this pari-mutuel betting is conducted for all off-course betting through the various channels of retail, self-service terminals, internet, mobile devices and phone betting by RWWA directly. On-course pari-mutuel or tote betting in Western Australia is currently also coming into the WATAB pool but on behalf of the Racing Clubs who hold the totalisator wagering licence in relation to such betting on their course on race days.

### 3.1.4.2 Fixed Odds Betting

In contrast to pari-mutuel betting, fixed odds betting is a form of wagering where the punter receives and retains the odds that have been quoted to them at the time when they place the bet. Irrespective of any subsequent change in the odds that may be provided to other punters for the same type of bet the odds provided to the original punter will be what they received at the time of placing their bet. Accordingly, unlike pari-mutuel betting, punters who therefore bet on the same outcome will receive varying odds on which they will receive different prize dividends if their outcome is a successful outcome. In this case the wagering operator (bookmaker) will actively price and adjust the odds in an attempt that they make a profit irrespective of the actual outcome of the race or event (although this may not always be possible). So in this case the fixed odds will vary leading up to the race or event as the wagering operator seeks to “manage” the book, but if a punter has previously placed a bet with the bookmaker the punter’s dividend remains unchanged if the bet is successful.

Accordingly, in this type of betting the wagering operator is not assured of a commission or a profit, with profitable outcomes for the wagering operator dependent upon their skills at managing this risk within the book for the range of probabilities of different outcomes. The wagering operator is therefore putting its own money at risk in this situation, and fixed odd betting for a wagering operator is therefore more risky than totalisator betting for the operator, as the profit margin is not guaranteed and can vary significantly across each outcome. This risk is somewhat mitigated by the wagering operator offering such betting on many types of races and events to diversify their risk across a wide range of different propositions (similar to diversifying stock market equity investment risk through holding a wide portfolio of different company shares).

### 3.1.4.3 WATAB Betting

In accordance with its enabling legislation, RWWA conducts both of these forms of betting under the TAB and TABtouch brands. The pari-mutuel betting or totalisator betting pricing appears under the WATAB pool pricing on screens and devices. The key management considerations in operating a totalisator pool are:

- the wagering or betting system – ensuring it accurately and efficiently records and processes all bets received and automatically ensures accurate pricing of prize dividends up to and following the race or event.
- the size of the total betting pool and therefore of the prize pool – major considerations flowing from the size of the pools are:

- betting pools need to be large enough to allow the totalisator operator to receive sufficient commission to meet the high fixed costs of providing totalisator betting and to meet taxes and, in WATAB/RWAA's case, the distributions and other funding to the WA Racing Industry.
- the size of the resulting prize pool needs to be large enough to ensure that the prize dividends for punters are:
  - (i) of sufficient magnitude to encourage all punters to continually bet into the pool.
  - (ii) not subject to overly wide fluctuation or potential manipulation by a small number of large punters to the detriment of all other punters.

This perspective obviously needs to be considered across the entire operation, but also needs to be monitored on a per race or event basis to avoid too many such possible instances (although it is largely unavoidable given some races or events will obviously be less interesting to punters).

- to provide these pool sizes it is important to enable punters to be able to bet into the relevant race or event pools easily and for time periods as early as possible prior to the race or event, and through whatever medium they wish, be it retail off course, self-serve terminal, on-course, call centre, internet or various forms of mobile devices.

Whilst an assessment of how successful WATAB has been in achieving these outcomes will be discussed later, its approach to addressing these tote pool size issues has been to enter into a long term pooling agreement with Tabcorp under which the pari-mutuel bets put on with WATAB essentially all get added into the SuperTAB pools operated by Tabcorp in Victoria and successful punters receive the prize dividends that are determined and paid from those racing pools, which in 2013 was around \$5.5 billion in total. This enables WATAB to provide its punters with the magnitude and integrity of the dividends that flows from the punters being able to bet into sufficiently large totalisator pools in the vast majority of instances. (Products not pooled include Favourite Numbers, tipping, Footo, some country WA races, and some international races).

For fixed odds betting as explained above, whilst size of pool is an important management consideration for the wagering operator, it is critical that the bookmakers who are setting the prices that are being offered are carefully managing the probability risk of each race or event pool so that any outcome will not cause the wagering operator to in fact lose money and therefore be faced with the need to fund the pool deficit.

As each punter has locked in their odds and potential prize dividend if successful under fixed odds betting, the punters concern is not to the volatility or magnitude of their potential prize dividend as with the Tote, but just ensuring the wagering operator has sufficient funds to pay the prize dividend. Subject to getting the price setting managed right, the spread and overall size of betting in a particular fixed odds pool will generally assist the wagering operator to achieve appropriate outcomes for them and the punters.

The key management factor is however, the ability of the bookmakers of the wagering operator who are managing each book/pool for each race or event to effectively price and risk manage that book/pool to provide fixed odds that attract betting across the field of participants whilst ensuring a profitable outcome for the wagering operator.

In relation to WATAB/RWWA's fixed odds betting offer, RWWA has elected to not attempt to build this bookmaking competency internally but to outsource this to existing fixed odds wagering operators who already have the infrastructure and people to undertake this fixed odds pool management. This has been outsourced over the last few years to various providers. Initially such services were provided by Tabcorp, and then Sportingbet, Centrebet, and now is undertaken by William Hill pursuant to a Management Agreement between RWWA and William Hill.

#### 3.1.4.4 WATAB Betting Channels

There are various channels through which punters can place a bet (either pari-mutuel (Tote) or fixed odds) with WATAB/RWWA. These Channels are listed and explained below:

- Licenced Outlet – Pubs – TAB's located within hotels which can be either full service operator terminals with personnel behind the pub counter providing tickets from the terminals and collecting and paying bets and dividends, or self-serve terminals, or both
- Shop front retail TAB outlets – these full service shops offer the similar betting experience as for betting in a licenced premises (minus the liquor licence) with betting terminals at the counter with personal service behind the counter, and self-service terminals. These shops operate under various models with RWWA ranging from agency arrangements, through assignable licencing, to some being directly operated by RWWA.
- Self-service terminals – these are punter operated betting terminals connected to WATAB/RWWA's wagering system located at TAB outlets and on-course that enable the punter to place his/her own bets and feed cash into the bill acceptor contained in the terminal. Accordingly, the punter does not need to go to the counter to use a terminal operator to place a bet.
- On-course – full service operator provision similar to the retail outlet experience with a number of courses having self-service terminals. In this case the punter's bet is going into the WATAB pool and system, but the bets are effectively being placed under the relevant Racing Club's own on-course totalisator licence as opposed to all of the off-course bets being under RWWA's betting authority.
- Call Centre – subject to opening a betting account with WATAB/RWWA punters are able to call an operator at the WATAB call centre and put a bet on over the telephone by verbally telling the operator the bet the punter wishes to place. In addition, RWWA has Interactive Voice Recognition (IVR) where no operator exists but the bet is taken by an electronic system from the call.
- Internet – again subject to opening an account with WATAB/RWWA punters are able to place a bet via an individually password controlled access to the punter's account through the TABtouch website. This can be done through any internet enabled device.
- Interactive TV – with an account punters are able to place Tote bets through the TABtouch website via interactive TV.

- Mobile Wagering – subject again to having opened an account with WATAB/RWWA punters are able to place bets via their mobile telephone and/or mobile tablet device through TABtouch apps.

#### 3.1.4.5 The Operational Financial Flows of WATAB/RWWA

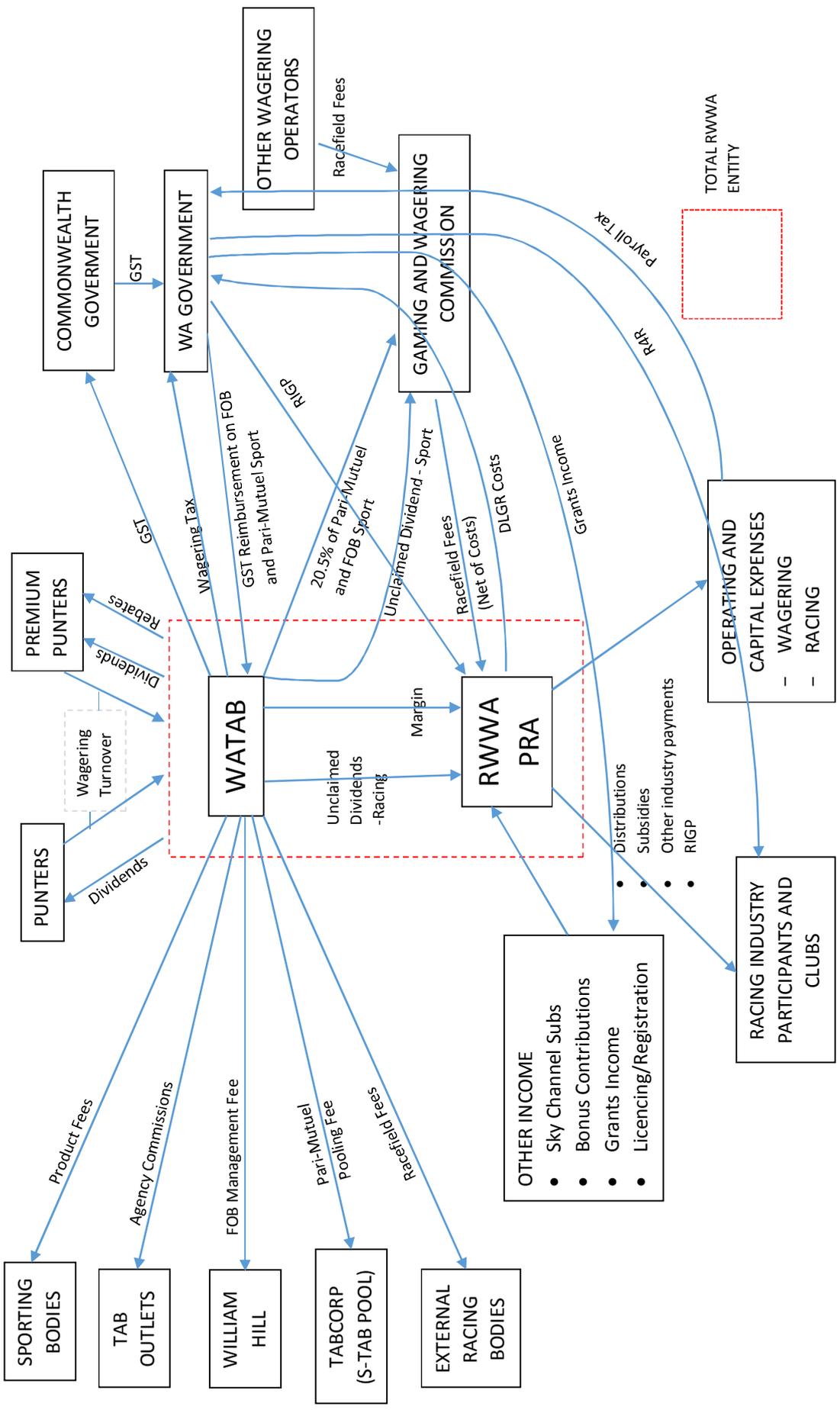
As the WATAB business is embedded within the operations of RWWA there is an intermingling of operational cash flows that would be considered to be related to TAB activities and operational cash flows that would be considered to be related to racing industry integrity, operations and promotions activity in its role at the Principal Racing Authority (PRA).

Chart 3.1.4.5 on the next page contains a diagram that sets out the cash flows of RWWA in respect of both of these activities. These flows are explained in some detail below:

1. **Wagering Turnover from punters** - the total amount of wagers bet with the WATAB on all types of pari-mutuel and fixed odds betting. For the 2013/14 financial year it is expected that this turnover will exceed \$2.2 billion (of which less than 1% is on-course). Pari-mutuel (Totalisator) betting represent approximately 81% of this total turnover (almost exclusively racing), and fixed odds around 19% (of which just over 62% is racing wagering with the rest on sport).
2. **Wagering dividends** – payments made to punters from the pools formed by their wagers in relation to winning bets. In the pari-mutuel pools, with minor variations for channel types and bet locations the proportion of dividends paid out of turnover bet is around 79.82%. Whilst as explained above the gross margin on fixed odds betting for the wagering operator is not fixed as for pari-mutuel betting, it is believed the WATAB achieves a gross margin of around 14% of turnover on its fixed odds betting.
3. **Pooling/Management Fees** – as explained above, WATAB doesn't operate its own pools except for a few products outlined in Section 3.1.4.3. In the case of pari-mutuel wagers with WATAB most of these are combined into Tabcorp's SuperTAB pools and pooling fees are paid on a percentage rate of WATAB's pooled wagering turnover. In the case of fixed odds betting the bets are managed by William Hill within its systems as separate WATAB pools, for which a management fee is paid to William Hill based on a percentage of the gross margin generated. These fees together are understood to have totalled over \$18 million in 2012/13.
4. **Goods and Services Tax (GST)** – WATAB/RWWA pays GST to the Commonwealth Government. The GST is paid on WATAB's wagering margin. This amounted to \$26.85 million in 2012/13.
5. **Commonwealth Government GST Distribution** – through the Commonwealth / State financial arrangements GST collected by the Commonwealth Government is distributed to the State Governments.

# EXPLAINING THE WATAB, RWWA AND PRIVATISATION

### CHART 3.1.4.5 - RWWA FINANCIAL FLOWS



6. **GST Reimbursement** – the Western Australian Government provides WATAB/RWWA with a reimbursement of GST paid on the fixed odds betting margin and the pari-mutuel sports margin. It is understood this represented around \$2.3 million in 2012/13. Wagering tax rates on racing were reduced in 2007 to the extent of the GST applicable and the rebate on this betting was therefore eliminated.
7. **Wagering Taxes** – the Western Australian Government levies wagering taxes on the WATAB/RWWA as defined under the RWWA Act. The current tax rates are outlined below:
  - a tax on pari-mutuel sports wagering turnover levied at 5 percent of turnover
  - a tax on fixed odds sports wagering at 0.5 percent of turnover
  - a tax on fixed odds racing wagering turnover levied at 2 percent of turnover
  - a tax on off-course racing wagering turnover levied at 11.91 percent of gross margin (a taxation concession rebate applies for premium punters)

In 2012/13 the total wagering tax paid was \$40.42 million of which \$37.71 million was taxes paid on margin (ie, pari-mutuel racing)

8. **Product (Racefields) Fees Expense** – WATAB/RWWA pays product fees to interstate and international racing industries so that it can publish interstate and international racefields and take wagers on these interstate and international races. The various product (racefields) fee structures in each Australian jurisdiction are outlined in Section 4.4.1. In 2012/13 it is understood that these international and interstate product fees totalled around \$33.3 million (including on-course fees).
9. **Product (Racefields) Fees Received** – on the same basis, the Western Australian Government has legislated under the Racing Bets Levy Act 2009 and associated Regulations to prescribe a levy to be paid by betting operators betting on WA races and determine and prescribe the amount of the levy. The Western Australian Government receives the levy via the Gaming and Wagering Commission and under the Gaming and Wagering Act has determined at present that these be paid through to RWWA (net of administration costs of the Commission) for distribution to Racing Clubs. The amount believed to have been received by RWWA in this respect in 2012/13 was around \$31.1 million.
10. **Sports Wagering Account** - under the RWWA Act the WATAB/RWWA is required to pay 25% of its margin (after wagering tax) on pari-mutuel and fixed odds sports betting to the Sports Wagering Account held by the Gaming and Wagering Commission (reported by RWWA as Distributions to Sport).
11. **Unclaimed Dividends** – winning dividends that punters have not collected after 7 months from the date of the race or event are released from the prize pools of RWWA and, in the case of sports bets are paid to the Sports Wagering Account in the Gaming and Wagering Commission (reported by RWWA as Distributions to Sport), and for racing go into RWWA's general funds for distribution. Unclaimed dividends usually represent about 0.4% of total dividends, and in 2012/13 provided RWWA with \$8.25 million in racing unclaimed dividends as income.
12. **Fractions** – dividends may be rounded down to the nearest 5 cents and any proceeds of this flows to RWWA general funds in accordance with Section 60(3) of the RWWA Act. It is understood that this represents around 0.8% of pari-mutuel racing turnover. This is partly offset by adjustments for minimum dividends and the like which would suggest these matters represent around \$10-11 million of net funding for RWWA annually.

13. **Premium Customer Rebates** – turnover volume rebates are provided to large (Premium) punters given the amount of betting business they provide. These are partly funded by wagering tax reductions on this particular turnover.
14. **Distributions to Racing Clubs and Sports Organisations** – distributions, grants and implicit subsidies are made to the racing industry and to the sports industry by RWWA, essentially all funded out of the operations of the WATAB. RWWA provides distributions in accordance with its current distribution model (which will be discussed further throughout this Report). Total distributions for the 2012/13 and 2013/14 years were \$117.67 million and \$124.19 million respectively allocated as follows:

|               | 2012/13           | 2013/14                                |
|---------------|-------------------|--|
| Thoroughbreds | \$ 69.02 m        | \$ 73.61 m                             |
| Harness       | \$ 29.77 m        | \$ 30.36 m                             |
| Greyhounds    | \$ 14.88 m        | \$ 15.77 m                             |
| Sports        | \$ <u>4.00 m</u>  | \$ <u>4.45 m</u> (see 10 and 11 above) |
|               | <b>\$117.67 m</b> | <b>\$124.19 m</b>                      |

RWVA provided Grants and Subsidies in addition to these distributions of \$2.19 million and \$11.04 million in 2012/13 and 2013/14 respectively. RWVA also provides a number of sponsorships to Clubs ranging from \$20,000 to \$100,000.

15. **Agency Commission** – retail TAB outlets operate under various business and financial arrangements with WATAB/RWVA in terms of being a distribution channel for wagering. Commissions are paid to these operations which in 2012/13 generated around \$33.4 million in payments made to these outlets.
16. **Other Income** – in 2012/13 this was around \$9.5 million and is understood to comprise a variety of income sources including charges from Sky Channel subscribers (Pubtabs, etc), racing licencing and registration fees, grant monies from the WA Government such as for the R4R and RIGP grants programs, and various recoupments.
17. **Product Fees** - fees are paid to other sporting bodies including the AFL and Tennis Australia for wagering on their sporting product. These fees amounted to \$0.9million in 2012/13.
18. **Costs of operation** – RWVA incurs operating and overhead costs for conducting its wagering business, in its role of providing governance to the wagering and racing industries, and in the various other functions that flow from its role of the Principal Racing Authority in Western Australia, including payroll tax paid to the WA Government of around \$2 million per annum. As these roles use a variety of support services as well as have dedicated staffs and divisions, it is difficult to precisely split up the total operating cost of an estimated \$128 million in 2012/13 between these roles. It has been roughly estimated that the costs of the wagering business (with some allocated cost) is in the vicinity of \$100 million.

It should be noted that of these RWVA operating costs there is over \$800,000 per annum paid to the Gaming and Wagering Commission and the Department of Racing, Gaming and Liquor to defray their costs.

### 3.1.4.6 The Capital Financial Flows of WATAB/RWWA

Outside the specific capital expenditure on the wagering system and any retail network related expenditure, the WATAB operation has little call on capital expenditure requirements.

Capital funding has in the past been sought for industry infrastructure funding requirements from the Western Australian Government through business cases put to the relevant Government Departments by RWWA. At present (until 2015) the Western Australian Government is providing funding through RWWA under the Racecourse Infrastructure Grants Program for Race Club investments in infrastructure, and also providing matching funding for some of the regional investments through the Royalties for Regions program.

RWWA provides no other specific capital funding, focusing on its annual distributions from its operations to the Racing Clubs and Industry Participants. Some limited investment in training facilities and the like are made occasionally.

### 3.1.4.7 The Current Financial Situation of WATAB/RWWA

As outlined above, without having the ability to fully review and analyse the detailed accounts of RWWA, it is not possible to completely separate out the WATAB's results from the overall RWWA results. However, in overall terms, when looking at the annual operating flows of RWWA, essentially RWWA generated most of its income from the TAB operation, supplemented by the Product Fees received via the WA Government and the GST Reimbursement by the WA Government on Fixed Odds Betting and Pari-mutuel sport. After paying Wagering Taxes to the WA Government, costs of TAB sales including pooling/fixed odds management fees, product fees and rebates, and operating costs for the TAB and Racing Services, the balance is available for Distributions and other funding of the WA Racing Industry. RWWA distributes most of this annually, with some profit retained to provide cash balances as a reserve buffer should the TAB operations in a particular year not generate sufficient profit to allow racing industry funding to be the same as or increase on the previous year. (Cash is also retained for future wagering and racing capital expenditure requirements).

The 2012/13 financial performance of RWWA has been restated in a different format below from the Statement of Comprehensive Income in its Annual Report to attempt to better show its inflows and outflows.

| Item                                      | \$M          | \$M     | \$M |
|---|--------------|---------|-----|
| <b>Inflows</b>                            |              |         |     |
| Wagering Margin<br>(net of GST)           |              | 315.741 |     |
| Grant Income                              |              |         |     |
| • Government Grant                        | 0.561        |         |     |
| • Racefield Fees                          | 31.123       |         |     |
| • Racing Infrastructure<br>Grants Program | 0.207        |         |     |
| • GST Reimbursement                       | <u>2.296</u> | 34.187  |     |

|                                 |               |                |                |
|---------------------------------|---------------|----------------|----------------|
| Unclaimed Dividends – Racing    |               | 8.253          |                |
| Racing Services – other revenue |               | 4.749          |                |
| Other Revenue                   |               | 4.778          |                |
| Interest Revenue                |               | <u>2.609</u>   | 370.317        |
| <b>Outflows</b>                 |               |                |                |
| TAB Cost of Sales               | 72.320        |                |                |
| Wagering Tax                    | 40.417        |                |                |
| Wagering Services Expenses      | <u>82.549</u> | 195.286        |                |
| Racing Services Expenses        | 15.557        |                |                |
| Support Services Expenses       | <u>29.996</u> | 45.553         |                |
| Grants and Subsidies            |               | 2.199          |                |
| Distributions                   |               |                |                |
| • Racing                        | 113.662       |                |                |
| • Sport                         | <u>4.003</u>  | <u>117.665</u> | <u>360.703</u> |
| Net Profit after Distributions  |               |                | <u>9.302</u>   |

Ultimately the level of net profit will be determined by the distributions paid in the year. The 2009/10 year saw the combination of the Global Financial Crisis, the onset of the equine influenza impact on racing in the Eastern States, and Tabcorp pooling charge increases all work to result in a reduction in distributions by RWWA because of diminished profitability. This immediately led to reduced levels of racing stakes prizemoney, particularly in thoroughbred racing, reflecting the fragile nature generally of the funding models of animal racing. The WA Racing Industry is finely balanced and leveraged to the wagering based income distributions and other funding flowing from the wagering placed on its product. This will be discussed in detail in Chapter 5 of this Report.

RWWA has accordingly adopted a very constructive and prudent risk management approach to this situation of building up cash reserves to provide a cash buffer capability to smooth out any potential volatility in its profitability from wagering performance or general industry changes. RWWA's 2013 Annual Report reflected a cash and cash equivalent balance of \$67.7 million, with a net working capital position of \$32.2 million, which suggests a cash reserve buffer of around possibly \$40 million for these purposes.

The \$5 million of special distributions to Racing Clubs provided at the end of the 2013/14 financial year indicates an enhanced profit performance by RWWA for the year, and it is understood that further money was able to be put aside for these cash reserves balances.

Overall RWWA reflects a very solid financial position with good annual performance, cash reserves, it owns its property and computer system assets, and is debt free. The questions to be examined later in this Report revolve around the sustainability of RWWA's wagering profitability, what position the racing industry of Western Australia is in flowing from these distributions at present, and coming out of these is the issue of the sustainability of the Western Australian racing industry.

## 3.2 Privatisation

### 3.2.1 What is Privatisation?

Privatisation is the process of transferring ownership of a business, enterprise, public service or public property from the public sector (a government) to the private sector, either to a business that operates for a profit or to a not-for-profit organisation. It may also mean government outsourcing of services or functions to private firms.

The Western Australian Government has not yet reached the stage of defining exactly what it is seeking to privatise when it refers to the potential sale of the WATAB. However, it would seem reasonable to assume that it is referring to looking to transfer RWVA's wagering responsibilities to a non-government owned entity. A number of RWVA's functions that involve integrity, compliance and administrative oversight of racing and of wagering activities generally would logically not be activities that would be traditionally or logically privatised. Accordingly, throughout this report it will be assumed that it is just the wagering activities of RWVA undertaken under the TAB and TABtouch brands that are being considered for privatisation, which will be called WATAB. In effect this means that these activities would be separated out from RWVA for the purposes of sale.

The remaining activities and functions of RWVA will obviously still need to be performed (potentially by Racing Western Australia (RWA)-RWVA without the first W for wagering), which will be discussed in more detail later in the Report.

### 3.2.2 Forms of Privatisation

The actual transfer of ownership of a business or an activity from a government owned entity to a private operator (privatisation) can in fact occur in many different forms, with very many aspects within each of these forms that can significantly impact the attractiveness, value, and impacts on stakeholders of such a privatisation. In general terms privatisations can occur by:

1. **Share Issue Privatisation** – under this method the Government forms a company into which it transfers the wagering operations and then floats the company on the stock exchange by selling shares in the Company to private investors. The Victorian (1994), New South Wales (1997) and Queensland (1999) TAB's were privatised in this way.
2. **Asset Sale Privatisation** – selling an entire organisation (or part of it) to a strategic private investor, usually by an auction process or through direct negotiation with a natural buyer. Privatisations of this type have occurred with the TAB's of Northern Territory, South Australia, Tasmania and most recently the Australian Capital Territory, as well as most lottery operations around Australia.

Such a sale can be achieved through selling the shares of a company that the Government has put the wagering operations in, or it can simply be selling the actual wagering operations assets without the whole company being sold. Whilst these two alternatives effectively end up with a similar operational outcome, they can be very different in legal terms for the buyer.

The potential privatisation of WATAB will be discussed in detail in Chapter 6 of this Report. However, the key element in a TAB privatisation is the licence to operate the TAB's wagering business. If a TAB wagering business is sold without a licence, but a new licence is issued once the business operations have been purchased, it is possible that the ACCC's jurisdiction in the matter is quite different than if the business is sold with an existing licence.

### 3.2.3 Privatisation of WATAB

Given what has been discussed above, the Report now will consider what may be involved in a privatisation of WATAB, and how it might occur.

Firstly, given a number of factors, particularly that WATAB does not have its own betting pools and hence relies on others for pooling and/or betting management, and the increasingly competitive and somewhat cluttered wagering operator space in Australia, it is unlikely that the Government would consider trying to sell the WATAB through selling shares on the stock exchange. All three TAB's privatised in this manner had their own betting pools of significant size, in a time of no corporate bookmakers and supporting interstate betting arrangements that provided the basis for such an approach. This is not the case today nor for WATAB's operations.

These factors do also significantly impact upon an asset sale to a strategic investor, but are matters that can be managed by a buyer who has existing, broader and complementary interests that enable the buyer to deal with the risks differently than an existing stand-alone WATAB floated on the stock exchange would present.

If an asset sale privatisation was to be undertaken of the WATAB how might it therefore proceed. The first step would be to separate the WATAB operations from the rest of RWWA, identifying the specific assets, people and operations that apply to the running of the WATAB. The assets and operations that would be transferred, sold or newly instituted in any potential privatisation would likely include:

- The wagering IT system, including the central wagering software and equipment and terminals, including self-service terminals
- The website and mobile application software that underpins the electronic / on-line betting of WATAB
- The pooling agreement with Tabcorp
- The fixed odds management agreement with William Hill
- The licencing and agency agreements with all the retail TAB outlets
- All the account customer details
- Any specific intellectual property in wagering products, systems and branding/marketing
- Employment contracts with all relevant staff
- Potentially the head office property (although what remains of RWWA may retain this property)
- Premium customer relationship arrangements
- The authority that currently exists under the RWWA Act to be the exclusive provider of retail wagering betting in Western Australia
- Arrangements with Western Australia racing clubs and authorities to provide on-course wagering services
- The various government funding and reimbursement arrangements in place under the various pieces of legislation and regulation within which WATAB operate.

The additional fundamental questions that will significantly impact the attractiveness and therefore the value of the WATAB business will be whether the wagering tax regime and the Distributions and all other funding to the WA Racing Industry currently faced by RWWA as part of its wagering functions remain in place at the current levels or at all. In addition, whether all the items outlined above as assets are to be part of the sale, and what value a prospective buyer may place on each of them, will also affect the attractiveness and value of the business being privatised/sold. These are all discussed in Chapter 6.

### 3.2.4 Structures of Australian TAB Privatisations

Whilst this Report will deal specifically with racing industry funding models in Chapter 6, this section sets out the actual structures involving the 3 key parties to TAB privatisations – the Government, the privatised TAB and the Racing Industry – that have evolved from each States' TAB privatisations.

#### New South Wales:

- On privatisation in 1998, TAB Limited, now Tabcorp, received a 99 year wagering licence with 15 years of retail exclusivity, and the NSW Racing Industry and TAB Limited entered into a 99 year contract, known as the Racing Distribution Agreement (RDA).
- The RDA governs the number of race meetings, fees due to the racing industry, and governance arrangements.
- TAB Limited pays distributions to the Racing Industry as follows:
  - 21.64% of net revenue
  - 25% of net profit
  - An annual lump sum of \$12 million (CPI indexed)
- Given the net profit component within this agreement, the arrangement operates as a form of partnership.
- Licence for retail wagering exclusivity extended to 2033 in 2013 for payment of \$75 million.

#### South Australia:

- TAB Queensland, now Tatts Group Ltd, acquired the SATAB in 2001 with an exclusive licence to 2100, with all bets through SATAB going into the Tatts wagering pool.
- SATAB is therefore a branch office serving its retail distribution channel.
- The SA Racing Industry receives funding from SATAB of 42% of gross wagering revenue and the SATAB paid 6% of gross wagering revenue in wagering tax to the South Australian Government.
- The wagering tax on racing was removed in 2012 to provide improved racing industry funding, having been phased down from 2009.

## Victoria:

- Upon listing the Victorian TAB under the name of Tabcorp, Tabcorp obtained a wagering licence and an electronic gaming machine licence running to 2012 and was required as a condition of the licence to enter into a 75%/25% joint venture arrangement with the Racing Industry.
- A new licence commenced in August 2012 for 12 years with the following financial agreement :

| <b>VICTORIAN WAGERING AND BETTING LICENCE<br/>AND TABCORP WAGERING'S ARRANGEMENTS WITH THE<br/>VICTORIAN RACING INDUSTRY (FROM AUGUST 2012)</b> |   |
|---|---|
| Joint Venture (JV) profit share   | <ul style="list-style-type: none"> <li>• 50% Tabcorp</li> <li>• 50% Victorian racing industry</li> </ul>  |
| Sole retail wagering and betting licence under the Gambling Regulation Act 2003 (Vic)   | <ul style="list-style-type: none"> <li>• Sole licence authorising wagering and betting on approved betting competitions via a Victorian retail network</li> </ul>   |
| Tax rates under the Gambling Regulation Act 2003 (Vic) (incl. GST)  | <ul style="list-style-type: none"> <li>• Pari-mutuel (thoroughbred, harness and greyhound racing): 16.69% of revenue</li> <li>• Fixed odds: 13.47% of revenue</li> <li>• Simulated racing events (Trackside): 20.00% of revenue</li> </ul>  |
| Product fees  | <ul style="list-style-type: none"> <li>• Product fee of 15.0% of pari-mutuel, all fixed odds and simulated racing events (eg Trackside) revenue and betting exchange commissions</li> </ul>   |
| Program fee   | <ul style="list-style-type: none"> <li>• \$72.6m, subject to indexation</li> </ul>  |
| Race fields   | <ul style="list-style-type: none"> <li>• JV will bear race fields fees on non-Victorian product.</li> </ul>   |
| Asset Charge revenue  | <ul style="list-style-type: none"> <li>• Tabcorp's net recovery is 50% of depreciation and financing costs given its 50% interest in the JV</li> </ul>  |
| Victorian Racing industry benefit   | <ul style="list-style-type: none"> <li>• Victorian racing industry to receive 11.51% of pari-mutuel revenue on thoroughbred, harness and greyhound racing, which is to be paid by the JV. The rate may change with reference to state tax rates that may apply</li> </ul>   |
| Minimum performance obligation  | <ul style="list-style-type: none"> <li>• Minimum aggregate amounts to be received by the Victorian racing industry, with Tabcorp Wagering to pay any shortfall <ul style="list-style-type: none"> <li>○ \$337 million in FY2013;</li> <li>○ \$342 million in FY2014;</li> <li>○ A total of \$1 billion (including the amounts set out above) in respect of the period from licence commencement to the end of FY2015</li> </ul> </li> <li>• These minimum aggregate amounts are subject to certain exceptions, (including in relation to retail exclusivity)</li> </ul> |

## Queensland:

- When the Queensland TAB privatised via a float on the Australian Stock Exchange under the name TAB Queensland (now Tatts Group), Racing Queensland Limited (RQL) entered into a Product and Program Agreement with Tatts under which RQL provides Tatts with access to both Queensland and national racing programs in return for a fee of 39% of race wagering revenue.
- Tatts has a race wagering licence until 2098 with retail exclusivity up to 2014.
- Tatts and the Queensland Government recently renegotiated the licence terms as follows:
  - Race and sport wagering licences both run to 2098, with retail exclusivity to 2044.
  - Wagering tax on pari-mutuel reduced from 20% to 14% of margin, and fixed odds from 20% to 10% of gross margin  
Variable product fee of 39% of gross wagering revenue with ability to offset national and international racefield fees against the variable product fee (but with certain shortfall provisions if offset exceeds RQL's racefield receipts), plus \$15 million fixed product fee (CPI indexed), and 2.5% of retail fixed odds sports revenue capped at \$5 million per annum (indexed).
  - Licence fee of \$150 million paid in instalments to the Government over 10 years
  - Other marketing, joint venture and exclusive on-course advertising commitments.

## Tasmania:

- Tatts Group Ltd acquired the Tasmania TAB (Tote Tasmania) in 2012 for \$103 million
- The arrangements put in place for Tote Tasmania post the sale is that Tatts pay an annual licence fee of around \$7.0 million (CPI escalating) with no wagering tax and no product fees payable to the Tasmania Racing Industry
- Tasracing, a state owned company representing all three codes in the Tasmanian racing industry, is funded by the Tasmanian Government through appropriations worth \$27 million a year over a 20 year period, and indexed annually over the life of the 20 year funding deed.
- Tatts Group has a retail totalisator licence that runs for 50 years, with a further 49 year option. The licence is exclusive for 15 years.

## Northern Territory:

- TAB Queensland, now Tatts Group purchased the NTTAB in 2000 and with the sale was granted a Totalisator licence for a period of 15 years.
- Under the licence NTTAB pays 40% of gross margin on most events.
- The Department of Sport, Recreation and Racing manages the NT Government's industry funding agreements that are negotiated with the thoroughbred and greyhound racing clubs.

## Australian Capital Territory

- Tabcorp purchased ACTTAB in July this year for \$105.5 million
- The licences it has acquired is a guaranteed exclusive totalisator licence for 50 years, a sportsbetting licence for 15 years with further rolling extensions to 50 years, and ongoing approvals to offer Keno and Trackside products for 50 years.
- A licence fee on the totalisator licence of \$1 million per annum (CPI indexed) is payable, but no wagering tax or product fees to ACT Racing entities are payable (similar to Tasmania). The wagering tax on the sportsbetting licence is expected to be less than 1% of turnover.

- The Government has entered into a funding arrangement with the ACT Racing Industry believed to represent around \$8 million per annum to 2017, after which arrangements are uncertain but appear to possibly rely on a combination of on-course totalisator proceeds and some Government funding.

So as can be seen from the above there are various models by which TAB's have been privatised in Australia, which arguably have evolved from the variety of reasons for, and objectives of, Governments selling their TABs to privately-owned operators.

It needs to be recognised that the original privatisations of a number of these TAB's occurred under a completely different Australian wagering environment, specifically without corporate bookmakers and with the "Gentlemen's Agreement" operating (ie an informal agreement between TAB operators that they would each fund their own racing industry and allow other TAB's to offer wagering on their product on the understanding that no TAB would seek to sell bets into another jurisdiction). Accordingly, the models described above reflect a mix of the original structures and elements of updated arrangements given the passage of time.

In this context it is therefore extremely difficult to make any substantive judgements in relation to the success or otherwise of these privatisations, particularly as they relate to the respective racing industries, given the many intersecting factors that can effect a racing industry. It is important to understand that gambling in Australia is actually an activity governed under State/Territory powers – it is not under Federal Government jurisdiction.

So the Federal Government (other than through its telecommunication powers relating to transmission of data) cannot legislate in relation to gambling, it is a State/Territory power. Accordingly, the TAB's were State or Territory based and "owned", and racing industries evolved on a State/Territory basis. It has been through the corporate activity (through acquisition and/or pooling) of Tabcorp and Tatts that TABs have therefore been able to be combined and get some scale that State or Territory based TAB's were unable to achieve alone. Accordingly, in an overall sense, the privatisation of TAB's has provided a better scale and hence economics (in most cases) of TAB wagering operations for the various racing industries.

This has not however necessarily been the case for some specific State or Territory racing industries. Lack of local scale, and in the case of Tasmania some concerns on the TAB's operations, led to sale processes that saw the Government take over industry funding to achieve sales value, not a position recommended for the WA Racing Industry. The privatisation of South Australia TAB and perceived subsequent concerns with it could probably be associated with racing industry issues and some incomplete risk management structuring of the privatisation more so than the act of privatisation itself. With Queensland there is often a reference to flat distributions following privatisation, which would appear to flow from the wagering challenges faced in the performance of the TAB and a period of some flux in the local racing industry. NSW and Victoria reflect scale and scope in their wagering operations and their racing industries that could be said to flow from privatisation of the TAB (but it is difficult to be specific).

The following section explores some of the reasons why Governments may elect to privatise their government-owned TAB.

### 3.2.5 Why Privatise a TAB ?

There are a number of reasons why a State Government may choose to seek to privatise its TAB, and these include:

1. To reduce government debt levels that are causing high interest expense to the annual budget, and/or to address concerns around the credit rating of the State.
2. The Government determines that it should no longer be associated with the ownership of gambling operations.
3. The Government is of the view that as a result of wagering industry structural change, of industry competition, and/or of the general outlook for wagering turnover, that value is to be maximised by a sale at this time.
4. The Government is of the view that passing the operations to a privately-owned operator is a better model (financially and perhaps politically) than government ownership.

Of the reasons above 1, 3 and 4 largely run to financial matters and to questions of value in relation to the consideration of whether through the act of privatising the TAB the State receives better value than if it retains the TAB in government ownership. The second reason is often raised as a convenient social policy argument to justify a sale that is effectively an economically justified one (particularly for the first reason outlined above), particularly in the situation where other gambling assets are government-owned, such as a lottery business. This position must not, however, be confused with an argument that such privatisation of ownership is inconsistent with allowing other forms of gambling, eg Casino operations. Correctly regulating and taxing gambling operations and requiring licence fees/payments is different from ownership and should not be seen as inconsistent with a Government looking to sell a gambling asset it currently owns.

In any discussion as to the matter of value for a privatisation as outlined above, the fundamental decision for the State Government is whether the value the State receives from the sale of the TAB to private owners outweighs the value the State receives from ongoing government ownership of the TAB.

This value equation will have both financial and social considerations, and will include impacts upon the following:

#### Direct Financial Benefits

- The wagering tax inflows to the Government from the TAB
- The product (racefield) fees received by the State from interstate and international wagering operations wagering on Western Australian product
- The Distributions, the costs of racing operations and integrity services, and other payments paid to racing clubs and participants in the industry by the TAB from Western Australian and interstate/international punters turnover

- Profitability after WA Racing Industry funding by WATAB/RWWA
- The investment by owners and other participants into the local racing industry
- Flow on economic effects to and from the many suppliers to the industry, and to all local businesses from raceday events

### Social Benefits

- Community benefits (even to the extent of meeting Community Service Obligations) of racing, particularly regional racing, to local cities and towns
- Employment
- Assistance to charities from racing activities

These are clearly all the factors that the State Government needs to weigh up in both its decision of whether to privatise or not, and if it chooses to, what should be the structure and operational framework. In its simplest form, the amount that a potential buyer will pay for a TAB is largely dependent upon:

- a. What the buyer believes is the amount of net margin revenue it will generate through that TAB.
- b. What it will cost to generate that margin in operating cost terms
- c. What wagering taxes it needs to pay
- d. Whether and/or what amount of product fees (or distributions) and other funding it needs to pay to the racing industry.

Accordingly, the Government will significantly impact the value (and hence upfront sale price it achieves) by decisions in each of these areas, with examples of issues pertinent to each corresponding particular area outlined above being:

- a. Whether the buyer can expand the gambling product range, and whether existing unclaimed dividend and fraction provisions apply to the benefit of the buyer. Also critical is the length of the wagering licence/authority provided, and the exclusivity timings attached to it.
- b. Whether the buyer is required to maintain existing employment and agency distribution arrangements, and/or for how long?
- c. Does the wagering tax base and /or rate change under a privatised model?
- d. Does the racing industry funding obligation stay with the wagering authority/ licence and hence the buyer is required to pay a product fee, and, if so, what level of commitment is part of the sale?

These will be explored in detail in Chapter 6 where we discuss the implications of privatisation of the WATAB to the Western Australian Racing Industry.

#### 4.1 Introduction

This section of this Report will provide some background on the wagering industry in Australia, the position of pari-mutuel (Totalisator) betting within the wagering industry, the landscape of TAB's and other wagering operators, and the position of WATAB/RWWA within the Australian wagering industry. As outlined in the previous section on privatisation, in any discussion on selling a government-owned TAB it is necessary that consideration be given to the position, performance and outlook for the entity itself in this case, WATAB/RWWA, as well as the wagering industry more generally.

#### 4.2 Wagering Industry Participants

The major participants in the Australian race wagering industry are:

- The punters – the people who place bets on racing, sports and other events with the wagering operators
- The wagering operators – the organisations that provide the pari-mutuel and fixed odds wagering product, including WATAB/RWWA
- The racing industry – the racing clubs and associations, racing industry administrators, the breeders, the owners, the trainers, the jockeys/drivers, and all their industry employees, who provide the racing product and the events at which the product is displayed on which the wagering occurs and for which the industry receives product fees, racefield fees, various other forms of funding, and in some cases a proportion of the wagering operators earnings.
- Media broadcasters – the media companies who provide the vision of the races through various arrangements to the punters via broadcasting rights obtained from the racing industry on which the racing industry receives rights fees.

The focus in this section will be on the wagering operators and WATAB/RWWA's position within this group.

#### 4.3 Wagering Operators in Australia

Wagering operators that provide betting services within Australia can be classified into the following groups:

- On-course bookmakers
- Corporate bookmakers
- TAB's
- Other wagering operators

These are explained below.

##### 4.3.1 On-Course Bookmakers

On-Course bookmakers are licenced to provide fixed odds betting in each state and territory at the racing venues within that state or territory (although regulations have changed in recent times to provide more flexibility to these bookmakers in terms of telephone and on-line wagers).

### 4.3.2 Corporate Bookmakers

Corporate bookmakers are licenced off-course bookmakers who typically operate via telephone and internet/mobile applications. As the name suggest they are incorporated public/private companies that have typically been licenced and, in a technical sense operate from, the Northern Territory (NT) providing racing and sports betting, and in some cases betting options on other events.

The Northern Territory approved Australia's first sports bookmaker, Centrebet, in December 1992, and Centrebet became Australia's first on-line sports bookmaker in 1996. Today there are a number of corporate bookmakers licenced in the Northern Territory. The attraction of being licenced in the Northern Territory are the much lower wagering duties and taxes, low licencing fees, and much more flexible operating requirements than other States, with 24/7 capability.

The main corporate bookmakers operating in Australia are:

- Bet 365 - licenced in NT and owned by Bet 365 in the United Kingdom
- Betchoice/Unibet – formally Betchoice, Unibet (Swedish public company) acquired the business and its NT licence
- Betezy/BetEasy-BetEasy is the new brand after Betzy, licenced in the NT, was acquired by Sportsbet co-founder Matthew Tripp.
- Betfair – betting exchange licence in Tasmania and now wholly owned by Crown Resorts
- BetFred – licenced in the NT but not significantly active
- Ladbrokes – Owned by Ladbrokes PLC, Ladbrokes Australia acquired Gaming Investments which operated Bookmakers.com.au and it, together with Ladbrokes.com.au, have Norfolk Island licences. Recently acquired NT licenced Betstar
- Luxbet – licenced in the NT and owned by Tabcorp.
- NT Tab – licenced as a corporate bookmaker and TAB in the NT and owned by Tatts Group
- Paddy Power – Irish based UK listed company ownership that acquired Sportsbet and IASBet, both licenced in NT
- William Hill – owned by UK listed William Hill PLC and owns Sportingbet Australia, Centrebet and Tom Waterhouse licences in NT

Given the potential economic model for corporate bookmakers offered by the low cost structure, and arguably more flexible and lighter regulatory environment provided by the Northern Territory Government, locally owned corporate bookmakers began to commence operations under these Northern Territory licences. In fact, other than the Betfair licence in Tasmania, those listed above all operate on Northern Territory licences.

In many cases these locally owned corporate bookmakers would have operations (at least a server and relevant operatives) in NT as well as operations in their home State, with all betting going through the NT licence. The objective appeared in many cases to be to grow market share based on wagering turnover and to create a large customer database as quickly as possible, without profitability necessarily being a priority. This would provide the opportunity to establish a business of sufficient scale and customer

penetration that could be attractive for potential larger corporate wagering operators either domestically or from offshore.

This opportunity arose also from the existing TAB's not having developed quickly or sufficiently enough their fixed odds offering nor their internet based system technology presentation, given their continued growth and profitable largely retail and telephone based pari-mutuel wagering business. The Corporate Bookmaking businesses attacked this opportunity by taking advantage of their low cost licences to provide more attractive odds and to adopt large marketing budgets as the means to seek significant customer acquisition for their account based customer lists.

Their low cost licences also enabled these corporate bookmakers to offer a product called Best Tote Odds under which the bookmakers effectively acted as resellers of TAB odds (sometimes with an added amount to the dividend given their cost advantage), with offset back into the tote pool if they wished, and hence benefit from their cost structure at little to no risk. These corporate bookmakers used the TAB's price IP at no cost, establishing a product of interest to punters. This has been a major source of growth for a number of these corporate bookmakers.

As account customer numbers and turnover growth, rather than profitability, seemed to be the major business objective, many of these operators ran their businesses at low margins to offer attractive odds, at times arguably not economically rationally from a wagering sustainability viewpoint. Nevertheless they were growing turnover and customer lists, and together with product and system innovation, were growing the Australian wagering market, and taking market share from the TAB's.

The successful High Court proceedings brought by Betfair Pty. Ltd, against the Western Australian Government in 2008 (Betfair Pty. Ltd. V Western Australian Government) removed concerns about potential advertising and market access limitations for Corporate bookmakers. Whilst the economic model for these bookmakers was however detrimentally impacted by the imposition of Racefield Fees through State Governments' legislation through 2008 and 2009 (with some subsequent court cases), these developments brought some clarity to the operating and financial models of these businesses.

With this, together with the related changes to the Australian wagering landscape, international wagering operators (particularly out of Europe) who were looking for expansion opportunities, identified Australia as an area for investment. Accordingly, as outlined above in the current list of Corporate Bookmakers, these international companies have largely acquired the local businesses, pushing up margins given the need for profitable growth on their shareholders' invested funds, and bringing their international capabilities, particularly in sportsbetting and technology, to these businesses. Section 4.4 provides some numeric perspectives on their impact on the Australian wagering market.

#### 4.3.3 TAB's (Totalisator Agency Boards)

TAB's (Totalisator Agency Boards) or Totes as they are often called, were established in each State and Territory of Australia between 1961 and 1985, primarily to provide a

legal race wagering vehicle and to facilitate the racing industry receiving funding from race wagering which was using its product. This was to remove all betting with what were in most jurisdictions illegal SP bookmakers who were not paying the industry for the use of its product. The TAB's were set up by Government legislation under Government ownership and given authority/licence to operate pari-mutuel betting exclusively for off-course retail, and for on-course in certain jurisdictions and included the obligation for the TAB's to fund the local racing industry given the provision of this exclusivity. This pari-mutuel exclusivity has been extended to telephone and internet/on-line services, and TAB's also now have fixed odds authorities/licences that are non-exclusive.

As outlined in Section 3.2.4 on privatisation, all Australian TAB's except the WATAB have since been privatised in one form or another, and there has been significant consolidation within the TAB's over the last 20 years. So as of today there are effectively three TAB groups operating throughout Australia (although each State and Territory still has its own TAB, given the State based gaming legislation, but owned and operated within one of the Groups). These three are:

- Tabcorp Holding Limited (Tabcorp)
- Tatts Group Limited (Tatts)
- WATAB/RWWA

#### 4.3.3.1 **Tabcorp**

Tabcorp Holdings Limited is listed on the Australian Stock Exchange with its head office in Melbourne. Tabcorp operates businesses in Wagering, Media (Sky Channel), Keno and Gaming Services (TGS). Tabcorp's wagering business is comprised of the TAB licences in Victoria and NSW, and this year it acquired the ACTTAB, and also owns and operates the Luxbet corporate bookmaking business licenced in the Northern Territory. Tabcorp also operates at selected TAB's a simulated racing event game that is called Trackside.

At present Tabcorp is not permitted to combine its NSW and Victorian pools and accordingly operates them separately as the NSW pool and the SuperTAB pool out of Victoria. ACTTAB pools into SuperTAB, as does WATAB/RWWA.

#### 4.3.3.2 **Tatts Group**

Tatts Group Limited is listed on the Australian Stock Exchange with its head office in Brisbane. Tatts Group operates businesses in Wagering, Lotteries and Gaming systems. Tatts Group's wagering business is comprised of the TAB operations in Queensland, South Australia, Northern Territory and Tasmania, and the corporate bookmaking licence held by NTTAB in the Northern Territory. Tatts Group operates one pool combining all of its operations for each of its pari-mutuel and fixed odds betting products and events respectively (ie there is no pooling).

#### 4.3.3.3 **WATAB/RWWA**

WATAB's details as the sole remaining government owned TAB has been discussed in Chapter 3 of this Report.

#### 4.3.4 Other Wagering Operators

Other wagering operators that offer punters the ability to bet on Australian product are betting exchanges and overseas bookmakers.

- **Betting Exchanges:** acting like many proposition warehousing business, such as a stock exchange, punters are able to offer prices for betting propositions and other punters can effectively deal directly with that punter through the betting exchange. The exchange operator takes a “clip of the ticket” when a transaction is done. Betfair is the only currently operating betting exchange licenced in Australia, and operates fully on-line. It has a licence in Tasmania and is wholly owned now by Crown Resorts.
- **Overseas bookmakers:** bookmakers based overseas and not licenced in Australia can offer wagering to Australian residents. Whilst the legalities of this activity are not entirely clear, such operators do not pay racefield fees to the Australian racing industry, depriving the Australian industry of some revenue, with the potential to offer better prices to punters because of this.

#### 4.4 Sizing the Australian and Western Australian Wagering Markets

##### 4.4.1 The Australian Wagering Market

Based on figures from the Australian Racing Board Fact Book 2013 the total turnover of the Australian Wagering Market for that year was around \$24.5 billion (excluding Betfair and Trackside turnover). These figures include total turnover on thoroughbreds, harness and greyhounds racing and sportsbetting. The break-up of this \$24.5 billion (which includes all TAB and bookmaker betting) is as follows :

| Code         | \$billion            | % of total           |
|--------------|----------------------|----------------------|
| Thoroughbred | 14.462               | 59.01                |
| Greyhound    | 3.738                | 15.25                |
| Harness      | 2.316                | 9.45                 |
| Sport        | <u>3.991</u>         | <u>16.29</u>         |
| <b>Total</b> | <b><u>24.507</u></b> | <b><u>100.00</u></b> |

Of this total wagering turnover, in the 2012/13 year, almost 2/3 of the turnover (66%) was via TAB's and around 1/3 (34%) with bookmakers. This split has changed from around 71.6% for TAB's and 28.4% for bookmakers in 2009/10.

Features of the Australian wagering industry that underlie this trend in the market (as also derived from figures obtained from the Australian Racing Board Fact Book) are as follows :

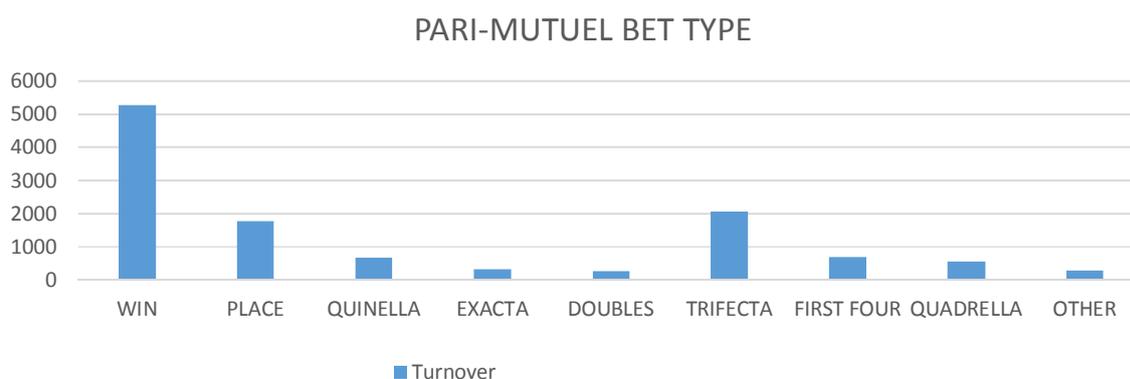
- Effectively all the growth in the wagering market over that period has been achieved by the corporate bookmakers, with total TAB wagering at around the same level in 2012/13 as in 2009/10.
- Sportsbetting as a percentage of total wagering turnover has increased from around 13% in 2009/10 to almost 16.3% in 2012/13 exhibiting growth of 35.5% over that time (a 10.5% compound annual growth rate), and continues to grow at a rapid pace (having grown at a compound annual growth rate of 12.8% in the last 10 years).

- This reduction in share of total wagering turnover for racing has been reflected by relatively flat thoroughbred and harness levels over that period, with greyhound betting increasing by over 27% during the same period.
- Retail TAB turnover has reduced by almost 16.5% between 2009/10 and 2012/13, whilst on-course TAB turnover has reduced by nearly 19% over the same period.
- For TAB's this retail pari-mutuel turnover decrease has been effectively replaced or transferred to fixed odds betting, which has more than doubled in TAB's over that time (with fixed odds on racing contributing over 90% of this growth).
- Fixed odds betting over the period from 2009/10 to 2012/13 has grown in total by almost 40%, and over the last 10 years has had a compound annual growth rate of 12.9% per annum, whereas pari-mutuel wagering has had a compound annual growth rate over the same period of -0.1%.
- In relation to total TAB betting, total pari-mutuel betting's proportionate share has declined from 87% in 2009/10 to 73.7% in 2012/13. This represented a fall from 61.6% to 48.7% of total wagering turnover over the period (this is based on all TAB sportsbetting being fixed odds – which whilst not correct is not materially inaccurate given the relatively low pari-mutuel sportsbetting that occurs). Pari-mutuel betting showed substantial declines in 2012 and 2013.
- On-line betting with both TAB's and particularly bookmakers has grown significantly, with bookmakers on-line betting alone increasing by over 76% from 2009/10 to 2012/13.

These observations clearly reflect the recent trends in the Australian wagering market. The growth of the phone and on-line based corporate bookmakers has been a major feature, powering the increased growth in fixed odds betting as a proportion of total Australian wagering turnover. As outlined earlier in Section 4.3 on Wagering Operators, these corporate bookmakers have benefitted from the low tax and fee structures of the Northern Territory to competitively price and heavily market their offer to the punters of Australia.

The corporate bookmakers have contributed substantially to the overall wagering turnover growth in Australia, bringing broad product offers, new on-line offers and technology design and functionality, and significant marketing and advertising to the industry.

As stated above, this growth of the corporate bookmaker has been a big driver of the increased popularity of fixed odds that has also driven growth of fixed odds in the TAB's. As clearly this is a product that is applied particularly to the most popular betting propositions of win and place betting (see the chart below for all Codes pari-mutuel betting types from page 67 of the Australian Racing Fact Book 2012/13), this had led to the shift away from pari-mutuel betting within TAB's as observed earlier, as it is a direct substitute product.



From a racing industry point of view the implications of these developments in the Australian wagering industry landscape are extremely significant given the importance of wagering to the funding of the racing industry. The growth of corporate bookmakers is arguably at the expense of TAB growth (although it can be legitimately questioned whether the TABs with their exclusive retail arrangement would have necessarily otherwise have fuelled the growth that has occurred). Whilst the TAB's, as explained earlier, have and/or had established product fee arrangements to fund the racing industry at substantial levels, no such arrangements applied to corporate bookmakers licenced in the NT. Accordingly, these corporate bookmakers were utilising racing product from all States and Territories with no obligation or requirement to pay the racing industry anywhere for this product.

State and Territory Governments in Australia addressed this (in part) through introducing Racefields Fees legislation to apply in their respective jurisdiction giving the relevant Government the power to require wagering operators who use any racing product information from their State or Territory for wagering purposes to pay a product fee to the Government and/or the Principal Racing Authority (PRA) in their State or Territory. In addition, the wagering operator can only legally use this information with the approval of the relevant PRA. Accordingly, all wagering operators are now required to seek approval and then pay these product (or racefield) fees monthly to each respective State based on specific rates and bases established within each jurisdiction.

As outlined earlier, in Western Australia this occurs pursuant to the provisions of the Racing Bets Levy Act 2009 and its associated Regulations, with the levy monies paid to the Gaming and Wagering Commission under Section 14A of the Betting Control Act, and then paid to RWWA (after deduction of expenses) by the Commission for distribution to Racing Clubs under Section 110B of the RWWA Act.

These Racefield or Product Fee Arrangements are set out in Table 4.4.1A.

Table 4.4.1A - PRODUCT FEE RATES 2014/15

| State | Code         | Rate 2013/14  | 2014/15 THRESHOLD  | RATE 2014/15   |
|-------|--------------|---|--|--|
| NSW   | Thoroughbred | 1.5% Turnover<br>2% premium race meetings listed in schedule  | Turnover under \$5 million – 1% fee and t/o applied to standard meetings first | 1.5% S and 2% P – Rates will increase following legislative change to remove cap – all codes   |
|       | Harness      | 1.5% Turnover<br>2% premium on meetings that have at least one race with prize money of \$30k or more | Nil  | Capped 1.5% Turnover standard meetings and 2% t/o premium meetings   |
|       | Greyhound    | 15% of Gross Margin with maximum fee capped at 1.5% of Turnover                                       | Nil  | Capped 1.5% Turnover standard meetings and 2% t/o premium meetings   |
| VIC   |              |   |  |  |
|       | Thoroughbred | 1.5% Turnover<br>2% premium race meetings listed in schedule  | Turnover under \$5.5 Million = 1%  | Pari-mutuel 1.5% t/o Std, 2% t/o Group and 2.5% t/o Premium<br><br>FOB – Greater of<br>1.5% or 15% GR Std<br>2% or 20% GR Group<br>3% or 30% GR GRP 1  |
|       | Harness      | 2.0% Turnover   |  | 1% payable on assessable t/o up to \$100,000 on pari and FOB per calendar month and<br>2% payable on assessable t/o exceeding \$100,000 on pari per calendar month<br>2.5% payable on assessable t/o exceeding \$100,000 on FOB per calendar month |
|       | Greyhound    | 1.5% Turnover   | Turnover under 250k per month which equates to \$3m per year =<br>Zero fee     | 1.5 Turnover on Pari-mutuel<br><br>2% Turnover on FOB  |

|            |           |   |  |  |
|------------|-----------|---|--|--|
| <b>QLD</b> | All Codes | 1.5% Turnover<br><br>2% premium month May – June  | Turnover under \$5 million = 1.5%<br><br><ul style="list-style-type: none"> <li>Premium=T=\$75k, H=\$25k, G=\$10k</li> <li>Other non-tote = Derivative and exchange betting</li> </ul> | Pari-mutuel Standard t/o – 1.5%<br>Pari-mutuel Premium t/o – 2%<br>FOB Standard t/o – 2%<br>FOB Premium t/o – 1.5%<br>All other Non-Totalisator Bets Standard t/o – 2.5%<br>All other Non-Totalisator Bets Premium t/o – 3.5%      |
| <b>SA</b>  | All Codes | 13% GM<br><br>18% GM April 1 to May 14 (6 weeks premium weeks thoroughbreds only)   | 1% first \$83k for thoroughbred t/o only<br><br>(ie \$1m @ 1% then normal rates)   | <b>Thoroughbred</b> Std = 15%GR for first \$10m / month then 10%GR<br><br>Group & Listed Prem = 20% GR<br><b>Harness</b> Std = 15% GR<br>January Prem = 18% GR<br><b>Greyhounds</b> Std = 15% GR<br>11 Sept – 10 Oct Prem = 18% GR |
| <b>TAS</b> | All Codes | If the net turnover of relevant approval holder exceeds \$83,333 during the payment period, an amount that is greater of (i) 0.5% of that Net turnover and (ii) the aggregate of:<br><br>13% of Net Revenue<br>15% on Thoroughbred races during Jan and Feb<br><u>Less</u> if that Net revenue exceeds \$850,000 during the payment period, 3% of that Net Revenue exceeding \$850,000 in the Payment Period or if the Net turnover of the Relevant Approval Holder does not exceed \$83,333 during the Payment Period, nil.<br><br>All amounts inclusive of GST. |  |  |

|            |           |   |  |  |
|------------|-----------|---|--|--|
| <b>ACT</b> | All Codes | 1.5% Turnover   | Nil  | 1.5% Turnover and 2% on Black Opal race meeting  |
| <b>WA</b>  | All Codes | 1.5% Turnover<br>2.0% for thoroughbreds only in November and December (premium rate)<br>1.0% for annual turnover below \$2.5 million.<br>If generate under \$1,000 in any month then no fee levy payable in that month. | Turnover under \$3.0 million – 1% fee on all turnover up to this amount.<br>If generate under \$1,000 in any month then no fee levy payable in that month. | <p>Differential levy rates, which only apply once the threshold is reached, are:</p> <ul style="list-style-type: none"> <li>• Pari-mutuel bets placed on standard race meetings levied at 1.5% of turnover.</li> <li>• Pari-mutuel bets placed on premium race meetings levied at 2.5% of turnover.</li> <li>• Betting exchange bets placed on standard race meetings levied at 1.5% turnover</li> <li>• Betting exchange bets placed on premium race meetings levied at 2.5% turnover</li> <li>• Non betting exchange fixed odds bets placed on standard race meetings levied at 2% of turnover</li> <li>• Non betting exchange fixed odds bets placed on premium race meetings levied at 3% of turnover</li> </ul> <p>A higher levy applies across all race codes and to any race meeting that is determined to be a premium race meeting. Premium race meetings are defined in the regulations on the basis of the value of stake money, as follows:</p> <ul style="list-style-type: none"> <li>• Thoroughbred racing - any meeting that contains at least one race with stake money of \$100,000;</li> <li>• Harness racing - any meeting that contains at least one race with stake money of \$50,000;</li> <li>• Greyhound racing - any meeting that contains at least one race with stake money of \$30,000.</li> </ul> |

These Racefield Fees are at levels significantly below that which is paid by a TAB under its product fee structures with the local racing industry, particularly for pari-mutuel betting.

This brings us to the next issue of the growth of fixed odds, particularly through bookmakers. As fixed odds betting for the wagering operator is a much riskier business than pari-mutuel, and by definition therefore the margins may on average be lower and more volatile, the capacity to pay product fees is less than for a pari-mutuel TAB pool operator. The current levels that have been set as set out in Table 4.4.1A have been established by Governments on the basis of inputs from many parts of the wagering and racing industries and can be seen to be clearly substantially below the rates of which TAB's fund the racing industry. This is not in any way to suggest parity with TAB's given the retail exclusivity that TAB's enjoy, but the disparity between the two is considered too great and reflect a real risk to future funding for the racing industry.

The debate over these rates for racefield fees will continue, with an international benchmark of 3% currently a more comparable "royalty" rate with others around the world. However, for the racing industry, the continued growth of fixed odds betting in corporate bookmakers at the expense of TAB's (especially pari-mutuel betting) puts pressure on the future funding models of the racing industry. This situation is clearly exacerbated by the growth in sports betting for which the racing industry has no right to product fees if such betting is perceived to come at the expense of racing wagering by punters.

These issues, and many others underlying the trends in Australian wagering markets discussed earlier in this section, and which will impact the future outlook for wagering in Australia, are outlined in the following table developed by Mr. Sacha Krien, the Australian-based gaming sector analyst at CLSA Asia – Pacific Markets in Sydney – Table 4.4.1B. Sacha has not only listed these issues but also provided his views on where potential benefit or risk lies for the major TAB's and for Corporate Bookmakers. It provides an interesting insight into the future outlook facing WATAB/RWWA as a stand-alone TAB.

## CHART 4.4.1B - TOP 24 WAGERING ISSUES

| Issue   | Tabcorp | Tatts | Corporate Bookmakers | CLSA view  |
|---|---------|-------|----------------------|--|
| 1 Market growth over time – HDI less 1%               | ✓       | ✓     | ✓                    | Base case: household disposable income (HDI) growth 1% on higher turnover offset by falling win rates. We expect wagering to hold its share of overall gambling spend  |
| 2 In play betting – Will it grow the market           | ✓x      | ✓x    | ✓                    | Minor positive to Tabcorp/Tatts, but more upside for online-only operators   |
| 3 Can retail wagering grow from here?                 | x       | x     | -                    | We expect retail to fall to 30% of turnover by FY20 (versus 42% in FY12); equates to a 0.5% contraction pa   |
| 4 Which retail business will outperform?              | x       | ✓     | -                    | Tatts has been slower to adopt new initiatives, but planned rollout of SSBTs should see it outperform Tabcorp (ex-trackside)   |
| 5 Once online, what share for Tabcorp and Tatts?      | x       | ✓     | ✓✓                   | Tabcorp's scale could drive further share gains short term, but declines in the medium term. Tatts can grow via new apps and by targeting NSW/Vic  |
| 6 Tatts' online expansion into NSW and Victoria       | x       | ✓✓    | x                    | Cross-selling to lottery database should see growth in Tatts' markets and at attractive margins given TasTote licence  |
| 7 Exotics the final frontier                          | ✓x      | ✓x    | ✓                    | Totes have advantage, but competition from corporate bookmakers will increase with scale   |
| 8 Innovation and wagering                             | ✓✓      | x     | ✓                    | Arguably Tabcorp is the market leader, but not for in-play betting   |
| 9 Bookmakers' price advantage                         | x       | x     | ✓✓                   | Lower fees and taxes mean bookmakers can offer better odds than Tabcorp/Tatts or direct more resources towards advertising   |
| 10 Tote-odds betting                                  | x       | x     | ✓                    | An easy win for bookmakers and unlikely to be stopped any time soon.   |
| 11 Tote versus fixed-odds racing                      | ✓x      | x     | x                    | Contrary to popular belief, the margin upside for Tabcorp is insignificant unless fixed win rates stay above 12%. The threshold is higher for Tatts  |
| 12 Multibets – Sometimes size matters                 | ✓✓      | ✓     | x                    | Tabcorp and Tatts have some competitive advantage here, offering more legs and bigger payouts: should drive improving sports win rates   |
| 13 Race-field fees – Turnover versus gross-profit tax | ✓       | ✓✓    | xx                   | Turnover taxes are here to stay  |
| 14 Race-field fees – Why they may go up over time     | x       | x     | xx                   | Race fields' fees are the only means by which racing can target bookmakers for funding. Tabcorp is caught in the crossfire   |
| 15 Racefield fees – Impact of an increase             | x       | x     | xx                   | A race to the bottom: a smaller revenue pie but a larger share to racing industry (paid for by bookmakers and Tabcorp)   |
| 16 Sports product fees                                | x       | x     | x                    | We believe these are going up and will continue to rise over time  |
| 17 Win-rate sustainability                            | ✓x      | ✓x    | ✓                    | The offshore experience suggests retail win rates are sustainable, but internet win rates will be squeezed   |
| 18 Rise of sports over racing                         | ✓x      | x     | ✓x                   | Sports growth should outstrip racing – good for Tabcorp's margins but share of this product is less, plus it increases risk of higher industry product fees (race-field fees)  |
| 19 Free Wi-Fi but with access restrictions            | ✓       | ✓     | x                    | Minor positive if rolled out across Tabcorp and Tatts' retail network  |
| 20 Retail exclusivity – The next challenge            | ✓x      | ✓x    | -                    | Exclusivity risk overstated for Tabcorp in NSW and Tatts in Qld  |
| 21 Premium punters and back-betting                   | ✓       | ✓     | -                    | Rebates could come down after the sale of TasTote – a positive for Tabcorp and Tatts   |
| 22 Future of broadcast rights in racing               | ✓x      | -     | -                    | We expect a deal with TVN but at a cost – possibly an additional A\$10m pa   |
| 23 Tote pooling                                       | ✓       | x     | -                    | International tote pooling (the joining of tote pools from different jurisdictions) is not well understood. Could be a material boost for Tabcorp earnings. Conversely, without international pooling, Tatts' pools could become more volatile |
| 24 Industry consideration                             | ✓x      | x     | ✓                    | Consolidation among bookmakers creates stronger rivals for Tabcorp and Tatts. Merging Tabcorp with Tatts makes sense, but unlikely near term   |

#### 4.4.2 WATAB/RWWA and the Western Australian Wagering Market

With the backdrop of the previous section's discussion of the Australian wagering market generally, this section specifically looks at WATAB/RWWA's wagering performance and trends within the Western Australian market specifically. In a headline sense, total TAB wagering growth from 2008/09 to 2012/13 in WA was 28%, compared to a national figure of 5%. Total wagering growth in WA was 22.6% over that period (clearly driven by the TAB wagering growth) compared to the national figure of 11.7% (predominantly grown by corporate bookmaker fixed odds growth).

When these TAB growth figures are broken up between pari-mutuel and fixed odds (but for a period of 2009/10 to 2012/13 given the availability of figures from the Australian Racing Facts Book), Total Australian TAB wagering pari-mutuel betting has declined by 14.3% and fixed odds has grown by around 105%. The comparable figures for Western Australia are 25.2% growth for pari-mutuel and 40% for fixed odds. In considering these figures it is also important to understand that in relation to TAB figures, in 2012/13 nationally the pari-mutuel / fixed odds share was around 73.8% / 26.2%, whilst the split for WATAB was 95.7% / 4.3%, a dramatically different position. (It is understood that in 2013/14 WATAB's fixed odds has grown substantially and changed this mix significantly).

As information is not available from corporate bookmakers as to the locations of their customers it is not possible to ascertain the extent of Western Australian punter wagering that is being directed out of the State to corporate bookmakers.

The relatively lower growth in WATAB's fixed odds betting than the national TAB figure may suggest either that:

- Fixed odds betting appetite is being directed predominantly to corporate bookmakers, or
- Fixed odds betting penetration is low generally in Western Australia for both the WATAB and corporate bookmakers.

Whilst more anecdotal than having any strong factual base, it would be suggested that the answer probably falls more with the latter (but with a contribution from the former perspective) given the lack of advertising and receptiveness to sponsorship by WA Racing Clubs in respect of corporate bookmakers.

From discussions with RWWA management, market research would appear to reinforce this view, in that Western Australian punters do appear to be quite parochial to the local provider by a significant amount. Until recently this has manifest itself in good pari-mutuel growth given the poor pricing, marketing, and delivery of the fixed odd product by WATAB/RWWA in the past. It is understood from RWWA Management that WATAB/RWWA's fixed odd turnover has grown substantially in the last year, which would appear to have arisen from more recent improvements in a number of aspects of fixed odds product delivery. These improvements include:

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- Better and expanded pricing through improved operation of the fixed odds book
- Side-by-side provision of pari-mutuel and fixed odds pricing on retail displays and on digital channels, and improved racewall positioning
- Expanded product coverage, both domestically for harness and greyhound racing and nationally for all Australian racing
- The Soccer World Cup is a major fixed odds customer acquisition and volume enhancement event.

WATAB/RWWA is obviously significantly lagging other TAB's and Corporate Bookmakers in this regard, but is starting to show strong growth off a low base which should continue for a handful of years as it catches up with national trends. It is instructive to note, however, that the previously referenced market research does show increased, albeit not large, increases in awareness and usage of corporate bookmakers by WA punters, which is a threat to the extent and length of improved local TAB fixed odds wagering growth.

The higher growth in WATAB's pari-mutuel betting has resulted in the trends identified nationally of declining thoroughbred and harness racing pari-mutuel betting not being replicated in Western Australia to the same extent, and with stronger growth in pari-mutuel greyhound racing than the national growth. This would largely appear however to have resulted from a significant growth in premium punters (from within and outside Western Australia) attracted by rebates being offered by WATAB to these punters as an entry point into Tabcorp's SuperTAB pool.

This was a development that occurred within the Tasmanian TAB in the years before its privatisation, but at significantly greater levels than is believed is currently occurring in WATAB. It is believed that Tabcorp could be wanting to limit this, particularly given the Tasmanian experience.

Whilst premium punters have the ability to bring significant volume and liquidity to the pool, they tend to be more successful and hence win at greater rates than the bulk of local punters. Given the set prize dividend payout ratio for pari-mutuel betting this means that these premium punters can therefore reduce the effective prize returns ratio (and hence prize dividends) for the rest of the pool participants. These impacts obviously are not as profound in larger pools with greater liquidity, such as the SuperTAB pool into which WATAB/RWWA pools. Effective management of the pool is therefore represented by managing the trade-off between the volume and liquidity introduced by premium punters against the potential distortion for other pool participants by controlling the size of the premium punter contribution into the pool.

It is believed that this increase in premium punters has predominantly, but not solely, contributed to WATAB/RWWA's pari-mutuel turnover growth. It should be noted here that this solid wagering turnover and returns performance of WATAB/RWWA can also be attributed to a number of other factors, in addition to the growth of premium punters, including:

- The introduction of a new betting system, Phoenix, and associated new terminals – a system acknowledged as a good retail and premium punters wagering system
- Improved pooling services and management contracts with Tabcorp and William Hill respectively, both in terms of product spread and of financial arrangements.
- Improved fixed odds take up, on both racing and sportsbetting, due to product expansion and enhanced retail/digital information displays
- Improved liquidity and pricing across its product suite flowing from these enhancements.

In relation to Western Australia generally, it should also be observed that local bookmaking turnover effectively halved between 2008/09 and 2012/13 and continues to decline quickly, with essentially no local bookmaking activity on harness, greyhound and sport, and declining thoroughbred local bookmaker betting as evidenced by Perth Racing stating that they are budgeting for no income in the 2014/15 year from bookmakers on-course. This has been accompanied by declining on-course totalisator turnover which has fallen overall in Western Australia by nearly 20% between 2009/10 to 2012/13, with Perth Racing stating in its case the reduction had been almost 50% in the last 5 years. The primary causes of this on-course tote decline appear to be falling attendances, limited to no fixed odd offer, the absence of call betting, and the impact of competition from corporate bookmakers.

RWWA management have advised that 2013/14 has seen continued growth in wagering turnover in WATAB, but with a significant drop in retail pari-mutuel wagering that was more than offset by an equally large increase in fixed odd racing betting and continued growth in premium customers.

In Section 4.4.1 on the national wagering market there is a table reflecting the break-up of total wagering turnover across the three racing codes and sport for 2012/13, which is repeated in the first column below. The second column reflects this split nationally if Northern Territory is excluded (given the corporate bookmaker impact there). The third column is the Western Australian break-up (including TAB and bookmakers).

|              | <b>National</b> | <b>National<br/>(Ex NT)</b> | <b>WA</b> |
|--------------|-----------------|-----------------------------|-----------|
| Thoroughbred | 59.01%          | 62.18%                      | 49.70%    |
| Greyhound    | 15.25%          | 17.12%                      | 28.51%    |
| Harness      | 9.45%           | 10.64%                      | 15.70%    |
| Sports       | 16.29%          | 10.06%                      | 6.09%     |

This reflects a relatively much lower proportion for sports betting in Western Australia, (reflecting the lower fixed odds penetration and lower inroads of corporate bookmakers) and the relatively larger proportions to harness and greyhounds relative to thoroughbreds when compared to national averages.

The TAB wagering turnover growth for each State and each Code within each State for the period 2006/07 to 2012/13 are reflected in the table below:

|                       | WA     | QLD   | SA     | NSW   | VIC    |
|-----------------------|--------|-------|--------|-------|--------|
| Thoroughbred          | 19.0%  | 7.3%  | -5.9%  | 4.14% | 8.0%   |
| Sport                 | 144.4% | 73.6% | 106.8% | 78.9% | 197.5% |
| Harness and Greyhound | 58.9%  | 5.2%  | -8.6%  | 16.4% | 14.7%  |
| Total                 | 39.1%  | 9.5%  | -3.6%  | 13.9% | 17.6%  |

Clearly over this period WATAB/RWWA has been the most successful of the larger TABs in the country in relation to turnover growth. It is estimated that this growth figure for WATAB of 39.1% would reduce to somewhere just above 18% if premium customers were excluded from the figures – this is still above the growth rates of TAB's in these other States.

In acknowledging the good performance of WATAB/RWWA over this period, it is important to also position this in the context of previous performance of WATAB when it was a separate entity prior to RWWA's formation. Prior to the TAB being absorbed into RWWA it operated as a standalone business for which its relatively smaller size (when compared to Victoria, Queensland and New South Wales) and its limited product range (wagering product only) put it at a significant disadvantage compared to other TAB's. This reflected in a relatively higher proportionate cost base, and with less capacity to more proactively respond to advances in technology. These matters were all raised in the Turner Report. This needs to be considered in the context of the TAB in Western Australia not having electronic gaming machines in pubs and clubs to compete with as do other jurisdictions.

Accordingly, the performance of the WATAB/RWWA over the recent years has reflected to a large extent the catch up of what had been achieved in other TAB's in previous years. This is not a criticism of recent management, it is simply a statement of observation and perspective to enable readers to understand where WATAB/RWWA currently sits, and why at some stage in the future it will have caught up with the rest of the mature TAB's wagering operations in terms of product, technology, platforms and competition. Reflections of this specific point are illustrated by the following observations of previous growth trends and the more recent initiatives in relation to features previously reflected in other jurisdiction's operations:

- The comments on the delayed introduction of an effective and efficient fixed odds offer as explained earlier in this Section 4.4.2
- For the period from 1986/87 to 1993/94 WATAB grew its turnover by 71.4% against the Queensland TAB growth rate over the period of 104.5% per the Australian Gambling Statistics, 29<sup>th</sup> edition, as released by the Government Statistician of Queensland Treasury and Trade in February 2014
- Over the same period NSW TAB turnover grew by \$1.4 billion, Victorian TAB turnover by almost \$1.0 billion, and WATAB turnover by just \$240 million

- The decision to enter into, and in more recent times more fully expand the pooling arrangements with Tabcorp to deal with the implications of its pools being small, so as to increase the liquidity and stability of prices for punters across essentially all products
- The recent addition of premium customers into the pool
- More recently improved retail information and betting systems, and investment in the digital platform
- The future rollout of greater numbers of self-service terminals (SST's)
- Just beginning the introduction of improved product offers and technologies for on-course totalisator operations.

This understanding of the positioning of WATAB/RWWA in the Australian wagering landscape is critical to any consideration of what is the best ownership structure for WATAB into the future.

This section seeks to establish a base line structural financial position for the Western Australian Racing Industry against which to then discuss the implications for the Industry of the potential privatisation of WATAB/RWWA.

In this context the WA Racing Industry is defined to include Thoroughbred, Harness, and Greyhound racing and encompasses all those employed in and/or those that participate in the production of racing animals and the production of the racing product. This Report will also discuss some of the suppliers to, and integral service providers to, the WA Racing Industry.

### 5.1 What is the Western Australian Racing Industry?

In accordance with the definition of the racing industry above, the Western Australian Racing Industry is therefore comprised of the following groups and their representation:

- **RWWA** – the Principal Racing Authority for each of the Codes, being the principal club for thoroughbred racing, the controlling body for harness racing, and the racing authority and registration authority for Greyhound racing. In accordance with the RWWA Act, to meet its requirement to consult with prescribed racing bodies, RWWA meets with each of the Codes through Consultative Groups established for each respective Code. Each Group has an established membership base consisting of RWWA officers and nominated representatives of various Code stakeholders.
- **Thoroughbred Code** – Perth Racing's Board has responsibility for the Belmont and Ascot racetracks. Western Australia's 9 Provincial Thoroughbred Clubs each have their own (voluntary) Boards and are members of the WA Provincial Thoroughbred Racing Association (WAPTRA).

The Country Racing Association of WA (CRAWA) is comprised of the 25 Country/Community thoroughbred racing clubs around the State, all of which have their own (voluntary) Boards.

Owners are represented by the WA Racing Owners Association (WAROA) and include a wide array of individuals. It is highly unlikely that any of these people are solely economically dependent on racehorse ownership for their livelihood, and many are breeders and trainers as well.

Breeders have a representative group called Thoroughbred Breeders Western Australia (TBWA). Trainers have an association called the WA Racing Trainers Association (WARTA) that represents their interests. Jockeys interests are represented by the WA Jockeys Association (WAJA).

- **Harness Racing Code** – The Gloucester Park Harness Racing Club Board has responsibility for the operation of metropolitan harness racing at the Gloucester Park track. There are 7 provincial harness racing tracks that are operated by (voluntary) Boards. The WA Country Racing Association (WACRA) represents these provincial clubs as well as the 7 Country/Community Harness Racing Clubs that also have their own (voluntary) Boards.

Owners of Harness Racing horses are represented by the Harness Racing Owners Association WA (HROAWA), as well as by BOTRA.

Breeders of Standardbreds are represented by the WA Standardbred Breeders Association (WASBA), and also by BOTRA. Trainers and Reinspersons in Harness Racing are represented by BOTRA, the Western Australian Racing Breeders, Owners, Trainers and Reinspersons Association.

- **Greyhounds Code** – The Western Australian Greyhound Racing Association (WAGRA) is the designated greyhound racing club of Western Australia. It is established under the provisions of the Western Australia Greyhound Racing Association Act 1981 and is a body corporate. WAGRA is not a Crown agency, but the Committee of WAGRA is appointed by the Governor at the nomination of the Minister, and is subject to Ministerial direction. It oversees the operation of greyhound racing at Cannington, Mandurah and Northam in its role as a designated club under the direction of its Board/Committee.

Owners, Breeders and Trainers of greyhounds are represented by the WA Greyhound Breeders, Owners and Trainers Association (WAGBOTA).

- **Service Providers** – There is a wide range of service providers to the Western Australian racing industry that rely on the industry to varying degrees, and the major areas of these include:
  - Sky Channel – vision of races
  - Magic Millions – arrange the annual yearlings sales in Western Australia
  - Veterinary services
  - Feed Supply
  - Transportation

These are all set out on in Figure 5.1 on the next page.

# THE WESTERN AUSTRALIAN RACING INDUSTRY

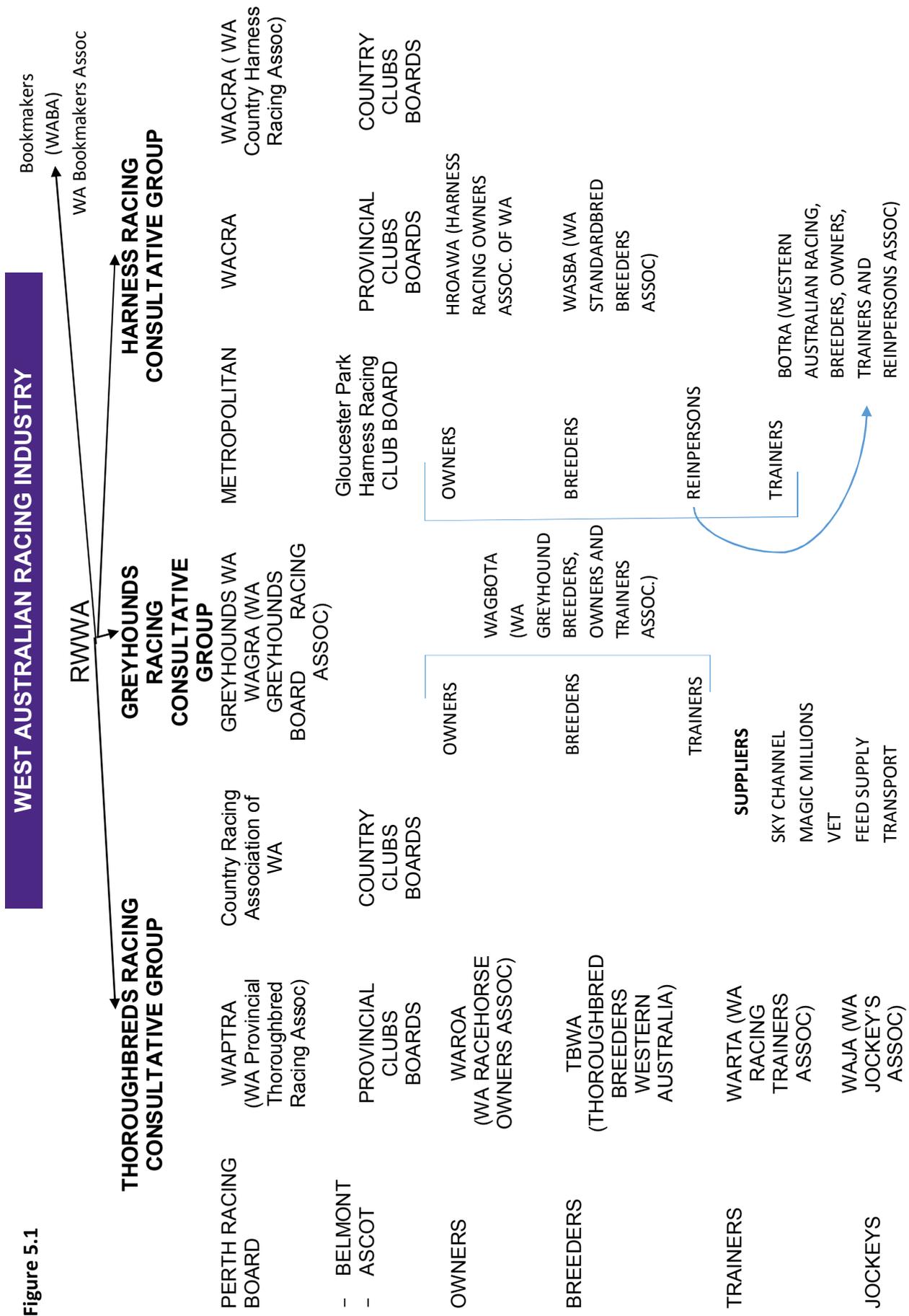


Figure 5.1

### 5.1.1 Sizing the Western Australian Racing Industry

Given this industry structure and governance/representation framework, this section provides a perspective on the size in terms of participants and economic impact of the Western Australian Racing Industry. In doing this it draws heavily upon the research report of IER Pty. Ltd., on the Size and Scope of the Western Australian Racing Industry undertaken for RWWA in 2012, entitled “Western Australian Racing Industry – Economic and Social Impact Report, September 2012” (the IER Report).

The IER Report was based on a study undertaken using 2010/11 financial year information, providing an extensive coverage of the economic and social contribution of the Western Australian Racing Industry to the Western Australian State and its economy. From examining a number of the key statistics of the WA Racing Industry as reported by RWWA annually in its publication “Industry Status Report”, and specifically the 2013 report, a comparison of these key statistics (financial, race program and other racing statistics) reflects that a number of the 2012/13 financial year outcomes for key base measures for the WA Racing Industry are not materially different from those of 2010/11 on which the IER Report was based. Accordingly, in referencing outcomes of the IER Report, it is valid to assume that they remain largely reflective of the industry size today in general terms. This particularly applies to industry starters numbers, numbers of races, and the like – financial figures will have grown by specific rates of price inflation, wagering turnover growth, and general economic growth. The overview of the key data from this report is provided in Figure 5.1.1 on the following two pages which are pages 4 and 5 from the IER Report.

In this context the key statistics reflect that over the last couple of years the WA racing industry has essentially just maintained its position. From 2010/11 to 2012/13 the number of racing clubs has reduced by 3 to 53, the number of race meetings have increased by less than 1% to 880, the number of races has increased by 2% to 8,237, and the number of starters in races was essentially the same.

In this time the number of thoroughbreds and greyhounds that raced were the same, with only harness racing showing an increase. Disconcertingly, in relation to breeding, thoroughbreds born reduced by 17.5%, Standardbreds reduced by almost 30% and greyhounds reduced by nearly 4.5%. Of equal concern is that the statistics in relation to the number of registered persons in the WA Racing Industry also showed a declining trend (other than in thoroughbred jockey apprentices as a result of a specific strategic priority by RWWA in this regard). The number of registered thoroughbred trainers and jockeys are down, harness trainers and driver/trainers are down nearly 12% and 14% respectively, whilst the number of registered greyhound trainers are down by over 10% in the last couple of years.

This will be discussed later in this Report, but these trends reflect the fundamental position of the WA Racing Industry – distribution levels have been increasing to attempt to produce the racing product but the costs and risk/return profiles of the production of racing animals are not being met from these distributions leading to departures of participants and/or decreased yields/output as businesses and/or the number of individuals are cut back in size in an attempt to sustain involvement.

## Overview of Key Data



### Key Results at a Glance

| Jobs & Participants (West Australians that rely in part or totality on the Racing Industry for their livelihood) | Total         |
|--|---------------|
| Breeders   | 4,292         |
| Trainers   | 1,692         |
| Owners   | 16,745        |
| Other Employees (i.e. stablehands, trackriders etc.)   | 4,327         |
| <b>Participants in the Production of Racing Animals</b>  | <b>27,058</b> |
| Raceclub & Industry Staff  | 3,250         |
| Attendants, Stewards, Vets, Farriers   | 524           |
| Jockeys & Drivers  | 166           |
| Volunteers   | 753           |
| Wagering Staff   | 1,935         |
| <b>Participants in the Production of the Racing Product</b>  | <b>6,628</b>  |
| <b>Total Employment &amp; Participation</b>  | <b>33,686</b> |

“One in every 54 Western Australian adult residents participate or are employed in the Western Australia Racing Industry”

| Racing Animals                | Total  |
|-------------------------------|--------|
| Number of Foals & Pups        | 2,643  |
| Number of Animals in Training | 10,214 |

“The production (\$68.4 mil) and preparation (\$113.9 mil) of racing animals is responsible for generating total expenditure of more than \$180 million in Western Australia”

| Racing                          | Total     |
|---------------------------------|-----------|
| Number of Racing Clubs          | 55        |
| Number of Race Meetings         | 874       |
| Number of TAB Races             | 850       |
| Number of On-Course Attendances | 868,166   |
| Number of Racing Club Members   | 10,092    |
| Value of Sponsorships           | \$4.9 mil |

Nationally, consumption of harness and greyhound racing is higher (proportionally) in Western Australia than in any other State or Territory.”

| Wagering (WA TAB)                     | Total         |
|---------------------------------------|---------------|
| Total Wagering Turnover Placed in WA  | \$1,764.0 mil |
| Net Wagering Revenue                  | \$264.1 mil   |
| Wagering Turnover (WA oncourse)       | \$82.3 mil    |
| State Government Wagering Tax Revenue | \$34.0 mil    |
| GST Paid on Wagering Revenue          | \$24.5 mil    |

Source: Australian Racing Fact Book & RWWA Annual Report 2010/11

“The State Government receives more than \$34 million from wagering taxes alone”

Overview of Key Data

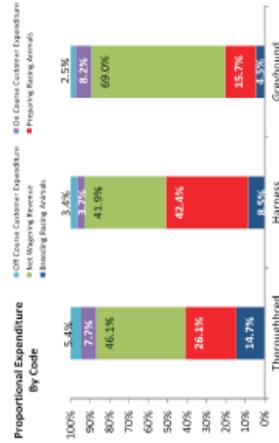
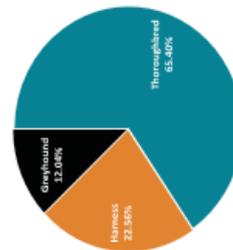


Key Results at a Glance

| WA Racing Industry Direct Expenditure | Total              |
|---------------------------------------|--------------------|
| Producing Racing Animals              | \$66.5 mil         |
| Preparing Racing Animals              | \$157.2 mil        |
| Net Wagering Revenue                  | \$264.1 mil        |
| On Course Customer Expenditure        | \$37.8 mil         |
| Off Course Customer Expenditure       | \$25.3 mil         |
| <b>Total Direct Expenditure</b>       | <b>\$550.9 mil</b> |

“The Western Australian Racing Industry generates more than \$550.9 mil in direct expenditure. Nearly half of this expenditure occurs in regional areas.”

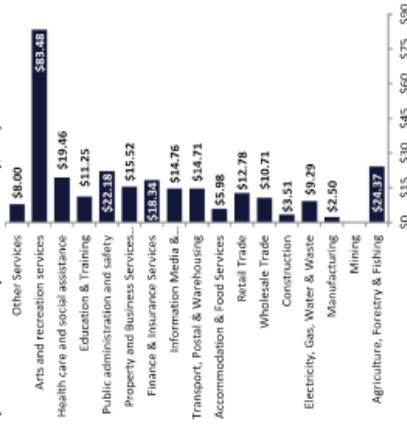
Total Expenditure by Code



“Racing contributes more than \$594.6 million in value added to the Western Australian economy. The activities of the racing industry sustain the employment of more than 6,737

| Economic Value of Racing in Western Australia | Total       |
|---|-------------|
| Total Value Added Generated by Racing         | \$594.6 mil |
| Full Time Equivalent Employment               | 6,737       |
| Household Income Generated                    | \$349.3 mil |

Racing Industry Direct Value Added by Standard Industry Classifications (\$ mil)



“In dollar terms, the racing industry generates its largest portion of expenditure in the Arts & Recreation sector, followed by Agriculture, Forestry & Fishing and Public Administration & Safety (Government)”

The IER Report establishes the broad economic impacts of the WA Racing Industry to Western Australia in the context of :

- Total employment and participation of over 33,000 people, reflecting “one in every 54 Western Australian adult residents participate or are employed in the Western Australian Racing Industry”.
- “The Western Australian Racing Industry generates more than \$550.9 million in direct expenditure. Nearly half of this expenditure occurs in regional areas”.
- “Racing contributes more than \$594.6 million in value added to the Western Australian economy”. This represents around 0.14% of the State’s total Gross Value Added.
- Full time equivalent (FTE) employment created/sustained by the WA Racing Industry is 6,730 FTE (including both direct and indirect impacts). The differential between participation and employment reflects the large number of part time and casual employees, the high amount of voluntary work undertaken, and the significant number of owners (almost 17,000).
- Estimated annual expenditure generated by racegoers of in excess of \$56.4 million (excluding wagering), of which \$31.2 million is direct and \$25.3 million indirect (based on 81 cents being spent in the community for every \$1 of expenditure made by an attendee at the races).
- The impact in the regional part of Western Australian from racing is around 50% of the total in terms of expenditure, and estimated at around 35% of the total level of activity contributed by racing.

### 5.1.2 Participants in the WA Racing Industry

As outlined above, the IER Report states that more than 33,000 people are directly involved in the racing industry in one way or another. These participants include paid employees, employers and volunteers (there are more than 750 volunteers estimated to be involved). These are set out in the table below taken from page 16 of the IER Report:

| Participant Type                                    | Thoroughbred  | Harness      | Greyhound    | TOTAL          |
|---|---------------|--------------|--------------|----------------|
| Breeders  | 2,633         | 1,560        | 99           | 4,292          |
| Breeders Staff                                      | 2,614         | 972          | 33           | 3,619          |
| Owners & Syndicate Owners                           | 8,797         | 4,855        | 3,094        | 16,745         |
| Trainers (Open Class/Trainer A/Public)              | 52            | 141          | 85           | 278            |
| Trainers (B Class/Trainer B)                        | 28            | 113          |              | 141            |
| Trainers (Restricted Permit or Driver/Trainer)      | 595           | 433          |              | 1,028          |
| Trainers (Owner/Trainer)                            | 35            |              | 210          | 245            |
| Trackriders/Stablehands                             | 422           | 286          |              | 708            |
| <b>Participants in Producing Racing Animals</b>     | <b>15,175</b> | <b>8,362</b> | <b>3,521</b> | <b>27,058</b>  |
| Full Time Club Staff                                | 116           | 29           | 34           | 179            |
| Part Time Club Staff                                | 30            | 45           | 5            | 80             |
| Casual/Contractor Club Staff                        | 1,927         | 384          | 199          | 2,510          |
| Club Volunteer                                      | 528           | 220          | 5            | 753            |
| Jockeys, Drivers & Apprentices                      | 104           | 62           |              | 166            |
| Barrier Attendants/Handlers                         | 237           | 29           | 79           | 345            |
| Stewards  | 28            | 17           | 12           | 57             |
| Farriers  | 31            | 31           |              | 62             |
| Industry Vets                                       | 42            | 18           |              | 60             |
| <b>Participants in Producing the Racing Product</b> | <b>3,043</b>  | <b>835</b>   | <b>334</b>   | <b>4,212</b>   |
| Industry Administration Staff                       |               |              |              | 481            |
| Totalisator Wagering Staff                          |               |              |              | 1,935          |
| <b>Total Participants in the Racing Industry</b>    | <b>18,218</b> | <b>9,197</b> | <b>3,855</b> | <b>33,686*</b> |

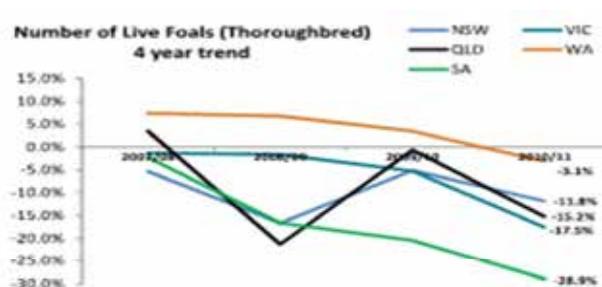
\* Can't be allocated to individual codes

Whilst many of these people rely on racing for their livelihood, the bulk do not as will be discussed later, and in fact many actually fund the industry through money, their time and their efforts to sustain the WA Racing Industry's operation. As IER states "Trainers, breeders, jockeys and drivers represent a segment of society whose investment in skills and infrastructure make them heavily reliant on a successful racing industry". It is equally evident from conducting this review that there are a large number of people employed by breeders and trainers particularly who as a result of their involvement in the WA racing industry have not prepared themselves for alternative employment and are equally dependent upon a sustainable racing industry.

## Breeders

The breeding sector provides and replenishes the racing stock for the WA Racing Industry. The IER report stated that there are nearly 4,300 breeders in Western Australian, with over half of these in regional areas. Breeders range from large stud farms employing many staff and turn out large numbers of foals, to a large number of amateur and hobby breeders. The larger breeders are those primarily responsible within this group for the employment of around 3,700 staff in their operation. Breeders derive the majority of their income from the public and private sale of their stock.

In Thoroughbreds it is understood that there are probably 12 major commercial breeders of which half are standalone thoroughbred breeding operations and the rest are combined with other commercial interests. WA Thoroughbred breeding is impacted by the lack of depth in stallions, but the Westspeed bonus program is helping to partly offset the often too strong competition from Hunter Valley and Victorian large stud operations. There has been an overall declining trend in the breeding of thoroughbreds in Western Australia and nationally as reflected in the following chart from page 21 of the IER Report:



The other major feature of Western Australian breeding, which is common across Australia, is the need in many cases for breeders to take an ownership stake in a horse to get a sale done, such that it is estimated that around 68% of horses have a breeder holding a stake.

For harness racing, breeding is essentially a 4 year process, and the Westbred bonus system is critical to breeders by providing cash inflow relatively earlier in their total investment cycle. It is considered that around 90% of standardbred breeders are hobbyists, and it is understood that there are no big studs being standalone harness racing breeders. Only around 50% of horses bred actually race, reflecting the risk/return position here. Around 70% of breeders would own Standardbreds for the reasons identified above for thoroughbred breeders.

In greyhound breeding it appears that there are no standalone commercial breeders due to lack of returns to greyhound breeders. This Racing Code shows a great deal of breeding/training ownership integration to achieve an economic model, and again as with other Codes the WestChase bonus scheme has been important in supporting a level of local breeding, given however that the majority of greyhounds are now bred interstate and brought to Western Australia to race.

### Trainers

There are around 1,700 horse and greyhound trainers providing services to owners in the WA racing industry. Training services generally incorporate the training (pre and race), trialling and raceday management of a racehorse or greyhound. Trainers employ and/or utilise the services of a variety of skilled and unskilled labour, particularly stable hands, farriers, track riders and vets to prepare racehorses and greyhounds. As the IER Report states for the more than 700 stablehands/track riders employed by trainers, for many the employment opportunity offered would otherwise be difficult to satisfy in the broader employment market. Nearly 58% of these jobs are sustained within regional areas of Western Australian.

Trainers' income is mostly generated through trainers fees charged to owners and a percentage of stakes prizemoney won.

There are various models and business sizes of thoroughbred trainers in Western Australia, and these differ also between metropolitan and regional given different stabling and training situations. Trainers are also significant part owners of thoroughbreds for various reasons – either through choice or need if their yearling purchases are not able to be fully on sold to external owners. With the absence of metropolitan stabling facilities many trainers own their properties through requirement, with this property in many cases representing their retirement/superannuation (although the ability to sell the property as a going concern is unlikely given the lack of cashflow economics across the racing industry). Staff employed by trainers operate under a federal wage award, although it would appear not all trainers necessarily comply with these requirements (probably due to the difficult economic model for trainers).

Harness racing training exhibits many similar attributes such as relatively low training fees causing a significant reliance on share of stakes prizemoney to survive, major stables having on track success that reduces returns to others to at or below sustainable levels, significant investment in property because it is required for stabling and training of horses (held as superannuation but depends on industry sustainability), and significant horse ownership by trainers.

Most greyhound trainers don't get paid a training fee – they agree to go into an equal ownership share of the greyhound. Again there are a variety of different models with some large trainers, but the bulk are small hobby trainers.

### Current Major Considerations for Breeders and Trainers

In discussions with various representatives of these groups, there are a myriad of issues facing the sustainability of the WA racing industry, but at present two major considerations are:

- (i) Lack of Confidence flowing from lack of clarity in the future of the Industry – this is primarily being impacted by two matters, the uncertainty over the implications of the potential privatisation of the WATAB/RWWA, and the confusion and uncertainty associated with major infrastructure of the WA Racing Industry, particularly Belmont, Ascot, Gloucester Park and Cannington.
- (ii) The difficulty of isolation of the WA racing industry compared to the Eastern State Racing Industries who have the ability and mobility capacity to travel readily to other jurisdictions to get some diversity of circumstances if any of a wide range of factors are negatively impacting on the participant's local racing product performance. It could be argued that such isolation could be seen as a benefit as the WA racing industry more readily calibrates to the set number of racing animals and jockeys, although the import of greyhounds from the Eastern States for example might refute this.

Of course, the second of these is a simple reality but it becomes more significant when overlaid by the first point. Investment in the WA Racing Industry is and will continue to be constrained whilst there is significant uncertainty on these matters. Clearly both the WA Racing Industry and the WA Government have significant roles to play in providing some clear direction here within a relatively short timeframe before participants no longer see the benefit of continued investment in the WA Racing Industry.

### Ownership

The following is from page 29 of the IER Report:

“Owners provide much of the capital outlay and day to day funding for the production of racehorses and greyhounds. In 2010/11 there were more than 16,700 individuals with an ownership interest in the Western Australian Racing Industry.

Considerable research over many years has shown that many owners do not consider their involvement to be a financial investment from which they require a return on investment. This is not to say however that owners are prepared to continue to fund their investment if there is diminished opportunities to realise a return”.

This is reflected by separate analysis outlined in this Report to provide an estimation of the percentage return against funds invested (ie, total gross dollar returns expressed as a percentage of the total dollars spent) by owners in each Code in Western Australia which suggested the following ratios:

**Returns as  
% of Costs**

|                  |         |
|------------------|---------|
| WA Thoroughbreds | 24%     |
| WA Harness       | 34%     |
| WA Greyhounds    | 36-50%* |

\*Based on 50/50 owner/trainer split

The IER Report cited that the large majority of owners in Western Australia (84.4%) are involved through an ownership syndicate. Whilst perhaps introducing more owners into the industry initially at its introduction, the recent change to now name up to 20 owners rather than only 10 in the racebook has resulted in owners now investing smaller amounts to achieve one of their desired objectives from ownership. This would not seem to have translated into more owners, just broadly the same amount of owners but with smaller overall investment.

**Racing Clubs**

Racing Clubs provide the venue and racing administration for the conduct of race meetings to allow owners to race their horses and greyhounds. As indicated earlier, there has been minor changes in the number of clubs, race meetings and races over the last couple of years, but as will be reflected later, there is very little if any margin in the operations of these Racing Clubs with them all dependent upon the RWWA distributions, subsidies and other funding for their viability. They are required to distribute 100% of their stakes distribution from RWWA as prizemoney.

Perth Racing, Gloucester Park Harness Racing Club and WAGRA have a number of full-time staff, provincial thoroughbred and harness racing clubs have limited staff, whilst country clubs have no full-time staff with Committee members (all volunteers) finding the task of their inputs increasingly challenging with increased OSH, integrity and security requirements. These issues, to differing extents, are affecting all Racing Clubs. Whilst stewards are provided by RWWA to all race clubs, many provincial and most country clubs are required to bring in staff for race days (in some cases from Perth) who need to be paid because of the regulated requirements and standards to be met, including security.

Many of these Racing Clubs provide a community service for their members, with the main racing days also providing a local business event for the town and a major opportunity for local charities. The number of members of racing clubs is around 10,000 of which around 2/3rds are with regional clubs and 1/3 with metropolitan clubs.

**5.2 Funding of the Western Australian Racing Industry**

This section discusses the funding of the Western Australian Racing Industry in the context of the sources of the funds that finance its operation, and how this funding flows through the value chains of each of the Codes to the stakeholders within, and suppliers to, the Code to produce the product of racing.

### 5.2.1 Overview of Funding

The funding into the WA Racing Industry, which will be analysed in greater detail in the Code value chain analysis in Section 5.3, can be effectively summarised as:

- (1) The payments received from the wagering industry for using the product of the Racing Industry – that is, paying for the racing product on which they wager and receive money from punters. The Racing Industry owns the intellectual and property rights to this racing product, and needs to be appropriately paid for providing that product to the TAB's and other wagering operators who use it to generate income for themselves.
- (2) Owners Contribution – as outlined previously, with owners of racing animals on average effectively contributing approximately 76% of thoroughbred cost, 66% of harness racing cost, and 50-64% of greyhound costs, for the potential of some return and for personal enjoyment and entertainment of horse and greyhound ownership, they are a major source of funding for the Racing Industry.
- (3) Voluntary Contribution – the many volunteers on Racing Club Committees and those who provide raceday services for no remuneration are a significant contributor to the production of the racing product.
- (4) Financiers to Racing Industry Participants – given the position of the WA Racing Industry this will effectively involve those institutions who are prepared to fund investments in property by the larger breeders, trainers and owners, who as we will see later are in many cases just generating sufficient to operate annually with the property as their superannuation/retirement funding. The other form of financing to the WA Racing Industry is Magic Millions which provides attractively priced funding terms for horses sold at their sales for many industry participants.
- (5) Governments – through various programs, all levels of government provide some funding for WA Racing Industry infrastructure to supplement the relatively low levels of funding that the industry is able to fund from operations.
- (6) Other Sources – there are various other sources of some funding of the WA Racing Industry which include sponsors (primarily of Racing Club events), expenditure by patrons attending race meetings, and other income sources of Racing Clubs outside of WA Racing Industry participants.

In identifying these major sources of funding it is not to ignore the significant investments by many within the WA Racing Industry. However, this analysis is looking at those groups that provide externally sourced funding to the participants within the industry who invest time and infrastructure into producing the racing product. Breeders and trainers for example are invested but look to fund these ultimately from owners, stakes prizemoney, bonuses, and other WA Racing Industry funding.

### 5.2.2 Distributions from RWWA to the Racing Industry

The major source of funding to the Western Australian Racing Industry is the distributions paid by RWWA, which are funded by the wagering industry, and largely by the operations of the WATAB. Not only is this the major source of funding, but as it largely determines the stakes prizemoney that fundamentally determine the levels of all other activity in the racing industry process, it is the critical driver of the entire industry.

### 5.2.2.1 The Basis for Distributions / Payments by the WATAB to the Racing Industry

As touched on earlier in the Report, in the processes of creating RWWA as the principal racing authority for each of the Codes and the creation of, and subsequent transfer of, the WATAB into RWWA, the racing industry has agreed to these actions and the taking on and use of its racing product rights in return for the commitment of the payment of distributions to racing clubs as outlined in Section 3.1.3 of this Report. That is, in return for having the exclusive retail wagering rights in Western Australia, the TAB first and then RWWA took on the obligation to fund the WA Racing Industry pursuant to the licence / authority for this exclusive wagering capability.

To be very specific in this regard, the WA Racing Industry as defined as the Racing Clubs and all of its Participants, are the owners of the product and intellectual property rights associated with the production of racing through the three Codes. Accordingly, as an Industry the Racing Industry invests significant time, effort and money in the production of what is the Racing Product.

Prior to the establishment of TAB's in this country, these product rights were being used by SP bookmakers who used racing as the basis for their in most cases illegal bookmaking activities with no payment or compensation to the Racing Industry for the use of racing product. In establishing TAB's Governments acknowledged these intellectual and product property rights by requiring TAB's to make product fee payments to the Racing Industry (and separately and differently tax payments to the Government) for the use of these rights to operate their totalisator pools through exclusive licences to operate retail wagering within the relevant State. This was the case with the establishment of the Western Australian TAB.

With the establishment of RWWA in 2003 under the RWWA Act, RWWA became the Principal Racing Authority for each of the Codes. The intellectual and property rights of the WA Racing Industry were effectively licenced to RWWA at that time by the Racing Clubs and Participants, the consideration for the licencing of rights was the continuity of distributions/payments to the WA racing industry, through RWWA, for the use of these rights by the WATAB, and recognition by the WA Government of the obligations of the WATAB to fund the WA Racing Industry for the exclusive retail wagering authority it received. When the WATAB became part of RWWA this commitment and requirement was legislatively reflected in Section 50 of the RWWA Act which states:

“50 (i) ..... the functions of RWWA in relation to gambling include the following –

-  
-  
-

(c) to develop and implement a scheme for the distribution of net profits and to negotiate funding arrangements with individual racing club.”

The current distributions framework and other funding by WATAB/RWWA in place between the Racing Clubs and RWWA therefore reflects the currently accepted position of the WA Racing Industry and WATAB/RWWA in relation to this requirement, and hence establish both the process and current quantum under the process for payment by the WATAB to the WA Racing Industry in respect of WATAB's use of the Racing Industry's intellectual and racing product property rights.

This is reinforced in the RWWA Act through the provisions of Section 105 to 107 relating to distributions of funds to racing clubs by RWWA. Section 105 clearly reflects the embodiment in legislation of the quantum and distribution processes in place in the WATAB immediately prior to its transfer to RWWA for a three year period. Section 106 then, appropriately, identifies that quantum and allocations of such distributions between Codes will change over time and empowers, within frameworks, RWWA to establish the most appropriate criteria for these distributions. This is reflected in the current distribution quantum and allocations by RWWA.

Accordingly, given the current structure of RWWA with the TAB operation incorporated into its operations, the processes of decision-making, criteria establishment and distribution and overall total WA Racing Industry funding determination sit within and are embedded in the operations of RWWA and its Board. And given the above, these become the current baseline for any consideration of the privatisation of the WATAB and the payments required of the privatised WATAB to appropriately compensate the WA Racing Industry for the provision of its intellectual and racing product property rights.

Any change in process and/or redirection in this distribution regime could be argued as an action of technically breaching an inherent contractual arrangement between the TAB and WA Racing Industry through Government Legislation (which, in an indirect fashion could be argued, the Victorian Government has seen the consequences of recently in a judgment made in respect of its actions in relation to Tatts Group's Gaming Licence in Victoria).

Privatisation has previously seen elsewhere, and it will in Western Australia if the WATAB is privatised, the result being the externalising of this position and will require an explicit contractual arrangement between the WATAB and the WA Racing Industry to lock in the requirement for such payments, supported by appropriate legislative and licencing requirements.

#### 5.2.2.2 Determining Distributions and the Allocation

As has been outlined previously, Section 106 of the RWWA Act establishes the basis on which distributions to the Racing Industry by WATAB/RWWA are to occur. Clearly the framework here is that the value of the intellectual and product property rights made available to the WATAB are reflected in its ability to generate net margin from the use of this product, particularly under its exclusive retail wagering authority, which under Section 106 is then, after meeting all costs, distributed to the WA Racing Industry. Accordingly, the level of distribution and total racing industry funding is determined in this way and by its very nature therefore ensures the continued and sustained provision of this level and quality of racing product from the WA Racing Industry. As reflected in Section 5.3 of this Report, it is this level of distribution and total racing industry funding that finely balances the inputs and outputs of the WA Racing Industry to drive this outcome.

In relation to the allocation and composition of these distributions and other funding between codes, between clubs, and with participants, there are a variety of considerations that are obviously taken into account in their determination by RWWA in Western Australia's case, and by the PRA's in all the States and Territories. Whilst clearly not being privy to the detailed elements of this with RWWA, from an overview of States and Territories including Western Australia the factors in these considerations are broadly similar although in different forms and extents between States and Territories, and as applied to RWWA appear to be:

- Event Fees (Club Funding) – to fund the general expenses incurred by the club in the preparation and conduct of the race day event associated with the race program.
- Owners Incentive Distributions
- Abandoned meeting subsidy payments to Clubs and Participants
- Payments for Riders and Drivers Fees and Australian Jockey Association funding
- Stakes money – prizemoney both Base and Feature Races
- Training Services
- On-course Bookmaker Fees
- Breeders and Owners Subsidy payments – payments made to Breeders and Owners under Westspeed, Westbred and Westchase programs for each Code respectively.

All of these payments are technically made to the Racing Clubs but for payments to industry participants these are actually made directly by RWWA to the participants on behalf of the Clubs.

In the determination of payments under each of these and other payment types and the allocations to Codes, participants, and Racing Clubs in each year some of the factors considered would appear to include:

- The calendar of racing allocated between the different codes and courses
- The incremental changes proposed to this calendar but with a desire not to result in a Racing Club running into deficit due to the inability to meet underlying fixed cost elements of their operation
- Maintaining general benchmarking levels in terms of relativities of stakes prizemoney levels across States, so changes in other States raise the need to look at local focuses with the stakes allocations in Western Australia.
- In general terms looking to attempt to optimise the wagering and entertainment outcomes from the delivery of the racing product
- Balancing up across the program the returns to owners given the slightly differing profiles of these across the Codes.

- Ensuring that breeders, owners and trainers particularly are provided with and the State generally achieves the black type/listed racing requirements to support the pedigree of the Western Australian Racing Industry within the Australian racing landscape.
- To support the participation level of all those in the WA Racing Industry, including drivers/jockey fees and the like and appropriate breeders bonuses
- To cater for relativities of cost between city and country, and the travel requirements of many participants and officials to provincial/country race tracks
- Acknowledging strategic and competitive advantage opportunities such as Interdominions in harness racing.
- Funding of training facilities to ensure availability and affordability with subsidised user pays structures.

These are just a list of a few of the many factors that RWWA would be expected to consider not just in the context of the level and allocations of distributions and other funding to the WA Racing Industry annually, but in relation to the welfare and operation of the WA Racing Industry generally. At present such decisions occur within RWWA itself funded by the inflows it receives from the operations of WATAB. In any potential privatisation the financial arrangements between a privatised WATAB and the WA Racing Industry must ensure that funding to the Industry is maintained to meet these required outcomes to underpin industry sustainability and ensure the continued racing product provision to wagering operators (including the privatised WATAB).

### 5.2.2.3 Levels of Distributions Paid

The outflow of these legal obligations and distribution allocation decisions by RWWA are reflected in the distributions that have been made by RWWA since 2004/5. These are set out in Table 5.2.2.3 over the page derived from RWWA's Annual Reports and its annual Racing Industry Status Reports.

TABLE 5.2.2.3 RWWA DISTRIBUTIONS TO RACING CODES (\$M)

| YEAR   | DETAIL                    | THOROUGHBREDS | HARNESS       | GREYHOUNDS    | TOTAL         |
|--------|---------------------------|---------------|---------------|---------------|---------------|
| 2004/5 | Participant Distributions |               |               |               |               |
|        | • Stakes                  | 33.326        | 13.783        | 5.149         | 52.258        |
|        | • Other                   | 4.434         | 2.307         | 0.132         | 6.873         |
|        | Club Distributions        | 37.760        | 16.090        | 5.281         | 59.131        |
|        | <b>TOTAL</b>              | <b>37.760</b> | <b>19.002</b> | <b>8.868</b>  | <b>65.630</b> |
| 2005/6 | Participant Distributions |               |               |               |               |
|        | • Stakes                  | 40.461        | 16.976        | 6.586         | 64.023        |
|        | • Other                   | 5.866         | 3.712         | 0.364         | 9.942         |
|        | Club Distributions        | 46.327        | 20.688        | 6.950         | 73.965        |
|        | <b>TOTAL</b>              | <b>47.836</b> | <b>23.845</b> | <b>10.315</b> | <b>81.996</b> |
| 2006/7 | Participant Distributions |               |               |               |               |
|        | • Stakes                  | 44.714        | 18.449        | 7.556         | 70.719        |
|        | • Other                   | 7.096         | 3.667         | 0.354         | 11.117        |
|        | Club Distributions        | 51.810        | 22.116        | 7.910         | 81.836        |
|        | <b>TOTAL</b>              | <b>52.888</b> | <b>25.422</b> | <b>11.300</b> | <b>89.610</b> |

TABLE 5.2.2.3 (cont) RWWA DISTRIBUTIONS TO RACING CODES (\$M)

| YEAR    | DETAIL                    | THOROUGHBREDS | HARNESS       | GREYHOUNDS    | TOTAL          |
|---------|---------------------------|---------------|---------------|---------------|----------------|
| 2007/8  | Participant Distributions |               |               |               |                |
|         | • Stakes                  | 48.742        | 20.422        | 8.340         | 77.504         |
|         | • Other                   | 8.318         | 3.846         | 0.466         | 12.630         |
|         | Club Distributions        | 57.060        | 24.268        | 8.806         | 90.134         |
|         | <b>TOTAL</b>              | <b>60.855</b> | <b>29.218</b> | <b>12.868</b> | <b>102.941</b> |
| 2008/9  | Participant Distributions |               |               |               |                |
|         | • Stakes                  | 51.082        | 21.248        | 8.734         | 81.064         |
|         | • Other                   | 9.836         | 4.142         | 0.517         | 14.495         |
|         | Club Distributions        | 60.918        | 25.390        | 9.251         | 95.559         |
|         | <b>TOTAL</b>              | <b>64.366</b> | <b>30.142</b> | <b>13.464</b> | <b>107.972</b> |
| 2009/10 | Participant Distributions |               |               |               |                |
|         | • Stakes                  | 48.396        | 21.392        | 8.687         | 78.475         |
|         | • Other                   | 7.248         | 2.701         | 0.489         | 10.438         |
|         | Club Distributions        | 55.644        | 24.093        | 9.176         | 88.913         |
|         | <b>TOTAL</b>              | <b>60.959</b> | <b>28.457</b> | <b>13.026</b> | <b>102.442</b> |

TABLE 5.2.2.3 (cont) RWWA DISTRIBUTIONS TO RACING CODES (\$M)

| YEAR    | DETAIL                    | THOROUGHBREDS | HARNESS       | GREYHOUNDS    | TOTAL          |
|---------|---------------------------|---------------|---------------|---------------|----------------|
| 2010/11 | Participant Distributions |               |               |               |                |
|         | • Stakes                  | 48.105        | 21.136        | 8.464         | 77.705         |
|         | • Other                   | 7.671         | 2.413         | 0.456         | 10.540         |
|         | Club Distributions        | 55.776        | 23.549        | 8.920         | 88.245         |
|         | <b>TOTAL</b>              | <b>62.457</b> | <b>28.019</b> | <b>12.903</b> | <b>103.379</b> |
| 2011/12 | Participant Distributions |               |               |               |                |
|         | • Stakes                  | 49.538        | 22.744        | 8.837         | 81.119         |
|         | • Other                   | 6.062         | 2.707         | 0.498         | 9.267          |
|         | Club Distributions        | 55.600        | 25.451        | 9.335         | 90.386         |
|         | <b>TOTAL</b>              | <b>66.428</b> | <b>30.084</b> | <b>13.627</b> | <b>110.139</b> |
| 2012/13 | Participant Distributions |               |               |               |                |
|         | • Stakes                  | 50.362        | 22.235        | 890.871       | 82.468         |
|         | • Other                   | 8.026         | 2.768         | 0.575         | 11.369         |
|         | Club Distributions        | 58.388        | 25.003        | 10.446        | 93.837         |
|         | <b>TOTAL</b>              | <b>69.017</b> | <b>29.765</b> | <b>14.880</b> | <b>113.662</b> |

It should be noted in Table 5.2.2.3 that while the total distributions figures by Code and the overall totals are as reported in the RWVA Annual Reports, the table has used actual stakes paid (as opposed to stake distributions made to Racing Clubs) to better reflect actual returns to participants.

Accordingly, the figures for other participant distributions and Racing Club distributions will differ from reported figures as they incorporate adjustments for when actual stakes paid vary from stakes prizemoney distributed to the Clubs. So whilst the actual component figures of the total distributions made in the table do not technically exactly align to the year to year figures as reported, they do reflect a good picture of participant returns. The underlying premise here is that the Racing Clubs had sufficient funds available to meet the top-up requirement so RWVA limited its stakes distribution to force the Racing Clubs to use these funds for stakes prizemoney to Participants.

In this context this approach starkly illustrates the impact on returns to participants when total distributions were reduced in 2009/10 for the reasons outlined earlier in this Report. The reduction of around \$5.5 million in total distributions (5.12% decrease on the 2008/9 distributions) resulted in a \$6.65 million reduction in returns to participants, or close to a 7% decrease on the 2008/9 return levels (with the major part of this in the thoroughbred code).

In the 8 years covered by Table 5.2.2.3 it can be seen that distributions to the Racing Industry have grown by 73.18% (just over 7% p.a.), with Thoroughbred distributions growing 82.77%, Harness 56.64% and Greyhounds 67.79% (around 7.25% p.a., 5.8% p.a., 6.6% p.a. respectively). For the period from 2009/10 to 2012/13 these figures are 10.95% in total, and for the Codes 13.22%, 4.6% and 14.23% respectively. It is interesting to note that for the period from 2006/7 to 2012/13 these figures are 26.84%, 30%, 17.08% and 31.68%, whilst wagering turnover for WATAB for that period has grown by 29.1%. A couple of factors contributing to this lower rate of growth in distributions compared to WATAB's turnover growth is the reduction in the margin return on turnover (with the growth of some lower margin fixed odds product and of premium player turnover), proportionately greater growth in sports betting and hence sports related distributions, and a decrease in the proportion that distributions represent of the margin as other revenues and costs have in net terms resulted in a lesser percentage of the margin generated by wagering being available for distribution and total racing industry funding purposes.

It is understood that with the recent one-off payment by RWVA of \$5 million in additional grant distributions just before the end of July to assist Racing Clubs to address their Occupational Safety and Health compliance obligations, total distributions for the 2013/14 financial year were \$130.8 million (including grants)

In relation to the allocation of racing industry distributions between the 3 codes, there has been minor movements year-to-year based on various matters including different priorities, events within specific Codes, and changes in available funding, but in overall terms the allocation has moved as reflected below:

## PERCENTAGE OF ALLOCATION OF DISTRIBUTIONS TO RACING CODES

|              | 2006/7             | 2012/13            |
|--------------|--------------------|--------------------|
| THOROUGHBRED | 59.0%              | 60.7%              |
| HARNESS      | 28.4%              | 26.2%              |
| GREYHOUND    | <u>12.6%</u>       | <u>13.1%</u>       |
| <b>TOTAL</b> | <b><u>100%</u></b> | <b><u>100%</u></b> |

The movements between these two dates, subject to relatively small annual fluctuations as discussed above, reflects an effective gradual trend in these movements throughout the 6 year period.

### 5.2.3 Racing Club Funding

Racing Clubs are the entities that provide the venue and arrange the event that facilitates the presentation of the racing industry product. In this event presentation there is a wide range of racing club offers provided ranging from racing clubs that conduct just one meeting per year, though provincial clubs that have around mid 20's numbers of meetings annually, up to Perth Racing with 90 meetings between Belmont and Ascot, Gloucester Park Harness Racing with 93 meetings, Cannington Greyhounds 103 meetings and Mandurah Greyhounds conducting 162 meetings per annum. Accordingly, the financial models for these clubs do vary widely but there is one fundamental message relatively consistent to most if not all of them, and that is that they at best break even financially in an operational cashflow sense with little to no funds available for infrastructure expenditure. This section discusses the financial position of WA racing clubs.

Given this spread of racing club size and operation, the financial position and reporting of these clubs is equally varied, with no consistency in the way their financial reports are produced. RWVA does not in any way formally consolidate the financial position of Racing Clubs, probably both reflecting this inconsistency and/or in a sense also enabling this inconsistency to occur. For this Report, the annual reports of all but 9 small racing clubs were able to be obtained for the 2012/13 financial year which represented nearly 99% of the total stakes distributions from RWVA provided in that year.

Subject to the inconsistent accounting treatments (particularly in many cases only having the availability of net bar and catering profits or net on-course totalisator returns), some of the observations of the financial operations of WA racing clubs for the 2012/13 year are as follows:

- Total income (subject to some netting) was in excess of \$160 million
- Total expenses (again subject to some costs having been netted against revenue) was in the order of almost \$165 million
- For the Racing Clubs included in the analysis this provided a combined operating deficit of approximately \$3 million (which approximates the loss of Perth Racing if its one-off other income (predominately from land sales) is excluded)
- Excluding its one-off income items Perth Racing reported a \$2.710 million loss, Gloucester Park Harness Racing reported a \$0.386 million loss, and the WA Greyhound Racing Association reported at \$0.384 million loss.

- Around 66.5% of the total income of racing clubs appears to come from RWWA distributions and other funding (of which around 63% is stakes distributions). This increases to almost 68% when Perth Racing, Gloucester Park and Greyhounds are excluded from the combination analysis.
- Excluding Perth Racing, Gloucester Park and Greyhounds the total profit outcome is a surplus of around \$0.8 million which in general terms reflects minor surpluses in provincial thoroughbreds, very small surpluses to break even in country thoroughbreds, and mainly losses in harness racing clubs.
- Other income outside of RWWA distributions and other funding is comprised largely of bar and catering sales and on-course totalisator, with some sponsorship, function income, admissions and member subscriptions, training in certain instances, and other miscellaneous inflows make up the rest. As discussed in Section 4.4.2, on-course totalisator income has been decreasing in recent times.

These combined Racing Club financial figures reflect that there is no capacity to reduce funding to the WA Racing Industry without significantly damaging the financial position and hence potential sustainability of many of WA's racing clubs.

This current position has evolved largely from the distribution philosophies of RWWA and the reductions in on-course totalisator income. It also reflects the limited capacity for investment in facilities leading to stagnating or declining attendances as the overall event product provided by Racing Clubs struggles to compete with alternative leisure and entertainment offers, whilst also feeling the effects of the less buoyant Western Australian economic environment.

From discussions with RWWA Management it appears the distribution framework for Racing Clubs was previously more loosely based around percentages of on-course and off-course wagering turnover they contributed and the extent of external non-wagering turnover the course generated. From later last decade onwards, however, it appears that Racing Club distributions were largely flatlined as a strategic RWWA decision to increase distributions to participants, primarily through stakes funding enhancements, but also to other requirements such as the Australian Jockey's Association. There appears to have been at least a twofold focus with this, that is :

- To provide a more targeted strategy in terms of stakes, given the 2 television stations now covering racing, to maximise product by increased focuses on areas such as black type race availability, and the comparability of the race program to other States.
- To remove the simple but sub-optimal model for Racing Clubs of simply putting on more meetings to get more funding (irrespective of whether or not overall product and profitability benefitted) that flowed from this wagering revenue performance model.

So the brunt of the downward adjustment to distributions required in 2010 flowing from the disruptions of 2008/09 was felt by the Racing Clubs as participant funding remained the focus, combined with what could be described as a fairly blunt policy decision to straight line event fees to deal with a poorly set performance indicator on wagering turnover for Racing Club funding. This wagering turnover based approach did not focus nor necessarily reward Racing Clubs or their performance to broader industry product issues such as quality of animals, appropriate racing field sizes, and exposure and promotion and attendance-orientated race programming.

From discussions with both Country and Provincial racing club representatives, this worsened financial position for Clubs was reflected in a number of further issues facing their ongoing viability as follows:

1. Recently imposed OHS requirements has had significant cost and cash drain impacts on Racing Clubs, together with the increased and new responsibilities placed on voluntary Committees of the Clubs (increasing personal exposure leading to volunteers walking away).
2. Integrity and compliance requirements for racing and event management are more complex, expensive and in some cases constraining. People often need to be transported in and paid, eg; security, because required skills are not readily available (again especially in the country where there are no full time staff).
3. The significant cost of travel, especially to country meetings, given the issues raised above and the sheer size of the State.
4. The inability to fund infrastructure requirements and maintenance out of existing operational funding sources.
5. Horse numbers are a challenge for country thoroughbred and harness racing clubs because of hard tracks, the economics of racing is difficult, and the tyranny of distance (Kalgoorlie actually has its own stock of horses).

With all of these issues the viability of WA Racing Clubs does now appear to have been recognised by RWWA, with some initial responses helpful in attempting to get Racing Clubs through. At present, there does not appear to be any fundamental change in Racing Club funding philosophies, but RWWA have taken initiatives such as:

- RWWA staff providing financial advice and support in terms of assisting the Racing Clubs in their financial management activities.
- The provision of special distribution payments totalling \$5 million by way of grants to Clubs in late July 2014 on a pro-rata basis “for use in addressing vitally important Occupational Safety and Health (OSH) issues at your club”, as outlined in letters to Racing Clubs from the RWWA Chairman, Jeff Ovens.
- Initiatives being considered focused at improving the on-course totalisator wagering offer (which will help those with reasonable wagering facilities).

Greyhounds, with its 3 tracks all operated by WA Greyhound Racing Association, also faces many of these issues. In addition with event fees not changing, its response has been to put on more meetings to remain viable. Clearly the major issue at present is Cannington, which is now being partly funded by RWWA, but more funding is needed to properly complete the project.

Under its current leadership, WAGRA understands that it needs to right size its administration but needs around \$1.3 million to fund the redundancy cost to enable this right sizing to occur. Such an investment is recommended by RWWA with the people cost savings being used by WAGRA to fund both the full completion of the new Cannington facility and marketing expenditure, with distribution levels maintained. Other infrastructure is understood to be in reasonable condition, although ageing, and hence Greyhounds require the same positioning on this issue as the other Codes.

It also appears that in many cases Racing Clubs' finances are also being held up by additional support from RWWA through a variety of subsidy payments to cover various areas including:

- making the Product Fee payments of Clubs in respect of their on-course wagering.
- Paying the Sky Channel vision costs for the Clubs
- In some cases, and to varying degrees, costs of on-course wagering are absorbed and/or paid by RWWA
- The costs associated with the infrastructure and operation of broadcasting the Clubs' racing through Sky Channel.

This list is unlikely to be exhaustive of the subsidies and other funding support provided by RWWA in addition to the distributions made to Racing Clubs (and participants).

Clearly therefore all of this starkly reflects the fact that WA Racing Clubs, as with the rest of the WA Racing Industry, is operationally break even under the current settings of the industry. With no real growth in distributions to Clubs coming from RWWA out of the WATAB wagering business profits in recent times, and declining on-course totalisator proceeds, the Racing Clubs have no fat in their operations and require at least the same level of current distributions and subsidies from RWWA to continue to remain viable.

In reviewing the balance sheets of those Racing Clubs that were able to be obtained, there does not appear to be any material buffer in their balance sheets to provide any mitigant to this operational risk position. For example, of the 22 provincial and country thoroughbred racing clubs balance sheets examined, the average net working capital position across these was an approximately positive \$108,000 - \$109,000 which is insignificant when you consider that the average annual RWWA distribution to Racing Clubs in these categories is around \$487,000 per Club, ie. a liquidity buffer of just over 20% of just one year's distribution. Of course this is an average and this position is obviously much worse in a number of Racing Clubs. For provincial and country harness racing clubs these respective figures are around \$35,000 and \$584,000, and hence only a 13% buffer on average.

As discussed elsewhere in this Report, this situation with Racing Club financing of an operational break-even position and no substantial reserves leaves no capacity for any funding of infrastructure investment from within the current racing industry funding model. This is particularly concerning when, from the Racing Club balance sheet reviews undertaken it is clear that many Club facilities are fully or close to fully depreciated, and from visual examination of facilities many of them are clearly in need of expenditure, but no substantial depreciation charges against income are occurring to provide funding for such expenditure.



Given these figures, the remainder of this section will therefore reference that WA Thoroughbred owners effectively fund 76% of the cost of racing a horse, harness owners fund 66%, and Greyhound owners fund 64%.

The returns to owners that therefore make up the balance of the costs of owning and racing the animal are funded by the major components of the distributions and other funding from WATAB/RWWA as set out in Table 5.2.2.3 and discussed earlier in this Report as :

- Base Stakes (specific owner percentage)
- Feature Stakes (specific owner percentage)
- Westspeed/Westbred/Westchase Bonuses
- Club Training Funds (designed to offset Racing Club and owner usage costs and maintain upkeep of facilities specific to training).

To therefore determine an estimation of the amount of funding provided by owners of horses and greyhounds for the WA Racing Industry on an annual basis, the total average annual operating cost per horse/dog derived in this analysis has been multiplied by the number of individual starters in the 2012/13 year. To this needs to be added the annual estimated investments made in new animals, again using 2012/13 estimated levels based on information from RWWA's Industry Status Reports.

On this basis the following estimated approximate annual net payments by owners in each Code are as follows (net of returns) :

|                             | THOROUGHbred   | HARNESS        | GREYHOUND     | TOTAL           |
|-----------------------------|----------------|----------------|---------------|-----------------|
| Annual Operating Costs      | \$76.5m        | \$34.3m        | Nil *         | \$110.8m        |
| Annual new animal purchases | \$12.0m        | \$6.2m         | \$5.5m        | \$ 23.7m        |
| <b>TOTAL</b>                | <b>\$88.5m</b> | <b>\$40.5m</b> | <b>\$5.5m</b> | <b>\$134.5m</b> |

\*Returns to Greyhound owners on an operating cost basis only are estimated on average to be close to 100% of operating cost.

Accordingly, it can be seen that owners in net terms (net of returns) probably provide greater or roughly equivalent funding to the WA Racing Industry for producing and maintaining racing animals than the distributions injected by RWWA paid to Racing Clubs and participants from the operations of the WATAB in relation to annual product costs. Of course, it needs to be recognised that RWWA provides a range of other funding to the WA Racing Industry in addition to distributions as discussed throughout this Report, as well as the costs of racing operations and integrity.

This net funding by owners is what has been called by some as the “acceptable loss” of owners, ie. the accepted cost to owners of the pursuit of the largely intangible benefits of the dream of major success with a horse or greyhound, the social interactions, the excitement of attending the racing experience, the joy of a winning experience, and the sense of common purpose and involvement in the sport. By its very nature this level of investment therefore has a large discretionary component to it, and is significantly determined by the perceived opportunity or probability of achieving at least a reasonable level of return, as largely determined by stakes prizemoney.

Whilst as previously discussed the models of owners vary significantly, it is very clear that stakes prizemoney levels will significantly impact owners’ involvement as follows:

- For larger and more financially orientated owners stakes prizemoney will more heavily and directly influence investment given the direct financial return implications
- For more hobbyist orientated owners the impacts of stakes prizemoney levels will be less direct and overt but will nevertheless determine overall preparedness to invest over time, particularly if there are reductions in stakes prizemoney.

It should be noted that the WA Racing Industry funding perspectives determined in this Report, whilst reflecting some differences, are generally reasonably consistent in context to the IER Report. The IER Report identified gross expenditure levels on wagering, preparing and racing animals, and customer expenditure. Taking the preparing and racing animals expenditure of \$223.6 million in 2010/11 in the IER Report, this compares closely to the total figure of \$224.5 million as the total expenditure figure by owners per this Report when the Annual Operating Costs (which is net of returns) of \$110.8 million from the table above is added to the total racing distribution by RWWA of \$113.7 million for 2012/13. Although a couple of years apart the general consistency of the figures indicate that these reflect reasonable indicative estimates of the funding of the WA Racing Industry.

### 5.2.5 Infrastructure Funding

The discussion to date on the funding of the Racing Industry in Western Australian has been in relation to operating expenditure. This section discusses the more problematic area of WA Racing Industry Infrastructure Funding. It is problematic because essentially the WA Racing Industry is generating only enough funding at present to break even on operations (with distributions and stakes prizemoney and other RWWA funding at levels just supporting this), with effectively little to no capability to meet infrastructure development or maintenance expenditure requirements.

Clearly the future development and sustainability of the industry is largely dependent on establishing, replacing and/or improving infrastructure at racing clubs to ensure facilities meet occupational safety and health (OSH) standards, licencing requirements, and the requirements of patrons.

At present, one source of funding for such expenditure is the Racecourse Infrastructure Grants Program (RIGP) established in July 2010 by the Western Australian Government, with an allocation of \$13 million over 5 years (2010-2015). The aim of the RIGP is to support the establishment or improvement of infrastructure that is critical to the conduct of racing and/or training activities in both metropolitan and regional Western Australia. RIGP funding is offered on a partnership basis and as a general rule is only offered up to a maximum of 50% of the total project cost. The Western Australian Government provided further funding from the Royalties for Regions (R4R) program of \$6.6 million in November 2012. As at 20 June 2014, RWWA advised that \$9.7 million of RIGP and \$2.9 million of R4R funding of the total \$19.6 million of both combined had been spent, with RWWA adding further funding of \$2.0 million to various projects.

Racing Clubs are then expected to secure the balance of funds required to undertake and complete projects from other sources, such as the Regional Development Commission, local government authorities, the Federal Government, RWWA, the Clubs' own resources, and/or from sponsorship. However, as explained earlier, Racing Clubs are facing significant financial pressures and finding it increasingly difficult to obtain other funding sources. Section 5.2.3 shows that Racing Clubs are barely breaking even operationally, any depreciation charged is largely inadequate or otherwise spent, and increased OSH and integrity requirements are expanding the required infrastructure expenditure beyond simply replacement and maintenance spend.

With the existing Government infrastructure funding programs set to conclude next year the question as to the continued funding of such infrastructure is unanswered at present. The concerns in this regard are compounded by a recent inventory of infrastructure spend requirements across the WA Racing Industry which is understood to have indicated a spend required of some \$125 million. Whilst obviously an element of wish-list philosophy underpinned this listing, it nevertheless reflects the magnitude of this issue.

The 2008/9 review of the RWWA Act by the Joint Standing Committee on the Review of the Racing and Wagering Western Australia Acts under the chairmanship of Mr. John McGrath MLA, entitled "Inquiry into the Racing and Wagering Western Australia Acts, Report No 2, 2010" (the McGrath Report) suggested a reduction in the wagering tax with funds retained by RWWA from the WATAB channelled into an infrastructure fund to generate annual spend and ongoing contribution to a corpus for the future.

Any privatisation of WATAB and resulting WA Racing Industry funding arrangements should encompass provision in relation to ongoing infrastructure funding requirements.

This could be achieved in a variety of ways such as:

- Factoring into any on-going distribution funding to the WA Racing Industry from WATAB, whether privatised or not, an additional and higher amount for infrastructure funding.
- If the WATAB is privatised a proportion of the sale proceeds could be allocated to an infrastructure fund.
- The existing cash reserves of RWWA could be allocated to an infrastructure fund.
- As suggested in the McGrath Report a reduction in the wagering tax with the amount of the reduction paid into an infrastructure fund.

An infrastructure fund, particularly if substantially seeded initially, could be used in a manner where investment returns, with a small annual release of capital, could then be supplemented by funding from the WA Government where public policy objectives were also part of the business case.

### 5.3 Code Value Chains

In properly understanding the implications of a potential privatisation of WATAB on the WA racing industry it is necessary to understand the value chains within each of the Racing Codes. It is only then that the Government can get a more accurate perspective of the effects of its decisions in this regard, and the WA Racing Industry will have a broader understanding of the potential impacts to its constituent parts. This Section of this Report attempts to outline key elements of the value chains of each of the Codes individually, recognising that in the time available for this study that this is a preliminary overview only of the important elements within these value chains, and the potential impacts of the potential privatisations of WATAB.

#### 5.3.1 Thoroughbreds

As with the thoroughbred racing industries in all Australian jurisdictions (but arguably even to a greater extent in the relatively more isolated Western Australian racing industry), the cross-overs or joint involvements by participants in more than one part of the value chain is a feature in any discussion of the linkages and economic dependencies. The main groups directly involved in the thoroughbred racing industry are the breeders, the owners, the trainers, the jockeys, the stable staff, and the RWWA and Racing Club administrators. This latter group have been discussed elsewhere in this Report and won't be covered in this section.

The interconnectivity between the breeding, training and ownership activities are seen in the following statistics obtained in discussion with RWWA:

- 52% of the currently licenced trainers own a horse that started in the last 12 months (and this percentage would probably be substantially higher if horses owned by family members are included)
- 68% of thoroughbred breeders owned a horse that raced in the last 18 months.

Accordingly, there are limited examples of purity within elements of the value chain, and hence the following comments on the segments are made with this in mind.

##### 5.3.1.1 Breeders

At its core the business model of breeders is to arrange a mare to foal, tend the weanling, and prepare the yearling for sale. Breeders will have their own stallions but will also look to service their mares with other stallions for the payment of a service fee. To facilitate this model many breeders will own their own property and some stallions and obviously a significant amount of broodmares.

Probably the best overall reflection of the difficult economic model faced by breeders in Western Australian is shown in the following table supplied by the Thoroughbred Breeders Western Australia (TBWA) outlining the average cost of bringing a yearling to sale in WA compared to the average sale price achieved at the main yearling sale in Perth.

|         | AVERAGE<br>YEARLING COST | AVERAGE<br>SALE PRICE | COST VS SALE PRICE<br>AVERAGES |
|---------|--------------------------|-----------------------|--------------------------------|
| 2007/08 | \$26,460                 | \$50,514              | \$24,054                       |
| 2008/09 | \$28,460                 | \$38,247              | \$ 9,797                       |
| 2009/10 | \$30,300                 | \$41,659              | \$11,359                       |
| 2010/11 | \$33,100                 | \$44,639              | \$11,539                       |
| 2011/12 | \$35,500                 | \$38,170              | \$ 2,670                       |
| 2012/13 | \$38,050                 | \$39,367              | \$ 1,317                       |
| 2013/14 | \$39,400                 | \$39,916              | \$ 516                         |

The average sale prices are taken from the main sessions of the Magic Millions primary sale in Perth, and largely reflect the figures as contained in RWWA's annual Industry Status Report. The average yearling cost is based on the costings calculated on a mare producing a foal and it being raised and taken through to a yearling sale in February/March of its yearling year. The basis of these costings are set out later in Table 5.3.1.1A (shown for the 2013 year with comparable figures for the 2008 year).

The table above clearly illustrates the contraction in returns to breeders in the Western Australian thoroughbred market flowing from a compound annual growth rate in cost over the last 6 years of 7% per annum, at a time of decline or certainly no growth in average sale prices being received.

This impact is then reflected in Breeding Distribution Statistics from the Australian Racing Fact Book 2012/13, which shows that the Western Australian breeding figures are falling quicker than the overall Australian figure. This is illustrated in WA's proportion of national stallions falling from 12.4% in 2009/10 to 11.1% in 2012/13, for broodmares the figures are 12.3% down to 11.7% for the same period, and significantly the proportion of the nation's foals fell from 11.7% to 9.6% from 2007/08 to 2012/13.

The stagnate yearlings sale environment is even further emphasised when the statistics for total yearling sales in Perth over the last 10 years (as provided by Magic Millions) are considered, as set out later in Table 5.3.1.1B. When total yearlings sold for the year are taken into account, the average prices achieved per year from the data in Table 5.3.1.1B are as listed below:

|      | AVERAGE YEARLING<br>SALES PRICE (\$) |
|------|--------------------------------------|
| 2005 | 23,834                               |
| 2006 | 28,514                               |
| 2007 | 30,844                               |
| 2008 | 32,399                               |
| 2009 | 24,600                               |
| 2010 | 28,947                               |
| 2011 | 30,254                               |
| 2012 | 29,722                               |
| 2013 | 30,069                               |
| 2014 | 33,755                               |

When these results are considered against the average cost of preparing a yearling for sale as listed in Table 5.3.1.1A for the corresponding years, the economic model on average for breeders is shown to be very tight. This is on top of the situation where there is a loss of around 30% of yearlings on catalogue for sales due to withdrawals from injury and passed in yearlings that don't sell at sales. This is also after about at least 5% of foals who do not make their first birthday.

Of concern more generally for the WA thoroughbred industry (and particularly breeders) is that when the aggregate on gross sales proceeds and average yearling prices for a number of Eastern State sales are considered (particularly the larger sales), there is generally more evidence of growth in these statistics. Some of the smaller yearling sales around Australia have exhibited equally challenging outcomes as the Perth sales, but with larger sales reflecting better results this is of concern to the WA Racing Industry. Under any potential privatisation of WATAB the incentives to breeders and buyers of thoroughbred yearlings, predominantly in the form of stakes prizemoney and incentive bonuses, need to be maintained and to continue to grow into the future.

TABLE 5.3.1.1A - BUDGET COST OF YEARLING (Conception to Sale)

All figures are net of GST

| COMMENTS  | NOTES/COMMENTS               | BUDGET COSTS       | 2008 FIGURES       |
|---|------------------------------|--------------------|--------------------|
| VET COSTS (AVERAGE PER MARE TO GET IN FOAL)         |                              | \$750.00           | \$500.00           |
| VAN SERVE EXPENSES                                  | STAFF AND FUEL COSTS OR TAXI | \$500.00           | \$300.00           |
| AGISTMENT FOR MARE (WHILST PREGNANT)                | \$24.00 PER DAY / 343 DAYS   | \$8,232.00         | \$5,488.00         |
| FOALING DOWN FEE                                    | SET FEE                      | \$500.00           | \$300.00           |
| **EXTRA AGISTMENT FOR MARE WHEN FOAL BORN           | \$2.00 PER DAY X 155         | \$310.00           | \$232.00           |
| AGISTMENT FOR WEANLING (THROUGH TO YEARLING PREP)   | \$20.0 PER DAY X 270         | \$5,400.00         | \$4,050.00         |
| FARRIER WORK (MARE FOR 12 MONTH WHILST IN FOAL)     | \$40 PER TRIM                | \$240.00           | \$180.00           |
| WEANING FEE (HALTER BREAK, HANDLING, STABLING ETC.) | SET FEE                      | \$500.00           | \$300.00           |
| FARRIER WORK (FROM FOAL TO YEARLING SALE)           | \$40 PER TRIM (17 TIMES)     | \$680.00           | \$510.00           |
| FARRIER FOR SALE                                    | 1 SET OF SHOES FOR SALE      | \$135.00           | \$110.00           |
| MICROCHIPPING                                       | SET FEE                      | \$100.00           | \$100.00           |
| BRANDING  | SET FEE                      | \$100.00           | \$100.00           |
| YEARLING PREPARATION                                | 460 PER DAY (10 WEEKS)       | \$4,200.00         | \$2,520.00         |
| RADIOGRAPHS FOR YEARLING SALE                       | SET FEE                      | \$1,000.00         | \$1,000.00         |
| PRESENTATION / ACCOMMODATION ETC FOR SALE           | SHARED AMONGST DRAFT         | \$1,500.00         | \$1,100.00         |
| YEARLING SALE ENTRY FEE                             | SET FEE                      | \$1,300.00         | \$400.00           |
| VET COSTS (FOAL THROUGH TO YEARLING SALE)           |                              | \$500.00           | \$1,500.00         |
| INSURANCE FOR WEANING TO YEARLING                   | APPROXIMATE                  | \$2,000.00         | \$1,500.00         |
| MISC MARE EXPENSES                                  |                              | \$200.00           | \$150.00           |
| MISC YEARLING EXPENSES                              |                              | \$200.00           | \$150.00           |
| WORM AND VACCINATION                                |                              | \$500.00           | \$350.00           |
| MARE RETURN   |                              | \$200.00           | \$120.00           |
| SERVICE FEE   |                              | \$9,000.00         | \$7,000.00         |
| <b>TOTAL</b>  |                              | <b>\$38,047.00</b> | <b>\$26,460.00</b> |
| <b>GROSS INCOME</b>                                 |                              | <b>\$50,000.00</b> | <b>\$50,000.00</b> |
| <b>SELLING COMPANY COMMISSION</b>                   |                              | <b>\$4,175.00</b>  | <b>\$4,175.00</b>  |
| <b>NET INCOME</b>                                   |                              | <b>\$7,778.00</b>  | <b>\$19,365.00</b> |
|   | <b>8.350%</b>                |                    |                    |

**NOTES:**

The costings calculated are on a mare producing a foal and it being raised and taken through to a yearling sale in Feb / March of its yearling year. The costing are also worked out on average that a mare foals in around October, and a foal is weaned at 6 months approx. 1 April of the following year.

\*The van serve costings is based on the mare going in foal on the first attempt

\*\*The extra agistment charge for the mare when the foal is born is only the 'gap' difference between a wet mare and a dry mare

\*\*We assume that the mare is back in foal and that agistment costing is allocated to the next foal.  
**We have allocated agistment costs as a constant as although members with their own properties will have a base feed cost, they also have their labour, land holding expenses and property maintenance costs to consider.**

CHAPTER 5

THE WESTERN AUSTRALIAN RACING INDUSTRY

TOTAL YEARLINGS SOLD BY YEAR

| Year | Yearlings Sold | Gross            |
|------|----------------|------------------|
| 2005 | 386            | \$ 9,200,000.00  |
| 2006 | 516            | \$14,713,100.00  |
| 2007 | 535            | \$ 16,501,950.00 |
| 2008 | 567            | \$ 18,370,300.00 |
| 2009 | 515            | \$ 12,699,300.00 |
| 2010 | 478            | \$ 13,836,500.00 |
| 2011 | 433            | \$ 13,100,100.00 |
| 2012 | 433            | \$ 12,869,600.00 |
| 2013 | 399            | \$ 11,997,540.00 |
| 2014 | 379            | \$ 12,793,050.00 |

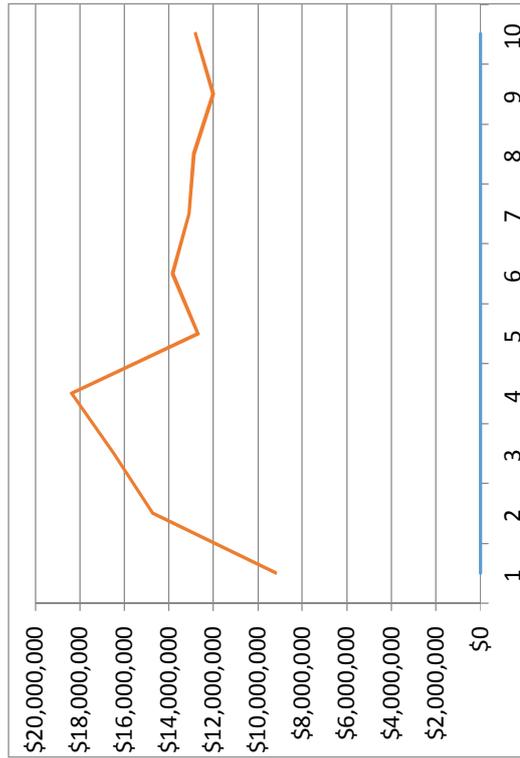


TABLE 5.3.1.1B  
MAGIC MILLIONS - SALE OF YEARLINGS IN PERTH 2005 - 2014

| Year   | Sale                           | Catalogued | Sold | Gross                   |
|--|--------------------------------|------------|------|-------------------------|
| 2005   | Perth Yearling Sale            | 505        | 374  | \$ 9,143,500.00         |
| 2005   | Perth Winter Thoroughbred Sale | 16         | 12   | \$ 56,500.00            |
| 2006   | Perth Yearling Sale            | 634        | 472  | \$ 13,443,750.00        |
| 2006   | Perth Winter Thoroughbred Sale | 36         | 30   | \$ 1,230,450.00         |
| 2006   | Perth May Monthly Sale         | 25         | 14   | \$ 38,900.00            |
| 2007   | Perth Yearling Sale            | 675        | 510  | \$ 16,399,850.00        |
| 2007   | Perth Winter Thoroughbred Sale | 31         | 25   | \$ 102,100.00           |
| 2008   | Perth Yearling Sale            | 787        | 519  | \$ 18,161,500.00        |
| 2008   | Perth Winter Thoroughbred Sale | 33         | 24   | \$ 134,900.00           |
| 2008   | Perth Mixed Thoroughbred Sale  | 27         | 24   | \$ 73,900.00            |
| 2009   | Perth Yearling Sale            | 440        | 305  | \$ 11,655,000.00        |
| 2009   | Perth Westspeed Yearling Sale  | 361        | 184  | \$ 978,050.00           |
| 2009   | Perth Autumn Thoroughbred Sale | 8          | 5    | \$ 11,150.00            |
| 2009   | Perth Winter Thoroughbred Sale | 43         | 21   | \$ 55,100.00            |
| 2010   | Perth Yearling Sale            | 630        | 434  | \$ 13,720,500.00        |
| 2010   | Perth Autumn Thoroughbred Sale | 52         | 38   | \$ 91,550.00            |
| 2010   | Perth Winter Thoroughbred Sale | 10         | 6    | \$ 24,450.00            |
| 2011   | Perth Yearling Sale            | 686        | 407  | \$ 12,959,200.00        |
| 2011   | Perth Autumn Thoroughbred Sale | 12         | 6    | \$ 61,200.00            |
| 2011   | Perth Winter Thoroughbred Sale | 35         | 20   | \$ 79,700.00            |
| 2012   | Perth Yearling Sale            | 580        | 405  | \$ 12,767,350.00        |
| 2012   | Perth Autumn Thoroughbred Sale | 18         | 16   | \$ 32,750.00            |
| 2012   | Perth Winter Thoroughbred Sale | 25         | 12   | \$ 69,500.00            |
| 2013   | Perth Yearling Sale            | 415        | 290  | \$ 11,327,500.00        |
| 2013   | Perth Autumn Thoroughbred Sale | 35         | 21   | \$ 28,750.00            |
| 2013   | Perth Winter Yearling Sale     | 133        | 85   | \$ 637,590.00           |
| 2013   | Perth Winter Thoroughbred Sale | 3          | 3    | \$ 3,700.00             |
| 2014   | Perth Yearling Sale            | 415        | 311  | \$ 12,387,000.00        |
| 2014   | Perth Autumn Thoroughbred Sale | 23         | 17   | \$ 13,400.00            |
| 2014   | Perth Winter Yearling Sale     | 65         | 49   | \$ 392,000.00           |
| 2014   | Perth Winter Thoroughbred Sale | 2          | 2    | \$ 650.00               |
| <b>TOTAL YEARLINGS SOLD IN PERTH BY MAGIC MILLIONS 2005-2014</b> |                                |            |      | <b>\$136,081,440.00</b> |

A thoroughbred breeder's broad financial model looks something like the following:

### Income

Service Fees  
Agistment  
Sale of yearlings  
"Acquisition of Ownership Stakes"

### Expenses

Stock purchase (stallions and mares)  
Service Fees  
Mare/Weanling/Yearling Expenses (per Table 5.3.1.1A)  
Property Expenses  
Veterinary Expenses  
Feed  
Staff Wages  
Other Expenses

In general terms for these income items, service fees in Western Australian are under pressure because of lack of depth and quality of the stallions, sales of yearlings have stagnated (but less yearlings generally), and acquisition of ownership stakes is really only transferring what should be breeding income into ownership of racehorses. As indicated earlier, breeders are very significant horse owners, often forced into this position to get a sale done because of the inability to sell otherwise. It should be said that this level of horse ownership by breeders is not a Western Australian phenomena, as reflected in the key findings of a report entitled "Breeders' Contribution to Racehorse Ownership" released by the Thoroughbred Breeders Australia in February 2010, which found the following on a national basis:

- 84% of breeders own racehorses
- Breeders have an ownership share in 63% of all racehorses in training
- When the ownership percentages of shares in racehorses owned by breeders is added together it equates to an equivalent of full ownership of 45% of all racehorses in training.

In Section 5.2.4 of this Report the returns to ownership were outlined, and hence such acquisition (or retention) of horse ownership is not on average a returning investment, reflecting limited overall returns from the WA Racing Industry for breeders when this is put alongside the challenging returns position from breeding.

In relation to expenses, Tables 5.3.1.1A in this section outlines the overall increases here. Later in this Chapter of this Report some of the specific expense areas will be discussed in more detail.

From discussions with thoroughbred breeders it is clear the Westspeed Incentive Scheme, including the recently introduced Westspeed Stallions initiative, is a major factor encouraging breeders to stay in breeding despite the difficult financial model outlined above. This is particularly so in the context of providing breeders with the opportunity to access an ongoing revenue stream from the yearlings they have previously sold, via their racing success. In a number of cases it was expressed that without such a scheme it was likely that the breeder would shut down. This program is providing the basis to at least enable breeders to compete at some level with the Hunter Valley and Victorian industry participants for stallions which would not otherwise be possible.

This Westspeed Incentive Scheme and the other RWWA distributions and funding that drive owners and others to continue in the WA Racing Industry must be maintained under a potential privatisation model.

### 5.3.1.2 Trainers

As with breeders the trainers' business model is in many cases intertwined with horse ownership. Trainers operate on what appears to be many different models, with the extent of horse ownership being the major differential to their financial models. This directly affects the proportionality of a trainer's income that is represented by Trainers Fee and their trainer's share of prize money as opposed to the extent of horse ownership stakes prizemoney. However, from discussions with trainers and from reviewing various profit and loss statements of trainers in differing positions in relation to the extent of horse ownership, it is clear that training fees levied to external owners at best only just meet the costs of training their thoroughbreds.

In general terms the financial model for trainers looks something like the following:

#### Income

- Training Fees
- Expenses reimbursed by owners
- Trainers Percentage
- Agistment
- Stakes Prizemoney

#### Expenses

- Pre-Training expenses
- Feed
- Veterinary expenses
- Property expenses
- Office overheads
- Staff Wages
- Other Expenses

Training fees for metropolitan/provincial trainers are currently around \$70-\$80 per day, with trainers at the lower end making essentially no profit. These training fees have increased from \$60-65 per day in 2008, an increase of around 20-25% over those 6 years, or around 3.5% to 3.75% per annum. It is generally considered that there are too many trainers within the WA industry which therefore puts pressure on fee levels resulting in them being set at levels that provide little return to trainers. This is reflected in the ratio of thoroughbred training licences to horses that raced – a 6:1 ratio in WA in 2012/13 compared to 7-9:1 in the Eastern States. With owners expectations on fees conditioned by this position, trainers will often either use themselves or family members for strapping and other work on public holidays because it is otherwise too expensive if staff on penalty rates are used and owners will dispute bills, won't pay, and/or may move the horse to another trainer.

In the case of most country trainers, it is understood that they generally charge training fees of around \$60-\$65 per day, with extras at around the same as city rates. Given many costs would be around the same levels as for city/provincial trainers, the financial model would be very difficult.

The Trainers percentage of 10% of stakes prizemoney is obviously a variable source of income dependent on success and can't be relied upon but clearly helps to improve the books of trainers.

Depending upon the size of the operation and the extent of the horse ownership, these two sources (plus expense reimbursement by owners) can provide between around 75-100% of a trainer's income with large trainers able to enhance income at this lower end by agistment, and to a lesser extent stakes prizemoney from ownership.

The high levels of ownership of racehorses by trainers generally (although not in all cases) arises from a number of reasons, with the predominant ones appearing to include:

- Trainers buying horses at sales without committed owners and being left with unsold shares – which has been made more likely by the change in rule to allow 20 names of owners in the racebook (previously only 10) which enable owners to achieve their objectives of ownership with a lower investment
- Actively taking ownership percentages to entice owners to buy certain horses, or conversely requested by loyal owners
- Other objectives flowing from their broad involvement in the industry, such as supporting family member's involvement and/or employment in the industry.

Again, as with breeders, trainers face the similar horse ownership financial model as previously outlined, although clearly absorbing their share of the trainers fee through personal exertion. Whilst stakes prizemoney as owners helps to improve their income flow, the absorbed on average losses of horse ownership again just adds to the difficult financial model facing trainers.

On the cost side, some of these expenses will be discussed in more detail below, but with training fee increases only reflecting less than 4% per annum growth and RWWA distributions to participants exhibiting less growth than this, the training financial model is under pressure, with many struggling to meet their ongoing commitments, as in many cases cost increases are much greater than this.

Whilst trainer's financial models do vary significantly some general observations of the cost base and hence a context of operational outcomes are as follows:

- Wages would appear to constitute somewhere around 30-33% of a trainer's cost base when stable staff (roughly about one staff member to every five horses), track riders and the like are taken into account. As will be discussed later, the award rates for these staff has increased at around 23-25% over the last six years, and hence trainers fees increases have only just met these increases.
- Property costs range around 5-10% depending upon repairs and maintenance requirements.
- Veterinary expenses represent around 4-6% of total costs

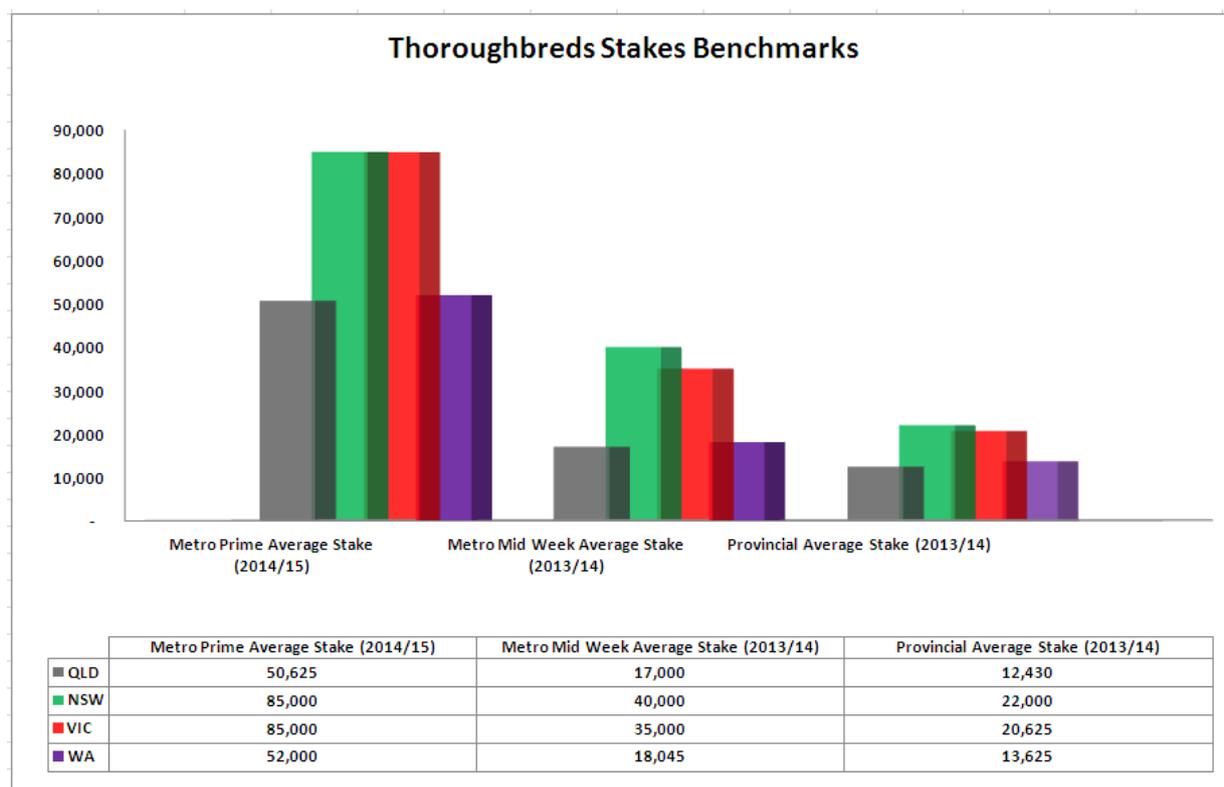
- Pre-training costs (such a breaking in, etc) can vary from 5% to more than 15% of cost depending upon the training business model in place and whether agistment / pre training facilities are owned or paid for externally
- Net profit or surplus before tax expressed as a percentage of revenue can obviously fluctuate fairly significantly but would appear to on average come in at between 1.5% to 4% of total revenue for those trainers that can generate a surplus, which does not represent a significant return in an operational sense, especially for the many who do not generate such surpluses given these are average numbers, and generally the figures do not include a wage for the trainer.

As the trainer's financial and business model relies on owners paying trainers fees and other costs of training and on the returns of horse ownership (whether a hobby or a business), the trainer is intimately tied into the economic model of horse ownership. This model was fully discussed in Section 5.2.4. As this ownership model is primarily dependent upon wagering funded distributions and other funding from RWWA for direct funding and for providing the incentive for owners to continue to invest for stakes prizemoney, the trainer's financial model is therefore similarly dependant and subject to any impacts that privatisation of the WATAB would have on that model. It can be seen that the training financial model works on small to no margins in an operational sense, with again property assets supporting operational provision and reflecting in most cases the only retirement wealth support/superannuation base for many trainers.

### 5.3.1.3 Owners

Owners are clearly a very widely spread group of participants in the WA Racing Industry with an equally varied set of financial and business models through which such ownership occurs. Section 5.2.4 discussed in full the owners' financial model in the WA racing industry and its positioning in the context of any potential privatisation. The diversity of owners ranges from those that fully own large numbers of horses (often including stallions, broodmares and yearlings) to those who hold a 10% syndicate share in one horse. In discussions with some of the larger owners it is quite common that a number of them have progressed to breeding as an extension of their racing industry involvement and to diversify across the value chain. In many cases it is also clear that other income sources outside of racing are what is funding generally a significant deficit on their racing involvement. Increased focus by the Australian Taxation Office on these involvements is an ongoing issue of potential risk to this source of funding to the WA Racing Industry.

In Section 5.2.4 the importance of the stakes prizemoney levels to owners' continued investment in the WA Racing Industry was also discussed. The Chart on the next page provides a comparison of average metropolitan and provincial thoroughbred stakes prizemoney across Queensland, New South Wales, Victoria and Western Australia. The chart reflects the large disparity from the major Eastern State markets, and some relativity to Queensland racing, although recently announced feature race prizemoney increases in Queensland will probably see this position change. Western Australia's average stakes prizemoney comparisons to major racing jurisdictions as reflected in this chart clearly evidence the need to maintain and provide ongoing improvement in levels of WA Racing Industry funding to remain competitive and ensure owners of WA thoroughbreds continue to invest in horses and fund the operations of the Industry.



### 5.3.1.4 Jockeys

RWWA's Industry Status Report of 2013 indicated that there were 88 jockeys and 38 apprentice jockeys registered in the 2012/13 year. These jockeys are paid by RWWA through the Racing Clubs. RWWA sets the jockey fee in negotiation with the WA Jockeys Association which for fully accredited jockeys is presently \$172.50 per ride and for apprentice jockeys is also \$172.50. Jockeys also get paid 5% of any stakes prizemoney paid to horses they ride, with this money for apprentices going into a Trust Fund for future access.

The Western Australian Jockey Association (WAJA) advises that of the around 90 jockeys registered with RWWA, about 1/3 of them are full-time jockeys with the rest being seasonal or part-time jockeys. Whilst some jockeys do a small amount of trackwork, nearly all of their income comes from race riding fees (with minor amounts from Engagement Fees on scratchings) and their 5% of stakes (although the stakes money income is dominated by a small number of major jockeys). On this basis the overall picture as described by the WAJA is that probably around 20 jockeys in the metropolitan area are generating reasonable returns from racing (reflecting earning in excess of \$80,000 per annum), while the rest are in more difficult financial positions, particularly country jockeys who incur significant travel costs and equipment costs as their gear wears out quicker.

To expand on this further, from discussions with RWWA, it appears that in terms of looking at income bands applying to rankings of jockeys in groups of 10 from the highest group of 10 to the lowest group of 10, that only the top 30 jockeys (or the top 3 groups of 10 jockeys), earned an average income above what would be considered the minimum wage level in 2012/13.

Many outside of these are either seasonal or part time riders. There are 30 jockeys who are predominantly country riders, some who move about to ride all year round and some who just ride in the region's racing season. Only around 6 of these country jockeys earned above what would be considered to be the minimum wage level in 2012/13.

Apprentice jockeys have the same financial model as jockeys (except for some initial travel assistance from RWWA). It would appear that around half of them would have earned around the minimum wage level in 2012/13. It is understood that around 20 of the 38 rode for the entire season.

The financial model for jockeys is their income as outlined above, and expenses which encompasses travel costs (drive, fly, accommodation if necessary) which are very rarely reimbursed by Racing Clubs, race and track riding gear costs, and discretionary sports medicine type expenses such as physiotherapy, personal training, weight loss systems, as well as personal accident / income protection insurance, etc., RWWA have increased funding in terms of meeting the costs of a sports doctor and psychologist being available to jockeys, paying medical expenses and workers compensation insurance, race meeting accident and public liability insurance premiums, and paying superannuation (in lieu of an increase in the riders fee). It should also be noted that jockeys, whilst covered by RWWA's Workers Compensation Insurance, are not employees and consequently do not receive annual or personal leave.

In a general high level financial assessment of jockey's income position in Western Australian based on 2013 figures, the following calculation was undertaken

|                        |                  |             | Per Jockey/<br>Apprentice (126) |
|------------------------|------------------|-------------|---------------------------------|
| Starters in            |                  |             |                                 |
| Races (23,364) X \$172 | =                | \$4,018,608 | \$31,894                        |
| 5% Jockeys             | Total Stakes     |             |                                 |
| Percentage             | X (\$50,361,907) | =           | \$2,518,095                     |
|                        |                  |             | \$19,985                        |
|                        |                  |             | <u>\$6,536,703</u>              |
|                        |                  |             | <u>\$51,879</u>                 |
|                        |                  | =====       | =====                           |

Based on this calculation (which is obviously only a very high level estimate), and clearly has no allowance for any workers compensation payments received, on average jockeys are being paid around \$32,000 annually in riders fees. It is interesting to compare this to the minimum wage rate for a trackrider under the Horse and Greyhound Training Award which currently would establish a minimum annual payment for an adult trackrider of around \$35,600. Whilst clearly there is the capacity for jockeys to enhance this through the percentage on stakes prizemoney, this would generally fall to a smaller number of jockeys, and hence for a large number of jockeys pay rates are around what could be considered to be minimum wage rate levels.

### 5.3.1.5 Staff

Breeders, trainers and some owners employ a number of people to work in their stables and other operations. The IER Report indicated there were 2,614 Breeders Staff and 422 trackriders/stablehands employed in the Western Australian thoroughbred industry. There are also many casual workers employed across the industry from time-to-time, including backpackers and the like.

In the context of understanding the financial perspective here, Appendix 2 to this Report is the current Horse and Greyhound Training Award minimum wage rates across various classifications, which range from adult rates through to rates applying to employees down to 15 years of age. To illustrate the cost pressures flowing from this group, adult rates for Stablehand – Grade 1 and Stable Foreman were obtained for 2008 and 2014 for single time and Sunday Casual rates as follows:

|                      | SINGLE TIME |       | SUNDAY CASUAL |       |
|----------------------|-------------|-------|---------------|-------|
|                      | 2008        | 2014  | 2008          | 2014  |
| STABLEHAND – GRADE 1 | 14.08       | 17.35 | 35.20         | 43.38 |
| STABLE FOREMAN       | 15.94       | 19.64 | 39.86         | 49.10 |

The increases in these rates across that time have been 23.2% for both Single Time Stablehand and for Sunday Casual, and for the Foreman the increases were 25% and 23.2% respectively. This increase equates to around 2.75% per annum compounded over the six years and given the significance of this cost to these operations has worked to put pressure of the financial models of participants in the WA thoroughbred racing industry.

Breeding staff would appear to be covered under Agricultural or Pastoral Farm Awards to which the Minimum Conditions of Employment Act 1993 would seem to apply. As the pay rates in accordance with this Act currently applying are similar for single time adult employment as the rates above, it is assumed that this situation also applies to breeders.

### 5.3.2 Harness

As discussed in relation to the thoroughbred racing industry in Western Australia, the value chain of Western Australian Harness racing is also extremely interwoven with high levels of ownership of horses held by breeders and trainers. Data provided by

RWWA indicates that around 68.5% of Breeders Groups of standardbreds raced a horse in West Australia in the past 18 months, or if focused to individuals rather than groups their percentage was around 56%. In relation to trainers the following statistics reflect the extent of ownership.

- Approximately 76% of harness racing trainers raced a horse they owned in the last 18 months.
- Approximately 44% of horses that raced in the last 18 months were owned in some sort of ownership configuration by their trainer.

So again the value chain discussion reflects a large degree of this cross-over throughout the harness racing value chain.

### 5.3.2.1 Breeders

According to the IER Report there were around 1,860 harness racing breeders in WA (assuming an average of 2 breeders per broodmare) in the 2010/11 year. It is estimated that over 90% of these were hobbyists, with only a handful of full-time breeders. Breeding of a harness racing horse is essentially a four year proposition which needs both confidence to invest and the ability to meet the financial commitment over that period.

From discussions with the Breeders Owners Trainers Reinsperson Association (BOTRA) it was advised that only about 50% of foals end up racing.

The low returns and tight economics for harness horse breeding is reflected in a number of fairly damning economic and business statistics for harness racing breeders :

- From RWWA'S Industry Status Report 2013 the amount of Standardbreds born in WA in 2012/13 was 459, down from 659 the previous year
- This drop-off in breeding is reinforced by advice from RWWA that in the last 18 months just 263 Breeding Groups, consisting of 434 individuals, bred a Standardbred foal in Western Australia
- Whilst the average yearling price achieved in 2012/13 was \$13,517, which grew from \$10,829 the year before based on figures in RWWA Industry Status Report 2012/13, this is still below the \$15,000-\$20,000 estimated cost of getting the horse to the sales.
- This average yearling price in 2012/13 clearly reflects the scarcity value of the drop off in local breeding, given average prices of just \$9,071, \$10,120 and \$10,829 in the preceding three years (per the same Industry Status Report).

The cost base for harness breeders reflects costs similar to those of thoroughbred breeders, with the major costs being :

- Property costs – some breeders (mainly the larger ones) own property for breeding purposes and some agist.
- Veterinary expenses
- Farriers
- Transport
- Feed merchants
- Harness equipment

As with thoroughbred breeding, these costs (as will be further discussed later), have in nearly if not all cases escalated at rates in excess of the increases in distributions (stakes), and particularly greater than the returns through sales proceeds to local breeders. This can be seen in the declining total sales proceeds over the last five years as follows (from RWWA's Industry Status Report 2013) :

|         | Standardbred<br>Sales Proceeds<br>(\$M) |
|---------|---|
| 2008/09 | 8.717                                   |
| 2009/10 | 5.878                                   |
| 2010/11 | 6.497                                   |
| 2011/12 | 7.136                                   |
| 2012/13 | 6.204                                   |

RWWA's Westbred incentive bonus scheme has played a critical role in steadying the declining investment proposition faced by harness racing breeders (and owners as well) by providing early cashflows for Westbred foals, and also credits under the EPONA Mares Bonus Scheme.

Nevertheless, the difficult financial model here, and the hobbyists/cottage industry nature of local breeding in harness racing in Western Australia has seen a significant number of Eastern States and New Zealand horses being brought into the State to uphold the quality and size of the harness racing product.

The ability and propensity to bring these horses in lies largely in the stakes offered in WA harness racing being at very competitive levels relative to interstate stakes levels eg; when compared to Victoria they are about 120%-124% of comparable Victorian stakes levels, other than for midweek metropolitan races which are at essentially the same levels ie, 100% of Victorian stakes levels. This position is obviously supported by the stakes distributions made by RWWA, and it is interesting to note that harness racing's share of distributions to the WA Racing Industry is 26.2% of the total, whilst its contribution to wagering turnover on just WA racing is only 19%, and around 16% of total betting on racing through WATAB. With no ability for Harness Racing Clubs to top up the RWWA stakes distributions because of their parlous financial position, harness racing in Western Australia is totally dependent upon the continuation of distribution and other RWWA funding levels at current levels, with breeders obviously facing difficult breeding financials and with their significant horse ownership levels on average further deteriorating this position.

### 5.3.2.2 Trainers

As outlined earlier, harness racing trainers are very substantial owners of horses through syndication. Trainer's business and financial models vary widely with some also being breeders, and often they are drivers as well. It is therefore not possible to make a generic assessment of the trainers' part of the value chain given that trainers will generate income with widely varying compositions from :

- Breeding – sale of horses
- Agistment
- Training fees
- Driver fees
- Stakes prizemoney

It is understood that there are around 7 leading trainers that generate strong and well above average returns which effectively more than proportionately reduces the amounts available to be spread over the rest in the industry, which is a substantial matter for these others given the 238 trainers and 370 driver/trainers registered with RWWA.

WA harness racing training fees are around \$50-\$55 per day, which when considered against the similar cost base structures and pressures discussed for breeders and for thoroughbred trainers, suggests that the trainer's percentage of stakes prizemoney at 7.5% of any such stakes is an extremely high dependency for trainer's financial positioning given the low level of training fees.

Accordingly, training in its own context is not a high return generator, if at all. This is reflected by the situation where the leading trainer in the State with over 200 winners (the first time this has ever been achieved) was only able to generate a very minor profit when considered against the stakes prizemoney these achievements represented.

The extent of trainer's horse ownership holdings varies significantly meaning the extent to which this draws on their financial position and further leverages their dependency on overall stakes and distributions levels equally varies. However, again, the overall horse ownership contribution as discussed in Section 5.2.4, with the high horse ownership position of trainers, places significant pressure on trainers' general financial model.

The position of drivers will be discussed below, but with driver/trainers representing around 80% of the industry's drivers this is the dominant model for harness racing driving in the WA harness racing industry. This clearly absorbs the income (and costs) profiles of the driver into the overall training financial model, with a driver's income being the driver race fees and the 5% of stakes prizemoney.

Therefore, with such a high ownership penetration, and low training fees, it appears that the majority of trainers do little more than break even on operations after extracting a living, based again on the relatively high stake levels provided in WA harness racing, with limited room to absorb any less funding without relatively immediate reductions in size, with this obviously being most immediate for those not in the top 7 or so of trainers.

### 5.3.2.3 Drivers

The drivers' income model is comprised of the RWWA funded race fee of \$60 plus 5% of stakes prizemoney for a first three finish. Taking a similar analysis as performed

for jockeys, the total number of registered drivers in 2012/13 was around 440, there were 23,169 starters, and total stakes prizemoney was \$22.235 million. So estimated returns to drivers in total was :

|                 |          | Returns to Drivers |
|-----------------|----------|--------------------|
| 23,169          | X \$60 = | \$1,270,140        |
| 5% X \$22.235 m | =        | <u>\$1,117,750</u> |
|                 |          | <u>\$2,387,890</u> |

If this is divided by 440 (the number of registered drivers) the average income per driver is around just \$5,430, reflecting an average of just 48 race drives per driver. This is clearly highly misleading given that discussions with a leading driver only (ie, not also a trainer) indicated that he goes to every meeting he can and would drive in 900-1000 races annually. Again, a handful of drivers (and driver/trainers) will generate reasonable returns (and take a good part of the amount available for drivers' percentage), whilst a large number clearly undertake the involvement as a hobby. Continued funding by RWWA, particularly paying drivers, is critical in supporting the current industry in what is clearly a low wage/low return situation for drivers who need to meet all their own travel and motor vehicle expenses, racing attire and safety gear costs, and personal medical and accident insurance costs, together with the administration costs in organising their drives.

#### 5.3.2.4 Owners

Section 5.2.4 outlined the financial model facing harness racing/standardbred owners on average – a model reflecting the concept of acceptable loss. Stakes levels being on average between around 16-24% above Victorian levels and at or above levels around Australia generally reflect the need for the stakes levels in Western Australia to meet the costs of this Code, and hence keep owners in harness racing in the State. Ownership numbers in WA harness racing on any measure have shown significant decline over the last five years. Depending upon the exact ownership definition the decline will vary, but in general terms it seems to be around 13-15% over the period.

Given the return ratio discussed in Section 5.2.4, the current WATAB/RWWA funding levels (including Westbred incentives) are necessary to keep this decline in ownership from accelerating.

#### 5.3.2.5 Staff

The IER Report identified in 2010/11 that there were around 972 and 286 people employed by breeders and as trackriders/stablehands respectively in harness racing in Western Australia. As the same matters raised with thoroughbred industry staff apply to harness racing staff this will not be further discussed here.

#### 5.3.3 Greyhounds

The value chain for greyhound racing is even more co-mingled than for the other Codes, with high levels of integration across breeding, training and ownership of greyhounds. In broad terms it would also appear that there are 3 to 4 trainers taking a large proportion of the stakes prizemoney available, particularly in metropolitan racing. The Greyhound racing industry in WA has in more recent times been challenged by the uncertainty associated with the position at Cannington and its funding. Whilst not fully resolved the provision of \$13 million from RWWA has provided an ability to move forward, albeit with some temporary arrangements until fully required funding can be achieved.

### 5.3.3.1 Breeding

The IER Report identified 99 greyhound breeders in Western Australia in 2010/11, but it is unclear how many of these were also trainers and/or owners. There has been declining numbers of greyhounds born in WA over the last 5 years, declining by over 25% over that period. The decline and the lack of returns for local breeders is reflected in the position that in 2012/13 WA bred greyhounds made up only around 33.5% of all the unique runners in WA races (just 613 of the 1,828 unique runners), although part of the reason for this would probably relate to the uncertainty over Cannington as referred to earlier impacting local breeding, which could partly turn around given some degree of a way forward now.

The economics of greyhound breeding in Western Australia appears to be generally underpinned by the Westchase Incentive Scheme. Bonuses under this Scheme are paid to the owners and breeders of all WA bred greyhounds based on winning certain race classes and/or types, and is non-contributory for industry participants. This scheme, together with stakes prizemoney at the levels they are currently (70-75% of Victorian levels for city, and 120% for country and provincial) is underpinning not only the locally bred but also the importation of a large number of Eastern State bred greyhounds.

### 5.3.3.2 Trainers

RWWA's Industry Status Report 2013 identified 249 registered greyhound trainers, whilst the IER Report identified some 295 trainers in 2010/11 which was around the level in the RWWA Status Report for that year. The common financial model in greyhounds throughout Australia, and particularly so in Western Australia, is for trainers to take a 50% share of a greyhound with the owners, charge no training fees, and equally share the ownership rights and obligations (with variations between trainers on items such as veterinary costs or trial expenses). This very strong attachment to greyhound ownership and the "partnership" model with owners places trainers close to the greyhound ownership economics in an operational perspective, and in many cases essentially a total ownership sense if the "capital" cost is incorporated into the partnership.

In discussions with industry representatives it was established in their view that there were around 20 professional, full-time trainers. This indicates a significant number of part-time and hobby trainers and trainer/owners who will largely be involved in these roles for purposes of personal enjoyment and occasional track success largely within a cottage industry environment, based on current distribution and other RWWA funding levels. However, this industry picture needs to be seen in the context of a dramatic fall of over 15% in 2012/13 of the number of greyhound trainers, coupled with the substantial drop in greyhounds born.

The cost base of greyhound trainers again reflects a number of similar items to the horse trainers' position, with fuel and transport, feed, veterinary, power/water, and

registration fees the major cost items (see Section 5.3.4). With no significant changes in stakes prizemoney over the last five years until 2012/13 (that year to bolster provincial racing), these costs had been increasing with no commensurate change in the inflows to the participants, putting pressure on both the trainers and owners financial position under the 50/50 structure.

To the extent that breeder/trainers and/or trainers have their own properties on which to raise and/or train greyhounds, these properties generally represent their retirement (superannuation) plan. Given however that these properties will be sold with the kennels and track the value of this property nevertheless lies more so in having a sustainable greyhound racing industry in Western Australia.

### 5.3.3.3 Owners

With trainers and owners subject to this cost escalation (see Section 5.3.4 below) without movement in stakes to those levels, the current balance within the greyhound industry financial model (which contains a large proportion of cottage industry participation), offers minimal flexibility for changes in stakes levels, bonusing and overall wagering operator funding under a potential privatisation model.

In Section 5.2.4 the Report discussed the position of owners, which reflected a clearly better net investment position for greyhound owners than in the other Codes. Despite the greyhound code distributions representing 13.1% of total distributions, whilst generating approximately 21.7% of WA wagering turnover on WA racing and around 31% of total racing wagering turnover of WATAB, the stakes prizemoney paid continues to attract local and imported dogs (either pups or ready to run) of around 915 per annum, with an ever increasing proportion of imported greyhounds. This wagering performance reflects the current situation in which in Western Australia there are six meetings per week broadcast by Sky Channel predominantly focused to drive wagering revenue.

### 5.3.4 Other Major Costs Items / Other Industry Stakeholders

There are a significant range of suppliers to the WA racing industry that impact these value chains and who are also therefore stakeholders in the industry and its funding model. There are a number of these stakeholders that have less direct dependency in their business model specifically on the WA Racing Industry, such as the power / gas / water utilities, transporting and freight, motor vehicle and fuel providers, and the events industry generally. For these suppliers the cost / charges escalation rates faced by the WA Racing Industry are understood from these suppliers' general price increases experienced by businesses generally – electricity around 10% this year and expected future higher increases, water price increases of 47% over 3 years to 2011 and 6% last year, motor vehicle service costs up 56% and petrol prices up 42% in the last 5 years, are examples of this. More specifically to the WA Racing Industry are costs such a veterinary expenses and feed expenses, discussed below :

- (a) **Veterinary** – typical metropolitan based veterinary average invoice bills over 5 years to 2013 have increased by around 35% or over 6% per annum for thoroughbred and harness racing horse treatments. These average invoice levels fall significantly in the winter months as a result of the inability / unpreparedness of trainers particularly to incur such costs and then try to charge owners when stakes prizemoney are at their lowest and less racing is occurring. Accordingly, in winter lesser quality horses may not get treatments they perhaps should/would have received at other times, lower numbers of horses are put into work to reduce the spend, and without the types of stakes prizemoney available as in summer the winter spend drops.

Veterinary businesses can make losses at this time, and at times will decrease prices if necessary to help out during this period.

This reflects the sensitivity of the WA Racing Industry to the stakes prizemoney levels funded from wagering and to the tightness of the financial model. As some of these observations flow from a very large veterinary operation with 12 full-time staff and a number of casuals, such financial sensitivities and the reliance on veterinary suppliers by the WA racing industry is very clear to see, making such expenditure unavoidable despite the significant increases in cost.

- (b) **Feed Industry** – the table below, provided by one of WA's largest equine feed supply businesses, shows the extent of the product/service price increases and their running cost escalations over the last 5 years.

#### FEED INDUSTRY COSTS

| PRODUCT / SERVICE     | 2014 | 2009  | % INCREASE |
|-----------------------|------|-------|------------|
| CHAFF                 | 34   | 32    | 6%         |
| CHAFF ROUGH CUT       | 23   | 19    | 21%        |
| LUCERN CHAFF          | 26   | 21    | 24%        |
| LUCERN HAY            | 22   | 16    | 38%        |
| HAY                   | 15   | 10    | 50%        |
| OATS                  | 17   | 15    | 13%        |
| HORSE PELLETS         | 18   | 16    | 13%        |
| OATS FLAKED           | 16   | 14    | 14%        |
| PONY CUBES            | 26.5 | 24.5  | 8%         |
| STAMAZINE             | 174  | 158   | 10%        |
| BLUE MUESLI           | 31   | 23.85 | 30%        |
| MEGAVITE B 230ML      | 98   | 83    | 18%        |
| P EGASUS STUDMASTER   | 23.5 | 21    | 12%        |
| GIRTH EXERCISE        | 54   | 39    | 38%        |
| SURSINGLE EXERCISE    | 43   | 32    | 34%        |
| BREASTPLATE EXERCISE  | 40   | 36    | 11%        |
|                       |      |       |            |
| <b>RUNNING COSTS</b>  |      |       |            |
| OFFICE STAFF P/HR     | 26   | 20    | 30%        |
| DELIVERY DRIVERS P/HR | 23   | 18    | 28%        |
| COUNTER STAFF P/HR    | 26   | 21    | 24%        |
| VEHICLE SERVICE       | 700  | 450   | 56%        |
| FUEL LITRE            | 1.6  | 1.13  | 42%        |

As a significant cost component for all WA Racing Industry participants, these indications of the extent of cost pressure for the participants, which in a general context clearly exceed the increases in stakes and distributions paid to the Industry over this period funded by WATAB/RWWA, provides a further illustration of the squeeze to the Industry's financial model and value chains in recent years.

- (c) **Magic Millions** – another important barometer of the WA Racing Industry, in this case for the thoroughbred industry, is the yearling sales performance conducted by Magic Millions. Magic Millions make a significant investment in the cost of running the sale and extend finance to all buyers on varying terms and lengths depending upon the buyers' history. Magic Millions revenue is generated from their selling commission of 8.35% of selling price.

The overall sale gross value achieved over the last five years had fallen from \$13.721 million in 2010 to \$11.328 million in 2013 with a slight rebound in 2014 to \$12.419 million (due to a higher clearance rate but relatively flat average yearling sale price). There are less buyers apparent, with trainers generally identified as buying less than previously (some up to 50% less), again reflecting the earlier comments on their financial model difficulties.

The fragility of this element of the WA Racing Industry is evident from discussions with Magic Millions that suggest the sale event is potentially at risk with uncertainties around Belmont and the potential implications to the funding model of the WA Racing Industry of a privatisation of the WATAB. Some clarity and stability could call forward investment by Magic Millions in a new selling complex in Perth.

- (d) **Industry Staff** – throughout this section the staffing stakeholders have been discussed, with breeders having staff in all 3 codes with trackriders and stablehands in the case of thoroughbred and harness racing codes.

Using the relevant Awards as representative of this Group it has been identified that the wages of this Group in general terms will have increased by some 23-25% over the last six years, with allowances, shorter working week and superannuation adding to these figures to some extent. As in some cases staffing costs can represent up to 30% of the cost base of breeders and trainers (but also some owners incur such costs), this also reflects the underlying cost pressures on significant parts of the value chains of these Codes, but more so for the thoroughbred and harness racing codes.

It is also very important to again point out in this regard that the Western Australian Racing Industry is one that provides a capacity to employ people that in many cases would have difficulty in finding employment elsewhere. With the protection of an Award, and with the ability to employ full-time people at 15 years of age, the importance of this to the Western Australian economy and to the employment of people throughout the State, should not be understated.

In a State where the mining industry, as a major employer, has seen the number of people employed fall by some 13% in the last year, a decline in WA Racing Industry employment together with reduced opportunities elsewhere (if such people could possibly look elsewhere) caused potentially by a reduced funding model under a possible privatised TAB would hurt the State significantly, in both metropolitan and regional areas.

Not only does the discussion in this section on suppliers to, and staff within, the WA Racing Industry further illustrate the challenging financial model for the industry participants, but it also clearly reflects the dependency of these suppliers on a sustainable WA Racing Industry. These suppliers, along with the WA Racing Industry participants, have continually absorbed the financial squeeze of costs growth exceeding racing industry income flow growth, and hence these suppliers have expressed the same concerns as to the certainty of the industry funding model under a potentially privatised WATAB.

### 5.3.5 Distribution Growth Rates Vs Cost Base Increases

At its simplest level, if the increases in RWWA distributions between 2008/9 and 2012/13 are compared to some of the cost increases in important inputs to the WA Racing Industry over that same period the following picture emerges:

|  | % INCREASES<br>2008/9 – 2012/13 | CAGR<br>2008/9 – 2012/13 |
|--|---------------------------------|--------------------------|
| TOTAL RACING INDUSTRY                              |                                 |                          |
| DISTRIBUTIONS                                      | 5.27%                           | 1.3%                     |
| THOROUGHBRED DISTRIBUTIONS                         | 7.23%                           | 1.8%                     |
| HARNESS DISTRIBUTIONS                              | -1.13%                          | -                        |
| GREYHOUND DISTRIBUTIONS                            | 1.52%                           | 2.5%                     |
| STAFF (HORSE AND GREYHOUND<br>TRAINING AWARD 2010) | 23.2%                           | 3.5%                     |
| VETERINARY   | 35.0%                           | 6.0%                     |
| FEED AND PRODUCE                                   | SAY 20.0%<br>ON AVERAGE         | 5% APPROX.               |
| UTILITIES  | 26 – 46%                        | 6-10%                    |
| MOTOR VEHICLE                                      | SAY 50%                         | 10.8%                    |

This summation of the various elements talked about in the value chains of the WA Racing Industry Codes earlier in this Chapter of this Report reflect that the WA Racing Industry generally has continued to adapt and absorb cost increases well above the wagering based distributions increases that have been provided by WATAB/RWWA.

This has been explained in some detail above, reflecting that industry participants have, in the main, operated on reducing contributions from racing activities, with a preparedness of all participants, but particularly owners, to continue in the WA Racing Industry for a variety of reasons including personal interest, for employment, for family sustainability in the industry, for continuity of the sport, and in some parts of the value chains, to hopefully build a retirement nest egg in many cases.

This Chapter does also clearly illustrate, however, that this continued investment and involvement is being continually and significantly challenged by the squeeze of cost pressures well in excess of growth in returns and funding to the WA Racing Industry. Such cost pressures and the need to adjust to these is not peculiar to this industry, but this Chapter reflects that the WA Racing Industry is not one that generates significant wealth to its participants, with a great deal of these tight financial models within the

WA Racing Industry actually funded from sources external to the racing model. Any potential privatisation of WATAB must ensure a “no worse off” position for the overall funding of the WA Racing Industry given this situation.

### 5.3.6 Investments in Property

Clearly the racing industry requires a significant amount of property on which to conduct its production and training of its product, outside the race tracks required to put on the racing product events. Accordingly, many breeders and trainers, and some owners, have acquired properties on which to conduct their racing activities.

In most cases, particularly with trainers, such properties effectively represent their superannuation investment given the racing operating model leaves little room for any substantial other form of retirement saving. The value of such properties with the accompanying investment in the appropriate infrastructure will be maximised and maintained only with ongoing performance of the various WA racing industry Codes. It is therefore important to understand that what may appear to be an asset-rich position is firstly not supported by a commensurate operational cashflow position, and secondly that best value is underpinned by ongoing industry sustainability. Whilst property will hold value in alternative use, particularly those in metropolitan areas, best value in many cases would appear to reside in continued use.

This issue is particularly relevant in any considerations of asset utilisation across Racing Clubs, and in the potential privatisation of the WATAB, with the latter perspective being one of requiring that the industry funding model is such as to ensure the WA Racing Industry is “no-worse off” to maintain its sustainability.

This Report to date has provided an outline of WATAB and RWWA, the wagering market in which it operates, discussed what privatisation involves and how other TAB's in Australia have been privatised, and outlined the current WA racing industry structure and funding under the current arrangements.

This chapter of this Report will discuss the various issues and options that could arise from the privatisation of WATAB. Just as there has been no single model for previous TAB privatisations in Australia, there is a myriad of different forms that the privatisation of WATAB could take in terms of structures and detailed financial flows.

### 6.1 Background

The major focus of this privatisation discussion will be to the WATAB, the wagering division of RWWA, in the context of the privatisation. However it is not entirely clear whether this consideration in some shape or form is to apply to the totality of RWWA. That is not to suggest that the PRA/Racing responsibilities of RWWA would be sold with the WATAB if a privatisation was to occur. It is purely to raise the prospect that a model similar to the Racing Victoria Limited (RVL) structure could be considered – RVL is an unlisted public company with no government ownership or enabling statute, save for its positioning within the joint venture requirements that sit within the Victorian wagering licence issued by the Victorian Government currently to Tabcorp.

RWWA is, as outlined earlier, a corporation established under statute but is not an agent of the Crown and can be sued, contracted with and otherwise dealt with as an entity without government protection, although it has a number of obligations to the Minister under the RWWA Act. Racing Victoria Limited is an independent unlisted public company limited by guarantee with 4 equal shareholders – the Victorian Racing Club, the Melbourne Racing Club, the Moonee Valley Racing Club, and the Victorian Country Racing Council, with many other thoroughbred industry stakeholders, ie, it does not represent all racing codes, just thoroughbred racing.

If the wagering functions were to be separated out of RWWA and sold as the WATAB, the WA Government will therefore need to determine what structure to put in place post the WATAB privatisation for the remaining functions of RWWA.

Without dwelling too much on this issue, it is instructive to quickly review the formation of RWWA in this respect. The major impetus for forming what became RWWA under the RWWA Act was the Turner Report determination that the governance arrangements of racing and wagering activities in Western Australia were not effective, and the recommendation of the Turner Report was that the principal club and controlling authority responsibilities of the three Codes and the TAB be formed into one co-ordinated body – later to become RWWA. The Turner Report at page 6 said “The role of the TAB was probably dysfunctional in terms of the interest of the industry at the time”. This integration was unique in Australia, other than for a short time in Tasmania.

## WHAT COULD PRIVATISATION OF WATAB LOOK LIKE?

In general the McGrath Report found support for this structure and formed a view that the consolidation had been a good outcome. It needs to be understood that the interests of wagering and the interests of the racing industry are not necessarily always aligned and in fact in a number of instances can be in conflict. This is particularly so for example in the context that a racing program that ensures support and exposure for regional racing to underpin the racing industry's objectives is unlikely to necessarily match a program that optimises wagering revenues.

These potential conflicts have been essentially embedded within the decision making processes of the RWWA Board and Management as both sides of this debate are inhouse to RWWA. Privatisation of the WATAB would externalise this and requires structural and operational practices to be put in place in the legislation and licence to underpin the privatisation of the WATAB.

It has previously been acknowledged that RWWA has generally performed reasonably well in recent times, particularly in relation to wagering. In drilling down with stakeholders on this general satisfaction with RWWA's performance, much relates to the distribution and funding levels that have been provided, particularly those to racing industry participants. Racing Clubs had not generally been as positive on this front in terms of their distributions, although the \$5 million in additional OSH related distributions paid late in July this year were warmly received. It is however interesting to note that such distribution and general funding levels have clearly been supported by good wagering growth rates by WATAB/RWWA as noted earlier.

The observation in this regard, reinforced by a number of participants' commentary, is that RWWA has probably prioritised its attention in recent times to the wagering part of the business to a significantly greater extent than its PRA obligations. This is not to say these racing responsibilities have been totally neglected but RWWA would have appeared to strategically focus on pushing the wagering business to generate such funding, reinforced by the "scare" of the reduced distributions in 2009/10. It is suggested that this has manifest itself in many ways, including:

- Significant investment directed to wagering systems (both retail and digital) and the retail wagering offer
- An under investment in a number of parts of the racing operations responsibilities, which it is now believed are being addressed flowing from RWWA's recently determined 7 areas of strategic focus in this regard. From discussions with RWWA management it is understood that this will result in increased operating and capital expenditure in a number of specific racing areas into the future, rectifying some of this previous underspending in these areas (which nevertheless has provided more funds for distributions and other funding in recent times).
- Statements and actions that suggested a view held by RWWA that their role was primarily to provide off-course betting and retail outlets, and that neither on-course betting nor necessarily promotion of the sport were its focuses, and that its role was not to provide funding for any upgrade of facilities for customers. One manifestation of this has been the substantial decline of on-course wagering at racetracks throughout the state, which overall has declined by nearly 25% in the last 5 years to 2012/13, and by a stated approximate 50% at Perth Racing's two metropolitan tracks in that time period. Whilst as discussed earlier there are a number of reasons for this decline in on-course wagering, including declining attendances, corporate bookmaker competition, and the general regulatory environment for wagering and on-course entertainment provision, RWWA's focus on off-course wagering can be seen to have contributed to this as reflected in the following examples:

## HEAD WHAT COULD PRIVATISATION OF WATAB LOOK LIKE?

- RWWA promoted and heavily advertised fixed odds betting side by side with tote odds in retail outlets but this was not made available to Racing Clubs.
- An apparent lack of preparedness by RWWA to facilitate call betting or more user friendly on-course bet slips for on-course betting
- Wagering information displays on-course have significantly lagged that offered to punters in retail outlets nor been adapted to the specific on-course environment.
- On course mobile offers have been inefficient and the introduction of tracking solutions to ensure appropriate revenue flow to Racing Clubs has been a drawn out affair.

All of these reflect the difficult position that RWWA has been placed in through having the dual roles associated with PRA responsibilities and its TAB wagering responsibilities. As stated above, these will often conflict in direction as each will have differing optimisation stances on many issues affecting the racing program and its conduct. So whilst RWWA has generally performed adequately in dealing with this difficulty, the sustainability of this situation can be questioned, particularly as the WATAB continues to need to actively confront the competition in the wagering industry in Australia. This is an issue whether or not privatisation of the WATAB proceeds.

It has been an observation of a number of industry participants that RWWA's approach to these conflicting objectives appears to have more recently shifted to a more balanced perspective on many matters as it embraces the needs to promote the racing sport and the Racing Clubs, and on-course wagering. RWWA has acknowledged this as flowing from its recent strategic planning exercises. Some participants in the WA Racing Industry note the timing being at around the same time that more active discussion began on the issue of the potential privatisation of the WATAB. This again reflects the difficulty for Board and Management of these two functions being under one roof.

If the WATAB (RWWA's wagering operations) is privatised then the PRA and other racing responsibilities could stay with RWWA, perhaps renamed Racing Western Australia (RWA), under its current (but obviously amended) legislation or other structures as outlined throughout this Report. All other States and Territories have corporatised statutory bodies fulfilling these responsibilities (except for Racing Victoria Limited), with only Queensland and Tasmania having an authority sitting over and representing the 3 racing codes as RWWA does currently. This integration would appear to have in overall terms served the WA racing industry well. However, these governance issues are not a specific focus of this Report.

## 6.2 Considerations for Privatising WATAB

As the WATAB does not separately exist and is essentially a division of RWWA, there is currently no specific entity to sell. Accordingly, in talking about privatising the WATAB, the Government would appear to be referring to having a private sector entity operating the wagering responsibilities that currently sit in RWWA.

So the WA Government, if it is to privatise the WATAB, will need to put in place the following in whatever forms that they may determine (some of which currently exist within RWWA):

- A wagering licence and/or wagering operator's licence for a term to be determined that authorises the wagering operator to conduct exclusive retail tote and fixed odds wagering and perhaps other products under certain conditions and requirements, and contains the Racing Industry funding obligations, (no such formal licence currently exists as RWWA's wagering authorities sit within its own Act).
- The WA Racing Industry Funding Model under which WATAB funds the WA Racing Industry so that the Industry is at the least no worse off.
- The legislative framework under which this new model will operate
- The legal structure under which the wagering operator is to operate – whether it is required to enter into a form of joint venture with the WA Racing Industry or stand alone with or without industry funding arrangements
- A Racing Program Agreement under which the wagering operator and the WA Racing Industry determine the annual racing program for the State.
- A Wagering Tax
- Racefield Fee flows and arrangements for the wagering operator
- Arrangements for various financial elements including GST reimbursement, unclaimed dividends, fractions and other subsidies
- Pooling arrangements, if required
- Arrangements with TAB retail outlets
- Arrangements with Racing Clubs for on-course wagering

In addition to establishing these arrangements for the wagering operator, the WA Government will also need to consider the following:

- As discussed earlier, the governance structure for PRA responsibilities including racing integrity and operations, and for wagering integrity, under the new arrangements flowing from the matters outlined above.
- Staffing arrangements for RWWA's wagering staff
- Arrangements in relation to the wagering related assets of RWWA such as the wagering systems, the telecommunications infrastructure, retail information technology, data centres, office accommodation, etc.

These matters will now be discussed in some detail noting the implications for the WA Racing Industry, the wagering operator, and the WA Government where appropriate.

### 6.2.1. WATAB Privatised Model Features

The following elements of a privatised wagering model would all need to be established for the potential privatisation of WATAB but will differ in form depending upon the structure decisions taken by the WA Government in the process.

#### 6.2.1.1 The Wagering Licence

Pursuant to the relevant enabling legislation (to be discussed below), in a privatised TAB model the WA Government will issue a wagering licence to the new operator authorising them to conduct the wagering activities as defined lawfully in the State and elsewhere. As previously discussed such a licence does not currently exist, and hence in a potential privatisation of WATAB a new licence will be issued to a new operator. Whilst legal advice would need to be sought to confirm the following it is believed that in this case the Australian Competition and Consumer Commission may not have an involvement as the issuing of new gambling licences could appear to fall outside of its jurisdiction (but this would need to be checked). The major considerations in such a licence (but clearly not an exhaustive list) are:

##### (a) The Term of the Wagering Licence

The term or length of the wagering licence is a critical factor in establishing the certainty for the wagering operator of their tenure and the length of time guaranteed to them to recoup their investment. The approach between States does vary in this respect, with the Victorian Government in recent times having a preference for relatively shorter term gambling licences, seemingly to enable them to regularly bring the licences to a competitive market bid process and to raise money through up-front licence payments on a regular basis. Others such as the Queensland Government has issued the wagering licence out to 2098, Tasmania's licence acquired by Tatts Group in 2012 was for 50 years with a 49 year option, and the recent purchase of ACTTAB by Tabcorp came with a 50 year licence.

With the continually changing landscape of wagering in Australia, the potential impacts of this on the positioning and performance of TAB's, and the interaction of exclusivity and racing industry funding arrangements within the licence, if a longer term is adopted it is important that review points exist throughout the licence. This is particularly so in relation to racing industry funding to be discussed below.

##### (b) Exclusivity

WATAB/RWWA currently has the exclusive rights to provide retail tote and fixed odds wagering in WA, as it is the only wagering operator authorised to do so. Digital and mobile wagering clearly cannot be exclusively licenced by its very nature.

Section 3.1.3 of this Report explains the fundamental position of such exclusivity with a TAB wagering licence, both in respect to the value of the exclusive licence providing the security of sole retail access to Western Australian punters, as well as the inter-related obligations to fund the WA Racing Industry

having received such a valuable licence. Within Western Australia this value is enhanced compared to other Australian jurisdictions given the absence of keno and electronic gaming machines offers being available outside of the Crown Casino at Burswood. This exclusivity provision will manifest itself as a positive undertaking by the WA Government that it will not issue another retail wagering licence. This is the case (in slightly different ways) in all States and Territories around Australia.

Shorter licence terms tend to be accompanied by such exclusivity for the same time period. Some of the longer term licences have shorter periods providing such exclusivity to give the relevant Government the opportunity for a review point at which to consider whether another licence provider might be appropriately introduced at a point in the future, and/or to restructure elements of the existing licence in any extension of the exclusivity.

An example of this was that Tatts Group's exclusivity ran to June 2014 in Queensland even though its licence runs to 2098. In the middle of this year after a Government review of the arrangements, Tatts' exclusivity was extended for 30 years to 2044, with a number of adjustments to its licence, including substantive adjustments to financial arrangements. Exclusivity in NSW was extended for 20 years in June 2013 for the up-front payment of \$75 million as another example of this – the licence was issued in 1998 for 99 years. In the more recent privatisation of the Tasmanian TAB the licence was for 50 years with a 49 year option, but exclusivity was provided for just 15 years.

If the WA Government adopts a long term licence a shorter term exclusivity provision establishes a useful review point of the licence.

(c) Products and Channels

The WA Government has an opportunity to look at the extent of the products coverage that a new wagering licence could encompass. Clearly the licence will cover pari-mutuel (totalisator) betting on racing and sport and fixed odds wagering on racing and sport, replicating the current WATAB/RWWA product set.

In some other jurisdictions the retail product offer in TAB's has been expanded to include a simulated racing event product or virtual racing, commonly known as Trackside in Australia, offering effectively fixed odds using simulated racing animals. Statewide linked keno product has been allowed in certain jurisdictions. It is understood that RWWA has been unsuccessful to date in its attempts to obtain WA Government approval for such products.

The WA Government could receive increased up-front payments and on-going gambling tax proceeds from such product extensions. If these were included in the wagering licence then the racing (and sport) industries should also have access to appropriate shares of the returns to these products, as they would sit in the retail TAB outlets alongside the wagering product. Such products are currently operating in Crown's Burswood Casino and hence how such arrangements could be considered are not clear. Virtual racing is a product that the WA Racing Industry should seek the WA Government to consider within the wagering licence to enhance the overall Racing Industry funding model.

### 6.2.1.2 The Legislative Framework

The current legislative framework under which the WATAB operates at present was outlined in Section 3.1. The WA Government will need to review this framework if a privatisation is to occur to take the wagering responsibilities out of the RWWA Act and to establish the basis for creating and granting a licence and implementing the considerations outlined in this Chapter of this Report. Whilst much of these amendments will be mechanical in the sense of dealing with the technical amendments needed to deal with the move from public to private operation of the TAB functions, other considerations that will be important to the wagering operator and to the WA Racing Industry in the context of the performance of (and therefore funding from) the wagering operator are:

- The need to provide a regulatory regime that reflects similar attributes to those currently faced by the new wagering operator if the operator operates in other jurisdictions to ensure effectiveness of the integration of the WATAB betting turnover into the buyer's existing pool.
- Even if the buyer does not have an existing pool, it will nevertheless be necessary to provide more flexibility and more timeliness and formality of process in decision processes around regulatory approvals than currently exists in the present regulatory regime, particularly in terms of Government approval timeframes.
- In this context the wagering operator will obviously need to comply with wagering regulation and appropriate financial reporting for wagering tax and pari-mutuel minimum return to player requirements, but should otherwise be free to conduct their business within necessary integrity requirements and approved broad product parameters without reference to WA Government. Agreed decision-making processes and timings on new betting products should be established to ensure timely decisions in the fast moving wagering industry.

The current regime under which RWWA operates is simply not efficient nor flexible enough to meet these requirements and requires significant streamlining. This has in part been either an excuse or a reason for RWWA's lagged developments into the modern wagering space in terms of retail information systems, digital and mobile, a competitive fixed odds offer, and in terms of a broader product offer which today has improved significantly but later than the rest of the wagering market. Improvements here will benefit the returns of the wagering operator, adding value to the WATAB and also to the returns to the WA Racing Industry.

### 6.2.1.3 Structure / Models

If the WA Government does proceed with the privatisation of the TAB, the WA Government will need to determine the structure or model within which it wishes the new wagering operator to work. Whilst in limited instances of privatisations of gambling assets the bidders have been able to bid a structure into the competitive sale process this is not the normal approach. It is critical for the WA racing industry that if privatisation is to occur that the Industry has had the opportunity to engage with the WA Government prior to the process of sale commencing to have determined with the Government the structure and model under which wagering is to operate going forward.

As outlined in Section 3.2.4 there are essentially three models operating elsewhere in Australia that can generally be identified as:

- The joint venture model – typified by significant joint decision-making and a profit-share arrangement after appropriate funding directions are satisfied (Victoria / New South Wales)
- The contractual model – the wagering operator and the racing industry have contracts in place on funding and racing program determination processes but otherwise separately pursue their respective responsibilities (Queensland / South Australia).
- The separation model – no formal relationship between the wagering operator and the racing industry, with the industry funded directly by the relevant State / Territory Government (ACT / Northern Territory)

There is one further model that in essence reflects the RWWA model but in private hands, and that is where the Racing Industry owns and operates the wagering operator. This obviously requires the Racing Industry to have the governance and corporate structures to privately run racing and wagering. This would require a structure such as that of Racing Victoria Limited, which itself could arguably consider obtaining a wagering licence given its ownership and corporate structure. Some of the internal governance issues and strategic and operational priority decision-making difficulties with this model were discussed earlier in Section 6.1.

The pros and cons of each of these structural options, with an eye to the implications for the WA Racing Industry in any potential privatisation of WATAB, are set out in Table 6.2.1.3.

TABLE 6.2.1.3 STRUCTURAL OPTIONS

| STRUCTURE  | PROS   | CONS   |
|--|--|--|
| <p><b>1. Joint Venture Model</b></p> <ul style="list-style-type: none"> <li>- Racing Industry Funding under JV Agreement</li> <li>• Share of Revenue</li> <li>• Fixed product payment streams</li> <li>• Share of Profit</li> <li>- Covers 3 codes</li> <li>- Approval rights over material contracts</li> <li>- Sole licensee</li> <li>- Licence condition to enter into JV</li> <li>- JV Management Committee (Board) and JV Operations Committee</li> <li>- Wagering Tax</li> </ul> | <ul style="list-style-type: none"> <li>• Opportunity for better alignment between wagering operator and WA Racing</li> <li>• Racing Industry has seat at table of significant funder of the industry</li> <li>• Government incentivised to support both parties</li> </ul> | <ul style="list-style-type: none"> <li>• Each Party has competing requirements so alignment on key issues difficult</li> <li>• Inefficient decision-making through Committee structures</li> <li>• Neither party really satisfied with outcomes or with its operation</li> </ul>   |
| <p><b>2. Contractual Model</b></p> <ul style="list-style-type: none"> <li>- Racing Industry Funding under Agreement between wagering operator and Racing</li> <li>• Share of Revenue</li> <li>• Fixed payment streams</li> <li>- Sole licensee</li> <li>- Racing Program Agreement requiring parties to agree racing requirements</li> <li>- Wagering Tax</li> <li>- Covers 3 codes</li> </ul>   | <ul style="list-style-type: none"> <li>• Funding arrangements and racing issue interactions contracted and clear</li> <li>• Outside these arrangements parties free to pursue their respective agendas</li> </ul>  | <ul style="list-style-type: none"> <li>• Racing Industry has effectively no input to the wagering operators business</li> <li>• Risk that wagering operator may not maximise local wagering if more profitable external opportunities</li> <li>• Less alignment between the two parties</li> <li>• Funding structure levels must be set at appropriate levels because almost totally revenue level dependent on wagering operator's performance</li> </ul> |
| <p><b>3. Separation Model</b></p> <ul style="list-style-type: none"> <li>• Racing Industry funding entirely from Government</li> <li>• Sole licensee</li> <li>• Limited wagering tax / Licence Fee</li> </ul>  | <ul style="list-style-type: none"> <li>• Highest payment to Government by buyer</li> </ul>   | <ul style="list-style-type: none"> <li>• No relationship or control by racing industry of wagering operator – no alignment</li> <li>• Racing Industry funding subject to annual Government budget pressures and decisions</li> <li>• 3 codes deal with Government</li> </ul>   |
| <p><b>4. Racing Industry Ownership of Wagering Operator</b></p> <ul style="list-style-type: none"> <li>- Racing Industry funding all internally generated and managed</li> <li>- Sole licensee</li> <li>- Wagering Tax</li> </ul>  | <ul style="list-style-type: none"> <li>• Issues of funding, etc all determined by the industry</li> <li>• Racing Industry separate from Government except for tax and compliance</li> </ul>  | <ul style="list-style-type: none"> <li>• Limited capacity for upfront payment to Government because retain wagering infrastructure</li> <li>• Questionable ability to manage inherent conflicts between racing and wagering</li> <li>• Highly dependent upon wagering success</li> </ul>   |

The separation model is one that should be avoided for Western Australia given the size and importance of the WA Racing Industry to the State and its ability to largely self-fund its operations with appropriate WATAB funding. The WA Racing Industry must avoid a model where it totally relies on the WA Government for its funding. One of the stated reasons for the establishment of RWWA and integration of the TAB into RWWA was to separate the racing clubs from the WA Government in terms of direct advocacy. This would be totally reversed by the separation model which would force the WA Racing Industry to actively engage with the WA Government. Even if commitments were made to the WA Racing Industry by the WA Government, the inability to bind future Governments and changing political priorities would clearly put strong doubt on the sustainability of any such commitments.

Racing Industry ownership and operation of the wagering operator in Western Australia is an interesting but highly questionable option. In a governance sense this would be effectively reversing the Principal Racing Authority vesting in RWWA by establishing an entity owned by the Codes (through taking RWWA out of a statutory body environment) that took back these responsibilities. The WA racing industry, as discussed in Section 6.1, generally supported the PRA process due to its improved governance framework to that previously operating under Code specific PRA's, and hence it is difficult to see the benefit in reversion, particularly in a private sector operation.

Whilst the size, the cross-checking balances of the various stakeholders in the Victorian market, and the significant funding and operational independence of the industry with its own wagering pool and the sustaining Spring Carnival, of the Victorian Racing Industry could arguable support such a Victoria TAB ownership model by the Racing Industry, the Western Australian Racing Industry is extremely unlikely to be able to create and sustain such a model. The issues between Codes prior to the creation of RWWA would suggest difficulty with this model. In addition, an industry-owned wagering operator would need to retain all the existing infrastructure of WATAB and its pooling dependencies, so any privatisation sale to the WA Racing Industry would probably realise less in up front payment to the WA Government than if sold to an existing TAB operator if it was to be a viable proposition for the WA Racing Industry.

Given just these two propositions, this model is not a recommended course of action to be pursued by the WA Racing Industry.

At this stage of the WA Government's process as it is currently understood, where there appears to have been limited detailed consideration of such issues, a specific recommendation on a preferred structure from the joint venture and contractual models is premature. This will be more informed and determined by decisions on the financial and industry funding models, by the licencing and legislative structures to be instituted, and from the WA Racing Industry's engagement with the WA Government as to the objectives of any possible privatisation.

There is much to be said for the contracted model that requires and calls forward many decisions to be made up front in the sale process to enable the racing industry and wagering operator to enter contracts at the time of sale and then fulfil their respective responsibilities going forward. However, if these settings are not established with appropriate levels and coverage they can result in undesirable outcomes for all parties.

Having said that, any joint venture structure will require much of the same work to be done upfront, with this structure placing the racing industry even closer to the wagering operator and with a different risk profile because funding is usually dependent not just on revenue but both revenue and profits. It also establishes more decision-making infrastructure than the contractual model. This therefore is closer to the current RWWA/WATAB model and hence may be a more appropriate transition. This is particularly so given these structures usually have “best interests” requirements that require the wagering operator to make decisions that do not disadvantage the local racing industry, an important requirement if proper alignment is to occur. Such alignment is critical to making a joint venture work appropriately. Such a provision is more easily monitored in a joint venture type structure than simply an arms-length contractual arrangement.

#### 6.2.1.4 Racing Industry Funding Model

This Report has explained in some detail the current levels and nature of distributions and subsidies and other funding made by RWWA to the WA Racing Industry and the performance in this regard over recent years, as best it could determine (but total actual funding levels would need to be accurately determined in any potential WATAB privatisation).

Chapter 5 explained, again in significant detail, how these levels of distributions and overall funding by WATAB/RWWA are now calibrated to ensure stakes prizemoney levels are sufficient to continue to attract investment by owners to provide ongoing operational sustainability of the WA Racing Industry.

Accordingly, if a privatisation of the WATAB is to occur, the funding provided by the new wagering operator by way of product fee payments (reflecting distributions and subsidies) need to equal current levels of such RWWA distributions, subsidies and other payments and then continue to grow into the future to sustain the Racing Industry in Western Australia.

As the level and allocation of distributions by RWWA have been determined in-house with final decisions on these taken by the RWWA Board, the actual distribution policy and basis is not clear. However, in discussions with the Management of RWWA, the distributions are reviewed and established annually based around Board approved key principles that are understood to reflect some of the matters as outlined in Section 5.2.2.2.

It would appear however, that there is no specific targeting of a percentage of revenue or profit of WATAB/RWWA from such an approach, but rather a determination of levels that will ensure ongoing viability of the WA Racing Industry. In recent years as discussed earlier, the strong turnover and revenue growth together with reduced pooling fee costs, have enabled RWWA to also put aside cash reserves to assist in smoothing and supporting (if necessary) distributions into the future.

Looking at the period from 2008/9 to 2012/13 from RWWA Annual Report data (which includes sports wagering turnover and sport distributions), this is reflected by the following numbers:

- Wagering turnover grew by 28% or around 6.3% per annum
- Wagering margin grew by 25.5% or around 5.8% per annum
- Distributions grew by only 6.8% or 1.7% per annum
- Distributions as a percentage of margin in each year were:
 

|         |        |
|---------|--------|
| 2008/9  | 40.33% |
| 2009/10 | 39.31% |
| 2010/11 | 37.27% |
| 2011/12 | 35.65% |
| 2012/13 | 34.34% |

Section 5.2.2.3 of this Report showed however that going back 8 years dramatically changed these figures, especially distribution growth rates. As discussed, with the impacts of equine influenza and changed pooling fees, the 2008/9 year reflected a loss of around \$13 million (excluding grants) after distributions had been increased despite the profit deterioration, and then the decrease in distributions in 2009/10 as the flow on result. The figures as outlined above then show the slowdown in the growth of distributions despite wagering turnover and margin growth as cash has been reserved to provide future protection for similar such events or impacts. Accordingly, any consideration of funding arrangements for the WA Racing Industry under a potential privatisation needs to consider these trends and RWWA management decisions closely.

In a more conceptual sense, in establishing the WA Racing Industry funding model in a potential WATAB privatisation, consideration also needs to be given to whether simply a margin percentage share or a combination of margin and profit share is a more appropriate model. In a comparison sense around risk profile and return to the current RWWA model, it would be contended that the current WATAB/RWWA model and distribution policy reflects a margin and profit share model, or even perhaps a profit share model when other payments and subsidies are included.

Whilst distribution levels have been based on meeting key operational and strategic objectives including stakes prizemoney levels and appropriate national relativities of these, it would appear that the ultimate level of distributions has been finally determined on profitability and reserving considerations. This perspective of profit rather than margin focus to funding the WA Racing Industry is further reinforced by the situation that pooling fees and costs associated with the premium market (particularly international players) are not in the margin calculation but in the cost of sales deducted from that margin.

Whilst most if not all of these features may not exist under a privatised model, the WA Racing Industry cannot form a view on these matters at this time until all aspects of the proposed privatisation are put together, although total reliance on profit share is not recommended as an option.

## WHAT COULD PRIVATISATION OF WATAB LOOK LIKE?

It must be understood that any racing industry funding arrangement that is based on a share of turnover, margin or revenue puts the WA Racing Industry in a position of relying on the performance of the wagering operator. This is in effect no different from the current situation with WATAB/RWWA as has been discussed throughout this Report, however the management and governance structures will be separate and different in a privatised WATAB environment. Subject to differences in perspective, it does align the financial interests of the racing industry and wagering operator, with this alignment even greater under a share of profit model.

Share of revenue or margin will provide diversification of revenue across all racing and wagering jurisdictions and Codes, and potentially across sport (depending upon the arrangements put in place), as well as perhaps new products such as virtual racing as a growth option in the retail wagering outlets. Again, the critical issues here if privatisation was to occur is to ensure any structure establishes an appropriate share allocation up front to support the required WA Racing Industry funding model, that there is a potential to review this if funding falls away, and that the wagering operator ensures maintenance and growth of the turnover streams of the WATAB (or that there are adjustment factors and other mechanisms built into the structure to protect the WA Racing Industry).

A share of the wagering operators profit will usually reflect more of a joint venture type structure with involvement of both parties in elements of strategic and operational decision-making relating to relevant racing and wagering issues (which can be a divisive and inefficient process over time). The racing industry's financial position therefore becomes exposed to the cost performance of the wagering operator, including issues around how costs may be allocated by the wagering operator across various jurisdictions if it operates wagering activities in other locations. In addition, a matter of significant difficulty and debate is always the definition of profit, with questions over revenue attribution, cost allocation, and the application of various accounting policies.

In addition to this question of margin/revenue share or profit and margin share, there are a number of other prospective aspects that need to be considered :

- In any prospective product fee structure there should be an element of fixed payment to reduce the risk profile associated with the wagering operator's performance.
- A minimum racing industry funding obligation on the wagering operator for a period of up to 5 years to ensure any privatisation does not diminish the current expected funding in the absence of privatisation for that period (ie, continuity of the current model).
- If privatisation occurs, "Racing Western Australia" being obliged to maintain its cash reserves for the purposes of longer term distribution stability and/or infrastructure funding.
- Inclusion of specific requirements around stakes prizemoney levels and infrastructure funding requirements in any structure as part of the minimum performance/funding obligations required under a privatised model.
- The need to ensure that the administration and integrity requirements of the Racing Operations activities are fully funded.

## WHAT COULD PRIVATISATION OF WATAB LOOK LIKE?

In considering this WA Racing Industry Funding Model in a potential privatisation of WATAB it is necessary that the levels set within the Funding Model cover all forms of funding provided to the WA Racing Industry by WATAB/RWWA. This Report has discussed many of these funding flows to the WA Racing Industry which include the following (although this list may not be exhaustive):

- Stakes prizemoney funding
- Event fee payments to Racing Clubs
- Training funding to Racing Clubs and RWWA training facilities
- Jockeys and Drivers payments
- Breeders and Owners Bonus/Incentive Schemes
- Product fees, broadcast costs and other payments on behalf of Racing Clubs
- Cost of RWWA's Racing Operations Groups

Attempting to establish how such a funding position for the WA Racing Industry compares to the relative levels provided to racing industries in other Australian jurisdictions is difficult given the different reporting styles and classifications of such funding used across these jurisdictions. At a general level some analysis was attempted to express Racing Industry funding as a percentage of the TAB racing wagering turnover within each jurisdiction. Given the difficulties of determining the total funding figure for the reasons stated above, the following broad but largely unsubstantiated observations are made from this analysis :

- The Western Australian Racing Industry would seem to be around broadly similar levels as Victoria at the upper end of funding proportion at approximately 7.5% of TAB racing wagering turnover
- New South Wales and Queensland would appear to be around approximately 5.0% of TAB racing wagering turnover, although Queensland probably jumped to over 5.5% with increased funding in 2012/13
- It would appear that South Australia would be much closer to Victoria and Western Australia than to New South Wales or Queensland, following the abolition of wagering tax payments in South Australia.

The discussions in Section 5.3 of this Report in relation to the value chains of each Code in the WA Racing Industry reflect the high cost nature of producing the racing product within Western Australia. With the vast size of the State adding to the costs of presenting the product, combined with the essentially isolated self-funding nature of Western Australian racing relative to the Eastern States industries, such funding levels are both understandable and justified. The more recent increases in funding for South Australia (through the wagering tax abolition), and for Queensland in the recent amendments to the financial arrangements for the wagering licence, reflect recognition of the need for the types of Racing Industry funding levels existing in Victoria and Western Australia.

### 6.2.1.5 Racing Program Agreement

At present RWWA makes decisions, after input from Racing Clubs and Code Consultative Groups, as to the Annual Racing Program for the entire Western Australian racing industry. After such consultation/input the RWWA Management team and ultimately the RWWA Board decide the program internally as part of their Budget process. This arises out of the Racing and Wagering Management making the competing calls along with the agreement of Senior Management, and then the Board, (with its Code representatives), contributing and ultimately deciding the acceptable compromises between racing and wagering objectives in the racing program determined. In a privatised TAB model this needs to become a negotiation between two separate entities – the wagering operator and the racing industry – one looking to maximise wagering turnover for profit purposes and the other looking to fund and sustain a whole State's racing industry with appropriate integrity, regional, social, employment and industry sustainability objectives being met.

In a privatised model therefore it is necessary to have a formal agreement / contract / resolution methodology that is a condition of the licence, between the wagering operator and the racing industry, that sets out how the racing program and various related matters are to be negotiated and resolved. In a contractual model this will take the form of a contract between the two parties, whilst if some form of joint venture is established it will form part of the matters outlined in a formal joint venture agreement between the parties.

Given the importance of this to the WA Racing Industry it is vitally important that in the event of the WATAB being privatised that the governance and representative structures for the WA Racing Industry are established appropriately to ensure all stakeholders are properly represented in such negotiations. A Racing Western Australia structure reflecting RWWA without wagering would seem best placed to provide the entity that is the party to this Agreement, subject to any improvements in this structure that participants deem necessary. With the removal of wagering under a privatised model it would be appropriate to review key objectives of the new entity, and the relevant skill set requirements of the Board and senior management called forward by these objectives, as well as the legal structure of the entity, to ensure appropriate focus to the racing product mandate of the new entity.

### 6.2.1.6 Wagering Tax

Wagering taxation is paid by WATAB/RWWA to the WA State Government on both pari-mutuel and fixed odds wagering. The tax rate on pari-mutuel betting is 11.91% on gross margin for racing, and 5.0% of turnover on pari-mutuel sport, whilst for fixed odds betting the wagering tax is based on turnover – 2.00% for racing and 0.50% for sport.

Such taxation represents an outflow that reduces the net earnings of the wagering operation and hence the amounts that could flow to the WA Racing Industry. It is nevertheless a payment to the WA Government in recognition of it granting a licence to the wagering operator, in addition to any upfront payment made to secure the licence. Where such wagering taxes are in place they are generally expressed as a percentage of revenue/margin in relation to pari-mutuel betting, and as a percentage of either revenue/margin or turnover in the case of fixed odds betting. In Tasmania and the ACT, where their TAB's have been recently privatised and the Government has taken over funding the racing industry, a fixed amount (escalated by CPI) is paid as a wagering levy by the wagering operator to the Government, but no wagering tax is in place.

Wagering taxes currently in place around Australia are set out in Table 6.2.1.6 over the page.

In recent times the trend by State Governments in Australia has been to reduce the levels of wagering taxation on the TAB wagering operators in recognition of the relatively higher product fees paid to local racing industries by the TAB compared to the racefield fees paid by all wagering operators, and to enhance funding to the Racing Industry by not taking the extent of wagering taxes out of the TAB. This is specifically the case with the corporate bookmakers competing with these TAB's who are based in low/no tax and/or fee jurisdictions such as the Northern Territory.

A very recent example of this tax reduction approach by State Governments was in the new framework for race and sports wagering for the TAB operated by Tatts Group in Queensland announced in June this year. The Queensland Government made a number of changes to these arrangements, including agreeing to a reduction in its pari-mutuel tax rate from 20% to 14% of commission (margin) and from 20% to 10% for fixed odds wagering.

Other examples of reductions in wagering taxes and/or other funding concessions by Australian State Governments post privatisation of their TAB are:

- In South Australia the Government removed the wagering tax in 2012 to improve racing industry funding, having phased it down from 2009;
- In Victoria the new licence and funding arrangements that commenced in 2012 included a reduction in wagering taxes;
- It is understood that in NSW consideration is being given to a reduction in the wagering tax rates to match the Victorian rates on pari-mutuel and fixed odds betting; and
- In a number of jurisdictions State Governments have expanded the wagering product definition to include products such as simulated racing events (eg, Trackside) to provide increased racing industry funding.

Given the participant financial situations within the WA Racing Industry as explained throughout this Report, there is clearly no room to increase the current wagering tax level and settings without significantly impacting the current industry situation. This is the case, in fact, whether privatisation was to occur or not, but clearly is also an important factor for the WA Government in overall value terms in any potential privatisation process. Having said that, and whilst a wagering tax rate reduction would increase the up-front payment offer from a potential bidder, the different costs of capital between the WA Government and a corporate bidder, could result in the bidder

TABLE 6.2.1.6 AUSTRALIAN OFF-COURSE TOTALISATOR TAX RATES

| NSW  | VIC   | QLD  | WA   | SA  | TAS  | NT  | ACT  |
|--|---|--|--|---|--|---|--|
| <p>Parimutuel Tax Rate 19.11% of player loss (i.e. gross deduction)</p> <p>A rebate of 9.11% in respect of investments made by international account holders (no minimum investment) and domestic account customers who wager more than \$3m in totalisators per financial year</p> <p>Totalisator Sports Betting (FootyTAB, SoccerTAB, SportsTAB)</p> <p>Tax Rate 19.11% of player loss</p> <p>Fixed Odds Sports Betting</p> <p><b>TAB Tax Rate:</b> 10.91% of gross margin</p> | <p>Parimutuel Tax Rate under the new wagering and betting licence, from 16 August 2012: 7.6% of player loss.</p> <p>The difference between pari-mutuel tax the licensee would have paid under the former tax framework, and tax payable under the new framework, is paid to the Victorian Racing Industry as a condition of the new licence.</p> <p>Totalisator Sports Betting</p> <p>Tax Rate 7.6% of player loss</p> <p>Fixed Odds Sports Betting</p> <p><b>Tax Rate:</b> 4.38% of player loss (Trackside<sup>1</sup>)</p> <p><b>Tax Rate</b> 10.91% of player loss</p> | <p>14% of commission (gross deduction).</p> <p>Tax is collected monthly in arrears.</p> <p>GST credit provided.</p> <p>Fixed Odds Racing and Sport</p> <p>10% of gross revenue (player loss)</p> | <p><b>Racing</b> 11.91% of net of GST gross margin for off-course racing totalisator wagering (equivalent to a tax rate of around 3.50% on turnover).</p> <p>A rebate of 10.0% in respect of investments made by premium players.</p> <p>Fixed odds racing wagering 2% of turnover.</p> <p><b>Sports</b> Pari-mutuel sports betting tax is set at 5% of turnover.</p> <p>Fixed odds sports betting is set at 0.50% of turnover.</p> <p>In addition, 20.5% (decreased from 25% from 1 August 2013 until 30 July 2015) of net return after tax is remitted to the Sports Wagering Account for disbursement by the Gaming and Wagering Commission on the direction of the Minister for Sport and Recreation.</p> <p>Sportsbetting Pari-mutuel turnover 5% of turnover</p> <p>Fixed Odds: 0.5% of turnover</p> | <p>Wagering tax on SATAB race betting operations abolished from 1 July 2012.</p> <p>Wagering tax on non-race betting operations continues to apply; equivalent to a flat component of \$252,500 per month and 6% of all net betting revenue other than net betting revenue attributable to Racing.</p> <p>Sports Betting and other non-racing betting SATAB will continue to pay a wagering tax equivalent to a flat component of \$252,500 per month and 6% of all net betting revenue attributable to Racing. This includes Sports Betting.</p> | <p>From 1 July 2009 Totalisator Wagering Levy of 4.7m fee units in 2013/14 this equates to \$6,862,000</p> | <p>Totalisator 40% of licensee's commission deducted less GST.</p> <p>For races other than thoroughbred, harness horse and greyhound races and prescribed sporting events held:</p> <p><b>In Australia:</b> 20% of licensee's commission deducted less GST.</p> <p><b>Outside Australia:</b> 10% of licensee's commission deducted less GST</p> | <p>TAB Annual licence fee of \$1 million indexed annually.</p> |

ascribing relatively less value to this reduction than the value of the ongoing stream at the WA Government's cost of capital.

However, a reduction in the wagering tax would improve the earnings available for funding of the WA Racing Industry.

#### 6.2.1.7 Racefield Fees

The current arrangements with racefield fees in Western Australia are such that RWWA pay the racefield fees for interstate and international product for WATAB and on behalf of the Racing Clubs and, as explained in Section 3.1.4.5, receive racefield fees paid by wagering operators for the use of WA racing product via the Gaming and Wagering Commission. The Gaming and Wagering Commission receive these racefield fees and pass them on to RWWA (net of administration costs) to hide the source of fees from WATAB given the potential benefits of WATAB being aware of other wagering operators use of WA product.

It is understood that these figures are broadly equivalent, with a small positive balance forming part of the funding for the distributions to the WA Racing Industry.

In a privatised model such a structure would need to be examined given the separation of the wagering activity from racing product oversight which currently both reside in RWWA. Whilst in all jurisdictions, either directly or via Government the racefield fee receipts flow to the racing industry, the position with racefield fee payments out of the jurisdiction vary. In NSW they are paid by the wagering operator, in Victoria by the joint venture (and therefore shared 50/50 by the wagering operator and the racing industry), whilst in Queensland it is effectively the racing industry that meets the cost through an offset against the product fee paid to the racing industry under the RDA (subject to an adjustment to be shared 60% Tatts / 40% Racing Queensland if outflows exceed inflows).

In the case of Western Australia as outlined above, RWWA receives these racefield fees paid on WA racing and RWWA (probably more so WATAB) pays the racefield fees to other jurisdictions (although this also includes the Racing Clubs fees). Without the separation of the wagering activities in RWWA from the racing industry activities the issue of the financial balance responsibility and benefit associated with these racefield fee flows has not needed to be addressed.

Such attribution will, as in other jurisdictions as outlined above, need to be determined as part of the overall arrangements of a potential privatisation of WATAB, and will form an element of the financial machinations in such a privatisation. Clearly a NSW-type model would benefit the WA racing industry (industry receives incoming product fees whilst the wagering operator pays product fees to other jurisdictions), and it could be argued literally to be the current case. However, for the WA Racing Industry to be left in the same situation a model such as that in Queensland, but with the wagering operator however responsible for 100%, not 60%, of the shortfall, ie, where outflows exceeds inflows, would be an appropriate structure in a potential privatised model (again subject to all other things being equal).

### 6.2.1.8 Other Financial Arrangements

There are a variety of other fund flows and arrangements that are in place currently that need to be clarified under a privatisation model if it was to occur. From the WA Racing Industry's perspective it is necessary that these existing arrangements be retained within a privatisation model, but with some clarification to ensure the WA Racing Industry funding is protected in certain instances.

#### (a) GST Reimbursement

As was explained earlier when GST was introduced into Australia in 2000 there was no ability to change the "pricing" of wagering for this impost, so State Governments reimbursed wagering operators for the GST liability they were unable to pass on, from their global GST arrangements with the Federal Government, either through wagering tax adjustments or direct reimbursement (the WA Government originally adopted the latter method). Subsequently the WA Government adjusted down the racing wagering tax rates to replace the need for reimbursement, but such reimbursement remains for fixed odds and pari-mutuel sport. It may be appropriate in a new licence regime if privatisation is to occur to adjust tax rates for these items to avoid the need for a reimbursement process. This issue clearly sits with the potential new wagering operator and the WA Government in a privatisation process.

#### (b) Unclaimed Dividends

As explained in Section 3.1.4.5 unclaimed dividends on racing wagering (after 7 months) became the funds of RWWA, whilst on sports they flow to the Sports Wagering Account held by the Gaming and Wagering Commission. This important source of funding for the distributions and other payments made to the WA Racing Industry by RWWA needs to be retained by the WA Racing Industry, and hence in any privatised model the unclaimed dividends should be paid through directly to the Racing Industry (Racing Western Australia) by the wagering operator after the 7 month period. The treatment of unclaimed dividends on sports wagering should remain as it currently operates.

#### (c) Fractions

Given the mechanics of these and how they arise it would seem appropriate that these stay with the wagering operator in any potential WATAB privatisation as they are an inherent part of the wagering operation. Given that these represent around 0.4% of margin annually it is however necessary that in any product fee rate determination based on margin as part of the privatisation structure, appropriate recognition be given to this matter.

#### (d) Premium Market Rebates

Whilst this customer segment may not be one that buyers will value nor seek to continue with a WA operation, if it is then existing rebates through different wagering tax rates will need to be considered in any privatisation process. If these are to continue then this will need to form part of the licence entered into by the new wagering operator. If these fall away and/or the premium customer base does not continue post privatisation, racing industry funding models based on percentages of margin, revenue or turnover will need to reflect this if funding levels to the WA Racing Industry are to be maintained.

### 6.2.1.9 Pooling Arrangements (if required)

As explained in Section 3.1.4.3, WATAB/RWWA has entered into a pooling agreement with Tabcorp's Victorian based SuperTAB pool, under which nearly all WATAB tote bets are pooled in with the SuperTAB pool. As also explained earlier, WATAB/RWWA has a management agreement with William Hill under which WATAB's fixed odds pool is managed by William Hill for a fee.

In a privatisation process, the value and situation with each of these will vary depending upon the situation of the potential bidder. If Tabcorp or Tatts Group are bidders, they both obviously already have their own pools and wagering (tote and fixed odds) capabilities that means that WATAB/RWWA's existing pooling arrangements will no longer be required. If a bidder is an existing corporate bookmaker with existing fixed odds wagering capability, the Tabcorp pooling agreement could probably be required to continue but not the William Hill arrangement.

Although less likely to occur, a bidder with no existing wagering capabilities would clearly most probably wish to retain such arrangements. It is understood from discussions with RWWA management, which would be expected, that these agreements have payout arrangements associated with early termination. As it is understood that these are relatively long term agreements, such termination payments could be expected to be considerable and will be incurred by RWWA in a privatisation process if a new wagering operator does not require such arrangements.

In the case of Tabcorp it is unclear exactly what Tabcorp would choose to do with the existing Pooling Agreement given the Joint Venture with the Victorian Racing Industry in relation to the SuperTAB Pool. In the case of Tatts Group no such pooling arrangement with Tabcorp would be required. Given early termination provisions exist, it is expected that this would lead to some form of substantial payout being required to Tabcorp to terminate the contract which is understood to have some 9-10 years to run. Similarly, in any privatisation that led to the acquirer not requiring the fixed odds management services of William Hill, this contract would also need to be terminated and again a substantial payout would be expected to be required for such termination.

### 6.2.1.10 WATAB Retail Outlet Arrangements

WATAB/RWWA will have in place with the various hotels and retail outlets that have TAB operations a variety of contracts/agreements that provide varying degrees of goodwill value to these businesses. A new wagering operator would obviously look to maintain a retail network, but will seek to have some flexibility to operate it in a manner it wishes in terms of locations and "look and feel" that may or may not be reflected in the current WATAB/RWWA network.

Retail outlets will, conversely, look for some certainty in their future arrangements under a new operator if privatisation is to occur. Such certainty will generally relate to financial arrangements and remuneration and to the length (timeframe) and terms of their agreements. In a number of similar privatisations such agreements under existing terms have been locked in for a fixed period (eg 3 or 5 years). The Government will need to determine this matter prior to any privatisation, as a bidder will more highly value some flexibility.

### 6.2.1.11 On-Course Wagering Arrangements

With Racing Clubs holding the on-course wagering licences in Western Australia, as is the case in other jurisdictions, it will be necessary in any potential privatisation to ensure appropriate arrangements and structures are put in place within the wagering licence to cater appropriately for the Racing Clubs and the wagering operator. As discussed in Section 5.2.3, a combination of outdated regulation, system deficiencies, competition, and prioritisation by RWWA to off-course wagering at the expense of on-course wagering, has seen on-course wagering decline substantially, together with falling attendances and underinvestment in Racing Club infrastructure.

As this area can be one of potential value enhancement for both the wagering operator and the Racing Clubs into the future, whether it is a privatised model or not, the current improved developments between RWWA and the Racing Clubs must be continued. In a potential privatisation it is absolutely necessary for these improvements to be a considered within a new licence. Accordingly, future on-course wagering under either a privatised or continuing model needs to include active consideration of:

- The ability for Racing Clubs to conduct fixed odds betting under their wagering licences, in addition to the pari-mutuel wagering as currently provided.
- Remove restrictions on the numbers of operator and self-service terminals on track
- Allow and require the wagering operator to provide the same racing information systems on-course as provided off-course.
- Require the wagering operator to enter into on-course wagering agreements with Clubs if requested on reasonable terms to both parties (as currently is the case)
- The wagering operator providing the ability for roaming TAB operators, and to be able to take verbal bets on-course using operators
- Centralised administration of the Australian Price Network for fixed odds pricing
- A requirement for the wagering operator to provide the technology to capture on-course mobile betting with the wagering operator, maintaining the on-course wagering tax exemptions.

### 6.2.1.12 Racing Industry Governance Structure

This issue has been discussed elsewhere in this Report. If privatisation does occur, as outlined earlier, an entity such a Racing Western Australia representing all Codes and all racing industry participants will need to be formed (or in the case of RWWA reformed) to provide the primary entity to represent the WA Racing Industry in joint venture/contractual or other arrangements with the wagering operator, and to oversee integrity and programming in the Western Australian racing industry.

### 6.2.1.13 RWWA Staffing Arrangements

If an existing TAB operator obtains the WATAB licence then it is highly likely that the bulk of the wagering operation will be run from their wagering head office operation interstate. If a non-TAB wagering operator was to be the successful party they would need to retain much of the WATAB operations.

So if an existing TAB operator is successful most of the people employed in the Marketing and Retail divisions would not be required, and many of the Information Services staff would probably not be required. A buyer may seek to retain some call centre staff if time zone differences are considered to be best managed by a local call centre. Some of the Retail Division would be retained to service the retail WATAB network. Most if not all of the shared service functions of Finance and Business Services and Human Resources that relate to wagering would not be required. Of course, depending upon WA Government decisions on the remaining structures for RWWA, such as a Racing Western Australia, much of the rest of RWWA's organisation chart, with substantially trimmed technology and shared services functions, could continue in this new framework.

In any potential privatisation a decision will need to be taken as to which parties are responsible for the people whose roles are to be lost, and how any particular transfers of roles from RWWA to a new wagering operator are to be effected.

As a significant part of any value to an existing TAB operator of the WATAB licence will be in the ability to extract cost synergies from its operation by effectively undertaking a number of existing roles from its own existing interstate staff, any obligations for non-required RWWA staff will reduce the value of the licence. The WA Government will therefore need to determine if it requires the new wagering operator to take over the employment contracts of all the wagering-related staff of RWWA and then leave it to the operator to make employment decisions and deal with the redundancy arrangements, or allows the operator to seek to retain only those employees it requires transferred to its employment upon privatisation occurring.

In the latter case, RWWA and/or the WA Government will need to deal with redundancy/re-deployment arrangements as appropriate. The WA Government may require certain arrangements for transferring staff in terms of existing entitlements. In either case the WA Government will need to determine whether it gives any period of job security to employees through a requirement in the privatisation process, and at whose expense, but the new wagering operator will probably want to ensure some short term availability for integration purposes.

### 6.2.1.14 RWWA Wagering Asset Infrastructure

A new wagering operator in a potential privatisation of WATAB which is an existing TAB operator will need to consider whether there are any benefits in retaining and using any of the wagering infrastructure of WATAB/RWWA, or rolling out its own infrastructure.

The key assets in this regard are the betting engine system, the retail TAB outlet fit-outs and racewall information system, the telecommunications infrastructure in place to support the off-course and on-course betting, and the digital/mobile betting infrastructure of TABtouch. Whilst these are clearly decisions to be made at the appropriate time, it is anticipated that any such purchaser will look to generate savings and efficiencies from single technology platforms across its network and not duplicate such technology. Which elements it uses or discards in this process will be a corporate decision at the time, depending upon their existing scale and views on parts of RWWA's technology, particularly following recent investment by RWWA to enhance their wagering systems.

Any other non-TAB wagering operator who looks at the WATAB in a privatisation would most probably look to retain the existing infrastructure in the short/medium term

Whilst neither this nor the RWWA staffing arrangements directly impact the WA Racing Industry, they will determine the value that a potential privatisation may create in terms of up-front payment for the WA Government. This value equation may be critical in any final decision to privatise, and these matters therefore represent a key element of where a potential new wagering operator can look to quickly extract synergies from the integration of the WATAB operation into its existing business. This is where issues around the question of where the shareholders of a buyer will get benefit whilst maintaining existing other stakeholder flows will be partly answered. If a new operator can optimise these synergies and pay a reasonable price up front, then their shareholders can still benefit whilst the WA Racing Industry continues to receive its funding. But if the WA Government's up-front value expectations are too great and hence the sharing of these synergy benefits between Government and new wagering operator in this sale are too weighted to Government, pressure may fall on the WA Racing Industry funding to make up the shortfall if a privatisation was still to occur.

### 6.3 Funding and Sustainability of Racing in Western Australia

This section of this Report discusses the current and prospective future funding position and framework for racing in Western Australia, looking at these in the context of whether or not WATAB is privatised.

#### 6.3.1 Background

This Report in a number of previous sections has outlined the significant role that the WA Racing Industry plays in the State of Western Australia. The Report has also outlined that the Western Australian racing product generates around a quarter of WATAB's wagering turnover and earnings, and would appear to generate around 8% of total wagering turnover Australia wide.

Accordingly, not only is the value and profitability of the WATAB/RWWA wagering business highly dependent upon the operation, sustainability and development of the Western Australian Racing Industry, but to varying degrees so are the operations of other State and Territory TAB's, and other wagering operators (bookmakers). So whilst the "gentlemen's agreement" of the past between TAB's no longer applies, the "balance" of the Australian industry continues to be maintained by the TAB's providing (in most cases) the sufficient funding to their local racing industry to ensure that their jurisdiction provides suitable racing product for themselves and other TAB's (and other wagering operators) to profitably undertake their wagering activities.



Clearly this is the case whether privatisation occurs or not, but obviously under a potential privatisation these would need to be more clearly and formally documented and contracted given the wagering operations would in that case be separated from the primary racing authority entity, and in private ownership. So it would need to be clearly documented that the race programming, promotion, racing integrity, stakeholder representation and infrastructure investment for the WA Racing Industry must be funded in addition to the distributions currently paid to racing clubs and to participants. From the table above this can be seen to cover the operational expenditures of RWWA's Racing Services, the relevant proportion of RWWA's shared services (including technology that support these Racing Services), various grants, subsidies and other payments provided to the WA Racing Industry by RWWA, and obviously then the distributions made by RWWA. In addition, a mechanism for funding racing industry infrastructure requirements would be required as discussed earlier in Section 5.2.4.

### 6.3.2 Funding of the Industry from Wagering – Past and Future

In sections 5.2.2 and 6.2.1.4 of this Report the distribution funding provided to the WA Racing Industry in the recent past has been discussed, together with potential models in a privatised model. This section will also look at what has been the growth of the other expenditure elements of RWWA that relate to its non-wagering function as outlined in the previous section.

On the basis of the past, and some assessment of WATAB/RWWA's positioning in the future Australian wagering market if it were not to be privatised, some future outlooks are considered to assess what could be a reasonable outlook for WA Racing Industry funding from wagering over the next five years.

#### 6.3.2.1 RWWA Cost Base

As outlined in the previous section, under any privatisation model the funding from the new wagering operator to the WA racing industry would also need to include the expenditure of the "new" PRA entity to fulfil its various responsibilities undertaken on behalf of the WA Racing Industry as a whole, as well as all the funding to Racing Clubs and participants. Without being privy to all of the detailed financial numbers of RWWA, the following outline of expenditures of the organisation are taken from its Annual Reports.

| YEAR    | RACING<br>EXPENSES (\$M) | WAGERING<br>EXPENSES<br>(\$M) | UNALLOCATED<br>EXPENSES<br>(\$M) | TOTAL<br>EXPENSES (\$M) |
|---------|--------------------------|-------------------------------|----------------------------------|-------------------------|
| 2007/08 | 15.392                   | 68.388                        | 26.188                           | 109.918                 |
| 2008/09 | 15.688                   | 74.236                        | 26.736                           | 116.660                 |
| 2009/10 | 13.247                   | 76.081                        | 26.956                           | 116.284                 |
| 2010/11 | 14.066                   | 77.369                        | 28.026                           | 119.461                 |
| 2011/12 | 14.848                   | 80.536                        | 30.236                           | 125.620                 |
| 2012/13 | 15.557                   | 82.549                        | 29.966                           | 128.072                 |

Whilst the 2012/13 figures do not line up with those in the previous section in terms of allocation of costs, the focus here is on the trends in these costs as classified in the accounts. The Racing Services expenditures show a steady increase of 17.44% since 2009/10 (or just under 4% per annum compounding) following the reduction in staff reflecting a similar response to the factors that led to reduced racing industry distributions in that year as explained previously in this Report. From 2007/08 wagering expenses, which would be met but differently managed by a new wagering operator after a potential privatisation as outlined earlier, had increased by 14.21% to 2012/13. For the same period, unallocated expenses increased by 14.43%, of which it is hypothesised that most of this increase would reflect wagering related expenditures in this category.

Accordingly, based on this high level analysis and subject to more due diligence being performed on these cost base expenditure numbers in any privatisation process, a funding model would need to be established that ensures, over and above distributions to Clubs and racing industry participants, that with these expenditures growing at a rate of around 4-5% per annum that they were able to be funded under the model into the future.

#### 6.3.2.2 WA Racing Industry Distributions, Subsidies and other Funding

Given the previous various discussions throughout this Report about the history of the distributions to the WA Racing Industry over the last few years and particularly the 5 years to 2012/13, the following statements are made to attempt to suggest a potential outlook for wagering revenue growth and hence potential WA Racing Industry funding growth :

- With declining pari-mutuel betting the overall wagering growth for TAB's have been limited to around 1.2% per annum over the last four years with no reason to believe growth rates over the next 5 years will significantly differ from this. An overview of some financial market/gaming market analysts' outlooks for the Australian TAB wagering revenue growth over the next few years do however suggest some improvement in growth rates. Whilst such outlooks do vary substantially, and also differ between Tabcorp and Tatts, an outlook of around 2% growth on average is broadly expected.
- The low growth performance of other TAB operations has reflected declining retail pari-mutuel turnover offset by strong fixed odds turnover growth.
- WATAB/RWWA's ability to generate growth in its wagering turnover and revenues over this recent period, as explained earlier, arose from its delayed developments in on-line and retail information and betting systems that have essentially enabled it to catch up to other TAB's, as well as its growth in premium punters and improved margins from more favourable pooling arrangements.
- In acknowledging this growth, in the last 3-4 years, the growth in distributions has been constrained by the cash reserving practices of RWWA which has withheld some of the wagering revenue growth from the WA racing industry.
- Flowing from the above, and with more recent investment in its on-line (particularly mobile) and SST capabilities, the future wagering turnover growth and existence of cash reserves to average out oscillations in such growth would suggest an ability to fund funding growth at wagering turnover growth levels similar to those recently experienced for up to another five years potentially.

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- In addition to the previous point, it would appear that WATAB/RWWA has begun to, and will for a period, experience similar fixed odds growth with retail pari-mutuel decline, albeit the latter less pronounced because of upside still inherent in WATAB/RWWA's underlying retail business.

Taking these points above, it is reasonable to suggest the WATAB/RWWA under its existing structure could realistically be expected to grow WA Racing Industry distributions at around the 3.5% per annum compounded rate of recent years potentially over the next five years to a level of in the vicinity of \$150 million in financial year 2018/19. All other WA Racing Industry funding by RWWA would also be able to grow at a similar rate. This is predicated, as outlined above, on the availability of cash reserves to underpin fluctuations and impacts on this growth rate in that period, some but limited further growth in premium punters, and general benefits flowing from investments by RWWA in developments not being inhibited by any regulatory change. (An actual forecast growth outlook will need to be provided by RWWA).

Clearly this suggested outlook for WATAB/RWWA wagering turnover growth going forward would need to be rigorously tested and assessed in a potential privatisation process. The growth rate estimate is simply based on a view of the ability to continue on a similar growth path as experienced in recent years. A much more detailed forecasting process by RWWA with much more information would be required to establish a more informed outlook.

When discussing the base line and future funding position of the WA Racing Industry under a potentially privatised WATAB, the baseline needs to include **all** current funding provided by WATAB/RWWA. Throughout various parts of this Report there has been references to Distributions to the Racing Industry (Racing Clubs and Participants), subsidies/payment made to or on behalf of Racing Clubs by RWWA, funding of training facilities, other grants and subsidies, and the operating costs of RWWA conducting its Racing Operations and integrity roles and other PRA responsibilities. These total funding amounts are not readily able to be fully determined for this Report, but are understood to possibly represent approximately another \$25-26 million annually on top of the Distributions and Grants paid to Racing Industry Clubs and Participants.

Again, this total Racing Industry funding would form the basis for the current and the projected minimum funding obligations (reflecting the expected WATAB/RWWA growth profile over the next 5 years) to apply in the WA Racing Industry funding model under a potential privatisation of WATAB.

As also discussed throughout this Report, RWWA has over the last few years been building up its cash reserves to provide a buffer capacity to any detrimental impacts on wagering inflows so as to manage or smooth WA Racing Industry funding through any such impacts. The following table sets out the Distributions and Grants to the Industry,

## WHAT COULD PRIVATISATION OF WATAB LOOK LIKE?

the reported profit/loss of RWWA for the year, and the Cash and Cash Equivalents held at the end of each financial year (as derived from RWWA Annual Reports) :

|         | \$ MILLION               |                |                             |                           |
|---------|--------------------------|----------------|-----------------------------|---------------------------|
|         | DISTRIBUTIONS AND GRANTS | PROFIT /(LOSS) | PROFIT BEFORE DISTRIBUTIONS | CASH AND CASH EQUIVALENTS |
| 2007/08 | 104.637                  | 6.455          | 111.092                     | 71.939                    |
| 2008/09 | 110.146                  | (11.877)       | 98.269                      | 47.990                    |
| 2009/10 | 106.498                  | (1.448)        | 105.05                      | 42.251                    |
| 2010/11 | 107.551                  | (8.991)        | 98.56                       | 39.583                    |
| 2011/12 | 113.798                  | 10.858         | 124.656                     | 56.174                    |
| 2012/13 | 117.665                  | 9.302          | 126.967                     | 67.745                    |

Clearly in hindsight RWWA probably grew distributions prior to 2009 a little too quickly without reserving, so that then when the adjustment was needed it hit particularly Racing Clubs distributions directly and hard. The year 2009/10 includes the delayed recording of \$11.0 million of racefield fees actually relating to 2008/09. When these figures are therefore adjusted the impacts to WATAB/RWWA in 2009/10 carried into 2010/11 are clear to see. Since that time profitability can be seen to have grown much more than Distributions and Grants to the Racing Industry, and Cash Reserves have been able to be built up, with Racefield Fees appearing to have increased significantly in 2011/12 (perhaps suggesting increased corporate bookmaker payments).

It is understood that in 2013/14 Distributions and Grants increased to \$130.8 million whilst profit levels are believed to have been maintained. Such prudent risk management by RWWA should be seen positively and constructively in a medium/long term sense despite the more subdued growth in WA Racing Industry funding. However, in a privatisation process such cash reserves should not be lost to the WA Racing Industry given both the reason and the history of funding behind the existence of these cash reserves. Higher distributions and/or infrastructure funding could otherwise have been funded from the improved performance of WATAB.

### 6.3.3 No Worse Off

The earlier discussion in Chapter 5 of this Report on the current total funding of the WA Racing Industry outlined the fragile nature of the existing position based on distributions from WATAB/RWWA's wagering activities and the investment by owners based on reasonable levels of stakes prizemoney. Accordingly, any potential WATAB privatisation would require that the WA Racing Industry (including the PRA) is "no worse off" in terms of its financial and risk profile as a result of the privatisation. In general terms this means that the funding outcome of a potential privatisation to the WA Racing Industry reflects what WATAB/RWWA has been able to achieve and is forecast to achieve into the future and that the risk profile does not materially change to put such funding at greater uncertainty in terms of levels and security. This context of no worse off is to be pursued in relation to total WA Racing Industry funding, and should not be interpreted as applying to any underlying component parts of that total funding level.

In defining "no worse off" in a more direct way and with clarity, it is both of these perspectives that need greater explanation.

### 6.3.3.1 “No Worse Off” Funding

The perspective for “no worse off” funding must be two-fold – to establish a base at the time of privatisation that reflects the current funding level – and to establish a future perspective that at least ensures no less funding than that which WATAB/RWWA would have provided in the absence of privatisation. The earlier analysis in Chapter 5 of this Report has outlined why anything less than the current funding level as the base is simply a formula for a significantly smaller WA Racing Industry that neither a new wagering operator, nor the WA Government, should/would wish to entertain as an outcome of privatisation.

As discussed above, whilst clearly the author is not privy to the forward estimates and detailed planning of RWWA, it has been hypothesised that similar growth profiles over the next 5 years to those in the last 5/6 years would seem to be possible. The validity of the figures will need to be established in any potential privatisation, but the principle of this definition of “no worse off” funding is one the WA Racing Industry must seek to establish as a requirement of the racing industry funding arrangement to be put in place in such a potential privatisation.

The delivery of such a commitment by a new wagering operator post privatisation has aspects associated with the racing industry funding arrangement, the privatisation legal structure, and the governance framework. However, to establish certainty on such levels of funding for a certain period, the only model is to legislate/regulate within the relevant document (be it one or more of legislation, regulation, licence or legal agreement) mandated minimum payments to be paid by the new wagering operator to the WA Racing Industry. Whilst such an “underwriting” requirement will create a risk profile to a potential new wagering operator, this will be mitigated by the impact on the value that bidders will be prepared to offer in the privatisation and a good understanding of the WA wagering market and of WATAB’s position in it.

All of this is obviously predicted on an acceptance of WATAB/RWWA’s current and potential future performance outlook, which will be hotly debated but this principle is the important fact to establish.

The period of the “underwrite” of performance is also of prime significance here. In the latest Victorian wagering licence the period was established as three years. This will be a point of contention with any prospective bidder.

Once such an “underwrite period” completes, or immediately in the case where such an arrangement is not put in place, under most models of privatisation the funding of the racing industry will most probably rely on the financial performance of the new wagering operator from a revenue/margin, profit or combination of both perspective. This takes us into the next section on risk.

### 6.3.3.2 “No Worse Off” Risk

The WA Racing Industry is currently effectively exposed to the risk of the wagering performance of WATAB/RWWA. This risk is mitigated somewhat by the influence it is able to bring through its RWWA Board composition, and was in essence the basis upon which the WA Racing Industry accepted this risk, together though with acknowledging also that the remuneration level for its product property rights are partly a reflection of

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wagering performance, but within the context of a valuable exclusive retail wagering authority. Again, having a role in Board composition and through Consultative Committees provides a basis also for influence in this regard. This risk in recent times and into the future for a certain period has also been tempered by the build-up of cash reserves within RWWA to provide a protection mechanism to future WA Racing Industry funding from any aberrations in WATAB/RWWA's future wagering performance.

Such mitigates will not exist in most privatisation models, with only the joint venture type models providing some reflection of decision-making mitigation in relation to wagering performance (depending upon the exact model adopted).

In addition, as identified earlier, in a potential privatisation there are issues around the continuity of the extent of premium punters, and the prospect for the channelling of account customers to lower cost jurisdictions of the new wagering operator, that add additional risk in a privatisation. Of course, offsetting these factors will be the matters of potential improvements in the fixed odds offer and hence revenue, and more rapid future rollouts of technologies and products (if timely regulatory permission is provided). Specific other risk management approaches such as licence and legislative requirements for the wagering operator to operate in the best interests of the WA Racing Industry, monitoring and/or reporting, or more specific contractual provisions, can also be considered. The risk profile will change and the structures for privatisation and the WA Racing Industry funding models need to be established to ensure these risks are mitigated to the best possible extent so as to provide the WA Racing Industry with a "no worse off" risk outcome.

In this context it is therefore recommended that if such arrangements do get put in place under a privatisation process that the WA Racing Industry also seek that at the completion of the mandated minimum funding obligation time period that a review process be included in the structure to examine the racing industry funding model at that time to ensure it appropriately reflects the then current wagering performance and conditions.

## WHAT DOES ALL OF THIS MEAN FOR THE WESTERN AUSTRALIAN RACING INDUSTRY?

This Report has discussed in some depth the financial situation and operations of RWWA, the national and Western Australian wagering markets and WATAB/RWWA's performance and position within the market, the financial value chains of participants within the Racing Codes that make up the WA Racing Industry, the funding of the Industry, what privatisation means and how it could occur for WATAB, and with all of this what the potential implications of the privatisation may be for the WA Racing Industry. This chapter will talk through what all of this means for the WA Racing Industry, and suggests positions that could be adopted and potential actions to be taken by the WA Racing Industry in relation to the possible privatisation of WATAB.

### 7.1 The Question of Privatisation of the WATAB

As has been established in this Report, Western Australia is now the only Australian jurisdiction in which the TAB wagering operation is government owned, with the TABs in all other States and Territories owned and operated by either Tabcorp or Tatts Group. Given the very significant competition from corporate bookmakers and other TAB's (with the end of the Gentlemen's Agreement) in relation to racing wagering, and the general competition of sports wagering which is growing at a much faster rate than race wagering, from an Australian wagering industry outlook viewpoint it is difficult to support long term government ownership of an Australian wagering operation. Whilst some will point to successfully operated government-owned wagering operations overseas (such as the Pari-Mutuel Urban in France), these are national entities, not state based, and hence of size and position to better face the competition of on-line bookmakers.

It is in this competitive context that Tabcorp and Tatts have looked to acquire other TAB operations to get such scale. This scale enables them to meet the costs of funding the local racing industries and continuing to invest in technologies, product offers and retail-based infrastructure to sustain their businesses under strong competition. WATAB/RWWA's wagering turnover is not large enough by itself to ensure the liquidity and price stability in its wagering pools for a competitive pari-mutuel wagering offer, and hence has a long running pooling agreement with Tabcorp (into the SuperTAB pool) to provide these attributes. WATAB/RWWA's fixed odds turnover has not been sufficient to justify building its own in-house fixed odds management capability, and it has appropriately sought to outsource such management to existing operators with the necessary infrastructure.

In Chapters 4 and 6 this Report discussed the low growth outlook for TAB turnover and revenue around Australia. With relatively high fixed cost structures of TAB operations given the retail network and infrastructure and the associated technology costs, scale is the only answer to the required continued investment to sustain the business.

## WHAT DOES ALL OF THIS MEAN FOR THE WESTERN AUSTRALIAN RACING INDUSTRY?

WATAB/RWWA has performed well relative to other TAB's in turnover growth terms in recent years, which does reflect a combination of solid management with a significant element of catch up to other TAB's in terms of product, retail and technology offers at levels that TAB's in other jurisdictions had previously rolled out to their customer base. Some more recent initiatives by WATAB/RWWA such as racewall technology, the improved fixed odds offer generally, and increasing levels of self-serve terminals, should continue to provide solid growth over the medium term at growth rates that should be above the expected overall national TAB turnover growth levels. However, once these catch up elements are exhausted there is no reason to suggest that WATAB/RWWA has any capacity to further outperform. In fact, to the contrary, once these catch ups have occurred, it is difficult to see how WATAB/RWWA continues to compete given its lack of scale, and the risk of its dependencies on external providers for pooling services and management.

Accordingly, the position of "if it ain't broke don't fix it", whilst understandable, needs to be seen in the context of the future wagering outlooks, the pooling dependencies, the continued competition faced, and the difficulty and necessity for continued investment that this situation requires. This is particularly problematic in an entity still faced with the implications of government ownership.

Concerns expressed about whether participants, and particularly owners, would continue to invest in the WA Racing Industry if WATAB was not government owned are answered by this situation applying in all other parts of Australia. However, in saying that, the key plank underpinning this is that under a privatised model the racing industry funding model for the WA Racing Industry must be such as to instil this confidence to continue to invest through the establishment of a racing industry funding model that ensures the funding from the WATAB wagering operator to the WA racing industry is sufficient on an ongoing basis to sustain the industry.

Having said this there are a number of other issues or concerns in relation to the potential privatisation of WATAB that weigh against proceeding with the privatisation. These issues include:

- The implications of a privatisation for the substantial premium punter component of WATAB wagering turnover, which is understood to possibly represent up to 20% of turnover. If this was to be lost because of privatisation the funding capability for the WA Racing Industry would be substantially depleted.
- The same outcomes could occur if a new wagering operator sought to move WATAB's account customers to another licence that is lower cost and hence makes these WA customers then more valuable to the operator. It is understood that these account customers could represent up towards 25% of WATAB's turnover, and hence represent a significant potential risk
- In some Australian jurisdictions the privatisation processes themselves have not been seen to work well, with arguably suboptimal outcomes for the Government and the Racing Industry. It must however be recognised that in some cases this has most probably been because of existing inherent issues with the management of the underlying Racing Industry or the TAB, rather than necessarily attributing all or any blame to the actual privatisation process itself.

## WHAT DOES ALL OF THIS MEAN FOR THE WESTERN AUSTRALIAN RACING INDUSTRY?

- Whether the WA Government is prepared to engage and spend the time with the WA Racing Industry to convince the Industry that it will be no worse off.
- Would the WA Government be better placed prioritising assets for sale that weigh on the public purse and hence that are not in the position of WATAB/RWWA and the WA Racing Industry of essentially self-funding itself (except perhaps infrastructure) and contributes in excess of \$40 million per annum to the WA Government in wagering taxes.
- Is it currently worth privatising WATAB given the value equation for a new private operator that needs to service the requirements of new stakeholders such as the Australian Taxation Office (income tax) and shareholders (dividends) in addition to maintaining the obligations to the WA Racing Industry, the WA Government, and other existing stakeholders.
- Clearly a new privately owned wagering operator of WATAB will have a primary focus on returns to its shareholders that may not result in decision-making by that operator in the best interests of the WA Racing Industry.

There are a number of these matters that can be dealt with by the WA Government in a potential privatisation process, if they so choose, to ensure the position of the WA Racing Industry is protected if a privatisation of WATAB is to occur. If these matters are not appropriately addressed, then WA Racing Industry would seriously need to consider opposing a privatisation of WATAB.

Accordingly, and subject to a number of issues raised above being addressed prior to any privatisation, the WA Racing Industry should acknowledge that the privatisation of WATAB is, on balance, likely to occur at some time over the next few years. Even given this situation the WA Racing Industry should only countenance such a privatisation of WATAB if the racing industry funding model leaves the industry in a at the least “no worse off” financial position, and the governance and licence frameworks ensure the WA Racing Industry is protected in terms of its risk profile and has a no less favourable standing in the context both of potential privatisation and future wagering licencing process outcomes.

Whilst there is the prospect of arguing over the actual ownership of the WATAB, and also to raise the question of racing program product rights ownership, it is recommended that the WA Racing Industry not seek these actions if the WA Government, in any potential privatisation process, agrees to an acceptance of at the least a no worse off funding model that is encapsulated in legislation and contract and links the resulting obligation to fund the WA Racing Industry to the granting of the licence, with retail exclusivity the key driver of value and racing industry funding obligations.

### 7.2 The Current Situation of the WA Racing Industry

In Chapter 5 of this Report a picture of the operation and financial position of the WA Racing Industry and its participants was provided in a great deal of detail. The overall perspectives to take from this value chain analysis of the WA Racing Industry are:

## WHAT DOES ALL OF THIS MEAN FOR THE WESTERN AUSTRALIAN RACING INDUSTRY?

- The distributions, subsidies and other payments made to the participants in the WA Racing Industry by RWWA from its WATAB wagering operations have just been sufficient to support the Industry, but on many indicators there has been some significant Industry contraction in recent times.
- Given that the WA Racing Industry has calibrated to the current funding levels, despite increased costs growing faster than returns in most cases, there is no room in the value chains for any less funding from wagering.
- With the punters and owners being the major funders of the WA Racing Industry, and for owners the investment being largely aspirational and seeking intangible returns, any reduction in the wagering contribution to the WA Racing Industry which reduces stakes prizemoney would quickly also reduce owners' investment (based on an acceptable loss context), leading to a higher leverage downwards to racing industry funding than just the distribution reduction.
- The code value chains illustrate that whilst a small number of participants in the Western Australian Racing Industry generate a reasonable return from racing, most are not. It is an Industry in which a small number of people in each segment tend to take a disproportionate share of returns leaving a number to battle financially within the model. In many cases, particularly with owners and some breeders, it is not racing that has created wealth, it is external wealth, and in fact racing tends to reduce this wealth. Racing may often be called a sport of kings, but in most cases it attracts "external" kings, it does not create them in a wealth sense from Western Australian racing.
- Accordingly, there are many in the WA Racing Industry who know nothing else and generate little return but the passion of the Industry. Many employees would have some difficulty finding alternative employment, and operate around minimum wage rates (if that).
- In many cases Racing Clubs survive through voluntary and honorary roles at Board/Committee and operation levels, with Clubs as a whole only breaking even financially on the back of various subsidies paid by RWWA from its wagering returns. The combined Racing Club financial figures reflect that there is no capacity to reduce funding to the WA Racing Industry without significantly damaging the financial position and hence potential sustainability of many of Western Australia's Racing Clubs.
- Given the tight operational financial position of the WA Racing Industry, and the need for property holdings availability to breed and train animals for racing, property assets for those who can obtain them become not only operational assets but represent the only form of retirement/superannuation they hold, the value of which is often tied to the sustainability of the industry.
- With its current settings, the WA Racing Industry is effectively just self-funding on an operational cashflow basis, but infrastructure funding to maintain and improve, and keep safe, existing facilities is an ongoing challenge.

Accordingly, the Western Australian Racing Industry currently is somewhat calibrated in a fragile fashion to the current funding structures in terms of distribution, subsidies and other payments from WATAB/RWWA, whilst the WA Government nets over \$40 million per annum from the Wagering Tax.

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Any action that reduced funding to this current balanced but fragile situation would therefore clearly very quickly and directly disrupt this position and lead to significant pull backs across the WA Racing Industry as there are no real buffers to absorb any significant reductions in funding. So any racing industry funding model that did not sustain the current funding levels, nor provide some certainty on future funding, would not only immediately impact the WA Racing Industry but would also quickly reduce investment given the hit to confidence it would represent. Some signs of this are already evident from the current uncertainty in the WA Racing Industry from asset infrastructure and TAB privatisation discussions.

### 7.3 WATAB/RWWA

The wagering performance of WATAB/RWWA has been identified in this Report as solid in recent times in managing the process of catching up with other TAB operators, and in some sense partially protected by a degree of punter loyalty to the local product (as opposed to corporate bookmakers) and from Racing Clubs agreeing not to seek sponsorship of corporate bookmakers to promote their product. This performance would however have seemed to come from a greater focus by RWWA on its wagering responsibilities than its racing responsibilities. Whilst there is some evidence that RWWA has now sought to achieve a better balance in its focuses in this regard, it has probably not in recent times invested enough resources and focus in the quality, integrity and promotion of the racing product.

This situation would appear to have led to an environment where industry participants in general have been reasonably pleased with the distributions, subsidies, and other payments, and bonus/incentive schemes put in place, by RWWA to fund the Racing Clubs and racing industry participants, but have expressed some frustration with elements of the management of the racing product. Whilst it is clearly a difficult, if not impossible, task to satisfy all stakeholders across all Codes in the racing industry, discounting this out still seemed to leave a generality around concerns on RWWA's performance in this regard.

The focus to wagering has until recently been predominately in relation to off-course wagering in the context of retail and digital predominately, with limited attention to on-course wagering. The resulting drop in on-course wagering (which also can be attributed to declining attendances and competition from corporate bookmakers), when combined with no recent growth in Racing Club distributions by RWWA (until very recently) with increasing cost pressures faced by Racing Clubs, has resulted in Racing Club concerns regarding RWWA's performance. The subsidies around racefield fee payments on Club's behalf, as well as broadcasting expenses and similar payments, funded by RWWA need to be considered here though, as too does the need for Clubs to get patrons back to the races.

The generally favourable perspective on RWWA's financial performance is however an area of major risk and possible concern for the WA Racing Industry under a potential privatisation of WATAB. It needs to be clearly explained and made clear to the WA Government that this is not simply a statement about stakes prizemoney funding. As can be very clearly seen from Chapter 5, the returns generated by the wagering operations of WATAB/RWWA and provided in funding to the WA Racing Industry included:

## WHAT DOES ALL OF THIS MEAN FOR THE WESTERN AUSTRALIAN RACING INDUSTRY?

- Stakes prizemoney funding
- Event fee payments to Racing Clubs
- Training funding to Racing Clubs and RWWA training facilities
- Jockeys and Drivers payments
- Breeders and Owners Bonus / Incentive Schemes
- Product fees, broadcast costs and other payments on behalf of Racing Clubs
- Cost of RWWA's Racing Operations groups

In the event of a privatisation of WATAB it is all of these (and any other payments made by RWWA to the WA Racing Industry not identified above) that would need to be catered for in the funding arrangements to be put in place between the wagering operator and the WA Racing Industry.

In addition, RWWA has been building cash reserves which it is understood has occurred to provide an ability to smooth distribution levels to protect against events such as those that resulted in a distribution decrease in 2009/10. There are three matters of interest in relation to these cash reserves for the WA Racing Industry in any potential privatisation of WATAB:

- These cash reserves should be retained by the WA Racing Industry
- Such reserving / smoothing will not be an element of a privatised wagering operators approach
- The potential for an entity such as Racing Western Australia to have such a reserving capability into the future

These matters need to be pursued with the WA Government in any discussions on the potential privatisation of the WATAB.

### 7.4 WA Racing Industry Positioning in a Privatisation

Throughout this Report, and particularly in Chapter 6, it has been shown that privatising / selling a TAB business is a complex matter, with many moving parts, many stakeholders, and many issues requiring close consideration and decision, to determine whether in fact privatisation should proceed, if so in what form and structure, and for what value. Many of these interrelated considerations will not just go to matters of value to be realised in a sale process but also to risk positions of the parties prior to and then subsequent to the privatisation.

In this context it is critical for the WA Racing Industry to determine with the WA Government what the Government's objectives of the privatisation of WATAB are so as to ensure the Industry's interests are protected. Without pre-empting what the WA Government's position may be, if it does seek to privatise the WATAB, its objectives one or more of the following in any potential privatisation:

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- (i) To remove Government from the ownership of its wagering business because it does not believe government ownership in the competitive industry is appropriate
- (ii) To ensure that the WA Racing Industry's interests are fully protected and that the Industry is no worse off from the transaction
- (iii) To maximise the sales proceeds with or without point (ii) as a consideration
- (iv) To privatise the WATAB because the Government believes it has reached its maximum value in terms of its potential sale value due to future revenue growth outlooks and competitive pressures
- (v) To establish licence terms and conditions and legislative frameworks that enable review points for the arrangements or lock them in long term, and provide more or less flexibility and WA Government involvement in the conduct (but not the operation) of the wagering licence than currently exists.

The WA Racing Industry will clearly look to have point (ii) above as a primary objective in any potential WATAB privatisation process if it is to occur, and so long as this is ensured and no worse off is clearly and unambiguously defined and agreed in funding and risk profile terms, the Industry should be prepared to accept the WA Government seeking its value.

In this context of value, whilst clearly a WA Government issue, it is imperative that if a sale is to occur that the medium term wagering performance outlook of WATAB/RWWA as suggested in this Report is reflected in the value. This can occur in two ways that the Racing Industry would seek to have in the process:

- Acceptance of the above market wagering performance expectation for the medium term
- No worse off definitions to incorporate this outlook into a mandated minimum guaranteed underwritten funding commitment to the WA Racing Industry for an initial period.

Whilst potential bidders will reduce their valuations for the latter point, acceptance of the former through strong justification by RWWA Management (if this is in fact the case) to potential bidders should mitigate a good degree of this risk in the valuation process.

### 7.4.1 No Worse Off

Section 6.3.3 of this Report discusses the perspective of “No Worse Off” for the WA Racing Industry if a privatisation of WATAB was to occur. It identifies the two perspectives to “no worse off” as encompassing both funding and risk profile.

The fragile calibrated financial model of the WA Racing Industry necessitates a “no worse off” funding position as being the current level of distributions, subsidies, incentive/ bonus schemes, costs of racing operations and integrity, and other payments made by RWWA to Racing Clubs and WA Racing Industry participants. Going forward, it defines “no worse off” funding to be reflected in mandated minimum payments levels over the next five years that reflect the estimated expected WA wagering industry performance in wagering turnover growth from WATAB in a no privatisation scenario. It would be anticipated that this performance could at the least be based on an expectation of continuing recent growth rates which have been around 3.5% per annum. Of course,

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this would provide a minimum mandated level of future payments, with better wagering growth performance by a privatised WATAB producing higher payments to the WA Racing Industry. This will need to be formally assessed through detailed forecasting by RWWA. After that time the WA Racing Industry would be exposed to the wagering industry performance more generally (as would occur under no privatisation), but should look to a process to review the ongoing WA Racing Industry funding model at that point so that it is based off the conditions and performance at that time.

In terms of risk profile, Section 6.3.3.2 talks to the point that the WA Racing Industry's funding risk is primarily and largely subject to WATAB's wagering performance now, but is mitigated to an extent by the RWWA Board composition requirements around Code representation, and through the Consultative Committees for each Code with RWWA (although these are more directed at racing issues than funding). Also the cash reserving now occurring within RWWA won't be a practice specifically for the WA Racing Industry by the new operator of WATAB under a privatised model.

As outlined above, the ability for these cash reserves to be maintained by the WA Racing Industry needs to be clarified (including whether the legal structure of an entity such as Racing Western Australia could undertake this).

In governance terms, a joint venture structure would position the WA Racing Industry in a situation close to but not the same as currently with WATAB/RWWA in terms of some oversight and decision-making influence of wagering operations. The funding models also suggested in this Section would add to such risk mitigation. This will need further consideration once more detail is known on the possible structures and funding models for a potential privatisation.

### 7.4.2 Other Privatisation Issues

This Report, particularly in Section 6.2, has outlined a number of the issues that need to be worked through in a potential privatisation of WATAB, and in most cases indicated that the WA Racing Industry cannot and should not establish a firm position on many of these prior to having the opportunity to discuss them with the WA Government before any possible privatisation process is formally initiated.

Some commentary however on specific areas that are relevant for the WA Racing Industry to consider if WATAB was to be privatised are:

- (i) The Wagering Licence – that it is an exclusive retail totalisator licence for pari-mutuel and fixed odds betting, with an obligation to meet WA Racing Industry funding. If it is to be a long term licence the WA Racing Industry should look for the licence to include shorter term review points to test the appropriateness of the racing industry funding model and operation of the licence – either through shorter exclusivity terms or similar trigger points. The WA Racing Industry would prefer to see a flexible and timely approval process for products and channels within the licence to obtain a wide product range that drives revenue for the wagering operator.

- (ii) The Legislative Framework – the major focuses here for the WA Racing Industry are:
- That the legislation and licence requires the wagering operator to enter into a contractual funding model with the WA Racing Industry.
  - That the legislation incorporates a no worse off (or no less favourable) requirement on any licences into the future (including this one) for the WA Racing Industry if privatisation occurs.
  - That the legislative framework is not too restrictive on the operations of the new wagering operator to ensure that returns are not inhibited
- (iii) Structure – it is too early at this stage to suggest a preferred WA Racing Industry position other than to state that a model under which the Government and not the wagering operator funds the industry must be avoided. Racing Industry ownership of the WATAB is not recommended.
- (iv) Racing Industry Funding Model – other than the requirement for the WA Racing Industry to be “no worse off” in relation to funding, the matter of the appropriate model cannot be determined at this stage. Total reliance of a profit share model is however not recommended. Many other aspects of the potential privatisation need to be understood before a view on the desired racing industry funding model can be formed.
- (v) Racing Program Agreement – other aspects such as structure and the Racing Industry Funding Model will heavily influence both how the Racing Program Agreement process is to work and the quality of the Program, but it requires an integrated Tri-Code grouping for the WA Racing Industry (which Racing Western Australia – RWWA without wagering – could bring given its existing in-house capabilities).
- (vi) Wagering Tax – this is a WA Government issue other than it reduces the amount of funding available to the WA Racing Industry, but it is important for the new wagering operator and the WA Racing Industry to get certainty around this matter longer term to lock away the appropriate racing industry funding model into the future.
- (vii) Racefield Fees – a “no worse off” position in relation to racefield fees at present is unclear but would probably involve the wagering operator offsetting payments against the WA Racing Industry funding and Racefield Fee income flowing to the WA Racing Industry. It is recommended that this offset mechanism for the new wagering operator under a potential privatisation be limited to no more than the amount of incoming Racefield Fees received by the WA Racing Industry each year.

- (viii) Other Financial Arrangements – matters such as GST reimbursements, Fractions and Premium Player Rebates will sit with the WA Government and a new wagering operator to agree if a privatisation was to occur, but outcomes would need to be considered in finalising the WA Racing Industry Funding model. It would be recommended that unclaimed dividends on racing be paid to the WA Racing Industry after the 7 months as set in legislation at present.
- (ix) On-course Wagering Arrangements – this is an area that has lacked focus by RWWA up until recently, and an area of some potential upside to all under any future models. Accordingly, this is an area, particularly for Racing Clubs, but also the entire industry, that would need to be dealt with appropriately in a potential privatisation, including consideration of the suggested improvements listed in Section 6.2.1.1.1 of this Report.

### 7.5 WA Racing Industry Governance Structure in a Privatised Model

If the wagering operations of WATAB/RWWA are privatised, the question of what happens with the governance of the WA Racing Industry is raised. A refocused RWWA, which after privatisation could now be Racing Western Australia and without wagering, could effectively continue to largely operate from a PRA perspective as it currently does. The difference would be rather than operating the WATAB and allocating the proceeds from wagering as appropriate, it receives the funds under the Racing Industry Funding Model from the privatised WATAB which it continues to allocate as it currently does and otherwise undertakes all of its non-wagering activities.

Given the history of the WA Racing Industry and its Codes, it is considered that the establishment of RWWA as a Tri-Code representative body of the Industry has worked reasonably well. Whilst Codes will have different perspectives on various matters as they seek to represent their particular constituents, the benefit of decision-making for the WA Racing Industry informed by knowledge across the three Codes seems to outweigh the perceived disadvantages. It would be expected that this would in fact improve with the greater racing industry focus the new entity would now have as its only responsibility.

This is a suggested way forward. There appears no real benefit in changing the current structures in place underneath this, although it is unclear why the Western Australian Greyhound Association necessarily needs to remain an entity established by statute and subject to the direction of the Minister. A structure similar to that of RWWA at present would seem appropriate for WAGRA – and accordingly it is also considered that the current structure of RWWA be retained (amended to exclude wagering responsibilities).

In this context and considering the challenges that the WA Racing Industry will continue to face into the future in the form of :

- competing entertainment and leisure time offers for potential punters and racegoers,
- significant investment in facilities by these competing offers,

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- the difficulty for the WA Racing Industry (other than greyhounds to an extent) to find an offer that continually entertains within a relatively short time period (eg AFL, Big Bash cricket), and
- the WA Racing Industry dependence upon a low growth wagering based funding model of TAB's and relatively low racefield fees

such an integrated Tri-Code approach seems necessary. In fact, it seems critical that the WA Racing Industry actually look at itself as a single sport rather than 3 Codes and determine how its portfolio of entertainment and wagering offers (and **all** available assets) can best be managed to attempt to better face these significant challenges with what is a fragile economic model for racing. If such an approach is adopted it would be appropriate to re-consider the skills required on the Board to ensure the necessary re-focusing is reflected in the Board composition.

### 7.6 WA Racing Industry Asset Infrastructure Efficiency / Rationalisation

This last issue is no better illustrated than in the case of the infrastructure assets currently utilised by the WA Racing Industry – not just the race tracks but also the properties owned/used by participants within the Industry.

The current very tight operational cash flow position of the WA Racing Industry clearly shows extremely limited capacity to fund infrastructure maintenance and repair, let alone development and improvement to attract people to the races. The WA Racing Industry should seek in some manner a funding mechanism for ongoing infrastructure needs in any potential privatisation of WATAB. A number of possible approaches to this requirement are discussed in Section 6.2.1.14 of this Report.

However, in seeking such a requirement, the WA Racing Industry must also take the initiative and as a total industry, rather than by Code or region, seriously look at how to better use the assets available to it. Efficiency and effectiveness of current use and possible rationalisation and/or relocation must be actively considered. It would seem imperative that such a commitment by the WA Racing Industry occurs so as to be able to constructively argue for some form of infrastructure funding support in a potential privatisation process. This would seem to be the case irrespective of whether a privatisation occurs or not given the conclusion next year of the current RIGF and R4R capital funding programs for racing industry infrastructure.

Initiatives such as the recently announced Metropolitan Racing Asset Taskforce are positive steps in this regard, as is the work Deloitte are undertaking for Perth Racing. However, to achieve the maximum benefit of all of this work, it needs to be integrated/co-ordinated. The WA Racing Industry as a whole needs to be supportive of such initiatives, but such initiatives must also ensure **all** relevant stakeholders are engaged.

Whilst this issue is outside the scope of this Report, it is a critical piece of the future sustainability of the WA Racing Industry.

### 7.7 Other Income Streams

Whilst it would appear currently outside WA Government policy and therefore difficult to contemplate being able to successfully argue, the WA Racing Industry could look to continue to push for a couple of other product/income streams within a potential privatisation process:

- Trackside – a simulated racing events product operated by Tabcorp but for which Crown Resorts (the operator of the Crown Casino at Burswood) has the Western Australian rights. This product could be approved as a wagering product and hence only be available within TAB's and on-course.
- Racinos – certain racecourses could be provided with the ability to have gaming machines extended from the Crown Casino licence, as a way of improving infrastructure use and funding, recognising that racecourses are already places of gambling and suitably regulation compliant.

Such product expansion could provide funding to the Government, the Racing Industry, the wagering operator, and potentially in the case of Racinos the community as well.

### 7.8 WA Racing Industry Engagement with the WA Government over Privatisation of WATAB

The objective for the WA Racing Industry if the privatisation of the WATAB does proceed is to be able to engage with the WA Government early in its process deliberations to work with and agree with the Government the acceptable positions on the many issues of a privatisation that have been outlined in this Report. It is recommended that the WA Racing Industry seek such engagement and interaction with the WA Government prior to any formal discussions or processes commencing with potential bidders and/or a formal sale commences.

To ensure that the WA Racing Industry's, and the WA Government's, best interests are met in the privatisation process, it is critical that the WA Government is very clear on the objectives to be achieved in the privatisation/sale for the WA Government and the WA Racing Industry, and on funding models, structures, key licencing parameters and legislative and contractual frameworks to present to potential bidders. Where relevant, these will have been agreed with the WA Racing Industry and formally documented as the basis for seeking proposal bids from potential bidders in such a potential privatisation.

The vital need for this engagement, and for formally agreed positions on the many privatisation matters raised, between the WA Government and the WA Racing Industry, lies in the potential risks of not getting the privatisation of WATAB right.

These can be reflected in some previous TAB privatisation experiences where the impacts of losing account customers has impacted racing industry funding, where inappropriate consideration to premium punter responses led to significantly overstated value expectations, and to the situations where funding arrangements and wagering tax settings have needed to be amended to ensure better racing industry funding. Early engagement and agreement on frameworks, objectives and expectations between the WA Government and the WA Racing Industry will significantly mitigate the risks of unexpected and poorly structured outcomes for all parties, including the new wagering operator of WATAB if a privatisation does proceed.

## WHAT DOES ALL OF THIS MEAN FOR THE WESTERN AUSTRALIAN RACING INDUSTRY?

In this context, the Western Australian Racing Representative Group will need to obtain a mandate from the WA Racing Industry to undertake such discussions with the WA Government, and seek a commitment from the WA Government for such engagement at the front end of a potential privatisation process. Such engagement must come with a requirement for obtaining agreement between the WA Government and the WA Racing Industry on the relevant industry issues identified in this Report for a potential WATAB privatisation.

This early engagement and agreement on positions for a WATAB privatisation between the WA Government and the WA Racing Industry is considered to be the best risk mitigation strategy for the “sellers” when dealing with experienced wagering operators, and some who have also been involved in previous privatisation processes.

It is particularly important for the WA Racing Industry to have a clear and documented commitment with the WA Government on the privatisation framework. Such a process occurred within the 2012 wagering licence bid process in Victoria, based on the no less favourable (ie, no worse off) requirements within the legislative licencing provisions surrounding the new licence.

# APPENDIX 1

## RETURN TO OWNERS – CODE COST TO RACE RATIOS

### Thoroughbreds – RTO

|                                  |             |
|----------------------------------|-------------|
| Average Annual Cost to Owners =  | \$29,284(A) |
| Average Annual Returns =         | \$11,246(B) |
| <b>Returns to Owners (RTO) =</b> | <b>38%</b>  |

#### (A) Assumptions

- Excludes purchase price of thoroughbred, GST and insurance cost components
- Westspeed eligible
- Thoroughbred commences racing at age 2yo
- Average racing life 2.5 years (4.5yo at retirement)
- Horse is in work for 8 months of season
- Horse races fortnightly (10-16 starts per season)
- Average daily training rate of \$70 (8 months = \$16 800 annual)
- Average monthly pool/track costs of \$100 (8 months = \$800 annual)
- Average daily agistment rate (non-racing) of \$22 (4 months = \$2 640)
- Average annual dentist/chiropractor/farrier/worming/supplements costs of \$2 180
- Average annual transport costs of \$2 400 (allowing provincial – Bunbury, Northam, Pinjarra return metro twice a month for 8 months)
- No major injuries and thus no major veterinary costs
- Horse completes 7 trials prior to retirement (with jockey, not apprentice riding)

### Thoroughbreds – Total Average Cost to Owner Table

| Pre-Race  | Cost (Annual)    | Cost (Total lifetime) |
|---|------------------|-----------------------|
| Agistment, Breaking, Handling, Magic Millions & Westspeed Bonus Schemes | <b>\$ 5,384*</b> | <b>\$13,460</b>       |
| <b>Racing</b>   |                  |                       |
| Training  | \$16,800         |                       |
| Agistment (non-racing)  | \$ 2,640         |                       |
| Trials  | \$ 140           |                       |
| Transport   | \$ 2,400         |                       |
| Chiro/Worm/Farrier/Dentist/Supplements/Vet (Minor treatments)           | \$ 1,120         |                       |
| Track/Pool usage  | \$ 800           |                       |
| <b>Sub-Total</b>  | <b>\$23,900</b>  | <b>\$13,460</b>       |
| <b>TOTAL</b>  | <b>\$29,284</b>  |                       |
| <b>GRAND TOTAL RACING COST</b>  |                  | <b>\$86,670**</b>     |

\*Total pre-race cost divided by racing years (2.5)

\*\*GrandTotal racing cost (annual racing cost multiplied by 2.5 earning years) plus Pre-race/One-off Total (\$23,900 X 2.5) + \$13,460

## APPENDIX 1

### (B) Inclusions for Annual Returns

- Base stakes (specific owner percentage)
- Feature stakes (specific owner percentage)
- Westspeed Bonuses (specific owner percentage)
- Club Training funds (designed to offset Club and owner usage costs and maintain upkeep of facilities to training)

| <b>Thoroughbred Distribution</b>             | <b>Return opportunity 2012/13</b> |
|--|-----------------------------------|
| Base Stakes                                  | \$35,108,957                      |
| Feature Stakes                               | \$ 5,802,291                      |
| Westspeed                                    | \$ 3,218,800                      |
| Training                                     | \$ 2,316,800                      |
| <b>TOTAL</b>                                 | <b>\$46,446,848</b>               |
| <b>Individual Starters 2012/13</b>           | <b>4,130</b>                      |
| <b>Available returns divided by starters</b> | <b>\$11,246</b>                   |

# APPENDIX 1

## Harness – RTO

|                                  |             |
|----------------------------------|-------------|
| Average Annual Cost to Owners =  | \$23,782(A) |
| Average Annual Returns =         | \$ 9,060(B) |
| <b>Returns to Owners (RTO) =</b> | <b>38%</b>  |

### (A) Assumptions

- Excludes purchase price of standardbred,, GST and insurance cost components
- No cost to owners for Westspeed nomination
- Standardbred commences racing at age 2yo
- Average racing life 6 years (8yo at retirement)
- Horse is in active work (non-stand down nor non spelling) for 9.5 months of season
- Horse is in stand down or spelling for 1.5 months of season (non-consectuively)
- Horse races weekly (15-30 starts per season)
- Average daily training rate of \$47.40 (9.5 months = \$13 300 annual) – this rate is deduced from averaging higher and lower rates (\$60s and \$35s)
- Average daily agistment rate (non-racing/stand-down) of \$22 (1.5 months = \$1 870)
- Average annual dentist/chiropractor/farrier/worming/supplements costs of \$1933
- Average annual transport costs of \$4 275 (allowing from Byford to Bunbury, Northham, Pinjarra, GP return three times a month)
- No major injuries and thus no major veterinary costs
- Horse completes average of 4 trials as unraced an average of 1 per year whilst racing (Total trials = 10)

## Harness – Total Average Cost to Owner Table

| Pre-Race                               | Cost (Annual)   | Cost (Total lifetime) |
|--|-----------------|-----------------------|
| Agistment, Breaking, Handling          | \$ 1,600 *      | \$ 9,600              |
| <b>Racing</b>                          |                 |                       |
| Training                               | \$14,000        |                       |
| Agistment (non-racing)                 | \$ 924          |                       |
| Trials                                 | \$ 250          |                       |
| Transport                              | \$ 4,275        |                       |
| Chiro/Worm/Farrier/Dentist/Supplements | \$ 1,933        |                       |
| Vet (Minor treatments)                 | \$ 800          |                       |
| <b>Sub-Total</b>                       | <b>\$22,182</b> | <b>\$ 9,600</b>       |
| <b>TOTAL</b>                           | <b>\$23,782</b> |                       |
| <b>GRAND TOTAL RACING COST</b>         |                 | <b>\$142,692**</b>    |

\*Total pre-race cost divided by racing years (6)

\*\*GrandTotal racing cost (annual racing cost multiplied by 6 earning years) plus Pre-race/One-off Total (\$22,182 X6) + \$9,850

## APPENDIX 1

### (B) Inclusions for Annual Returns

- Base stakes (specific owner percentage)
- Feature stakes (specific owner percentage)
- Westbred Bonuses (specific owner percentage)
- Club Training funds (designed to offset Club and owner usage costs and maintain upkeep of facilities to training)

| <b>Harness Distribution</b>                  | <b>Return opportunity 2012/13</b> |
|--|-----------------------------------|
| Base Stakes                                  | \$16,737,367                      |
| Feature Stakes                               | \$ 2,795,496                      |
| Westbred                                     | \$ 1,107,600                      |
| Training                                     | \$ 447,787                        |
| <b>TOTAL</b>                                 | <b>\$21,118,250</b>               |
| <b>Individual Starters 2012/13</b>           | <b>2,331</b>                      |
| <b>Available returns divided by starters</b> | <b>\$9,060</b>                    |

# APPENDIX 1

## Greyhounds – RTO

Average Annual Cost to Owners = \$5,102\* or \$6969\*\* or \$5,984(A)

Average Annual Returns =  $\frac{\$5,956 \text{ or } \$5,711 \#}{\text{(B)}}$

**Returns to Owners (RTO) = 117%\* or 85%\*\* or 95%# (99% average)**

\*Self-bred local pup

\*\*Imported pup

#Imported ready-to-run greyhound

### (A) Assumptions

- 50:50 model is adopted by majority of professional trainers (and is common nationally)
- 50:50 model represents 100% ownership costs and returns shared between trainer and owner
- Average cost for 'bred' pup = \$833 (Total litter cost as owner of bitch = \$5,000; average of 6 pups in litter; includes stud fees, DNA, insemination, travel to vet clinic, blood tests)
- Average cost of imported pup or ready to race greyhound = \$5,000
- Average rearing costs (4 months – 10 months) @ \$200 per month (\$1,200 total)
- Average pre-education/pre-training costs @ \$70 per week for 11 weeks (\$770 total)
- Interstate travel – rearing costs (\$1,200)
- Average breaking cost = \$400 (4 weeks @ \$100 per week)
- Average immunisation and microchip costs (\$115 total)
- Greyhound commences racing at age 18 months
- Average racing life 2.5 years (4yo at retirement)
- Greyhound is 'racing' weekly for approximately 5 week at a time
- Average total racing starts in lifetime = 50
- Average monthly vet/worming and flea costs of \$100 (\$1,200 annually)
- Average monthly food costs \$180 (\$2,160 annually)
- Average annual transport costs of \$1,360
- No major injuries and thus no major veterinary costs
- Greyhound completes average of 12 trials prior to retirement

# APPENDIX 1

## Greyhounds – Total Average Cost to Owner Table

| Pre-Race                         | Cost (Annual)                      | Cost (Total lifetime) or one - off                              |
|----------------------------------|------------------------------------|---|
| Imported pup purchase OR         |                                    | \$5,000 OR  |
| Self-bred pup (local bitch) OR   |                                    | \$ 833 OR   |
| Imported Ready to Race greyhound |                                    | \$5,000   |
|                                  |                                    |   |
|                                  | <b>\$3609 or \$1742 or \$2584*</b> |   |
| Rearing                          |                                    | \$1,200   |
| Breaking                         |                                    | \$ 400  |
| Pre-Education/Pre-Training       |                                    | \$ 770  |
| Immunisation/Microchip           |                                    | \$ 115  |
| Transport                        |                                    | \$1,360   |
| Registration & Naming            |                                    | \$ 77   |
| <b>Racing</b>                    |                                    |   |
| Food                             | \$2,160                            |   |
| Worm/Flea/Minor Vet              | \$1,200                            |   |
| Trials                           |                                    | \$100   |
| <b>Sub-Total</b>                 | <b>\$3,360</b>                     | <b>\$4,022</b>  |
| <b>TOTAL</b>                     | <b>\$5101 or \$6969 or \$5944#</b> | <b>\$9022 or \$4355 or \$6460#</b>                              |
| <b>GRAND TOTAL RACING COST</b>   |                                    | <b>\$17,422 or \$12,755 or \$14,860 (Average of \$15,012)**</b> |

\*Total pre-race cost divided by racing years (2.5yrs)

\*\*GrandTotal racing cost (annual racing cost multiplied by 2.5 earning years) plus Pre-race/One-off Total (\$3360 x 2.5) + \$9022 or \$4355 or \$6460

#Imported ready to race greyhound assumes only transport and trial costs as "one-off/pre-race costs"

### (B) Inclusions for Annual Returns

- Base stakes
- Feature stakes
- Westcha\$e Bonuses (excluded from returns for imported ready-to race-greyhound)
- Club Training funds (designed to offset Club and owner usage costs and maintain upkeep of facilities to training)

| Greyhound Distribution                       | Return opportunity 2012/13 |
|--|----------------------------|
| Base Stakes                                  | \$8,594,450                |
| Feature Stakes                               | \$1,274,560                |
| Westcha\$e                                   | \$ 570,750#                |
| Training                                     | \$ 447,331                 |
| <b>TOTAL</b>                                 | <b>\$10,887,061</b>        |
| <b>Individual Starters 2012/13</b>           | <b>1828</b>                |
| <b>Available returns divided by starters</b> | <b>\$5,956 or \$5,711#</b> |

#Imported Ready to Race are not eligible for Westcha\$e bonuses

## APPENDIX 2

## HORSE AND GREYHOUND TRAINING AWARD 2010



## MINIMUM WAGE RATES

EFFECTIVE FROM 1ST JULY 2014

| AGE   | 38 HOURS | SINGLE TIME | TIME & HALF | DOUBLE TIME | CASUAL | SUNDAY CASUAL |
|---|----------|-------------|-------------|-------------|--------|---------------|
| <b>STABLEHAND - COMMENCEMENT (as per award definition)</b>              |          |             |             |             |        |               |
| ADULT   | 640.90   | 16.87       | 25.31       | 33.74       | 21.09  | 42.18         |
| Aged 20   | 608.90   | 16.02       | 24.03       | 32.04       | 20.03  | 40.06         |
| Aged 19   | 512.70   | 13.49       | 20.24       | 26.98       | 16.86  | 33.72         |
| Aged 18   | 448.60   | 11.81       | 17.72       | 23.62       | 14.76  | 29.52         |
| Aged 17   | 416.60   | 10.96       | 16.44       | 21.92       | 13.70  | 27.40         |
| Aged 16   | 384.50   | 10.12       | 15.18       | 20.24       | 12.65  | 25.30         |
| Aged 15   | 352.50   | 9.28        | 13.92       | 18.56       | 11.60  | 23.20         |
| <b>STABLEHAND - GRADE 1 (as per award definition)</b>                   |          |             |             |             |        |               |
| ADULT   | 659.40   | 17.35       | 26.03       | 34.70       | 21.69  | 43.38         |
| Aged 20   | 626.40   | 16.48       | 24.72       | 32.96       | 20.60  | 41.20         |
| Aged 19   | 527.50   | 13.88       | 20.82       | 27.76       | 17.35  | 34.70         |
| Aged 18   | 461.60   | 12.15       | 18.23       | 24.30       | 15.19  | 30.38         |
| Aged 17   | 428.60   | 11.28       | 16.92       | 22.56       | 14.10  | 28.20         |
| Aged 16   | 395.60   | 10.41       | 15.62       | 20.82       | 13.01  | 26.02         |
| Aged 15   | 362.70   | 9.54        | 14.31       | 19.08       | 11.93  | 23.86         |
| <b>STABLEHAND - GRADE 2 &amp; TRACKRIDERS (as per award definition)</b> |          |             |             |             |        |               |
| ADULT   | 684.70   | 18.02       | 27.03       | 36.04       | 22.53  | 45.06         |
| Aged 20   | 650.50   | 17.12       | 25.88       | 34.24       | 21.40  | 42.80         |
| Aged 19   | 547.80   | 14.42       | 21.63       | 28.84       | 18.03  | 36.06         |
| Aged 18   | 479.30   | 12.61       | 18.92       | 25.22       | 15.76  | 31.52         |
| Aged 17   | 445.10   | 11.71       | 17.57       | 23.42       | 14.64  | 29.28         |
| Aged 16   | 410.80   | 10.81       | 16.22       | 21.62       | 13.51  | 27.02         |
| Aged 15   | 376.60   | 9.91        | 14.87       | 19.82       | 12.39  | 24.78         |
| <b>STABLE FOREMAN (as per award definition)</b>                         |          |             |             |             |        |               |
|   | 746.20   | 19.64       | 29.46       | 39.28       | 24.55  | 49.10         |
| <b>TRAINING ASSISTANT (as per award definition)</b>                     |          |             |             |             |        |               |
|   | 769.60   | 20.25       | 30.38       | 40.50       | 25.31  | 50.62         |
| <b>TRAINER (as per award definition)</b>                                |          |             |             |             |        |               |
|   | 814.20   | 21.43       | 32.15       | 42.86       | 26.79  | 53.58         |

#### 14. ALLOWANCES (Sub-Clauses extracted from the Horse & Greyhound Training Award 2010)

##### 14.1 Racecourse attendance allowance

Every employee who is required to attend a race meeting must be paid a racecourse attendance allowance calculated as follows:

- (a) \$ 23.70 attendance at a race meeting within 75 kilometres of the employee's place of employment, or \$ 23.70 plus \$ 5.58 for each 50 kilometres (or part thereof) at a race meeting held more than 75 kilometres from the employee's place of employment
- (b) \$ 10.77 meal allowance for each meal unless the employer supplies the meal.

##### 14.6 Boots, cap and vest allowance

Track riders (including people required to drive or ride horses) must be paid an allowance per week by way of subsidy of \$ 5.46 instead of riding boots, skullcaps and safety vest and each employee must provide a suitable skullcap, safety vest and riding boots as required.

Issued by the Australian Trainers' Association to its Members.

Further copies available on request. No. 6

# APPENDIX 2

## A.T.A. Recommended Training Fees

The ATA has reviewed recommended training rates as a result of new Wage Rates effective **1 July 2014** for the Horse & Greyhound Training Award 2010 (HGTA).

Members should consider reviewing their training rates as a result and adjust accordingly if required. **(Please note amounts below are per day & exclusive of GST)**

|                   |          |
|-------------------|----------|
| New South Wales   | \$123.30 |
| South Australia   | \$107.80 |
| Victoria          | \$119.75 |
| Queensland        | \$116.25 |
| Tasmania          | \$105.10 |
| Western Australia | \$112.00 |



For further information contact:  
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## A.T.A. Recommended Race Day Attendance Fees

This table of fees are a guide only to recover costs (billed to owners) associated with attendance at race meetings by stablehands, in accordance with the Horse & Greyhound Training Award 2010 (HGTA). The ATA's recommended race day attendance fees are based on 3 ordinary hours of work.

|  |       |
|--|-------|
| Race meetings Monday to Saturday             | \$115 |
| Race meetings Public Holiday, Sunday & Night | \$160 |

### Racecourse Attendance Allowance for Employees

Every employee who is required to attend a race meeting must be paid a Racecourse Attendance Allowance under the Horse & Greyhound Training Award 2010. Please see overleaf for the current rates that apply.

For example, should an employee attend a race meeting 120km from their place of employment then the employee is entitled to a Racecourse Attendance Allowance as follows:

First 75 km \$23.70 plus \$5.58 for each 50 km (or part thereof) after 75km. Therefore based on 120km of travel, the Racecourse Attendance Allowance would total \$29.28 in this example.

Please note - The Award provides that when required to attend a race meeting an employee must be paid an allowance of \$10.77 for each meal unless the employer supplies the meal.



## WAGE RATES EMPLOYEES

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## RACECOURSE ATTENDANCE ALLOWANCE

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## ATA RECOMMENDED TRAINING FEES AND RACE DAY ATTENDANCE FEES

## Effective 1 JULY 2014



# Recommended combination of Tabcorp Holdings Limited and Tatts Group Limited

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Tabcorp and Tatts to combine to create a world-class, diversified gambling entertainment group

19 October 2016

# Disclaimer

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This presentation (**Presentation**) provides information in summary form and should be read in conjunction with the announcement in relation to the proposed transaction between Tabcorp Holdings Limited (**Tabcorp**) and Tatts Group Limited (**Tatts**) (the **Transaction**) that was released today. This Presentation does not purport to contain all the information that investors may require in order to make a decision in relation to the Transaction. It contains selected information only. Further information will be contained in additional documents to be released by Tatts and/or Tabcorp.

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# Transaction benefits

## Tabcorp and Tatts to combine to create a world-class, diversified gambling entertainment group

### 1 Creates a leading, diversified portfolio of gambling entertainment businesses

- long-dated suite of licences
- well positioned to invest, innovate and compete in a rapidly evolving marketplace
- larger and more diversified earnings base, with a broad national footprint
- well positioned to pursue growth opportunities globally

### 2 Provides a wide range of benefits for stakeholders and enhances the long-term sustainability of the Australian racing industry

- at least \$50 million per annum in additional funding expected to flow to the racing industry in Australia
- provides a pathway to national pooling for pari-mutuel wagering, subject to regulatory and racing industry approvals

### 3 Significant value creation expected for both sets of shareholders

- expected to deliver at least \$130 million per annum EBITDA synergies and business improvements, net of benefits to the racing industry
- expected to be EPS accretive (before significant items) and value accretive for both Tabcorp and Tatts shareholders
- Combined Group expected to target a dividend payout ratio of 90% of NPAT before significant items and amortisation of the Victorian Wagering and Betting Licence
- Combined Group expected to undertake a share buyback of \$500 million, post implementation of the Transaction and subject to Board approval and market conditions

### 4 Greater scale and strong balance sheet position

- combined pro forma enterprise value of approximately \$11.3 billion<sup>1</sup>, revenue of over \$5 billion and EBITDA of over \$1 billion<sup>2</sup>
- balance sheet strength better facilitates growth and potential capital management opportunities – Combined Group intends to have an investment grade credit rating

### 5 Complementary businesses, delivering a winning offer for customers

- combines the best of both businesses to support investment and innovation, including best-in-class digital products
- supports an enhanced range of products and experiences across each of our channels and products

Notes:

- 1 Based on the closing share prices of Tabcorp and Tatts as at 17 October 2016, being the last trading day prior to the announcement of the Transaction and pro forma net debt of the Combined Group as at 30 June 2016
- 2 Based on reported FY 2016 revenue and EBITDA for Tabcorp and Tatts. Excludes the impact of synergies and business improvements

# Transaction summary

## Tabcorp and Tatts have entered into an Implementation Deed to combine the two companies

|   |  |
|---|--|
| <b>Structure</b>                            | <ul style="list-style-type: none"> <li>• Tatts shareholders to receive 0.80 Tabcorp shares plus 42.5 cents cash for each Tatts share held             <ul style="list-style-type: none"> <li>– Tatts intends to pay its shareholders a fully-franked special dividend of 20 cents per share (subject to the availability of franking credits) immediately prior to implementation of the Transaction in lieu of part of the cash consideration. A fully-franked dividend of 20 cents per share would have approximately 8.6 cents per share of franking credits attached<sup>1</sup></li> </ul> </li> <li>• Transaction to be implemented via a Tatts Scheme of Arrangement</li> </ul> |
| <b>Combined Group</b>                       | <ul style="list-style-type: none"> <li>• World-class, diversified gambling entertainment group</li> <li>• Combined Group pro forma enterprise value of approximately \$11.3 billion<sup>2</sup> and expected to be an ASX50 company</li> <li>• Tabcorp and Tatts shareholders will own approximately 42% and 58% of the Combined Group, respectively<sup>3</sup></li> </ul>  |
| <b>Board and management composition</b>     | <ul style="list-style-type: none"> <li>• Board will be comprised of the existing Tabcorp Directors with Paula Dwyer as Chairman</li> <li>• David Attenborough will be Managing Director and Chief Executive Officer of the Combined Group and Damien Johnston will be Chief Financial Officer</li> <li>• Tatts Chairman Harry Boon will join the Board of the Combined Group as a Non-Executive Director</li> </ul>  |
| <b>Key approvals and Transaction timing</b> | <ul style="list-style-type: none"> <li>• Obtaining competition, regulatory and other approvals</li> <li>• Tatts shareholders approving the Tatts Scheme of Arrangement</li> <li>• Obtaining Court approval for the Scheme and an independent expert concluding the Transaction is in the best interests of Tatts shareholders</li> <li>• Other conditions as set out in the Implementation Deed (appended to the Transaction announcement)</li> <li>• Completion expected mid-2017</li> </ul>  |
| <b>Board and shareholder support</b>        | <ul style="list-style-type: none"> <li>• Transaction is unanimously recommended by the Boards of Tabcorp and Tatts<sup>4</sup></li> <li>• AustralianSuper, one of Tatts' largest shareholders, has indicated that it intends to vote its Tatts shares in favour of the Transaction, in the absence of a superior proposal and subject to there being no material adverse change in circumstances</li> </ul>  |

Notes:

1 Whilst Tatts estimates the special dividend will be 20 cents per Tatts share, under the Implementation Deed Tatts is able to pay a special dividend of up to 25 cents per share (subject to the availability of franking credits)

2 Based on the closing share prices of Tabcorp and Tatts as at 17 October 2016, being the last trading day prior to the announcement of the Transaction and pro forma net debt of the Combined Group as at 30 June 2016 (including estimated transaction costs). Excludes impact of synergies and business improvements

3 Based on Tabcorp's ordinary shares outstanding of 835 million and Tatts' fully diluted shares outstanding of 1,469 million (including performance rights) as at 18 October 2016

4 In the Tatts Board's case, subject to there being no superior proposal and also to an independent expert concluding the Transaction is in the best interests of Tatts shareholders

# Overview of the Combined Group

Combination delivers scale to support future growth and an enhanced ability to invest and innovate in a highly competitive and rapidly evolving market

- Combined pro forma enterprise value of approximately \$11.3 billion and market capitalisation of \$8.6 billion<sup>1,2</sup>
- Combined pro forma FY 2016 revenue of over \$5 billion and EBITDA of over \$1 billion, before synergies and business improvements

| Pro forma Combined Group, before synergies and business improvements and any proposed share buyback | Tabcorp |  TattsGroup | Combined Group <sup>3</sup> |
|---|---------|--|-----------------------------|
| Market capitalisation <sup>1</sup> (\$ million)   | 4,084   | 5,273  | 8,644                       |
| Net debt (\$ million) <sup>2</sup> — 30 June 2016   | 870     | 1,041  | 2,626                       |
| Enterprise value (\$ million)   | 4,955   | 6,315  | 11,270                      |
| Revenue (\$ million) — FY 2016  | 2,189   | 2,928  | 5,117                       |
| EBITDA (\$ million) — FY 2016   | 516     | 495  | 1,011                       |
| EBIT (\$ million) — FY 2016   | 337     | 420  | 757                         |
| Net debt / EBITDA (x) (pre synergies and business improvements)                                     | 1.7x    | 2.1x   | 2.6x                        |
| Gross debt / EBITDA (x) (pre synergies and business improvements)                                   | 1.9x    | 2.2x   | 2.8x                        |

- Transaction costs are estimated to be approximately \$90 million

Source: Bloomberg as at 18 October 2016, Company filings

Notes:

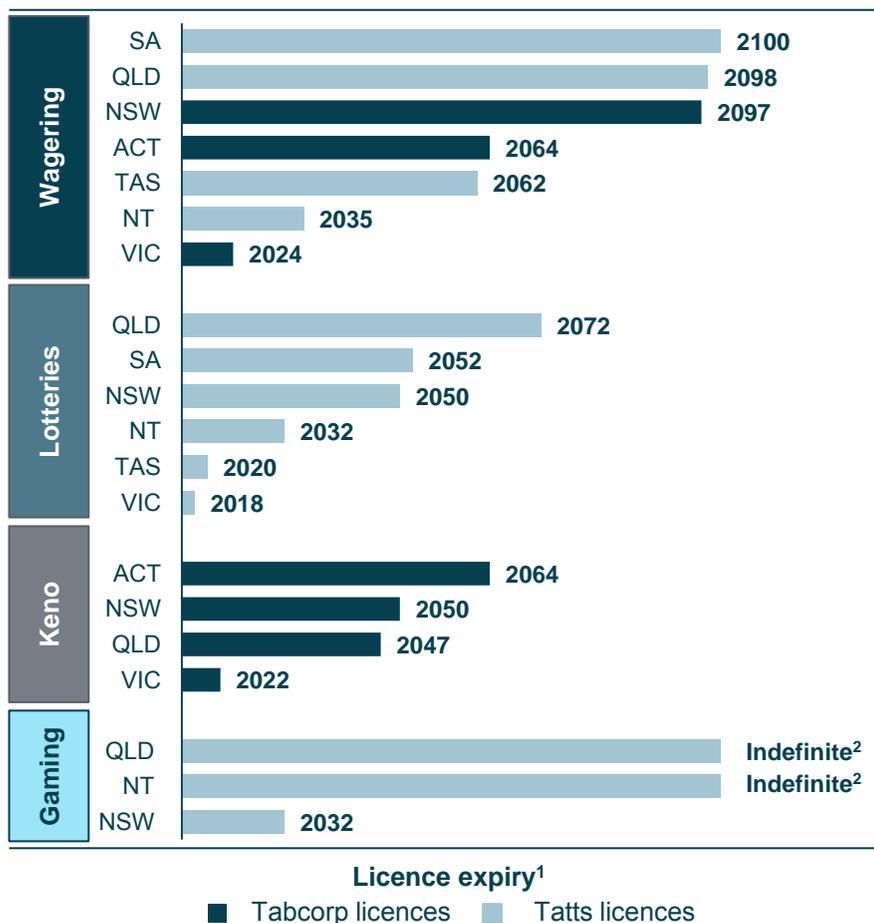
1 Based on the closing share prices of Tabcorp and Tatts as at 17 October 2016, being the last trading day prior to the announcement of the Transaction

2 Pro forma net debt of the Combined Group as at 30 June 2016 (including estimated transaction costs of \$90 million) adjusted for cash paid to Tatts shareholders under the Transaction of \$624 million based on a cash consideration component of 42.5 cents per Tatts share and Tatts' fully diluted shares outstanding of 1,469 million (including performance rights)

3 Does not account for any differences in accounting treatment, disclosure, inter-group eliminations and acquisition accounting adjustments. Presented before synergies and business improvements

# Stronger and more diversified portfolio of businesses

Combination delivers an enhanced portfolio of long-dated licences and a more diverse earnings base



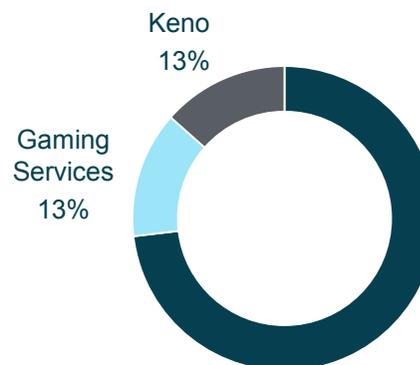
Source: Company filings

Notes:

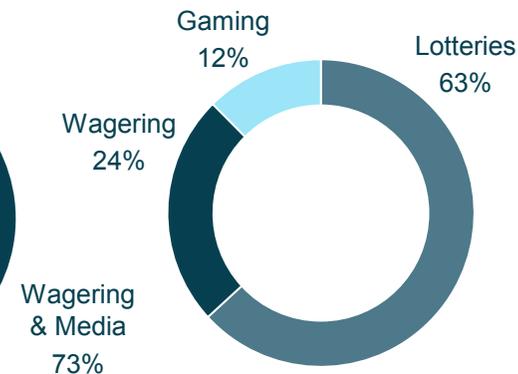
1 Tatts' NT Wagering licence expires in 2035, Tabcorp's NT Wagering licence in 2020; some licences (e.g. Tabcorp's VIC Wagering, Tatts' TAS Wagering) have renewal options post expiry; Tatts' SA Lotteries licence includes SA Keno; both Tatts and Tabcorp are accredited gaming operators in Australia

2 Indefinite rolling renewal capability

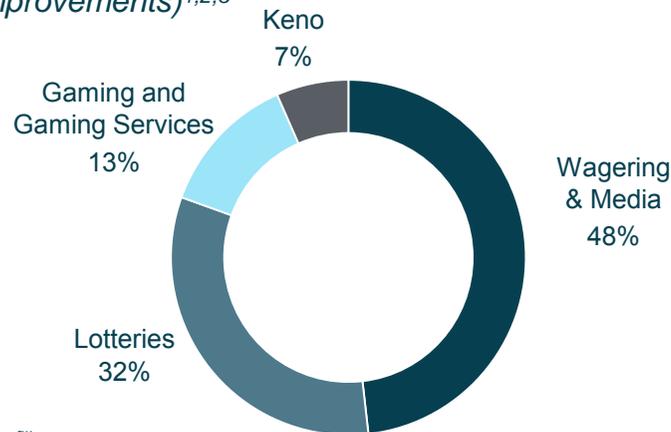
FY 2016 EBITDA—Tabcorp<sup>1,2</sup>



FY 2016 EBITDA—Tatts<sup>1,2,3</sup>



Pro forma FY 2016 EBITDA—Combined Group (before synergies and business improvements)<sup>1,2,3</sup>



Source: Company filings

Notes:

1 Figures expressed on a pre adjustment basis, as currently reported by Tatts and Tabcorp before unallocated corporate expenses, excluding discontinued operations

2 Percentages may not sum to 100% because of rounding

3 Contribution of Lotteries earnings includes Tatts' SA Keno business

# Combines two largely complementary businesses

Combines two Australian industry icons, creating a champion of gambling entertainment with a national footprint across a broad suite of leading brands and products

## The Combined Group's businesses, brands and jurisdictions

| Business                   | Key brands  | Geographic reach |     |     |     |    |     |    |    |       |
|----------------------------|---|------------------|-----|-----|-----|----|-----|----|----|-------|
|                            |   | VIC              | NSW | ACT | QLD | SA | TAS | NT | WA | Intl. |
| Wagering                   |   <br><small>BACKED BY TABCORP</small><br>  | ✓                | ✓   | ✓   | ✓   | ✓  | ✓   | ✓  |    | ✓     |
| Lotteries                  |   <br>  | ✓                | ✓   | ✓   | ✓   | ✓  | ✓   | ✓  |    |       |
| Keno                       |    | ✓                | ✓   | ✓   | ✓   | ✓  |     |    |    |       |
| Gaming and Gaming Services |  <br><small>TABCORP GAMING SOLUTIONS</small> <br><small>Limited</small>   | ✓                | ✓   | ✓   | ✓   | ✓  | ✓   | ✓  | ✓  |       |
| Media                      |    | ✓                | ✓   | ✓   | ✓   | ✓  | ✓   | ✓  | ✓  | ✓     |

Source: Company filings, company website

Note:

1 Subject to implementation of the Intecq scheme of arrangement

# Significant synergies to be generated from the combination

Expected to deliver at least \$130 million of annual EBITDA synergies and business improvements, net of benefits to the racing industry. Estimated synergies and business improvements valued at approximately \$1.4 billion<sup>1</sup>

|  |   |
|--|---|
| <b>Opex synergies</b>  | <ul style="list-style-type: none"> <li>• Technology integration and systems optimisation</li> <li>• Consolidation of wagering functions</li> <li>• Corporate cost rationalisations</li> <li>• Procurement benefits from increased scale</li> </ul>  |
| <b>Wagering performance optimisation under the TAB brand</b> | <ul style="list-style-type: none"> <li>• <b>Fixed odds yield improvement</b> <ul style="list-style-type: none"> <li>– Tabcorp intends to roll-out its leading risk management systems and processes into the UBET business</li> <li>– the larger combined Tabcorp and Tatts fixed odds book further increases the risk management capability of the Combined Group</li> <li>– fixed odds yields in the ACT improved significantly in the 12 months after Tabcorp's acquisition of ACTTAB</li> </ul> </li> <li>• <b>Wagering turnover growth</b> <ul style="list-style-type: none"> <li>– alignment of product offering between Tatts' and Tabcorp's wagering operations, including TAB products such as Cash Out and Quaddie Cash Out (subject to regulatory approval)</li> <li>– targeted investment in the UBET retail network based on TAB's market-leading multi-channel offering</li> <li>– combined digital expertise to deliver best-in-class digital products and customer experience</li> <li>– potential further benefits from the increased attractiveness of merged pools, subject to regulatory and racing industry approvals</li> </ul> </li> </ul> |
| <b>Keno performance optimisation</b>                         | <ul style="list-style-type: none"> <li>• Extend the key drivers of the Keno transformation of brand, pooling and digital to South Australia (subject to regulatory approval) <ul style="list-style-type: none"> <li>– following the introduction of similar measures in Victoria during FY 2016, Tabcorp achieved turnover growth of 18%</li> </ul> </li> </ul>   |
| <b>Capex synergies</b>                                       | <ul style="list-style-type: none"> <li>• It is expected that approximately \$10 million per annum of capex synergies (net of benefits to the racing industry) will be available to the Combined Group through the rationalisation of wagering systems development functions. These are in addition to the \$130 million annual EBITDA synergies and business improvements</li> </ul>  |
| <b>Integration</b>   | <ul style="list-style-type: none"> <li>• Integration is expected to be completed in approximately two years, subject to the receipt of regulatory approvals</li> <li>• Full run-rate of synergies and business improvements expected in the first full year post integration</li> <li>• Net one-off integration costs and capital expenditure is estimated at approximately \$110 million</li> </ul>  |

Source: Bloomberg as at 18 October 2016, Company filings

Note:

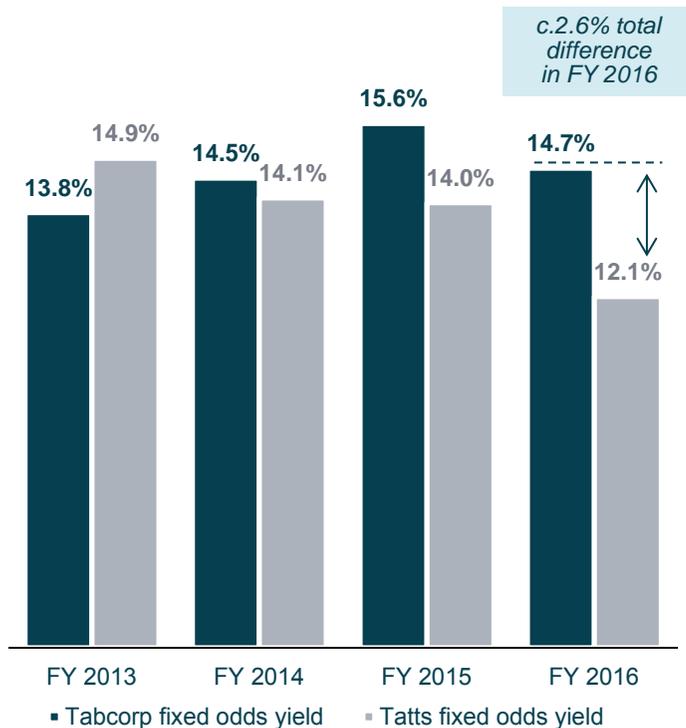
<sup>1</sup> Based on the closing share prices of Tabcorp and Tatts as at 17 October 2016, being the last trading day prior to the announcement of the Transaction and based on Bloomberg consensus FY 2017 EBITDA estimates as at 18 October 2016, implying an EV/EBITDA multiple for Tabcorp of 9.1x, Tatts of 12.4x and an implied weighted average for the Combined Group of 10.7x

# Summary of wagering performance optimisation under the TAB brand

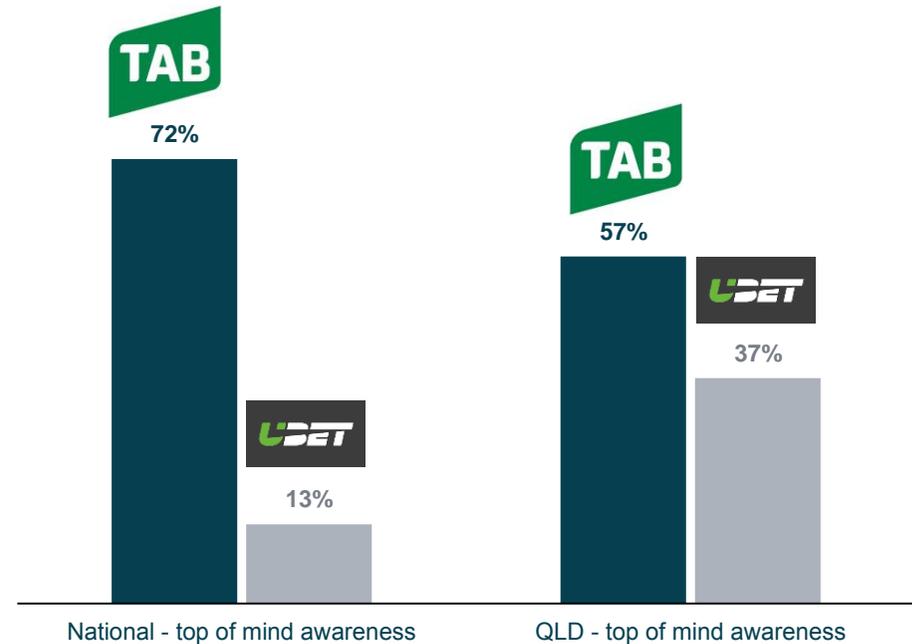
The Combined Group is expected to benefit from Tabcorp's fixed odds yield management capability and market leading TAB brand and product offering

Significant earnings are expected to be available through combining fixed odds book management

The Combined Group is expected to benefit from TAB's market leading brand and product offering



Source: Tabcorp and Tatts management



Source: Brand Health Tracking (FiftyFive5) September 2016

# Increased financial scale and balance sheet strength

Combined Group is expected to be an ASX50 listed company, with a strong balance sheet and an investment grade credit rating

- Strong balance sheet
  - increased financial scale and associated balance sheet strength provides an enhanced platform to pursue growth opportunities
- Larger and more diversified earnings base
- The Combined Group will target a gross debt to EBITDA ratio of 3.0x to 3.5x and intends to have an investment grade credit rating
- Expects to undertake a share buyback of \$500 million, post implementation of the Transaction and subject to Board approval and market conditions
- Greater relevance to equity investors
  - Combined Group expected to be one of the largest ASX-listed gambling companies, based on free float market capitalisation<sup>1</sup>
- Greater relevance to debt investors
  - improved credit profile given diversification benefits of lotteries and increased scale of wagering business

Source: Bloomberg as at 18 October 2016, Company filings

Note:

<sup>1</sup> Based on the pro forma market capitalisation for the Combined Group of \$8.6 billion and free float market capitalisations of ASX-listed gambling related businesses as at 18 October 2016

## Benefits to both sets of shareholders

### Combination to deliver significant benefits to both sets of shareholders

|  | <br>TattsGroup | <br>Tabcorp |
|--|---|--|
| Exposure to an enhanced business profile, with a more diversified portfolio of long-dated gambling licences, that is better placed to invest, innovate and compete   | ✓   | ✓  |
| EPS accretion (before significant items) and value accretion expected, benefiting from at least \$130 million of annual EBITDA synergies and business improvements, net of benefits to the racing industry | ✓   | ✓  |
| Improved ability to pursue global investment opportunities   | ✓   | ✓  |
| Improved financial position and balance sheet strength, with an intended investment grade credit rating and the capacity to undertake capital management   | ✓   | ✓  |
| \$500 million share buyback expected, post implementation of the Transaction (subject to Board approval and market conditions)   | ✓   | ✓  |
| Expected target dividend payout ratio of 90% of NPAT before significant items and amortisation of the Victorian Wagering and Betting Licence   | ✓   | ✓  |

**The Transaction implies a value of \$4.34 per Tatts share (before taking into account the value from synergies and business improvements and any potential re-rating) which represents a premium of 20.8% to the most recent closing price<sup>1</sup>, a premium of 18.4% to the 1-month VWAP<sup>2</sup> and a FY 2016 EV/EBITDA multiple of 15.0x for Tatts<sup>3</sup>**

Source: Bloomberg as at 18 October 2016, Company filings

Note:

1 Based on the closing share prices of Tabcorp and Tatts as at 17 October 2016, being the last trading day prior to the announcement of the Transaction

2 Based on the 1-month volume weighted average price of Tatts shares up to and including 17 October 2016, being the last trading day prior to the announcement of the Transaction

3 Based on Tatts' reported net debt of \$1,041 million as 30 June 2016, FY 2016 reported EBITDA of \$495 million, Tatts' fully diluted shares outstanding of 1,469 million (including performance rights) and the Tabcorp share price as at 17 October 2016, being the last trading day prior to the announcement of the Transaction

# Enhancing the sustainability of the Australian racing industry

## The combination creates a strong wagering operator, committed to enhancing the long-term sustainability of Australia's racing industry

- Tabcorp and Tatts are together the largest source of funding for the Australian racing industry, having delivered approximately \$1 billion to the racing industry in FY 2016
- The Combined Group's commitment to investment, national footprint and enhanced operational strength will create a stronger business, and provide a strong financial base to support the racing industry and the livelihood of its many participants and related industries
- The combination is expected to deliver substantial financial benefits to underpin the sustainability of the Australian racing industry
  - provides a more efficient funding model
  - the Transaction is expected to result in at least \$50 million per annum of additional funding to the racing industry, which will flow to participants and related industries across Australia
  - supports increased prize money and provides more capital for investment in racing infrastructure
  - creates broader economic benefits, including in regional areas
- The Combined Group will work to drive industry growth, investing in innovation across products and channels to improve the retail experience and deliver best-in-class digital platforms
  - national footprint offering a broader suite of market-leading products
  - better placed to invest in innovation across an expanded platform
  - provide a pathway to national pari-mutuel pooling, subject to racing industry and regulatory approvals, and an enhanced ability to adopt strategies to address the national decline in pari-mutuel betting
  - Tabcorp's track record of investment and racing industry returns delivers greater certainty of funding to the industry nationally

# Enhancing the strength of Australian business partners

---

The combination is expected to deliver material benefits to Tatts' and Tabcorp's business partners including lottery retail agents, licensed venues and TAB agencies

## Lottery retail agents (newsagents and convenience stores)

- Continue to proactively work with retail agents to grow and attract new customers
- Continued commitment to invest in product innovation, customer experience and targeted digital integration

## Licensed venues (pubs and clubs)

- Continued integration of digital experience into retail venues to allow pubs and clubs to participate in the growth of digital wagering
- Increased investment in the combined retail network and the venue-based customer experience to deliver an improved offer for licensed venue customers
- Extend the key drivers of the Keno transformation of brand, pooling and digital to South Australia

## TAB agencies

- Continued integration of digital experience into retail to allow TAB agencies to participate in the growth of digital wagering
- Continued commitment to invest in customer experience and product initiatives

# Enhancing the customer offering

---

**The Combined Group will deliver a winning offer for customers, including an increased range of products and high quality customer experiences across each channel**

- The combination is expected to significantly enhance customer experiences across each of the Combined Group's products and channels:
  - better positioned to continue to invest in retail networks and provide compelling customer experiences
  - combined business allows us to provide a broader and more innovative suite of products, as well as an enhanced ability to introduce new customer-led products and omni-channel experiences
  - combined digital expertise to deliver best-in-class digital products and user experiences across the Combined Group's digital channels
  - results in larger fixed odds books and provides a pathway to delivering deeper and more liquid betting pools, increasing the attractiveness of pari-mutuel products to customers
- The Combined Group will continue to deliver world-class customer service, building on each organisation's significant customer service expertise
- The combination of two of Australia's most respected and trusted operators will ensure a strong continued focus on and commitment to responsible gambling

## Conclusion

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The Transaction creates a world-class, diversified gambling entertainment group with a wide range of benefits to all key stakeholders

**Shareholders**



**The Australian racing industry**



**Business partners**



**Customers**



**Our people**



**Both Boards unanimously recommend the Transaction**



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Deed

EXECUTION

## Merger implementation deed

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Tabcorp Holdings Limited

Tatts Group Limited

[rodd.levy@hsf.com](mailto:rodd.levy@hsf.com)

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## Contents

**Attachment 1**  
**Scheme of arrangement**

**Attachment 2**  
**Deed poll**

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## Merger implementation deed

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Date ► 18 October 2016

Between the parties

---

**Tabcorp**                      **Tabcorp Holdings Limited ABN 66 063 780 709**  
of 5 Bowen Crescent, Melbourne, VIC 3004

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**Tatts**                              **Tatts Group Limited ABN 19 108 686 040**  
of 87 Ipswich Road, Woolloongabba, QLD 4102

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**Recitals**

- 1 Subject to the conditions in this deed, the parties have agreed to merge and, for this purpose, Tabcorp will acquire all of the ordinary shares in Tatts by means of a scheme of arrangement under Part 5.1 of the Corporations Act between Tatts and the Scheme Shareholders.
- 2 The parties have agreed to implement the scheme of arrangement on the terms of this deed.

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This deed witnesses as follows:

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For personal use only

# 1 Definitions and interpretation

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## 1.1 Definitions

The meanings of the terms used in this deed are set out below.

| <b>Term</b>         | <b>Meaning</b>   |
|---------------------|--|
| <b>ACCC</b>         | the Australian Competition and Consumer Commission.  |
| <b>AIFRS</b>        | the International Financial Reporting Standards as adopted in Australia.   |
| <b>ASIC</b>         | the Australian Securities and Investments Commission.  |
| <b>Associate</b>    | has the meaning set out in section 12 of the Corporations Act.   |
| <b>ASX</b>          | ASX Limited ABN 98 008 624 691 and, where the context requires, the financial market that it operates.   |
| <b>Business Day</b> | a day that is not a Saturday, Sunday or a public holiday or bank holiday in Melbourne.   |
| <b>CCA</b>          | the <i>Competition and Consumer Act 2010</i> (Cth).  |
| <b>Claim</b>        | <p>any claim, demand, legal proceedings or cause of action, including any claim, demand, legal proceedings or cause of action:</p> <ol style="list-style-type: none"> <li>1 based in contract (including breach of warranty);</li> <li>2 based in tort (including misrepresentation or negligence);</li> <li>3 under common law or equity; or</li> <li>4 under statute (including the Australian Consumer Law (being Schedule 2 of the CCA or Part VI of the CCA, or like provision in any state or territory legislation),</li> </ol> <p>in any way relating to this deed or the Transaction, and includes a claim, demand, legal proceedings or cause of action arising under an indemnity in this deed.</p> |



| Term  | Meaning  |
|---|--|
| <b>Competition Approval Reimbursement Fee</b> | A\$35,000,000.   |
| <b>Competing Proposal</b>                     | <p data-bbox="631 545 1268 648">in relation to a party, any proposal, agreement, arrangement or transaction (or expression of interest therefor), which, if entered into or completed, would result in a Third Party (either alone or together with any Associate):</p> <ol data-bbox="631 664 1304 1112" style="list-style-type: none"> <li data-bbox="631 664 1304 767">1 directly or indirectly acquiring a Relevant Interest in, or having a right to acquire, a legal, beneficial or economic interest in, or control of, 10% or more of the share capital of the party or any material Subsidiary of the party;</li> <li data-bbox="631 782 1289 832">2 acquiring Control of the party or any material Subsidiary of the party;</li> <li data-bbox="631 847 1292 978">3 directly or indirectly acquiring or become the holder of, or otherwise acquire or have a right to acquire, a legal, beneficial or economic interest in, or control of, all or a substantial part of the party's business or assets or the business or assets of the group consisting of the party and its subsidiaries;</li> <li data-bbox="631 993 1260 1043">4 otherwise directly or indirectly acquiring or merging with the party or a material Subsidiary of the party; or</li> <li data-bbox="631 1058 1289 1112">5 require the party to abandon, or otherwise fail to proceed with, the Transaction,</li> </ol> <p data-bbox="631 1127 1304 1310">whether by way of takeover bid, members' or creditors' scheme of arrangement, shareholder approved acquisition, capital reduction, buy-back, sale or purchase of shares, other securities or assets, assignment of assets and liabilities, incorporated or unincorporated joint venture, dual-listed company (or other synthetic merger), deed of company arrangement, any debt for equity arrangement or other transaction or arrangement.</p> <p data-bbox="631 1325 1304 1403">Each successive material modification or variation of any proposal, agreement, arrangement or transaction in relation to a Competing Proposal will constitute a new Competing Proposal.</p> |
| <b>Condition Precedent</b>                    | each of the conditions set out in clause 3.1.  |
| <b>Confidentiality Agreement</b>              | the confidentiality deed between Tabcorp and Tatts dated 14 September 2015, including the Protocols.   |
| <b>Control</b>                                | has the meaning given in section 50AA of the Corporations Act, disregarding subsection 50AA(4).  |
| <b>Corporations Act</b>                       | the <i>Corporations Act 2001</i> (Cth).  |



| Term                                   | Meaning  |
|--|--|
| <b>Corporations Regulations</b>        | the <i>Corporations Regulations 2001</i> (Cth).  |
| <b>Court</b>                           | the Supreme Court of Victoria or such other court of competent jurisdiction under the Corporations Act agreed to in writing by Tabcorp and Tatts.  |
| <b>Deed Poll</b>                       | a deed poll to be entered into by Tabcorp substantially in the form of Attachment 2 under which Tabcorp covenants in favour of the Scheme Shareholders to perform, subject to satisfaction of the Conditions Precedent, the obligations attributed to Tabcorp under the Scheme.  |
| <b>Effective</b>                       | when used in relation to the Scheme, the coming into effect, under subsection 411(10) of the Corporations Act, of the order of the Court made under paragraph 411(4)(b) of the Corporations Act in relation to the Scheme.   |
| <b>Effective Date</b>                  | the date on which the Scheme becomes Effective.  |
| <b>End Date</b>                        | 30 September 2017, which date will be extended to 31 December 2017 without any action being required on the part of either party if the Condition Precedent in clause 3.1(a)(1) has not been satisfied or waived by 30 September 2017.   |
| <b>Exclusivity Period</b>              | the period from and including the date of this deed to the earlier of: <ol style="list-style-type: none"> <li>1 the date of termination of this deed;</li> <li>2 the End Date; and</li> <li>3 the Effective Date.</li> </ol>   |
| <b>Executive Incentive Arrangement</b> | a performance right in respect of Tatts Shares or Tabcorp Shares (as applicable) issued or to be issued to an employee of the Tatts Group or Tabcorp Group (as applicable).  |
| <b>Fairly Disclosed</b>                | a reference to 'Fairly Disclosed' means disclosed to a party or any of its Related Persons, to the extent that, and in sufficient detail so as to enable, a reasonable bidder (or one of its Related Persons) experienced in transactions similar to the Transaction and experienced in a business similar to any business conducted by the disclosing party, to identify with reasonable particularity the nature and scope of the relevant matter, event or circumstance (including, in each case, that the financial effect of the relevant matter, event or circumstance was reasonably ascertainable from the information |



| Term                                  | Meaning   |
|---------------------------------------|---|
|                                       | disclosed).   |
| <b>Financial Advisor</b>              | any financial advisor retained by a party in relation to the Transaction or a Competing Proposal from time to time.   |
| <b>First Court Date</b>               | the first day on which an application made to the Court for an order under subsection 411(1) of the Corporations Act convening the Scheme Meeting is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard.  |
| <b>Government Agency</b>              | any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any State, and any other federal, state, provincial, or local government, whether foreign or Australian.   |
| <b>Implementation Date</b>            | the fifth Business Day after the Scheme Record Date, or such other date after the Scheme Record Date as the parties agree in writing.   |
| <b>Independent Expert</b>             | the independent expert in respect of the Scheme appointed by Tatts.   |
| <b>Independent Expert's Report</b>    | means the report to be issued by the Independent Expert in connection with the Scheme, such report to be included in or to accompany the Scheme Booklet, and including any subsequent, updated or supplementary report, setting out the Independent Expert's opinion whether or not the Transaction is in the best interests of Tatts Shareholders and the reasons for holding that opinion.                    |
| <b>Ineligible Foreign Shareholder</b> | a Scheme Shareholder whose address shown in the Tatts Share Register on the Scheme Record Date is a place outside Australia and its external territories or New Zealand, unless Tabcorp (acting reasonably, and after consultation with Tatts) determines that it is lawful and not unduly onerous or impracticable to issue that Scheme Shareholder with New Tabcorp Shares when the Scheme becomes Effective. |
| <b>Insolvency Event</b>               | means, in relation to an entity: <ol style="list-style-type: none"> <li>1 the entity resolving that it be wound up or a court making an order for the winding up or dissolution of the entity;</li> <li>2 a liquidator, provisional liquidator, administrator, receiver,</li> </ol>   |



| Term                           | Meaning   |
|--------------------------------|---|
|                                | <p>receiver and manager or other insolvency official being appointed to the entity or in relation to the whole, or a substantial part, of its assets;</p> <p>3 the entity executing a deed of company arrangement;</p> <p>4 the entity ceases, or threatens to cease to, carry on substantially all the business conducted by it as at the date of this deed;</p> <p>5 the entity is or becomes unable to pay its debts when they fall due within the meaning of the Corporations Act (or, if appropriate, legislation of its place of incorporation) or is otherwise presumed to be insolvent under the Corporations Act unless the entity has, or has access to, committed financial support from its parent entity such that it is able to pay its debts; or</p> <p>6 the entity being deregistered as a company or otherwise dissolved.</p>   |
| <b>Listing Rules</b>           | the official listing rules of ASX.  |
| <b>Material Adverse Change</b> | <p>means, in relation to a party, an event, change, condition, matter, circumstance or thing occurring, or an event or matter does not occur or condition is not satisfied (including, where a Third Party counterparty to a contract, licence, registration, permit or authorisation held by or to which a Tabcorp Group Member or Tatts Group Member is a party, does not provide their consent, approval or waiver as may be required having regard to the terms of the Transaction) before, on or after the date of this deed (each a <b>Specified Event</b>) which, whether individually or when aggregated with all such events, changes, conditions, matters, circumstances or things of a like kind that have occurred, has had or would be considered reasonably likely to have:</p> <p>1 the effect of a diminution in the value of the consolidated net assets of the party and its subsidiaries, taken as a whole and disregarding intangible asset write downs, by at least \$340 million in the case of Tabcorp or at least \$600 million in the case of Tatts against what it would reasonably have been expected to have been but for such Specified Event; or</p> <p>2 the effect of a diminution in the recurring consolidated earnings before interest and tax of the party and its subsidiaries, taken as a whole and disregarding abnormal and non-recurring items, by at least \$100 million per financial year for the party and its subsidiaries against what they would reasonably have been expected to have been but for such Specified Event,</p> <p>other than an event, change, condition, matter, circumstance or thing:</p> <p>3 required or expressly permitted by this deed, the Scheme or the transactions contemplated by either;</p> <p>4 that is Fairly Disclosed in the Tabcorp Disclosure Materials or the Tatts Disclosure Materials (or which ought reasonably have</p> |



| Term                      | Meaning   |
|---------------------------|---|
|                           | <p>been expected to arise from a matter, event or circumstance which was so disclosed);</p> <p>5 agreed to in writing by the other party;</p> <p>6 arising as a result of any generally applicable change in law or governmental policy (including any fee, tax, levy, charge, payment, cost, impost, deduction or withholding imposed or collected by, or payable to, any Government Agency or Racing Control Body by any participant in any industry in which either party conducts its business);</p> <p>7 arising from changes in economic or business conditions that impact on the party and its competitors in a similar manner;</p> <p>8 that was Fairly Disclosed in an announcement made by the party to ASX, or a document lodged by the party with ASIC, in the 12 month period prior to the date of this deed (or which ought reasonably have been expected to arise from a matter, event or circumstance which was so disclosed); or</p> <p>9 which has a similar or substantially similar impact on the other party.</p> |
| <b>Material Contract</b>  | <p>any agreement, contract, deed or other arrangement or instrument to which the party or one of its subsidiaries is a party that:</p> <p>1 imposes obligations or liabilities on any party or under which a party derives revenue, of at least \$25 million per annum or \$100 million over the life of the agreement, contract, deed or other arrangement or instrument; or</p> <p>2 is material in the context of the businesses of the party and its subsidiaries taken as a whole.</p>   |
| <b>Merged Entity</b>      | <p>the combination of Tabcorp and Tatts represented by Tabcorp as it will then be constituted if the Scheme becomes Effective and the transactions and actions contemplated in this deed take effect.</p>   |
| <b>New Tabcorp Share</b>  | <p>a fully paid ordinary share in Tabcorp to be issued to Scheme Shareholders under the Scheme.</p>   |
| <b>Operating Rules</b>    | <p>the official operating rules of ASX.</p>   |
| <b>Performance Right</b>  | <p>a right to be issued a Restricted Share under the Tatts Group Rights Plan.</p>   |
| <b>Permitted Dividend</b> | <p>a Permitted Ordinary Course Dividend or a Tatts Special Dividend.</p>  |



| Term                                      | Meaning  |
|---|--|
| <b>Permitted Ordinary Course Dividend</b> | a dividend permitted to be paid in accordance with clause 6.2.   |
| <b>Prescribed Occurrence</b>              | <p>means, in relation to a party, other than:</p> <ol style="list-style-type: none"> <li>1 as required or expressly permitted by this deed, the Scheme or the transactions contemplated by either;</li> <li>2 as Fairly Disclosed in the Tabcorp Disclosure Materials or the Tatts Disclosure Materials;</li> <li>3 as agreed to in writing by the other party;</li> <li>4 as Fairly Disclosed by the party in an announcement made by it to ASX, or a document lodged by it with ASIC, in the 12 month period prior to the date of this deed; or</li> <li>5 any payments, distributions or transfers solely between members of the Tatts Group in order for the Tatts Board to be able to declare and pay the Tatts Special Dividend,</li> </ol> <p>the occurrence of any of the following after the date of this deed:</p> <ol style="list-style-type: none"> <li>1 the party converting all or any of its shares into a larger or smaller number of shares;</li> <li>2 the party or one of its subsidiaries resolving to reduce its share capital in any way;</li> <li>3 the party or one of its subsidiaries: <ul style="list-style-type: none"> <li>• entering into a buy-back agreement; or</li> <li>• resolving to approve the terms of a buy-back agreement under the Corporations Act;</li> </ul> </li> <li>4 the party or one of its subsidiaries issuing shares or securities convertible into shares, or granting an option over its shares, or agreeing to make such an issue or grant such an option, other than: <ul style="list-style-type: none"> <li>• the issue of shares on the vesting of any rights presently on issue under the party's executive incentive plan; or</li> <li>• the grant of new rights to employees in the ordinary course under current Executive Incentive Arrangements, in the case of Tatts up to a total of 700,000 new rights and in the case of Tabcorp up to a total of 3,000,000 new rights, and the issue of shares upon the vesting of those rights;</li> </ul> </li> <li>5 the party or one of its subsidiaries disposing, or agreeing to dispose, of the whole, or a substantial part, of its business or property;</li> <li>6 the party or one of its subsidiaries granting a Security Interest, or agreeing to grant a Security Interest, in the whole, or a substantial part, of its business or property;</li> <li>7 an Insolvency Event occurs in relation to the party or one of its subsidiaries; or</li> <li>8 the party declaring, paying or distributing any dividend, bonus</li> </ol> |



| Term                            | Meaning   |
|---------------------------------|---|
|                                 | or other share of its profits or assets to its shareholders, other than a Permitted Dividend.   |
| <b>Protocols</b>                | the communications protocol set out in Schedule 2 of the Confidentiality Agreement.   |
| <b>Racing Control Body</b>      | <p>any club, society, association, corporation, or body of persons (whether incorporated or unincorporated), which is established or operates for the purpose of:</p> <ol style="list-style-type: none"> <li>1 conducting or controlling thoroughbred racing, harness racing or greyhound racing; or</li> <li>2 imposing, administering or collecting fees in connection with thoroughbred racing, harness racing or greyhound racing.</li> </ol> |
| <b>RG 60</b>                    | Regulatory Guide 60 issued by ASIC in September 2011.   |
| <b>Registered Address</b>       | in relation to a Tatts Shareholder, the address shown in the Tatts Share Register as at the Scheme Record Date.   |
| <b>Regulator's Draft</b>        | the draft of the Scheme Booklet in a form which is agreed to between the parties (acting reasonably) and that is provided to ASIC for approval pursuant to subsection 411(2) of the Corporations Act.   |
| <b>Regulatory Approval</b>      | an approval or consent set out in clause 3.1(a).  |
| <b>Reimbursement Fee</b>        | A\$55,000,000.  |
| <b>Related Bodies Corporate</b> | has the meaning set out in section 50 of the Corporations Act.  |
| <b>Related Person</b>           | in respect of a party or its Related Bodies Corporate, each director, officer, employee, Financial Advisor (and each director, officer, employee or contractor of that Financial Advisor), agent or representative of that party or Related Body Corporate.   |
| <b>Relevant Interest</b>        | has the meaning given in sections 608 and 609 of the Corporations Act.  |



| Term                        | Meaning   |
|-----------------------------|---|
| <b>Restricted Share</b>     | a Tatts Share which is subject to a disposal restriction, as determined by the Tatts Board under the Tatts Group Rights Plan.   |
| <b>Scheme</b>               | the scheme of arrangement under Part 5.1 of the Corporations Act between Tatts and the Scheme Shareholders, the form of which is attached as Attachment 1, subject to any alterations or conditions made or required by the Court under subsection 411(6) of the Corporations Act and agreed to in writing by Tabcorp and Tatts.  |
| <b>Scheme Booklet</b>       | <p>the scheme booklet to be prepared by Tatts in respect of the Transaction in accordance with clause 5.2(a) in a form agreed between the parties (acting reasonably) to be despatched to the Tatts Shareholders and which must include or be accompanied by:</p> <ul style="list-style-type: none"> <li>• a copy of the Scheme;</li> <li>• an explanatory statement complying with the requirements of the Corporations Act, the Corporations Regulations and RG 60;</li> <li>• the Independent Expert's Report;</li> <li>• a copy or summary of this deed;</li> <li>• a copy of the executed Deed Poll;</li> <li>• a notice of meeting; and</li> <li>• a proxy form.</li> </ul> |
| <b>Scheme Consideration</b> | the consideration to be provided by Tabcorp to each Scheme Shareholder for the transfer to Tabcorp of each Scheme Share, being for each Tatts Share held by a Scheme Shareholder as at the Scheme Record Date, an amount of 0.80 New Tabcorp Shares plus a cash sum of \$0.425, subject to adjustment in accordance with clause 6.3.  |
| <b>Scheme Meeting</b>       | the meeting of Tatts Shareholders ordered by the Court to be convened under subsection 411(1) of the Corporations Act to consider and vote on the Scheme and includes any meeting convened following any adjournment or postponement of that meeting.   |
| <b>Scheme Record Date</b>   | 5.00pm on the fifth Business Day after the Effective Date or such other time and date as the parties agree in writing.  |
| <b>Scheme Shares</b>        | all Tatts Shares held by the Scheme Shareholders as at the Scheme Record Date.  |
| <b>Scheme Shareholder</b>   | a Tatts Shareholder as at the Scheme Record Date.   |



| Term                             | Meaning   |
|----------------------------------|---|
| <b>Second Court Date</b>         | the first day on which an application made to the Court for an order under paragraph 411(4)(b) of the Corporations Act approving the Scheme is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard.  |
| <b>Security Interest</b>         | has the meaning given in section 51A of the Corporations Act.   |
| <b>Subsidiary</b>                | has the meaning given in Division 6 of Part 1.2 of the Corporations Act.  |
| <b>Superior Proposal</b>         | <p>in relation to Tatts, a <i>bona fide</i> Competing Proposal received by it from a Third Party:</p> <ol style="list-style-type: none"> <li>1 which, if entered into or completed, would result in a Third Party acquiring Control of Tatts;</li> <li>2 not resulting from a breach by Tatts of any of its obligations under clause 13 of this deed (it being understood that any actions by the Related Persons of Tatts in breach of clause 13 shall be deemed to be a breach by Tatts for the purpose hereof); and</li> </ol> <p>which the Tatts Board, acting in good faith, and after receiving written legal advice from its legal advisor and written advice from its financial advisor, determines would, if completed substantially in accordance with its terms, likely be more favourable to Tatts Shareholders (as a whole) than the Transaction, taking into account all terms and conditions and other aspects of the Competing Proposal (including any timing considerations, any conditions precedent or other matters affecting the probability of the Competing Proposal being completed).</p> |
| <b>Tabcorp Board</b>             | the board of directors of Tabcorp and a 'Tabcorp <b>Board Member</b> ' means any director of Tabcorp comprising part of the Tabcorp Board.  |
| <b>Tabcorp Constitution</b>      | the constitution, as amended from time to time, of Tabcorp.   |
| <b>Tabcorp Data Room</b>         | the online data room established by Tabcorp which is accessed at: <a href="https://services.intralinks.com/ui/flex/CIX.html?workspaceId=3682805&amp;br=4220452992&amp;defaultTab=documents">https://services.intralinks.com/ui/flex/CIX.html?workspaceId=3682805&amp;br=4220452992&amp;defaultTab=documents</a> .   |
| <b>Tabcorp Disclosure Letter</b> | a letter identified as such provided by Tabcorp to Tatts and countersigned by Tatts prior to entry into this deed.  |



| Term  | Meaning   |
|---|---|
| <b>Tabcorp Disclosure Materials</b>           | <ol style="list-style-type: none"> <li>1 the documents and information contained in the Tabcorp Data Room made available by Tabcorp to Tatts and its Related Persons prior to entry into this deed, the index of which has been initialled by, or on behalf of, the parties for identification;</li> <li>2 written responses from Tabcorp and its Related Persons to requests for further information made by Tatts and its Related Persons prior to the entry into this deed; and</li> <li>3 the Tabcorp Disclosure Letter.</li> </ol>   |
| <b>Tabcorp Group</b>                          | <p>Tabcorp and each of its Subsidiaries, and a reference to a '<b>Tabcorp Group Member</b>' or a '<b>member of the Tabcorp Group</b>' is to Tabcorp or any of its Subsidiaries.</p>   |
| <b>Tabcorp Indemnified Parties</b>            | <p>Tabcorp, its Subsidiaries and their respective directors, officers and employees.</p>  |
| <b>Tabcorp Information</b>                    | <p>information regarding the Tabcorp Group, and the Merged Entity following implementation of the Scheme, provided by Tabcorp to Tatts in writing for inclusion in the Scheme Booklet, being:</p> <ol style="list-style-type: none"> <li>1 a letter from Tabcorp's Chairman;</li> <li>2 information about Tabcorp, other Tabcorp Group Members, the businesses of the Tabcorp Group, Tabcorp's interests and dealings in Tatts Shares and Tabcorp's intentions for Tatts and Tatts' employees; and</li> <li>3 any other information required under the Corporations Act, Corporations Regulations or RG 60 to enable the Scheme Booklet to be prepared that the parties agree is 'Tabcorp Information' and that is identified in the Scheme Booklet as such.</li> </ol> |
| <b>Tabcorp Registry</b>                       | <p>Link Market Services Limited ABN 54 083 214 537 of Tower 4, Collins Square, 727 Collins Street, Melbourne, VIC, Australia 3000.</p>  |
| <b>Tabcorp Reimbursement Fee</b>              | <p>a Reimbursement Fee payable by Tabcorp in accordance with clause 14.</p>   |
| <b>Tabcorp Representations and Warranties</b> | <p>the representations and warranties of Tabcorp set out in Schedule 1.</p>   |
| <b>Tabcorp Shares</b>                         | <p>fully paid ordinary shares in the capital of Tabcorp.</p>  |



| Term                                | Meaning   |
|-------------------------------------|---|
| <b>Tatts Consolidated Tax Group</b> | the consolidated group of which Tatts is the head company (where 'consolidated group' and 'head company' have the same meaning as in the Tax Act).  |
| <b>Tatts Board</b>                  | the board of directors of Tatts and a 'Tatts <b>Board Member</b> ' means any director of Tatts comprising part of the Tatts Board.  |
| <b>Tatts Data Room</b>              | the online data room established by Tatts which is accessed at: <a href="https://dataroom.ansarada.com/nelson">https://dataroom.ansarada.com/nelson</a> .   |
| <b>Tatts Disclosure Letter</b>      | a letter identified as such provided by Tatts to Tabcorp and countersigned by Tabcorp prior to entry into this deed.  |
| <b>Tatts Disclosure Materials</b>   | <ol style="list-style-type: none"> <li>1 the documents and information contained in the Tatts Data Room made available by Tatts to Tabcorp and its Related Persons prior to entry into this deed, the index of which has been initialled by, or on behalf of, the parties for identification;</li> <li>2 written responses from Tatts and its Related Persons to requests for further information made by Tabcorp and its Related Persons prior to the entry into this deed; and</li> <li>3 the Tatts Disclosure Letter.</li> </ol> |
| <b>Tatts Group</b>                  | Tatts and each of its Subsidiaries, and a reference to a ' <b>Tatts Group Member</b> ' or a ' <b>member of the Tatts Group</b> ' is to Tatts or any of its Subsidiaries.  |
| <b>Tatts Group Rights Plan</b>      | means the Tatts Group Rights Plan adopted by Tatts Group on 26 June 2014 and the Tatts Long Term Executive Performance Plan as re-adopted by the Tatts Group on 29 September 2016.  |
| <b>Tatts Indemnified Parties</b>    | Tatts, its Subsidiaries and their respective directors, officers and employees.   |
| <b>Tatts Information</b>            | information regarding the Tatts Group prepared by Tatts for inclusion in the Scheme Booklet, which for the avoidance of doubt comprises the entirety of the Scheme Booklet but does not include the Tabcorp Information, the Independent Expert's Report, any investigating accountant's report or other report or opinion prepared by an external adviser to Tatts.  |
| <b>Tatts Registry</b>               | Computershare Investor Services Pty Limited ABN 48 078 279 277 of 117 Victoria Street, West End, QLD, Australia 4101.   |



| <b>Term</b>                                 | <b>Meaning</b>  |
|---|---|
| <b>Tatts Reimbursement Fee</b>              | a Reimbursement Fee payable by Tatts in accordance with clause 14.  |
| <b>Tatts Representations and Warranties</b> | the representations and warranties of Tatts set out in Schedule 2.  |
| <b>Tatts Share</b>                          | a fully paid ordinary share in the capital of Tatts.  |
| <b>Tatts Shareholder</b>                    | a person who is registered as the holder of a Tatts Share in the Tatts Share Register.  |
| <b>Tatts Share Register</b>                 | the register of members of Tatts maintained by the Tatts Registry in accordance with the Corporations Act.  |
| <b>Tatts Special Dividend</b>               | has the meaning given to that term in clause 6.3.   |
| <b>Tatts Special Dividend Record Date</b>   | has the meaning given to that term in clause 6.3(a).  |
| <b>Tax</b>                                  | any tax, levy, charge, impost, fee, deduction, goods and services tax, compulsory loan or withholding, stamp, transaction or registration duty or similar charge that is assessed, levied, imposed or collected by any Governmental Agency and includes any interest, fine, penalty, charge, fee or any other amount imposed on, or in respect of any of the above. |
| <b>Tax Act</b>                              | the <i>Income Tax Assessment Act 1997</i> (Cth).  |
| <b>Third Party</b>                          | a person other than Tatts, Tabcorp or their respective Related Bodies Corporate or Associates.  |
| <b>Timetable</b>                            | the indicative timetable for the implementation of the Transaction agreed between and initialled by the parties' lawyers for the purposes of identification on or about the date of this deed.  |
| <b>Transaction</b>                          | the acquisition of the Scheme Shares by Tabcorp through implementation of the Scheme in accordance with the terms of this deed.   |



## 1.2 Interpretation

In this deed:

- (a) headings and bold type are for convenience only and do not affect the interpretation of this deed;
- (b) the singular includes the plural and the plural includes the singular;
- (c) words of any gender include all genders;
- (d) other parts of speech and grammatical forms of a word or phrase defined in this deed have a corresponding meaning;
- (e) a reference to a person includes any company, partnership, joint venture, association, corporation or other body corporate and any Government Agency, as well as an individual;
- (f) a reference to a clause, party, schedule, attachment or exhibit is a reference to a clause of, and a party, schedule, attachment or exhibit to this deed;
- (g) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them (whether passed by the same or another Government Agency with legal power to do so);
- (h) a reference to a document (including this deed) includes all amendments or supplements to, or replacements or novations of, that document;
- (i) a reference to a party to a document includes that party's successors and permitted assignees;
- (j) any agreement, representation, warranty or indemnity by two or more parties (including where two or more persons are included in the same defined term) binds them jointly and severally;
- (k) any agreement, representation, warranty or indemnity in favour of two or more parties (including where two or more persons are included in the same defined term) is for the benefit of them jointly and severally;
- (l) a reference to an agreement other than this deed includes a deed and any legally enforceable undertaking, agreement, arrangement or understanding, whether or not in writing;
- (m) a reference to liquidation or insolvency includes appointment of an administrator, compromise, arrangement, merger, amalgamation, reconstruction, winding up, dissolution, deregistration, assignment for the benefit of creditors, scheme, composition or arrangement with creditors, insolvency, bankruptcy, or any similar procedure or, where applicable, changes in the constitution of any partnership or person, or death;
- (n) no provision of this deed will be construed adversely to a party because that party was responsible for the preparation of this deed or that provision;
- (o) a reference to a body (including an institute, association or authority), other than a party to this deed, whether statutory or not:
  - (1) which ceases to exist; or
  - (2) whose powers or functions are transferred to another body,
 is a reference to the body which replaces it or which substantially succeeds to its powers or functions;
- (p) a reference to '\$', 'A\$' or 'dollar' is to the lawful currency of Australia;



- (q) a reference to any time, unless otherwise indicated, is to the time in Melbourne, Australia;
- (r) if a period of time is specified and dates from a given day or the day of an act or event, it is to be calculated exclusive of that day;
- (s) a reference to a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;
- (t) if an act prescribed under this deed to be done by a party on or by a given day is done after 5.00pm on that day, it is taken to be done on the next day;
- (u) a term defined in or for the purposes of the Corporations Act, and which is not defined in clause 1.1, has the same meaning when used in this deed; and
- (v) a reference to the Listing Rules and the Operating Rules includes any variation, consolidation or replacement of these rules and is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a party.

### 1.3 Interpretation of inclusive expressions

Specifying anything in this deed after the words 'include' or 'for example' or similar expressions does not limit what else is included.

### 1.4 Business Day

Where the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the next Business Day.

### 1.5 Deed components

This deed includes any schedule.

### 1.6 Awareness

Where a representation or warranty is given so far as a party 'is aware' or with a similar qualification as to awareness or knowledge, the awareness or knowledge of a party is limited to and deemed only to comprise those facts, matters or circumstances of which that party's Chairperson, Chief Executive Officer or Managing Director, Chief Financial Officer, General Counsel or any other direct report to a party's Chief Executive Officer or Managing Director is aware or ought reasonably to be aware, as at the date of this deed.

## 2 Agreement to proceed with the Transaction

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- (a) Tatts agrees to propose the Scheme on and subject to the terms and conditions of this deed.
- (b) Tabcorp agrees to assist Tatts to propose the Scheme on and subject to the terms and conditions of this deed.
- (c) Tatts and Tabcorp agree to implement the Scheme on and subject to the terms and conditions of this deed.



## 3 Conditions Precedent and pre-implementation steps

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### 3.1 Conditions Precedent

Subject to this clause 3, the Scheme will not become Effective, and the respective obligations of the parties under clause 4 are not binding, until each of the following Conditions Precedent is satisfied or waived to the extent and in the manner set out in this clause 3.

- (a) **Regulatory Approvals:** before 5.00pm on the Business Day before the Second Court Date:
- (1) **Competition approvals:** either:
    - (A) Tabcorp has received, either unconditionally or on terms and conditions that are acceptable to both parties acting reasonably, by notice in writing from the ACCC stating, or stating to the effect, that, based on the information before it and other matters noted, the ACCC does not propose to intervene or seek to prevent the acquisition of Tatts Shares by Tabcorp and that notice has not been withdrawn, revoked or amended;
    - (B) authorisation of the acquisition of Tatts Shares by Tabcorp is granted by the Australian Competition Tribunal under Part VII of the CCA and no application has been made for judicial review of the decision of the Tribunal within the prescribed period; or
    - (C) the Federal Court of Australia declares or makes orders to the effect that the acquisition of Tatts Shares by Tabcorp will not contravene section 50 of the CCA; and
  - (2) **Other regulatory approvals:** the parties obtain the approval of, or consent from, each of the relevant counterparties to those registrations, contracts, licences, permits or authorisations listed in the document agreed by the parties on or about the date of this deed, either unconditionally or on terms and conditions that are acceptable to both parties acting reasonably (and terms and conditions that do not impose unduly onerous obligations or conditions on a party, or any director or officer of a party, and which would not materially adversely affect the business of the Merged Entity will be regarded as reasonable), in order to:
    - (A) permit the appointment of the directors to the Tatts Board under clause 7.2; and
    - (B) otherwise take all steps necessary to implement the Scheme.
- (b) **Shareholder approval:** Tatts Shareholders agree to the Scheme at the Scheme Meeting by the requisite majorities under subparagraph 411(4)(a)(ii) of the Corporations Act.
- (c) **Court approval:** the Court approves the Scheme in accordance with paragraph 411(4)(b) of the Corporations Act.
- (d) **New Tabcorp Shares:** the New Tabcorp Shares to be issued pursuant to the Scheme are approved for official quotation by ASX by 8.00 am on the Second Court Date (provided that any such approval may be subject to customary conditions).



### 3.2 Reasonable endeavours

- (a) Each party must, to the extent it is within their power to do so, use its reasonable endeavours to procure that:
- (1) the Conditions Precedent in clause 3.1 are satisfied as soon as practicable after the date of this deed; and
  - (2) there is no occurrence within its control or the control of any of its subsidiaries that would prevent any of the Conditions Precedent being or remaining satisfied.
- (b) Without limiting this clause 3.2 but subject to the Confidentiality Agreement, each party must:
- (1) promptly apply for all relevant Regulatory Approvals (as applicable) and provide to the other party a copy of all those applications;
  - (2) take all steps it is responsible for as part of the Regulatory Approval process, including responding to requests for information from the relevant Government Agencies at the earliest practicable time;
  - (3) keep the other party informed of progress in relation to each Regulatory Approval (including in relation to any material matters raised by, or conditions or other arrangements proposed by, or to, any Government Agency in relation to a Regulatory Approval) and provide the other party with all information reasonably requested in connection with the applications for, or progress of, the Regulatory Approvals;
  - (4) consult with the other party in advance in relation to the progress of obtaining, and all material communications with Government Agencies regarding any of, the Regulatory Approvals; and
  - (5) provide the other party with all assistance and information that it reasonably requests in connection with an application for a Regulatory Approval to be lodged by that other party,
- provided that:
- (6) either party may withhold or redact information or documents from the other party if and to the extent that they are either confidential to a third party, or commercially sensitive and confidential to that party or subject to legal professional privilege in favour of that party;
  - (7) neither party is required to disclose materially commercially sensitive information to the other party; and
  - (8) the party applying for a Regulatory Approval is not prevented from taking any step (including communicating with a Government Agency) in respect of a Regulatory Approval if the other party has unduly delayed responding under clause 3.2(b)(4) and has been notified of same.
- (c) Without in any way limiting the obligations of the parties as contained in clauses 3.2(a) and 3.2(b), in relation to procuring that the Condition Precedent in clause 3.1(a)(1) is satisfied as soon as practicable after the date of this deed, the parties agree as follows:
- (1) that competition approval is to be pursued by the parties as a joint exercise, and in that regard, both parties will dedicate all resources necessary to secure the approval (acting reasonably), and at all times work co-operatively and together, and in good faith; and



- (2) as soon as practicable after the date of this deed, the parties will develop and agree a written work plan (**Competition Approval Work Plan**), which document will set out the means by which the parties agree to jointly secure competition approval. Consistent with the obligation on the parties to work co-operatively, together and in good faith, if either party considers that the Competition Approval Work Plan should be amended or updated so as to reflect developments in the process of securing competition approval, the parties agree to discuss those amendments in good faith and where agreed the Competition Approval Work Plan will be amended accordingly. The Competition Approval Work Plan (as amended from time to time) will form a binding part of this deed.

### 3.3 Waiver of Conditions Precedent

- (a) The Conditions Precedent in clause 3.1 cannot be waived, unless both parties agree in writing.
- (b) Waiver of a breach or non-satisfaction in respect of one Condition Precedent does not constitute:
- (1) a waiver of breach or non-satisfaction of any other Condition Precedent resulting from the same event; or
  - (2) a waiver of breach or non-satisfaction of that Condition Precedent resulting from any other event.

### 3.4 Termination on failure of Condition Precedent

- (a) If:
- (1) there is an event or occurrence that would, or does, prevent any of the Conditions Precedent being satisfied;
  - (2) there is an event or occurrence that would, or does, prevent any of the Conditions Precedent being satisfied by the time and date specified in this deed for the satisfaction of that Condition Precedent; or
  - (3) it becomes more likely than not that the Scheme will not become Effective by the End Date,
- the parties must consult in good faith to:
- (4) consider and, if agreed, determine whether the Transaction may proceed by way of alternative means or methods;
  - (5) consider and, if agreed, change the date of the application made to the Court for an order under paragraph 411(4)(b) of the Corporations Act approving the Scheme or adjourning that application (as applicable) to another date agreed to in writing by Tabcorp and Tatts (being a date no later than 5 Business Days before the End Date); or
  - (6) consider and, if agreed, vary the relevant date provided that neither party shall be under any obligation to extend the End Date.
- (b) Subject to clauses 3.4(d), 3.4(e) and 3.4(f), if the parties are unable to reach agreement under clause 3.4(a) by the earlier of:
- (1) 5 Business Days after becoming aware of the relevant event or occurrence that would, or does, prevent a Condition Precedent being satisfied;



- (2) 5 Business Days after the time and date specified in this deed for the satisfaction of a Condition Precedent; or
- (3) the End Date,

as appropriate, then, unless that Condition Precedent has been waived in accordance with clause 3.3, either party may terminate this deed without any liability to the other party because of that termination. However, a party may not terminate this deed pursuant to this clause 3.4(b) if the relevant occurrence or event, the failure of the Condition Precedent to be satisfied, or the failure of the Scheme to become Effective, arises out of a breach of clauses 3.2 or 3.5 by that party, although in such circumstances the other party may still terminate this deed. For the avoidance of doubt, nothing in this clause 3.4(b) affects the obligation of either party to pay the Reimbursement Fee or the Competition Approval Reimbursement Fee, if it is required to do so under clause 14.

- (c) Subject to any rights or obligations arising under or pursuant to clauses that are expressed to survive termination (including by virtue of clause 15.3), on termination of this deed, no party shall have any rights against or obligations to any other party under this deed except for those rights and obligations which accrued prior to termination.
- (d) If the Condition Precedent in clause 3.1(b) is not satisfied only because of a failure to obtain the majority required by sub-subparagraph 411(4)(a)(ii)(A) of the Corporations Act, then either party may by written notice to the other within 3 Business Days after the date of the conclusion of the Scheme Meeting require the approval of the Court to be sought, pursuant to the Court's discretion in that sub-subparagraph, provided the party has, in good faith, reasonably formed the view that the prospect of the Court exercising its discretion in that way is reasonable. If approval is given, the Condition Precedent in clause 3.1(b) is deemed to be satisfied for all purposes.
- (e) If the Court refuses to make an order approving the Scheme which satisfies the Condition Precedent in clause 3.1(c), at Tabcorp's request Tatts must appeal the Court's decision to the fullest extent possible (except to the extent that the parties agree otherwise, or an independent Queen's Counsel or Senior Counsel indicates that, in his or her view, an appeal would have negligible prospects of success before the End Date). Tatts may bring an appeal even if not requested by Tabcorp.
- (f) If:
  - (1) an application is made to the Australian Competition Tribunal for the authorisation of the acquisition of Tatts Shares by Tabcorp under Part VII of the CCA;
  - (2) the Australian Competition Tribunal rejects the application before the End Date; and
  - (3) the Queen's Counsel or Senior Counsel jointly briefed by the parties has advised that, in his or her view, there is no reasonable prospect of success of an application for review or appeal in sufficient time for the Scheme to become Effective before the End Date,

then either party may terminate this deed by written notice to the other without any liability to the other party because of that termination, other than the payment by Tabcorp of the Competition Approval Reimbursement Fee if it is required to do so under clause 14.



### 3.5 Certain notices relating to Conditions Precedent

- (a) Tatts and Tabcorp (as the case may be) must promptly advise each other, orally and in writing, of satisfaction of a Condition Precedent.
- (b) If a Condition Precedent is not satisfied by the time and date specified for satisfaction of that Condition Precedent, then, unless there is no reasonable prospect that the Condition Precedent will be satisfied before the End Date, Tatts must make an application to defer the Second Court Date until such time (being not later than the Business Day before the End Date) as reasonably required to enable the relevant Condition Precedent to be satisfied.
- (c) If, before the time and date specified for satisfaction of a Condition Precedent, an event or occurrence that will prevent that Condition Precedent being satisfied occurs, the party with knowledge of that event must give the other party written notice of that event or occurrence as soon as possible.
- (d) Tatts and Tabcorp (as the case may be) must promptly advise each other, orally and in writing, of any fact, matter, change, event or circumstance causing, or which, so far as can reasonably be foreseen, would cause:
  - (1) a representation or warranty provided in this deed by the relevant party to be false or misleading in any material respect;
  - (2) a breach or non-satisfaction of any of the Conditions Precedent; or
  - (3) a material breach of this deed by the relevant party.

## 4 Transaction steps

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### 4.1 Scheme

Tatts must propose the Scheme to Tatts Shareholders.

### 4.2 Scheme Consideration

- (a) Each Scheme Shareholder is entitled to receive the Scheme Consideration in respect of each Scheme Share held by that Scheme Shareholder in accordance with the terms of this deed and the Scheme.
- (b) Subject to clause 4.2(c) and the terms of the Scheme, Tabcorp undertakes and warrants to Tatts (in its own right and separately as trustee and nominee for each of the Scheme Shareholders) that, in consideration of the transfer to Tabcorp of each Tatts Share held by a Scheme Shareholder under the terms of the Scheme, on the Implementation Date Tabcorp will:
  - (1) accept that transfer; and
  - (2) provide to each Scheme Shareholder the Scheme Consideration for each Scheme Share in accordance with the terms of this deed and the Scheme.
- (c) Where the calculation of the number of New Tabcorp Shares to be issued to a particular Scheme Shareholder would result in the Scheme Shareholder becoming entitled to a fraction of a New Tabcorp Share, then the fractional entitlement will be rounded to the nearest whole number of New Tabcorp Shares, with any such fractional entitlement of less than 0.5 being rounded down to the nearest whole number of New Tabcorp Shares, and any such



fractional entitlement of 0.5 or more being rounded up to the nearest whole number of New Tabcorp Shares.

- (d) Where the issue of a New Tabcorp Share to which a Scheme Shareholder would otherwise be entitled under the Scheme would result in a breach of law or a breach of a provision of the Tabcorp Constitution, Tabcorp will on the Implementation Date:
- (1) issue the maximum possible number of New Tabcorp Shares to the Scheme Shareholder without giving rise to a breach;
  - (2) issue the remaining New Tabcorp Shares to which the Scheme Shareholder would otherwise be entitled to a nominee appointed by Tabcorp;
  - (3) procure that, as soon as reasonably practicable and in any event not more than 5 Business Days after the Implementation Date, the nominee:
    - (A) sells on the financial market conducted by ASX all of the New Tabcorp Shares issued to the nominee under clause 4.2(d)(2) in such manner, at such price and on such other terms as the nominee determines in good faith (and at the risk of the relevant Scheme Shareholder); and
    - (B) remits to Tabcorp the proceeds of sale (after deduction of any applicable brokerage and other selling costs, taxes and charges); and
  - (4) promptly after the last sale of New Tabcorp Shares in accordance with clause 4.2(d)(3)(A), pays to each relevant Scheme Shareholder the net proceeds received by Tabcorp pursuant to clause 4.2(d)(3)(B) to which that Scheme Shareholder is entitled.

### 4.3 New Tabcorp Shares

Tabcorp covenants in favour of Tatts (in its own right and separately as trustee and nominee for each of the Scheme Shareholders) that:

- (a) the New Tabcorp Shares issued as Scheme Consideration will, on their issue, rank equally in all respects with all other Tabcorp Shares on issue at the Implementation Date;
- (b) the New Tabcorp Shares issued as Scheme Consideration will be entitled to participate in and receive any dividends or distribution of capital paid and any other entitlements accruing in respect of Tabcorp Shares after the Implementation Date;
- (c) it will use all reasonable endeavours to ensure that the New Tabcorp Shares issued as Scheme Consideration will be listed for quotation on the official list of the ASX with effect from the Business Day after the Effective Date (or such later date as ASX may require), initially on a deferred settlement basis and, with effect from the Business Day following the Implementation Date, on an ordinary (T+2) settlement basis; and
- (d) on issue, each New Tabcorp Share will be fully paid and, to the extent within the control of Tabcorp, free from any Security Interest or encumbrance.



#### 4.4 Ineligible Foreign Shareholders

- (a) Tabcorp will ensure that the New Tabcorp Shares to which an Ineligible Foreign Shareholder would otherwise have been entitled will be issued to a nominee appointed by Tabcorp.
- (b) Tabcorp will procure that, as soon as reasonably practicable and in any event not more than 15 Business Days after the Implementation Date, such nominee:
  - (1) sells on the financial market conducted by ASX all of the New Tabcorp Shares issued to the nominee pursuant to clause 4.4(a) in such manner, at such price and on such other terms as the nominee reasonably determines; and
  - (2) remits to Tabcorp the proceeds of sale (after deducting any reasonable brokerage or other selling costs, taxes and charges).
- (c) Promptly after the last sale of New Tabcorp Shares in accordance with clause 4.4(b), Tabcorp will pay to each Ineligible Foreign Shareholder the proportion of the net proceeds of sale received by Tabcorp pursuant to clause 4.4(b)(2) to which that Ineligible Foreign Shareholder is entitled.
- (d) Tabcorp must appoint the nominee on terms reasonably acceptable to Tatts at least 10 Business Days prior to the Scheme Meeting.

#### 4.5 Provision of Tatts Share information

- (a) In order to facilitate the provision of the Scheme Consideration, Tatts must provide, or procure the provision of, to Tabcorp or a nominee of Tabcorp, a complete copy of the Tatts Share Register as at the Scheme Record Date (which must include the name, Registered Address and registered holding of each Scheme Shareholder as at the Scheme Record Date), within one Business Day after the Scheme Record Date.
- (b) The details and information to be provided under clause 4.5(a) must be provided in such form as Tabcorp, its nominee or the Tabcorp Registry may reasonably require.

#### 4.6 No amendment to the Scheme without consent

Tatts must not consent to any modification of, or amendment to, or the making or imposition by the Court of any condition in respect of, the Scheme without the prior written consent of Tabcorp (such consent not to be unreasonably withheld).

#### 4.7 Excluded Tatts Shareholders

If any Tabcorp Group Member acquires any Tatts Shares after the date of this deed where permitted by the Confidentiality Agreement, then Tabcorp will notify Tatts in writing of such acquisition and the relevant Tabcorp Group Member, and thereafter that entity will not be a 'Scheme Shareholder' for the purposes of this deed and will be excluded from the operation of the Scheme.



## 5 Implementation

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### 5.1 Timetable

- (a) Subject to clause 5.1(b), the parties must use their best endeavours to:
- (1) comply with their respective obligations under this clause 5; and
  - (2) take all necessary steps and exercise all rights necessary to implement the Transaction,
- in accordance with the Timetable.
- (b) Failure by a party to meet any timeframe or deadline set out in the Timetable will not constitute a breach of clause 5.1(a) to the extent that such failure is due to circumstances and matters outside the party's control.
- (c) Each party must keep the other informed about their progress against the Timetable and notify each other if it believes that any of the dates in the Timetable are not achievable.
- (d) To the extent that any of the dates or timeframes set out in the Timetable become not achievable due to matters outside of a party's control, the parties will consult in good faith to agree any necessary extension to ensure such matters are completed within the shortest possible timeframe.

### 5.2 Tatts' obligations

Subject to any change of recommendation by the Tatts Board as permitted by clause 5.4, Tatts must take all necessary steps to implement the Scheme as soon as is reasonably practicable in accordance with the Timetable, including each of the following:

- (a) **preparation of Scheme Booklet:** prepare and despatch the Scheme Booklet in accordance with all applicable laws (including the Corporations Act and the Corporations Regulations), RG 60 and the Listing Rules;
- (b) **directors' recommendation:** include in the Scheme Booklet a statement by the Tatts Board:
- (1) unanimously recommending that Tatts Shareholders vote in favour of the Scheme in the absence of a Superior Proposal; and
  - (2) that each Tatts Board Member will (in the absence of a Superior Proposal) vote, or procure the voting of, any Tatts Shares held by or on their behalf at the time of the Scheme Meeting in favour of the Scheme at the Scheme Meeting,
- unless there has been a change of recommendation permitted by clause 5.4;
- (c) **paragraph 411(17)(b) statement:** apply to ASIC for the production of:
- (1) an indication of intent letter stating that it does not intend to appear before the Court on the First Court Date; and
  - (2) a statement under paragraph 411(17)(b) of the Corporations Act stating that ASIC has no objection to the Scheme;
- (d) **Court direction:** apply to the Court for orders pursuant to subsection 411(1) of the Corporations Act directing Tatts to convene the Scheme Meeting;
- (e) **Scheme Meeting:** convene the Scheme Meeting to seek Tatts Shareholders' agreement to the Scheme in accordance with the orders made by the Court pursuant to subsection 411(1) of the Corporations Act and must not request the



approval of the Court to change the date of the Scheme Meeting without obtaining the prior approval of Tabcorp (such approval not to be unreasonably withheld or delayed, except where there is a Competing Proposal in respect of Tatts);

- (f) **Court documents:** consult with Tabcorp in relation to the content of the documents required for the purpose of each of the Court hearings held for the purpose of subsection 411(1) and paragraph 411(4)(b) of the Corporations Act in relation to the Scheme (including originating process, affidavits, submissions and draft minutes of Court orders) and consider in good faith, for the purpose of amending drafts of those documents, comments from Tabcorp and its Related Persons on those documents;
- (g) **Court approval:** (subject to all Conditions Precedent in clause 3.1, other than the Condition Precedent in clause 3.1(c), being satisfied or waived in accordance with this deed) apply to the Court for orders approving the Scheme as agreed to by the Tatts Shareholders at the Scheme Meeting;
- (h) **Certificate:** at the hearing on the Second Court Date provide to the Court a certificate confirming whether or not the Conditions Precedent in clause 3.1 (other than the Condition Precedent in clause 3.1(c)) have been satisfied or waived in accordance with this deed. A draft of such certificate shall be provided by Tatts to Tabcorp by 4.00 pm on the date that is 3 Business Days prior to the Second Court Date;
- (i) **lodge copy of Court order:** lodge with ASIC an office copy of the Court order in accordance with subsection 411(10) of the Corporations Act approving the Scheme by no later than the Business Day after the date on which the Court order was made (or such later date as agreed in writing by Tabcorp);
- (j) **Scheme Consideration:** if the Scheme becomes Effective, finalise and close the Tatts Share Register as at the Scheme Record Date, and determine entitlements to the Scheme Consideration, in accordance with the Scheme and the Deed Poll;
- (k) **transfer and registration:** if the Scheme becomes Effective and subject to Tabcorp having issued the Scheme Consideration in accordance with the Scheme and Deed Poll:
- (1) execute, on behalf of Scheme Shareholders, instruments of transfer of Tatts Shares held by Scheme Shareholders to Tabcorp; and
  - (2) register all transfers of Tatts Shares held by Scheme Shareholders to Tabcorp on the Implementation Date;
- (l) **Merged Entity information:** prepare and promptly provide to Tabcorp any information regarding the Tatts Group that Tabcorp reasonably requires in order to prepare the information regarding the Merged Entity following implementation of the Scheme for inclusion in the Scheme Booklet;
- (m) **consultation with Tabcorp in relation to Scheme Booklet:** consult with Tabcorp as to the content and presentation of the Scheme Booklet including:
- (1) providing to Tabcorp drafts of the Scheme Booklet and the Independent Expert's Report for the purpose of enabling Tabcorp to review and comment on those draft documents;
  - (2) taking all comments made by Tabcorp into account in good faith when producing a revised draft of the Scheme Booklet;
  - (3) providing to Tabcorp a revised draft of the Scheme Booklet within a reasonable time before the Regulator's Draft is finalised and to enable



- Tabcorp to review the Regulator's Draft before the date of its submission;
- (4) obtaining written consent from Tabcorp for the form and content in which the Tabcorp Information appears in the Scheme Booklet; and
  - (5) confirming in writing to Tabcorp the accuracy of the Tatts Information in the Scheme Booklet;
- (n) **information:** provide all necessary information, and procure that the Tatts Registry provides all necessary information, in each case in a form reasonably requested by Tabcorp, about the Scheme, the Scheme Shareholders and Tatts Shareholders to Tabcorp and its Related Persons, which Tabcorp reasonably requires in order to:
- (1) understand the legal and beneficial ownership of Tatts Shares (including the results of directions by Tatts to Tatts Shareholders under Part 6C.2 of the Corporations Act);
  - (2) facilitate the provision by, or on behalf of, Tabcorp of the Scheme Consideration; or
  - (3) review the tally of proxy appointments and directions received by Tatts prior to the Scheme Meeting.
- Tatts must comply with any reasonable request of Tabcorp for Tatts to give directions to Tatts Shareholders pursuant to Part 6C.2 of the Corporations Act from time to time (at Tabcorp's expense) for one of the purposes referred to in (1) or (2) above;
- (o) **ASIC and ASX review:** keep Tabcorp informed of any matters raised by ASIC or ASX in relation to the Scheme Booklet or the Transaction, and use reasonable endeavours to take into consideration in resolving such matters any issues raised by Tabcorp;
  - (p) **representation:** procure that it is represented by counsel at the Court hearings convened for the purposes of subsection 411(1) and paragraph 411(4)(b) of the Corporations Act;
  - (q) **Independent Expert:**
    - (1) promptly appoint the Independent Expert, and any investigating accountant to be appointed in connection with the preparation of the Scheme Booklet or the Independent Expert's Report, and provide all assistance and information reasonably requested by them in connection with the preparation of the Independent Expert's Report for inclusion in the Scheme Booklet (including any updates to such report) and any other materials to be prepared by them for inclusion in the Scheme Booklet (including any updates thereto); and
    - (2) if, after the date of public release of the initial Independent Expert's Report, Tatts proposes to provide any new or additional information to the Independent Expert, provide a copy of that information to Tabcorp and consult with Tabcorp in relation to that information, including by having regard to (in good faith) all comments from Tabcorp in relation to that information;
  - (r) **assistance:** up to the Implementation Date and subject to the Confidentiality Agreement and the obligations of confidentiality owed to third parties and undertakings to Government Agencies, provide Tabcorp and its Related Persons with reasonable access during normal business hours to information and personnel of Tatts Group that Tabcorp reasonably requests for the purpose



of collation and provision of the Tabcorp Information and implementation of the Transaction;

- (s) **compliance with laws:** do everything reasonably within its power to ensure that the Transaction is effected in accordance with all applicable laws and regulations;
- (t) **listing:** subject to clause 5.2(w), not do anything to cause Tatts Shares to cease being quoted on ASX or to become permanently suspended from quotation prior to implementation of the Transaction unless Tabcorp has agreed in writing;
- (u) **update Scheme Booklet:** until the date of the Scheme Meeting and after consulting with Tabcorp, promptly update the Scheme Booklet with any information that arises after the Scheme Booklet has been despatched that is necessary to ensure that the Scheme Booklet does not contain any material statement that is false or misleading in a material respect including because of any material omission from that statement;
- (v) **promote Transaction:** subject to the Confidentiality Agreement, participate in efforts reasonably requested by Tabcorp to promote the merits of the Transaction and the Scheme Consideration, including meeting with key Tatts Shareholders or Tabcorp Shareholders at the reasonable request of Tabcorp and providing Tabcorp with such information and assistance that Tabcorp reasonably requests to enable it to promote the merits of the Transaction; and
- (w) **suspension of trading:** apply to ASX to suspend trading in Tatts Shares with effect from the close of trading on the Effective Date.

### 5.3 Tabcorp's obligations

Tabcorp must take all necessary steps to implement the Scheme as soon as is reasonably practicable in accordance with the Timetable, including doing each of the following:

- (a) **Tabcorp Information:** prepare and promptly provide to Tatts the Tabcorp Information for inclusion in the Scheme Booklet, including all information regarding the Tabcorp Group, the Merged Entity following implementation of the Scheme, and the Scheme Consideration required by all applicable laws (including the Corporations Act and the Corporations Regulations), RG 60 and the Listing Rules, and consent to the inclusion of that information (other than any information provided by Tatts to Tabcorp or obtained from Tatts' public filings on ASX regarding the Tatts Group contained in, or used in the preparation of, the information regarding the Merged Entity following implementation of the Scheme) in the Scheme Booklet;
- (b) **review of Scheme Booklet:** review the drafts of the Scheme Booklet prepared by Tatts and provide comments on those drafts in good faith;
- (c) **Independent Expert's Report:**
  - (1) provide any assistance or information reasonably requested by Tatts or by the Independent Expert in connection with the preparation of the Independent Expert's Report to be sent together with the Scheme Booklet; and
  - (2) if, after the date of public release of the initial Independent Expert's Report, Tabcorp proposes or is requested to provide any new or additional information to the Independent Expert, provide a copy of that information to Tatts; and



- (3) promptly review, consult with and provide comments (if any) on any new or additional information which Tatts proposes to provide to the Independent Expert under clause 5.2(q)(2);
- (d) **representation:** procure that it is represented by counsel at the Court hearings convened for the purposes of subsection 411(1) and paragraph 411(4)(b) of the Corporations Act;
- (e) **Deed Poll:** by no later than the Business Day prior to the First Court Date, execute and deliver to Tatts the Deed Poll;
- (f) **accuracy of Tabcorp Information:** confirm in writing to Tatts the accuracy of the Tabcorp Information in the Scheme Booklet (other than any information regarding the Tatts Group contained in, or used in the preparation of, the information regarding the Merged Entity following implementation of the Scheme), including that it does not contain any material statement that is false or misleading in a material respect, whether because of any material omission from that statement or otherwise;
- (g) **share transfer:** if the Scheme becomes Effective:
- (1) accept a transfer of the Scheme Shares as contemplated by clause 4.2(b)(1); and
  - (2) execute instruments of transfer in respect of the Scheme Shares;
- (h) **Scheme Consideration:** if the Scheme becomes Effective, provide the Scheme Consideration in the manner and amount contemplated by clause 4 and the terms of the Scheme and the Deed Poll;
- (i) **update Tabcorp Information:** until the date of the Scheme Meeting, provide to Tatts any information that arises after the Scheme Booklet has been despatched that is necessary to ensure that the Tabcorp Information contained in the Scheme Booklet does not contain any material statement that is false or misleading in a material respect including because of any material omission from that statement;
- (j) **assistance:** up to (and including) the Implementation Date and subject to the Confidentiality Agreement and the obligations of confidentiality owed to third parties and undertakings to Government Agencies, provide Tatts and its Related Persons with reasonable access during normal business hours to information and personnel of Tabcorp Group that Tatts reasonably requests for the purpose of preparation of the Scheme Booklet and implementation of the Transaction;
- (k) **Tax:** provide Tatts with such assistance and information as may reasonably be requested by Tatts for the purposes of obtaining from the Australian Taxation Office rulings in a form reasonably acceptable to both parties confirming the availability of scrip-for-scrip rollover relief in respect of the New Tabcorp Shares and that the Tatts Special Dividend can be fully franked;
- (l) **promote Transaction:** subject to the Confidentiality Agreement, participate in efforts reasonably requested by Tatts to promote the merits of the Transaction and the Scheme Consideration, including meeting with key Tatts Shareholders at the reasonable request of Tatts and providing Tatts with such information and assistance that Tatts reasonably requests to enable it to promote the merits of the Transaction; and
- (m) **compliance with laws:** do everything reasonably within its power to ensure that the Transaction is effected in accordance with all applicable laws and regulations.



#### 5.4 Tatts Board recommendation

- (a) Tatts must procure that, subject to clause 5.4(b), each member of the Tatts Board unanimously recommends that Tatts Shareholders vote in favour of the Scheme at the Scheme Meeting in the absence of a Superior Proposal and subject to the Independent Expert concluding in the Independent Expert's Report that the Scheme is in the best interests of Scheme Shareholders, and that the Scheme Booklet include a statement by the Tatts Board to that effect.
- (b) Tatts must procure that the Tatts Board collectively, and the members of the Tatts Board individually, do not change, withdraw or modify its, his or her recommendation to vote in favour of the Scheme unless:
- (1) the Independent Expert's Report concludes that the Scheme is not in the best interests of Scheme Shareholders (other than where the conclusion is due wholly or partly to the existence of a Competing Proposal); or
  - (2) Tatts has entered into a legally binding agreement to undertake or give effect to, other than as a result of a breach of clause 13, a Superior Proposal,
- and Tatts has complied with its obligations under clause 13.
- (c) For the purposes of this clause 5.4, customary qualifications and explanations contained in the Scheme Booklet in relation to a recommendation to vote in favour of the Scheme, including to the effect that:
- (1) the recommendation is made in the absence of a Superior Proposal; and
  - (2) the recommendation is made subject to the Independent Expert concluding and continuing to conclude in the Independent Expert's Report that the Transaction is in the best interests of Tatts' Shareholders,
- will not be regarded as a failure to make or a withdrawal of a recommendation in favour of the Scheme.
- (d) For the purposes of this clause 5.4, a statement to the effect that a specific alternative transaction may be pursued in the interests of Tatts Shareholders if the Scheme does not proceed will be regarded as a failure to make a recommendation to vote in favour of the Scheme and, if made subsequently, will be regarded as a modification of a recommendation to vote in favour, unless Tabcorp agrees to the making of such statement.

#### 5.5 Responsibility statements

- (a) The Scheme Booklet will contain a responsibility statement to the effect that:
- (1) Tabcorp is responsible for the Tabcorp Information (other than any information provided by Tatts to Tabcorp or obtained from Tatts' public filings on ASX regarding the Tatts Group contained in, or used in the preparation of, the information regarding the Merged Entity following implementation of the Scheme) contained in the Scheme Booklet; and
  - (2) Tatts is responsible for the Tatts Information contained in the Scheme Booklet and is also responsible for the information contained in the Scheme Booklet provided by Tatts to Tabcorp or obtained from Tatts' public filings on ASX regarding the Tatts Group contained in, or used



in the preparation of, the information regarding the Merged Entity following implementation of the Scheme.

- (b) If after 5 Business Days of consultation, Tatts and Tabcorp are unable to agree on the form or content of the Scheme Booklet:
  - (1) where the determination relates to Tabcorp Information, Tabcorp will make the final determination, acting reasonably, as to the form and content of the Tabcorp Information; and
  - (2) in any other case, the final determination as to the form and content of the Scheme Booklet will be made by Tatts, acting reasonably, provided that, if Tabcorp disagrees with such final form and content, Tatts must include a statement to that effect in the Scheme Booklet.

## 5.6 Conduct of Court proceedings

In respect of Court proceedings under Part 5.1 of the Corporations Act:

- (a) Tatts and Tabcorp are entitled to separate representation at such Court proceedings.
- (b) This deed does not give Tatts or Tabcorp any right or power to give undertakings to the Court for or on behalf of the other party without that party's written consent.
- (c) Tatts and Tabcorp must give all undertakings to the Court in such Court proceedings which are reasonably required to obtain Court approval and confirmation of the Transaction as contemplated by this deed.

## 5.7 Executive Incentive Arrangements

- (a) In accordance with the Tatts Group Rights Plan, each Performance Right on issue at the Record Date will be cancelled and replaced on the Implementation Date with a grant by Tabcorp to each Performance Right holder of:
  - (1) rights to acquire 0.80 New Tabcorp Shares per Performance Right held, on terms equivalent to the terms of issue of the Performance Right, including:
    - (A) conversion into a New Tabcorp Share on the same date that the Performance Right would have converted into a Restricted Share under the Tatts Group Rights Plan;
    - (B) each New Tabcorp Share is to be subject to a holding lock for two years from the date of issue; and
    - (C) if the holder ceases to be employed by the Merged Entity during the two year trading restriction period, the holder will be entitled to retain the relevant New Tabcorp Shares, subject to the trading restrictions continuing to apply and subject to the rules of the Tatts Group Rights Plan, plus:
  - (2) a payment of \$0.425 cash per Performance Right held (adjusted for the Tatts Special Dividend), which cash payment will be held in an escrow account which escrow will be released on the same date upon which the holding lock referred to in clause 5.7(a)(1)(B) is released. If the holder ceases to be employed by the Merged Entity during the two year restriction period, the holder will be entitled to receive the cash payment, subject to the cash being retained in an escrow account for the period of the trading restriction.



- (b) Each Restricted Share on issue at the Record Date will be acquired by Tabcorp under the Scheme in exchange for the issue by Tabcorp on the Implementation Date of 0.80 New Tabcorp Shares and payment of \$0.425 cash per Restricted Share held (adjusted for the Tatts Special Dividend), which:
- (1) in the case of New Tabcorp Shares, will be subject to a holding lock and trading restriction which will terminate on the same date as the holding lock and trading restriction as applied before the exchange; and
  - (2) in the case of the cash component, will be held in an escrow account which escrow will be released on the same date as the holding lock referred to in clause 5.7(b)(1) terminates. If a New Tabcorp Share issued under this clause 5.7(b) is forfeited in accordance with the terms upon which it is issued, then the relevant shareholder will not be entitled to receive the cash component.
- (c) The board of the Merged Entity will have the same powers as the Tatts Board under the Tatts Group Rights Plan to determine how rights and shares of departing employees will be dealt with after the Implementation Date, though the intention is that, in the absence of exceptional circumstances, employees who depart as 'good leavers' (such as a result of redundancy, termination without cause, death or total and permanent disablement) will be allowed to retain the benefit of their rights and shares, despite leaving the Merged Entity before the expiry of time related restriction periods.
- (d) The parties:
- (1) must use all reasonable endeavours to ensure that the replacement Performance Rights and Restricted Shares proposed to be issued in accordance with clauses 5.7(a) and 5.7(b) respectively, will be structured so as to be reasonably regarded as 'matching' the existing Performance Rights and Restricted Shares to satisfy the requirements of section 83A-130 of the *Income Tax Assessment Act 1997* (Cth);
  - (2) must use all reasonable endeavours to give effect to the proposed treatment of the Performance Rights and Restricted Shares as set out in this clause 5.7. Tatts must provide Tabcorp with drafts of all documentation to be used to inform holders of Performance Rights and Restricted Shares about the proposed treatment of their rights and shares (and take account of comments made by Tabcorp on such documentation); and
  - (3) acknowledge and agree that this clause 5.7 is subject to the matters set out in the Tatts Disclosure Letter.

## 6 Conduct of business and Permitted Dividends

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### 6.1 Conduct of business

- (a) Subject to clauses 6.1(b) and 6.1(c), from the date of this deed up to and including the Implementation Date, and without limiting any other obligations of either party under this deed, each party must:
- (1) conduct its businesses and operations, and must cause each of its subsidiaries to conduct its respective business and operations, in the ordinary and usual course generally consistent with the manner in



- which each such business and operations have been conducted in the 12 month period prior to the date of this deed;
- (2) subject to the Confidentiality Agreement, keep the other party informed of any material developments concerning the conduct of business;
  - (3) not enter into any line of business or other activities in which it or its subsidiaries is not engaged as of the date of this deed;
  - (4) subject to the Protocols, provide regular reports on the financial affairs of the party, including the provision of the party's monthly management accounts, in a timely manner to the other party;
  - (5) use its reasonable endeavours to procure that between (and including) the date of this deed and 8.00am on the Second Court Date:
    - (A) there is no Prescribed Occurrence in relation to the party; and
    - (B) there is no occurrence within its control or the control of any of its subsidiaries that would constitute or be likely to constitute a Material Adverse Change in relation to the party; and
  - (6) make all reasonable efforts, and procure that each of its subsidiaries makes all reasonable efforts, to:
    - (A) preserve and maintain the value of the businesses and assets of the group;
    - (B) keep available the services of the directors, officers and employees of each member of the group; and
    - (C) maintain and preserve their relationships with Government Agencies, customers, suppliers and others having business dealings with any group member.
- (b) Without limiting clause 6.1(a), each party must not, and must ensure that its subsidiaries do not:
- (1) declare, pay or distribute any dividend, bonus or other share of its profits or assets or return or agree to return any capital to its members, other than a Permitted Dividend or as between Tatts Group Members in order for the Tatts Board to be able to declare and pay a Permitted Dividend;
  - (2) make any change to its constitution;
  - (3) acquire, lease or dispose of (or agree to acquire, lease or dispose of) any securities, business, assets, interest in any joint venture, entity or undertaking, the value of which exceeds \$55,000,000 (individually or in aggregate);
  - (4) enter into any contract or commitment for operational expenditure requiring payments by the group in excess of \$50,000,000 (individually or in aggregate for the life of the relevant contract or commitment);
  - (5) incur capital expenditure from the date of this deed of an amount which exceeds by 10% the FY17 budgeted capital expenditure figure for the party (as disclosed in the Disclosure Materials) on an annualised basis;



- (6) other than as contemplated by clause 5.7, accelerate the rights of any of their employees to compensation or benefits of any kind (including under any option, performance right, incentive or share plan);
- (7) enter into or materially alter, vary or amend any employment, consultant, severance or similar agreement or arrangement with any person, including any of its officers, directors, other executives or employees whose total employment cost exceeds (or would exceed in the case of an agreement or arrangement not on foot on the date of this deed) \$750,000 (**Key Person**), or accelerating or otherwise materially increasing compensation, benefits or entitlements for any Key Person, in each case other than pursuant to entitlements in effect on the date of this deed;
- (8) enter into any enterprise bargaining agreement other than in the ordinary course of business or pursuant to contractual arrangements in effect on the date of this deed;
- (9) change any accounting policy applied to a party to report its financial position other than any change in policy required by a change in accounting standards;
- (10) do anything that would result in a change in the Tabcorp Consolidated Tax Group or the Tatts Consolidated Tax Group, as the case may be;
- (11) authorise, commit or agree to do any of the matters set out above; or
- (12) in the case of Tatts only, vary any of the retention arrangements (in terms or in scope) described in the Tatts Disclosure Letter without the prior approval of Tabcorp.
- (c) Nothing in clauses 6.1(a) or 6.1(b) restricts the ability of a party to take any action or inaction:
- (1) which is required by any applicable law (including the CCA) or Government Agency (including any undertakings required by a Government Agency);
- (2) which is required by the Confidentiality Agreement (including the Protocols);
- (3) which is required or expressly permitted by this deed or the Scheme, including for the avoidance of doubt actions to give effect to a Superior Proposal;
- (4) which has been agreed to in writing by the other party (not to be unreasonably withheld or delayed);
- (5) which is Fairly Disclosed in the Tabcorp Disclosure Materials or the Tatts Disclosure Materials as being an action that the party intends to carry out between (and including) the date of this deed and the Implementation Date;
- (6) in relation to acquiring, agreeing to acquire or offering to acquire the assets (or any entity which owns the assets) of the Western Australian TAB conducted by Racing and Wagering Western Australia; or
- (7) in relation to becoming, agreeing to become or applying or offering to become the licensee under a public lottery licence within the meaning of the *Gambling Regulation Act 2003* (Vic).
- (d) From the date of this deed until the Second Court Date, each party will promptly notify the other orally and in writing of anything of which it becomes aware that:



- (1) makes any material information publicly filed by the party (either on its own account or in respect of any other group member) to be, or reasonably likely to be, incomplete, incorrect, untrue or misleading in any material respect;
- (2) makes any of its Representations and Warranties false, inaccurate, misleading or deceptive in any material respect;
- (3) makes any information provided in the Tabcorp Disclosure Materials or the Tatts Disclosure Materials (as the case may be) incomplete, incorrect, untrue or misleading in any material respect; or
- (4) would constitute or be likely to constitute a Prescribed Occurrence or a Material Adverse Change in relation to the party.

## 6.2 Permitted Ordinary Course Dividends

- (a) After 31 December 2016 and before 1 July 2017, Tabcorp may pay a fully franked dividend in an amount not exceeding 12.5 cents per Tabcorp Share and Tatts may pay a fully franked dividend in an amount not exceeding 9.5 cents per Tatts Share, in each case prior to the Implementation Date.
- (b) After 1 July 2017 and before 31 December 2017, Tabcorp may pay an additional fully franked dividend in an amount not exceeding 12.5 cents per Tabcorp Share and Tatts may pay an additional fully franked dividend in an amount not exceeding 8 cents per Tatts Share, in each case prior to the Implementation Date.
- (c) If the Scheme has not become Effective by the End Date, each party may pay a dividend to its shareholders in the ordinary course and consistent with past practice (including as to franking).
- (d) On the date of this deed, each party will suspend the operation of its dividend reinvestment plan.

## 6.3 Tatts Special Dividend

- (a) Subject to:
  - (1) the Scheme becoming Effective; and
  - (2) Tatts complying with the requirements of section 254T of the Corporations Act,

Tatts may declare and pay a cash dividend of up to \$0.25 per Tatts Share (**Tatts Special Dividend**) to all Tatts Shareholders on the Tatts Share Register on the record date for the Special Dividend (**Tatts Special Dividend Record Date**).
- (b) The Tatts Special Dividend may be fully franked, provided that the Tatts franking account does not fall into deficit upon payment of the Tatts Special Dividend (or would fall into deficit if any claimed tax refund was received).
- (c) The Tatts Special Dividend Record Date must occur before the Scheme Record Date and otherwise on a date agreed between the parties.
- (d) The cash component of the Scheme Consideration will be reduced by the cash amount of the Tatts Special Dividend.



## 7 Profile of Merged Entity

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### 7.1 Tabcorp board composition

The Board of the Merged Entity will comprise those individuals who are directors of Tabcorp as at the Implementation Date and, in addition, Tabcorp will invite and, if such invitation is accepted, appoint the Chairman of Tatts as at the date of this deed to join the Board as a non-executive director of the Merged Entity on the Implementation Date.

### 7.2 Tatts board composition

Tatts must, as soon as practicable on the Implementation Date after the Scheme Consideration has been despatched to Scheme Shareholders:

- (a) take all actions necessary to cause the Tatts Board to be reconstituted so that it consists entirely of directors nominated by Tabcorp; and
- (b) procure that, to the extent required, all other directors on the Tatts Board resign and release Tatts from any claims they may have against Tatts (except for accrued but unpaid entitlements).

### 7.3 Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer of the Merged Entity will be the individuals holding those positions at Tabcorp as at the date of this deed or such other individuals that the Tabcorp Board may nominate to fulfil those positions.

### 7.4 Senior management

Other senior management of the Merged Entity will be determined by the board of the Merged Entity as soon as practicable after the Implementation Date.

## 8 Integration Planning

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### 8.1 Pre-Implementation Date Integration planning

- (a) The parties' respective managing directors will agree a date to commence working together and planning for the merger and integration of Tabcorp and Tatts from the Implementation Date.
- (b) After the date referred to in paragraph (a) above, the parties' respective managing directors may establish an integration committee consisting of members of the management teams of each of Tabcorp and Tatts and such other persons as the managing directors of each party agree from time to time.
- (c) The role of the committee (if established) is to act as a forum for the consideration and planning of the integration of the merged Tabcorp and Tatts businesses and will have such other objectives as the parties' respective managing directors may agree.
- (d) Subject to the other provisions of this deed, nothing in this clause 8.1 requires any party to act at the direction of the other or imposes any obligation on any party to conduct their respective businesses in accordance with any direction or representation made by the other and the parties acknowledge that their



obligations under this clause 8 shall be subject to the Confidentiality Agreement, the CCA and all applicable laws or requirements of any Government Agency. The parties agree that nothing in this deed constitutes the relationship of a partnership or joint venture between the parties.

## 8.2 Integration Due Diligence

- (a) Prior to the date of this deed, each party conducted high level due diligence enquiries regarding the business and financial position of the other. This was on the basis that, after execution of this deed, further due diligence enquiries would be facilitated.
- (b) Accordingly, subject to clause 8.2(c) between (and including) the date of this deed and the Effective Date, each party must make available to the other and its advisers:
- (1) all information reasonably requested by the other party (subject to clause 8.2(c)(3));
  - (2) such senior executives of the other party as reasonably requested by the other at mutually convenient times; and
  - (3) afford reasonable co-operation,
- for the purpose of:
- (4) implementation of the Scheme;
  - (5) each party obtaining an understanding of the operations of the other party's business, financial position, prospects and affairs in order to facilitate the integration of the parties' businesses following implementation of the Scheme; or
  - (6) any other purpose agreed between the parties.
- (c) In carrying out these investigations:
- (1) each party must focus on material issues, having regard to management commitments and the impact of such requests on each party's business;
  - (2) nothing in this clause will require a party to provide information concerning its directors' and management's consideration of the Scheme or a Competing Proposal;
  - (3) information need not be provided if that would result in unreasonable disruptions to the party's business, is commercially sensitive, is subject to an existing confidentiality obligation to a Third Party, would require a party to make further disclosures to any other entity or to a Government Agency or require a party to make any disclosure that would compromise legal privilege; and
  - (4) the parties acknowledge that their investigations and obligations under this clause 8.2 shall be subject to the Confidentiality Agreement, the CCA and all applicable laws or requirements of any Government Agency.

## 8.3 Change of control provisions

- (a) As soon as practicable after the date of this deed, each party must identify any change of control or unilateral termination rights in Material Contracts to which



that party or a Related Body Corporate is party which may be triggered by or exercised in response to the implementation of the Transaction.

- (b) In respect of those Material Contracts to which a Tatts Group Member is a party:
- (1) The parties will agree a proposed course of action (which, among other things, will have due regard to applicable legal restrictions) and then Tatts will initiate contact, including joint discussions if required, with the relevant landlords and counterparties and request that they provide any consents or confirmations required or appropriate. Tabcorp must not contact any landlords or counterparties without Tatts present or without Tatts' prior written consent.
  - (2) Tatts must take all reasonable action necessary to obtain such consents or confirmations in accordance with the Timetable, including by promptly providing any information reasonably required by counterparties.
  - (3) Tabcorp must cooperate with, and provide all reasonable assistance to, Tatts to obtain such consents or confirmations in accordance with the Timetable, including by promptly providing any information reasonably required by counterparties.

## 9 Representations and warranties

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### 9.1 Tabcorp's representations and warranties

Tabcorp represents and warrants to Tatts (in its own right and separately as trustee or nominee for each of the other Tatts Indemnified Parties) each of the Tabcorp Representations and Warranties.

### 9.2 Tabcorp's indemnity

Tabcorp agrees with Tatts (in its own right and separately as trustee or nominee for each of the other Tatts Indemnified Parties) to indemnify Tatts and each of the Tatts Indemnified Parties against any claim, action, damage, loss, liability, cost, expense or payment of whatever nature and however arising that Tatts or any of the other Tatts Indemnified Parties suffers, incurs or is liable for arising out of any breach of any of the Tabcorp Representations and Warranties.

### 9.3 Qualifications on Tabcorp's representations, warranties and indemnities

The Tabcorp Representations and Warranties in clause 9.1 and the indemnity in clause 9.2, are each subject to matters that have been Fairly Disclosed in:

- (a) the Tabcorp Disclosure Materials; and
- (b) Tabcorp's announcements to ASX, or a document lodged with ASIC, in the 12 month period prior to the date of this deed.



#### 9.4 Tatts' representations and warranties

Tatts represents and warrants to Tabcorp (in its own right and separately as trustee or nominee for each of the other Tabcorp Indemnified Parties) each of the Tatts Representations and Warranties.

#### 9.5 Tatts' indemnity

Tatts agrees with Tabcorp (in its own right and separately as trustee or nominee for each Tabcorp Indemnified Party) to indemnify Tabcorp and each of the Tabcorp Indemnified Parties from any claim, action, damage, loss, liability, cost, expense or payment of whatever nature and however arising that Tabcorp or any of the other Tabcorp Indemnified Parties suffers, incurs or is liable for arising out of any breach of any of the Tatts Representations and Warranties.

#### 9.6 Qualifications on Tatts' representations, warranties and indemnities

The Tatts Representations and Warranties in clause 9.4 and the indemnity in clause 9.5, are each subject to matters that have been Fairly Disclosed in:

- (a) the Tatts Disclosure Materials; and
- (b) Tatts' announcements to ASX, or a document lodged with ASIC, in the 12 month period prior to the date of this deed.

#### 9.7 Survival of representations and warranties

Each representation and warranty in clauses 9.1 and 9.4:

- (a) is severable;
- (b) survives the termination of this deed; and
- (c) is given with the intention that liability under it is not confined to breaches that are discovered before the date of termination of this deed.

#### 9.8 Survival of indemnities

Each indemnity in this deed (including those in clauses 9.2 and 9.5):

- (a) is severable;
- (b) is a continuing obligation;
- (c) constitutes a separate and independent obligation of the party giving the indemnity from any other obligations of that party under this deed; and
- (d) survives the termination of this deed.

#### 9.9 Timing of representations and warranties

Each representation and warranty made or given under clauses 9.1 or 9.4 is given:

- (a) at the date of this deed;
- (b) at the date the Scheme Booklet is dispatched to Tatts Shareholders; and
- (c) at 8.00am on the Second Court Date,

unless that representation or warranty is expressed to be given at a particular time, in which case it is given at that time.



### 9.10 No representation or reliance

- (a) Each party acknowledges that no party (nor any person acting on its behalf) has made any representation or other inducement to it to enter into this deed, except for representations or inducements expressly set out in this deed and (to the maximum extent permitted by law) all other representations, warranties and conditions implied by statute or otherwise in relation to any matter relating to this deed, the circumstances surrounding the parties' entry into it and the transactions contemplated by it are expressly excluded.
- (b) Each party acknowledges and confirms that it does not enter into this deed in reliance on any representation or other inducement by or on behalf of any other party, except for any representation or inducement expressly set out in this deed.

## 10 Releases

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### 10.1 Tatts and Tatts directors and officers

- (a) Tabcorp releases its rights, and agrees with Tatts that it will not make a claim, and after the Implementation Date will procure that a Tatts Group Member does not make a claim, against any Tatts Indemnified Party (other than Tatts and its Related Bodies Corporate) as at the date of this deed and from time to time in connection with:
  - (1) any breach of any representations and warranties of Tatts or any other member of the Tatts Group in this deed; or
  - (2) any disclosures containing any statement which is false or misleading whether in content or by omission,

whether current or future, known or unknown, arising at common law, in equity, under statute or otherwise, except where the Tatts Indemnified Party has not acted in good faith or has engaged in wilful misconduct or fraud. For the avoidance of doubt, nothing in this clause 10.1(a) limits Tabcorp's rights to terminate this deed under clause 15.2(a).
- (b) This clause is subject to any Corporations Act restriction and will be read down accordingly.
- (c) Tatts receives and holds the benefit of this clause to the extent it relates to each Tatts Indemnified Party as trustee for each of them.

### 10.2 Tabcorp and Tabcorp directors and officers

- (a) Tatts releases its rights, and agrees with Tabcorp that it will not make a claim, against any Tabcorp Indemnified Party (other than Tabcorp and its Related Bodies Corporate) as at the date of this deed and from time to time in connection with:
  - (1) any breach of any representations and warranties of Tabcorp or any other member of the Tabcorp Group in this deed; or
  - (2) any disclosure containing any statement which is false or misleading whether in content or by omission,



whether current or future, known or unknown, arising at common law, in equity, under statute or otherwise, except where the Tabcorp Indemnified Party has not acted in good faith or has engaged in wilful misconduct or fraud. For the avoidance of doubt, nothing in this clause 10.2(a) limits Tatts' rights to terminate this deed under clause 15.2(b).

- (b) This clause is subject to any Corporations Act restriction and will be read down accordingly.
- (c) Tabcorp receives and holds the benefit of this clause to the extent it relates to each Tabcorp Indemnified Party as trustee for each of them.

### 10.3 Deeds of indemnity and insurance

- (a) Subject to the Scheme becoming Effective and the Transaction completing, Tabcorp undertakes in favour of Tatts and each other person who is a Tatts Indemnified Party that it will:
  - (1) for a period of 7 years from the Implementation Date, ensure that the constitutions of Tatts and each other Tatts Group Member continues to contain such rules as are contained in those constitutions at the date of this deed that provide for each company to indemnify each of its directors and officers against any liability incurred by that person in his or her capacity as a director or officer of the company to any person other than a Tatts Group Member; and
  - (2) procure that Tatts and each Tatts Group Member complies with any deeds of indemnity, access and insurance made by them in favour of their respective directors and officers from time to time and without limiting the foregoing, ensure that directors' and officers' run-off insurance cover for such directors and officers is maintained for a period of 7 years from the retirement date of each director and officer (and Tatts may, at its election, pay any amounts necessary to ensure such maintenance upfront prior to the implementation of the Scheme).
- (b) The undertakings contained in clause 10.3(a) are subject to any Corporations Act restriction and will be read down accordingly.
- (c) Tatts receives and holds the benefit of clause 10.3(a), to the extent it relates to the other Tatts Indemnified Parties, as trustee for them.

## 11 Public announcement

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### 11.1 Announcement of the Transaction

- (a) Immediately after the execution of this deed, Tatts and Tabcorp must issue public announcements in a form previously agreed to in writing between them.
- (b) The Tatts announcement must include a unanimous recommendation by the Tatts Board to Tatts Shareholders that, in the absence of a Superior Proposal and subject to the Independent Expert concluding in the Independent Expert's Report that the Scheme is in the best interests of Scheme Shareholders, Tatts Shareholders vote in favour of the Scheme and that subject to the same qualifications all the members of the Tatts Board intend to vote (or procure the voting of) all Tatts Shares held by or on their behalf at the time of the Scheme Meeting in favour of the Scheme at the Scheme Meeting.



## 11.2 Subsequent announcements and disclosure

Where a party proposes to make any public announcement in connection with the Transaction or the Scheme, it must to the extent practicable and lawful to do so, consult with the other party prior to making the relevant disclosure and take account of any reasonable comments received from the other party in relation to the form and content of the announcement or disclosure.

## 12 Confidentiality

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Tatts and Tabcorp acknowledge and agree that they continue to be bound by the Confidentiality Agreement after the date of this deed. The rights and obligations of the parties under the Confidentiality Agreement survive termination of this deed. To the extent of any inconsistency between the Confidentiality Agreement and this deed, the terms of the Confidentiality Agreement (including the Protocols) shall prevail.

## 13 Exclusivity

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### 13.1 No shop and no talk

During the Exclusivity Period, Tatts must not, and must ensure that each of its Related Persons does not, directly or indirectly:

- (a) **(no shop)** solicit, invite, encourage or initiate (including by the provision of non-public information to any Third Party) any inquiry, expression of interest, offer, proposal or discussion by any person in relation to, or which would reasonably be expected to encourage or lead to the making of, an actual, proposed or potential Competing Proposal or communicate to any person an intention to do anything referred to in this clause 13.1(a); or
- (b) **(no talk and no due diligence)** subject to clause 13.2:
  - (1) participate in or continue any negotiations or discussions with respect to any inquiry, expression of interest, offer, proposal or discussion by any person to make, or which would reasonably be expected to encourage or lead to the making of, an actual, proposed or potential Competing Proposal or participate in or continue any negotiations or discussions with respect to any actual, proposed or potential Competing Proposal;
  - (2) negotiate, accept or enter into, or offer or agree to negotiate, accept or enter into, any agreement, arrangement or understanding regarding an actual, proposed or potential Competing Proposal;
  - (3) disclose or otherwise provide any non-public information about the business or affairs of the Tatts Group to a Third Party (other than a Government Agency) with a view to obtaining, or which would reasonably be expected to encourage or lead to receipt of, an actual, proposed or potential Competing Proposal (including, without limitation, providing such information for the purposes of the conduct of due diligence investigations in respect of the Tatts Group); or
  - (4) communicate to any person an intention to do anything referred to in the preceding paragraphs of this clause 13.1(b),



but nothing in this clause 13.1 prevents Tatts from making normal presentations to brokers, portfolio investors and analysts in the ordinary course of business or promoting the merits of the Transaction.

### 13.2 Fiduciary exception

Clause 13.1(b) does not prohibit any action or inaction by Tatts or any of its Related Persons in relation to any actual, proposed or potential Competing Proposal, which the Tatts Board acting in good faith determines, having regard to written advice from its external legal and financial advisers, is a Superior Proposal (or which may reasonably be expected to result in the Competing Proposal becoming a Superior Proposal), provided that the actual, proposed or potential Competing Proposal was not directly or indirectly brought about by, or facilitated by, a breach of clause 13.1(a).

### 13.3 Notification of approaches

- (a) During the Exclusivity Period, Tatts must as soon as possible notify Tabcorp in writing if it, or any of its Related Persons, becomes aware of any:
- (1) negotiations or discussions, approach or attempt to initiate any negotiations or discussions, or intention to make such an approach or attempt to initiate any negotiations or discussions in respect of any inquiry, expression of interest, offer, proposal or discussion in relation to an actual, proposed or potential Competing Proposal;
  - (2) proposal made to Tatts or any of its Related Persons, in connection with, or in respect of any exploration or completion of, an actual, proposed or potential Competing Proposal; or
  - (3) provision by Tatts or any of its Related Persons of any non-public information concerning the business or operations of Tatts or the Tatts Group to any Third Party (other than a Government Agency) in connection with an actual, proposed or potential Competing Proposal, whether direct or indirect, solicited or unsolicited, and in writing or otherwise.
- (b) A notification given under clause 13.3(a) must include the identity of the relevant person making or proposing the relevant actual, proposed or potential Competing Proposal, together with all terms and conditions of the actual, proposed or potential Competing Proposal.

### 13.4 Matching right

- (a) Without limiting clause 13.1, during the Exclusivity Period, Tatts:
- (1) must not enter into any legally binding agreement, arrangement or understanding (whether or not in writing) pursuant to which a Third Party, Tatts or both proposes or propose to undertake or give effect to an actual, proposed or potential Competing Proposal; and
  - (2) must procure that none of its directors change their recommendation in favour of the Transaction or publicly recommend an actual, proposed or potential Competing Proposal or recommend against the Transaction (provided that a statement that no action should be taken by Tatts Shareholders pending the assessment of a Competing Proposal by the Tatts Board and its advisers shall not contravene this clause),

unless:



- (3) the Tatts Board acting in good faith and in order to satisfy what the members of the Tatts Board consider to be their statutory or fiduciary duties (having received written advice from its external financial and legal advisers) determines that the Competing Proposal would be or would be likely to be an actual, proposed or potential Superior Proposal;
- (4) Tatts has provided Tabcorp with all terms and conditions of the actual, proposed or potential Competing Proposal, including price and the identity of the Third Party making the actual, proposed or potential Competing Proposal;
- (5) Tatts has given Tabcorp at least 5 Business Days after the date of the provision of the information referred to in clause 13.4(a)(4) to provide a matching or superior proposal to the terms of the actual, proposed or potential Competing Proposal; and
- (6) Tatts has not announced a matching or superior proposal to the terms of the actual, proposed or potential Competing Proposal by the expiry of the 5 Business Day period in clause 13.4(a)(5) above.
- (b) If Tabcorp proposes to Tatts, or announces, amendments to the Scheme that constitute a matching or superior proposal to the terms of the actual, proposed or potential Competing Proposal (**Tabcorp Counterproposal**) by the expiry of the 5 Business Day period in clause 13.4(a)(5) above, Tatts must procure that the Tatts Board considers the Tabcorp Counterproposal and if the Tatts Board, acting reasonably and in good faith, determines that the Tabcorp Counterproposal would provide an equivalent or superior outcome for Tatts Shareholders as a whole compared with the Competing Proposal, taking into account all of the terms and conditions of the Tabcorp Counterproposal, then Tatts and Tabcorp must use their best endeavours to agree the amendments to this deed that are reasonably necessary to reflect the Tabcorp Counterproposal and to implement the Tabcorp Counterproposal, in each case as soon as reasonably practicable, and Tatts must procure that each of the directors of Tatts continues to recommend the Transaction (as modified by the Tabcorp Counterproposal) to Tatts Shareholders.

### 13.5 Receipt of Competing Proposal by Tabcorp

For the avoidance of doubt, Tabcorp is not entitled to terminate this deed if it receives a Competing Proposal from a Third Party, including a proposal which if entered into or completed would result in such Third Party directly or indirectly acquiring Control of Tabcorp or otherwise acquiring or merging with Tabcorp, or for any other reason not expressly set out in clause 15 below.

### 13.6 No shop

During the Exclusivity Period, Tabcorp must not, and must ensure that each of its Related Persons does not, directly or indirectly solicit, invite, encourage or initiate (including by the provision of non-public information to any Third Party) any inquiry, expression of interest, offer, proposal or discussion by any person in relation to, or which would reasonably be expected to encourage or lead to the making of, an actual, proposed or potential Competing Proposal or communicate to any person an intention to do anything referred to in this clause 13.6.



### 13.7 Notification of approaches

- (a) During the Exclusivity Period, Tabcorp must as soon as possible notify Tatts in writing if it, or any of its Related Persons, becomes aware of any:
- (1) negotiations or discussions, approach or attempt to initiate any negotiations or discussions, or intention to make such an approach or attempt to initiate any negotiations or discussions in respect of any inquiry, expression of interest, offer, proposal or discussion in relation to an actual, proposed or potential Competing Proposal;
  - (2) proposal made to Tabcorp or any of its Related Persons, in connection with, or in respect of any exploration or completion of, an actual, proposed or potential Competing Proposal; or
  - (3) provision by Tabcorp or any of its Related Persons of any non-public information concerning the business or operations of Tabcorp or the Tabcorp Group to any Third Party (other than a Government Agency) in connection with an actual, proposed or potential Competing Proposal,
- whether direct or indirect, solicited or unsolicited, and in writing or otherwise.
- (b) A notification given under clause 13.7(a) must include the identity of the relevant person making or proposing the relevant actual, proposed or potential Competing Proposal, together with all terms and conditions of the actual, proposed or potential Competing Proposal.

### 13.8 Provision of information by Tatts

- (a) Subject to clause 13.8(b), during the Exclusivity Period, Tatts must as soon as possible provide Tabcorp with:
- (1) in the case of written materials, a copy of; and
  - (2) in any other case, a written statement of,
- any material non-public information about the business or affairs of Tatts or the Tatts Group disclosed or otherwise provided to any Third Party in connection with an actual, proposed or potential Competing Proposal that has not previously been provided to Tabcorp.
- (b) Tatts will not, and will procure that none of its Related Persons provide any information to a Third Party in relation to an actual, proposed or potential Competing Proposal, unless:
- (1) permitted by clause 13.2; and
  - (2) that Third Party has entered into a confidentiality agreement with Tatts on customary terms and which is no more favourable to the Third Party than the Confidentiality Agreement (excluding the Protocols).

### 13.9 Compliance with law

- (a) If it is finally determined by a court, or the Takeovers Panel, that the agreement by the parties under this clause 13 or any part of it:
- (1) constituted, or constitutes, or would constitute, a breach of the fiduciary or statutory duties of the board of either party;
  - (2) constituted, or constitutes, or would constitute, 'unacceptable circumstances' within the meaning of the Corporations Act; or



- (3) was, or is, or would be, unlawful for any other reason, then, to that extent (and only to that extent) the parties will not be obliged to comply with that provision of clause 13.
- (b) The parties must not make or cause to be made, any application to a court or the Takeovers Panel for or in relation to a determination referred to in this clause 13.9.

## 14 Reimbursement Fee and Competition Approval Reimbursement Fee

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### 14.1 Background to Reimbursement Fee and Competition Approval Reimbursement Fee

- (a) Each party acknowledges that, if they enter into this deed and the Scheme is subsequently not implemented, each party will incur significant costs, including those set out in clause 14.5.
- (b) In these circumstances, the parties have agreed that provision be made for the payments outlined in clauses 14.2, 14.3 and 14.10, without which the parties would not have entered into this deed or otherwise agreed to implement the Scheme.
- (c) Tatts and the Tatts Board believe (in respect of the Tatts Reimbursement Fee) and Tabcorp and the Tabcorp Board believe (in respect of the Tabcorp Reimbursement Fee and the Competition Approval Reimbursement Fee), each having taken advice from its legal advisors and Financial Advisors, that the implementation of the Scheme will provide benefits to it and its shareholders, and that it is reasonable and appropriate that Tatts (in respect of the Tatts Reimbursement Fee) and Tabcorp (in respect of the Tabcorp Reimbursement Fee and the Competition Approval Reimbursement Fee) to agree to the payments referred to in clauses 14.2, 14.3, and 14.10 in order to secure the other party's participation in the Transaction and its agreement to implement the Scheme on the terms of this deed.

### 14.2 Tatts Reimbursement Fee triggers

Subject to clauses 14.6, 14.7 and 14.9, Tatts must pay the Tatts Reimbursement Fee to Tabcorp, without set-off or withholding, if:

- (a) during the Exclusivity Period, any one or more members of the Tatts Board withdraws, adversely revises or adversely qualifies his or her support of the Scheme or his or her recommendation that Tatts Shareholders vote in favour of the Scheme, or, having made such a recommendation, withdraws, adversely revises or adversely qualifies that recommendation for any reason, unless:
  - (1) the Independent Expert concludes in the Independent Expert's Report that the Scheme is not in the best interests of Scheme Shareholders (other than where the conclusion is due wholly or partly to the existence of a Competing Proposal); or
  - (2) Tatts is entitled to terminate this deed pursuant to clauses 15.1(a), 15.1(c)(1) or 15.2(b), and has given the appropriate termination notice to Tabcorp and the Transaction does not complete;



- (b) during the Exclusivity Period, any one or more members of the Tatts Board recommends that Tatts Shareholders accept or vote in favour of, or otherwise supports or endorses (including support by way of accepting or voting, or by way of stating an intention to accept or vote, in respect of any Tatts Shares held by or on their behalf), a Competing Proposal of any kind that is announced (whether or not such proposal is stated to be subject to any pre-conditions) during the Exclusivity Period;
- (c) a Competing Proposal of the kind described in this paragraph is announced during the Exclusivity Period (whether or not such proposal is stated to be subject to any pre-conditions) and, within 12 months of the date of such announcement, the Third Party or any Associate of that Third Party completes a Competing Proposal of the kind referred to in paragraphs 1 (but only where the acquisition is through an issue of new Tatts Shares), 2, 3 and 4 of the definition of Competing Proposal.
- (d) Tabcorp has terminated this deed pursuant to clauses 15.1(a)(1), 15.1(b)(1) or 15.2(a) and the Transaction does not complete.

### 14.3 Tabcorp Reimbursement Fee triggers

Subject to clauses 14.6, 14.7 and 14.9, Tabcorp must pay the Tabcorp Reimbursement Fee to Tatts, without set-off or withholding if:

- (a) Tatts is entitled to terminate this deed pursuant to clauses 15.1(a)(1), 15.1(c)(1) or 15.2(b) and has given the appropriate termination notice to Tabcorp;
- (b) Tabcorp materially breaches this deed and the Transaction does not complete; or
- (c) Tabcorp repudiates, terminates or purports to terminate this deed other than as expressly permitted by this deed.

### 14.4 Timing of payment of Reimbursement Fee

- (a) A demand by a party for payment of the Reimbursement Fee under clause 14.2 or clause 14.3 must:
  - (1) be in writing;
  - (2) be made after the occurrence of the event in that clause giving rise to the right to payment;
  - (3) state the circumstances which give rise to the demand; and
  - (4) nominate an account into which the other party is to pay the Reimbursement Fee.
- (b) Subject to clause 14.9, Tatts must pay the Tatts Reimbursement Fee into the account nominated by Tabcorp, and Tabcorp must pay the Tabcorp Reimbursement Fee into the account nominated by Tatts, without set-off or withholding, within 5 Business Days after receiving a demand for payment where (as the case requires) Tabcorp is entitled under clause 14.2 to the Tatts Reimbursement Fee or Tatts is entitled under clause 14.3 to the Tabcorp Reimbursement Fee.



#### 14.5 Basis of Reimbursement Fee and Competition Approval Reimbursement Fee

The amount payable by Tatts (in respect of the Tatts Reimbursement Fee) pursuant to clause 14.2, and the amount payable by Tabcorp (in respect of the Tabcorp Reimbursement Fee and the Competition Approval Reimbursement Fee) pursuant to clauses 14.3 and 14.10 respectively, is purely and strictly compensatory in nature and has been calculated to reimburse Tabcorp (in respect of the Tatts Reimbursement Fee) and Tatts (in respect of the Tabcorp Reimbursement Fee and the Competition Approval Reimbursement Fee) for costs including the following:

- (a) fees for legal, financial and other professional advice in planning and implementing the Transaction (excluding success fees);
- (b) reasonable opportunity costs incurred in engaging in the Transaction or in not engaging in other alternative acquisitions or strategic initiatives;
- (c) costs of management and directors' time in planning and implementing the Transaction; and
- (d) out of pocket expenses incurred by Tabcorp or Tatts (as applicable) and Tabcorp's or Tatts' employees, advisers and agents in planning and implementing the Transaction,

and the parties agree that:

- (e) the costs actually incurred by Tabcorp and Tatts will be of such a nature that they cannot all be accurately ascertained;
- (f) the amount payable by Tatts (in respect of the Tatts Reimbursement Fee) and the amount payable by Tabcorp (in respect of the Tabcorp Reimbursement Fee and the Competition Approval Reimbursement Fee) is a genuine and reasonable pre-estimate of those costs; and
- (g) both parties have received advice from their respective legal advisers on the operation of this clause 14.

#### 14.6 Compliance with law

- (a) This clause 14 does not impose an obligation on Tatts to pay the Tatts Reimbursement Fee, Tabcorp to pay the Tabcorp Reimbursement Fee or Tabcorp to pay the Competition Approval Reimbursement Fee to the extent (and only to the extent) that the obligation to pay the Tatts Reimbursement Fee, Tabcorp Reimbursement Fee or Competition Approval Reimbursement Fee (as applicable):
  - (1) is declared by the Takeovers Panel to constitute 'unacceptable circumstances'; or
  - (2) is determined to be unenforceable or unlawful by a court,
 provided that, in either case, all lawful avenues of appeal and review, judicial and otherwise, have been exhausted.
- (b) The parties must not make or cause to be made, any application to the Takeovers Panel or a court for or in relation to a declaration or determination referred to in clause 14.6(a).



#### 14.7 Reimbursement Fee payable only once

- (a) Where the Tatts Reimbursement Fee becomes payable to Tabcorp under clause 14.2 and is actually paid to Tabcorp, Tabcorp cannot make any claim against Tatts for payment of any subsequent Tatts Reimbursement Fee.
- (b) Where the Tabcorp Reimbursement Fee becomes payable to Tatts under clause 14.3 and is actually paid to Tatts, Tatts cannot make any claim against Tabcorp for payment of any subsequent Tabcorp Reimbursement Fee.

#### 14.8 Other Claims

This clause 14 does not limit the rights of any person in respect of any other Claims that may arise under this deed which relate to the event that gave rise to the right to make a demand under clause 14.4. However, any amount received by a person pursuing such other Claims must be offset and reduced by any amounts received by the relevant party pursuant to this clause 14.

#### 14.9 No Reimbursement Fee or Competition Approval Reimbursement Fee if Scheme Effective

Despite anything to the contrary in this deed, the Tatts Reimbursement Fee, the Tabcorp Reimbursement Fee nor the Competition Approval Reimbursement Fee will be payable prior to the termination of this deed or if the Scheme becomes Effective, notwithstanding the occurrence of any event in clauses 14.2, 14.3 or 14.10.

#### 14.10 Competition Approval Reimbursement Fee

- (a) Subject to clauses 14.6, 14.9 and 14.10(b), Tabcorp must pay the Competition Approval Reimbursement Fee to Tatts, without set-off or withholding, into the account nominated by Tatts within 5 Business Days after receiving a demand for payment if:
  - (1) this deed is terminated under clause 3.4(f); or
  - (2) the Condition Precedent in clause 3.1(a)(1) (**Competition Approval Condition**) is not satisfied (or waived) by the End Date,
 provided that:
  - (3) Tatts has complied with its obligations under this deed;
  - (4) Tatts has used its best endeavours to procure that the Competition Approval Condition is satisfied.
- (b) If for any reason Tatts is entitled to payment of the Reimbursement Fee from Tabcorp as well as the Competition Approval Reimbursement Fee under this deed, then Tatts will only be entitled to retain the higher of the two fees.

## 15 Termination

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### 15.1 Termination for material breach

- (a) Either party may terminate this deed by written notice to the other party:



- (1) other than in respect of a breach of either a Tabcorp Representation and Warranty or a Tatts Representation and Warranty (which are dealt with in clause 15.2), at any time before 8.00am on the Second Court Date if the other party has materially breached this deed, the party entitled to terminate has given written notice to the party in breach of this deed setting out the relevant circumstances and stating an intention to terminate this deed, and the other party has failed to remedy the breach within 5 Business Days (or any shorter period ending at 5.00pm on the Business Day before the Second Court Date) after the date on which the notice is given;
- (2) at any time before 8.00am on the Second Court Date if the Court (or another court of competent jurisdiction in Australia) or another Government Agency (other than the Australian Competition Tribunal) in Australia has taken any action permanently restraining or otherwise prohibiting or preventing the Transaction, or has refused to do anything necessary to permit the Transaction from being implemented by the End Date, and the action or refusal has become final and cannot be appealed or reviewed or the party, acting reasonably, believes that there is no realistic prospect of an appeal or review succeeding by the End Date;
- (3) in the circumstances set out in, and in accordance with, clause 3.4; or
- (4) if the Effective Date for the Scheme has not occurred, or will not occur, on or before the End Date.
- (b) Tabcorp may terminate this deed by written notice to Tatts until 8.00am on the Second Court Date if:
- (1) a Material Adverse Change or a Prescribed Occurrence occurs, is announced or is otherwise discovered by Tabcorp (whether or not it becomes public) in relation to Tatts, Tabcorp has given written notice to Tatts setting out the relevant circumstances and stating an intention to terminate this deed, and Tatts has failed to remedy the Material Adverse Change or Prescribed Occurrence to Tabcorp's reasonable satisfaction within 5 Business Days (or any shorter period ending at 5.00pm on the Business Day before the Second Court Date) after the date on which the notice is given; or
- (2) a majority of the members of the Tatts Board fails to recommend the Scheme or a majority of the members of the Tatts Board withdraw, adversely revise or adversely modify their recommendation that Tatts Shareholders vote in favour of the Scheme, or a majority of the members of the Tatts Board make a public statement indicating that they no longer recommend the Transaction or recommending, supporting or endorsing another transaction (including any Competing Proposal but excluding a statement that no action should be taken by Tatts Shareholders pending the assessment of a Competing Proposal by the Tatts Board).
- (c) Tatts may terminate this deed by written notice to Tabcorp at any time before 8.00am on the Second Court Date if:
- (1) a Material Adverse Change or a Prescribed Occurrence occurs, is announced or is otherwise discovered by Tatts (whether or not it becomes public) in relation to Tabcorp, Tatts has given written notice to Tabcorp setting out the relevant circumstances and stating an intention to terminate this deed, and Tabcorp has failed to remedy the Material Adverse Change or Prescribed Occurrence to Tatts'



reasonable satisfaction within 5 Business Days (or any shorter period ending at 5.00pm on the Business Day before the Second Court Date) after the date on which the notice is given; or

- (2) as permitted by clause 5.4, a majority of the members of the Tatts Board fail to recommend or withdraw, adversely revise or adversely qualify (except for customary qualifications) their recommendation that Tatts Shareholders vote in favour of the Scheme, or the Tatts Board recommends any Competing Proposal.

## 15.2 Termination for breach of representations and warranties

- (a) Tabcorp may, at any time prior to 8.00am on the Second Court Date, terminate this deed for breach of a Tatts Representation and Warranty only if:
- (1) Tabcorp has given written notice to Tatts setting out the relevant circumstances and stating an intention to terminate or to allow the Scheme to lapse; and
- (2) the relevant breach continues to exist 5 Business Days (or any shorter period ending at 5.00pm on the Business Day before the Second Court Date) after the date on which the notice is given under clause 15.2(a)(1).
- (b) Tatts may, at any time before 8.00am on the Second Court Date, terminate this deed for breach of a Tabcorp Representation and Warranty only if:
- (1) Tatts has given written notice to Tabcorp setting out the relevant circumstances and stating an intention to terminate or to allow the Scheme to lapse; and
- (2) the relevant breach continues to exist 5 Business Days (or any shorter period ending at 5.00pm on the Business Day before the Second Court Date) after the date on which the notice is given under clause 15.2(b)(1).

## 15.3 Effect of termination

If this deed is terminated by either party under clauses 3.4, 15.1 or 15.2:

- (a) each party will be released from its obligations under this deed, except that this clause 15.3, and clauses 1, 9.7, 9.8, 9.9, 12, 14, 16, 17, 18 and 19, will survive termination and remain in force;
- (b) each party will retain the rights it has or may have against the other party in respect of any past breach of this deed; and
- (c) in all other respects, all future obligations of the parties under this deed will immediately terminate and be of no further force and effect including any further obligations in respect of the Scheme.

## 15.4 Termination

Where a party has a right to terminate this deed, that right for all purposes will be validly exercised if the party delivers a notice in writing to the other party stating that it terminates this deed and the provision under which it is terminating the Deed.



### 15.5 No other termination

Neither party may terminate or rescind this deed except as permitted under clauses 3.4, 15.1 or 15.2.

## 16 Duty, costs and expenses

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### 16.1 Stamp duty

Tabcorp:

- (a) must pay all stamp duties and any fines and penalties with respect to stamp duty in respect of this deed or the Scheme or the steps to be taken under this deed or the Scheme; and
- (b) indemnifies Tatts against any liability arising from its failure to comply with clause 16.1(a).

### 16.2 Costs and expenses

Except as otherwise provided in this deed, each party must pay its own costs and expenses in connection with the negotiation, preparation, execution, delivery and performance of this deed and the proposed, attempted or actual implementation of this deed and the Transaction.

## 17 GST

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- (a) Any consideration or amount payable under this deed, including any non-monetary consideration (as reduced in accordance with clause 17(e) if required) (**Consideration**) is exclusive of GST.
- (b) If GST is or becomes payable on a Supply made under or in connection with this deed, an additional amount (**Additional Amount**) is payable by the party providing consideration for the Supply (**Recipient**) equal to the amount of GST payable on that Supply as calculated by the party making the Supply (**Supplier**) in accordance with the GST Law.
- (c) The Additional Amount payable under clause 17(b) is payable at the same time and in the same manner as the Consideration for the Supply, and the Supplier must provide the Recipient with a Tax Invoice. However, the Additional Amount is only payable on receipt of a valid Tax Invoice.
- (d) If for any reason (including the occurrence of an Adjustment Event) the amount of GST payable on a Supply (taking into account any Decreasing or Increasing Adjustments in relation to the Supply) varies from the Additional Amount payable by the Recipient under clause 17(b):
  - (1) the Supplier must provide a refund or credit to the Recipient, or the Recipient must pay a further amount to the Supplier, as appropriate;
  - (2) the refund, credit or further amount (as the case may be) will be calculated by the Supplier in accordance with the GST Law; and
  - (3) the Supplier must notify the Recipient of the refund, credit or further amount within 14 days after becoming aware of the variation to the



amount of GST payable. Any refund or credit must accompany such notification or the Recipient must pay any further amount within 7 days after receiving such notification, as appropriate. If there is an Adjustment Event in relation to the Supply, the requirement for the Supplier to notify the Recipient will be satisfied by the Supplier issuing to the Recipient an Adjustment Note within 14 days after becoming aware of the occurrence of the Adjustment Event.

- (e) Despite any other provision in this deed if an amount payable under or in connection with this deed (whether by way of reimbursement, indemnity or otherwise) is calculated by reference to an amount incurred by a party, whether by way of cost, expense, outlay, disbursement or otherwise (**Amount Incurred**), the amount payable must be reduced by the amount of any Input Tax Credit to which that party is entitled in respect of that Amount Incurred.
- (f) Any reference in this clause to an Input Tax Credit to which a party is entitled includes an Input Tax Credit arising from a Creditable Acquisition by that party but to which the Representative Member of a GST Group of which the party is a member is entitled.
- (g) Any term starting with a capital letter that is not defined in this deed has the same meaning as the term has in the *A New Tax System (Goods & Services Tax) Act 1999* (Cth).

## 18 Notices

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### 18.1 Form of Notice

A notice or other communication to a party under this deed (**Notice**) must be:

- (a) in writing and in English; and
- (b) addressed to that party as nominated below (or any alternative details nominated to the sending party by Notice):

| Party | Address  | Addressee  | Email                      |
|-------|--|--|----------------------------|
| Tatts | 87 Ipswich Road,<br>Woolloongabba, QLD<br>4102                                 | Ms Anne Tucker,<br>General Counsel<br>and Company<br>Secretary | anne.tucker@tattsgroup.com |
|       | Copy to<br>Clayton Utz, Level 18,<br>333 Collins Street,<br>Melbourne VIC 3000 | Andrew Walker,<br>Partner                                      | awalker@claytonutz.com     |



| Party          | Address  | Addressee  | Email   |
|----------------|--|--|---|
| <b>Tabcorp</b> | 5 Bowen Crescent,<br>Melbourne, VIC 3004   | Ms Fiona Mead,<br>Company<br>Secretary                           | Fiona.Mead@tabcorp.com.au                       |
|                | Copy to<br>Herbert Smith Freehills<br>Level 42, 101 Collins<br>Street,<br>Melbourne VIC 3000 | Rodd Levy,<br>Partner<br><br>Courtney Dixon,<br>Senior Associate | Rodd.Levy@hsf.com<br><br>Courtney.Dixon@hsf.com |

## 18.2 How Notice must be given and when Notice is received

- (a) A Notice must be given by one of the methods set out in the table below.
- (b) A Notice is regarded as given and received at the time set out in the table below.

However, if this means the Notice would be regarded as given and received outside the period between 9.00am and 5.00pm (addressee's time) on a Business Day (**business hours period**), then the Notice will instead be regarded as given and received at the start of the following business hours period.

| Method of giving Notice                 | When Notice is regarded as given and received  |
|---|--|
| By hand to the nominated address        | When delivered to the nominated address.   |
| By email to the nominated email address | When the party sending the email receives notification that the email was successfully transmitted and read by the receiving party, or if no such notification is received, 24 hours after the email was sent, unless the party sending the email receives notification that the email was not successfully transmitted. |

## 19 General

### 19.1 Governing law and jurisdiction

- (a) This deed is governed by the law in force in Victoria.
- (b) Each party irrevocably submits to the non-exclusive jurisdiction of courts exercising jurisdiction in Victoria and courts of appeal from them in respect of any proceedings arising out of or in connection with this deed. Each party irrevocably waives any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.



## 19.2 Service of process

Without preventing any other mode of service, any document in an action (including any writ of summons or other originating process or any third or other party notice) may be served on any party by being delivered to or left for that party at its address for service of Notices under clause 18.

## 19.3 No merger

The rights and obligations of the parties do not merge on completion of the Transaction. They survive the execution and delivery of any assignment or other document entered into for the purpose of implementing the Transaction.

## 19.4 Invalidity and enforceability

- (a) If any provision of this deed is invalid under the law of any jurisdiction the provision is enforceable in that jurisdiction to the extent that it is not invalid, whether it is in severable terms or not.
- (b) Clause 19.4(a) does not apply where enforcement of the provision of this deed in accordance with clause 19.4(a) would materially affect the nature or effect of the parties' obligations under this deed.

## 19.5 Waiver

No party to this deed may rely on the words or conduct of any other party as a waiver of any right unless the waiver is in writing and signed by the party granting the waiver.

The meanings of the terms used in this clause 19.5 are set out below.

| Term           | Meaning   |
|----------------|---|
| <b>conduct</b> | includes delay in the exercise of a right.  |
| <b>right</b>   | any right arising under or in connection with this deed and includes the right to rely on this clause.        |
| <b>waiver</b>  | includes an election between rights and remedies, and conduct which might otherwise give rise to an estoppel. |

## 19.6 Variation

A variation of any term of this deed must be in writing and signed by the parties.

## 19.7 Assignment of rights

- (a) A party may not assign, novate, declare a trust over or otherwise transfer or deal with any of its rights or obligations under this deed without the prior written consent of the other party or as expressly provided in this deed.



- (b) A breach of clause 19.7(a) by a party shall be deemed to be a material breach for the purposes of clause 15.1(a)(1).
- (c) Clause 19.7(b) does not affect the construction of any other part of this deed.

### **19.8 Acknowledgement**

Each party acknowledges that the remedy of damages may be inadequate to protect the interests of the parties for a breach of clause 13 and that either party is entitled to seek and obtain without limitation injunctive relief if the other party breaches or threatens to breach clause 13.

### **19.9 Further action to be taken at each party's own expense**

Each party must, at its own expense, do all things and execute all documents necessary to give full effect to this deed and the transactions contemplated by it.

### **19.10 Entire agreement**

This deed, together with the Confidentiality Agreement and all other documents referred to herein or initialled by or on behalf of the parties on or about the date hereof, states all the express terms agreed by the parties in respect of its subject matter. These supersede all prior discussions, negotiations, understandings and agreements in respect of its subject matter (other than the Confidentiality Agreement).

### **19.11 Counterparts**

This deed may be executed in any number of counterparts.

### **19.12 Relationship of the parties**

- (a) Nothing in this deed gives a party authority to bind any other party in any way.
- (b) Nothing in this deed imposes any fiduciary duties on a party in relation to any other party.

### **19.13 Remedies cumulative**

Except as provided in this deed and permitted by law, the rights, powers and remedies provided in this deed are cumulative with, and not exclusive of, the rights, powers and remedies provided by law independently of this deed.

### **19.14 Exercise of rights**

- (a) Unless expressly required by the terms of this deed, a party is not required to act reasonably in giving or withholding any consent or approval or exercising any other right, power, authority, discretion or remedy, under or in connection with this deed.
- (b) A party may (without any requirement to act reasonably) impose conditions on the grant by it of any consent or approval, or any waiver of any right, power, authority, discretion or remedy, under or in connection with this deed. Any conditions must be complied with by the party relying on the consent, approval or waiver.



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## Schedules

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## Schedule 1

### Tabcorp Representations and Warranties

---

Tabcorp represents and warrants to Tatts (in its own right and separately as trustee or nominee for each of the other Tatts Indemnified Parties) that:

- (a) **Tabcorp Information:** the Tabcorp Information provided for inclusion in the Scheme Booklet, as at the date the Scheme Booklet is despatched to Tatts Shareholders, will not contain any statement which is materially misleading or deceptive (with any statement of belief or opinion having been formed on a reasonable basis), including by way of omission from that statement;
- (b) **basis of Tabcorp Information:** the Tabcorp Information:
  - (1) will be provided to Tatts in good faith and on the understanding that Tatts and each other Tatts Indemnified Party will rely on that information for the purposes of preparing the Scheme Booklet and proposing the Scheme; and
  - (2) will comply in all material respects with the requirements of the Corporations Act, the Corporations Regulations, RG 60 and the Listing Rules,

and all information provided by Tabcorp to the Independent Expert will be provided in good faith and on the understanding that the Independent Expert will rely on that information for the purpose of preparing the Independent Expert's Report;
- (c) **new information:** it will, as a continuing obligation, provide to Tatts all further or new information which arises after the Scheme Booklet has been despatched to Tatts Shareholders until the date of the Scheme Meeting which is necessary to ensure that the Tabcorp Information is not misleading or deceptive (including by way of omission);
- (d) **validly existing:** it is a validly existing corporation registered under the laws of its place of incorporation;
- (e) **authority:** the execution and delivery of this deed has been properly authorised by all necessary corporate action of Tabcorp;
- (f) **power:** it has full capacity, corporate power and lawful authority to execute, deliver and perform this deed;
- (g) **no default:** this deed does not conflict with or result in the breach of or a default under:
  - (1) any provision of Tabcorp's Constitution; or
  - (2) any material term or provision of any Material Contract (including any material financing arrangements) or any writ, order or injunction, judgment, law, rule or regulation to which it is party or subject or by which it or any other Tabcorp Group Member is bound,

and it is not otherwise bound by any agreement that would prevent or restrict it from entering into or performing this deed;
- (h) **deed binding:** this deed is a valid and binding obligation of Tabcorp, enforceable in accordance with its terms;



- (i) **continuous disclosure:** Tabcorp has complied in all material respects with its continuous disclosure obligations under Listing Rule 3.1 and, other than for this Transaction, it is not relying on the carve-out in Listing Rule 3.1A to withhold any material information from public disclosure;
- (j) **capital structure:** its capital structure, including all issued securities as at the date of this deed, is as set out in Schedule 3 and it has not issued or granted (or agreed to issue or grant) any other securities, options, warrants, performance rights or other instruments which are still outstanding and may convert into Tabcorp Shares other than as set out in Schedule 3 and it is not under any obligation to issue or grant, and no person has any right to call for the issue or grant of, any Tabcorp Shares, options, warrants, performance rights or other securities or instruments in Tabcorp;
- (k) **interest:** any company, partnership, trust, joint venture or other enterprise in which Tabcorp or another Tabcorp Group Member owns or has a material interest in is as notified in writing by Tabcorp to Tatts prior to entry into this deed;
- (l) **Insolvency Event or regulatory action:** no Insolvency Event has occurred in relation to it or another Tabcorp Group Member, nor has any regulatory action of any nature been taken that would prevent or restrict its ability to fulfil its obligations under this deed;
- (m) **compliance:** each member of the Tabcorp Group has complied in all material respects with all Australian and foreign laws and regulations applicable to them and orders of Australian and foreign Government Agencies having jurisdiction over them and have all material licenses, authorisations and permits necessary for them to conduct the business of the Tabcorp Group as presently being conducted;
- (n) **Tabcorp Disclosure Materials:** it has collated and prepared all of the Tabcorp Disclosure Materials in good faith for the purposes of a due diligence process (but which process does not include due diligence on information of commercial or competitive sensitivity) and in this context, as far as Tabcorp is aware, the Tabcorp Disclosure Materials contain all material information within the categories referred to in the due diligence request list initialled by the parties' lawyers for the purposes of identification on or about the date of this deed;
- (o) **all information:** subject to the Protocols and so far as it is aware, Tabcorp has disclosed all material information (or the substance of such material information) relating to the Tabcorp Group or its respective businesses or operations (having made reasonable enquiries) as at the date of this deed, that is objectively necessary for Tatts to make an informed assessment of:
- (1) Tabcorp's Material Contracts and their respective change of control or termination provisions which would be enlivened by implementation of the Transaction;
  - (2) Tabcorp's material licencing arrangements;
  - (3) Tabcorp's material financing arrangements; and
  - (4) material disputes between Tabcorp and a Government Authority; and
- (p) **not misleading:** all information it has provided to the Independent Expert, pursuant to clause 5.2(q) or otherwise, or to Tatts is accurate and not misleading and it has not omitted any information which it is aware would be required to make the information provided to the Independent Expert or Tatts not misleading.



## Schedule 2

### Tatts Representations and Warranties

---

Tatts represents and warrants to Tabcorp (in its own right and separately as trustee or nominee for each of the other Tabcorp Indemnified Parties) that:

- (a) **Tatts Information:** the Tatts Information contained in the Scheme Booklet, as at the date the Scheme Booklet is despatched to Tatts Shareholders, will not contain any statement which is materially misleading or deceptive (with any statement of belief or opinion having been formed on a reasonable basis), including by way of omission from that statement;
- (b) **basis of Tatts Information:** the Tatts Information:
  - (1) will be prepared and included in the Scheme Booklet in good faith and on the understanding that Tabcorp and each other Tabcorp Indemnified Party will rely on that information; and
  - (2) will comply in all material respects with the requirements of the Corporations Act, the Corporations Regulations, RG 60 and the Listing Rules,

and all information provided by Tatts to the Independent Expert will be provided in good faith and on the understanding that the Independent Expert will rely on that information for the purpose of preparing the Independent Expert's Report;

- (c) **new information:** it will, as a continuing obligation (but in respect of the Tabcorp Information, only to the extent that Tabcorp provides Tatts with updates to the Tabcorp Information), ensure that the Scheme Booklet is updated to include all further or new information which arises after the Scheme Booklet has been despatched to Tatts Shareholders until the date of the Scheme Meeting which is necessary to ensure that the Scheme Booklet is not misleading or deceptive (including by way of omission);
- (d) **validly existing:** it is a validly existing corporation registered under the laws of its place of incorporation;
- (e) **authority:** the execution and delivery of this deed has been properly authorised by all necessary corporate action of Tatts;
- (f) **power:** it has full capacity, corporate power and lawful authority to execute, deliver and perform this deed;
- (g) **no default:** this deed does not conflict with or result in the breach of or a default under:
  - (1) any provision of Tatts constitution;
  - (2) any material term or provision of any Material Contract (including any material financing arrangements) or any writ, order or injunction, judgment, law, rule or regulation to which it is party or subject or by which it or any other Tatts Group Member is bound,

and it is not otherwise bound by any agreement that would prevent or restrict it from entering into or performing this deed;

- (h) **deed binding:** this deed is a valid and binding obligation of Tatts, enforceable in accordance with its terms;



- (i) **continuous disclosure:** Tatts has complied in all material respects with its continuous disclosure obligations under Listing Rule 3.1 and, other than for this Transaction, it is not relying on the carve-out in Listing Rule 3.1A to withhold any material information from public disclosure;
- (j) **capital structure:** its capital structure, including all issued securities as at the date of this deed, is as set out in Schedule 4 and it has not issued or granted (or agreed to issue or grant) any other securities, options, warrants, performance rights or other instruments which are still outstanding and may convert into Tatts Shares other than as set out in Schedule 4 and it is not under any obligation to issue or grant, and no person has any right to call for the issue or grant of, any Tatts Shares, options, warrants, performance rights or other securities or instruments in Tatts;
- (k) **interest:** any company, partnership, trust, joint venture or other enterprise in which Tatts or another Tatts Group Member owns or has a material interest in is as notified in writing by Tatts to Tabcorp prior to entry into this deed;
- (l) **Insolvency Event or regulatory action:** no Insolvency Event has occurred in relation to it or another Tatts Group Member, nor has any regulatory action of any nature been taken that would prevent or restrict its ability to fulfil its obligations under this deed;
- (m) **compliance:** each member of the Tatts Group has complied in all material respects with all Australian and foreign laws and regulations applicable to them and orders of Australian and foreign Government Agencies having jurisdiction over them and have all material licenses, authorisations and permits necessary for them to conduct the business of the Tatts Group as presently being conducted;
- (n) **Tatts Disclosure Materials:** it has collated and prepared all of the Tatts Disclosure Materials in good faith for the purposes of a due diligence process (but which process does not include due diligence on information of commercial or competitive sensitivity) and in this context, as far as Tatts is aware, the Tatts Disclosure Materials contain all material information within the categories referred to in the due diligence request list initialled by the parties' lawyers for the purposes of identification on or about the date of this deed;
- (o) **all information:** subject to the Protocols and so far as it is aware, Tatts has disclosed all material information (or the substance of such material information) relating to the Tatts Group or its respective businesses or operations as at the date of this deed, that would be objectively necessary for Tabcorp to make an informed assessment of:
- (1) Tatts' Material Contracts and their respective change of control or termination provisions which would be enlivened by implementation of the Transaction;
  - (2) Tatts' material licencing arrangements;
  - (3) Tatts' material financing arrangements; and
  - (4) material disputes between Tatts and a Government Authority; and
- (p) **not misleading:** all information it has provided to the Independent Expert, pursuant to clause 5.2(q) or otherwise, or to Tabcorp is accurate and not misleading and it has not omitted any information which it is aware would be required to make the information provided to the Independent Expert or Tabcorp not misleading.



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## Schedule 3

### Tabcorp details

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| <b>Security</b>            | <b>Total number on issue</b>   |
|----------------------------|--|
| Tabcorp Shares             | 835,267,041  |
| Tabcorp Performance Rights | 2,554,854 Performance Rights which are capable of being converted into 2,554,854 Tabcorp Shares. |
| Subordinated Notes         | 2,500,000  |

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## Schedule 4

### Tatts details

| Security                             | Total number on issue   |
|--------------------------------------|---|
| Tatts Shares                         | 1,468,016,192   |
| Restricted Shares                    | 1,562,647   |
| Performance Rights                   | 653,289 FY 2016 Performance Rights; and<br>227,155 FY 2017 Performance Rights,<br>which are in aggregate capable of being converted<br>into 880,444 Tatts Shares. |
| Senior and unsecured debt securities | 1,946,642   |

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### Signing page

#### Executed as a deed

---

Signed sealed and delivered by  
**Tabcorp Holdings Limited**  
by

sign here ▶   
Company Secretary/Director

print name JANE DWYER

sign here ▶   
Director

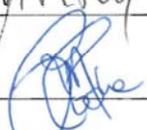
print name DAVID ATTENBOROUGH

---

Signed sealed and delivered by  
**Tatts Group Limited**  
by

sign here ▶   
Company Secretary/Director

print name HARRY BEAN

sign here ▶   
Director

print name Robert Michael Sean Cooke

---

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## Attachment 1

### Scheme of arrangement

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# Scheme of Arrangement

## Pursuant to section 411 of the Corporations Act

Tatts Group Limited  
Tatts

The registered holders of fully paid ordinary shares in the capital of Tatts as  
at the Record Date

Clayton Utz  
Lawyers  
Level 18 333 Collins Street  
Melbourne VIC 3000  
GPO Box 9806 Melbourne VIC 3001  
Tel +61 3 9286 6000  
Fax +61 3 9629 8488  
[www.claytonutz.com](http://www.claytonutz.com)

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## Scheme of Arrangement made under section 411 of the Corporations Act 2001 (Cth)

---

### Date

### Parties

**Tatts Group Limited ABN 19 108 686 040** of 87 Ipswich Road, Woolloongabba QLD 4102 (**Tatts**)

The registered holders of fully paid ordinary shares in the capital of Tatts as at the Record Date.

### Background

- A. Tatts is a public company incorporated in the state of Victoria and is admitted to the official list of ASX.
- B. Tabcorp Holdings Limited ABN 66 063 780 709 (**Tabcorp**) is a public company incorporated in the state of Victoria and is admitted to the official list of ASX.
- C. Tatts and Tabcorp have entered into the Implementation Deed pursuant to which, amongst other things, Tatts has agreed to propose this Scheme to Tatts Shareholders, and each of Tatts and Tabcorp have agreed to take certain steps to give effect to the Scheme.
- D. If the Scheme becomes Effective, then:
- (a) all the Scheme Shares and all rights and entitlements attaching to them as at the Implementation Date will be transferred to Tabcorp and the Scheme Consideration will be provided to the Scheme Shareholders in accordance with the provisions of the Scheme and the Deed Poll; and
  - (b) Tatts will enter the name and address of Tabcorp in the Tatts Share Register as the holder of the Scheme Shares.
- E. Tabcorp has entered into the Deed Poll for the purpose of covenanting in favour of Scheme Shareholders to perform the obligations contemplated of it under the Scheme.

---

## 1. Definitions and interpretation

### 1.1 Definitions

In this document, unless the contrary intention appears or the context requires otherwise:

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means ASX Limited ABN 98 008 624 691 and, where the context requires, the financial market that it operates.

**Business Day** means a day which is a "Business Day" within the meaning given in the Listing Rules.

**Cash Consideration** means A\$0.425 cash (subject to adjustment in accordance with clause 6.3 of the Implementation Deed), for each Tatts Share held by a Scheme Shareholder.

**CHESS** means the clearing house electronic sub-register system for the electronic transfer of securities operated by ASX Settlements Pty Limited ABN 49 008 504 532.

**Condition** means each condition to this Scheme set out in clause 2.1.

**Corporations Act** means the Corporations Act 2001 (Cth).

**Court** means the Supreme Court of Victoria or such other court of competent jurisdiction under the Corporations Act agreed to in writing by Tabcorp and Tatts.

**Deed Poll** means the deed poll dated [insert] executed by Tabcorp in favour of the Scheme Shareholders (subject to any amendments permitted by its terms).

**Effective** means, when used in relation to the Scheme, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme.

**Effective Date** means the date on which the Scheme becomes Effective.

**Encumbrance** means a mortgage, charge, pledge, lien, encumbrance, security interest, title retention, preferential right, trust arrangement, contractual right of set-off, or any other security agreement or arrangement in favour of any person, whether registered or unregistered, including any Security Interest.

**End Date** has the meaning given in the Implementation Deed.

**Government Agency** means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any State, and any other federal, state, provincial, or local government, whether foreign or Australian.

**Implementation Date** means the fifth Business Day after the Record Date or such other date after the Record Date as the parties agree in writing.

**Implementation Deed** means the merger implementation deed dated 18 October 2016 between Tatts and Tabcorp under which, amongst other things, Tatts has agreed to propose the Scheme to Scheme Shareholders, and each of Tabcorp and Tatts has agreed to take certain steps to give effect to the Scheme.

**Ineligible Foreign Shareholder** means a Scheme Shareholder whose address shown in the Tatts Share Register on the Record Date is a place outside Australia and its external territories or New Zealand, unless Tabcorp (acting reasonably, and after consultation with Tatts) determines that it is lawful and not unduly onerous or impracticable to issue that Scheme Shareholder with New Tabcorp Shares when the Scheme becomes Effective.

**Listing Rules** means the official listing rules of ASX.

**New Tabcorp Share** means a fully paid ordinary share in Tabcorp to be issued to Scheme Shareholders under the Scheme.

**Record Date** means 5.00pm on the fifth Business Day after the Effective Date or such other time and date as the parties agree in writing.

**Registered Address** means, in relation to a Tatts Shareholder, the address shown in the Tatts Share Register as at the Record Date.

**Scheme** means the scheme of arrangement under Part 5.1 of the Corporations Act between Tatts and the Scheme Shareholders as set out in this document, subject to any alterations or

conditions made or required by the Court pursuant to section 411(6) of the Corporations Act and agreed to in writing by Tabcorp and Tatts (each acting reasonably).

**Scheme Consideration** means the consideration to be provided by Tabcorp to each Scheme Shareholder for the transfer to Tabcorp of each Scheme Share, being for each Tatts Share held by a Scheme Shareholder as at the Record Date:

- (a) the Cash Consideration; and
- (b) the Scrip Consideration,

subject to the terms of this Scheme.

**Scheme Meeting** means the meeting of Tatts Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on the Scheme, and includes any meeting convened following any adjournment or postponement of that meeting.

**Scheme Shareholder** means a Tatts Shareholder as at the Record Date.

**Scheme Shares** means all Tatts Shares held by the Scheme Shareholders as at the Record Date.

**Scrip Consideration** means an allotment of 0.80 New Tabcorp Shares for each Tatts Share held by a Scheme Shareholder.

**Second Court Date** means the first day on which an application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard.

**Tabcorp Share** means a fully paid ordinary share in the capital of Tabcorp.

**Tabcorp Share Register** means the register of members of Tabcorp maintained in accordance with the Corporations Act.

**Tatts Board** means the board of directors of Tatts.

**Tatts Share** means a fully paid ordinary share in the capital of Tatts.

**Tatts Share Register** means the register of members of Tatts maintained by the Tatts Share Registry in accordance with the Corporations Act.

**Tatts Share Registry** means Computershare Investor Services Pty Limited ABN 48 078 279 277 of 117 Victoria Street, West End, QLD, Australia 4101.

**Tatts Shareholder** means a person who is registered in the Tatts Share Register as a holder of a Tatts Share.

**Trading Day** has the meaning given in the Listing Rules.

## 1.2 Interpretation

In this document, unless the contrary intention appears or the context requires otherwise:

- (a) the singular includes the plural and vice versa;
- (b) each gender includes each other gender;

- (c) references to persons includes references to individuals, corporations, other bodies corporate or bodies politic;
- (d) references to paragraphs or clauses are to a paragraph or clause of this document;
- (e) a reference to a statute, regulation or agreement is to such a statute, regulation or agreement as from time to time amended;
- (f) a reference to a person includes a reference to a person's executors, administrators, successors, substitutes (including, without limitation, persons taking by novation) and assigns;
- (g) if a time period is specified and dates from a given date or the day of an act or event, it is to be calculated exclusive of that day;
- (h) a reference to a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;
- (i) a reference to any time, unless otherwise stated, is a reference to that time in Melbourne, Australia;
- (j) a reference to "\$" or "A\$" is to the lawful currency of the Commonwealth of Australia;
- (k) a reference to a document is that document as varied, novated, ratified or replaced from time to time;
- (l) the interpretation of a substantive provision is not affected by any heading; and
- (m) "includes" in any form is not a word of limitation.

### 1.3 Business Day

Except where otherwise expressly provided, where under this document the day on which any act, matter or thing is to be done is a day other than a Business Day, such act, matter or thing shall be done on the immediately preceding Business Day.

---

## 2. Conditions Precedent

### 2.1 Conditions to the Scheme

The Scheme is conditional upon, and will have no force or effect until, the satisfaction of each of the following conditions, and the provisions of clauses 3 and 4 will not come into effect unless and until each of these conditions have been satisfied:

- (a) by 8.00am on the Second Court Date, each of the conditions set out in clause 3.1 of the Implementation Deed (other than the condition relating to the approval of the Court set out in clause 3.1(c) of the Implementation Deed) have been satisfied or waived in accordance with the terms of the Implementation Deed;
- (b) as at 8.00 am on the Second Court Date neither the Implementation Deed nor the Deed Poll has been terminated;
- (c) the Court approves this Scheme under section 411(4)(b) of the Corporations Act with or without modification acceptable to Tabcorp and Tatts (each acting reasonably);

- (d) such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Scheme as are acceptable to Tabcorp and Tatts (each acting reasonably) have been satisfied or been waived; and
- (e) the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) in relation to the Scheme on or before the End Date.

## 2.2 Certificates in relation to Conditions Precedent

On the Second Court Date:

- (a) Tatts must provide to the Court a certificate (or such other evidence as the Court may request) confirming (in respect of matters within its knowledge) whether or not as at 8.00 am on the Second Court Date the conditions set out in clause 3.1 (other than clause 3.1(c)) of the Implementation Deed have been satisfied or waived in accordance with the Implementation Deed; and
- (b) Tabcorp must provide to the Court a certificate (or such other evidence as the Court may request) confirming (in respect of matters within its knowledge) whether or not as at 8.00 am on the Second Court Date the conditions set out in clause 3.1 (other than clause 3.1(c)) of the Implementation Deed have been satisfied or waived in accordance with the Implementation Deed.

## 2.3 Termination of Implementation Deed

Without limiting any rights under the Implementation Deed or the Deed Poll, in the event that the Implementation Deed is terminated in accordance with its terms at or before 8.00 am on the Second Court Date, Tatts is released from any further obligation to take steps to implement the Scheme.

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## 3. Scheme

### 3.1 Effective Date of the Scheme

Subject to clause 3.2, the Scheme will take effect on and from the Effective Date.

### 3.2 Lapse of Scheme

The Scheme will lapse and be of no further force or effect if:

- (a) the Effective Date has not occurred on or before the End Date; or
- (b) the Implementation Deed or the Deed Poll is terminated in accordance with its terms prior to 8.00am on the Second Court Date.

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## 4. Implementation of Scheme

### 4.1 Lodgement

If the Conditions are satisfied, Tatts must lodge with ASIC in accordance with section 411(10) of the Corporations Act an office copy of the Court order approving the Scheme as soon as possible after, and in any event by no later than 5.00 pm on the Business Day following, the date on which the Court approves the Scheme.

## 4.2 Transfer of Scheme Shares

On the Implementation Date:

- (a) subject to the provision of the Scheme Consideration in the manner contemplated by clauses 4.3 and 4.4 and to Tabcorp having provided Tatts with such evidence thereof as it may reasonably require, all of the Scheme Shares will, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, be transferred to Tabcorp without the need for any further act by any Scheme Shareholder (other than acts performed by Tatts or its directors as attorney or agent for Scheme Shareholders under this Scheme) by Tatts effecting a valid transfer or transfers of the Scheme Shares to Tabcorp under section 1074D of the Corporations Act or, if that procedure is not available for any reason, by:
  - (i) Tatts delivering to Tabcorp a completed share transfer form or forms (which may be a master transfer form) to transfer all of the Scheme Shares to Tabcorp duly executed by Tatts as the attorney and agent of each Scheme Shareholder under clause 7.1 of this Scheme;
  - (ii) Tabcorp executing and delivering the share transfer form or forms to Tatts; and
  - (iii) Tatts immediately after receipt of the share transfer form or forms under clause 4.2(a)(ii), entering, or procuring the entry of, the name and address of Tabcorp in the Tatts Share Register as the holder of all of the Scheme Shares; and
- (b) Tabcorp will issue and allot to each Scheme Shareholder the Scheme Consideration for each Scheme Share held by the Scheme Shareholder, in accordance with and subject to the terms of the Scheme.

## 4.3 Provision of Scheme Consideration

Tabcorp's obligations under clause 4.2(b) will be satisfied as follows:

- (a) subject to clauses 4.4, 4.6 and 4.8, in respect of the Cash Consideration Tabcorp must:
  - (i) by no later than the Business Day before the Implementation Date, deposit in cleared funds an amount equal to the aggregate amount of the Cash Consideration payable to each Scheme Shareholder, in an Australian dollar denominated trust account operated by Tatts as trustee for the Scheme Shareholders, (provided that any interest on the amounts deposited (less bank fees and other charges) will be credited to Tabcorp's account);
  - (ii) on the Implementation Date, subject to funds having been deposited in accordance with clause 4.3(a)(i), Tatts must pay or procure the payment of the Cash Consideration from the trust account referred to in clause 4.3(a)(i) to each Scheme Shareholder based on the number of Tatts Shares held by such Scheme Shareholder as set out in the Tatts Share Register on the Record Date:
    - A. where a Scheme Shareholder has, before the Record Date, made a valid election in accordance with the requirements of the Tatts Share Registry to receive dividend payments from Tatts by electronic funds transfer to a bank account nominated by the Scheme Shareholder, paying, or procuring the payment of, the relevant amount in Australian currency by electronic means in accordance with that election; or

- B. otherwise, whether or not the Scheme Shareholder has made an election referred to in clause 4.3(a)(ii)A, dispatching, or procuring the dispatch of, a cheque for the relevant amount in Australian currency to the Scheme Shareholder by prepaid post to their Registered Address (as at the Scheme Record Date), such cheque being drawn in the name of the Scheme Shareholder (or in the case of joint holders, in accordance with the procedures set out in clause 4.4); and
- (iii) to the extent that, following satisfaction of Tatts' obligations under this clauses 4.3(a)(ii)A and 4.3(a)(ii)B, there is a surplus in the amount held by Tatts as trustee for the Scheme Shareholders in the trust account referred to in clause 4.3(a)(i), that surplus must be paid by Tatts to Tabcorp; and
- (b) subject to clauses 4.4, 4.6, 4.8 and 4.9, in respect of the Scrip Consideration, on the Implementation Date Tabcorp must:
- (i) issue to each Scheme Shareholder (other than an Ineligible Foreign Shareholder) such number of New Tabcorp Shares as that Scheme Shareholder is entitled to as Scheme Consideration;
- (ii) issue to a nominee appointed by Tabcorp in accordance with clause 4.9 such number of New Tabcorp Shares as are attributable to the Ineligible Foreign Shareholders;
- (iii) procure the entry in the Tabcorp Share Register:
- A. of the name and address of each Scheme Shareholder in respect of the New Tabcorp Shares issued to them; and
- B. of the name and address of the nominee appointed by Tabcorp in respect of those New Tabcorp Shares that would otherwise be issued to each Scheme Shareholder who is an Ineligible Foreign Shareholder; and
- (iv) within 5 Business Days after the Implementation Date, send or procure the despatch to each Scheme Shareholder whose New Tabcorp Shares are held on the issuer sponsored subregister of Tabcorp, or the nominee appointed by Tabcorp (as the case may be) by prepaid post to their address (as recorded in the Tatts Share Register as at the Record Date, except in the case of the nominee appointed by Tabcorp) of uncertificated holding statements for the New Tabcorp Shares issued to the Scheme Shareholder or the nominee appointed by Tabcorp (as the case may be) in accordance with this Scheme.
- (c) This clause 4.3 does not apply to a Scheme Shareholder who does not have a Registered Address or where Tatts and Tabcorp believe that such Scheme Shareholder (other than Foreign Overseas Shareholders) is not known at their Registered Address.

#### 4.4 Joint holders

In the case of Scheme Shares held in joint names:

- (d) any cheque required to be paid to Scheme Shareholders will be made payable to the joint holders; and
- (e) the holding statements for New Tabcorp Shares to be issued to Scheme Shareholders will be issued in the names of the joint holders,

and will be forwarded to the holder whose name appears first in the Tatts Share Register as at 5:00pm on the Record Date.

#### 4.5 Unclaimed monies

- (a) Tatts may cancel a cheque issued under this clause 4 if the cheque:
  - (i) is returned to Tatts; or
  - (ii) has not been presented for payment within six months after the date on which the cheque was presented.
- (b) During the period of twelve months commencing on the Implementation Date, on request in writing from a Scheme Shareholder to Tatts (or the Tatts Share Registry), Tatts must reissue a cheque that was previously cancelled under this clause 4.5.
- (c) The *Unclaimed Money Act* 2008 (Vic) will apply in relation to any Scheme Consideration which becomes 'unclaimed money' (as defined in section 3 of the *Unclaimed Money Act* 2008 (Vic)).

#### 4.6 Fractional entitlements and share splitting or division

- (a) If the number of Scheme Shares held by a Scheme Shareholder at the Record Date is such that the aggregate entitlement of the Scheme Shareholder to Scheme Consideration:
  - (i) comprising New Tabcorp Shares is such that a fractional entitlement to a New Tabcorp Share arises; or
  - (ii) comprising cash is such that a fractional entitlement to a cent arises,

then the entitlement of that Scheme Shareholder must be rounded up or down, with any such fractional entitlement of less than 0.5 being rounded down to the nearest whole number of New Tabcorp Shares (or cents, as applicable), and any such fractional entitlement of 0.5 or more will be rounded up to the nearest whole number of New Tabcorp Shares (or cents, as applicable).
- (b) If Tabcorp and Tatts are each of the opinion (acting reasonably) that two or more Scheme Shareholders (each of whom holds a number of Scheme Shares which results in rounding in accordance with clause 4.6(a)) have, before the Record Date, been party to shareholding splitting or division in an attempt to obtain unfair advantage by reference to such rounding, Tabcorp may direct Tatts to give notice to those Scheme Shareholders:
  - (i) setting out their names and registered addresses as shown in the Tatts Share Register;
  - (ii) stating that opinion; and
  - (iii) attributing to one of them specifically identified in the notice the Scheme Shares held by all of them,

and, after such notice has been given, the Scheme Shareholder specifically identified in the notice as the deemed holder of all the specified Scheme Shares will, for the purposes of the other provisions of the Scheme, be taken to hold all of those Scheme Shares and each of the other Scheme Shareholders whose names and registered addresses are set out in the notice will, for the purposes of the other provisions of the Scheme, be taken to hold no Scheme Shares. By complying with the other provisions of the Scheme in respect of the Scheme Shareholder specifically identified in the notice as the deemed holder of all the specified Scheme

Shares, Tabcorp will be taken to have satisfied and discharged its obligations to the other Scheme Shareholders named in the notice under the terms of the Scheme.

#### 4.7 Binding instruction or notifications

Except for a Scheme Shareholder's tax file number, any binding instruction or notification between a Scheme Shareholder and Tatts relating to Scheme Shares as at the Record Date (including, without limitation, any instructions relating to payment of dividends or to communications from Tatts) will, from the Record Date, be deemed (except to the extent determined otherwise by Tabcorp) to be a similarly binding instruction or notification to, and accepted by Tabcorp, in respect of the New Tabcorp Shares issued to the Scheme Shareholder until that instruction or notification is revoked or amended in writing addressed to Tabcorp at the Tabcorp Share Registry, provided that any such instructions or notifications accepted by Tabcorp will apply to and in respect of the issue of New Tabcorp Shares as part of the Scheme Consideration only to the extent that they are not inconsistent with the other provisions of this Scheme.

#### 4.8 Orders of a Court of Government Agency

If written notice is given to Tatts (or the Tatts Share Registry) of an order or direction made by a Court of competent jurisdiction or by another Government Agency that:

- (a) requires consideration to be provided to a third party (either through payment of a sum or the issuance of a security) in respect of Scheme Shares held by a particular Scheme Shareholder, which would otherwise be payable or required to be issued to that Scheme Shareholder by Tatts in accordance with this clause 4, then Tatts shall be entitled to procure that provision of that consideration is made in accordance with that order or direction; or
- (b) prevents Tatts from providing consideration to any particular Scheme Shareholder in accordance with this clause 4, or issuance of such consideration is otherwise prohibited by applicable law, Tatts shall be entitled to (as applicable):
  - (i) retain an amount, in Australian dollars, equal to the number of Scheme Shares held by that Scheme Shareholder multiplied by the Cash Consideration; and
  - (ii) direct Tabcorp not to issue, or to issue to a trustee or nominee, such number of New Tabcorp Shares as that Scheme Shareholder would otherwise be entitled to under clause 4.3,

until such time as provision of the Scheme Consideration in accordance with this clause 4.8 is permitted by that (or another) order or direction or otherwise by law.

#### 4.9 Ineligible Foreign Shareholders

- (a) Tabcorp will be under no obligation to issue any New Tabcorp Shares under this Scheme to any Ineligible Foreign Shareholder and instead, subject to clauses 4.6 and 4.8, Tabcorp will ensure that New Tabcorp Shares to which an Ineligible Foreign Shareholder would otherwise have been entitled (if they were a Scheme Shareholder) will be issued to a nominee appointed by Tabcorp.
- (b) Tabcorp will procure that, as soon as reasonably practicable and in any event not more than 15 Business Days after the Implementation Date, the nominee:
  - (i) sells or procures the sale on the financial market conducted by ASX of all of the New Tabcorp Shares issued to the nominee pursuant to clause 4.9(a) in such manner, at such price and on such other terms as the nominee reasonably determines; and

- (ii) remits to Tabcorp the proceeds of sale (after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges).
- (b) Promptly after the last sale of New Tabcorp Shares in accordance with clause 4.9(b), Tabcorp will pay to each Ineligible Foreign Shareholder the proportion of the net proceeds of sale received by Tabcorp pursuant to clause 4.9(b)(ii) to which that Ineligible Foreign Shareholder is entitled.
- (c) Neither Tabcorp nor Tatts gives any assurance as to the price that will be achieved for the sale of New Tabcorp Shares described in clause 4.9(b)(ii). The sale of the New Tabcorp Shares under this clause 4.9 will be at the risk of the Ineligible Foreign Shareholder.
- (d) Tabcorp must appoint the nominee at least 10 Business Days prior to the Scheme Meeting.
- (e) Tabcorp must make payments to Ineligible Foreign Shareholders under clause 4.9(b) by either (in the absolute discretion of Tatts):
- (i) where an Ineligible Foreign Shareholder has, before the Record Date, made a valid election in accordance with the requirements of the Tatts Share Registry to receive dividend payments by Tatts by electronic funds transfer to a bank account nominated by the Ineligible Foreign Shareholder, paying, or procuring the payment of, the relevant amount in Australian currency by electronic means in accordance with that election; or
  - (ii) otherwise, whether or not the Ineligible Foreign Shareholder has made an election referred to in clause 4.9(e)(i), dispatching, or procuring the dispatch of, a cheque for the relevant amount in Australian currency to the Ineligible Foreign Shareholder by prepaid post to their Registered Address (as at the Record Date), such cheque being drawn in the name of the Ineligible Foreign Shareholder (or in the case of joint holders, in accordance with the procedures in clause 4.4).
- (f) If Tatts receives professional advice that any withholding or other tax is required by law to be withheld from a payment to an Ineligible Foreign Shareholder, Tatts is entitled to withhold the relevant amount before making the payment to the Ineligible Foreign Shareholder (and payment of the reduced amount shall be taken to be full payment of the relevant amount for the purposes of this Scheme, including clause 4.9(b)(ii). Tatts must pay any amount so withheld to the relevant taxation authorities within the time permitted by law, and, if requested in writing by the relevant Ineligible Foreign Shareholder, provide a receipt or other appropriate evidence of such payment (or procure the provision of such receipt or other evidence) to the relevant Ineligible Foreign Shareholder.
- (g) Each Ineligible Foreign Shareholder appoints Tatts as its agent to receive on its behalf any financial services guide (or similar or equivalent document) or other notices (including any updates of those documents) that the nominee is required to provide to Ineligible Foreign Shareholders under the Corporations Act or any other applicable law.
- (h) Payment of the amount calculated under 4.9(b)(ii) to an Ineligible Foreign Shareholder in accordance with this clause 4.9 satisfies in full the Ineligible Foreign Shareholder's right to the Scrip Consideration.
- (i) Where the issue of New Tabcorp Shares to which a Scheme Shareholder would otherwise be entitled under this Scheme would result in a breach of law or of a provision of the constitution of Tabcorp:

- (i) Tabcorp will issue the maximum possible number of New Tabcorp Shares to the Scheme Shareholder without giving rise to such a breach; and
- (ii) to the maximum extent permitted by law, any further New Tabcorp Shares to which that Scheme Shareholder is entitled, but the issue of which to the Scheme Shareholder would give rise to such a breach, will instead be issued to the nominee and dealt with under the preceding provisions in this clause 4.9, as if a reference to an Ineligible Foreign Shareholder also included that Scheme Shareholder and references to that person's New Tabcorp Shares in that clause were limited to the New Tabcorp Shares issued to the nominee under this clause.

#### **4.10 Status of New Tabcorp Shares**

Tabcorp covenants in favour of Tatts (in its own right and on behalf of each Scheme Shareholder) that:

- (a) the New Tabcorp Shares issued as Scrip Consideration will, on their issue, rank equally in all respects with all other Tabcorp Shares on issue at the Effective Date;
- (b) it will use all reasonable endeavours to ensure that the New Tabcorp Shares issued as Scrip Consideration will be listed for quotation on the official list of the ASX with effect from the Business Day after the Effective Date (or such later date as ASX may require), initially on a deferred settlement basis and, with effect from the Business Day following the Implementation Date, on an ordinary (T+2) settlement basis; and
- (c) on issue, each New Tabcorp Share will be duly and validly issued in accordance with all applicable laws and Tabcorp's constitution, fully paid and, to the extent within the control of Tabcorp, free from any Encumbrance.

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### **5. Dealings in Tatts Shares**

#### **5.1 Dealings in Tatts Shares by Scheme Shareholders**

For the purposes of establishing the identity of Scheme Shareholders, dealings in Tatts Shares will only be recognised by Tatts if:

- (a) in the case of dealings of the type to be effected on CHESSE, the transferee is registered in the Tatts Share Register as the holder of the relevant Tatts Shares on or before the Record Date; and
- (b) in all other cases, registrable transfers or transmission applications in respect of those dealings are received at the place where the Tatts Share Register is kept by 4:00 pm on the day which is the Record Date (in which case Tatts must register such transfers before 7:00 pm on that day),

and Tatts will not accept for registration, or recognise for the purpose of establishing who are Scheme Shareholders, any transmission application or transfer in respect of Tatts Shares received after such times on the Record Date.

#### **5.2 Tatts Share Register**

For the purposes of determining entitlements to the Scheme Consideration, Tatts will until the Scheme Consideration has been paid and Tabcorp has been entered in the Tatts Share Register as the holder of all of the Scheme Shares, maintain the Tatts Share Register in accordance with the provisions of this clause 5, and the Tatts Share Register in this form and the terms of this Scheme will solely determine entitlements to the Scheme Consideration.

### 5.3 Information to be made available to Tabcorp

Tatts must procure that, as soon as practicable following the Record Date and in any event by 5:00pm on the first Business Day after the Record Date, details of the names, registered addresses and holdings of Tatts Shares of every Scheme Shareholder shown in the Tatts Share Register at the Record Date are made available to Tabcorp in such form as Tabcorp may reasonably require.

### 5.4 Effect of share certificates and holding statements

As from the Record Date (and other than for Tabcorp, following the Implementation Date), all share certificates and holding statements for the Scheme Shares will cease to have effect as documents of title in respect of those Scheme Shares and, as from that date, each entry on the Tatts Share Register at that date (other than entries in respect of Tabcorp) will cease to have any effect other than as evidence of entitlement to the Scheme Consideration.

### 5.5 No disposals after Record Date

If the Scheme becomes Effective, a Scheme Shareholder, and any person claiming through that Scheme Shareholder, must not dispose of or purport or agree to dispose of any Scheme Shares or any interest in them after the Record Date, and any attempt to do so will have no effect and Tatts shall be entitled to disregard any such disposal.

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## 6. Suspension and termination of quotation

- (a) Tatts must apply to ASX for suspension of trading of the Tatts Shares on ASX with effect from the close of trading on the Effective Date.
- (b) Tatts must apply to ASX for termination of official quotation of the Tatts Shares on ASX and the removal of Tatts from the official list of ASX with effect from the Business Day immediately following the Implementation Date.

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## 7. General Scheme provisions

### 7.1 Appointment of agent and attorney

Each Scheme Shareholder, without the need for any further act:

- (a) on the Implementation Date, irrevocably appoints Tatts and each of its directors, officers and secretaries (jointly and each of them severally) as its agent and attorney for the purpose of executing any document or form or doing any other act necessary to give effect to the terms of this Scheme including, without limitation, the execution of the share transfer(s) to be delivered under clause 4.2 and the giving of the Scheme Shareholders' consent under clause 7.3; and
- (b) on the Effective Date, irrevocably appoints Tatts and each of its directors, officers and secretaries (jointly and each of them severally) as its agent and attorney for the purpose of enforcing the Deed Poll against Tabcorp,

and Tatts accepts such appointment. Tatts, as agent of each Scheme Shareholder, may sub-delegate its functions, authorities or powers under this clause 7.1 to all or any of its directors, officers or secretaries (jointly, severally or jointly and severally).

### 7.2 Enforcement of Deed Poll

Tatts undertakes in favour of each Scheme Shareholder that it will enforce the Deed Poll against Tabcorp (as applicable on behalf of and as agent and attorney for the Scheme Shareholders).

### 7.3 Scheme Shareholders' consent

Each Scheme Shareholder irrevocably:

- (a) consents to Tatts and Tabcorp doing all things and executing all deeds, instruments, transfers or other documents as may be necessary, incidental or desirable to the implementation and performance of the Scheme; and
- (b) acknowledges that the Scheme binds Tatts and all of the Tatts Shareholders from time to time (including those who do not attend the Scheme Meeting, do not vote at that meeting or vote against the resolution to approve this Scheme).

### 7.4 Scheme Shareholder's agreements

Under the Scheme:

- (a) each Scheme Shareholder to whom New Tabcorp Shares are to be issued in accordance with this Scheme:
  - (i) agrees to become a member of Tabcorp and to have their name entered in the Tabcorp Share Register; and
  - (ii) accepts the New Tabcorp Shares issued under this Scheme on the terms and conditions of the constitution of Tabcorp and agrees to be bound by the constitution of Tabcorp as in force from time to time, without the need for any further act by a Scheme Shareholder;
- (b) each Scheme Shareholder agrees to the transfer of their Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares, to Tabcorp in accordance with the terms of this Scheme; and
- (c) agrees to the variation, cancellation or modification (if any) of the rights attached to their Scheme Shares constituted by or resulting from this Scheme.

### 7.5 Warranty by Scheme Shareholders

Each Scheme Shareholder is deemed to have warranted to Tabcorp and, to the extent enforceable, appointed and authorised Tatts as its agent to warrant to Tabcorp, that:

- (a) all of its Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) will, at the date of the transfer of them to Tabcorp under this Scheme, be fully paid and free from all Encumbrances and security interests (within the meaning of section 12 of the *Personal Properties Securities Act 2009* (Cth)), and from any interests of third parties or any restrictions on transfer of any kind (whether legal or otherwise), and that it has full power and capacity to sell and to transfer those Scheme Shares together with any rights and entitlements attaching to such shares to Tabcorp under this Scheme. Tatts undertakes that it will provide such warranty to Tabcorp as agent and attorney of each Scheme Shareholder; and
- (b) it has no existing right to be issued any other Tatts Shares or any other form of Tatts securities. Tatts undertakes that it will provide such warranty to Tabcorp as agent and attorney of each Scheme Shareholder.

### 7.6 Title to Scheme Shares and transfer free from encumbrance

- (a) Immediately upon the provision of the Scheme Consideration to each Scheme Shareholder in the manner contemplated under clause 4.3, Tabcorp will be beneficially entitled to the Scheme Shares transferred to it under this Scheme

pending registration by Tatts of Tabcorp in the Tatts Share Register as the holder of the Scheme Shares.

- (b) To the extent permitted by law, the Scheme Shares (including all rights and entitlements attaching to the Scheme Shares) transferred under this Scheme to Tabcorp, will, at the time of transfer to Tabcorp, vest in Tabcorp free from all Encumbrances and security interests (within the meaning of section 12 of the *Personal Properties Securities Act 2009* (Cth)) and free from any restrictions on transfer of any kind.

## 7.7 Appointment of sole proxy

Immediately upon the provision of the Scheme Consideration to each Scheme Shareholder in the manner contemplated by clause 4.3, and until Tatts registers Tabcorp as the holder of all Scheme Shares in the Share Register, each Scheme Shareholder:

- (a) is deemed to have appointed Tabcorp as attorney and agent (and directed Tabcorp in each such capacity) to appoint any director, officer, secretary or agent nominated by Tabcorp as its sole proxy and, where applicable or appropriate, corporate representative to attend shareholders' meetings, exercise the votes attaching to the Scheme Shares registered in their name and sign any shareholders' resolution or document;
- (b) must not attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy or by corporate representative (other than pursuant to clause 7.7(a));
- (c) must take all other actions in the capacity of a registered holder of Scheme Shares as Tabcorp reasonably directs; and
- (d) acknowledges and agrees that, in exercising the powers referred to in clause 7.7(a), Tabcorp and any director, officer, secretary or agent nominated by Tabcorp under clause 7.7(a) may act in the best interests of Tabcorp as the intended registered holder of the Scheme Shares.

## 7.8 Alterations and Conditions

Tatts may, by its counsel or solicitors, and with the consent of Tabcorp by its counsel or solicitors, consent on behalf of all persons concerned, including a Scheme Shareholder, to any modification of or amendment to the Scheme which the Court may impose, and each Scheme Shareholder agrees to such alterations or conditions which Tatts has agreed to.

## 7.9 Notices

Where a notice, transfer, transmission application, direction or other communication referred to in the Scheme is sent by post to Tatts, it will not be deemed to be received in the ordinary course of post or on a date other than the date (if any) on which it is actually received at Tatts' registered office or at the Tatts Share Registry (as the case may be).

## 7.10 Inconsistencies

This Scheme binds Tatts and all Tatts Shareholders, and to the extent of any inconsistency, overrides Tatts' constitution.

## 7.11 Further assurance

Tatts and Tabcorp will execute all documents and do all acts and things as may be necessary or desirable for the implementation of, and performance of their respective obligations under, this Scheme.

## 7.12 Stamp Duty

Tabcorp will:

- (a) pay any stamp duty payable and any related fines and penalties in respect of this Scheme and the Deed Poll, the performance of the Deed Poll and each transaction effected by or made under this Scheme and the Deed Poll; and
- (b) indemnify each Scheme Shareholder against any liability arising from its failure to comply with clause 7.12(a).

## 7.13 Governing Law

This Scheme is governed by the law applying in Victoria. The parties submit to the non-exclusive jurisdiction of the courts of Victoria and the courts competent to determine appeals from those courts, with respect to any proceedings in connection with the Scheme.

For personal use only



HERBERT  
SMITH  
FREEHILLS

## Attachment 2

Deed poll

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For personal use only



HERBERT  
SMITH  
FREEHILLS

EXECUTION

## Deed Poll

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Tabcorp Holdings Limited

For personal use only



HERBERT  
SMITH  
FREEHILLS

## Deed Poll

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Date ►

This deed poll is made

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By **Tabcorp Holdings Limited ABN 66 063 780 709**  
of 5 Bowen Crescent, Melbourne, Victoria, Australia, 3004  
(**Tabcorp**)

in favour of each person registered as a holder of fully paid ordinary shares in Tatts Group Limited (**Tatts**) in the Tatts Share Register as at the Scheme Record Date.

Recitals

- 1 Tatts and Tabcorp have entered into the Implementation Deed.
- 2 In the Implementation Deed, Tabcorp agreed to make this deed poll.
- 3 Tabcorp is making this deed poll for the purpose of covenanting in favour of the Scheme Shareholders to perform its obligations under the Implementation Deed and the Scheme.

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This deed poll provides as follows:

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## 1 Definitions and interpretation

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### 1.1 Definitions

(a) The meanings of the terms used in this deed poll are set out below.

| Term                       | Meaning   |
|----------------------------|---|
| <b>First Court Date</b>    | the first day on which an application made to the Court for an order under subsection 411(1) of the Corporations Act convening the Scheme Meeting to consider the Scheme is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard. |
| <b>Implementation Deed</b> | the merger implementation deed entered into between Tatts and Tabcorp dated 18 October 2016.  |



| Term          | Meaning   |
|---------------|---|
| <b>Scheme</b> | the scheme of arrangement under Part 5.1 of the Corporations Act between Tatts and the Scheme Shareholders, the form of which is annexed to this deed poll, subject to any alterations or conditions made or required by the Court under subsection 411(6) of the Corporations Act and agreed to in writing by Tabcorp and Tatts. |
| (b)           | Unless the context otherwise requires, terms defined in the Scheme have the same meaning when used in this deed poll.   |

## 1.2 Interpretation

Sections 1.2 and 1.3 of the Scheme apply to the interpretation of this deed poll, except that references to 'this Scheme' are to be read as references to 'this deed poll'.

## 1.3 Nature of deed poll

Tabcorp acknowledges that:

- (a) this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not party to it; and
- (b) under the Scheme, each Scheme Shareholder irrevocably appoints Tatts and each of its directors, officers and secretaries (jointly and each of them severally) as its agent and attorney to enforce this deed poll against Tabcorp.

## 2 Conditions to obligations

### 2.1 Conditions

This deed poll and the obligations of Tabcorp under this deed poll are subject to the Scheme becoming Effective.

### 2.2 Termination

The obligations of Tabcorp under this deed poll to the Scheme Shareholders will automatically terminate and the terms of this deed poll will be of no force or effect if:

- (a) the Implementation Deed is terminated in accordance with its terms; or
- (b) the Scheme is not Effective on or before the End Date,

unless Tabcorp and Tatts otherwise agree in writing.

### 2.3 Consequences of termination

If this deed poll terminates under clause 2.2, in addition and without prejudice to any other rights, powers or remedies available to it:

- (a) Tabcorp is released from its obligations to further perform this deed poll except those obligations under clause 7.1; and



- (b) each Scheme Shareholder retains the rights they have against Tabcorp in respect of any breach of this deed poll which occurred before it was terminated.

### 3 Scheme Consideration

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#### 3.1 Undertaking to provide Scheme Consideration

Subject to clause 2, Tabcorp undertakes in favour of each Scheme Shareholder to:

- (a) in relation to cash component of the Scheme Consideration (**Cash Consideration**), deposit, or procure the deposit of, in cleared funds, by no later than the Business Day before the Implementation Date, an amount equal to the aggregate amount of the Cash Consideration payable to all Scheme Shareholders under the Scheme into an Australian dollar denominated trust account operated by Tatts as trustee for the Scheme Shareholders, except that any interest on the amounts deposited (less bank fees and other charges) will be credited to Tabcorp's account;
- (b) in relation to the scrip component of the Scheme Consideration (**Scrip Consideration**), provide the Scrip Consideration to each Scheme Shareholder in accordance with the terms of the Scheme; and
- (c) undertake all other actions and obligations attributed to it under the Scheme, subject to and in accordance with the provisions of the Scheme.

#### 3.2 Shares to rank equally

Tabcorp covenants in favour of each Scheme Shareholder that the New Tabcorp Shares are issued to each Scheme Shareholder in accordance with the Scheme will:

- (a) rank equally with all Tabcorp Shares existing at the issue date;
- (b) be duly and validly issued in accordance with all applicable laws and Tabcorp's constitution; and
- (c) be issued fully paid and free from any mortgage, charge, lien, encumbrance or other security interest, or any third party right.

### 4 Warranties

---

Tabcorp represents and warrants in favour of each Scheme Shareholder, in respect of itself, that:

- (a) it is a corporation validly existing under the laws of its place of registration;
- (b) it has the corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transactions contemplated by this deed poll;
- (d) this deed poll is valid and binding on it and enforceable against it in accordance with its terms; and



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- (e) this deed poll does not conflict with, or result in the breach of or default under, any provision of its constitution, or any writ, order or injunction, judgment, law, rule or regulation to which it is a party or subject or by which it is bound.

## 5 Continuing obligations

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This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

- (a) Tabcorp has fully performed its obligations under this deed poll; or  
 (b) the earlier termination of this deed poll under clause 2.

## 6 Notices

---

### 6.1 Form of Notice

A notice or other communication in respect of this deed poll (**Notice**) must be:

- (a) in writing and in English and signed by or on behalf of the sending party; and  
 (b) addressed to Tabcorp in accordance with the details set out below (or any alternative details nominated by Tabcorp by Notice).

| Address                               | Addressee             | Email                     |
|---------------------------------------|-----------------------|---------------------------|
| 5 Bowen Crescent, Melbourne, VIC 3004 | The Company Secretary | Fiona.Mead@tabcorp.com.au |

### 6.2 How Notice must be given and when Notice is received

- (a) A Notice must be given by one of the methods set out in the table below.  
 (b) A Notice is regarded as given and received at the time set out in the table below.

However, if this means the Notice would be regarded as given and received outside the period between 9.00am and 5.00pm on a Business Day (**business hours period**), then the Notice will instead be regarded as given and received at the start of the following business hours period.

| Method of giving Notice                 | When Notice is regarded as given and received   |
|---|---|
| By hand to the nominated address        | When delivered to the nominated address   |
| By email to the nominated email address | When the email (including any attachment) comes to the attention of the recipient party or a person acting on its behalf. |



## 7 General

---

### 7.1 Stamp duty

Tabcorp:

- (a) will pay all stamp duty and any related fines and penalties in respect of the Scheme and this deed poll, the performance of this deed poll and each transaction effected by or made under the Scheme and this deed poll; and
- (b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 7.1(a).

### 7.2 Governing law and jurisdiction

- (a) This deed poll is governed by the law in force in Victoria, Australia.
- (b) Tabcorp irrevocably submits to the non-exclusive jurisdiction of courts exercising jurisdiction in Victoria and courts of appeal from them in respect of any proceedings arising out of or in connection with this deed poll.

### 7.3 Waiver

- (a) Tabcorp may not rely on the words or conduct of any Scheme Shareholder as a waiver of any right unless the waiver is in writing and signed by the Scheme Shareholder granting the waiver.
- (b) The meanings of the terms used in this clause 7.3 are set out below.

| Term           | Meaning   |
|----------------|---|
| <b>conduct</b> | includes a failure or delay in the exercise or partial exercise of a right.   |
| <b>right</b>   | any right arising under or in connection with this deed poll (including for a breach of or default under this deed poll) and includes the right to rely on this clause. |
| <b>waiver</b>  | includes an election between rights and remedies, and conduct which might otherwise give rise to an estoppel.   |

### 7.4 Variation

A provision of this deed poll may not be varied unless the variation is agreed to by Tabcorp and:

- (a) if before the First Court Date, the variation is agreed to by Tatts; or
- (b) if on or after the First Court Date, the variation is agreed to by Tatts and the Court indicates that the variation would not of itself preclude approval of the Scheme,



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in which event Tabcorp will enter into a further deed poll in favour of the Scheme Shareholders giving effect to the variation.

### **7.5 Cumulative rights**

The rights, powers and remedies of Tabcorp and the Scheme Shareholders under this deed poll are cumulative and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

### **7.6 Assignment**

- (a) The rights created by this deed poll are personal to Tabcorp and each Scheme Shareholder and must not be dealt with at law or in equity without the prior written consent of Tabcorp.
- (b) Any purported dealing in contravention of clause 7.6(a) is invalid.

### **7.7 Further action**

Tabcorp must, at its own expense, do all things and execute all documents necessary to give full effect to this deed poll and the transactions contemplated by it.

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## Signing page

Executed as a deed poll

---

Signed sealed and delivered by  
**Tabcorp Holdings Limited**  
by

*sign here* ▶ \_\_\_\_\_  
Company Secretary/Director

*print name* \_\_\_\_\_

*sign here* ▶ \_\_\_\_\_  
Director

*print name* \_\_\_\_\_

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UBS Evidence Lab

## Australian Gaming

### UBS Evidence Lab: Australian wagering iOS app download trends

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#### Using iOS app downloads to forecast wagering market share

In FY15, we estimate that the digital market (including internet & phone) grew 20% and now represents more than 50% of turnover. In comparison, retail declined 6%. Along with a structural move to digital (from retail), competition is driving digital growth, underpinned by advertising / promotions. Tracking iOS app download share across the wagering operators (with the help of UBS Evidence Lab), and comparing this to digital market share, suggests that there appears to be some correlation. We believe this may prove to be an indicator of revenue trends across the operators and long term sustainable digital market share.

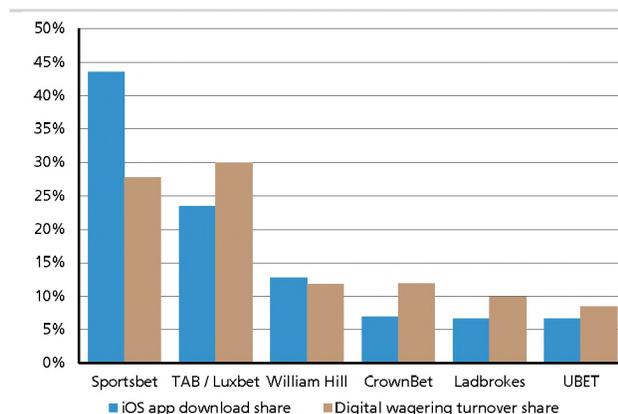
#### 2H16 YTD: Tabcorp wagering app market share 18%, UBET stabilising at 5%

Tabcorp (including Luxbet) has the highest level of digital turnover (including internet & phone), and the second highest iOS app download share. However, according to our data, its share of app downloads / digital turnover share has generally been trending lower over the last two-years (which has continued into 2H16). We have previously suggested digital competition is intensifying, and the data suggests that Ladbrokes and William Hill are taking some share of downloads. Tatts launched "UBET" in April 2015. Although UBET initially saw a spike in app download share (to a high of 17%), it has averaged 5% share over the last six-months. With that said, the "tatts.com" app is still active and is operating a legacy wagering platform. We expect Tatts to fully migrate its digital wagering customers to "UBET" from mid-June. We believe monitoring app download share data over this period could provide a fairer indication of market share.

#### Digital turnover / revenue up 22% / 12% in the March '16 quarter (UBSe)

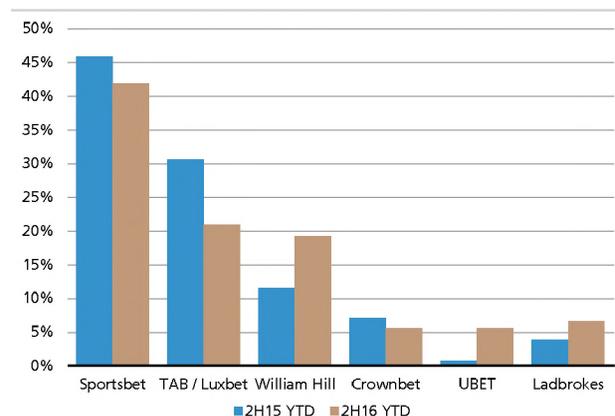
We estimate Tabcorp, William Hill, Sportsbet and Ladbrokes grew digital turnover 22% in the March '16 quarter (3Q16) compared to 20% in 1H16. However, most operators were impacted by unfavourable outcomes impacting revenue growth (digital revenue was up 12% in 3Q16, UBSe). These four operators represent around 70% of the Australian digital market, and as such provide a good growth proxy.

Figure 1: Digital / phone t/o vs app downloads (1H16)



Source: UBS Evidence Lab, Sensor Tower, company reports, UBSe

Figure 2: iOS App download share - 2H16 YTD vs. pcp



Source: UBS Evidence Lab, Sensor Tower, based on January to April 2016

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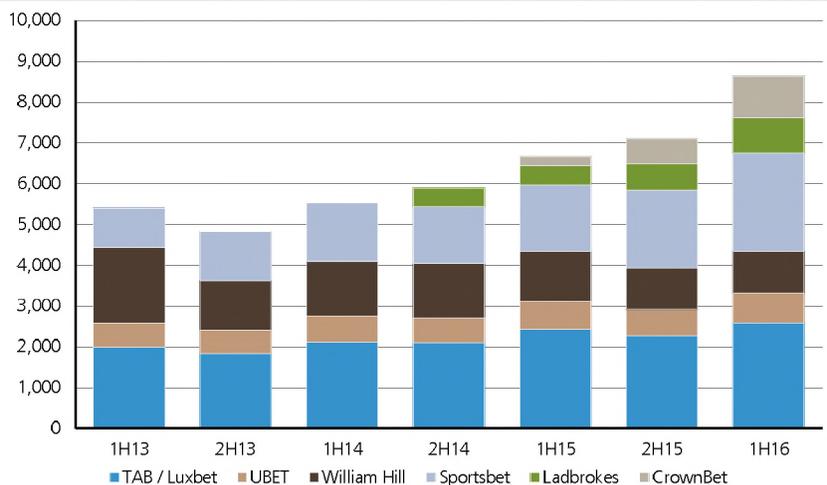
*\*UBS Evidence Lab provides our research analysts with rigorous primary research. The team conducts representative surveys of key sector decision-makers, mines the Internet, systematically collects observable data, and pulls information from other innovative sources. They apply a variety of advanced analytic techniques to derive insights from the data collected. This valuable resource supplies UBS analysts with differentiated information to support their forecasts and recommendations—in turn enhancing our ability to serve the needs of our clients.*

**Methodology:** For this report, UBS Evidence Lab analysed iPhone and iPad application rankings and downloads data. UBS Evidence Lab tracks daily rankings for thousands of mobile applications in the iOS store across more than 50 countries. We also monitor mobile application reviews and ratings. Data presented in this report is up through the end of April

## Australian wagering market

The chart below illustrates the digital turnover (including internet & phone) for six of the major Australian digital wagering operators. Combined, we estimate that they represent more than 80% of the digital market. NB: We have combined digital and phone because not all operators split the two.

**Figure 3: Australian wagering – digital turnover (internet & phone)**



**In FY15, we estimate that the digital market (including internet and phone) grew 20% and now represents more than 50% of total turnover**

Source: Company reports, UBSe

The table below ranks the major Australian wagering iOS app operators based on download share.

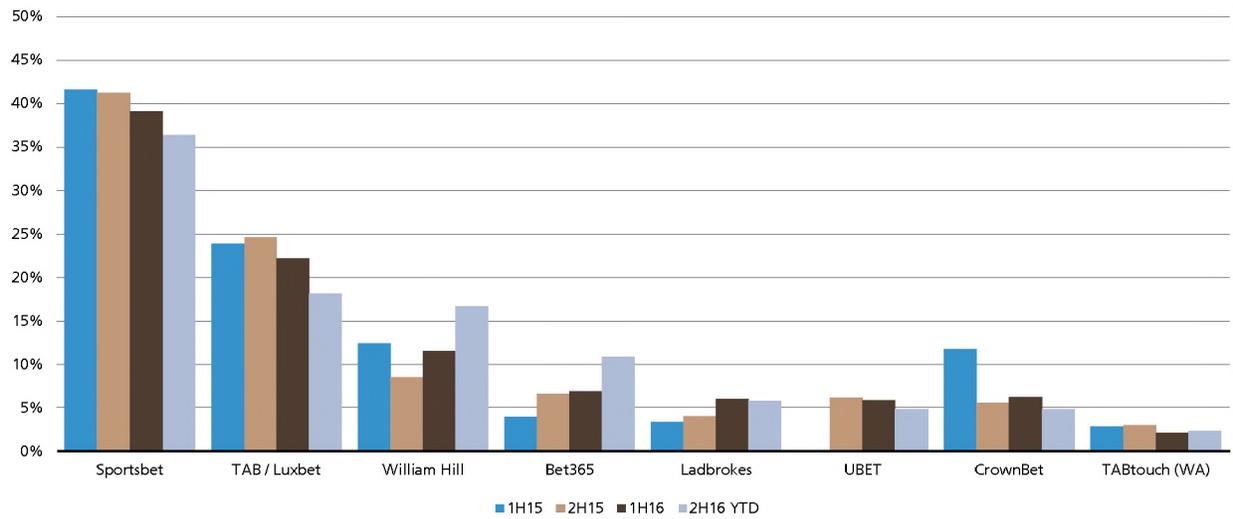
**Figure 4: Australian wagering – major online operators**

| Company       | 2H16 YTD rank*    | UBS comments  |
|---------------|-------------------|---|
| Sportsbet     | 1 (36% mkt share) | Consistently ranked as the number one downloaded wagering app since 2014                      |
| TAB / Luxbet  | 2 (18% mkt share) | Consistently ranked as the number two downloaded wagering app since 2014                      |
| William Hill  | 3 (17% mkt share) | Includes "tomwaterhouse.com" / "Sportingbet" / "Centrebet" and has ranked third for 18 months |
| Bet365        | 4 (11% mkt share) | Consistently ranked as the number four downloaded wagering app since 2014                     |
| Ladbrokes     | 5 (6% mkt share)  | Has progressively improved ranking each year  |
| UBET          | 6 (5% mkt share)  | Launched in April 2015  |
| CrownBet      | 7 (5% mkt share)  | Launched in September 2014  |
| TABtouch (WA) | 8 (2% mkt share)  | Operated by the Western Australian government   |

Source: UBS Evidence Lab, Sensor Tower, company reports, UBSe, \*based on iOS app download share between the wagering operators within the table above

The chart below illustrates the share of iOS app downloads over the last 22 months.

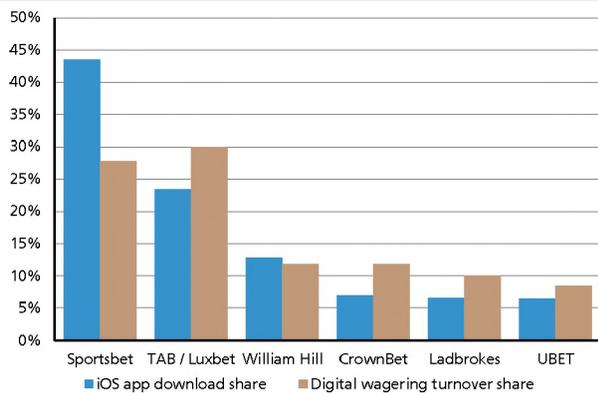
**Figure 5: Australian wagering – iOS app download share**



Source: UBS Evidence Lab, Sensor Tower, 2H16 YTD based on January – April 2016

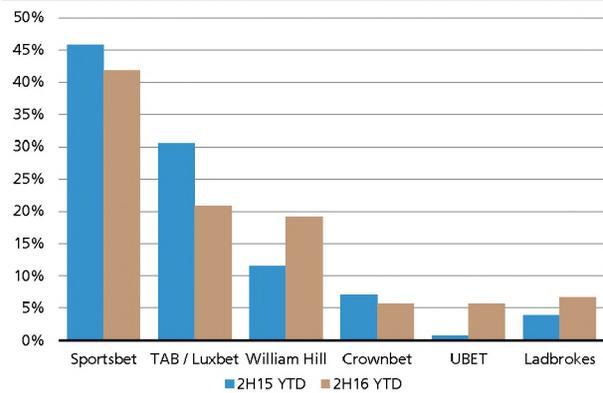
According to UBS Evidence Lab, there appears to be some correlation between "iOS app download share" and "digital wagering turnover" market share.

**Figure 6: Digital / phone t/o vs app downloads (1H16)**



Source: UBS Evidence Lab, Sensor Tower, company reports, UBSe. Note results are relative to the sample set (Bet365 and TABtouch removed due to lack of revenue disclosure).

**Figure 7: iOS App download share – 2H16 YTD vs. pcp**



Source: UBS Evidence Lab, Sensor Tower, based on January to April 2016

Comparing app download shares over 2H16 YTD (January – April 2016) vs the pcp indicates that William Hill, UBET and Ladbrokes are taking app download market share. We note that: 1) William Hill market share gains are largely underpinned by the brand consolidation and subsequent marketing campaigns such as The Australian Open sponsorship and, 2) UBET only launched in April 2015 and is cycling a soft comp.

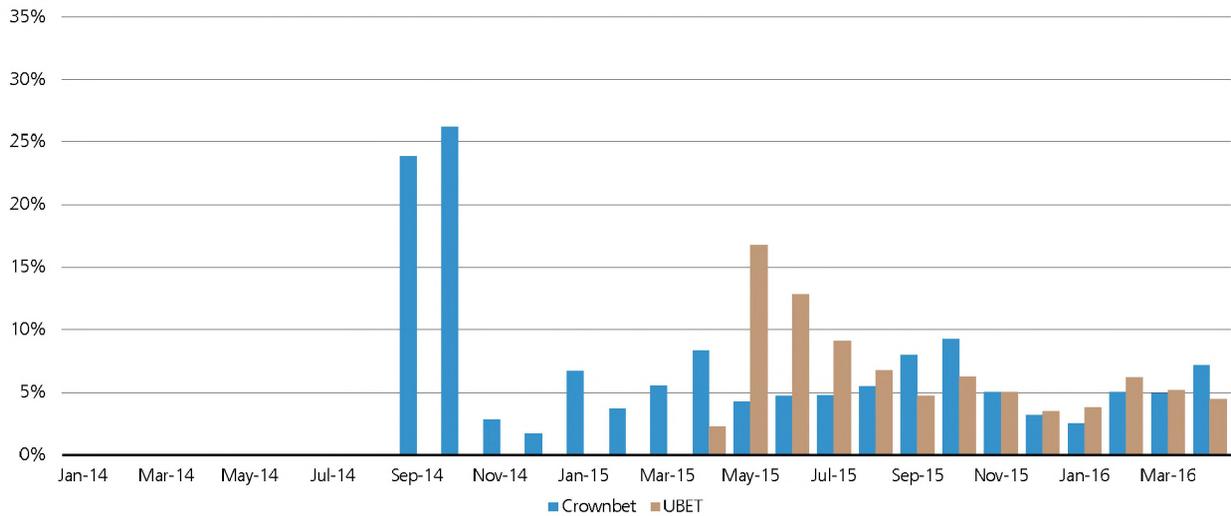
In regards to UBET, we note that the "tatts.com" app is still active and is operating a legacy wagering platform. We expect Tatt's to fully migrate its digital wagering customers to UBET from mid-June. Monitoring app download share data over this period should provide a fairer indication of market share.

## App launches – CrownBet and UBET

In the chart below, we look at the brand launches of "CrownBet" and "UBET". From the chart, there seems to be a "spike" in app download market share followed by lower market share as downloads stabilise.

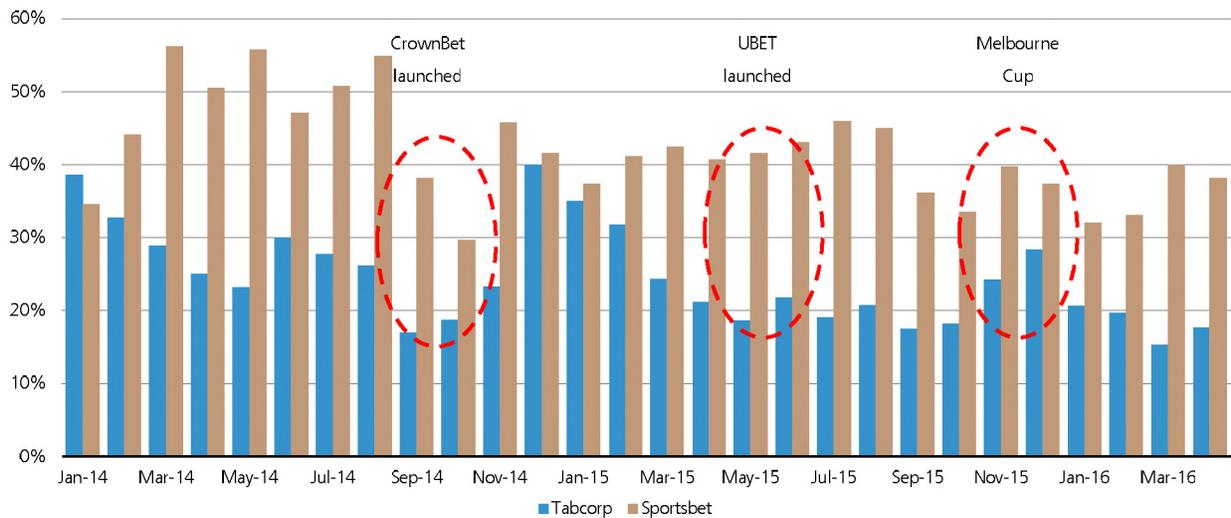
**App launches / event sponsorships can lift iOS app download share... however, this quickly reverts to trend**

**Figure 8: CrownBet & UBET– wagering app download market share**



Source: UBS Evidence Lab, Sensor Tower

**Figure 9: Sportsbet & Tabcorp– wagering app download market share**



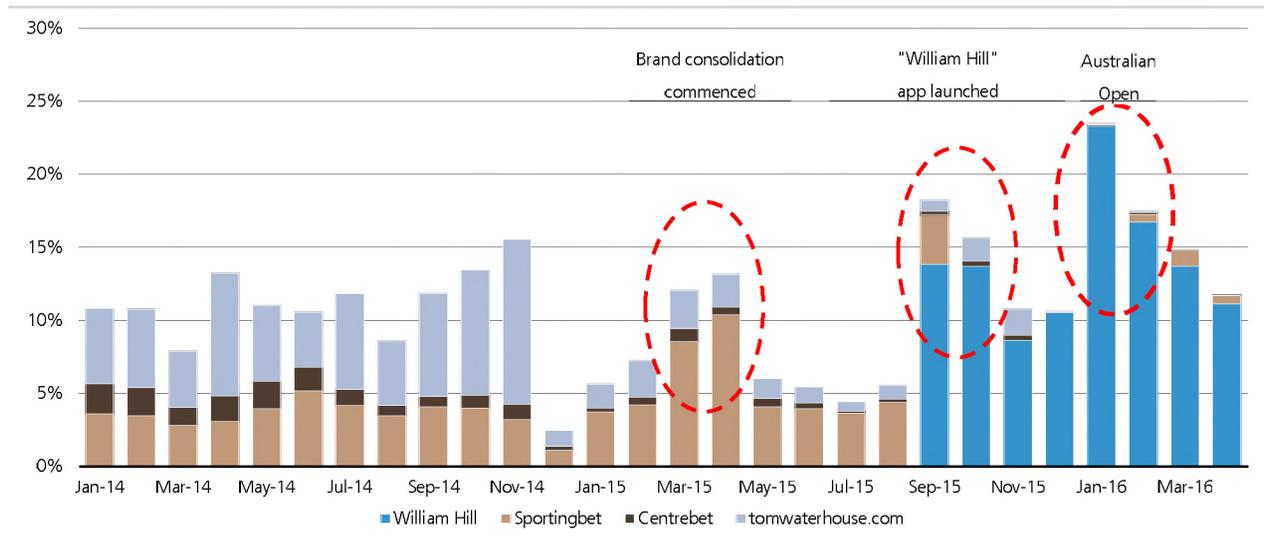
Source: UBS Evidence Lab, Sensor Tower

## William Hill app download growth

William Hill entered the Australian market through the acquisitions of "Sportingbet", "tomwaterhouse.com" and "Centrebet" in 2013. William Hill originally retained the brands however, in 2015 the brands were consolidated to "William Hill". The brand migration was largely carried out in two campaigns:

- **February / March 2015:** The "Sportingbet" app was rebranded to "William Hill". This app was then super seeded by the launch of the new "William Hill" app in September 2015.
- **January 2016:** William Hill sponsored the Australian open in January which coincided with the launch of its "in-play betting" capability. During the event William Hill reported that it had acquired ~1,000 customers per day. The "tomwaterhouse.com" app was de-activated in March 2016.

**Figure 10: William Hill– wagering app download market share**

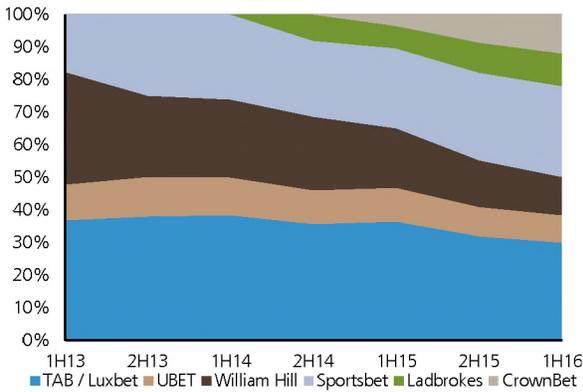


Source: UBS Evidence Lab, Sensor Tower

William Hill iOS app downloads have benefitted from the rebrand / Australian open sponsorship. However, we note William Hill has lost the most market share of digital turnover over the last 18 months.

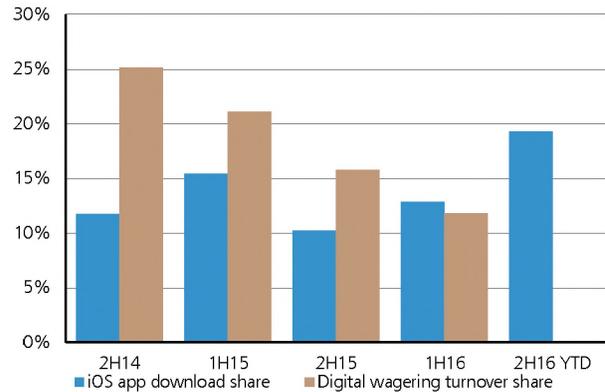
**William Hill has consolidated its Australian business under one brand... can it win back market share?**

**Figure 11: Australian wagering – digital market share**



Source: Company reports, UBS

**Figure 12: William Hill – turnover / app download share**



Source: UBS Evidence Lab, Sensor Tower, company reports, UBS

### App launch success based on "download rankings"

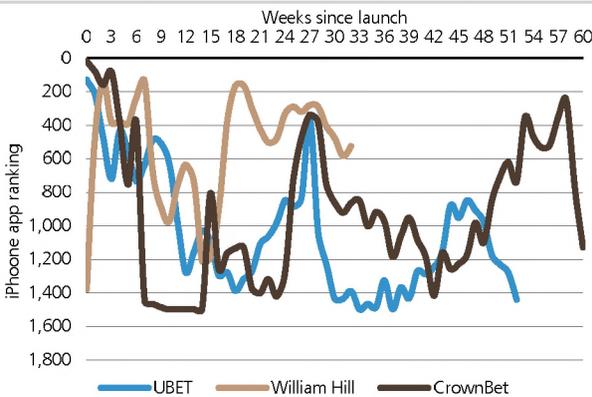
Based on "app download rankings" William Hill's brand re-launch has been more successful than the launch of "UBET" and "CrownBet".

- "William Hill" launched its "new" wagering app in September 2015
- "CrownBet" launched in September 2014
- "UBET" launched in April 2015.

**The "William Hill" app re-launch was more successful than the launch of "UBET" and "CrownBet" based on "iPhone app rankings"**

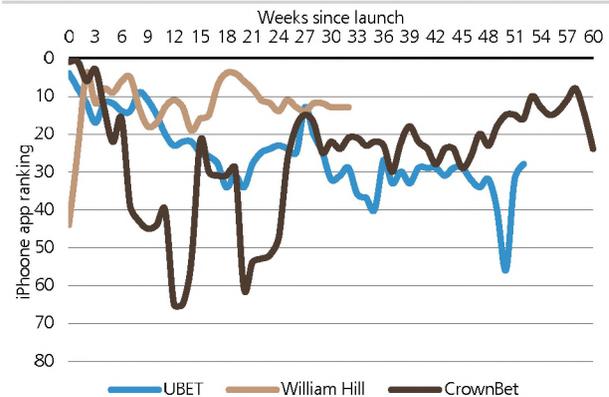
The two charts below illustrate the "app download rankings" on a weekly basis within the iPhone app store based on: 1) all apps and 2) all "sports category" apps.

**Figure 13: iPhone Rankings All Categories, Australia**



Source: UBS Evidence Lab, Sensor Tower

**Figure 14: iPhone Rankings Sports Category, Australia**



Source: UBS Evidence Lab, Sensor Tower

## Digital market update – March '16

We estimate Tabcorp, William Hill, Sportsbet and Ladbrokes grew digital turnover 22% in the March '16 quarter (3Q16) compared to 20% in 1H16. However, most operators were impacted by unfavourable outcomes impacting revenue growth (up 12% in 3Q16, UBSe). These four operators represent around 70% of the Australian digital market, and as such provide a good growth proxy.

**Figure 15: Australian wagering – March '16 quarterly results**

|  | William Hill | Sportsbet | Ladbrokes | Tabcorp* |
|--|--------------|-----------|-----------|----------|
| Digital (internet & phone) – turnover growth (YoY) | 8%           | 31%       | 52%       | 11%      |
| Net revenue growth (YoY)                           | (22%)        | 25%       | 38%       | 7%       |

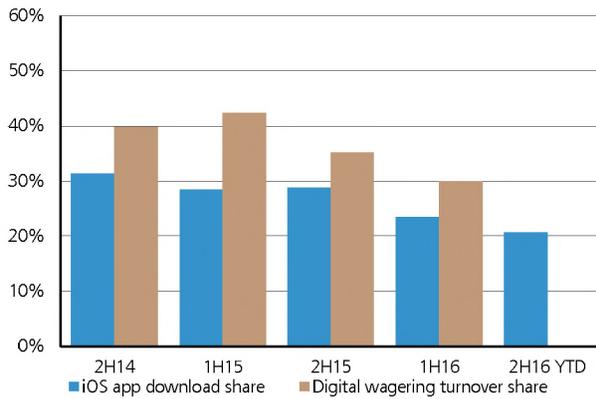
Source: Company reports, UBSe, \*includes digital and phone and excludes Luxbet

- Tabcorp** delivered 3% turnover growth YoY in the March quarter. Net revenue excluding Media increased 0.5%. Revenue growth was impacted by a 2.4% decline in retail betting and a 51 basis point decline in the win rate to 15.5% (from 16.1% in the pcp). The decline in the win rate follows adverse results from several major race days (which competitors have also commented on). Higher promotional activity may have also impacted the win rate, but the major impact was likely due to a large number of favourites winning. Tabcorp's digital turnover was up 15% YoY in the quarter. However, when isolating digital, phone betting, and Luxbet (which is more comparable to the corporate bookmakers), we estimate turnover / revenue increased 11% / 7% YoY. Refer to ["3Q16 trading update slightly below expectations". 02/05/2016](#)
- Sportsbet** reported 31% turnover growth YoY in the March quarter. Net revenue increased 25%. The delta between turnover / net revenue was "impacted by adverse sports results in the period". Active customers increased 42%.
- William Hill** reported 8% turnover growth YoY in the 17 week period to 26 April 2016. Net revenue was however down 22% reflective of a lower win rate of 9.4% (down 1.4%), impacted by horse racing results. The brand transition to "William Hill" delivered 22% increased wagering within the app. Active customer were up 1% and new accounts were up 46%, with acquisitions from the Australian Open partnership period continuing to generate "good returns".
- Ladbrokes** reported 52% turnover growth YoY in the March quarter. Net revenue increased 38.4% on a flat gross win rate (9.8%). Active customers increased 87%. Management indicated that "marketing and sponsorship activity delivered increases actives and recreational customer base".

## Digital turnover share vs. iOS app download share

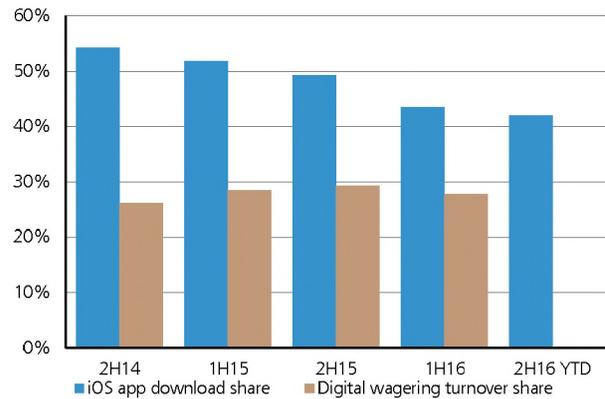
The charts below illustrate digital wagering turnover share which includes internet and phone (UBSe) versus iOS app download share (based on UBS Evidence Lab).

**Figure 16: TAB / Luxbet – turnover / app download share**



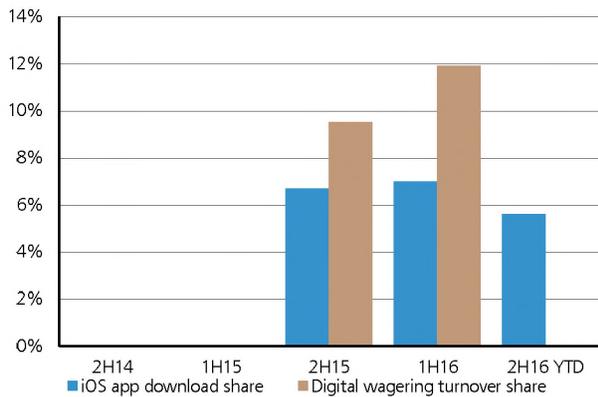
Source: UBS Evidence Lab, Sensor Tower, company reports, UBSe

**Figure 17: Sportsbet – turnover / app download share**



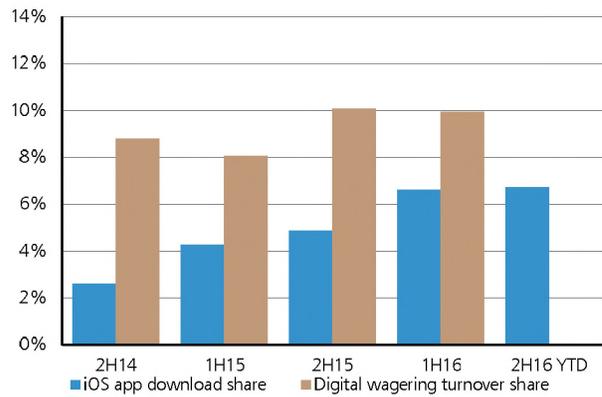
Source: UBS Evidence Lab, Sensor Tower, company reports, UBSe

**Figure 18: CrownBet – turnover / app download share**



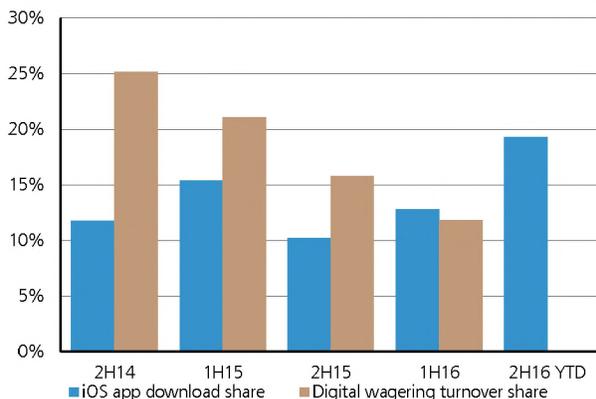
Source: UBS Evidence Lab, Sensor Tower, company reports, UBSe

**Figure 19: – Ladbrokes - turnover / app download share**



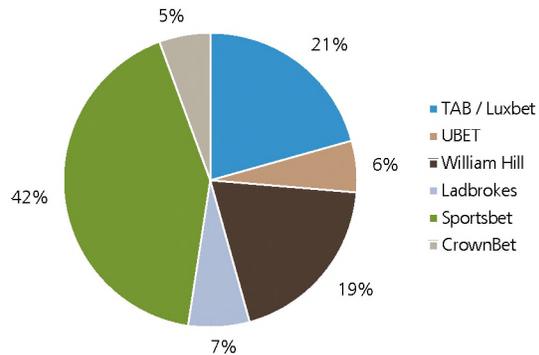
Source: UBS Evidence Lab, Sensor Tower, company reports, UBSe

**Figure 20: William Hill – turnover / app download share**



Source: UBS Evidence Lab, Sensor Tower, company reports, UBSe

**Figure 21: 2H16 YTD app download share**



Source: UBS Evidence Lab, Sensor Tower

**Valuation Method and Risk Statement**

Tabcorp / Tatts - We believe the key risk to Tabcorp / Tatts is any change in government regulation negatively impacting its gaming and wagering licences in key jurisdictions, along with a softer than expected consumer environment, and changes to consumer preferences.

We value both Tabcorp / Tatts on a DCF implied SOTP.

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| 12-Month Rating   | Definition  | Coverage <sup>1</sup> | IB Services <sup>2</sup> |
|-------------------|---|-----------------------|--------------------------|
| <b>Buy</b>        | FSR is > 6% above the MRA.  | 49%                   | 32%                      |
| <b>Neutral</b>    | FSR is between -6% and 6% of the MRA.   | 38%                   | 26%                      |
| <b>Sell</b>       | FSR is > 6% below the MRA.  | 14%                   | 19%                      |
| Short-Term Rating | Definition  | Coverage <sup>3</sup> | IB Services <sup>4</sup> |
| <b>Buy</b>        | Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event. | <1%                   | <1%                      |
| <b>Sell</b>       | Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event. | <1%                   | <1%                      |

Source: UBS. Rating allocations are as of 31 March 2016.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

**KEY DEFINITIONS:** **Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

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UBS Securities Australia Ltd: Matt Ryan; David Fabris.

**Company Disclosures**

| Company Name  | Reuters | 12-month rating | Short-term rating | Price   | Price date  |
|---|---------|-----------------|-------------------|---------|-------------|
| <b>Tabcorp Holdings Limited</b> <sup>4, 5, 13</sup> | TAH.AX  | Neutral         | N/A               | A\$4.41 | 06 Jun 2016 |
| <b>Tatts Group Limited</b>                          | TTS.AX  | Buy             | N/A               | A\$3.95 | 06 Jun 2016 |

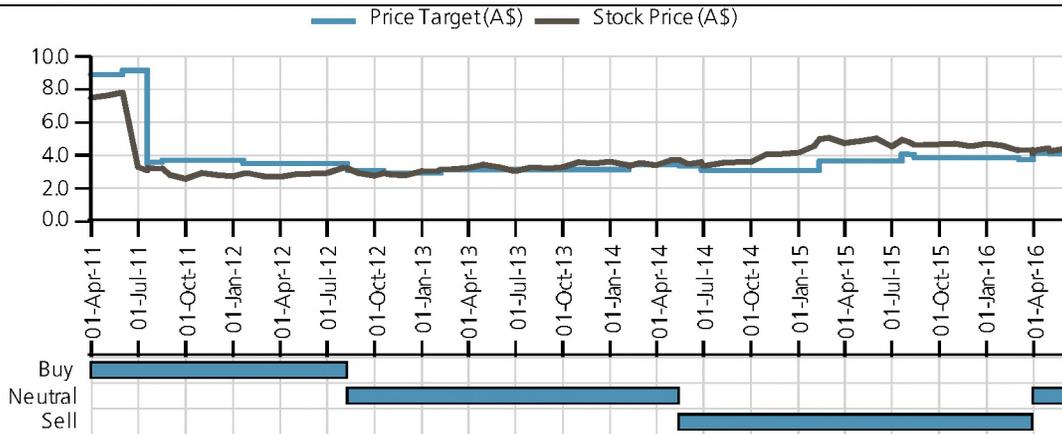
Source: UBS. All prices as of local market close.

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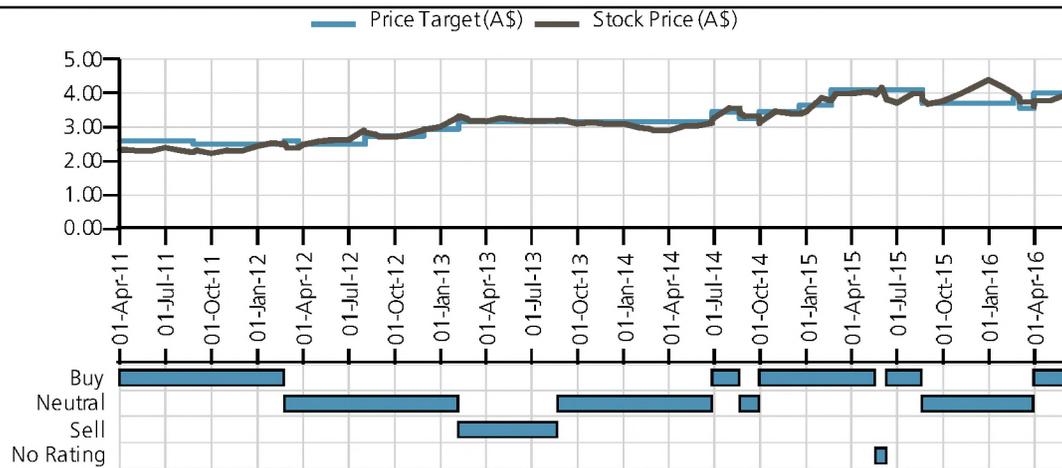
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**Tabcorp Holdings Limited (A\$)**



Source: UBS; as of 06 Jun 2016

**Tatts Group Limited (A\$)**



Source: UBS; as of 06 Jun 2016

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16 November 2015

### **Merger discussions with Tatts Group**

In response to media commentary regarding a potential merger between Tabcorp Holdings Limited ("Tabcorp") and Tatts Group Limited ("Tatts"), Tabcorp confirms that while confidential discussions have taken place regarding a potential merger, the companies were unable to agree mutually acceptable terms and those discussions have ended. There are no further discussions taking place between the parties relating to a merger or any other form of corporate transaction.

For more information:  
Nicholas Tzaferis, GM Corporate Affairs, 03 9868 2529  
Lachlan Fitt, GM Investor Relations and Strategy, 02 9218 1414

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Media release



19 October 2016

## Tabcorp and Tatts to combine to create a world-class, diversified gambling entertainment group

- Creates a leading, diversified portfolio of gambling entertainment businesses well placed to compete in a rapidly evolving marketplace and pursue growth opportunities globally
- Anticipated to provide a wide range of benefits for stakeholders and is expected to result in at least \$50 million per annum of additional funding to the Australian racing industry, which enhances its long term sustainability
- Pro forma enterprise value of approximately \$11.3 billion<sup>1</sup>, revenue of over \$5 billion, EBITDA of over \$1 billion<sup>2</sup> and a strong balance sheet with an intended investment grade credit rating
- Combination expected to deliver at least \$130 million of annual EBITDA synergies and business improvements, net of benefits to the racing industry
- Transaction expected to be EPS accretive (before significant items) and value accretive for both Tabcorp and Tatts shareholders
- Combined Group expected to target a dividend payout ratio of 90% of net profit after tax, before significant items and amortisation of the Victorian Wagering and Betting Licence
- Combined Group expected to undertake a \$500 million share buyback, post implementation of the Transaction and subject to Board approval and market conditions
- Completion expected mid-2017 following Tatts shareholder, regulatory and other approvals
- Transaction is unanimously recommended by the Boards of Tabcorp and Tatts<sup>3</sup>

### Transaction details

Tabcorp Holdings Limited ("Tabcorp") and Tatts Group Limited ("Tatts") are pleased to announce the companies have reached an agreement to combine the two companies via a Tatts Scheme of Arrangement in which Tatts shareholders will receive 0.80 Tabcorp shares plus 42.5 cents cash for each Tatts share held (the "Transaction").

The Transaction will create a world-class, diversified gambling entertainment group, with a pro forma enterprise value of approximately \$11.3 billion<sup>1</sup>, a national footprint and a diverse suite of product offerings across wagering, media, lotteries, Keno and gaming services (the "Combined Group").

Based on the most recent closing price of Tabcorp shares (\$4.89 per share as at 17 October 2016), the Transaction implies a value of \$4.34 per Tatts share (before the value of synergies and business improvements). This represents:

- a premium of approximately 20.8% to the most recent closing price of Tatts shares (\$3.59 per share);

<sup>1</sup> Based on the closing share prices of Tabcorp and Tatts as at 17 October 2016, being the last trading day prior to the announcement of the Transaction and pro forma net debt of the Combined Group as at 30 June 2016

<sup>2</sup> Based on reported FY 2016 revenue and EBITDA for Tabcorp and Tatts. Excludes the impact of synergies and business improvements

<sup>3</sup> In Tatts Board's case, subject to there being no superior proposal and also to an independent expert concluding the Transaction is in the best interests of Tatts shareholders



- a premium of approximately 18.4% to the 1-month volume weighted average price ("VWAP") of Tatts shares (\$3.66 per share)<sup>4</sup>; and
- an implied enterprise value (EV) for Tatts of \$7.4 billion and an implied FY 2016 EV/ EBITDA valuation multiple of 15.0x.<sup>5</sup>

On completion of the Transaction, existing Tabcorp shareholders will own approximately 42% of the Combined Group and existing Tatts shareholders will own approximately 58%.<sup>6</sup>

Based on a blended FY 2017 EV/EBITDA multiple for Tabcorp and Tatts of 10.7x<sup>7</sup>, the estimated synergies and business improvements are worth approximately \$1.4 billion.<sup>8</sup>

Taking into account the estimated synergies and business improvement benefits, the Transaction implies a pro forma value uplift for Tatts shareholders of approximately 30% per Tatts share (before taking into account any potential market re-rating).<sup>9</sup>

Tatts intends to pay its shareholders a fully-franked special dividend of 20 cents per share<sup>10</sup> (subject to the availability of franking credits) immediately prior to implementation of the Transaction in lieu of part of the cash consideration. A fully-franked dividend of 20 cents per share would have approximately 8.6 cents per share of franking credits attached.

The Directors of both Tabcorp and Tatts believe the Transaction represents a unique and compelling opportunity to create significant value for Tabcorp and Tatts shareholders, a winning offer for customers and material benefits for stakeholders, including the racing industry, TAB agencies, licensed venues, small businesses, and Federal, State and Territory Governments and regional communities.

The Directors of Tabcorp believe the Transaction is in the best interests of Tabcorp shareholders and unanimously support the Transaction. The Directors of Tatts believe the Transaction is in the best interests of Tatts shareholders and unanimously recommend that Tatts shareholders vote in favour of the Transaction, in the absence of a superior proposal and subject to an independent expert concluding the Transaction is in the best interests of Tatts shareholders. Subject to those considerations, the Directors of Tatts intend to vote all shares they personally hold in favour of the Transaction.

AustralianSuper, one of Tatts' largest shareholders, has indicated that it intends to vote its Tatts shares in favour of the Transaction, in the absence of a superior proposal and subject to there being no material adverse change in circumstances.

<sup>4</sup> Based on the 1-month volume weighted average price of Tatts shares up to and including 17 October 2016, being the last trading day prior to the announcement of the Transaction

<sup>5</sup> Based on Tatts' reported net debt of \$1,041 million as 30 June 2016, FY 2016 reported EBITDA of \$495 million, Tatts' fully diluted shares outstanding of 1,469 million (including performance rights) and the Tabcorp share price as at 17 October 2016, being the last trading day prior to the announcement of the Transaction

<sup>6</sup> Based on Tabcorp's ordinary shares outstanding of 835 million and Tatts' fully diluted shares outstanding of 1,469 million (including performance rights) as at 18 October 2016

<sup>7</sup> Based on the Bloomberg consensus FY 2017 EBITDA estimates as at 18 October 2016, implying an FY 2017 EV/EBITDA multiple for Tabcorp of 9.1x, Tatts of 12.4x and the implied weighted average for the Combined Group of 10.7x

<sup>8</sup> Based on \$130 million of expected EBITDA synergies and business improvements

<sup>9</sup> Based on the Bloomberg consensus FY 2017 NPAT estimates as at 18 October 2016, implying a FY 2017 P/E multiple for Tabcorp of 20.6x, Tatts of 19.6x and an implied weighted average for the Combined Group of 20.0x. Potential value uplift assuming Transaction terms and taking into account full pro forma run-rate EBITDA synergies and business improvements of \$130 million, estimated transaction costs of approximately \$90 million and net one-off estimated integration costs and capital expenditure of approximately \$110 million

<sup>10</sup> Whilst Tatts estimates the special dividend will be 20 cents per Tatts share, under the Implementation Deed Tatts is able to pay a special dividend of up to 25 cents per share (subject to the availability of franking credits)



### Chairman's comment

Tabcorp's Chairman, Paula Dwyer, said:

"In today's rapidly changing landscape, bringing together our businesses will create a strong and diversified business that is well placed to invest, innovate and compete, both in Australia and globally.

"This Transaction is expected to deliver significant value for both sets of shareholders, and material benefits to other key stakeholders including the racing industry, business partners, customers, and Governments.

"Together we will be able to pursue more investment and innovation to deliver a winning offer for customers, including best-in-class digital products and experiences.

"In wagering, combining our two complementary businesses will give us a national footprint and could create a pathway to larger wagering pools. We are excited by this opportunity, which we believe will deliver an enhanced wagering experience for our customers and, in turn, will generate stronger returns to the Australian racing industry, underpinning its sustainability.

"At the same time, bringing together our lotteries, Keno and gaming services businesses will give us the capability to create an even more compelling offer for customers and retail stakeholders as the combination increases capability, while increasing diversification."

Tatts' Chairman, Harry Boon, said:

"The combination of Tabcorp and Tatts is based on clear industrial logic and a strong and tangible synergy proposition. It comes at a time of escalating competition from new business models and rapid consolidation of gaming and wagering companies globally. The scale and efficiency benefits from this combination will provide a stronger platform in this dynamic environment.

"We believe the implied value accretion for Tatts shareholders fairly reflects the strategic value of our businesses. Further, the scrip consideration allows Tatts shareholders the opportunity to participate as shareholders in the Combined Group, with ongoing exposure to the future growth of wagering, while also retaining exposure to Tatts' unique and growing lotteries business.

"In addition to our shareholders, the benefits of this combination are also very clear for the racing industry and for customers who should, in due course and with racing industry support, be able to access deeper and more liquid wagering pools.

"A combination of Tabcorp and Tatts has been the subject of numerous discussions between the two companies over time and this transaction is fully supported by our respective Boards."

### Significant value for Tabcorp and Tatts shareholders

The Directors of both Tabcorp and Tatts expect the Transaction to deliver a number of financial and other benefits to both sets of shareholders:

- The Combined Group is expected to have an attractive, diversified national portfolio of predominantly long-dated gambling licences, and be strongly positioned to invest, innovate and compete in an evolving marketplace
- The Transaction is expected to generate earnings per share accretion (before significant items) and value accretion for both Tabcorp and Tatts shareholders. The combination is expected to deliver at least \$130 million of annual EBITDA synergies and business improvements, net of benefits to the racing industry, in the first full year following completion of integration. Completion of integration is expected to take approximately two years, subject to the receipt of all necessary regulatory approvals.



Net one-off estimated integration costs and capital expenditure are estimated at approximately \$110 million

- The Combined Group is expected to have a strong balance sheet, with the capacity to pursue capital management initiatives. The Combined Group will target a gross debt to EBITDA ratio of 3.0x to 3.5x and intends to have an investment grade credit rating
- The Combined Group expects to undertake a \$500 million share buyback, post implementation of the Transaction and subject to Board approval and market conditions
- The Combined Group is expected to target a dividend payout ratio of 90% of net profit after tax, before significant items and amortisation of the Victorian Wagering and Betting Licence. Both Tabcorp and Tatts expect to continue to pay dividends in the ordinary course (subject to the Implementation Deed) until implementation of the Transaction

### **Benefits to the Australian racing industry and beyond**

- Tabcorp and Tatts are together the largest source of funding for Australia's racing industry, having delivered approximately \$1 billion to the racing industry in FY 2016
- The Combined Group's commitment to investment, its national footprint and enhanced operational platform will create a stronger business, and provide a strong financial base to support the racing industry, strengthening its overall sustainability
- The Transaction is expected to result in at least \$50 million per annum of additional funding to the racing industry, which will flow to participants and related industries across Australia
- Additional payments to the racing industry will create broader economic benefits, including in regional areas
- The Transaction provides a pathway to national pooling for pari-mutuel wagering, subject to regulatory and racing industry approvals and an enhanced ability to adopt strategies to address the national decline in pari-mutuel betting

### **Profile of the Combined Group**

The Combined Group is expected to have a pro forma enterprise value of approximately \$11.3 billion, market capitalisation of approximately \$8.6 billion<sup>11</sup>, revenue of over \$5 billion and EBITDA of over \$1 billion.<sup>12</sup>

The Combined Group will have diversified national wagering, media, lotteries, Keno, and gaming operations including:

#### **Wagering & Media**

- Totalisator and fixed odds licences and retail wagering networks in NSW, VIC, QLD, SA, TAS, ACT and NT, offering wagering products in approximately 4,300 retail outlets
- National Sky Racing media business

#### **Lotteries**

- An iconic Australian lotteries business with licences to offer products in NSW, VIC, QLD, SA, TAS, ACT and NT

<sup>11</sup> Based on the closing share prices of Tabcorp and Tatts as at 17 October 2016, being the last trading day prior to the announcement of the Transaction. Pro forma net debt of the Combined Group as at 30 June 2016 (including estimated transaction costs of \$90 million) adjusted for cash paid to Tatts shareholders under the Transaction of \$624 million based on a cash consideration component of 42.5 cents per Tatts share and Tatts' fully diluted shares outstanding of 1,469 million (including performance rights). Excludes synergies and business improvements

<sup>12</sup> Based on reported FY 2016 revenue and EBITDA of Tabcorp and Tatts. Excludes impact of synergies and business improvements



### **Keno**

- Keno distribution network of over 4,200 venues across clubs, hotels and TAB agencies in VIC, QLD, SA and the ACT, and in clubs and hotels in NSW

### **Gaming Services**

- Gaming machine monitoring operations in NSW, QLD and NT under the MAX and Odyssey<sup>13</sup> brands, and venue services operations nationwide, under the TGS, Intecq<sup>13</sup> and Bytecraft brands

### **Governance**

The Combined Group will benefit from a highly experienced Board and senior executive team.

The Board will be comprised of the existing Tabcorp Board of Directors with Paula Dwyer as Chairman. Tatts Chairman Harry Boon will join the Board of the Combined Group as a Non-Executive Director following implementation of the Transaction.

David Attenborough will be Managing Director and Chief Executive Officer of the Combined Group and Damien Johnston will be Chief Financial Officer.

### **Implementation process**

In addition to the approval by Tatts shareholders of the Tatts Scheme of Arrangement, the Transaction is also subject to satisfying regulatory conditions, including competition approval and approvals from various industry and State Government wagering, gaming, monitoring and lotteries regulators, obtaining court approval for the Scheme and an independent expert concluding the Transaction is in the best interests of Tatts shareholders.

The obligations of Tabcorp and Tatts regarding the implementation of the Transaction, the deal protections and break fee are agreed and set out in the Implementation Deed entered into by both parties. A copy of this Deed is attached to this announcement.

Tabcorp and Tatts currently expect the Transaction to complete in mid-2017 following Tatts shareholder, regulatory and other approvals.

Transaction costs are estimated at approximately \$90 million.

### **Presentation and market briefing details**

To provide an overview of the Transaction in further detail, a presentation has also been released to the ASX today.

A briefing for investors and analysts will be held today at 10.00 a.m. AEDT. The briefing will be hosted by Paula Dwyer, Chairman of Tabcorp, Harry Boon, Chairman of Tatts, David Attenborough, Managing Director and Chief Executive Officer of Tabcorp and Robbie Cooke, Managing Director and Chief Executive Officer of Tatts.

### **Advisers**

UBS is acting as financial adviser and Herbert Smith Freehills is acting as legal adviser to Tabcorp.

Goldman Sachs is acting as financial adviser and Clayton Utz is acting as legal adviser to Tatts.

---

<sup>13</sup> Subject to implementation of the Intecq scheme of arrangement

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## Seven and Racing Victoria shake up horse racing with Hong Kong deal



Racing Victoria and Seven West Media's joint venture may bid for racing in other states. Vince Calligiuri



by John Stensholt

Seven West Media and Racing Victoria's Racing.com joint venture will announce on Monday it has gained the rights to broadcast arguably the best-quality horse racing in the world from Hong Kong.

It is a small but significant step for Racing.com, one that may be the first domino to fall in what looms as a year or two of intensive broadcast deal negotiations across several states and merger and acquisition activity in the wagering sector.

Plenty of this may have Seven and Racing.com at the centre of the action and have ramifications for the established listed wagering operators such as Tabcorp and racing administrators around the country.

Racing.com's coverage of Hong Kong is likely to begin this weekend or next Wednesday evening. Its popular on-air host Shane Anderson says the coverage, shown on Seven's free-to-air Racing.com channel, on Foxtel's pay television service and online, will be "an elite product covered with elite talent", including preview and analysis shows.

Tabcorp's Sky Racing channel will still cover Hong Kong but Mr Anderson believes Racing.com's ability to showcase it as a premium product makes it a

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differentiator. At present, Hong Kong is part of a constant suite of racing, including greyhounds and harness, shown on Sky's main channel or moved to its secondary

The theory is greater exposure to horse racing on television means more people bet and more flows through to the industry in race fields fees. It can also be said that Tabcorp – which shares the spoils of tote betting – will also benefit.

But the Hong Kong deal shows the divergent paths Tabcorp is taking from Seven and Racing Victoria, which shows the crown jewels of the Spring Carnival that features races such as the Cox Plate, the Caulfield Cup and the Melbourne Cup.

Hong Kong marks the first jurisdiction outside Victoria that Racing.com will show vision of, having hastily been born in January 2015 out of the messy end to the TVN channel, which had the rights to both Victoria and NSW racing.

Back then, Victoria elected to spend about \$10 million establishing Racing.com with Seven, which then launched the free-to-air channel in July. Meanwhile, Racing NSW quickly signed a 10-year exclusive broadcast deal with Sky.

Sky covers races across other states and overseas, but that may soon change.

South Australian racing is up for renewal next year, while the rights for New Zealand racing are in play now. Queensland authorities, meanwhile, are understood to have served Sky with breach notices regarding their contract over changes it made to Victorian coverage last year (which was off-air for a short time due to a contract dispute).

Racing.com may move to poach the rights off Sky for all of those, though will then face the quandary of having to lavish attention and resources on interstate racing as it does for Victoria, and perhaps even have to sell or offer those states a shareholding.

Victorian authorities argue the Racing.com service, which is also pumped out via the corporate bookmakers website, has increased wagering turnover. It may be up by about 7 per cent this financial year, compared with a fall in Queensland and South Australia of the same figure (NSW is said to be up about 3-4 per cent), and Racing Victoria may go close to matching its bumper \$50 million record profit in 2015.

Racing.com is already profitable after about 10 months of operation, paying Racing Victoria and Seven a decent annual dividend, mostly thanks to stronger than expected advertising deals that Seven's sales team signed with corporate bookmakers

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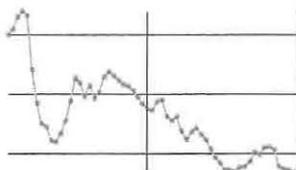
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such as CrownBet, which shelled out \$5-10 million for the biggest ad package, and Ladbrokes

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"We are quietly pleased with what has already been achieved, the future performance and the potential of this business is very, very significant," Seven chief executive Tim Worner told *The Australian Financial Review*. "We have already seen what can be done. Look at the roll up to the [recent Warrnambool carnival], look at the turnover numbers. Victorian racing is positioning itself for a very interesting future and so is Seven."

When it comes to racing, however, the real money is to be made in wagering. There has already been speculation about Seven looking at a bid for the West Australian tote. Far more likely is a tie-up between Seven and an operator such as CrownBet, given the latter already advertises on Racing.com and James Packer and Kerry Stokes, former and current chairman of CrownBet's part-owner Crown Resorts and Seven respectively, are close.

Then there is the vexed issue of Tabcorp's joint venture with Victoria to deliver racing a share of tote betting losses. Tabcorp's retail monopoly is under threat from the rise of corporate bookmakers such as CrownBet and market leader Sportsbet, and Racing Victoria has made good money charging them higher race fields fees.

Both Tabcorp and Racing Victoria say the joint venture is still a fruitful one, and relations are good. The different, and competing, broadcasting strategies may mean that is not the case forever.

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# Western Australia rift over TAB sell-off



Perry Williams

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The privatisation of Western Australia's TAB agency looks to have stalled with a rift emerging between the state government and racing industry over control of the sales process.

The Racing Representative Group, charged with lobbying on behalf of the thoroughbred, harness and greyhound codes, [has been holding talks](#) with government ministers over any potential sale, including minimum funding commitments for each of the clubs it represents.



The privatisation of Western Australia's TAB agency looks to have stalled with a rift emerging between the state government and racing industry over control of the sales process. Photo: bradleyphotos.com.au

However, West Australian Premier Colin Barnett and Treasurer Mike Nahan appear to have hardened their stance over the racing group's role in the mooted sell-off which, if it proceeds, is likely to attract bids from both Tabcorp and Tatts Group.

Mr Nahan told media on Wednesday the government was in charge of the privatisation should it proceed.

"The [racing group] will have a role as an interest group with input into it," said Mr Nahan. "But they won't control the process and they

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Western Australia rift over TAB sell-off

won't make the decisions. They are an input to it, we will listen to them but they want to basically run the sale as if they own it and that's not the case."

The Treasurer said the government would consider the best outcome for the public interest.

"The public of West Australia own that asset and the government who represents the public will make the decision and undertake the sale."

Mr Nahan said the government had engaged in extensive consultation with the racing group and provided \$300,000 in funding in the state budget for a report on the industry's requirements.

"When we first started this sales process two years ago the response was 'no way, over my dead body', " said Mr Nahan. "They've come on board now and I think we have a consensus in the community and in the industry that it's time the government no longer owned a gambling business."

Tabcorp, which owns the former government TABs in NSW and Victoria, and Tatts, the owner of the TABs in Queensland, the Northern Territory, South Australia and Tasmania, are logical front runners in the West Australian privatisation.

The government appeared to confirm the two companies as the most logical bidders despite the fact a request for proposal has yet to be sent to the industry.

"Going forward we will get a consensus for sale and the sale will be a very easy one," said Mr Nahan. "There are only two purchasers in this."

It had previously been expected the sale may spark bids from global players, including international pension funds that could seek to partner with local companies or corporate bookmakers.

Racing and Wagering Western Australia, the owner of the TAB, confirmed it would meet with the racing industry group on Friday to discuss developments in the sale.

"They are an important body in terms of having endorsement of the racing industry so we are liaising with them on a variety of issues," said RWWA chief executive Richard Burt.

However, he noted there was no defined timeframe for any sale,

"We may be running the licence but we are not aware at this stage what the timeframe is or what the process is," said Mr Burt. "We are experts in running the wagering business but we are not intimately involved in what is happening with a potential sale."

RWWA contributed \$165 million in funding to the state's racing and sports industry in the 2014-15 year.

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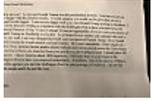
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RACING AND WAGERING WESTERN AUSTRALIA



# 2016

## ANNUAL REPORT



# STATEMENT OF COMPLIANCE

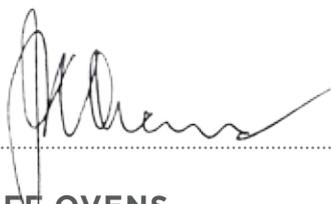
## STATEMENT OF COMPLIANCE

*For the year ended 31 July 2016*

Hon Brendon Grylls MLA  
Minister for Housing; Racing and Gaming

In accordance with Section 61 of the Financial Management Act 2006, we hereby submit for your information and presentation to Parliament, the Annual Report of Racing and Wagering Western Australia for the financial year ended 31 July 2016.

The annual report has been prepared in accordance with the provisions of the Financial Management Act 2006 and the Racing and Wagering Western Australia Act 2003.



**JEFF OVENS**  
RWWA Board Chairman

17 October 2016



**GARY GLIDDON**  
Chairman Audit and Risk Committee

17 October 2016



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# CHAPTER ONE. OVERVIEW

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## CHAPTER 1 / OVERVIEW

### RACING AND WAGERING WESTERN AUSTRALIA

#### ABOUT US

Racing and Wagering Western Australia (RWWA) was established on 1 August 2003. RWWA's Charter under the Racing and Wagering Western Australia Act 2003 is to foster development, promote the welfare and ensure the integrity of metropolitan and country thoroughbred, harness and greyhound racing in the interests of the long-term viability of the racing industry in Western Australia. RWWA also has responsibility for the off-course wagering functions trading as the TAB.

#### PURPOSE

To provide a positive sustainable future for the Western Australian racing industry.

#### MISSION

Position RWWA as a competitive and responsible gambling organisation providing a major source of funding for the development of racing and sports in Western Australia.

#### VISION

To make racing great.

## CHAIRMAN AND CEO REPORT

It is our pleasure to present the Annual Report for Racing and Wagering Western Australia (RWWA).

As raised in the previous year’s report, 2016 was anticipated to be a more challenging year with softening economic conditions in Western Australia impacting consumer confidence, increased levels of competition both on and off-course for the wagering dollar and a broad range of strategic programs being implemented throughout RWWA’s wagering and racing businesses.

When taking these important issues into account, 2016 was a productive year, where RWWA has been able to provide the required leadership during very uncertain times for the organisation and its many stakeholders.

## FINANCIAL PERFORMANCE

RWWA’s revenue from all sources was 1.2% below the prior year, largely resulting from a fall in wagering revenue from the TAB of \$5.5M or 1.6%. Importantly, RWWA’s wagering activity measured by bet volumes was up 2.7% for the twelve months, however, bet value was down 4.7% contributing significantly to the revenue decline. This result is superior to many state economic trends such as consumer confidence, inflation and wages growth, both of which declined materially in 2016 as detailed in Charts 1 and 2 below.

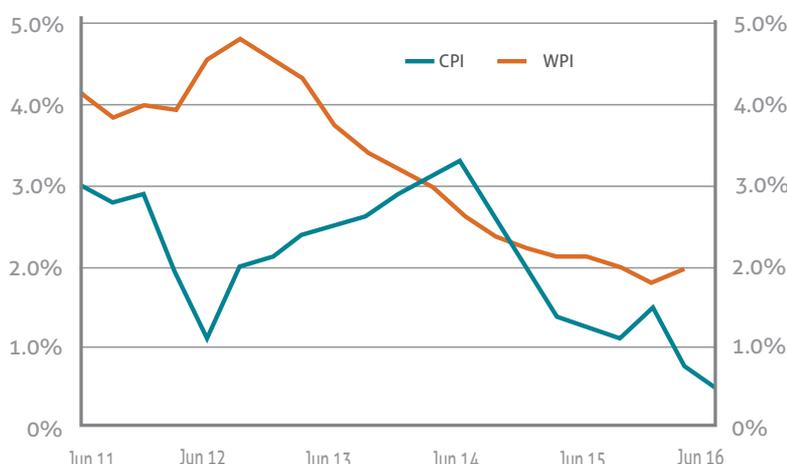
RWWA operating expenses, excluding direct funding to industry, increased by \$8.9M or 3.5% for the year as a result of significant investment in wagering initiatives both on and off-course, together with increased investment in racing and integrity services to industry.

**Chart 1 – Consumer Confidence**  
Western Australia  
Economic Conditions



Source: CCI surveys

**Chart 2 – Inflation and Wages Growth in WA**  
Annual Percentage Change, WPI & CPI



Source: CCI Economics

## CHAPTER 1 / OVERVIEW

### CHAIRMAN AND CEO REPORT CONT.

These expense increases complement RWWA's longer term strategic agenda ensuring the TAB remains competitive and as Western Australia's economic conditions improve, the organisation is well placed to generate growth in wagering revenues.

In addition, RWWA continues to invest in club infrastructure to improve the customer experience and assist clubs to increase income from on-course activities. Investment in drug testing was elevated in 2016 as was the commitment in new technology for on-course integrity systems, to provide greater visibility of racing competition for stewards.

All of RWWA's profit from operations in 2016 was distributed to racing and sports stakeholders. A further \$9.1M was provided to race clubs for racing infrastructure grants - funded in part by RWWA's reserves - taking the total funding to racing and sports to \$152M.

This record level of industry funding was made possible by RWWA's long term strategy of building cash reserves to manage key racing infrastructure projects such as those detailed later in this Report. In addition, the Western Australian Government through the Royalties for Regions and Racing Industry Grants Programs provided a further \$1.28M to support metropolitan and regional race clubs.

Wagering Revenue (2011-2016)



Distributions, Grants and Subsidies (2011 - 2016)



## CHAIRMAN AND CEO REPORT CONT.

### RACING

2016 was a positive year for racing with record prizemoney levels provided to the three codes in Western Australia.

Key highlights from the year include the following Western Australian feature racing achievements:

#### Thoroughbreds

- *Railway Stakes (Group One)*: won by Good Project; C Waller (trainer); C Williams (jockey); and C Cheong Lai (owner).
- *Winterbottom Stakes (Group One)*: won by Buffering; R Heathcote (trainer); D Brown (jockey); and V Heathcote, S Krslovic, C Moore, R Ciobo, D Merola, C Lord, Crafty Racing Syndicate, Aspariamo Racing Syndicate and B Harry (owners).
- *Kingston Town Classic (Group One)*: won by Perfect Reflection; G Williams (trainer); W Pike (jockey); and Peters Investments Pty Ltd Syndicate (owners).
- *Perth Cup (Group Two)*: won by Delicacy; G Williams (trainer); P Hall (jockey); and Peters Investments Pty Ltd Syndicate (owners).
- *WATC Derby (Group Two)*: won by Arcadia Dream; G Williams (trainer); W Pike (jockey); and Peters Investments Pty Ltd Syndicate (owners).
- *Karrakatta Plate (Group Two)*: won by Whispering Brook; S Miller (trainer); P Knuckey (jockey); and A Macalister, B Macalister, K Wardle, C Macalister, R Lear (owners).

#### Harness

- *Inter Dominion (Group One)*: won by Lennytheshark; D Aiken (trainer); C Alford (driver); and K and M Riseley (owners).
- *Fremantle Pacing Cup (Group One)*: won by Beaudiene Boaz NZ; G Hall Snr (trainer); G Hall Jnr (driver); and B Richardson, G Moore, K Hall, G Ralston, M Walker, A Curran (owners).

- *WA Pacing Cup (Group One)*: won by My Hard Copy NZ; G Hall Snr (trainer); C Hall (driver); and S Chapman, C Chapman and D Chapman (owners).
- *WA Derby (Group One)*: won by Chicago Bull NZ; G Hall Snr (trainer); G Hall Jnr (driver); and B Richardson, G Richardson, G Moore, D Roberts, S Beven, S Simmonds (owners).
- *WA Oaks (Group One)*: won by Dodolicious; G and S Bond (trainer); R Warwick (driver); and G Bond (owner).

#### Greyhound

- *Perth Cup (Group One)*: won by Ima Wagtail; J Iwanyk (trainer); and N Burke (owner).
- *Galaxy (Group One)*: won by Seeking Justice; K Harding (trainer); and Fast Track Racing Syndicate (owner).
- *All Stars Sprint (Group Two)*: won by Tureaud; P Stuart (trainer/owner).

It is important to explain RWWA's decision to distribute funds totalling \$152M in 2016 being \$7M higher than the organisation's \$145M profits from operations.

RWWA recognises the ongoing need to increase returns to participants in order to maintain a vibrant, sustainable industry. While geographically isolated from the rest of Australia and reliant on a smaller state population base from which to generate wagering income, racing in Western Australia is exposed nationally to competition for owner's investments in horses and greyhounds. This requires the application of competitive prizemoney levels against the Eastern States.

Western Australian racing has benefited to date through RWWA's capacity to protect it from economic and other headwinds such as those presently impacting the state. Recognising this need, RWWA consciously held back distributing the full extent of available profits over the past five years to have the capacity to meet the demand for assistance in more telling times.

## CHAPTER 1 / OVERVIEW

### CHAIRMAN AND CEO REPORT CONT.

Even with the increased funding, the thoroughbred and harness industries in particular, continue to suffer declines in breeding and foaling numbers as well as ownership. As a result of this fragile base, RWWA undertook a range of key long term racing initiatives throughout the year, including:

- Elevating the profile of the Group 1 Winterbottom Stakes and Kingston Town Classic races;
- Securing the Inter Dominion heats and final events to Western Australia from 2016-2018;
- Construction of the new Cannington greyhound facility to secure wagering income for all codes, and racing and trialling opportunities for greyhound participants;
- Introduction of 'Owners Only' to promote ownership across all sectors of racing;
- Relaunch of WA Country Cups to promote iconic regional racing events;
- Installation of large screen semaphore board and racewall technology at selected metropolitan and provincial venues to improve patron experience;
- Promotion of Western Australian thoroughbred and harness racing through new mass media marketing; and
- Supporting Western Australian race clubs with cooperative funding through Community TAB.

#### WAGERING

2016 was an intense year of wagering activity for the TAB. As a result of softening economic conditions in Western Australia, together with increased levels of competition from national operators, RWWA was required to invest significantly more in all areas of its wagering business to meet its core objectives of funding the racing industry and maintaining the long term value of the TAB licence.

During the year a new long-term retail agency agreement was finalised with TAB agents, better aligning the organisation's

objectives with agents. The agreement that is now in place will promote account business in agencies and provide agents with the opportunity to generate recurring income from customer account turnover, irrespective of the customer's location.

Towards the end of 2016, RWWA together with Sky Racing, executed new arrangements for a range of key agreements, including media rights for all thoroughbred, harness and greyhound racing (not including metropolitan thoroughbreds) and retail agency, on-course and digital streaming distribution. These agreements are important in underpinning the TAB's ability to generate revenues. As part of the new media rights arrangement, RWWA will for the first time receive income from national digital sales of competing wagering operators together with improved income from international wagering operators, betting on Western Australian racing product. This additional benefit will contribute to RWWA being able to provide increased funding to racing in 2017.

#### SIGNIFICANT ISSUES AND TRENDS

The matter of whether the Western Australian TAB will be privatised continued to test the efficiency and effectiveness of our wagering operations throughout the year. From our Board's perspective, this uncertainty cannot continue if we are to protect the value of the TAB and its ability to make returns for the racing industry, either as a continuing in-house operation or under the banner of a privatised entity.

The Western Australian Racing Representative Group (WARRG) and RWWA have progressed the discussion with Government to resolve this matter for the benefit of the State and the racing industry. It is fair to say that there are many moving parts to this complex matter.

WARRG as a representative group of the racing industry, should be complimented on the work that they have done to understand the complexities of the wagering operations,

## CHAIRMAN AND CEO REPORT CONT.

and to be in a position to adequately discuss options and the impacts of a privatisation scenario.

During the year, the New South Wales Government moved to ban greyhound racing in that State from July 2017, following adverse reports regarding animal welfare and in particular instances of live baiting on the eastern seaboard. At the time of publishing this Report, the NSW ban has been overturned on a conditional basis by the Baird Government. Whilst details of the ban and any revised framework for greyhound racing are not known at this stage, there is still the potential for a significant reduction in the amount of racing product available to TAB customers with likely challenges for accommodating unwanted greyhounds migrating from that State to other licensed jurisdictions.

RWWA is of the view that this decision may still impact the performance of the TAB given the significant support from Western Australian based customers for New South Wales based greyhound racing. Whilst there is likely to be some wagering substitution, it is likely that turnover may be adversely affected and as a result impact the Western Australian TAB's profitability in the shorter term.

The events leading up to the ban in New South Wales and subsequent conditional overturning are a timely reminder to all jurisdictions and racing codes of the importance of having and implementing appropriate codes of conduct and effective animal welfare strategies that ensure community support for its ongoing operation. Elsewhere in this Report we comment on the effectiveness of our animal welfare programs and an Integrity unit that is dedicated to ensuring compliance with our Rules of Racing.

Whether privatisation of the Western Australian TAB happens or not, there is a need for the government to recognise the need for tax parity with other major wagering States, so as to not hamstring the Western Australian

TAB in its endeavour to be competitive and to be able to generate a commensurate return to the racing bodies in this State as happens elsewhere. RWWA will be looking to achieve tax parity with Victoria and New South Wales as recommended in the Joint Standing Committee Report to the Western Australian Parliament of 2010.

Recently, the South Australian Government announced the introduction of a Point of Consumption Tax on wagering transactions to apply from mid-2017.

This is a significant issue for wagering operators and parties who receive financial benefit from the proceeds of wagering. RWWA is undertaking its own external review to understand the impact on the customer, the wagering competitive landscape at state and national levels and potential flow on effects such as product pricing and substitution.

In 2016 RWWA completed a review of the size and scope of the Western Australian racing industry. The findings from the report again highlight the important economic and social role racing plays in the State.

A summary of key highlights from the report include:

- The racing industry creates more than \$821M in real gross value-added to the Western Australian economy;
- Racing generates total direct expenditure of \$682.3M;
- More than 24,400 people participate in racing, with around 1 in every 79 people in Western Australia involved in racing;
- Over 8,000 people are directly employed in racing; and
- In excess of 823,000 people attend race meetings throughout the State.

## CHAPTER 1 / OVERVIEW



### CHAIRMAN AND CEO REPORT CONT.

#### RECOGNISING THE ORGANISATION

The racing industry is being challenged in these very uncertain times by many factors, some from within over which we have some influence and others that are simply global, demanding flexibility and ingenuity to prevail. It is against this background that our racing clubs and RWWA itself has had to adapt to ensure that our industry remains viable and sustainable for the longer term.

We would like to recognise the people within the industry at all levels who were contributors to the greatness of racing in the past year. Many of these people are volunteers at club level and deserve recognition for the many hours of toil without which our industry would falter.

Within RWWA, our CEO and executive leaders have been able to deliver outcomes which the Board views as outstanding given the current economic climate and increasing competition in the marketplace. Let me pay tribute to my fellow Directors who continue to give so much of their time in the interests of the racing industry and to Director Matthew Benson-Lidholm who stepped down from the RWWA Board at year's end.



**JEFF OVENS**

Chairman



**RICHARD BURT**

CEO

## INDUSTRY FUNDING

In the financial year 2015/16, RWWA contributed \$152M in funding to the Western Australian racing and sporting industry, and \$20.5M in funding towards its racing and integrity services, a total increase of \$7.5M from the previous financial year. This significant increase was made possible by the WA TAB, the brand that funds the industry.



### PURPOSE OF FUNDING

- **Distributions:** more than \$136.2M of funding was distributed to the Western Australian racing industry as prize money, owners and breeders bonuses, participant payments, event fees and training services, as well as providing funding for initiatives such as the Australian Jockey Association and welfare initiatives
- **Grants and Club Subsidies:** RWWA has continued to assist clubs with infrastructure grants outside of the Racing Infrastructure Grants Program (RIGP) and Royalties for Regions (RFR) funding, with \$12M provided to the Western Australian racing industry in 2015/16.
- **Racing and Integrity Services:** an additional \$20.5M in funding was allocated to racing and integrity services to ensure the proper conduct and integrity of racing activities across the State.
- **Community Sport:** every year RWWA, through the profits generated by the TAB, invests a portion of sports wagering turnover back into community sports through the Sports Wagering Account with the Department of Sport and Recreation. A total of \$4M was provided in 2015/16.

**THE CONTINUAL INCREASE IN FUNDING REFLECTS RWWA'S WIDER STRATEGY TO IMPROVE THE QUALITY OF RACING PRODUCT, TRACK ATTENDANCE AND RELEVANCE OF WESTERN AUSTRALIAN RACING.**

## CHAPTER 1 / OVERVIEW

### WESTERN AUSTRALIAN RACING OVERVIEW

The Western Australian racing industry plays an important role in providing social and economic benefits to local communities, generating more than \$821M in economic contribution to the State.

Furthermore, Western Australia has one of the biggest country racing precincts in the world, with 48 out of 51 race clubs located in regional areas and over 75% of race meetings conducted at country race tracks.

| REGIONS              | NUMBER OF RACE CLUBS | NUMBER OF RACE MEETINGS | REAL GROSS VALUE-ADDED* |
|----------------------|----------------------|-------------------------|-------------------------|
| Metropolitan         | 3                    | 220                     | \$504.0M                |
| Peel                 | 3                    | 263                     | \$120.3M                |
| South West           | 6                    | 71                      | \$58.3M                 |
| Wheatbelt            | 10                   | 167                     | \$57.6M                 |
| Goldfields-Esperance | 8                    | 56                      | \$28.1M                 |
| Great Southern       | 5                    | 33                      | \$24.7M                 |
| Mid West             | 5                    | 24                      | \$13.4M                 |
| Kimberley            | 4                    | 14                      | \$8.0M                  |
| Gascoyne             | 3                    | 13                      | \$3.6M                  |
| Pilbara              | 4                    | 12                      | \$3.0M                  |
| <b>TOTAL</b>         | <b>51</b>            | <b>873</b>              | <b>\$821M</b>           |

\* Real gross value-added is the measure of the value of production from economic activity.

### KEY WESTERN AUSTRALIAN RACING INDUSTRY FACTS

- The Western Australian racing industry generates more than \$682.3M in direct expenditure, with more than half of expenditure occurring in regional areas.
- The training and preparation of racing animals results in more than \$165M in expenditure.
- In excess of 823,000 racegoers attend thoroughbred, harness and greyhound race meetings in Western Australia each year; over 57% of these attendances occur at country racecourses, with Peel and the South West representing the largest regions.
- More than 24,400 individuals participate in the Western Australian racing industry (as an employee, participant or volunteer), which equates to approximately 1 in every 79 adult residents in the State.
- The economic activity generated by the racing industry sustains more than 7,360 full-time-equivalent positions in Western Australia.
- On average 260 community organisations and charities are financially assisted by the industry, and over 150 community organisations share race club facilities and resources.

(Source: WA Racing Economic and Social Report, IER, January 2016)

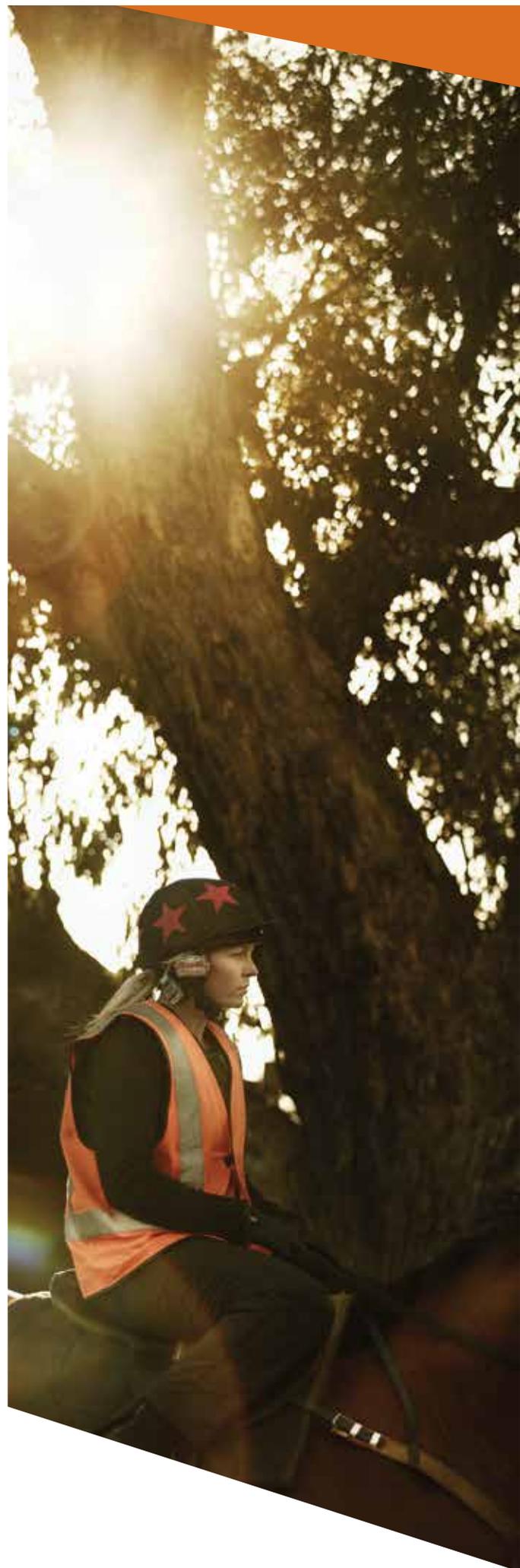
## OPERATIONAL STRUCTURE

### ENABLING LEGISLATION

RWWA commenced operations on 1 August 2003 upon promulgation of the Racing and Wagering Western Australia Act 2003. The Act established RWWA as the controlling authority for thoroughbred, harness and greyhound racing in Western Australia, together with the responsibility for off-course TAB wagering. Implementation of RWWA's responsibilities occurred in two stages.

Effective 1 August 2003, RWWA assumed the principal club/controlling authority responsibilities of The Western Australian Turf Club, Western Australian Trotting Association and Western Australian Greyhound Racing Authority. On 30 January 2004, the Totalisator Agency Board Betting Act 1960 was repealed and RWWA assumed responsibility for the conduct of off-course TAB wagering. The Racing and Wagering Western Australia Regulations 2003 were enacted to establish key employee licensing procedures relating to RWWA's wagering activities, and to include those provisions of the Totalisator Agency Board (Betting) Regulations 1988 needed to control RWWA's wagering activities. To complement the formation of RWWA, the Betting Control Board, established under the Betting Control Act 1954, was abolished and its functions transferred to the Gaming Commission of Western Australia, which was re-titled the Gaming and Wagering Commission of Western Australia. Hence, the Gaming and Wagering Commission, under the Gaming and Wagering Commission Act 1987, now regulates RWWA's gambling activities.

As part of the legislative package to establish RWWA, the Totalisator Agency Board Betting Tax Act 1960 was repealed and replaced by the Racing and Wagering Western Australia Tax Act 2003. The Racing Restriction Act 2003 replaced the Racing Restriction Act 1917. Under the Racing Restriction Act, no thoroughbred, harness or greyhound race for prize (exceeding \$50 in value) or betting may be held without a licence from RWWA.



## CHAPTER 1 / OVERVIEW

### OPERATIONAL STRUCTURE CONT.

#### LEGISLATION

The principal legislation governing RWWA is:

- Racing and Wagering Western Australia Act 2003
- Racing and Wagering Western Australia Tax Act 2003
- Racing Restriction Act 2003
- Racing Bets Levy Act 2009
- Gaming and Wagering Commission Act 1987
- Betting Control Act 1954
- Financial Management Act 2006
- Freedom of Information Act 1992
- Gaming and Betting (Contract Securities) Act 1985
- Interactive Gambling Act 2001
- Liquor Control Act 1988
- Long Service Leave Act 1958
- Occupational Safety and Health Act 1984
- Patents Act 1990
- Public Interest Disclosure Act 2003
- Spam Act 2003
- State Government Agencies Administration Award 2010
- State Superannuation Act 2000
- Statutory Corporations (Liabilities of Directors) Act 1996
- Superannuation Guarantee (Administration) Act 1992
- Trade Marks Act 1995
- Trade Practice Act 1974
- Unclaimed Money Act 1990
- Workers Compensation and Injury Management Amendment (Jockeys) Act 2012
- Fair Work Act 2009

Other legislation to which RWWA must comply includes the following. The list is not exhaustive but represents the legislation which impacts on the general operation of RWWA:

- Anti-Money Laundering and Counter Terrorism Financing Act 2006 (Commonwealth)
- Broadcasting and Recorded Entertainment Award 2010
- Copyright Act 1968 (Commonwealth)
- Corruption, Crime and Misconduct Act 2003
- Criminal Code Act 1913 (WA) and Criminal Code Act 1995 (Commonwealth)
- Electoral Act 1907
- Equal Opportunity Act 1984

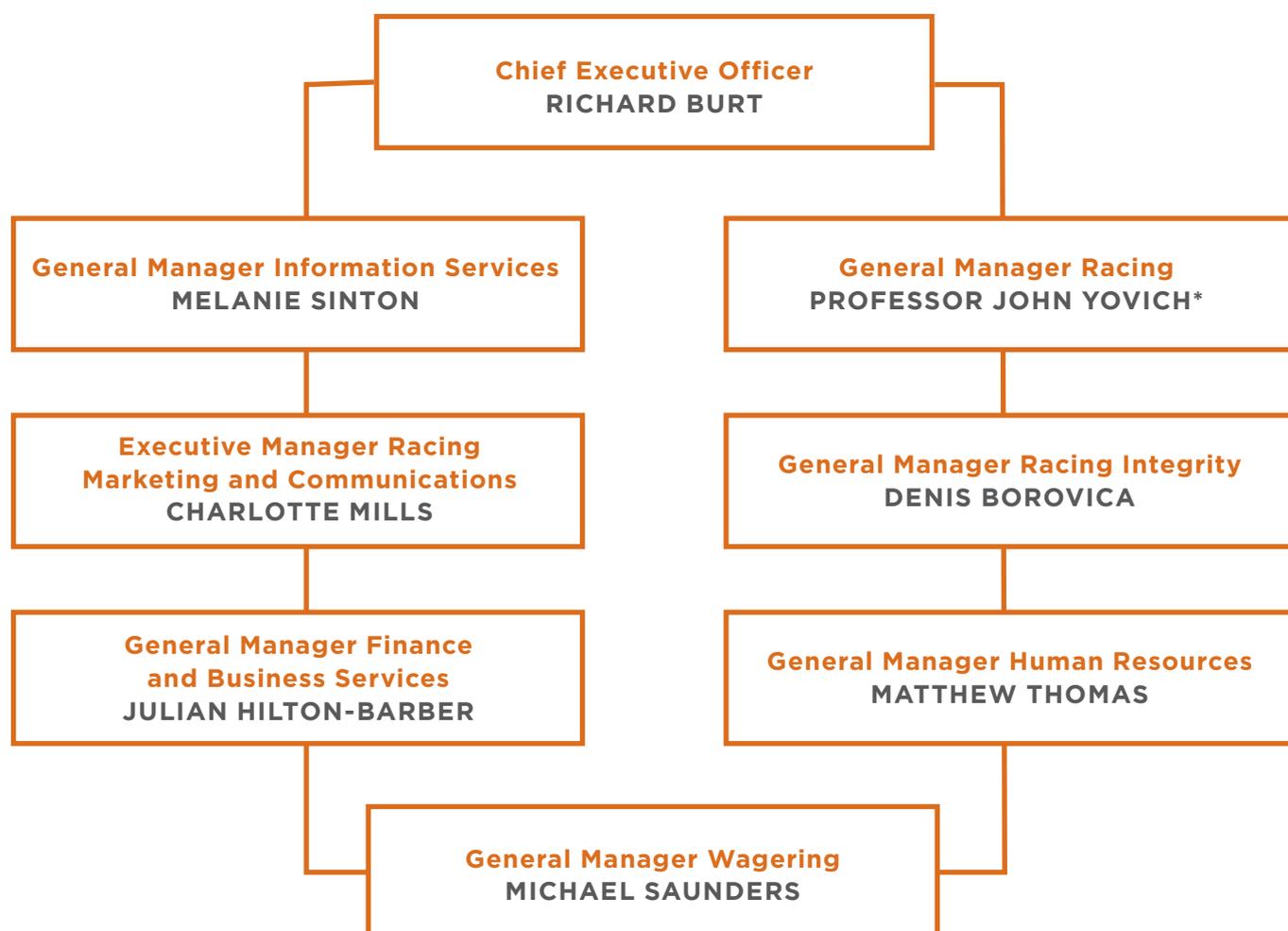
#### RESPONSIBLE MINISTER

The Hon Colin Holt MLC (Minister for Housing; Racing and Gaming) was the Minister responsible for Racing and Wagering Western Australia from 8 December 2014 to 15 August 2016. The Hon Brendon Grylls MLA (Minister for Housing; Racing and Gaming) was appointed the responsible Minister on 15 August 2016.



## ORGANISATIONAL STRUCTURE

The organisational structure of RWWA is based on a corporate model comprising a number of divisions which oversee the varying activities of the organisation.



*\*Appointment from 29 June 2015 to 29 July 2016.*

## CHAPTER 1 / OVERVIEW

### RACING AND WAGERING WESTERN AUSTRALIA BOARD

The management of RWWA's business and affairs is under the direction of the RWWA Board.



Standing (L-R): Mr Gary Gliddon, Mr Anthony Hasluck, Mrs Kirrilee Warr, Mr Matthew Benson-Lidholm and Mr Michael Heath.

Seated (L-R): Dr Lianne Cretney-Barnes, Mr Jeff Ovens and Mr Robert Pearson.

#### BOARD MEMBERS

**Mr Jeff Ovens** (Chairman)

First appointed 1 February 2012

**Mr Robert Pearson** (Deputy Chairman)

First appointed 1 August 2003

(Nominated by Thoroughbred Racing Industry Bodies)

**Mr Matthew Benson-Lidholm**

First appointed 1 August 2014

(Nominated by Harness Racing Industry Bodies)

**Mr Gary Gliddon**

First appointed 21 November 2011

(Nominated by Greyhound Racing Industry Bodies)

**Dr Lianne Cretney-Barnes**

First appointed 1 February 2011

(Has expertise in Business Administration, Management and Marketing)

**Mr Michael Heath**

First appointed 20 October 2015

(Former CEO of Perth Racing and well recognised WA businessman)

**Mr Anthony Hasluck**

First appointed 1 February 2014

(One of WA's leading communications consultants)

**Mrs Kirrilee Warr**

First appointed 1 February 2014

(Director of a broad acre agricultural enterprise and is active in regional communities)

## BOARD COMMITTEES

The RWWA Board has established committees to oversee various functions of the organisation and industry. These committees have delegated authority to perform certain functions and exercise powers of the Board. The formal committees of the Board, their terms of reference and membership are listed below:

### INTEGRITY ASSURANCE COMMITTEE

The Integrity Assurance Committee (IAC) has primary oversight of those aspects of RWWA's functions that relate to stewards, drug testing and control, licensing and registration, handicapping, racing appeals, rules of racing and wagering compliance.

Committee members:

- Dr Lianne Cretney-Barnes (Chairman)
- Mr Anthony Hasluck
- Mrs Kirrilee Warr
- Mr Jeff Ovens (ex-officio)

### REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee (RNC) oversees and reports on remuneration for the CEO, bonuses for staff and executive, allowances for committee members, and the nomination process for the recruitment, appointment and development of the Board and Committees, in accordance with its Charter.

Committee members:

- Mr Jeff Ovens (Chairman)
- Dr Lianne Cretney-Barnes
- Mr Robert Pearson

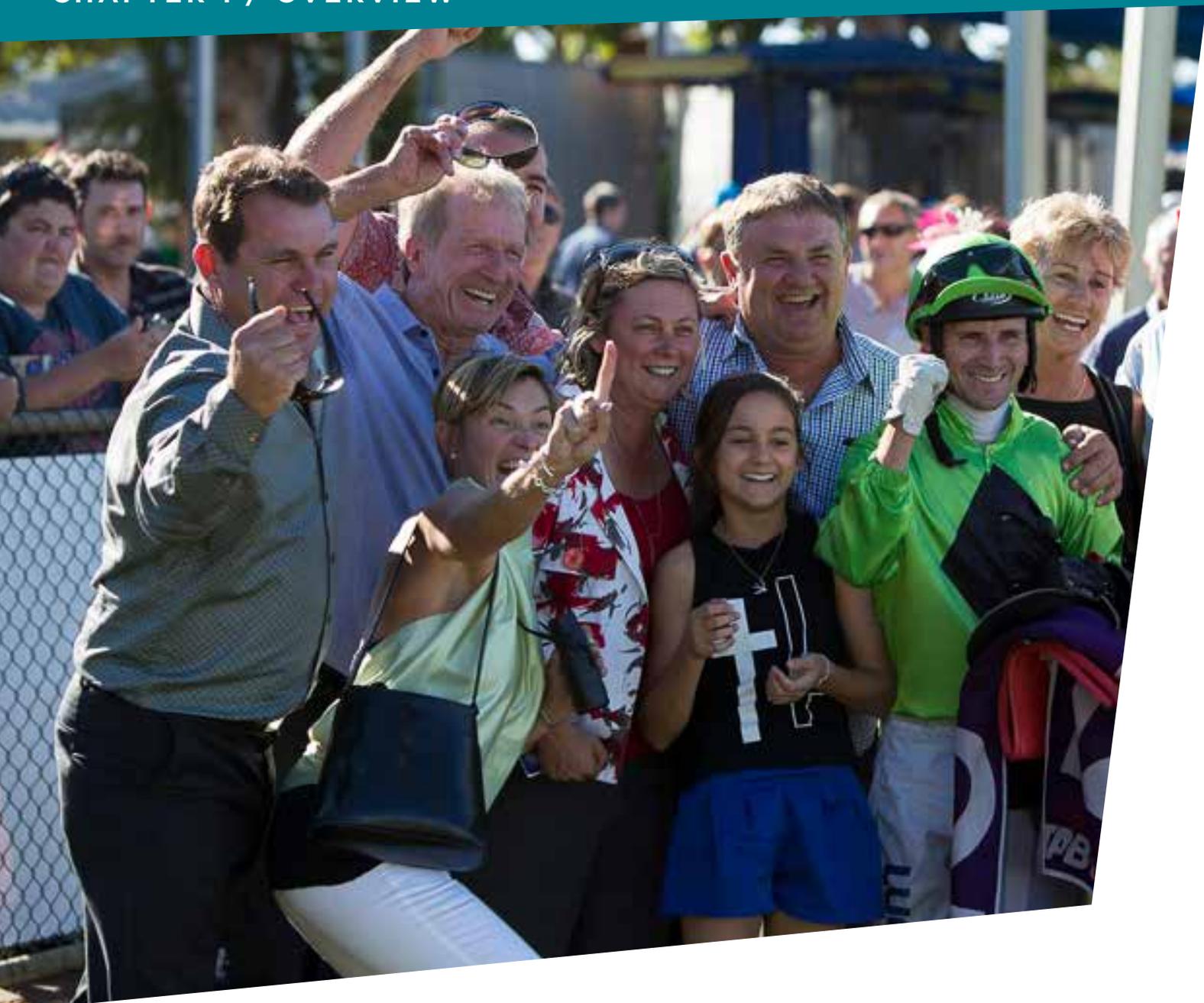
### AUDIT AND RISK COMMITTEE

The Audit and Risk Committee (ARC) plays an important role in providing oversight of RWWA's values and ethics, governance, risk management and internal control practices. The ARC has oversight of the Internal Audit function. The ARC also reviews and approves the Annual Report.

Committee members:

- Mr Gary Gliddon (Chairman)
- Mr Jeff Ovens (ex-officio)
- Mr Anthony Hasluck
- Mr Michael Heath

## CHAPTER 1 / OVERVIEW



### STRATEGIC PRIORITIES

RWWA maintains a strong focus on the following strategic priorities over the medium and long-term in the context of achievement of the organisation's stated purpose:

1. Work with industry to increase the effectiveness and utilisation of racing assets;
2. Increase our share of the competitive wagering market through enhanced product and services;
3. Strengthen government relations and demonstrate the economic and social benefits of a positive and sustainable racing industry;
4. Improve the quality of racing product, track attendance and relevance of Western Australian racing through increasing stakes distribution and industry marketing and planning;
5. Implement strategies to demonstrate best practice in animal welfare, as well as the promotion and delivery of responsible wagering; and
6. Strengthen the integrity and welfare standards across Western Australian racing to ensure public confidence and support.

## FUTURE OUTLOOK 2016/17

The following announcements form part of RWWA's wider strategy to increase the quality of racing product, track attendance and relevance of racing in Western Australia.

### DISTRIBUTIONS - RECORD FUNDING BOOST

RWWA has approved a new racing season funding allocation of \$146M for 2016/17; an increase of 5.3% from the previous year. Despite challenging economic conditions in Western Australia and a highly competitive wagering market, RWWA is committed to increasing racing industry funding by \$7.6M across the three racing codes.

Of the \$7.6M in distribution funding increase, \$5.5M will be directed toward supporting race clubs across thoroughbreds, harness and greyhounds, with RWWA for the first time funding on course broadcast costs commencing from 1 August 2016.

In addition, RWWA has allocated a further \$5.8M funding for race club infrastructure work, resulting in overall racing industry funding for 2016/17 of \$151.8M.



### THOROUGHBREDS - THREE \$1M GROUP 1 FEATURE RACES

For the second year in a row, all Group 1 feature races in Western Australia will carry stakes of \$1M. The \$1M feature races will form part of the 2016 TABtouch Masters at Ascot and will include the Railway Stakes (1600m), Winterbottom Stakes (1200m) and Kingston Town Classic (1800m), which will be held on three consecutive Saturdays.

RWWA has also announced that during the 2016/17 racing season, three full metropolitan class Saturday meetings will be allocated to the Bunbury Turf Club and the Pinjarra Race Club, which will include the WA Magic Millions Race Day in February 2017.



### HARNESS - RETURN OF THE TABTOUCH INTER DOMINION

The TABtouch Inter Dominion will once again return to Gloucester Park Harness Racing in November 2016, for the running of the second series of a three year tenure.

Known as Australasia's greatest harness racing event, the Inter Dominion Grand Final is worth \$1.1M, making it the richest pacing race in Australasia, and the overall series is worth \$1.8M in prize money.

The Inter Dominion forms part of RWWA's broader strategic vision to relaunch, revitalise and re-energise harness racing in Western Australia.



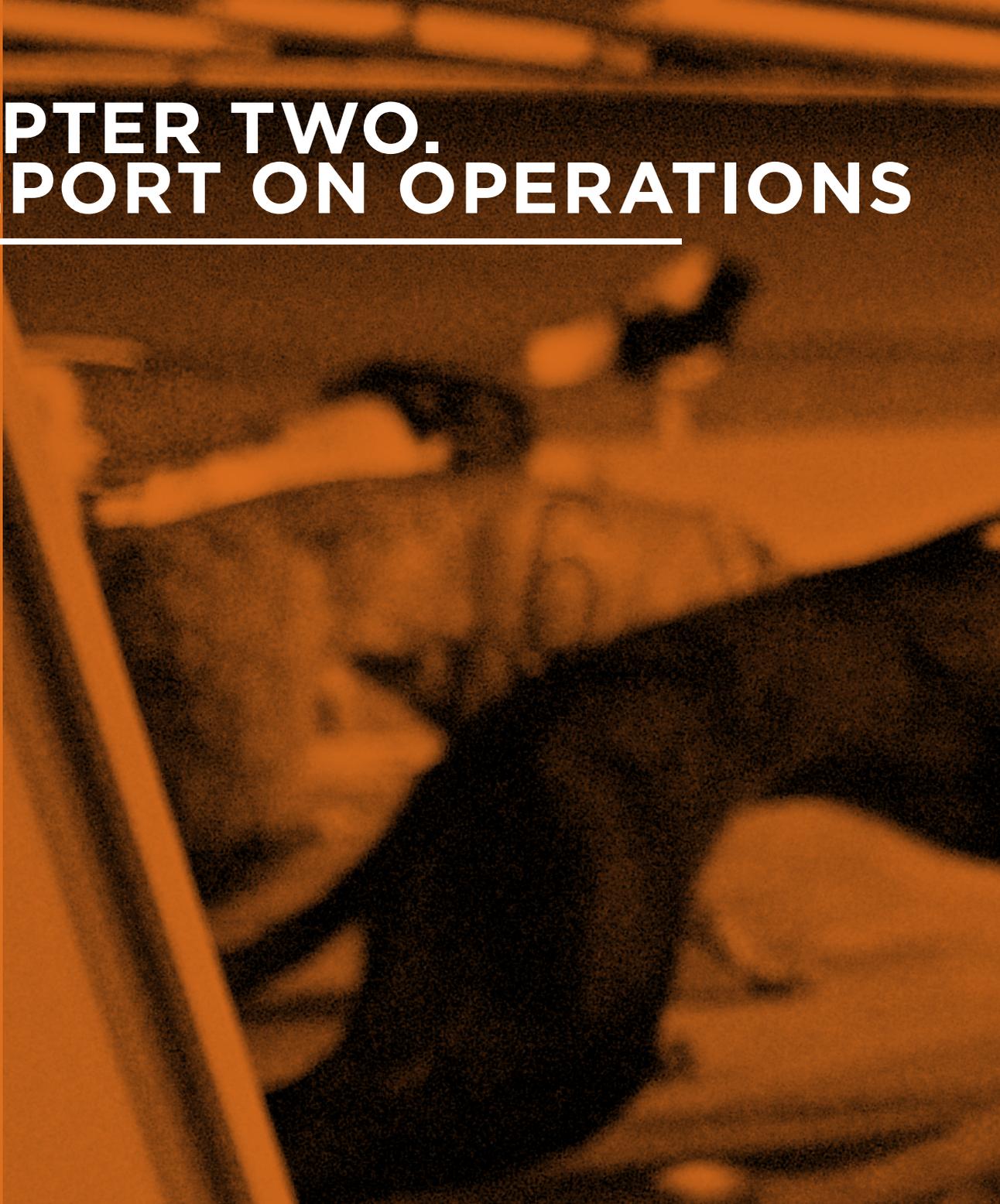
### GREYHOUNDS - INCREASED GAP INVESTMENT

Implementing methods to demonstrate the best practice in animal welfare forms part of RWWA's overall strategic priorities. In 2016/17, RWWA will increase its investment in the Greyhounds as Pets (GAP) program to over \$500K, with the aim to significantly increase the number of greyhounds being re-homed.

The investment includes the lease of a new GAP facility that will increase kennel capacity from 20 to 37 as well as continued employment of a dedicated Programme Coordinator, Kennel Manager and expanding the working hours of staff. In addition, the funding will assist with marketing and communications campaigns aimed at raising awareness about the GAP program and positioning greyhounds as the preferred breed of canine pets.

# CHAPTER TWO. REPORT ON OPERATIONS

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## CHAPTER 2 / REPORT ON OPERATIONS

### RACING

The Racing division is responsible for racing operations and the overall strategic direction of the racing industry in Western Australia. Responsibilities include fixture planning, racing systems and information maintenance, handicapping and grading, race programming, base and feature stakes allocations, domestic and international vision contracts, industry consultation, racing industry development, industry training, club and racing industry related occupational safety and health (OSH) and control of RWWA-owned animal industry training venues.

RWWA, as the Principal Racing Authority for the three codes of Racing in Western Australia, operates under the Racing and Wagering Western Australian Act 2003 but also applies National Rules of Racing for each code.

#### OPERATIONS AND DISTRIBUTION

The 2015/16 season provided 873 race meetings across the three codes of racing, featuring a total of 8,165 races contested by 73,565 starters. Of these, 7,558 individual animals raced including 3,846 thoroughbreds, 1,846 standardbreds and 1,866 greyhounds.

#### FUNDING FOR RACE CLUBS

In 2015/16, RWWA provided distribution funding as follows:

- One greyhound club (Western Australian Greyhound Racing Association (WAGRA)) racing at three venues (Cannington, Mandurah and Northam).
- Thirty-six thoroughbred clubs (including tenanted arrangements for Coolgardie Race Club at Kalgoorlie).
- Fourteen harness clubs (including tenanted arrangements for York Racing at Northam).
- Five harness training only venues - Byford, Dunbarton, Jandakot, Wanneroo and York\*.
- Total distribution funding (in the form of event and training fees) provided to Western Australian racing clubs in 2015/16 amounted to \$21.7M or 19% of total industry distributions.
- Total distributions to clubs excludes capital infrastructure funding, SKY broadcast associated costs, pooling fees and product fees.
- The source of funds for distributions is made up of RWWA profits/retained earnings, government grants and through Western Australian race fields legislation (under which all race fields income is passed to the Clubs).
- Capital infrastructure funding was sourced via the Racing Infrastructure Grants Program (RIGP), Royalties for Regions (RFR), Club and RWWA supplementary funding.

*\*Note: Dual code clubs, York Racing and Narrogin Race and Pace, are included in the above figures.*

#### THOROUGHBRED RACING

Major thoroughbred racing activities in 2015/16:

- RWWA provided thoroughbred race clubs and participants with payments for stakes and subsidies of \$65M.
- The Westspeed Scheme provided owners, breeders, trainers and riders with an additional \$5.6M in bonuses.
- Race clubs conducted a total of 292 race meetings (including non-TAB meetings) and 2,233 races.
- The Western Australian thoroughbred race clubs paid a total of \$59.2M in prize money, with 22,644 starters.
- There were 3,846 individual thoroughbreds that raced.
- The Magic Millions Yearling Sales recorded an aggregate for the premier sale of \$10.4M and an average sale price for the premier sale of \$41K. The clearance rate for this sale was 80%.
- RWWA commenced a project to migrate from the internal legacy thoroughbred racing computer system to the single national system administered by Racing Australia. This project is expected to be completed by June 2017.
- Toodyay Race Club conducted a race meeting in their own right for the first time since 2000 after operating under the auspices of the Northam Race Club in the interim period.



## RACING CONT.

### HARNESS RACING

Major harness racing activities in 2015/16:

- RWWA provided harness race clubs with base and feature stakes funding of \$25.7M.
- RWWA paid out an additional \$1.7M in Westbred bonuses.
- Race clubs conducted a total of 277 race meetings and 2,308 races, which provided 21,995 racing opportunities for 1,846 individual horses that raced.
- The 21,995 starters were trained by 437 individual trainers with 55 trainers having 100 or more starters for the year and 18 having 200 or more starters.
- A total of 234 Western Australian trained mares earned at least one of the EPONA bonuses, winning 491 races and generating \$259K in credits. Three mares each earned the maximum credit amount of \$5K and a total of \$105K was paid out in claims to the owners of 56 mares.
- The Gloucester Standardbreds Yearling Sales recorded an aggregate for the sale of \$1.3M and an average sale price for fillies of \$14K and for colts \$13K. The clearance rate for this sale was 81%.
- RWWA and Gloucester Park Harness Racing hosted the first of the Inter Dominion in Perth in December 2015. RWWA committed \$1.8M for each year in stakes to host the event, making it the richest harness racing series in the world.

### GREYHOUND RACING

Major greyhound racing activities in 2015/16:

- RWWA provided the WAGRA with base and feature stakes funding of \$11.7M.
- The WESTCHASE Incentive Scheme paid out a new record of \$835K in bonuses for the year.
- WAGRA conducted 3,624 races at 304 meetings, which provided 28,926 racing opportunities for 1,866 individual greyhounds.
- Consistent with RWWA's animal welfare policies, RWWA supports the re-homing of retired greyhounds through the Greyhounds as Pets (GAP) program, with a new facility leased to increase the re-homing capability of the program, along with other strategies to assist in the

placement of these animals post racing.

- The RWWA Information Services division continues development of OzChase, the joint venture greyhound racing system designed, built, hosted and maintained in Western Australia for use by the two joint venture partners, RWWA and Greyhound Racing New South Wales (GRNSW). All Australian states and territories apart from Victoria are now fully operational on the OzChase platform.
- The new Cannington facility opened on 23 March 2016. RWWA invested significantly in the new facility, reaffirming the commitment to metropolitan racing for the greyhound code in this State.

### INDUSTRY TRAINING HIGHLIGHTS

Major industry training highlights in 2015/16:

- Four apprentice jockeys commenced, with two graduating into senior ranks during the year.
- RWWA again supported the National Apprentice Jockey Challenge, with a heat being held at Ascot in April, which was won by local apprentice Sarah Bonner, riding her first metropolitan winner. Western Australian apprentices rode in each heat, represented by Clint Johnston-Porter, Jake Casey, Randy Tan and Jordan Turner. Western Australia won the series for the first time.
- Eight new C grade harness drivers (trials only) commenced during the season.
- Nine drivers progressed to B grade drivers' licences during the period.
- The Garrard's Young Drivers Challenge was won by Stewart McDonald, resulting in him representing Western Australia in the New South Wales Rising Stars Series, where he finished second.

## CHAPTER 2 / REPORT ON OPERATIONS



### INFRASTRUCTURE GRANTS

#### RACECOURSE INFRASTRUCTURE GRANTS PROGRAM (RIGP) AND ROYALTIES FOR REGIONS

In July 2010, the Western Australian State Government announced a \$13M funding program over five years toward racing infrastructure. The Western Australian State Government also approved boost funding from Royalties for Regions (RFR) of \$6.6M in November 2012, increasing infrastructure grant funding to the racing industry to \$19.6M during the period 2010/11 - 2014/15.

RWWA administers the Racecourse Infrastructure Grants Program (RIGP) for the Minister for Racing and Gaming. During 2015/16 financial year outstanding projects were progressed towards completion, with no additional Government funding or grants approved by the Minister.

#### RIGP/RFR Funding Allocated by RWWA

|             | 2015/16 | Since 2010/11 |
|-------------|---------|---------------|
| RIGP Grants | \$0.00M | \$13.0M       |
| RFR Boost   | \$0.00M | \$6.6M        |

Major projects with approved RIGP/RFR funding that commenced works during the year include the following. These projects will be completed in 2016/17:

- Pinjarra Harness Racing Club - Race day stalls development (\$1.0M)
- Pinjarra Race Club - Video Vision & Semaphore Board (\$348K)
- Bunbury Turf Club - Video Vision & Semaphore Board (\$348K)
- Kalgoorlie-Boulder Race Club - Video Vision & Semaphore Board (\$360K)

#### MAJOR RWWA FUNDED GRANTS

##### Cannington Greyhounds New Facility

The new Cannington greyhound racing facility commenced operation in March 2016. RWWA provided a further \$5.3M in 2015/16 towards the completion of the project, totalling \$16M, to ensure the longevity of metropolitan greyhound racing in this State.

Other RWWA funded projects for 2015/16:

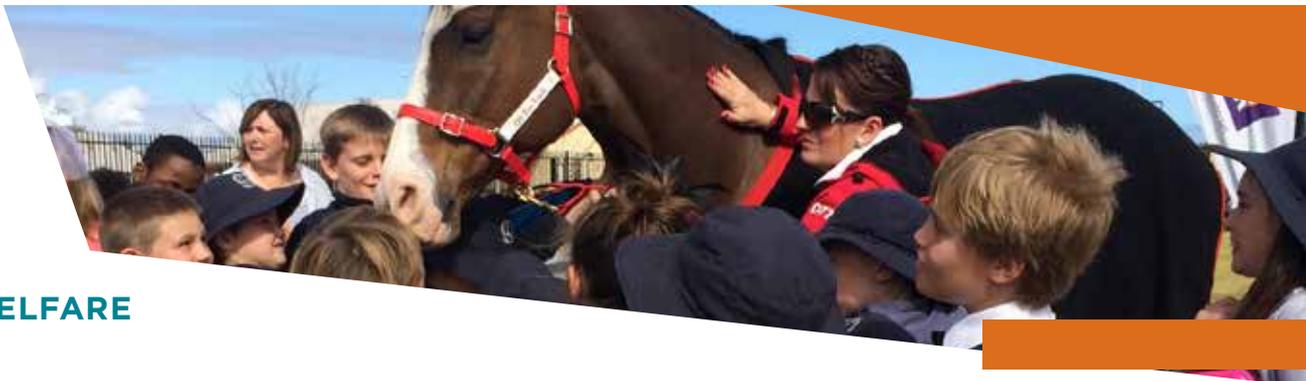
- Bunbury Harness Vision Screen (\$373K)
- Ascot Racecourse Drainage (\$290K)

##### Gloucester Park Refurbishment

The patron facilities refurbishment works at Gloucester Park were completed. The \$1.6M investment was to maximise the utilisation of the venue for race nights as well as non-race night functions and events.

##### Belmont Park Irrigation

The RWWA Board committed to \$1.7M of funding for the Belmont Park irrigation replacement in 2015/16. These works will be undertaken at the conclusion of the Belmont Park season and will conclude in the 2016/17 fiscal year.



## ANIMAL WELFARE

Animal welfare is a critical element of the RWWA racing strategy. The quality of racing within Western Australia is dependent on many factors but at the forefront is the welfare of its horses and greyhounds.

Animal welfare legislation, and the rules and policies that racing authorities enforce, underpin the successful regulation of welfare in racing.

### RESEARCH AND EDUCATION

RWWA has formed a research partnership with Murdoch University and has contributed toward the funding of a three year research project examining Exercise Induced Pulmonary Hemorrhage (EIPH) in horses, specifically aimed at further understanding mitigating factors that could be managed to improve safety, welfare and durability of racehorses. This project is entering its final phase with one scientific paper already published in the Equine Veterinary Journal (July 2016) and a second paper, following a longitudinal study of EIPH in a large group of Western Australian horses, likely to be accepted for publication next year.

### OFF THE TRACK PROGRAM FOR RETIRED RACEHORSES

RWWA's Off the Track program continues to be an active voice within the racing and equestrian industries, positioning retired racehorses as the preferred choice for equestrian disciplines and other pursuits. The program's activities increase the demand for and support the placement of retired thoroughbred and standardbred racehorses in second careers via sponsoring of events, sharing success stories, promoting re-trainers and re-homing services, and holding education clinics for horses off the track. The program is widely recognised in the equestrian community as being a conduit for the successful transition of horses from the race track to alternative pursuits.

Now in its third year of operation, Off the Track has supported the equestrian community through the sponsorship of more than 200 equestrian events, including horse shows in which over 6,000 retired racehorses have competed, and hosted Education Clinics.

### Education Clinics

Quarterly Off the Track horse and rider education clinics were held, with a total of 287 attendees and their retired thoroughbred and standardbred racehorses. Clinics are open to those riders and owners needing assistance with educating and extending the training of their retired racehorses. The clinics employ some of Western Australia's most popular, qualified and competent coaches. Hosting regular education clinics is essential to assist equestrian riders to transition their newly retired racehorses to a second career after racing, thus improving the success rate of these transfers and increasing the horses' value, health and abilities post racing. These education clinics are held with the generous support of program partners Touchstone Farms, Thompson and Redwood, Biojohn Superstore, Mitavite and Glenroy Hay.

**I JUST WANTED TO SAY THANK YOU SO MUCH FOR ORGANISING THE OFF THE TRACK CLINICS. A YEAR AGO I CAME TO MY FIRST ONE AND COULDN'T EVEN RIDE BECAUSE MY HORSE WAS REARING VERTICALLY AND I JUST DID A GROUND WORK LESSON. NOW SINCE COMING TO EVERY ONE SINCE, "EMKAY" IS GOING SO WELL. TODAY I DID MY FIRST CROSS COUNTRY LESSON ON HER. SHE WAS AWESOME, SHE TRIED SO HARD AND WE BOTH HAD THE BEST TIME! THANK YOU FOR ALL YOUR HARD WORK THAT I KNOW MUST GO INTO EVERY CLINIC YOU PUT ON. I JUST WANTED TO LET YOU KNOW HOW MUCH I APPRECIATE IT.**

**- JESS WALKER**

## CHAPTER 2 / REPORT ON OPERATIONS

### ANIMAL WELFARE CONT.

#### School Visits

During 2015/16, Off the Track commenced with the planning and development of a new strategy involving school visits, which aims to educate students and the school community on the options available to retired racehorses in second careers post racing.

The first school visit took place at Alkimos Primary School on 10 August 2016, in conjunction with the Victoria Racing Club's Melbourne Cup Tour. The visit featured guest appearances by former stars, Scenic Shot, who competed in the 2007 Melbourne Cup, and Western Australian Hall of Fame Inductee, Scenic Blast. Each classroom received a visit from an Off the Track representative where they were shown a presentation and video regarding the program, as well as memorabilia of both horses. Each student also received an Off the Track show bag, which included merchandise and a Scenic Blast book.

#### SHOWMAN DAY

A one day event was organised and held by Off the Track on 10 July 2016, at Brookleigh, where 86 off the track horses and their riders participated in dressage, show jumping and in hand showing.

#### LATEST THOROUGHBRED RETIREMENT STATISTICS

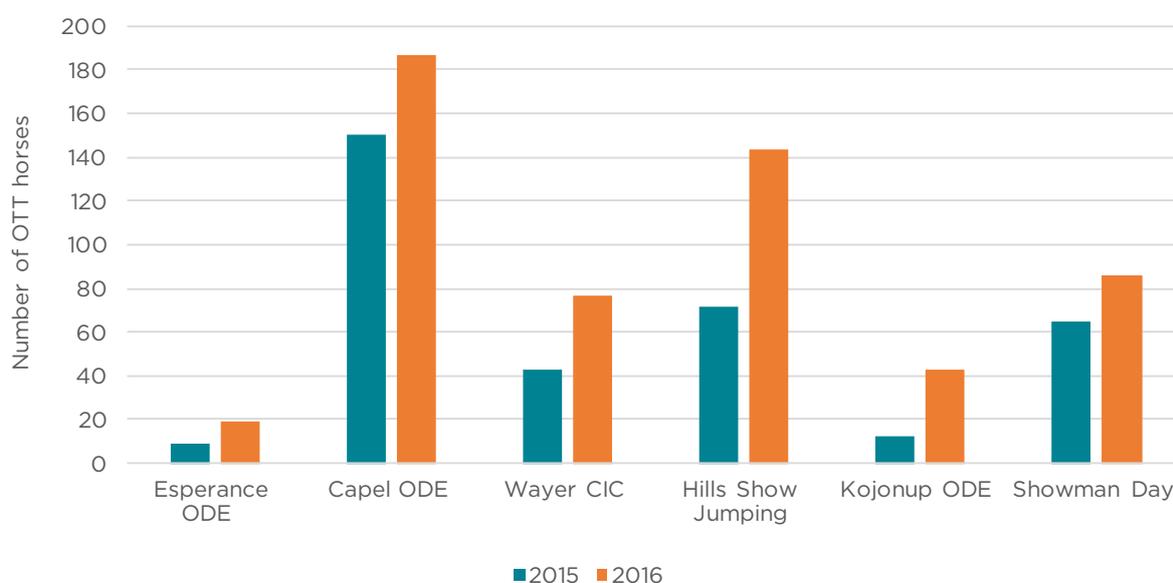
Recent statistics collected by RISA from the now mandatory thoroughbred 'Retirement of Racehorses Notification Form' indicate that over 68% of retired thoroughbred racehorses are sold or gifted as pleasure, performance, working or companion horses, which demonstrates that there is a high demand for thoroughbreds for equestrian disciplines and other pursuits post racing.

As of 1 September 2016, it will also be mandatory for all standardbred owners to complete a Retirement of Racehorse Notification Form upon the retirement of any standardbred racehorse.

#### Sonja Johnson and "Bullionaire" Selected for Rio Olympic Eventing Squad

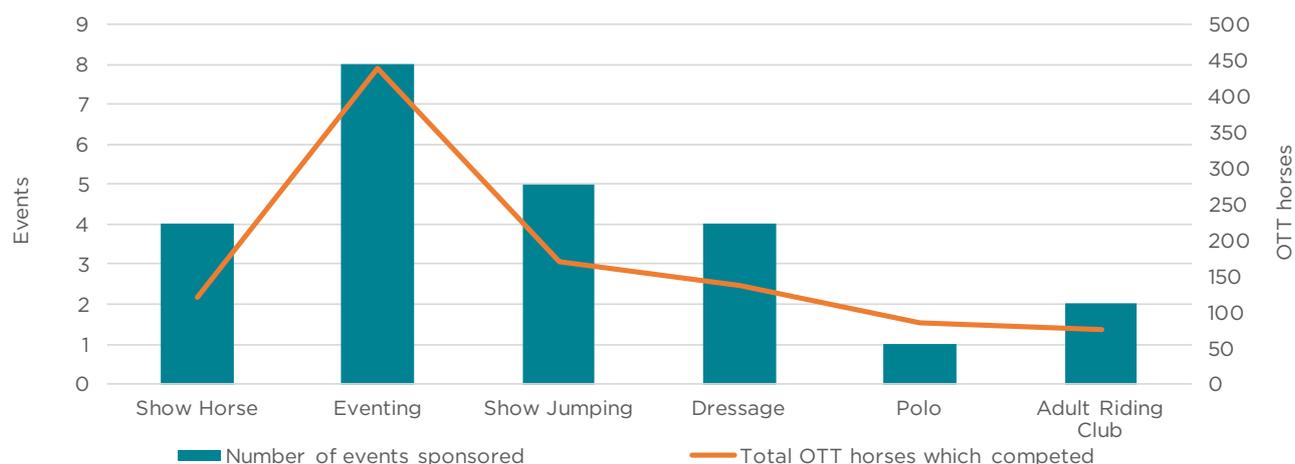
A video has been produced for the RWWA website showcasing Sonja Johnson's efforts in qualifying for the Rio Olympics eventing squad with her Western Australian retired thoroughbred racehorse "Bullionaire" (competition name "Parkiarrup Illicit Liaison").

#### Off the Track Horses Competing at Sponsored Events



## ANIMAL WELFARE CONT.

Events Sponsored by Off the Track WA (April - June 2016)



### GREYHOUND WELFARE

In 2015/16, RWWA has continued to adopt initiatives within the Greyhounds Australasia National Animal Welfare Strategy and the RWWA Holistic Greyhound Welfare Strategy.

The RWWA Holistic Greyhound Welfare Strategy looks at all stages of a greyhound's life and documents the disciplines and controls required around these stages.

The overarching mission statement of this welfare strategy is:

*RWWA is committed to ensuring that the best levels of care are given to greyhounds throughout all stages of their lives, through a program of investment, education, monitoring and regulation. When a greyhound retires from the racing industry, at any age, RWWA will aim to have every healthy and behaviourally sound greyhound re-homed.*

The central disciplines that make up the RWWA Holistic Greyhound Welfare Strategy include:

- Controlling supply via greyhound breeding controls;
- Increasing demand for greyhounds as pets;
- Increased resourcing of the industry Greyhounds as Pets program;
- Educating the industry;
- Monitoring performance against key metrics;

- Tracking of all greyhounds at every stage of their life cycle;
- Policing of the industry; and
- Overarching governance to ensure that the animal welfare strategy is applied across all stages of animals' lives.

Key Achievements in 2015/16:

- A RWWA and RSPCA working party convened, aimed at further developing minimum standards for the keeping of greyhounds through an industry adopted and controlling body enforced code of practice.
- RWWA greyhound stewards have continued to be active both in lifecycle and tracking retirements of greyhounds through auditing industry compliance with the submission of mandatory Rule 106 retirement forms.
- RWWA's greyhound stewards conducted 257 individual kennel and property inspections.
- A continuing education seminar for veterinarians with an interest in greyhound medicine and surgery was sponsored by RWWA and held in conjunction with the Australian Veterinary Association in June 2016. Guest lecturer from Victoria, renowned greyhound veterinarian Dr. Ray Ferguson, was present to deliver lectures on the day to 30 veterinarians on what was a very well attended and educational day.

## CHAPTER 2 / REPORT ON OPERATIONS



### ANIMAL WELFARE CONT.

#### GREYHOUNDS AS PETS

Greyhound as Pets (GAP) is expanding and undergoing a series of changes with the goal of positioning the program as the peak re-homing body for retired greyhounds in Western Australia.

GAP remains passionate about promoting and facilitating greyhound pet ownership to the community through the provision of safe, healthy greyhounds to homes throughout Western Australia.

Key Achievements in 2015/16:

- Transitioning to a new kennel facility taking the number of kennels available from 20 to 37. The new kennels are purpose built for greyhounds and boast state of the art facilities including an automated dog walker, temperature controlled kennels and large runs and training pens. From this facility, GAP will run training sessions for foster carers and large scale adoption days. GAP will also introduce a community volunteer program in the 2016/17 period.
- Increased number of adoptions over previous years. In the 2015/16 period, 121 greyhounds were adopted through the GAP program. Every greyhound adopted through GAP has passed the National Temperament Testing Assessment and is exempt from wearing a muzzle in public. Additionally, all greyhounds re-homed through GAP have completed a four week foster period to get used to living in a home environment, are sterilized, wormed, vaccinated and microchipped.
- Employment of a GAP Team Leader to manage the internal processes of the program and increase marketing initiatives and opportunities.
- Attendance at community events including the Perth Royal Show, Million Paws Walk, WA Sighthound Club, Perth Pet Expo and various adoption days.

## RACING INTEGRITY

The integrity of the Western Australian racing industry remains paramount to the long term sustainability and viability of the industry. The confidence of stakeholders, participants and those that support the racing industry through their wagering on the outcome of events is inextricably linked to the need to manifestly maintain a level playing field for all.

The objective of the Racing Integrity division is to maintain a level playing field for racing participants through the promotion of integrity, ethics and fair play with the view of preventing all methods or practices which might jeopardise the integrity of racing.

### INTEGRITY STRATEGIC PLAN

RWWA is currently well advanced in the execution of its Integrity Strategic Plan, as approved by the RWWA Board, to deliver the highest levels of confidence in the integrity of Western Australian racing product. This is achieved through the application of modern and effective approaches to stewarding and industry regulation.

This has included the acquisition of enhanced vision technology systems for use by racing Stewards in the assessment of races. The Hawkeye® system that has been implemented in the metropolitan area for thoroughbreds is being progressively rolled out to the major provincial areas in the forthcoming year including some harness venues. This technology, which has also been adopted by other national and international racing jurisdictions in recent times, provides a valuable tool to ensure transparency and confidence in racing decisions.

The investigation department has undergone structural and staffing changes to ensure it is positioned to effectively meet the increasing demands associated with non-race day integrity functions, including inspections, compliance, investigation, testing and other key duties. RWWA's exceptional rates of very few prohibited substances being detected in racing animals is greatly aided by the

level of system controls, such as the use of security personnel for key feature races who attend trainer's premises in the period prior to racing, and vigilance of all integrity personnel. Multiskilling of personnel and establishment of cross coding of investigators across the three racing codes, combined with increased resources to drive expanded out-of-competition testing strategies, ensures greater levels of focus and activity across all codes. The expanded rates of stable and kennel inspections not only increase visibility and presence throughout the industry, but also ensures compliance with various rules concerning possession of substances.

In accordance with the Strategic Plan, as part of professional development of integrity staff, RWWA Stewards and Integrity Officers have participated in various exchange programs with other jurisdictions, both formal and informal, whereby they have officiated with other panels or those of other jurisdictions have joined the Western Australian panels. This has included the attendance of Senior Victorian Harness Stewards for the Perth Inter Dominion finals to work with the Western Australian Stewards. Also, RWWA integrity staff were again invited to officiate at the Darwin Cup carnival. This hands-on collaboration with experienced integrity regulators from other jurisdictions is planned to continue to foster future development and knowledge of Western Australian Stewards.

### INTEGRITY ASSURANCE COMMITTEE INTERNAL AUDIT

As part of the RWWA 2015/16 Internal Audit Plan, Ernst and Young completed an internal audit of the Governance of the Integrity Assurance Committee (IAC).

The objective of this engagement was to understand and assess the effectiveness of the structure, processes and key controls in place in order for the IAC to discharge its duties.

## CHAPTER 2 / REPORT ON OPERATIONS

### RACING INTEGRITY CONT.

Through the performance of this internal audit, including conducting a survey of IAC members, the internal audit identified the following:

- No instances of non-compliance with the RWWA Act and the IAC Charter;
- No significant weaknesses in the design effectiveness of the IAC Charter, which provides the governance framework that articulates the operations of the IAC and its supporting processes; and
- No significant weaknesses in the operating effectiveness of key reporting processes provided by management to the IAC.

The findings and associated recommendations identified in the internal audit, to further strengthen the formality of processes and better enable the IAC to discharge its duties, will be implemented by management in 2016/17.

### GREYHOUND RACING INTEGRITY

In light of events occurring in relation to greyhound racing in some Australian states, in October 2015 RWWA reported the outcomes of an extensive investigation into the Western Australian greyhound industry, code-named Operation QUATRO. This investigation commenced in February 2015 in co-operation with RSPCA WA and was targeted toward identifying or investigating any matters relating to live baiting and training of greyhounds in Western Australia.

The investigation formed part of the integrity department's overall review of the Western Australian greyhound racing industry and adoption of more stringent rules, increased mandatory penalties, greater covert surveillance activities (including installation of surveillance cameras at the Northam venue), and increased rates of inspection.

In the joint media release issued in October 2015, both the RSPCA WA and RWWA advised that comprehensive investigations had not uncovered any evidence that would support

accusations of live baiting being conducted or practiced in Western Australia.

Various operational and regulatory initiatives have also been implemented in alignment with the National Greyhound Welfare strategies to ensure Western Australia's strong control of the greyhound industry is maintained to the highest standards. In this regard RWWA is well advanced in the implementation of various planned controls across the life cycle of greyhounds, designed to holistically manage the supply of greyhounds for racing and all activities thereafter. Whilst the Western Australian greyhound racing industry is significantly smaller than that of most other states, the Stewards remain focused and vigilant in maintaining the strict controls of the industry.

### PROHIBITED SUBSTANCE CONTROL

Critical to the future deployment of resources is the important investment in drug testing. This represents a significant investment for RWWA, which has grown in reflection of the increased challenges in sporting drug control, particularly racing. Some \$1.3M has been expended for analytical service costs and other related costs. In recent years the emergence of new threats to integrity, such as cobalt, has demanded greater focus and investment in appropriate control measures.

RWWA has maintained its scale of drug analysis across all codes of racing. This has included the additional screening for arsenic and cobalt of which over 1,000 samples were screened throughout the year. Pleasingly, although RWWA maintains one of the highest rates of testing in Australia, the rates of positives continue to be well below that of other commensurate jurisdictions. The scope of sampling combined with a strong approach to penalties for breaches of associated rules is central to maintaining these good records.

As part of the Integrity Strategic Plan a review of RWWA's existing laboratory arrangements for its human and animal drug analysis was completed.

## RACING INTEGRITY CONT.

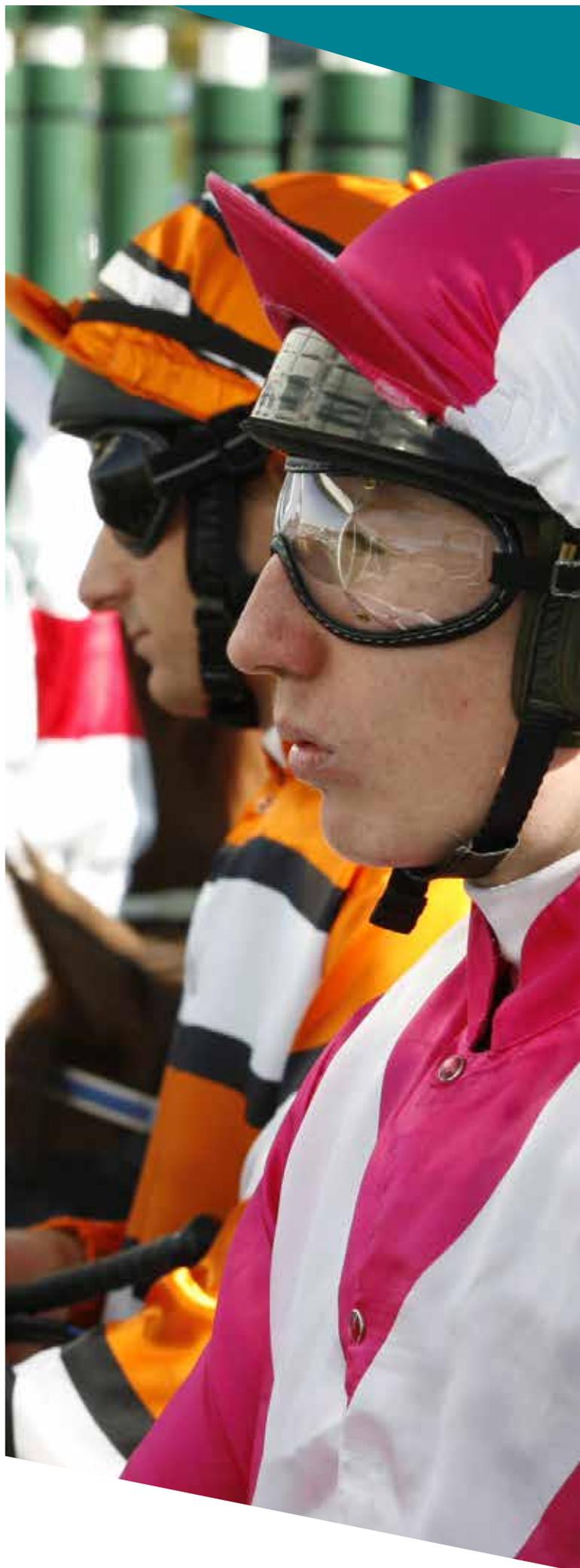
Renowned racing analyst Dr John Vine (former Manager of Racing Analytical Services Ltd - Victoria) was engaged to conduct this review with the scope of this investigation, including:

- Depth and breadth of screening technologies utilised for routine screens;
- Arrangements in relation to the application of potentially available screening methods or techniques with respect to standard screening processes of samples to ensure sufficient coverage of potential prohibited substances;
- Comparative benchmarking of the ChemCentre versus other racing laboratories in terms of its ability to screen for prohibited substances as defined by the Rules of Racing;
- Effectiveness of Out of Competition (OOC) sample screening methods and processes (for banned substances); and
- Long term storage arrangements for samples, in particular in relation to re-analysis of samples identified by RWWA.

The outcomes of this review will be considered by the RWWA IAC to identify any future requirements and improvements that can be pursued.

Statistics for 2015/16 across the three codes are as follows:

| <b>Thoroughbred</b> | <b>Samples</b> | <b>Positives</b> |
|---------------------|----------------|------------------|
| Post Race           | 2,019          | 5                |
| TCO2                | 1,444          | 1                |
| OOCT                | 219            | 0                |
| Human               | 184            | 4                |
| <b>Harness</b>      | <b>Samples</b> | <b>Positives</b> |
| Post Race           | 2,003          | 5                |
| TCO2                | 2,427          | 0                |
| OOCT                | 136            | 0                |
| Human               | 82             | 0                |
| <b>Greyhound</b>    | <b>Samples</b> | <b>Positives</b> |
| Post Race           | 1,235          | 0                |
| OOCT                | 28             | 0                |



## CHAPTER 2 / REPORT ON OPERATIONS

### RACING MARKETING AND COMMUNICATIONS

The Racing Marketing and Communications division comprises the racing marketing, corporate communications and TABradio teams. The division is responsible for managing corporate communications, promoting RWWA's key objectives through its media assets, and developing and implementing racing marketing plans aimed at:

- Increasing on-course attendance;
- Promoting animal ownership;
- Repositioning the brand of racing; and
- Championing our animals.

The Racing Marketing Strategy requires strong stakeholder engagement across the racing industry. Ensuring the local industry has a role to play in the process is critical to the overall success of the division's objectives.

Key Achievements in 2015/16:

- Commenced new racing marketing campaigns for thoroughbreds, 'For the Love of Racing' and harness, 'Harness the Rhythm'.
- Expansion of the WA Country Cups brand, including:
  - Showcasing the Regions; and
  - Launch of the WA Country Cups Fashions on the Field competition in March 2016.
- Expansion of Owners Only into harness racing May 2016.
- Refresh of the RWWA website in November 2015.

#### RACING MARKETING CAMPAIGNS

Late 2015 saw the commencement of two new racing branding campaigns specific to thoroughbred and harness racing. Industry feedback was sought in April 2015 with the findings and resulting concepts identified at the Racing Symposium in June 2015, under the direction of marketing agency 303Lowe. The objective of the campaign is to reposition racing to a broader market, highlighting the social and entertainment characteristics of the industry. It is anticipated that a carefully targeted and thorough campaign outreach will lead to increases in participation.

#### For the Love of Racing

The feedback received from the thoroughbred industry provided a clear direction for the code's marketing campaign, which was to:

- Celebrate the 'theatre', magic and emotion of racing;
- Tell the real stories of racing and celebrate our heroes;
- Foster the passion and energy in the racing experience and take it to a broader audience;
- Create a relevant, engaging, social experience for a younger audience; and
- Excite industry and community.

After the June 2015 Symposium, RWWA worked with 303Lowe to bring a thoroughbred campaign aimed at promoting the Western Australian thoroughbred racing industry called 'For the Love of Racing'.

The campaign launched on 4 October 2015 via social and digital media, outdoor signage and television commercials.

The photography and footage for the campaign was shot locally in Western Australia, with the support of many industry members and RWWA staff.

A Channel Seven broadcast, covering three hours over Super Saturday and Kingston Town Classic Day at Ascot, complemented the 'For the Love of Racing' campaign, and provided content optimisation and advertising maximisation.

#### Harness the Rhythm

The feedback received from industry workshops and surveys also provided a distinct direction for the harness marketing campaign, which was to:

- Invite everyone to experience the fun, excitement and entertainment of harness racing;
- Showcase the vibrant social atmosphere that offers something for everyone;
- Educate and engage a bigger and younger audience in the professionalism of the sport itself;

## RACING MARKETING AND COMMUNICATIONS CONT.

- Celebrate the heroes – our trainers and drivers;
- Invite the audience to get to know them; and
- Position harness racing as a uniquely fun and rewarding social experience.

RWWA worked with 303Lowe to bring together 'Harness the Rhythm', a campaign aimed at promoting the Western Australian harness racing industry.

The supporting objectives in elevating it to a television commercial were as follows:

- Build the profile of harness racing;
- Instil confidence within industry; and
- Encourage participation to broader audiences.

The campaign was launched on 13 March 2016 via social and digital media, and television commercials on Channel Seven and GWN7.

### OWNERS ONLY

Owners Only, RWWA's dedicated ownership program, is designed to recognise and reward current Western Australian racing animal owners, with the ultimate intention to attract new participants to the industry. Throughout the 2015/16 season, Owners Only expanded its presence into the harness code, providing networking opportunities through race day and non-race day functions and consistent communication to harness owners. Some of

the functions Owners Only facilitated across both equine codes included:

- Inaugural Ownership Expo, incorporating the Magic Millions Barrier Draw;
- Pop-up lounges on race day;
- Trackwork and trial breakfasts;
- Winners merchandise gifts for winning connections;
- Non-race day competitions; and
- Consistent email communications.

A survey was distributed in January 2016 as a means to measure the effectiveness of Owners Only after twelve months in operation. The survey provided vital feedback, in regards to:

- Brand Recognition - over 70% of owners surveyed had heard of Owners Only;
- Ambassadors - 99% of owners surveyed recognised Dean Cox and Rick Hart as the Owners Only ambassadors;
- Industry Advocacy - many responses indicated that Owners Only is having a positive impact, and that there is a need for the initiative to have a continued presence throughout the Western Australian racing industry;
- Perceived Influence - over 70% of current owners show inclination to re-invest in racehorse ownership; and
- Functions and Competitions - owners provided information regarding which functions and competitions they prefer to have access to.



## CHAPTER 2 / REPORT ON OPERATIONS



FASHIONS ON THE FIELD CAMPAIGN IMAGE



OWNERS ONLY POP UP LOUNGE

### RACING MARKETING AND COMMUNICATIONS CONT.

#### WA COUNTRY CUPS

WA Country Cups is an initiative by RWWA to foster the development and promote the longevity of country racing across the State. WA Country Cups works with regional race clubs and local communities to further promote their major race meetings, to showcase not only the race events themselves, but also local tourism and fashion.

#### SHOWCASING THE REGIONS

RWWA via WA Country Cups aims to further promote and enhance the country racing 'experience' by not only showcasing major race events, but also showcasing tourist attributes of the region (e.g. local attractions, local produce and landmarks), and using these celebrated racing events as a focal point. Promoting local tourism will help attract visitors outside of the regions to attend major race meetings, and also encourage visitors to consider major race days as an opportunity to plan a 'unique racing holiday' that incorporates other local activities outside of the race day.

As part of this, RWWA has started to produce promotional videos for each region, which feature the nominated race days and their surrounding local attractions. The videos are presented in a way that makes them 'timeless'.

Key benefits for producing the videos include:

- Producing valuable promotional tools that can be used at liberty by the featured race clubs, local businesses, tourism providers and entities, and local and state government; and
- Showcasing local racing identities, who are entrenched in their regional racing communities, discovering the history and background of racing in remote regions through their eyes.

In 2015/16, 'Showcasing the Regions' promotional videos were produced for the following regions and their subsequent areas:

- *Kimberley* – Derby and Broome;
- *Pilbara* – Port Hedland and Marble Bar;
- *Wheatbelt* – Northam and Toodyay; and
- *Goldfields* – Leonora and Kalgoorlie.

#### WA COUNTRY CUPS FASHIONS ON THE FIELD

In March 2016, RWWA, incorporating WA Country Cups and Community TAB, announced the WA Country Cups Fashions on the Field initiative.

The initiative is a state-wide racing fashion competition, consisting of nine regional heats held at major race meetings across the State, culminating in a Final at Ascot Racecourse on 26 November 2016, for a \$25,000 Racing Holiday and Spending Spree in Hong Kong.

## RACING MARKETING AND COMMUNICATIONS CONT.

In addition to the nine nominated regional heats, any winner of a Western Australian regional Fashions on the Field competition, is able to enter into an online 'Wildcard Competition'. The three entrants with the most votes will also be invited to Ascot where one of the top three will be selected to join the regional heat finalists in the Final.

In July 2016, proclaimed Western Australian model and avid horseracing lover, Holly Young, was unveiled as the official ambassador for the WA Country Cup Fashions on the Field.

### TABRADIO

From February to March 2016, TABradio underwent a comprehensive review, with the ultimate purpose of providing a vital industry service and wagering revenue platform complete with informative and entertaining broadcast content.

The key areas addressed included:

- Technology Upgrade – existing broadcast equipment was reviewed to identify any potential risks to the business and whether a technology upgrade was required. Following the review it was determined that an upgrade is required, however, a scope of works is to be carried out ensuring the latest studio equipment is fully costed alongside capability and requirements going forward.
- Revenue Opportunities (Advertising) – previously advertising opportunities through TABradio have not been maximised. Increasing advertising will help to increase awareness of the station and help to further generate income to assist with the operational costs of the business.
- Content – this area of the review concentrated on the production of content. TABradio's overall vision is to be the ultimate source of reliable general and sport information, therefore the provision of up to date, interesting and engaging content is critical.
- Talent - it is very important that TABradio employs individuals with a passion for

racing coupled with the knowledge and enthusiasm to promote all three racing codes. This includes both studio staff and race callers.

In July 2016, RWWA announced a new breakfast show talent line-up. From August 2016, former Melbourne Nine Network news reporter and Sky Racing presenter Gareth Hall has been manning the morning show five days a week, joined throughout the week by fellow panelists Darren McAullay, Steve Butler and Wes Cameron.

### COMMUNICATIONS AND EVENTS

The Racing Marketing and Communications division, through its media resources and platforms, will continue to promote flagship racing events that have received significant funding boosts this year. Key racing events for each code (e.g. The Masters at Ascot and the Inter Dominion Series) can give racing wider appeal, whilst generating economic value and tourism development.

The Racing Marketing and Communications team also handles RWWA's internal corporate communications, public relations affairs and media relationships.

In November 2015, RWWA unveiled a new design for its website ([www.rwwa.com.au](http://www.rwwa.com.au)). The design aims to suit the needs of industry participants, and to attract new audiences by being more visually appealing, mobile responsive and hosting engaging content that showcases the Western Australian racing and wagering industry.

Key features include:

- Mobile responsive access to Customer Racing Information Service;
- Race and trial replays for thoroughbred racing; and
- News, media and events promoted throughout the website.

2015/16 has also seen a significant growth in RWWA's online and social media followings.

## CHAPTER 2 / REPORT ON OPERATIONS



TAB RACEWALL

### WAGERING

The Wagering division is responsible for the functions of the Western Australian TAB including sales, marketing and all wagering operations.

The sales channels include the retail exclusive licence and account based channels in mobile, internet and call centre.

In 2015/16, customers continued to migrate from traditional pari-mutuel pools to fixed odds betting products as well as showing preference for the high growth mobile channel. RWWA has been responsive and focused its wagering investment in these key consumer areas whilst also maintaining investment in the retail base.

The annual investment in the business was focused on providing growth, growing capability or reducing the variable costs of wagering to ensure sustainable revenues for the funding of the Western Australian racing industry.

### RETAIL TECHNOLOGY

A key part of RWWA's strategic plan is to invest in its exclusive retail wagering licence. The Racewall technology (pictured) was installed in 79 agencies during 2015/16, with the majority of investment targeted in the licensed outlets.

The paperless retail model has been embraced by TAB Agents and customers alike. The investment delivered TAB Agents a more efficient race day whilst the customers can access the next six races to jump with a direct pari-mutuel to fixed odds comparison available, amongst other ratings and traditional racing information.

The Racewalls are complemented by new NEO terminals that offer extended racing information and form, plus self-service betting. The high customer acceptance of self-service betting terminals has seen them account for 60% of sales in licensed outlets and 50% of RWWA's total retail sales.

## WAGERING CONT.

### DIGITAL

To continue to be competitive in the digital market, RWWA's development pipeline focused on improvements in user experience, product and customer value. These included:

- Deployment of the Specials engine and a customer value platform through digital channels;
- Further automation of the Rewards engine for greater internal productivity;
- Customer Intelligence foundations built from data and online analytics;
- Digital streaming of Western Australian race replays;
- Redevelopment of the online transactions pages; and
- Race club "check in" for TABtouch customers to improve on-course wagering trends and club profitability.

Speed to market is the key focus for the digital channels and the creation of a Project Management Office (PMO) was an important step in 2015/16. The PMO's role is to assist in the assessment of all business cases as well as ensuring development occurs in an agile and efficient manner.

### CUSTOMER MARKETING

2015/16 saw the TABtouch brand seek clear space in a cluttered wagering market. The 'Get the Touch' campaign was a distinct move away from the heritage TAB brand and was based on lifting awareness in the competitive digital market. 'Get the Touch' was a highly inclusive campaign that showed the emotional connection with racing and sport, underpinned by 'money back' value statements.

Research on frequent customers' emotional connection to the brand showed that:

- Trust was maintained;
- Value, typically whereby a customer is offered specials and bonuses, has improved; and
- They continued to appreciate retail convenience, access to cash and an easy to use mobile app.

Research on infrequent customers showed:

- Awareness of the brand was stable;
- Gains from competitors through above the line marketing of specials; and
- Mobile app simplicity and volume of betting options is an advantage.

TABtouch's key marketing campaigns included:

- Get the Touch - Money Back and Profit Plus specials across the racing and sport calendar;
- Sponsorship of 'The Game' fantasy tipping competition with the West Australian;
- Sponsorship of the TABtouch Perth Darts Masters; and
- Activity surrounding the Kalgoorlie and Bunbury Cups.

### 2016/17 DIRECTION

RWWA continues to build capability in the digital and mobile teams to allow an agile methodology and deliver continuous improvement. A customer-led development strategy will result in a new and unique value proposition that will be available in the market for the Spring Carnival.

Wagering turnover is still heavily skewed toward retail, and the investment in retail Racewalls and terminals, as well as key metropolitan and provincial clubs, which will drive growth in retail turnover and fixed odds yield.

The traditional TAB brand in the form of retail agencies will remain an information rich, cash friendly and social betting experience for TAB customers. The primary challenge for RWWA is how to leverage the retail sales force to help improve market share of digital customers.

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### COMMUNITY TAB

Community TAB is responsible for upholding the Corporate Social Responsibility (CSR) of RWWA. CSR is the way a business takes into account the financial, environmental and social impacts of decisions and actions it is involved in. Effective CSR guides and contributes to the sustainability of RWWA, is recognised as good business practice and is increasingly expected by stakeholders. Community TAB communicates the support that the TAB and RWWA provides to Western Australia.

#### MAJOR PARTNERS

Community TAB has been in partnership with three major organisations since December 2014 - Lifeline WA, Riding for the Disabled WA (RDAWA) and Fremantle Sea Rescue (FSR). Community TAB recognised these three organisations as positive partners due to the services they provide to the community being held in high esteem and their worth of financial and promotional support.

Community TAB was the major partner for Lifeline WA's 'Lights for Lifeline' campaign for a second year in a row during 2015/16. The campaign shone a light on suicide prevention during the festive period when demand for Lifeline's crisis support services are highest. The partnership saw a contribution of \$78K for a second year in a row from Community TAB to directly support the training of 20 new crisis support volunteers and help their service run 24/7. This brings Community TAB's total sponsorship contribution to Lifeline over the course of the partnership to \$153K, not including other informal contributions. Lifeline WA provided Safe Talk sessions to RWWA staff and key speakers and resources for events such as Mental Health Week.

RDAWA has 18 riding centres statewide, which assist more than 1,000 riders with disabilities to enjoy safe, fun and therapeutic recreational riding. This service has proved to help the physical and mental well-being of children and adults with disabilities. Community TAB completed a second year of

partnership with RDAWA in 2015/16, which saw a second sponsorship donation of \$92K to the organisation, to support their program development and ensure high standards of animal welfare for RDA horses around the State. RWWA staff often volunteer their time at RDAWA events and RDA provided sessions to RWWA staff so they could experience what it is like to volunteer at RDAWA.

Community TAB entered the second year of partnership with Fremantle Sea Rescue (FSR) in 2015/16, which saw a \$40K contribution to FSR from Community TAB after purchasing two rescue-modified Yamaha jet skis for FSR in 2015. FSR operate between Cockburn and City Beach and across to Rottnest Island, and the Swan and Canning Rivers. The rescue volunteers are able to conduct shallow and swift water rescues, as well as support many community and sporting events where there are large numbers of people in the water and run a 24/7 service thanks to the contribution from Community TAB. Over the 2015/16 summer, FSR used the jet skis to assist 5,930 people in 12 separate community and sporting water events, and the Community TAB rescue vessel to rescue or assist 45 vessels and 204 people.

#### RACING INDUSTRY PARTNERSHIPS

Since February 2015, Community TAB has been running a program with Western Australian Race Clubs to fundraise for not-for-profit groups in their communities. In 2015 and 2016, Community TAB asked every one of the 51 Race Clubs to choose a not-for-profit organisation in their community and provided them with the opportunity to fundraise at a major race day, where Community TAB matched what was raised for the community partner. Now in the program's second year, Community TAB has had 55 partnerships with Race Clubs with another 28 committed for the rest of 2016. To date, Community TAB has matched nearly \$110K in fundraising, and by the end of 2016 will have matched close to \$180K.



## COMMUNITY TAB CONT.

Allowing the Race Clubs to choose their own community partner ensures that the groups who are in most need of the funds are receiving it. Some community groups that have benefited from the project so far include, Give Me 5 for Kids, Men's Shed, Lions Club, Royal Flying Doctor Service, various St John Ambulance Sub Centres, Full Circle, SAFE, South West Bushfire Relief, Breast Cancer Care WA and Revise WA.

Community TAB has received media coverage for almost all of the different partnerships in the program. Community TAB has also received extremely positive feedback via clubs and the community partners who have benefited from the program.

### COMMUNITY SPORT CONTRIBUTION

Over the past 10 years, over \$30M of funding has gone to the Department of Sport and Recreation, and in 2015/16 the contribution was close to \$4M. Some of the prominent sport and recreation organisations and programs that are funded by the TAB's contribution include the WA Sports Federation, Parks and Leisure WA, Athlete Travel Subsidy Scheme, Sports Club Equipment Subsidy Scheme, Royal Life Saving WA Water Safety Strategy, Communicare, Drugs in Sport education, Inclusive Sports Funding Scheme and Your Move. Through these programs hundreds of sporting clubs, teams, athletes and organisations are funded to help the Western Australian community grow healthy both physically, socially and economically. This contribution is communicated through Community TAB.

### PERTH FASHION FESTIVAL

In 2016, Community TAB signed on as the Principal Presenting Partner for the 2016 Telstra Perth Fashion Festival (TPFF). The TAB had partnered with TPFF in the past, but Community TAB was brought on board in 2015 and 2016 to ensure the partnership is leveraged to its full capacity. This partnership saw more TPFF events held at Ascot, more of a racing presence in TPFF promotional material and at events, the racing industry align with

fashion and allowed CommunityTAB/TAB/RWWA to be able to communicate with a different audience.

### WA COUNTRY CUPS FASHIONS ON THE FIELD

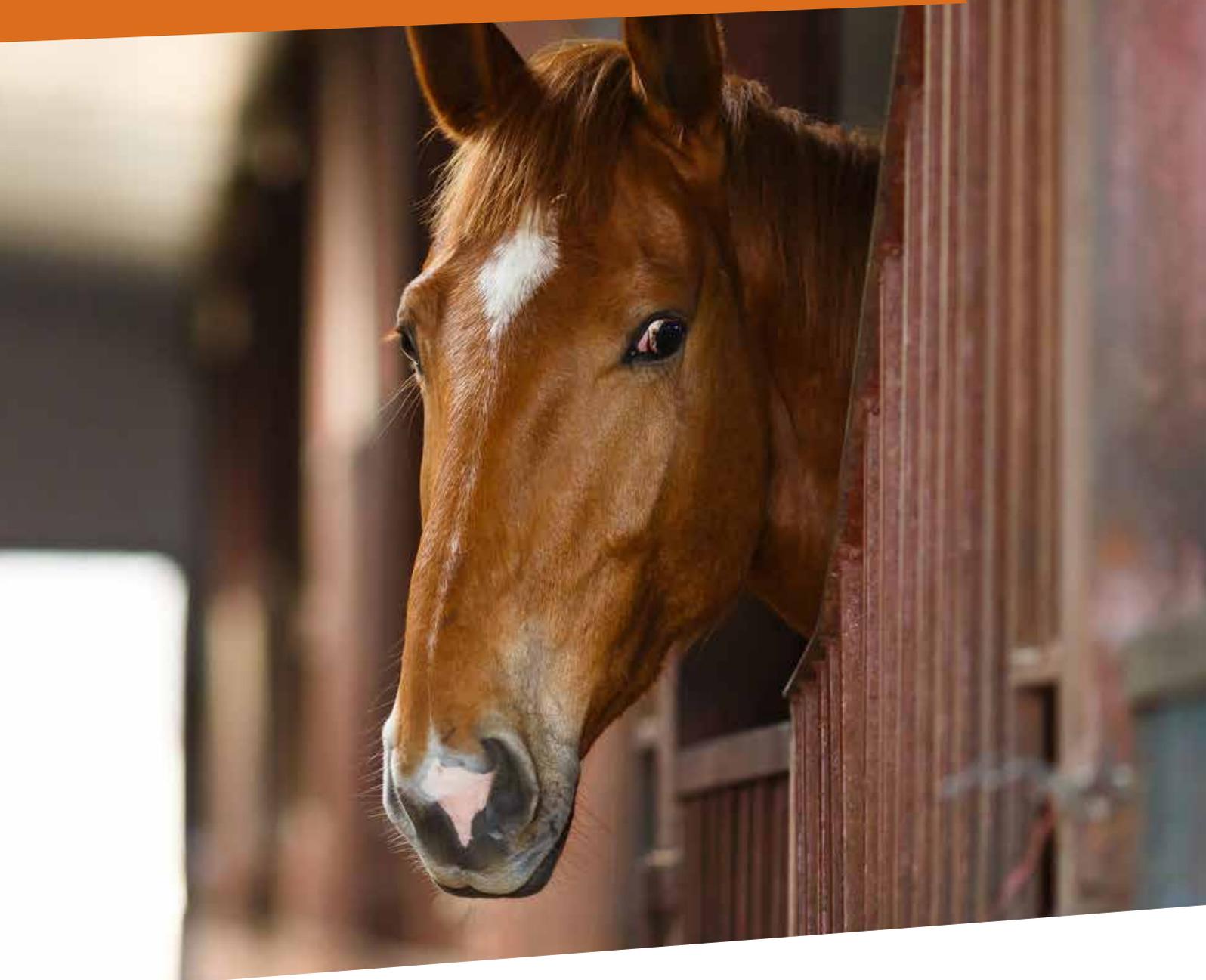
In March 2016, Community TAB in conjunction with WA Country Cups, announced the WA Country Cups Fashions on the Field initiative, a state-wide racing fashion competition consisting of nine regional heats held at major race meetings across the State, culminating in a Final at Ascot Racecourse. The Final will be held on Saturday 26 November 2016, where the winner will receive a \$25,000 Racing Holiday and Spending Spree in Hong Kong.

### STAFF ENGAGEMENT

Community TAB has become more responsible for internal engagement at RWWA over the past 12 months and taken on existing RWWA initiatives to be communicated through the Community TAB brand. Stress Down Day, Responsible Gambling Week, Mental Health Week and RSL fundraising are examples of initiatives that are communicated and organised through Community TAB to enhance staff and community engagement. Staff are also given opportunities to take part in volunteering at events for Community TAB's three partners or demonstrations to learn more about the organisations and why Community TAB is a sponsor.



## CHAPTER 2 / REPORT ON OPERATIONS



### FINANCE AND BUSINESS SERVICES

The Finance and Business Services division is responsible for financial management and strategy, the organisational risk framework, wagering compliance, audit and legal matters, the administration of licensing and registration of racing participants/animals, business data reporting and analysis, and a variety of other business services.

The division has continued to provide wide ranging support to the organisation in the achievement of goals and objectives, whilst maintaining a focus on prudent financial management and improving efficiency and effectiveness.

## INFORMATION SERVICES

The Information Services (IS) division is responsible for providing strategic IT direction, technical innovation, business agility and support.

The IS division creates and supports all RWWA wagering and racing front-end and backend information systems, ticket machines, racewalls, information security, data communications, and TABradio as well as all related technical infrastructure.

During 2015/2016, a number of significant operational and strategic milestones were achieved due to high levels of focus and performance, including:

### MAJOR INFRASTRUCTURE DEVELOPMENTS

Major infrastructure developments saw the completion of 14 projects:

- Enterprise System Management Framework;
- Replacement of the Switches at Head Office and Application Load Balancers;
- Upgrade Security Appliances;
- Telephone System Replacement;
- Terminal Fleet Refresh;
- FOB Infrastructure – Phases 1 and 2;
- Bet Engine Refresh – Phase 2;
- Windows OS upgrade and virtualisation;
- TABCorp Pooling changes;
- Retail Device Monitoring;
- Terminal Deployment Automation; and
- Portal Migration.

### JOINT VENTURE GREYHOUND RACING SYSTEM

The Joint Venture Greyhound Racing System developed by RWWA saw the completion of four projects:

- Qld JVGRS Development completed;
- Ozchase WA Items;
- Ozchase Greyhound Welfare – Phase 1;
- Ozchase Security; and
- State specific projects.

### CROSS-CHANNEL ENHANCEMENTS

Cross-Channel enhancements saw seven projects being completed:

- Progressive Pari-mutuel Dividends;
- FOB Parlay;
- AFL Fantasy Integration with The West;
- Enhanced Accumulator; and
- Commingling for International pools saw Irish Harness come on board via TABCorp pooling.

### CUSTOMER EXPERIENCE

Major enhancements in the division's primary focus area 'Customer Experience' across both racing and wagering saw a record 27 projects completed:

- Retail Technology Rollout;
- Racewall Rollout - Phase 1 Metro;
- RWWA Website Refresh - Phase 1;
- Location Aware 2 Racetrack;
- Ascot Members Area Racewall Refurbishment;
- Gloucester Park Revitalisation;
- Racecourse Refurbishment – Cannington;
- Vision Screen – Bunbury, Cannington;
- Specials Engine – Phase 1 and 2;
- Free-bet Engine – Telephone Betting;
- Call Betting;
- TABtouch Desktop Enhancements;
- Betting Page Refresh;
- Mobile Time Zones;
- TABtouch Preferences;
- Digital Race Replays;
- Odds on CRIS;
- Trial Vision on CRIS;
- On Course Check-in;
- Account Premium Features;
- Location Based Services;
- TABtouch Blog;
- Analytics;
- E-Sport Free to Play Trial;
- Risk Management;
- Account Recovery – Desktop; and
- Account Number Retrieval/Password Reset.

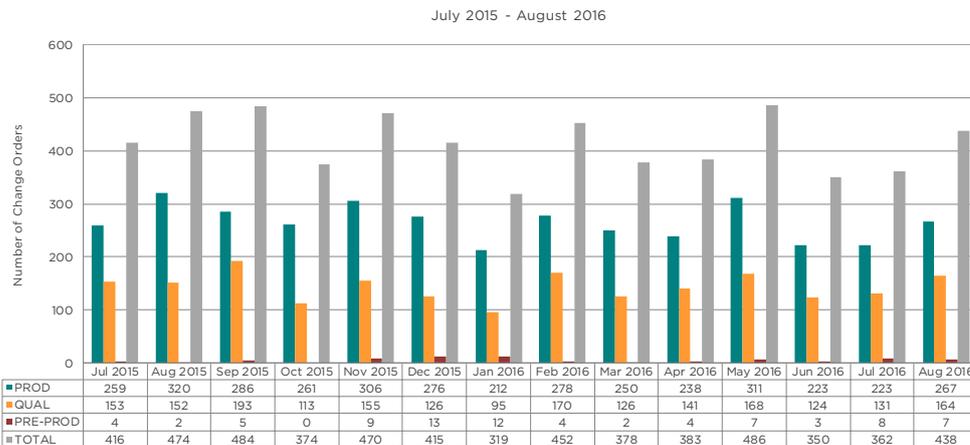
# CHAPTER 2 / REPORT ON OPERATIONS

## INFORMATION SERVICES CONT.

The IS division recognises the need to respond quickly to RWWA’s strategic business needs. For 2016/2017, IS will focus on internally growing its individual capability with the right resourcing including partnering, tools and processes enabling IS to deliver even more rapidly and effectively than ever before. This will be achieved by improving its business capability, in order to help maximise RWWA’s effectiveness in an increasingly competitive digital market.

### NUMBER OF CHANGE REQUESTS IMPLEMENTED

The following graph details change requests implemented into the division’s change controlled environments over the last financial year. Changes are broken down by month and IT environments which include QUAL, PRE-PROD and PROD.



Total change request figures for 2015/2016 are shown below.

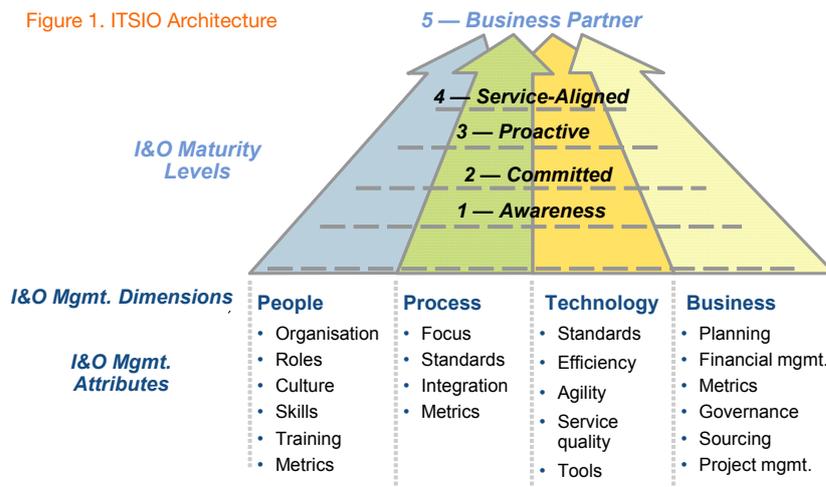
| Environments | 2015-2016    |
|--------------|--------------|
| PROD         | 3,220        |
| QUAL         | 1,716        |
| PRE-PROD     | 65           |
| <b>TOTAL</b> | <b>5,001</b> |

### INFORMATION SERVICES MATURITY ASSESSMENT

Supported by outcomes of various third party reviews during 2015/16, the division has assessed its maturity rating for technical infrastructure and operations at level 4 (service-aligned) and moving toward level 5 (business partner).

This means that the IS department is seen as a trusted service provider, with SLA’s and industry best practices in place. There is scope for improvement by proactively piloting new technology for business innovation, developing strategic relationships and setting out a roadmap for real-time infrastructure using private cloud computing.

Figure 1. ITSIO Architecture



## HUMAN RESOURCES

The Human Resources (HR) division is responsible for the development and implementation of human resource management strategy and effective management of all related workplace and employee related functions across the organisation.

The division provides support to staff and managers on all employment related matters including recruitment, induction, performance management, interpretation and application of policies and workplace conditions. Advice and support to line managers in their people management skills and workforce planning has remained a constant requirement as the organisation continues to develop and change. Learning and Development, OSH and employee wellness functions also play a key role within the division for RWWA and external stakeholders, which include TAB agents and the broader racing industry. In addition, the delivery of payroll services and the management of staff data and reporting sit within this division.

The responsibility of RWWA's corporate social responsibility was also a key function within the division over the past twelve months. The primary focus of this function is to provide greater awareness of the community investment RWWA contributes to racing, sport and the community, with Community TAB being the brand name to highlight this.

The HR team endeavoured to keep driving the positive momentum that has been achieved to date in the areas of developing further leadership capabilities and fostering an engaged workforce. Primarily this has involved a broad range of activities targeting specific work groups. The strategy again focused from bottom up with the intent of building clearer communication lines around the business strategies, skill building and improving engagement levels for all staff. From a leadership perspective, the continuation of individual coaching sessions and learning group sessions around the key areas of resilience, managing expectations

and effective communication has resulted in greater confidence being demonstrated by managers in these areas. This was supported through building greater awareness and engagement around the organisation's core values, coinciding with key events such as Melbourne Cup and other similar occasions.

Since the implementation of a broader learning and development framework last year, a greater take up of learning and development opportunities was evident. This not only supported the overall culture strategy of investing in people's development but has also assisted in RWWA's managing risk management through employees completing mandatory online training sessions on various topics. With the ongoing positive results achieved and the continued high level of staff retention across RWWA, considering the more recent times of uncertainty for employees, RWWA is committed to further building capability and engagement, reinforcing the ongoing commitment to invest in its people and culture strategy.





# CHAPTER THREE. DISCLOSURES AND LEGAL COMPLIANCE

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## OPINION OF THE AUDITOR GENERAL



## Auditor General

**INDEPENDENT AUDITOR'S REPORT**

To the Parliament of Western Australia

**RACING AND WAGERING WESTERN AUSTRALIA****Report on the Financial Statements**

I have audited the accounts and financial statements of the Racing and Wagering Western Australia.

The financial statements comprise the Statement of Financial Position as at 31 July 2016, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and Notes comprising a summary of significant accounting policies and other explanatory information.

***Opinion***

In my opinion, the financial statements are based on proper accounts and present fairly, in all material respects, the financial position of the Racing and Wagering Western Australia at 31 July 2016 and its financial performance and cash flows for the year then ended. They are in accordance with Australian Accounting Standards and the Treasurer's Instructions.

***Board's Responsibility for the Financial Statements***

The Board is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the Treasurer's Instructions, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility for the Audit of the Financial Statements***

As required by the Auditor General Act 2006, my responsibility is to express an opinion on the financial statements based on my audit. The audit was conducted in accordance with Australian Auditing Standards. Those Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Racing and Wagering Western Australia's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

## OPINION OF THE AUDITOR GENERAL CONT.

### Report on Controls

I have audited the controls exercised by the Racing and Wagering Western Australia during the year ended 31 July 2016.

Controls exercised by the Racing and Wagering Western Australia are those policies and procedures established by the Board to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions.

#### *Opinion*

In my opinion, in all material respects, the controls exercised by the Racing and Wagering Western Australia are sufficiently adequate to provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions during the year ended 31 July 2016.

#### *Board's Responsibility for Controls*

The Board is responsible for maintaining an adequate system of internal control to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of public and other property, and the incurring of liabilities are in accordance with the Financial Management Act 2006 and the Treasurer's Instructions, and other relevant written law.

#### *Auditor's Responsibility for the Audit of Controls*

As required by the Auditor General Act 2006, my responsibility is to express an opinion on the controls exercised by the Racing and Wagering Western Australia based on my audit conducted in accordance with Australian Auditing and Assurance Standards.

An audit involves performing procedures to obtain audit evidence about the adequacy of controls to ensure that the Racing and Wagering Western Australia complies with the legislative provisions. The procedures selected depend on the auditor's judgement and include an evaluation of the design and implementation of relevant controls.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Report on the Key Performance Indicators

I have audited the key performance indicators of the Racing and Wagering Western Australia for the year ended 31 July 2016.

The key performance indicators are the key effectiveness indicators and the key efficiency indicators that provide information on outcome achievement and service provision.

#### *Opinion*

In my opinion, in all material respects, the key performance indicators of the Racing and Wagering Western Australia are relevant and appropriate to assist users to assess the Racing and Wagering Western Australia's performance and fairly represent indicated performance for the year ended 31 July 2016.

#### *Board's Responsibility for the Key Performance Indicators*

The Board is responsible for the preparation and fair presentation of the key performance indicators in accordance with the Financial Management Act 2006 and the Treasurer's Instructions and for such controls as the Board determines necessary to ensure that the key performance indicators fairly represent indicated performance.

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### OPINION OF THE AUDITOR GENERAL CONT.

#### *Auditor's Responsibility for the Audit of Key Performance Indicators*

As required by the Auditor General Act 2006, my responsibility is to express an opinion on the key performance indicators based on my audit conducted in accordance with Australian Auditing and Assurance Standards.

An audit involves performing procedures to obtain audit evidence about the key performance indicators. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the key performance indicators. In making these risk assessments the auditor considers internal control relevant to the Board's preparation and fair presentation of the key performance indicators in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the relevance and appropriateness of the key performance indicators for measuring the extent of outcome achievement and service provision.

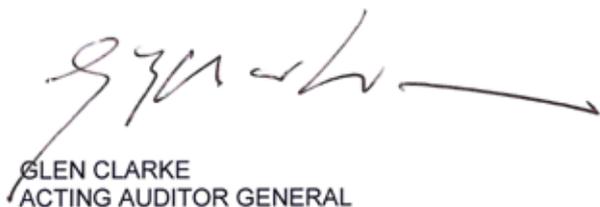
I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **Independence**

In conducting the above audits, I have complied with the independence requirements of the Auditor General Act 2006 and Australian Auditing and Assurance Standards, and other relevant ethical requirements.

#### **Matters Relating to the Electronic Publication of the Audited Financial Statements and Key Performance Indicators**

This auditor's report relates to the financial statements and key performance indicators of the Racing and Wagering Western Australia for the year ended 31 July 2016 included on the Racing and Wagering Western Australia's website. The Racing and Wagering Western Australia's management is responsible for the integrity of the Racing and Wagering Western Australia's website. This audit does not provide assurance on the integrity of the Racing and Wagering Western Australia's website. The auditor's report refers only to the financial statements and key performance indicators described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements or key performance indicators. If users of the financial statements and key performance indicators are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial statements and key performance indicators to confirm the information contained in this website version of the financial statements and key performance indicators.



GLEN CLARKE  
 ACTING AUDITOR GENERAL  
 Delegate of the Auditor General for Western Australia  
 Perth, Western Australia  
 17 October 2016

## CERTIFICATION OF FINANCIAL STATEMENTS

*For the year ended 31 July 2016*

The accompanying financial statements of Racing and Wagering Western Australia have been prepared in compliance with the provisions of the Financial Management Act 2006 from proper accounts and records to present fairly the financial transactions for the financial year ended 31 July 2016 and the financial position as at 31 July 2016.

At the date of signing we are not aware of any circumstances which would render the particulars included in the financial statements misleading or inaccurate.



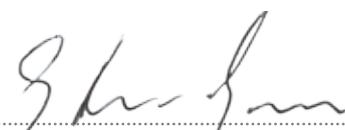
**JEFF OVENS**  
RWWA Board Chairman

17 October 2016



**GARY GLIDDON**  
Chairman Audit and  
Risk Committee

17 October 2016



**JULIAN HILTON-BARBER**  
General Manager Finance  
and Business Services and  
Chief Financial Officer

17 October 2016

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 July 2016

| Income  | Notes | 2016           | 2015           |
|---|-------|----------------|----------------|
|   |       | <b>\$000</b>   | <b>\$000</b>   |
| <b>Revenue</b>  |       |                |                |
| Margin  | 6     | 330,169        | 335,685        |
| Interest revenue  |       | 2,340          | 2,669          |
| Other revenue   | 9     | 20,024         | 18,433         |
| <b>Total Revenue</b>  |       | <b>352,533</b> | <b>356,787</b> |
| <b>Gains</b>  |       |                |                |
| Gains on disposal of non-current assets                         | 10    | 70             | 32             |
| <b>Total Gains</b>  |       | <b>70</b>      | <b>32</b>      |
| <b>Total Income</b>   |       | <b>352,603</b> | <b>356,819</b> |
| <b>Expenses</b>   |       |                |                |
| <b>Expenses</b>   |       |                |                |
| Cost of Sales   | 7     | 81,262         | 78,415         |
| Wagering Tax  | 8     | 41,905         | 42,277         |
| Racing Services   | 11,39 | 20,519         | 18,478         |
| Wagering Services   | 11,39 | 84,855         | 84,648         |
| Support Services  | 11,39 | 35,464         | 31,241         |
| Grants and Subsidies  | 12    | 12,952         | 19,043         |
| Distribution to racing and sports industries                    | 13    | 140,157        | 131,033        |
| <b>Total Expenses</b>   |       | <b>417,114</b> | <b>405,135</b> |
| Profit/(Loss) before grants and subsidies from State Government |       | (64,511)       | (48,316)       |
| Grants and Subsidies from State Government                      | 27    | 56,239         | 54,248         |
| <b>Profit/(Loss) for the period</b>                             |       | <b>(8,272)</b> | <b>5,932</b>   |
| <b>Other Comprehensive Income</b>                               |       |                |                |
| <b>Items not reclassified subsequently to profit or loss</b>    |       |                |                |
| Changes in asset revaluation surplus                            | 28    | (1,042)        | 180            |
| <b>Total other comprehensive income</b>                         |       | <b>(1,042)</b> | <b>180</b>     |
| <b>Total Comprehensive Income for the period</b>                |       | <b>(9,314)</b> | <b>6,112</b>   |

See also Note 39 'Schedule of Income and Expenses by Service'

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

## STATEMENT OF FINANCIAL POSITION

As at 31 July 2016

| Assets   | Notes | 2016<br>\$000  | 2015<br>\$000  |
|--|-------|----------------|----------------|
| <b>Current Assets</b>                          |       |                |                |
| Cash and cash equivalents                      | 29    | 82,222         | 88,799         |
| Restricted cash and cash equivalents           | 14    | 2,755          | 3,278          |
| Inventories                                    | 15    | 781            | 655            |
| Receivables                                    | 16    | 3,298          | 1,551          |
| Other Current assets                           | 18    | 3,468          | 6,932          |
| Non-Current assets classified as held for sale | 19    | 441            | 996            |
| <b>Total Current Assets</b>                    |       | <b>92,965</b>  | <b>102,211</b> |
| <b>Non-Current Assets</b>                      |       |                |                |
| Investments                                    | 17    | 455            | 352            |
| Other Non-Current assets                       | 18    | 808            | 845            |
| Property, plant and equipment                  | 20    | 49,255         | 44,217         |
| Capital Works In Progress                      | 22    | 2,395          | 7,037          |
| Intangible Assets                              | 23    | 24,763         | 28,164         |
| <b>Total Non-Current Assets</b>                |       | <b>77,676</b>  | <b>80,615</b>  |
| <b>Total Assets</b>                            |       | <b>170,641</b> | <b>182,826</b> |
| <b>Liabilities</b>                             |       |                |                |
| <b>Current Liabilities</b>                     |       |                |                |
| Payables                                       | 25    | 37,695         | 40,926         |
| Provisions                                     | 26    | 7,499          | 7,430          |
| <b>Total Current Liabilities</b>               |       | <b>45,194</b>  | <b>48,356</b>  |
| <b>Non-Current Liabilities</b>                 |       |                |                |
| Payables                                       | 25    | 1,078          | 1,045          |
| Provisions                                     | 26    | 1,196          | 937            |
| <b>Total Non-Current Liabilities</b>           |       | <b>2,273</b>   | <b>1,982</b>   |
| <b>Total Liabilities</b>                       |       | <b>47,467</b>  | <b>50,338</b>  |
| <b>Net Assets</b>                              |       | <b>123,174</b> | <b>132,488</b> |
| <b>Equity</b>                                  |       |                |                |
| Contributed Equity                             | 28    | 60,884         | 60,884         |
| Reserves                                       | 28    | 62,290         | 71,604         |
| <b>Total Equity</b>                            |       | <b>123,174</b> | <b>132,488</b> |

The Statement of Financial Position should be read in conjunction with the accompanying notes.

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### STATEMENT OF CHANGES IN EQUITY

For the year ended 31 July 2016

|   | Note      | Contributed<br>Equity<br>\$000 | General<br>Reserves<br>\$000 | Asset<br>Revaluation<br>Reserves<br>\$000 | Retained<br>Earnings<br>\$000 | Total Equity<br>\$000 |
|---|-----------|--------------------------------|------------------------------|---|-------------------------------|-----------------------|
| <b>Balance at 1 August 2014</b>                       | <b>28</b> | <b>60,884</b>                  | <b>45,416</b>                | <b>20,076</b>                             | <b>-</b>                      | <b>126,376</b>        |
| Surplus/(deficit)                                     |           | -                              | -                            | -   | 5,932                         | 5,932                 |
| Other comprehensive income                            |           | -                              | -                            | 180                                       | -                             | 180                   |
| <b>Total comprehensive income for the year</b>        |           | <b>-</b>                       | <b>-</b>                     | <b>180</b>                                | <b>5,932</b>                  | <b>6,112</b>          |
| Transactions with owners in their capacity as owners: |           |                                |                              |   |                               |                       |
| Capital appropriations                                |           | -                              | -                            | -   | -                             | -                     |
| Other contributions by owners                         |           | -                              | -                            | -   | -                             | -                     |
| Transfers between reserves                            |           | -                              | 5,932                        | -   | (5,932)                       | -                     |
| Distributions to owners                               |           | -                              | -                            | -   | -                             | -                     |
| <b>Total</b>  |           | <b>-</b>                       | <b>5,932</b>                 | <b>-</b>                                  | <b>(5,932)</b>                | <b>-</b>              |
| <b>Balance at 31 July 2015</b>                        |           | <b>60,884</b>                  | <b>51,348</b>                | <b>20,256</b>                             | <b>-</b>                      | <b>132,488</b>        |
| <b>Balance at 1 August 2015</b>                       |           | <b>60,884</b>                  | <b>51,348</b>                | <b>20,256</b>                             | <b>-</b>                      | <b>132,488</b>        |
| Surplus/(deficit)                                     |           | -                              | -                            | -   | (8,272)                       | (8,272)               |
| Other comprehensive income                            |           | -                              | -                            | (1,042)                                   | -                             | (1,042)               |
| <b>Total comprehensive income for the year</b>        |           | <b>-</b>                       | <b>-</b>                     | <b>(1,042)</b>                            | <b>(8,272)</b>                | <b>(9,314)</b>        |
| Transactions with owners in their capacity as owners: |           |                                |                              |   |                               |                       |
| Capital appropriations                                |           | -                              | -                            | -   | -                             | -                     |
| Other contributions by owners                         |           | -                              | -                            | -   | -                             | -                     |
| Transfers between reserves                            |           | -                              | (8,272)                      | -   | 8,272                         | -                     |
| Distributions to owners                               |           | -                              | -                            | -   | -                             | -                     |
| <b>Total</b>  |           | <b>-</b>                       | <b>(8,272)</b>               | <b>-</b>                                  | <b>8,272</b>                  | <b>-</b>              |
| <b>Balance at 31 July 2016</b>                        |           | <b>60,884</b>                  | <b>43,076</b>                | <b>19,214</b>                             | <b>-</b>                      | <b>123,174</b>        |

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## STATEMENT OF CASH FLOWS

For the year ended 31 July 2016

| Cash Flows from Operating Activities                        | Notes     | 2016            | 2015            |
|---|-----------|-----------------|-----------------|
|   |           | \$000           | \$000           |
| <b>Receipts</b>   |           |                 |                 |
| Receipts from customers                                     |           | 2,070,768       | 2,086,760       |
| Interest received   |           | 2,340           | 2,669           |
| GST receipts on sales                                       |           | 37,818          | 38,342          |
| Other receipts  |           | 10,926          | 10,681          |
| <b>Payments</b>   |           |                 |                 |
| Customers   |           | (1,734,984)     | (1,742,770)     |
| Creditors   |           | (200,543)       | (199,558)       |
| Employee benefits   |           | (39,730)        | (36,640)        |
| Distributions, Grants and Subsidies                         |           | (153,109)       | (150,076)       |
| Interest paid   |           | (19)            | (22)            |
| GST payments on purchases                                   |           | (16,479)        | (15,835)        |
| GST payments to taxation authority                          |           | (20,626)        | (22,474)        |
| Other payments  |           | (7,433)         | (6,872)         |
| <b>Net cash (used in) operating activities</b>              | <b>29</b> | <b>(51,070)</b> | <b>(35,795)</b> |
| <b>Cash Flows from Investing Activities</b>                 |           |                 |                 |
| <b>Receipts</b>   |           |                 |                 |
| Proceeds from sales of non-current assets                   |           | 139             | 597             |
| <b>Payments</b>   |           |                 |                 |
| Purchase of non-current physical assets                     |           | (12,408)        | (11,949)        |
| <b>Net cash (used in) investing activities</b>              |           | <b>(12,269)</b> | <b>(11,352)</b> |
| <b>Cash Flows from State Government</b>                     |           |                 |                 |
| Government Grant reimbursement                              |           | 56,239          | 54,248          |
| <b>Net cash provided by State Government</b>                |           | <b>56,239</b>   | <b>54,248</b>   |
| <b>Net (decrease)/increase in cash and cash equivalents</b> |           | <b>(7,100)</b>  | <b>7,101</b>    |
| Cash and cash equivalents at the beginning of period        |           | 92,077          | 84,976          |
| <b>Cash and cash equivalents at the end of period</b>       | <b>29</b> | <b>84,977</b>   | <b>92,077</b>   |

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 July 2016*

#### 1 Australian Accounting Standards

##### General

RWWA's financial statements for the year ended 31 July 2016 have been prepared in accordance with Australian Accounting Standards. The term 'Australian Accounting Standards' includes Standards and Interpretations issued by the Australian Accounting Standard Board (AASB).

RWWA has adopted any applicable, new and revised Australian Accounting Standards from their operative dates.

##### Early adoption of standards

RWWA cannot early adopt an Australian Accounting Standard unless specifically permitted by *Treasurer's Instruction (TI) 1101* 'Application of Australian Accounting Standards and Other Pronouncements'. There has been no early adoption of any other Australian Accounting Standards that have been issued or amended (but not operative) by RWWA for the annual reporting period ended 31 July 2016.

#### 2 Summary of significant accounting policies

##### (a) General Statement

RWWA prepares general purpose financial statements in accordance with the Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the AASB as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary application, disclosure, format and wording.

The *Financial Management Act 2006* and the Treasurer's Instructions impose legislative provisions that govern the preparation of financial statements and take precedence over the Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the AASB.

Where modification is required and has had a material or significant financial effect upon the reported results, details of that modification and the resulting financial effect are disclosed in the notes to the financial statements.

##### (b) Basis of Preparation

The financial statements have been prepared on the accrual basis of accounting (except for Grant Income which is recognised on a cash basis) using the historical cost convention, except for land and building which have been measured at fair value.

The accounting policies adopted in the preparation of the financial statements have been consistently applied throughout all periods presented unless otherwise stated.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000).

Note 3 'Judgements made by management in applying accounting policies' discloses judgements that have been made in the process of applying RWWA's accounting policies resulting in the most significant effect on amounts recognised in the financial statements.

Note 4 'Key sources of estimation uncertainty' discloses key assumptions made concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

## NOTES TO THE FINANCIAL STATEMENTS CONT.

### (c) Reporting Entity

The reporting entity comprises Racing and Wagering Western Australia (RWWA).

### (d) Contribution equity

AASB Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities requires transfers in the nature of equity contributions, other than as a result of a restructure of administrative arrangements, to be designated by the Government (the owner) as contributions by owners (at the time of, or prior to transfer) before such transfers can be recognised as equity contributions. Capital appropriations have been designated as contributions by owners by TI 955 Contributions by Owners made to Wholly Owned Public Sector Entities and have been credited directly to Contributed Equity.

The transfers of net assets to/from other agencies, other than as a result of a restructure of administrative arrangements, are designated as contributions by owners where the transfers are non-discretionary and non-reciprocal.

### (e) Income

#### Revenue Recognition

Revenue is recognised and measured at the fair value of consideration received or receivable.

Revenue is recognised for the major business activities as follows:

#### **Betting Receipts**

This represents bets taken net of monetary prizes and GST. Revenues are only recognised when the events to which they relate are finalised.

#### **Interest**

Interest income is accrued on a time basis by reference to the outstanding principal and the effective interest rate applicable.

#### **Unclaimed Dividends**

Betting dividends are deducted from turnover to arrive at the commission on turnover. In accordance with the *RWWA Act 2003 (section 104)*, dividends that are not claimed within seven months are included as income under Other Revenue.

#### **Gains**

The gain or loss on the disposal of assets is recognised at the date the significant risks and rewards of ownership of the asset passes to the buyer, usually when the purchaser takes delivery of the asset. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

#### **Government Grants and Subsidies**

The Western Australian Government provides partial reimbursement for GST paid on RWWA's margin.

Under the *Gaming and Wagering Commission Act 1987 (section 110B)*, the Gaming and Wagering Commission may credit RWWA with the proceeds collected under the Western Australian Race Fields legislation. The *Racing and Wagering Western Australia Act 2003 (section 107A)* requires these funds to be credited into a special purpose account and distributed to registered racing clubs in Western Australia. *Treasurer's Instruction 1102* requires these amounts to be disclosed as Grants from the State Government.

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### NOTES TO THE FINANCIAL STATEMENTS CONT.

Royalties for Regions funds, as well as contributions received through the Racecourse Infrastructure Grants Program, are recognised as revenue at fair value in the period in which RWWA obtains control of the funds. RWWA obtains control of the funds at the time the funds are deposited into RWWA's bank account.

#### **(f) Tax**

*Section 102 of the Racing and Wagering Western Australia Act 2003* requires RWWA to pay tax in respect of bets at the rate imposed by Sections 4 and 5 of the *Racing and Wagering Western Australia Tax Act 2003*.

#### **State Wagering Tax**

The tax rate for Parimutuel Sports betting is 5.0% of turnover, whereas the tax rate for Parimutuel Racing is 11.91% of gross revenue. The tax rate for Fixed Odds Betting (FOB) Sports is 0.5% of turnover and FOB Racing is 2.0% of turnover.

#### **(g) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of GST, except where the amount of the GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows. The GST on operator's margin, which is reimbursed by the Western Australian Government, is classified as cash flows from State Government.

#### **(h) Property, Plant and Equipment**

##### **Capitalisation/expensing of assets**

Items of property, plant and equipment costing over \$5,000 are recognised as assets and the cost of utilising assets is expensed (depreciated) over their useful lives. Items costing less than \$5,000 are expensed direct to the Statement of Comprehensive Income (other than where they form part of a group of similar items which are significant in total).

##### **Initial recognition and measurement**

All items of property, plant and equipment are initially recognised at cost.

For items of property, plant and equipment acquired at no cost or for nominal cost, the cost is the fair value at the date of acquisition.

##### **Subsequent measurement**

Subsequent to initial recognition as an asset, the revaluation model is used for the measurement of land and buildings and the cost model for all other property, plant, equipment and infrastructure. Land and buildings are carried at fair value less accumulated depreciation (buildings only) and accumulated impairment losses. All other items of property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

Where market-based evidence is available, the fair value of land and buildings is determined on the basis of current market buying values determined by reference to recent market transactions. When buildings are revalued by reference to recent market transactions, the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount.

## NOTES TO THE FINANCIAL STATEMENTS CONT.

In the absence of market-based evidence, the fair value of land and buildings is determined on the basis of existing use. This normally applies where buildings are specialised or where land use is restricted. Fair value for existing use assets is determined by reference to the cost of replacing the remaining future economic benefits embodied in the asset i.e. the depreciated replacement cost. Where the fair value of buildings is determined on the depreciated replacement cost basis, the gross carrying amount and the accumulated depreciation are restated proportionately. Fair value for restricted use land is determined by comparison with market evidence for land with similar approximate utility (high restricted use land) or market value of comparable unrestricted land (low restricted use land).

Land and buildings are independently valued annually by the Western Australian Land Information Authority (Valuation Services) and recognised annually to ensure that the carrying amount does not differ materially from the assets fair value at the end of the reporting period.

Infrastructure is carried at historical cost less accumulated depreciation and accumulated impairment loss.

The most significant assumptions and judgements in estimating fair value are made in assessing whether to apply the existing use basis to assets and in determining estimated economic life. Professional judgement by the valuer is required where the evidence does not provide a clear distinction between market type assets and existing use assets.

### ***Derecognition***

Upon disposal or derecognition of an item of property, plant and equipment any revaluation relating to that asset is retained in the asset revaluation surplus.

### ***Asset Revaluation Reserve***

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets on a class of assets basis.

### ***Depreciation***

All non-current assets having a limited useful life are systematically depreciated over their estimated useful lives in a manner that reflects the consumption of their future economic benefits.

Depreciation is calculated using the straight line method, using rates which are reviewed annually. Estimated useful lives for each class of depreciable asset are:

|                                       | 2015/16        |
|---------------------------------------|----------------|
| Buildings                             | 10 to 40 years |
| Infrastructure                        | 10 years       |
| Leasehold Improvements <sup>(a)</sup> | 5 to 15 years  |
| Motor vehicles                        | 5 years        |
| Machinery, Plant and Equipment        | 5 years        |
| Furniture and Fittings                | 5 years        |
| Computer Equipment                    | 4 years        |
| Software <sup>(b)</sup>               | 2 to 15 years  |

(a) Leasehold Improvements useful life will depend on duration of lease.

(b) Software that is integral to the operation of related hardware.

Land is not depreciated.

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### NOTES TO THE FINANCIAL STATEMENTS CONT.

#### (i) Intangible Assets

##### *Capitalisation/Expensing of Assets*

Acquisitions and internally generated intangible assets costing over \$50,000 are capitalised. The cost of utilising the assets is expensed (amortised) over their useful life. Costs incurred of less than \$50,000 are immediately expensed directly to the Statement of Comprehensive Income.

All acquired and internally developed intangible assets are initially measured at cost.

The cost model is applied for subsequent measurement requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is calculated for the period of the expected benefit (estimated useful life which is reviewed annually) on the straight line basis using rates which are reviewed regularly. All intangible assets controlled by RWWA have a finite useful life and zero residual value.

The expected useful lives for each class of intangible asset are:

|                         |               |
|-------------------------|---------------|
| Software <sup>(a)</sup> | 2 to 15 years |
| Web site costs          | 3 to 5 years  |
| Domain names            | 10 years      |

(a) Software that is not integral to the operation of any related hardware.

##### *Computer Software*

Software that is an integral part of the related hardware is treated as property, plant and equipment. Software that is not an integral part of the related hardware is treated as an intangible asset.

##### *Web Site Costs*

Web site costs are charged as expenses when they are incurred unless they relate to the acquisition or development of an asset when they may be capitalised and amortised. Generally, costs in relation to feasibility studies during the planning phase of a web site, and ongoing costs of maintenance during the operating phase are expensed. Costs incurred in building or enhancing a web site, to the extent that they represent probable future economic benefits that can be reliably measured, are capitalised.

##### *Domain Names*

Domain names have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses.

#### (j) Impairment of Assets

Property, plant and equipment, infrastructure and intangible assets are tested for any indication of impairment at the end of each reporting period. Where there is an indication of impairment, the recoverable amount is estimated. Where the recoverable amount is less than the carrying amount, the asset is considered impaired and is written down to the recoverable amount and an impairment loss is recognised. Where an asset measured at cost is written down to its recoverable amount, an impairment loss is recognised in profit or loss. Where a previously revalued asset is written down to recoverable amount, the loss is recognised as a revaluation decrement in other comprehensive income.

The risk of impairment is generally limited to circumstances where an asset's depreciation is materially understated, where the replacement cost is falling or where there is a significant change in useful life. Each relevant class of assets is reviewed annually to verify that the accumulated depreciation/amortisation reflects the level of consumption or expiration of the asset's future economic benefits and to evaluate any impairment risk from falling replacement costs.

## NOTES TO THE FINANCIAL STATEMENTS CONT.

Intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment at the end of the reporting period irrespective of whether there is any indication of impairment.

The recoverable amount of assets identified as surplus assets is the higher of fair value less costs to sell and the present value of future cash flows expected to be derived from the asset. Surplus assets carried at fair value have no risk of material impairment where fair value is determined by reference to market-based evidence. Where fair value is determined by reference to depreciated replacement cost, surplus assets are at risk of impairment and the recoverable amount is measured. Surplus assets at cost are tested for indications of impairment at the end of each reporting period.

### **(k) Non-current Assets Classified as Held for Sale**

Non-current assets held for sale are recognised at the lower of carrying amount and fair value less costs to sell, and are disclosed separately from other assets in the Statement of Financial Position. Assets classified as held for sale are not depreciated or amortised.

### **(l) Leases**

RWWA holds a number of operating leases for buildings. Lease payments are expensed on a straight line basis over the lease term as this represents the pattern of benefits derived from the leased properties.

### **(m) Financial Instruments**

In addition to cash, RWWA has two categories of financial instrument:

- Receivables
- Financial liabilities measured at amortised cost

These have been disaggregated into the following classes:

#### Financial Assets

- Cash and cash equivalents
- Restricted cash and cash equivalents
- Receivables
- Investments

#### Financial Liabilities

- Payables
- Agents Deposits

Initial recognition and measurement of financial instruments is at fair value which normally equates to the transaction cost or the face value. Subsequent measurement is at amortised cost using the effective interest method.

The fair value of short-term receivables and payables is the transaction cost or the face value because there is no interest rate applicable and subsequent measurement is not required as the effect of discounting is not material.

### **(n) Cash and Cash Equivalents**

For the purpose of the Statement of Cash Flows, cash and cash equivalent (and restricted cash and cash equivalent) assets comprise cash on hand and short term deposits with original maturities of six months or less that are readily convertible to a known amount of cash and which are subject to insignificant risk of changes in value.

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### NOTES TO THE FINANCIAL STATEMENTS CONT.

#### **(o) Accrued Salaries**

Accrued salaries represent the amount due to staff but unpaid at the end of the financial year. Accrued salaries are settled within a fortnight of the financial year end. RWWA considers the carrying amount of accrued salaries to be equivalent to its net fair value.

#### **(p) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Inventories not held for resale are valued at cost unless they are no longer required, in which case they are valued at net realisable value.

#### **(q) Receivables**

Receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts (i.e. impairment). The collectability of receivables is reviewed on an ongoing basis and any receivables identified as uncollectible are written-off against the allowance account. The allowance for uncollectible amounts (doubtful debts) is raised when there is objective evidence that RWWA will not be able to collect its debts. The carrying amount is equivalent to fair value as it is due for settlement within 30 days. Agents settle on a weekly basis.

#### **(r) Payables**

Payables are recognised at the amounts payable when RWWA becomes obliged to make future payments as a result of a purchase of assets or services. The carrying amount is equivalent to fair value, as they are generally settled within 30 days.

#### **(s) Provisions**

Provisions are liabilities of uncertain timing and amount and are recognised where there is a present legal or constructive obligation as a result of a past event and when the outflow of resources embodying economic benefits is probable and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each reporting period.

#### ***(i) Provisions – Employee Benefits***

All annual leave and long service leave provisions are in respect of employees' services up to the end of the reporting period.

#### ***Annual Leave***

Annual leave is not expected to be settled wholly within 12 months after the end of the reporting period and is therefore considered to be 'other long-term employee benefits'. The annual leave liability is recognised and measured at the present value of amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

When assessing expected future payments consideration is given to expected future wage and salary levels including non-salary components such as employer superannuation contributions as well as the experience of employee departures and periods of service. The expected future payments are discounted to present value using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The provision for annual leave is classified as current liability as RWWA does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

## NOTES TO THE FINANCIAL STATEMENTS CONT.

### ***Long Service Leave***

A liability for long service leave is recognised after an employee has completed two years of service based on remuneration rates current as at the end of the reporting period.

When assessing expected future payments consideration is given to expected future wage and salary levels including non-salary components such as employer superannuation contributions, as well as the experience of employee departures and periods of service. The expected future payments are discounted to present value using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Unconditional long service leave provisions are classified as current liabilities as RWWA does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Pre-conditional and conditional long service leave provisions are classified as non-current liabilities because RWWA has an unconditional right to defer the settlement of the liability until the employee has completed the requisite years of service.

### ***Superannuation***

The Government Employees Superannuation Board (GESB) and other fund providers administer public sector superannuation arrangements in Western Australia in accordance with legislative requirements. Eligibility criteria for membership in particular schemes for public sector employees varies according to commencement and implementation date.

Employees may contribute to the Gold State Superannuation Scheme (GSS), a defined benefit lump sum scheme now closed to new members. Employees commencing employment prior to 16 April 2007, who were not members of GSS, became non-contributory members of the West State Superannuation Scheme (WSS).

Employees commencing employment on or after 16 April 2007 became members of the GESB Super Scheme (GESBS). From 30 March 2012, existing members of WSS or GESBS and new employees became able to choose their preferred superannuation fund provider. RWWA makes contributions to GESB or other fund providers on behalf of employees in compliance with the Commonwealth Government's *Superannuation Guarantee (Administration) Act 1992*. Contributions to these accumulation schemes extinguish RWWA's liability for superannuation charges in respect of employees who are not members of the Pension Scheme or GSS.

The GSS Scheme, the WSS Scheme, and the GESBS, where the current service superannuation charge is paid by RWWA to the GESB, are defined contribution schemes. The liabilities for current service superannuation charges under the GSS, the WSS, and the GESBS are extinguished by the concurrent payment of employer contributions to the GESB.

The GSS is a defined benefit scheme for the purposes of employees and whole-of-government reporting. However, from an agency perspective, apart from the transfer benefits, it is a defined contribution plan under AASB 119.

### ***(ii) Provisions – Other***

#### ***Employment on-costs***

Employment on-costs, including workers compensation insurance, are not employee benefits and are recognised separately as liabilities and expenses when the employment to which they relate has occurred. Employment on-costs are included as part of 'Other expenses' and are not included as part of RWWA's 'Employee benefits expense'. The related liability is included in 'Employment on-costs provision.'

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### NOTES TO THE FINANCIAL STATEMENTS CONT.

#### (t) Superannuation Expense

Superannuation expense is recognised in the Statement of Comprehensive Income in profit or loss for defined contribution plans, including the concurrent payment of employer contributions to the GSS scheme, as and when the contribution falls due.

#### (u) Comparative Figures

Comparative figures are, where appropriate, reclassified to be comparable with the figures presented in the current financial year.

### 3 Judgements made by management in applying accounting policies

The preparation of financial statements requires management to make judgements about the application of accounting policies that have a significant effect on the amounts recognised in the financial statements. RWWA evaluates these judgements regularly.

#### Operating lease commitments

RWWA has entered into a number of leases for buildings for branch office accommodation. Some of these leases relate to buildings of a temporary nature and it has been determined that the lessor retains substantially all the risks and rewards incidental to ownership. Accordingly, these leases have been classified as operating leases.

### 4 Key sources of estimation uncertainty

Key estimates and assumptions concerning the future are based on historical experience and various other factors that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

#### Long Service Leave

Several estimations and assumptions used in calculating RWWA's long service leave provision include expected future salary rates, discount rates, employee retention rates and expected future payments. Changes in these estimations and assumptions may impact on the carrying amount of the long service leave provision.

### 5 Disclosure of changes in accounting policy and estimates

#### Initial application of an Australian Accounting Standard

RWWA has applied the following Australian Accounting Standards effective, or adopted, for annual reporting periods beginning on or after 1 August 2015 that impacted on RWWA:

#### AASB 2013-9

Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments

Part C of this Standard defers the application of AASB 9 to 1 January 2017. The application date of AASB 9 was subsequently deferred to 1 January 2018 by AASB 2014-1. There is no financial impact.

#### AASB 2014-8

Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010) [AASB 9 (2009 & 2010)]

This Standard makes amendments to AASB 9 Financial Instruments (December 2009) and AASB 9 Financial Instruments (December 2010), arising from the issuance of AASB 9 Financial Instruments in December 2014. There is no financial impact.

## NOTES TO THE FINANCIAL STATEMENTS CONT.

### AASB 2015-3

Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031  
Materiality

This Standard completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn. There is no financial impact.

### AASB 2015-7

Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities

However, RWWA cannot apply this standard as the land and buildings are held primarily for generating future net cash inflow. There is no financial impact.

### Future impact of Australian Accounting Standards not yet operative

RWWA cannot early adopt an Australian Accounting Standard unless specifically permitted by TI 1101 'Applications of Australian Accounting Standards and Other Pronouncements'. Where applicable, RWWA plans to apply the following Australian Accounting Standards from their application date:

| Title  | Operative for reporting periods beginning on/after |
|--|--|
| <p>AASB 9 Financial Instruments</p> <p>This Standard supersedes AASB 139 Financial Instruments: Recognition and Measurement, introducing a number of changes to accounting treatments.</p> <p>The mandatory application date of this Standard is currently 1 January 2018 after being amended by AASB 2012-6, AASB 2013-9, and AASB 2014-1 Amendments to Australian Accounting Standards. RWWA has not yet determined the application or the potential impact of the Standard.</p> | 1 Jan 2018   |
| <p>AASB 15 Revenue from Contracts with Customers</p> <p>This Standard establishes the principles that RWWA shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. RWWA has not yet determined the application or the potential impact of the Standard.</p>  | 1 Jan 2018   |
| <p>AASB 16 Leases</p> <p>This Standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. RWWA has not yet determined the application or the potential impact of the Standard.</p>  | 1 Jan 2019   |
| <p>AASB 1057 Application of Australian Accounting Standards</p> <p>This Standard lists the application paragraphs for each other Standard (and Interpretation), grouped where they are the same. There is no financial impact.</p>   | 1 Jan 2016   |

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### NOTES TO THE FINANCIAL STATEMENTS CONT.

|   |            |
|---|------------|
| <p>AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 &amp; 1038 and Int 2, 5, 10, 12, 19 &amp; 127]</p> <p>This Standard makes consequential amendments to other Australian Accounting Standards and Interpretations as a result of issuing AASB 9 in December 2010.</p> <p>The mandatory application date of this Standard has been amended by AASB 2012-6 and AASB 2014-1 to 1 January 2018. RWWA has not yet determined the application or the potential impact of the Standard.</p> | 1 Jan 2018 |
| <p>AASB 2014-1 Amendments to Australian Accounting Standards</p> <p>Part E of this Standard makes amendments to AASB 9 and consequential amendments to other Standards. It has not yet been assessed by RWWA to determine the application or potential impact of the Standard.</p>  | 1 Jan 2018 |
| <p>AASB 2014-3 Amendments to Australian Accounting Standards Accounting for Acquisitions of Interests in Joint Operations [AASB 1 &amp; 11]</p> <p>RWWA establishes Joint Operations in pursuit of its objectives and does not routinely acquire interests in Joint Operations. Therefore, there is no financial impact on application of the Standard.</p>   | 1 Jan 2016 |
| <p>AASB 2014-4 Amendments to Australian Accounting Standards Clarification of Acceptable Methods of Depreciation and Amortisation [AASB 116 &amp; 138]</p> <p>The adoption of this Standard has no financial impact for RWWA as depreciation and amortisation is not determined by reference to revenue generation, but by reference to consumption of future economic benefits.</p>  | 1 Jan 2016 |
| <p>AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15</p> <p>This Standard gives effect to the consequential amendments to Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15. RWWA has not yet determined the application or the potential impact of the Standard.</p>   | 1 Jan 2018 |
| <p>AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)</p> <p>This Standard gives effect to the consequential amendments to Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 9 (December 2014).</p> <p>RWWA has not yet determined the application or the potential impact of the Standard.</p>  | 1 Jan 2018 |

## NOTES TO THE FINANCIAL STATEMENTS CONT.

|   |            |
|---|------------|
| <p>AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements [AASB 1, 127 &amp; 128]</p> <p>This Standard amends AASB 127, and consequentially amends AASB 1 and AASB 128, to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements.</p> <p>RWWA has not yet determined the application or the potential impact of the Standard.</p>   | 1 Jan 2016 |
| <p>AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [AASB 10 &amp; 128]</p> <p>This Standard amends AASB 10 and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.</p> <p>RWWA has not yet determined the application or the potential impact of the Standard.</p>  | 1 Jan 2016 |
| <p>AASB 2015-1 Amendments to Australian Accounting - Annual Improvements to Australian Accounting Standards 2012–2014 Cycle [AASB 1, 2, 3, 5, 7, 11, 110, 119, 121, 133, 134, 137 &amp; 140]</p> <p>These amendments arise from the issuance of International Financial Reporting Standard Annual Improvements to IFRSs 2012–2014 Cycle in September 2014, and editorial corrections.</p> <p>RWWA has not yet determined the application or the potential impact of the Standard.</p>   | 1 Jan 2016 |
| <p>AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 [AASB 7, 101, 134 &amp; 1049]</p> <p>This Standard amends AASB 101 to provide clarification regarding the disclosure requirements in AASB 101. Specifically, the Standard proposes narrow-focus amendments to address some of the concerns expressed about existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying a Standard in determining what information to disclose in their financial statements.</p> <p>There is no financial impact.</p> | 1 Jan 2016 |
| <p>AASB 2015-6 Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities [AASB 10, 124 &amp; 1049]</p> <p>The amendments extend the scope of AASB 124 to include application by not-for-profit public sector entities. Implementation guidance is included to assist application of the Standard by not-for-profit public sector entities.</p> <p>There is no financial impact.</p>  | 1 Jul 2016 |

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### NOTES TO THE FINANCIAL STATEMENTS CONT.

|   |            |
|---|------------|
| <p>AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15</p> <p>This Standard amends the mandatory effective date (application date) of AASB 15 Revenue from Contracts with Customers so that AASB 15 is required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2017.</p> <p>RWWA has not yet determined the application or the potential impact of AASB 15.</p>   | 1 Jan 2017 |
| <p>AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 &amp; 128</p> <p>This Standard defers the mandatory effective date (application date) of amendments to AASB 10 &amp; 128 that were originally made in AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016.</p> <p>RWWA has not yet determined the application or the potential impact of AASB 2014-10.</p>   | 1 Jan 2016 |
| <p>AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107</p> <p>This Standard amends AASB 107 Statement of Cash Flows (August 2015) to require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.</p> <p>There is no financial impact.</p>  | 1 Jan 2017 |
| <p>AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15</p> <p>This Standard clarifies identifying performance obligations, principal versus agent considerations, timing of recognising revenue from granting a licence, and, provides further transitional provisions to AASB 15.</p> <p>RWWA has not yet determined the application or the potential impact.</p>  | 1 Jan 2018 |
| <p>AASB 2016-4 Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities</p> <p>This Standard clarifies that the recoverable amount of primarily non-cash-generating assets of not-for-profit entities, which are typically specialised in nature and held for continuing use of their service capacity, is expected to be materially the same as fair value determined under AASB 13 Fair Value Measurement.</p> <p>RWWA has not yet determined the application or the potential impact.</p> | 1 Jan 2017 |

## NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

|   | 2016           | 2015           |
|---|----------------|----------------|
|   | \$000          | \$000          |
| <b>6 Margin</b>   |                |                |
| Margin on Turnover inclusive of GST   | 357,242        | 364,358        |
| Goods and Services Tax  | (27,073)       | (28,673)       |
|   | <b>330,169</b> | <b>335,685</b> |
| <p>The Goods and Services Tax (GST) is not applied to the consumption of gambling services. It is however, applied to the operator's margin defined as the total amounts wagered less total monetary prizes.</p> <p>The State provides reimbursement to gaming operations (including RWWA) for GST paid on the operator's margin on Fixed Odds Betting and Parimutuel Sports.</p> <p><i>Treasurer's Instruction 1102</i> requires the GST reimbursement to be disclosed as a grant from the State Government rather than offset against the cost of which it applies.</p> |                |                |
| <b>7 Cost of Sales</b>  |                |                |
| Cost of Sales mainly include pooling fees, product fees, turnover rebate and tax concessions.   | 81,262         | 78,415         |
|   | <b>81,262</b>  | <b>78,415</b>  |
| <b>8 Wagering Tax</b>   |                |                |
| Tax on turnover   | 9,656          | 8,136          |
| Tax on margin   | 32,249         | 34,141         |
|   | <b>41,905</b>  | <b>42,277</b>  |
| <b>9 Other Revenue</b>  |                |                |
| Other revenue   | 12,673         | 10,368         |
| Unclaimed dividends (Racing)  | 7,351          | 8,064          |
|   | <b>20,024</b>  | <b>18,433</b>  |
| <b>10 Net gain/(loss) on disposal of non-current assets</b>   |                |                |
| Proceeds from disposal  | 139            | 597            |
| Cost of disposal  | (69)           | (565)          |
| Net gain / (loss)   | <b>70</b>      | <b>32</b>      |
| <b>11 Racing, Wagering and Support Services</b>   |                |                |
| Employee Benefit Expense  | 40,057         | 37,468         |
| Depreciation and Amortisation Expense   | 14,119         | 12,767         |
| Finance Costs   | 19             | 22             |
| Supplies and Services   | 44,639         | 45,707         |
| Advertising and Promotions  | 21,797         | 19,847         |
| Communications  | 5,342          | 5,463          |
| Accommodation   | 6,878          | 6,419          |
| Other Expenses  | 7,985          | 6,672          |
|   | <b>140,838</b> | <b>134,367</b> |

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

| 2016  | 2015  |
|-------|-------|
| \$000 | \$000 |

#### 12 Grants and Subsidies

##### Grants and Subsidies expense

|  |               |               |
|--|---------------|---------------|
| Grants                                   | 9,112         | 13,655        |
| Other subsidies                          | 2,556         | 1,768         |
| Racecourse Infrastructure Grants Program | 653           | 1,876         |
| Royalties for Regions                    | 631           | 1,745         |
|  | <b>12,952</b> | <b>19,043</b> |

|               |               |
|---------------|---------------|
| 9,112         | 13,655        |
| 2,556         | 1,768         |
| 653           | 1,876         |
| 631           | 1,745         |
| <b>12,952</b> | <b>19,043</b> |

#### 13 Distributions to Racing and Sports Industries

|               |                |                |
|---------------|----------------|----------------|
| Thoroughbreds | 83,205         | 78,563         |
| Harness       | 35,548         | 32,147         |
| Greyhounds    | 17,437         | 15,969         |
| Sports        | 3,968          | 4,354          |
|               | <b>140,157</b> | <b>131,033</b> |

|                |                |
|----------------|----------------|
| 83,205         | 78,563         |
| 35,548         | 32,147         |
| 17,437         | 15,969         |
| 3,968          | 4,354          |
| <b>140,157</b> | <b>131,033</b> |

#### 14 Restricted cash and cash equivalents

##### Current

|   |              |              |
|---|--------------|--------------|
| Royalties for Regions Fund <sup>(a)</sup> | 2,755        | 3,278        |
|   | <b>2,755</b> | <b>3,278</b> |

|              |              |
|--------------|--------------|
| 2,755        | 3,278        |
| <b>2,755</b> | <b>3,278</b> |

(a) Unspent funds are committed to projects and programs in WA regional areas.

#### 15 Inventories

##### Current

Inventories not held for resale:

##### At Cost:

|                               |            |            |
|-------------------------------|------------|------------|
| Tickets                       | 666        | 572        |
| Agency Spares and Consumables | 115        | 83         |
|                               | <b>781</b> | <b>655</b> |

|            |            |
|------------|------------|
| 666        | 572        |
| 115        | 83         |
| <b>781</b> | <b>655</b> |

#### 16 Receivables

##### Current

|   |              |              |
|---|--------------|--------------|
| Receivables                             | 1,181        | 856          |
| Accrued Revenue                         | 390          | 439          |
| Other Debtors                           | 1,833        | 275          |
| Allowance for impairment of receivables | (105)        | (20)         |
|   | <b>3,298</b> | <b>1,551</b> |

|              |              |
|--------------|--------------|
| 1,181        | 856          |
| 390          | 439          |
| 1,833        | 275          |
| (105)        | (20)         |
| <b>3,298</b> | <b>1,551</b> |

Reconciliation of changes in the allowance for impairment of receivables:

|   |            |           |
|---|------------|-----------|
| Balance at start of year                                  | 20         | 20        |
| Doubtful debts expense recognised in the income statement | 126        | 18        |
| Amounts written off during the year                       | (41)       | (18)      |
| Balance at end of year                                    | <b>105</b> | <b>20</b> |

|            |           |
|------------|-----------|
| 20         | 20        |
| 126        | 18        |
| (41)       | (18)      |
| <b>105</b> | <b>20</b> |

RWWA does not hold any collateral as security or other credit enhancements relating to receivables.

## NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

|  | 2016         | 2015         |
|--|--------------|--------------|
|  | \$000        | \$000        |
| <b>17 Investments</b>                                    |              |              |
| <b>Non-Current</b>                                       |              |              |
| At Cost  |              |              |
| Unlisted shares  | 455          | 352          |
|  | <b>455</b>   | <b>352</b>   |
| Reconciliation   |              |              |
| Carrying amount at start of period                       | 352          | 352          |
| Revaluations   | 103          | -            |
| Disposals  | -            | -            |
| Carrying amount at end of period                         | <b>455</b>   | <b>352</b>   |
| <b>18 Other Assets</b>                                   |              |              |
| <b>Current</b>   |              |              |
| Prepayments  | 3,468        | 6,932        |
|  | <b>3,468</b> | <b>6,932</b> |
| <b>Non-Current</b>                                       |              |              |
| Prepayments  | 808          | 845          |
|  | <b>808</b>   | <b>845</b>   |
| <b>19 Non-Current assets classified as held for sale</b> |              |              |
| <u>Opening balance</u>                                   |              |              |
| Freehold land  | 775          | 500          |
| Buildings  | 221          | 51           |
|  | <b>996</b>   | <b>551</b>   |
| <u>Assets reclassified as held for sale</u>              |              |              |
| Freehold land  | (500)        | 275          |
| Buildings  | (55)         | 170          |
|  | <b>(555)</b> | <b>445</b>   |
| <u>Total assets classified as held for sale</u>          |              |              |
| Freehold land  | 275          | 775          |
| Buildings  | 166          | 221          |
|  | <b>441</b>   | <b>996</b>   |
| <u>Less assets sold</u>                                  |              |              |
| Freehold land  | -            | -            |
| Buildings  | -            | -            |
|  | <b>-</b>     | <b>-</b>     |
| <u>Closing balance</u>                                   |              |              |
| Freehold land  | 275          | 775          |
| Buildings  | 166          | 221          |
|  | <b>441</b>   | <b>996</b>   |

## CHAPTER 3 / DISCLOSURES &amp; LEGAL COMPLIANCE

## NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

|  | 2016          | 2015          |
|--|---------------|---------------|
|  | \$000         | \$000         |
| <b>20 Property, Plant &amp; Equipment</b>      |               |               |
| <b><u>Freehold Land</u></b>                    |               |               |
| At fair value                                  | 20,260        | 20,826        |
| Accumulated impairment losses                  | -             | -             |
|  | <b>20,260</b> | <b>20,826</b> |
| <b><u>Buildings</u></b>                        |               |               |
| At fair value                                  | 8,991         | 8,305         |
| Accumulated depreciation                       | (50)          | (10)          |
|  | <b>8,941</b>  | <b>8,294</b>  |
| <b><u>Leasehold Improvements</u></b>           |               |               |
| At cost  | 10,281        | 10,224        |
| Accumulated depreciation                       | (9,058)       | (8,229)       |
|  | <b>1,223</b>  | <b>1,995</b>  |
| <b><u>Infrastructure</u></b>                   |               |               |
| At cost  | 4,984         | 4,806         |
| Accumulated depreciation                       | (3,792)       | (3,336)       |
|  | <b>1,192</b>  | <b>1,470</b>  |
| <b><u>Machinery, Plant &amp; Equipment</u></b> |               |               |
| At cost  | 4,987         | 4,489         |
| Accumulated depreciation                       | (3,386)       | (3,043)       |
|  | <b>1,602</b>  | <b>1,447</b>  |
| <b><u>Computer Equipment</u></b>               |               |               |
| At cost  | 39,432        | 34,289        |
| Accumulated depreciation                       | (24,875)      | (25,654)      |
|  | <b>14,557</b> | <b>8,636</b>  |
| <b><u>Furniture and Fittings</u></b>           |               |               |
| At cost  | 3,917         | 3,984         |
| Accumulated depreciation                       | (3,443)       | (3,225)       |
|  | <b>474</b>    | <b>758</b>    |
| <b><u>Motor Vehicles</u></b>                   |               |               |
| At cost  | 2,128         | 3,030         |
| Accumulated depreciation                       | (1,123)       | (2,239)       |
|  | <b>1,006</b>  | <b>791</b>    |
|  | <b>49,255</b> | <b>44,217</b> |

Freehold land and buildings were revalued as at 1 July 2015 by Western Australian Land Information Authority. The valuations were performed during the year ended 31 July 2016 and recognised at 31 July 2016. The fair value of all land and buildings has been determined by reference to recent market transactions. In undertaking the revaluation, fair value was determined by reference to market values for land: \$19,885,000 (2015: \$20,451,000); current use of land \$375,000 (2015: \$375,000); market value of buildings \$6,111,000 (2015: \$6,369,000); current use of buildings \$2,830,000 (2015: \$1,925,000).

Information on fair value measurement is provided in Note 21.

## NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

## 20 Property, Plant &amp; Equipment continued

|                                      | Freehold Land<br>\$000 | Buildings<br>\$000 | Leasehold<br>Improvements<br>\$000 | Infrastructure<br>\$000 | Machinery,<br>Plant and<br>Equipment<br>\$000 | Computer<br>Equipment<br>\$000 | Furniture and<br>Fittings<br>\$000 | Motor Vehicles<br>\$000 | Total<br>\$000 |
|--------------------------------------|------------------------|--------------------|------------------------------------|-------------------------|---|--------------------------------|------------------------------------|-------------------------|----------------|
| <b>2016</b>                          |                        |                    |                                    |                         |   |                                |                                    |                         |                |
| Carrying amount at start of period   | 20,826                 | 8,294              | 1,995                              | 1,470                   | 1,447   | 8,636                          | 758                                | 791                     | 44,217         |
| Additions                            | -                      | 1,076              | 57                                 | 178                     | 723   | 10,346                         | 78                                 | 636                     | 13,095         |
| Disposals                            | -                      | -                  | -                                  | -                       | -   | -                              | -                                  | (69)                    | (69)           |
| Classified as held for sale          | 500                    | 55                 | -                                  | -                       | -   | -                              | -                                  | -                       | 555            |
| Revaluation increments/ (decrements) | (1,067)                | (78)               | -                                  | -                       | -   | -                              | -                                  | -                       | (1,145)        |
| Depreciation                         | -                      | (407)              | (829)                              | (456)                   | (568)   | (4,425)                        | (362)                              | (352)                   | (7,399)        |
| Carrying amount at end of period     | <b>20,260</b>          | <b>8,941</b>       | <b>1,223</b>                       | <b>1,192</b>            | <b>1,602</b>                                  | <b>14,557</b>                  | <b>474</b>                         | <b>1,006</b>            | <b>49,255</b>  |
| <b>2015</b>                          |                        |                    |                                    |                         |   |                                |                                    |                         |                |
| Carrying amount at start of period   | 21,130                 | 8,815              | 2,898                              | 1,912                   | 1,047   | 9,703                          | 1,011                              | 983                     | 47,499         |
| Additions                            | -                      | 81                 | 68                                 | -                       | 597   | 3,241                          | 169                                | 168                     | 4,324          |
| Transfers                            | -                      | -                  | -                                  | -                       | -   | -                              | -                                  | -                       | -              |
| Disposals                            | -                      | -                  | -                                  | -                       | -   | (524)                          | -                                  | (41)                    | (565)          |
| Reclassification                     | -                      | (217)              | -                                  | -                       | 217   | -                              | -                                  | -                       | -              |
| Classified as held for sale          | (275)                  | (170)              | -                                  | -                       | -   | -                              | -                                  | -                       | (445)          |
| Revaluation increments/ (decrements) | (29)                   | 209                | -                                  | -                       | -   | -                              | -                                  | -                       | 180            |
| Depreciation                         | -                      | (424)              | (971)                              | (442)                   | (414)   | (3,784)                        | (422)                              | (319)                   | (6,776)        |
| Carrying amount at end of period     | <b>20,826</b>          | <b>8,294</b>       | <b>1,995</b>                       | <b>1,470</b>            | <b>1,447</b>                                  | <b>8,636</b>                   | <b>758</b>                         | <b>791</b>              | <b>44,217</b>  |

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

#### 21 Fair Value Measurements

Assets measured at fair value:

|  | Level 1<br>\$000 | Level 2<br>\$000 | Level 3<br>\$000 | Fair value<br>at end of<br>period<br>\$000 |
|--|------------------|------------------|------------------|--|
| <b>2016</b>  |                  |                  |                  |  |
| Non-Current assets classified as held for sale (Note 19) | -                | 441              | -                | 441  |
| Land (Note 20)   | -                | 19,885           | 375              | 20,260                                     |
| Buildings (Note 20)                                      | -                | 6,111            | 2,830            | 8,941                                      |
|  | -                | <b>26,437</b>    | <b>3,205</b>     | <b>29,642</b>                              |

#### 2015

Non-Current assets classified as held for sale (Note 19)  
Land (Note 20)  
Buildings (Note 20)

|   |               |              |               |
|---|---------------|--------------|---------------|
| - | 996           | -            | 996           |
| - | 20,451        | 375          | 20,826        |
| - | 6,369         | 1,925        | 8,294         |
| - | <b>27,816</b> | <b>2,300</b> | <b>30,116</b> |

There were no transfers between Levels 1, 2 or 3 during the period.

#### Valuation techniques to derive Level 2 fair values

Level 2 fair values of Non-Current assets held for sale, Land and Buildings are derived using the market approach. Market evidence of sales prices of comparable land and buildings in close proximity is used to determine price per square metre.

Non-Current assets held for sale have been written down to fair value less costs to sell. Fair value has been determined by reference to market evidence of sales prices and comparable assets.

#### Fair value measurements using significant unobservable inputs (Level 3)

|   | Land<br>\$000 | Buildings<br>\$000 |
|---|---------------|--------------------|
| <b>2016</b>   |               |                    |
| Fair value at start of period                                   | 375           | 1,925              |
| Additions   | -             | 1,029              |
| Revaluation increments recognised in Other Comprehensive Income | -             | 19                 |
| Depreciation Expense  | -             | (143)              |
| Fair value at end of period                                     | <b>375</b>    | <b>2,830</b>       |
| <b>2015</b>   |               |                    |
| Fair value at start of period                                   | 375           | 1,950              |
| Revaluation increments recognised in Other Comprehensive Income | -             | 87                 |
| Depreciation Expense  | -             | (112)              |
| Fair value at end of period                                     | <b>375</b>    | <b>1,925</b>       |

## NOTES TO THE FINANCIAL STATEMENTS CONT.

*For the year ended 31 July 2016*

### 21 Fair Value Measurements continued

There were no changes in valuation techniques during the period.

#### Valuation Processes

Transfers in and out of a fair value level are recognised on the date of the event or change in circumstances that caused the transfer. Transfers are generally limited to assets newly classified as non-current assets held for sale as Treasurer's Instructions require valuations of land and buildings to be categorised within Level 3 where the valuations will utilise significant Level 3 inputs on a recurring basis.

#### Land (Level 3 fair values)

Fair value for restricted use land is based on comparison with market evidence for land with low level utility (high restricted use land). The relevant comparators of land with low level utility is selected by the Western Australian Land Information Authority (Valuation Services) and represents the application of a significant Level 3 input in this valuation methodology. The fair value measurement is sensitive to values of comparator land, with higher values of comparator land correlating with higher estimated fair values of land.

#### Buildings and Infrastructure (Level 3 fair values)

Fair value for existing use specialised buildings assets is determined by reference to the cost of replacing the remaining future economic benefits embodied in the asset, i.e. the depreciated replacement cost. Depreciated replacement cost is the current replacement cost of an asset less accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired economic benefit, or obsolescence, and optimisation (where applicable) of the asset. Current replacement cost is generally determined by reference to the market observable replacement cost of a substitute asset of comparable utility and the gross project size specifications.

Valuation using depreciated replacement cost utilises the significant Level 3 input, consumed economic benefit/obsolescence of asset which is estimated by the Western Australian Land Information Authority (Valuation Services). The fair value measurement is sensitive to the estimate of consumption/obsolescence, with higher values of the estimate correlating with lower estimated fair values of buildings.

#### Basis of Valuation

In the absence of market-based evidence, due to the specialised nature of some non-financial assets, these assets are valued at Level 3 of the fair value hierarchy on an existing use basis. The existing use basis recognises that restrictions or limitations have been placed on their use and disposal when they are not determined to be surplus to requirements. These restrictions are imposed by virtue of the assets being held to deliver a specific community service.

Significant Level 3 inputs used by RWWA are derived and evaluated as follows:

#### Consumed economic benefit/obsolescence of asset

These are estimated by the Western Australian Land Information Authority (Valuation Services).

#### Selection of land with restricted utility

Fair value for restricted use land is determined by comparison with market evidence for land with low level utility. Relevant comparators of land with low level utility are selected by the Western Australian Land Information Authority (Valuation Services)

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

#### 21 Fair Value Measurements continued

Information about significant unobservable inputs (Level 3) in fair value measurements

| Description and fair value as at 31 July 2016 | Description and fair value as at 31 July 2015 | Valuation technique                 | Unobservable inputs                                | Relationship of unobservable inputs to fair value                                   |
|---|---|-------------------------------------|--|---|
| Land<br>\$375,000                             | Land<br>\$375,000                             | Depreciated Replacement Cost Method | Selection of land with similar approximate utility | Higher value of similar land increases estimated fair value                         |
| Buildings<br>\$2,831,000                      | Buildings<br>\$1,924,700                      | Depreciated Replacement Cost Method | Consumed economic benefit/obsolescence of asset    | Greater consumption of economic benefit or increased obsolescence lowers fair value |

Reconciliations of the opening and closing balances are provided in Note 20.

## NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

|                                     | 2016          | 2015          |
|-------------------------------------|---------------|---------------|
|                                     | \$000         | \$000         |
| <b>22 Capital Works In Progress</b> |               |               |
| TAB Terminals and Racewall Upgrade  | 1,499         | 2,669         |
| Software Upgrades                   | 785           | 2,798         |
| Lark Hill Building                  | -             | 963           |
| Computer Equipment                  | 93            | 196           |
| Other                               | 18            | 411           |
|                                     | <b>2,395</b>  | <b>7,037</b>  |
| <b>23 Intangible Assets</b>         |               |               |
| <b><u>Computer Software</u></b>     |               |               |
| At cost                             | 61,463        | 59,103        |
| Accumulated amortisation            | (36,702)      | (30,943)      |
|                                     | <b>24,761</b> | <b>28,160</b> |
| <b><u>Domain Names</u></b>          |               |               |
| At cost                             | 25            | 25            |
| Accumulated amortisation            | (23)          | (21)          |
|                                     | <b>2</b>      | <b>4</b>      |
|                                     | <b>24,763</b> | <b>28,164</b> |
| Reconciliation                      |               |               |
| <b><u>Computer Software</u></b>     |               |               |
| Carrying amount at start of period  | 28,160        | 30,102        |
| Additions                           | 3,955         | 4,047         |
| Amortisation                        | (6,718)       | (5,989)       |
| Impairment                          | (636)         | -             |
| Carrying amount at end of period    | <b>24,761</b> | <b>28,160</b> |
| <b><u>Domain Names</u></b>          |               |               |
| Carrying amount at start of period  | 5             | 7             |
| Amortisation                        | (3)           | (2)           |
| Carrying amount at end of period    | <b>2</b>      | <b>5</b>      |
|                                     | <b>24,763</b> | <b>28,165</b> |

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

|   | 2016          | 2015          |
|---|---------------|---------------|
|   | \$000         | \$000         |
| <b>24 Impairment of Assets</b>  |               |               |
| There were no indications of impairment to property, plant and equipment and intangible assets at 31 July 2016. |               |               |
| RWWA held no intangible assets with an indefinite useful life during the reporting period.                      |               |               |
| <b>25 Payables</b>  |               |               |
| <b>Current</b>  |               |               |
| Trade Payables  | 3,540         | 4,952         |
| Unclaimed Dividends and Refunds   | 5,246         | 5,755         |
| TAB Payables and Account Betting Deposits   | 14,025        | 15,252        |
| Other Payables  | 4,929         | 5,012         |
| GST Payable   | 2,408         | 1,693         |
| Accrued Expenses  | 7,547         | 8,262         |
|   | <b>37,695</b> | <b>40,926</b> |
| <b>Non-Current</b>  |               |               |
| Agents deposits and property bonds  | 1,078         | 1,045         |
|   | <b>1,078</b>  | <b>1,045</b>  |

## NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

|  | 2016         | 2015         |
|--|--------------|--------------|
|  | \$000        | \$000        |
| <b>26 Provisions</b>   |              |              |
| <b>Current</b>   |              |              |
| <b>Employee benefits provision</b>   |              |              |
| Annual Leave <sup>(a)</sup>  | 2,701        | 2,596        |
| Long Service Leave <sup>(b)</sup>  | 4,348        | 4,390        |
|  | <b>7,050</b> | <b>6,986</b> |
| <b>Other provisions</b>  |              |              |
| Employment on-costs <sup>(c)</sup>   | 449          | 445          |
|  | <b>449</b>   | <b>445</b>   |
|  | <b>7,499</b> | <b>7,430</b> |
| <b>Non-Current</b>   |              |              |
| <b>Employee benefits provision</b>   |              |              |
| Long Service Leave <sup>(b)</sup>  | 1,124        | 881          |
|  | <b>1,124</b> | <b>881</b>   |
| <b>Other provisions</b>  |              |              |
| Employment on-costs <sup>(c)</sup>   | 72           | 56           |
|  | <b>72</b>    | <b>56</b>    |
|  | <b>1,196</b> | <b>937</b>   |
| <p>(a) Annual leave liabilities have been classified as current as there is no unconditional right to defer settlement for at least 12 months after the reporting period. Assessments indicate that actual settlement of the liabilities is expected to occur as follows:</p>  |              |              |
| Within 12 months of the end of the reporting period  | 2,148        | 2,064        |
| More than 12 months after the end of the reporting period  | 553          | 533          |
|  | <b>2,701</b> | <b>2,596</b> |
| <p>(b) Long service leave liabilities have been classified as current as there is no unconditional right to defer settlement for at least 12 months after the reporting period. Assessments indicate that actual settlement of the liabilities is expected to occur as follows:</p>  |              |              |
| Within 12 months of the end of the reporting period  | 1,063        | 1,024        |
| More than 12 months after the end of the reporting period  | 4,409        | 4,247        |
|  | <b>5,472</b> | <b>5,271</b> |
| <p>(c) The settlement of annual and long service leave liabilities gives rise to the payment of employment on-costs including workers compensation premiums and payroll tax. The provision is measured at the present value of expected future payments. The associated expense, apart from the unwinding of the discount (finance cost), is included under 'Other expenses' at Note 11.</p> |              |              |
| <p>Movements in each class of provisions during the financial year, other than employee benefits, are set out below.</p>   |              |              |
| <b>Employment on-cost provision</b>  |              |              |
| Carrying amount at start of period   | 501          | 455          |
| Additional provisions recognised   | 2,492        | 2,478        |
| Payments/other sacrifices of economic benefits   | (2,472)      | (2,433)      |
| Carrying amount at end of period   | <b>521</b>   | <b>501</b>   |

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

|  | 2016<br>\$000 | 2015<br>\$000 |
|--|---------------|---------------|
| <b>27 Grants and Subsidies from State Government</b>   |               |               |
| Government Grants  | 56,239        | 54,248        |
| Government grants include WA Product Fee income*, GST rebate, Royalties for Regions and Racecourse Infrastructure Grants Program.  | <b>56,239</b> | <b>54,248</b> |
| <p>* Government Grants include \$48.7M in revenue received via the Gaming and Wagering Commission WA, from national and international wagering operators betting on Western Australian racing product. Generated from RWWA's commercial activity, this revenue would otherwise be paid directly to RWWA by the wagering operators for distribution to WA race clubs, however, it is treated as a government grant to be consistent with Section 110B.(5) of the Gaming and Wagering Commission Act 1987, and Section 107A of the Racing and Wagering Western Australia Act 2003.</p> |               |               |
| <b>28 Equity</b>   |               |               |
| <b>Contributed Equity</b>  |               |               |
| Balance at the start of the period   | 60,884        | 60,884        |
| Contributions  | -             | -             |
| Distributions  | -             | -             |
| Balance at the end of the period   | <b>60,884</b> | <b>60,884</b> |
| <b>Reserves</b>  |               |               |
| <b>Asset revaluation reserve:</b>  |               |               |
| Balance at the start of the period   | 20,256        | 20,076        |
| Net revaluation increments/(decrements):   |               |               |
| Land   | (1,067)       | (29)          |
| Buildings  | (78)          | 209           |
| Investments  | 103           | -             |
| Transfer to General Reserve  | -             | -             |
| Balance at the end of the period   | <b>19,214</b> | <b>20,256</b> |
| <b>General reserve:</b>  |               |               |
| Balance at the start of the period   | 51,348        | 45,416        |
| Changes in accounting policy   | -             | -             |
| Transfer from Retained Earnings  | (8,272)       | 5,932         |
| Balance at the end of the period   | <b>43,076</b> | <b>51,348</b> |
| Balance of reserves at end of the period   | <b>62,290</b> | <b>71,604</b> |
| <b>Retained earnings</b>   |               |               |
| Balance at the start of the period   | -             | -             |
| Result for the period  | (8,272)       | 5,932         |
| Transfer from Asset Revaluation Reserve  | -             | -             |
| Transfer to General Reserve  | 8,272         | (5,932)       |
| Balance at the end of the period   | -             | -             |

#### General reserve

The purpose of the general reserve is to cushion the effect of turnover fluctuations, or for supplementing payments made to the racing industry; to meet capital commitments, including the repayment of borrowings; to provide for capital development in the long term interests of RWWA; to meet contingent losses; and for the maintenance, repair, improvement and equipment of premises used by RWWA or its agencies.

## NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

|   | 2016            | 2015            |
|---|-----------------|-----------------|
|   | \$000           | \$000           |
| <b>29 Notes to the Statement of Cash Flows</b>  |                 |                 |
| Cash at bank earns interest at floating rates based on daily bank deposit rates.  |                 |                 |
| Short-term deposits are made for varying periods of between one and six months, depending upon the immediate cash requirements of RWWA, and earn interest at the respective short-term deposit rates. |                 |                 |
| <b>Reconciliation of cash</b>   |                 |                 |
| Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:                                   |                 |                 |
| <b>Cash and cash equivalents</b>  |                 |                 |
| Cast at bank  | 33,162          | 24,721          |
| Cash on hand  | 60              | 78              |
| Short-term deposits   | 49,000          | 64,000          |
|   | <b>82,222</b>   | <b>88,799</b>   |
| Restricted cash*  | 2,755           | 3,278           |
|   | <b>84,977</b>   | <b>92,077</b>   |
| *Royalties for Regions fund - unspent funds are committed to Racecourse Infrastructure Grants Program in WA regional areas.   |                 |                 |
| <b>Reconciliation of profit to net cash flows provided by/(used in) operating activities</b>  |                 |                 |
| Profit/(Loss) for the period  | (8,272)         | 5,932           |
| <b>Non cash items:</b>  |                 |                 |
| Depreciation and amortisation expense   | 14,119          | 12,767          |
| Net (gain)/loss on sale of property, plant and equipment  | (70)            | (32)            |
| Impairment  | 636             | -               |
| Grants and Subsidies from State Government  | (56,239)        | (54,248)        |
| <b>(Increase)/decrease in assets:</b>   |                 |                 |
| Receivables / Accrued Income  | (1,747)         | 313             |
| Current inventories   | (126)           | (85)            |
| Prepayments   | 4,894           | (2,739)         |
| <b>(Increase)/decrease in liabilities:</b>  |                 |                 |
| Trade creditors   | (4,083)         | 660             |
| Other creditors   | (1,224)         | 776             |
| Annual leave and long service leave provisions  | 307             | 782             |
| Other current provisions  | 20              | 46              |
| Change in GST Receivables/Payables  | 715             | 33              |
| <b>Net cash (used in) operating activities</b>  | <b>(51,070)</b> | <b>(35,795)</b> |

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

| 2016  | 2015  |
|-------|-------|
| \$000 | \$000 |

#### 30 Financial Instruments

##### (a) Financial Risk Management objectives and policies

Financial Instruments held by RWWA are cash and cash equivalents, receivables, payables and agent deposits.

RWWA has limited exposure to financial risks. RWWA's overall risk management program focuses on managing the risks identified below.

##### Credit Risk

Credit risk arises when there is the possibility of RWWA's receivables defaulting on their contractual obligations resulting in financial loss to RWWA. The majority of the authority's trading with customers is conducted on a cash basis. In addition, receivable balances are monitored on an ongoing basis with the result that RWWA's exposure to bad debts is minimal. At the end of the reporting period there were no significant concentrations of credit risk.

The maximum exposure to credit risk at the end of the reporting period in relation to each class of recognised financial assets is the gross carrying amount of those assets inclusive of any provisions for impairment.

##### Liquidity Risk

Liquidity risk arises when RWWA is unable to meet its financial obligations as they fall due. RWWA is exposed to liquidity risk through its trading in the normal course of business. RWWA has appropriate procedures to manage cash flows by monitoring forecast cash flows to ensure that sufficient funds are available to meet its commitments.

##### Market Risk

Market risk is the risk that changes in market prices such as foreign exchange rates and interest rates will affect RWWA's income or the value of its holdings of financial instruments. RWWA does not trade in foreign currency and is not materially exposed to other price risks. The Authority has no such exposure.

RWWA has limited exposure to foreign currency risk on purchases that are denominated in a currency other than Australian dollars.

Other than as detailed in the interest rate sensitivity analysis table, RWWA's exposure to interest rate risk is limited because it does not have any borrowings.

##### (b) Categories of Financial Instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of the reporting period are:

##### Financial Assets

Cash and cash equivalents <sup>(a)</sup>  
 Receivables <sup>(b)</sup>  
 Investment

|               |               |
|---------------|---------------|
| 84,977        | 92,077        |
| 3,298         | 1,551         |
| 455           | 352           |
| <b>88,730</b> | <b>93,980</b> |

##### Financial Liabilities

Payables <sup>(b)</sup>  
 Agent Deposits and property bonds

|               |               |
|---------------|---------------|
| 35,287        | 40,626        |
| 1,078         | 1,045         |
| <b>36,365</b> | <b>41,670</b> |

(a) Cash and cash equivalents includes restricted cash and cash equivalents.

(b) The amount of receivables/payables excludes GST recoverable/payable to the ATO (statutory receivable/payable).

## NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

### 30 Financial Instruments continued (c) Financial Instrument Disclosures

#### Credit Risk

The following table discloses RWVA's maximum exposure to credit risk and the ageing analysis of financial assets.

RWVA's maximum exposure to credit risk at the end of the reporting period is the carrying amount of financial assets as shown below.

The table discloses the ageing of financial assets that are past due but not impaired and impaired financial assets. The table is based on information provided to senior management of RWVA.

RWVA does not hold any collateral as security or other credit enhancements relating to the financial assets it holds.

|                            | Carrying Amount<br>\$000 | Not past due and not impaired<br>\$000 | Ageing analysis of financial assets<br><u>Past due but not impaired</u> |                     |                             |                    |                            | Impaired financial assets<br>\$000 |
|----------------------------|--------------------------|--|---|---------------------|-----------------------------|--------------------|----------------------------|------------------------------------|
|                            |                          |  | Up to 1 month<br>\$000  | 1-3 months<br>\$000 | 3 months to 1 year<br>\$000 | 1-5 years<br>\$000 | More than 5 years<br>\$000 |                                    |
| <b>2016</b>                |                          |  |   |                     |                             |                    |                            |                                    |
| Cash and cash equivalents  | 84,977                   | 84,977                                 | -   | -                   | -                           | -                  | -                          | -                                  |
| Receivables <sup>(a)</sup> | 3,298                    | 2,658                                  | -   | 592                 | 48                          | -                  | -                          | -                                  |
| Investment                 | 455                      | 455                                    | -   | -                   | -                           | -                  | -                          | -                                  |
|                            | <b>88,730</b>            | <b>88,090</b>                          | <b>-</b>  | <b>592</b>          | <b>48</b>                   | <b>-</b>           | <b>-</b>                   | <b>-</b>                           |
| <b>2015</b>                |                          |  |   |                     |                             |                    |                            |                                    |
| Cash and cash equivalents  | 92,077                   | 92,077                                 | -   | -                   | -                           | -                  | -                          | -                                  |
| Receivables <sup>(a)</sup> | 1,551                    | 1,169                                  | -   | 289                 | 93                          | -                  | -                          | -                                  |
| Investment                 | 352                      | 352                                    | -   | -                   | -                           | -                  | -                          | -                                  |
|                            | <b>93,980</b>            | <b>93,598</b>                          | <b>-</b>  | <b>289</b>          | <b>93</b>                   | <b>-</b>           | <b>-</b>                   | <b>-</b>                           |

(a) The amount of receivables excludes GST recoverable/payable to the ATO (statutory receivable/payable).

#### Liquidity Risk and Interest Rate Exposure

The following table details RWVA's interest rate exposure and the contractual maturity analysis of financial assets and financial liabilities. The maturity analysis section includes interest and principal cash flows. The interest rate exposure section analyses only the carrying amounts of each item.

## CHAPTER 3 / DISCLOSURES &amp; LEGAL COMPLIANCE

## NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

## Financial Instruments continued

Interest rate exposure and maturity analysis of financial assets and financial liabilities

| Weighted Average Effective Interest Rate | Interest Rate Exposure |                           |                              |                            |                      | Maturity Dates      |                  |                          |                 |                         |
|--|------------------------|---------------------------|------------------------------|----------------------------|----------------------|---------------------|------------------|--------------------------|-----------------|-------------------------|
|  | Carrying Amount \$000  | Fixed Interest Rate \$000 | Variable Interest Rate \$000 | Non Interest Bearing \$000 | Nominal Amount \$000 | Up to 1 month \$000 | 1-3 months \$000 | 3 months to 1 year \$000 | 1-5 years \$000 | More than 5 years \$000 |
|  |                        |                           |                              |                            |                      |                     |                  |                          |                 |                         |
| <b>2016</b>                              |                        |                           |                              |                            |                      |                     |                  |                          |                 |                         |
| <u>Financial Assets</u>                  |                        |                           |                              |                            |                      |                     |                  |                          |                 |                         |
| Cash and cash equivalents                | 84,977                 | 49,000                    | 35,917                       | 60                         | 84,977               |                     | 36,000           | 13,000                   |                 |                         |
| Receivables <sup>(a)</sup>               | 3,298                  | -                         | -                            | 3,298                      | 3,298                |                     |                  |                          |                 |                         |
| Investment                               | 455                    | -                         | -                            | 455                        | 455                  |                     |                  |                          |                 | 455                     |
|  | <b>88,730</b>          | <b>49,000</b>             | <b>35,917</b>                | <b>3,813</b>               | <b>88,730</b>        | <b>39,275</b>       | <b>36,000</b>    | <b>13,000</b>            |                 | <b>455</b>              |
| <u>Financial Liabilities</u>             |                        |                           |                              |                            |                      |                     |                  |                          |                 |                         |
| Payables <sup>(a)</sup>                  | 35,287                 | -                         | -                            | 35,287                     | 35,287               |                     |                  |                          |                 |                         |
| Agent Deposits and property bonds        | 1,078                  | -                         | 1,078                        | -                          | 1,078                |                     |                  |                          |                 | 1,078                   |
|  | <b>36,365</b>          | <b>-</b>                  | <b>1,078</b>                 | <b>35,287</b>              | <b>36,365</b>        | <b>35,287</b>       |                  |                          |                 | <b>1,078</b>            |
| <b>2015</b>                              |                        |                           |                              |                            |                      |                     |                  |                          |                 |                         |
| <u>Financial Assets</u>                  |                        |                           |                              |                            |                      |                     |                  |                          |                 |                         |
| Cash and cash equivalents                | 92,077                 | 64,000                    | 27,999                       | 78                         | 92,077               |                     | 40,000           | 24,000                   |                 |                         |
| Receivables <sup>(a)</sup>               | 1,551                  | -                         | -                            | 1,551                      | 1,551                |                     |                  |                          |                 |                         |
| Investment                               | 352                    | -                         | -                            | 352                        | 352                  |                     |                  |                          |                 | 352                     |
|  | <b>93,980</b>          | <b>64,000</b>             | <b>27,999</b>                | <b>1,981</b>               | <b>93,980</b>        | <b>29,628</b>       | <b>40,000</b>    | <b>24,000</b>            |                 | <b>352</b>              |
| <u>Financial Liabilities</u>             |                        |                           |                              |                            |                      |                     |                  |                          |                 |                         |
| Payables <sup>(a)</sup>                  | 40,626                 | -                         | -                            | 40,626                     | 40,626               |                     |                  |                          |                 |                         |
| Agent Deposits and property bonds        | 1,045                  | -                         | 1,045                        | -                          | 1,045                |                     |                  |                          |                 | 1,045                   |
|  | <b>41,671</b>          | <b>-</b>                  | <b>1,045</b>                 | <b>40,626</b>              | <b>41,671</b>        | <b>40,626</b>       |                  |                          |                 | <b>1,045</b>            |

(a) The amount of receivables/payables excludes GST recoverable/payable to the ATO (statutory receivable/payable).  
The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities

## NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

### 30 Financial Instruments continued

#### Interest rate sensitivity analysis

The following table represents a summary of the interest rate sensitivity of RWVA's financial assets and liabilities at the end of the reporting period on the surplus of the period for a 1% change in interest rates. It is assumed that a change in interest rates is held constant throughout the reporting period.

|                                   | Carrying amount<br>\$000 | -100 basis points |                 | +100 basis points |                 |
|-----------------------------------|--------------------------|-------------------|-----------------|-------------------|-----------------|
|                                   |                          | Surplus<br>\$000  | Equity<br>\$000 | Surplus<br>\$000  | Equity<br>\$000 |
| <b>2016</b>                       |                          |                   |                 |                   |                 |
| <b>Financial Assets</b>           |                          |                   |                 |                   |                 |
| Cash and cash equivalents *       | 84,917                   | (849)             | (849)           | 849               | 849             |
| Agent Deposits and property bonds | 1,078                    | (11)              | (11)            | 11                | 11              |
| <b>Total Increase/(Decrease)</b>  |                          | <b>(860)</b>      | <b>(860)</b>    | <b>860</b>        | <b>860</b>      |
| <b>2015</b>                       |                          |                   |                 |                   |                 |
| <b>Financial Assets</b>           |                          |                   |                 |                   |                 |
| Cash and cash equivalents *       | 91,999                   | (920)             | (920)           | 920               | 920             |
| Agent Deposits and property bonds | 1,045                    | (10)              | (10)            | 10                | 10              |
| <b>Total Increase/(Decrease)</b>  |                          | <b>(930)</b>      | <b>(930)</b>    | <b>930</b>        | <b>930</b>      |

#### Fair Values

All financial assets and liabilities recognised in the Statement of Financial Position, whether they are carried at cost or fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.

\* Excludes cash amounts that do not earn interest.

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

#### 31 Commitments

Commitments are inclusive of GST

##### Capital Commitments

Commitments in relation to capital expenditure contracted for at the reporting date but not recognised in the financial statements as liabilities, are payable as follows:

Within one year

|                 | 2016       | 2015         |
|-----------------|------------|--------------|
|                 | \$000      | \$000        |
| Within one year | 257        | 4,608        |
|                 | <b>257</b> | <b>4,608</b> |

The capital commitments include amounts for:

Customer Information & Betting Terminals  
Racewalls rollout  
Software upgrades  
Air Conditioning upgrades  
Motor Vehicle upgrades

|  |            |              |
|--|------------|--------------|
| Customer Information & Betting Terminals | 94         | 2,425        |
| Racewalls rollout                        | 111        | 1,390        |
| Software upgrades                        | 52         | 216          |
| Air Conditioning upgrades                | -          | 433          |
| Motor Vehicle upgrades                   | -          | 144          |
|  | <b>257</b> | <b>4,608</b> |

##### Lease Commitments

Commitments in relation to leases contracted for at the reporting date but not recognised in the financial statements as liabilities, are payable as follows:

Within one year

Later than one year but not later than five years

Later than five years

|   |               |               |
|---|---------------|---------------|
| Within one year                                   | 4,178         | 4,273         |
| Later than one year but not later than five years | 11,665        | 12,349        |
| Later than five years                             | 6,657         | 8,897         |
|   | <b>22,500</b> | <b>25,519</b> |

Representing:

Non-cancellable operating leases

|                                  |               |               |
|----------------------------------|---------------|---------------|
| Non-cancellable operating leases | 22,500        | 25,519        |
|                                  | <b>22,500</b> | <b>25,519</b> |

The non-cancellable operating lease commitments include amounts for:

Property

|          |               |               |
|----------|---------------|---------------|
| Property | 22,500        | 25,519        |
|          | <b>22,500</b> | <b>25,519</b> |

RWWA has entered into a number of property leases which are non-cancellable leases of varying lengths, with rent payable monthly in advance. Contingent rent provisions within the lease agreements allow annual increases and market reviews. In some instances an option exists to extend the leases at the end of the initial term.

##### Other Expenditure Commitments

Other expenditure commitments contracted for at the end of the reporting period but not recognised as liabilities, are payable as follows:

Within one year

Later than one year but not later than five years

|   |               |               |
|---|---------------|---------------|
| Within one year                                   | 18,853        | 14,303        |
| Later than one year but not later than five years | 34,719        | 165           |
|   | <b>53,572</b> | <b>14,468</b> |

## NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

|   | 2016    | 2015  |
|---|---------|-------|
|   | \$000   | \$000 |
| <b>32 Contingent (assets) liabilities</b>   |         |       |
| Contract performance guarantees exist over future rental payments on TAB Agencies   | 30      | 30    |
| Approximate amount (receivable)/payable from/to Riskcover in future years for performance adjustment in prior years Workers Compensation insurance premiums | (2,265) | 1,271 |
| <b>33 Events occurring after the end of the reporting period</b>  |         |       |
| There are no significant post reporting period events.  |         |       |

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

#### 34 Remuneration of members of the Accountable Authority and Senior Officers Remuneration of members of the Accountable Authority

The number of members of the Accountable Authority, whose total of fees, salaries, superannuation, non-monetary benefits and other benefits for the financial year, fall within the following bands are:

\$20,001 - \$30,000  
\$30,001 - \$40,000  
\$40,001 - \$50,000  
\$50,001 - \$60,000  
\$60,001 - \$70,000  
\$80,001 - \$90,000

| 2016  | 2015  |
|-------|-------|
| \$000 | \$000 |

|   |   |
|---|---|
| 1 | 1 |
| - | 2 |
| 2 | 4 |
| 4 | - |
| - | 1 |
| 1 | - |

Base remuneration received in relation to 2016  
Annual leave and long service leave accruals  
Other Benefits

|            |            |
|------------|------------|
| 405        | 343        |
| -          | -          |
| -          | -          |
| <b>405</b> | <b>343</b> |

**The total remuneration of members of the Accountable Authority is:**

The total remuneration includes the superannuation expense incurred by RWWA in respect of members of the accountable authority.

No members of the Accountable Authority are members of the Pension Scheme.

#### Remuneration of Senior Officers

The number of senior officers, other than senior officers reported as members of the Accountable Authority, whose total of fees, salaries, superannuation, non-monetary benefits and other benefits for the financial year, fall within the following bands are:

\$0 - \$10,000  
\$50,001 - \$60,000  
\$80,001 - \$90,000  
\$90,001 - \$100,000  
\$110,001 - \$120,000  
\$210,001 - \$220,000  
\$220,001 - \$230,000  
\$230,001 - \$240,000  
\$240,001 - \$250,000  
\$250,001 - \$260,000  
\$260,001 - \$270,000  
\$270,001 - \$280,000  
\$280,001 - \$290,000  
\$290,001 - \$300,000  
\$300,001 - \$310,000  
\$340,001 - \$350,000  
\$350,001 - \$360,000  
\$670,001 - \$680,000  
\$690,001 - \$700,000

|     |   |   |
|-----|---|---|
| (a) | 1 | - |
| (a) | - | 1 |
| (a) | - | 1 |
| (a) | 1 | - |
| (a) | - | 1 |
|     | - | 1 |
|     | 1 | - |
|     | - | 1 |
|     | 1 | 1 |
|     | - | 1 |
|     | 1 | - |
| (a) | - | 1 |
|     | 1 | - |
|     | - | 1 |
|     | 1 | - |
|     | 1 | 1 |
|     | - | 1 |
|     | 1 | - |

Base remuneration received in relation to 2016  
Annual leave and long service leave accruals  
Other Benefits

|              |              |
|--------------|--------------|
| 2,895        | 3,184        |
| (65)         | (21)         |
| -            | -            |
| <b>2,830</b> | <b>3,163</b> |

**The total remuneration of Senior Officers is:**

(a) Senior officers employed for partial periods of the financial year in their positions.

Remuneration includes any fees, salaries, superannuation, leave entitlements (annual and long service leave taken and accrued) and other benefits due or receivable during the year.

No senior officers are members of the Pension Scheme.

## NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

| 2016  | 2015  |
|-------|-------|
| \$000 | \$000 |

### 35 Remuneration of Auditor

Remuneration paid or payable to the Auditor General in respect of the audit for the current financial year is as follows:

Auditing the accounts, financial statements and Key Performance Indicators

|            |            |
|------------|------------|
| 133        | 122        |
| <b>133</b> | <b>122</b> |

### 36 Related Bodies

At year end RWVA did not have any related bodies.

### 37 Affiliated Bodies

At year end RWVA did not have any affiliated bodies.

### 38 Supplementary Financial Information Write-offs

Bad Debts Written off

|           |           |
|-----------|-----------|
| 41        | 18        |
| <b>41</b> | <b>18</b> |

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

#### 39 Schedule of Income and Expense by Service

|  | Racing           |                  | Wagering       |                | Unallocated     |                 | Total           |                 |
|--|------------------|------------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|
|  | 2016<br>\$000    | 2015<br>\$000    | 2016<br>\$000  | 2015<br>\$000  | 2016<br>\$000   | 2015<br>\$000   | 2016<br>\$000   | 2015<br>\$000   |
| <b>INCOME</b>  |                  |                  |                |                |                 |                 |                 |                 |
| <b>Revenue</b>   |                  |                  |                |                |                 |                 |                 |                 |
| Margin   | -                | -                | 330,169        | 335,685        | -               | -               | 330,169         | 335,685         |
| Interest revenue   | -                | -                | -              | -              | 2,339           | 2,669           | 2,339           | 2,669           |
| Other revenue  | 7,603            | 6,180            | 12,387         | 12,243         | 34              | 10              | 20,024          | 18,433          |
| Gain on disposal of non-current assets                         | -                | -                | -              | -              | 70              | 32              | 70              | 32              |
| <b>Total Income</b>  | <b>7,603</b>     | <b>6,180</b>     | <b>342,557</b> | <b>347,928</b> | <b>2,443</b>    | <b>2,711</b>    | <b>352,603</b>  | <b>356,819</b>  |
| <b>EXPENSES</b>  |                  |                  |                |                |                 |                 |                 |                 |
| Costs of sales   | -                | -                | 81,262         | 78,415         | -               | -               | 81,262          | 78,415          |
| Wagering Tax   | -                | -                | 41,905         | 42,277         | -               | -               | 41,905          | 42,277          |
| Racing Services  | 20,519           | 18,478           | -              | -              | -               | -               | 20,519          | 18,478          |
| Wagering Services  | -                | -                | 84,855         | 84,647         | -               | -               | 84,855          | 84,647          |
| Support Services   | -                | -                | -              | -              | 35,464          | 31,241          | 35,464          | 31,241          |
| Grants and subsidies   | 10,571           | 17,382           | 2,131          | 1,650          | 250             | 11              | 12,952          | 19,043          |
| Distribution to racing and sports industries                   | 136,189          | 126,679          | 3,968          | 4,354          | -               | -               | 140,157         | 131,033         |
| <b>Total Expenses</b>  | <b>167,279</b>   | <b>162,540</b>   | <b>214,120</b> | <b>211,343</b> | <b>35,714</b>   | <b>31,252</b>   | <b>417,114</b>  | <b>405,134</b>  |
| <b>Profit/(Loss) before Grants and Subsidies</b>               | <b>(159,676)</b> | <b>(156,360)</b> | <b>128,437</b> | <b>136,585</b> | <b>(33,271)</b> | <b>(28,541)</b> | <b>(64,511)</b> | <b>(48,316)</b> |
| Grants and subsidies from State Government (GST Reimbursement) | -                | 3,904            | 7,571          | 7,100          | 48,668          | 43,244          | 56,239          | 54,248          |
| <b>Profit/(Loss) for the period</b>                            | <b>(159,676)</b> | <b>(152,456)</b> | <b>136,008</b> | <b>143,685</b> | <b>15,397</b>   | <b>14,703</b>   | <b>(8,272)</b>  | <b>5,932</b>    |

## NOTES TO THE FINANCIAL STATEMENTS CONT.

For the year ended 31 July 2016

### 40 Explanatory Statement

AASB 1055 Budgetary Reporting standard requires specific budgetary disclosures in the general purpose financial statements of non-for-profit entities within the General Government Sector. RWWA falls within the category of Public Non-Financial Corporation Section, also RWWA does not publish annual estimates in the budget papers or the Statement of Corporate Intent.

Therefore, as prescribed under TI 945P, RWWA provides details of any significant variations between the actual results for 2015 and 2016.

Significant variations are considered to be those in excess of 10% or \$2.5M.

#### Significant variances between actual results for 2015 and 2016

|  | Comment | 2016            | 2015            | Variance<br>\$000 |
|--|---------|-----------------|-----------------|-------------------|
|  |         | Actual<br>\$000 | Actual<br>\$000 |                   |
| <b>Revenue</b>                               |         |                 |                 |                   |
| Margin                                       | (1)     | 330,169         | 335,685         | (5,516)           |
| Interest Revenue                             | (2)     | 2,339           | 2,669           | (330)             |
| Other Revenue                                |         | 20,024          | 18,433          | 1,591             |
| <b>Gains</b>                                 |         |                 |                 |                   |
| Gain on disposal of non-current assets       |         | 70              | 32              | 38                |
| <b>Expenses</b>                              |         |                 |                 |                   |
| Cost of sales                                | (3)     | 81,262          | 78,415          | 2,847             |
| Wagering Tax                                 |         | 41,905          | 42,277          | (372)             |
| Racing Services                              | (4)     | 20,519          | 18,478          | 2,041             |
| Wagering Services                            |         | 84,855          | 84,647          | 208               |
| Support Services                             | (5)     | 35,464          | 31,241          | 4,223             |
| Grants and subsidies                         | (6)     | 12,952          | 19,043          | (6,091)           |
| Distribution to racing and sports industries | (7)     | 140,157         | 131,033         | 9,124             |
| Grants and subsidies from State Government   |         | 56,239          | 54,248          | 1,991             |

#### Comment

- (1) Margin decreased against last year primarily due to the impact of the adverse economic environment on RWWA's business activities.
- (2) Interest revenue decreased due to a drop in the average interest rate to 2.57% compared to 2.85% last year.
- (3) The increased cost of sales results from a full year impact of the calculation methodology introduced in October 2014 for WA Product fees and an increase in product fee rates with new agreements in place.
- (4) The increase in Racing Services costs in 2016 is mainly due to an expansion of the Racing, Marketing & Communication activity including establishment costs of "Greyhounds as Pets" program.
- (5) The increase in Support Services costs in 2016 is due to a switch from large capitalised projects to smaller incremental enhancements to products and systems that are not capitalised due to being below the capitalisation threshold.
- (6) The decrease in Grants and subsidies from the prior financial year is primarily due to a one off grant towards the new Cannington greyhound track of \$10.2M in 2015.
- (7) Consistent with previous years, RWWA Distribution Policy for 2016 allowed for an increase in funding over 2015, with the aim of keeping distribution increases at sustainable levels.

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### **CERTIFICATION OF KEY PERFORMANCE INDICATORS**

*For the year ended 31 July 2016*

We hereby certify that the key performance indicators for Racing and Wagering Western Australia (RWWA) are based on proper records, are relevant and appropriate for assisting users to assess the performance of RWWA and fairly represent the performance of RWWA for the financial year ended 31 July 2016.



**JEFF OVENS**  
RWWA Board Chairman

17 October 2016



**GARY GLIDDON**  
Chairman Audit and Risk Committee

17 October 2016

# PERFORMANCE MANAGEMENT FRAMEWORK

## Relationship to Government Goals

### Results-Based Service Delivery

Greater focus on achieving results in key service delivery areas for the benefit of all Western Australians

| Desired Outcomes  | Services Provided  | Effectiveness Indicators   | Efficiency Indicators   |
|---|--|--|---|
| To provide an efficient, competitive and responsible wagering service for Western Australia   | Provision of a betting system which is efficient, reliable, maintainable and capable   | Primary Betting System availability  | Margin per employee   |
|   | Provision of services to support wagering  | Staff (FTE)<br>Number of bets processed  | Profit per employee<br>Return on Assets (operating profit as a percentage of total assets)              |
| To achieve an optimum level of funding to the racing industry and sports  | Grants administration, evaluation and distribution<br>Administration of industry distribution to the clubs   | Distribution to Industry<br>Grants to industry (RWWA funded)<br>Grants to industry (State Govt funded)   | Margin<br>Operating Profit (excluding the profit/loss from sale of assets) before distribution to codes |
| To efficiently administer, and to provide effective leadership in the development, integrity and welfare of the racing and wagering industry in Western Australia | Maintain the integrity of the Western Australian racing industry<br>Guarantee the ongoing welfare and sustainability of the Western Australian racing industry<br>Provision of racing, stewarding, wagering, financial, marketing, human resources, IT, strategic and other services | % of Winners Swabbed / Returned Negative<br>Average number of starters in Western Australia races<br>Annual growth in TAB Turnover on Western Australia racing | Racing and Steward expenses per WA race meeting   |

RWWA's key performance indicators are aligned to the above government goals (i.e. Results-Based Service Delivery and Financial and Economic Responsibility).

RWWA's key performance indicators are also reported in the Financials section of this Annual Report.

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### KEY PERFORMANCE INDICATORS

For the year ended 31 July 2016

**Outcome:** To provide an efficient, competitive and responsible betting service for Western Australia.

| Effectiveness Indicators            | Description   |       | 2016 Actual | 2016 Target | 2015 Actual | 2014 Actual | Result   |
|-------------------------------------|---|-------|-------------|-------------|-------------|-------------|--|
| Primary Betting System availability | The availability of the betting system is paramount to the TAB's ability to generate revenue. The high availability target reflects the importance RWWA places on this. A service that is reliable is necessary for the TABs to attract and retain customers. | %     | 99.99       | 99.96       | 99.94       | 99.98       | The availability of the betting system during the year is above RWWA's target and prior year ratios. |
| Staff (FTE)                         | With staff employee benefits expense being one of the largest cost categories at RWWA, managing the FTE levels is an important part of ensuring an efficient competitive business.  | No.   | 366         | 365         | 364         | 362         | The number of FTE at the end of 2015/16 is broadly in line with the previous year.                   |
| Number of Bets Processed            | The number of bets processed is an indicator of the TAB's competitiveness in the wagering and gambling marketplace.   | 000's | 197,954     | 202,844     | 190,679     | 180,819     | The number of bets for 2016 shows a 3.7% increase on 2015.   |

| Efficiency Indicators   | Description  |       | 2016 Actual | 2016 Target | 2015 Actual | 2014 Actual | Result   |
|---|--|-------|-------------|-------------|-------------|-------------|--|
| Margin per employee   | Margin per employee is a measure of the competitiveness of the business.   | \$000 | 902         |             | 922         | 937         | Margin per employee is slightly down compared to last year primarily due to the impact of adverse economic conditions on RWWA's business activities.   |
| Profit per employee   | Profit per employee, like margin per employee, is a measure of the efficiency of the business in delivering wagering revenue and also providing racing and integrity services to the industry. | \$000 | 360         |             | 376         | 369         | Profit per employee is slightly down compared to last year due to decrease in operating profits before distributions to industry. The reduction in operating profit is due to the impact of adverse economic conditions on RWWA's business activities. |
| Return on assets (Operating profit as a percentage of total assets) | Return on assets (ROA) is a widely accepted indicator of the efficiency in the use of assets.  | %     | 77.2        | 87.0        | 74.9        | 75.9        | ROA is lower than target because the operating profit before distribution to industry for 2016 is lower than target and total assets for 2016 are \$6.8M higher than target. However the current year result is an improvement on 2015.                |

**Outcome:** To achieve optimum level of funding to the racing industry and for sports.

| Effectiveness Indicators                  | Description  |                                 | 2016 Actual    | 2016 Target    | 2015 Actual    | 2014 Actual    | Result   |
|---|--|---------------------------------|----------------|----------------|----------------|----------------|--|
| Distribution to Industry                  | RWWA's primary purpose is to provide a sustainable future for the West Australian Racing industry, achieved by maintaining the optimum level of funding for the racing industry. | \$000<br>% Change on prior year | 140,157<br>7.3 | 137,967<br>5.4 | 131,033<br>5.5 | 124,205<br>5.6 | As per previous years, RWWA Distribution Policy for 2015/16 allowed for an increase in funding over 2014/15, with the aim of keeping distribution increases at sustainable levels.   |
| Grants to Industry (RWWA Funded)          | Grants to industry are essential to provide the safest possible racing environment and ensure the integrity of the racing product.   | \$000                           | 9,112          | 5,779          | 13,655         | 9,494          | Reduction from the prior financial year is primarily due to a one off grant for Cannington Greyhound track of \$10.2M in 2014/15. Increase on target is due to a change in priorities, scope and timing of known projects which resulted in an increase in the grant payments during the year. |
| Grants to Industry (WA Government Funded) |  | \$000                           | 1,284          | 4,200          | 3,621          | 3,617          | Not all funding budgeted for the financial year was distributed to clubs during 2015/16. These amounts will be distributed during 2016/17. The decrease compared to last year was due to no Royalty for Regions funding received in the current year.  |

| Efficiency Indicators  | Description  |       | 2016 Actual | 2016 Target | 2015 Actual | 2014 Actual | Result   |
|--|--|-------|-------------|-------------|-------------|-------------|--|
| Margin   | Margin is an important indicator of the capacity of RWWA to fund the racing industry and sports.   | \$000 | 330,169     |             | 335,685     | 339,474     | Margin decreased compared to last year primarily due to the impact of adverse economic conditions on RWWA's business activities. |
| Operating Profit excluding the profit/loss from sale of assets before distribution to codes. | Operating Profit excluding the profit/loss from sale of assets before distribution to codes highlights the amount of revenue that has been generated for distribution to the Racing clubs. | \$000 | 131,815     |             | 136,933     | 133,464     | The decrease on last year is a result of the reduction in margin alluded to above.   |

## KEY PERFORMANCE INDICATORS

For the year ended 31 July 2016

**Outcome:** To efficiently administer, and to provide effective leadership in the development, integrity and welfare of the racing and wagering industry in Western Australia.

| Effectiveness Indicators  | Description   |                 | 2016 Actual | 2016 Target | 2015 Actual | 2014 Actual | Result  |
|---|---|-----------------|-------------|-------------|-------------|-------------|---|
| % of Winners Swabbed / Returned Negative                            | A key component in maintaining the integrity of the racing industry is an efficient and effective drug testing regime and the "% of winners swabbed / returned negative" is a key indicator of the drug testing regime impact on the industry.  | Thoroughbreds % | 99.7        |             | 99.6        | 99.8        | The result is consistent with previous years.   |
|   |   | Harness %       | 99.8        |             | 99.5        | 99.8        |   |
|   |   | Greyhounds %    | 100.0       |             | 99.8        | 99.8        |   |
| Average number of starters in WA Races (excluding non-TAB Meetings) | The average number of starters in WA races is an indicator of a healthy population of animals available for racing in WA.   | Thoroughbreds % | 10.4        |             | 10.3        | 10.7        | The result is consistent with previous years.   |
|   |   | Harness %       | 9.5         |             | 9.7         | 9.7         |   |
|   |   | Greyhounds %    | 7.6         |             | 7.6         | 7.9         |   |
| Annual Growth in TAB Turnover on WA racing                          | The TAB accepts bets on racing and sports product from WA, the Eastern States, and International Jurisdictions. The growth in TAB turnover on WA Racing is an indicator that the WA product is seen as an attractive proposition, demonstrating a quality product, with high levels of integrity. | %               | (6.91)      |             | (4.71)      | 1.45        | The negative growth in TAB turnover on WA product for 2015/16 is attributable to the adverse economic environment prevailing in WA presently. It was also due to the closure of Cannington greyhound racetrack during the year for redevelopment. |

| Efficiency Indicators                           | Description  |                        | 2016 Actual | 2016 Target | 2015 Actual | 2014 Actual | Result  |
|---|--|------------------------|-------------|-------------|-------------|-------------|---|
| Racing and Steward expenses per WA race meeting | The racing and stewarding functions performed by RWWA are paramount to both the development and integrity of the racing industry. In delivering these functions, RWWA ensures that the cost of delivery is kept under control, and the cost per meeting is an important indicator of how well RWWA is at controlling the cost of delivery. | \$000                  | 23.50       | 26.00       | 21.10       | 19.08       | There was an expansion of the Racing and Stewarding functions during 2015/16 in the areas of Animal Welfare and Racing Marketing. The additional costs have been reflected both in the increase in the 2016 target, and the 2016 actual result. |
|   |  | % Change on prior year | 11.42       | 23.37       | 10.54       | 1.94        |   |

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### OTHER FINANCIAL DISCLOSURES

#### MINISTERIAL DIRECTIONS

No Ministerial directives were received during the financial year.

#### PRICING POLICIES OF SERVICES PROVIDED

RWWA has discretion over pricing for goods and services rendered.

#### CAPITAL WORKS

##### In Progress

| Project Name            | Expected Year of Completion | Expected Cost to Complete \$000 | Expected Total Cost of Project \$000 |
|-------------------------|-----------------------------|---------------------------------|--------------------------------------|
| Racing Infrastructure   | 16/17                       | 866                             | 1,291                                |
| Wagering Infrastructure | 16/17                       | 5,053                           | 17,414                               |
| Support Infrastructure  | 16/17                       | 165                             | 2,869                                |

#### EMPLOYMENT AND INDUSTRIAL RELATIONS

##### Staff Profile

As at the end of the reporting year the number of people employed at RWWA was 512 (525 in 2015). The decrease in headcount can be attributed to some roles not being replaced and roles being made redundant in that period. The employee profile is expressed below as full time equivalent numbers (FTE) rather than a headcount. FTE indicates the number of hours worked and paid, divided by weekly hours of 38.

| Employee Profile       | Full Time Equivalent (FTE) |            |
|------------------------|----------------------------|------------|
|                        | 2016                       | 2015       |
| Full Time              | 231                        | 215        |
| Part Time              | 27                         | 26         |
| Casuals                | 57                         | 62         |
| Maximum-Term Contracts | 68                         | 88         |
| <b>TOTAL</b>           | <b>383</b>                 | <b>391</b> |

##### Industrial Relations

Within the reporting period, negotiations were successfully undertaken with all RWWA employees to develop new enterprise agreements. The RWWA TAB Radio Agreement 2015 was approved in October 2015 and the RWWA General Staff Agreement 2015 was approved in March 2016 with any resulting changes implemented shortly after the respective approvals. These agreements will both expire in 2018.

##### Racing Industry Safety, Health and Injury Management

RWWA has continued to provide vital leadership to the Western Australian racing industry on the legal requirements governing the management of workplace safety, health and wellbeing within horse racing and training environments. The improvement of racing industry safety, health and injury management standards has continued over the past twelve months with focused effort directed toward lifting OSH compliance levels at licensed clubs across the three racing codes. This is in addition to improving general awareness of the legal safety and health obligations placed onto all racing industry stakeholders including club committees, staff, volunteers, trainers and associated racing industry personnel. This focused effort will continue throughout the 2016/17 financial year in anticipation of the new Work Health and Safety Act and Regulations being introduced by the State Government in 2017 (after the state election in March).

## OTHER FINANCIAL DISCLOSURES CONT.

To ensure that racing industry stakeholders are suitably informed and equipped to respond to changes in safety, health and injury management legislation, RWWA will continue to prioritise dedicated resourcing in this area. The work to be completed will include ongoing risk identification, assessment and control activities, delivery of training to industry stakeholders and the ongoing development of race club health and safety management systems.

During 2016/17 the focus will be on identifying key improvement areas at the operational level and streamlining the safety, health and injury management process aimed at reducing the workload that has to be completed by race club representatives in the OSH area. Race club OSH compliance standards have been structured to ensure that they can be reached and maintained by racing industry stakeholders. As with previous years, RWWA will continue to conduct formal OSH audits and infrastructure inspections at race and training clubs across Western Australia. The purpose of the audit process is to ensure that race club committees and their staff/volunteers are maintaining acceptable safety, health and injury management standards whilst seeking to address key improvement areas as identified by the RWWA OSH Advisor. The ultimate goal is to ensure that club committees and their staff can provide safe venues for all future race meetings and industry training activities.



## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### GOVERNANCE DISCLOSURES

#### CONTRACTS WITH SENIOR OFFICERS

At the date of reporting, other than contracts of employment or Directorship appointment, no Senior Officers (Directors and Executives) or firms of which Senior Officers are members or entities in which Senior Officers have substantial interests had any interests in existing or proposed contracts with RWWA.

However, it is noted that some Senior Officers own (in full and/or part) racehorses and/or greyhounds that participate in racing within Western Australia.

#### INSURANCE PREMIUMS PAID TO INDEMNIFY MEMBERS OF THE BOARD

An insurance policy was undertaken to indemnify members of the Board against any liability incurred under sections 13 or 14 of the Statutory Corporations (Liabilities of Directors) Act 1996. The amount of the insurance premium paid for 2016 was \$15,345.

#### UNAUTHORISED USE OF CREDIT CARDS

Officers of RWWA hold corporate credit cards where their functions warrant usage of this facility. Despite each cardholder being reminded of their obligations under RWWA's credit card policy, 6 employees inadvertently utilised their corporate credit card for personal use. The matters were not referred for disciplinary action as the Chief Finance Officer noted prompt advice and settlement of the personal use amount and, that the nature of the expenditure was immaterial and characteristic of an honest mistake.

|   | <b>2016</b>  |
|---|--------------|
| Aggregate amount of personal use expenditure for the reporting period                         | <b>\$461</b> |
| Aggregate amount of personal use expenditure settled by the due date (within 5 working days)  | <b>\$363</b> |
| Aggregate amount of personal use expenditure settled after the period (within 5 working days) | <b>\$98</b>  |
| Aggregate amount of personal use expenditure outstanding at balance date.                     | <b>\$0</b>   |

#### RWWA'S CORPORATE GOVERNANCE PRINCIPLES

RWWA's Board strongly supports the principles of Corporate Governance and is committed to maintaining the highest standards within the organisation. This is particularly important given that RWWA has to balance commercial decisions with the welfare and integrity of the racing industry within a heavily regulated environment. This is to ensure that RWWA and the racing industry remain viable and sustainable into the future.

#### BOARD POWERS, STRUCTURE, COMPOSITION AND MEMBERSHIP

The management of the business and affairs of RWWA is under the direction of the RWWA Board. RWWA Act 2003 gives RWWA broad powers in relation to the management of its affairs and also in the management and regulation of the Western Australian Racing Industry.

Whilst the Gaming and Wagering Commission of Western Australia regulates RWWA's commercial wagering activities, RWWA's Board is not subject to government direction. Part 2, Division 2 of RWWA Act 2003 describes how the Board is to be structured, its composition and membership.

The Board comprises:

- One chairperson appointed by the Minister responsible for RWWA;
- Four members selected for their expertise in management, finance, business, commerce or information technology, one of which has knowledge of and experience in regional development; and
- Three members representing each of the racing codes, comprising one representative from each code.

## GOVERNANCE DISCLOSURES CONT.

### Boardroom Conduct and Relationships

The roles and delegated authorities of the Board, Board Committees, Chairperson, CEO and Executive Members are clearly defined and understood within RWWA.

Key roles of the Board include:

- Strategy – set goals and objectives for the organisation and the racing industry and provide strategic direction and planning;
- Policies and procedures – determine the organisation’s and industry’s policies and priorities;
- Leadership and selection – appoint the Chief Executive Officer;
- Monitor performance – monitor the performance of the organisation and management in achieving its goals;
- Financial performance – oversee the allocation of the organisation’s finances and resources;
- Risk management – understand the major risks involved in the organisation’s operations;
- Relationship with the Minister, regulators and other key stakeholders – create a regular flow of information to and from the Board, public, employees and industry stakeholders to contribute to the marketing and maintenance of RWWA’s good reputation; and
- Social responsibility – consider the social, environmental, financial and ethical impact on RWWA’s stakeholders and the community when making decisions.

### Regulatory Disclosure and Stakeholders Communications

A Board Member who has a notifiable interest in matters involving RWWA must conform to the following:

- Disclose this interest to the Board;
- Not vote on the matter; and
- Must not be present while the matter or resolution is being considered at the meeting.

However, if the Board has passed a resolution that specifies the Board Member, the interest or the matter, and the other Board Members voting for the resolution are satisfied, the interest should not disqualify the Board Member from considering or voting on the matter (Sections 18 & 19, Schedule 1, clause 8(1) of the RWWA Act 2003).

RWWA complies with the requirements of disclosure as required by RWWA Act 2003, Financial Management Act 2006 and applicable Australian Accounting Standards.

RWWA maintains regular communications with its stakeholders through:

- Racing Industry Consultative Groups;
- TAB Agents Advisory Council;
- Meetings with the Minister responsible for RWWA; and
- Communications with employees.

### Robust Management and Compliance Processes

RWWA has a sound system of risk management, compliance and internal control. RWWA is responsible for ensuring that high standards of risk management and compliance are maintained. This is monitored by the Board’s Integrity Assurance Committee, Audit and Risk Committee, as well as risk management, compliance, internal audit and stewards functions operating within the organisation. RWWA is committed to complying with all legislative requirements, including but not limited to OSH and Equal Opportunity requirements.

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE



### **Ethical Decision Making**

RWWA considers the social, environmental, financial and ethical impact on RWWA's stakeholders and the community when making decisions.

RWWA has developed a Responsible Wagering Policy to guide Board members, employees, TAB agents and race clubs in the responsible provision of wagering services and to ensure that RWWA provides its customers with the highest standard of customer care.

### **Strategy, Planning and Monitoring**

To fulfill RWWA's Purpose, an annual Statement of Corporate Intent and a Strategic Development Plan (longer term plan) is developed that documents the plans, direction and vision for RWWA and the Racing Industry.

The Board monitors and evaluates the progress of implementing the Strategic and Business Plans of RWWA.

### **Encouraged Enhanced Performance**

Annual Budgets and Business Plans are developed to meet the targets set in the Statement of Corporate Intent and the Strategic Development Plan and these are

linked into RWWA's Performance Management System.

### **Sustainability**

RWWA considers sustainability an important issue, not only for the organisation but also for the Western Australian Racing Industry. RWWA believes that sustainability concentrates on providing a sustainable future focusing on economic, environmental and social elements.

Key Initiatives include:

- Continuous OSH audits of all race clubs;
- Responsible Wagering Programme and Code of Conduct;
- Equity and diversity within the workplace; and
- Ensuring the financial viability of the Western Australian Racing Industry through financial practices.

RWWA is committed to improving its sustainability practices and principles.

## OTHER LEGAL REQUIREMENTS

### ADVERTISING

In compliance with section 175ZE of the Electoral Act 1907, RWWA reports that it incurred the following expenditure in relation to advertising, market research, polling, direct mail and media advertising.

Total expenditure for 2015/16 was \$8.7M and was incurred as follows:

| <b>Advertising Agencies</b>            | <b>\$000</b> |
|--|--------------|
| 303 Lowe                               | 2,233        |
| Brand Agency                           | 98           |
| Egg Design Group                       | 3            |
| Sumo Group                             | 95           |
| Captivate Global                       | 8            |
| B Better Broadcasting                  | 161          |
| <b>Market Research Agencies</b>        |              |
| IER Pty Ltd                            | 145          |
| IPSOS                                  | 123          |
| OmniPoll                               | 3            |
| <b>Media Advertising Organisations</b> |              |
| Croc Media                             | 45           |
| Facebook                               | 50           |
| Google Adwords                         | 209          |
| Twitter                                | 1            |
| Redwave Media                          | 40           |
| The West Australian                    | 2,101        |
| Western Sports Media (Sport FM)        | 36           |
| Perth Advertising Serv                 | 1            |
| Southern Cross Austereo                | 15           |
| Radio 3UZ                              | 202          |
| <b>Media Agencies</b>                  |              |
| Adcorp                                 | 17           |
| Carat                                  | 3,035        |
| Isentia (Media Monitors)               | 35           |
| <b>Direct Mail</b>                     |              |
| Engage Digital                         | 72           |
| Telstra SMS Services                   | 15           |
| <b>TOTAL</b>                           | <b>8,743</b> |

### RECORD KEEPING

In accordance with Section 61 of State Records Act 2000, RWWA provides the following information in support of compliance with the State Records Commission's Standard 2 (Principle 6).

To maintain accurate records a schedule is in place to conduct testing of records integrity on an ongoing basis. This schedule was used during 2015/16 for checks of records held at offsite storage, on RWWA's intra-web and on central databases. The process includes cross referencing of information recorded on the intra-web with permanent and temporary records archived both onsite and offsite.

## CHAPTER 3 / DISCLOSURES & LEGAL COMPLIANCE

### GOVERNMENT POLICY REQUIREMENTS

#### OCCUPATIONAL SAFETY AND HEALTH

In accordance with Western Australian Occupational Safety and Health (OSH) legislation, the RWWA Board and executive team are committed to providing a safe and healthy working environment for all staff, contractors and visitors to the organisation. The RWWA OSH Policy and associated procedures seek to promote the proactive management of workplace safety, health and wellbeing throughout all levels of the organisation by setting measurable key performance indicators that are tracked over a twelve month period. The key performance indicators have been identified in an effort to control high risk work activities and minimise risk exposure whilst improving the standard of OSH management throughout RWWA and the wider racing industry.

As the primary resource, the RWWA OSH Advisor is tasked with continuing to develop the internal OSH management standards within the organisation in addition to ensuring that the RWWA OSH Committee continues to meet regularly and act as an additional means of internal communication and consultation on OSH matters. During 2016/17, there will be an increased focus on addressing the OSH risks faced by RWWA staff, contractors and visitors at the two Industry Training Centres and throughout the TAB agency network. This is in addition to further expanding available OSH training via the OnTRACK training program where certain roles or job types at RWWA will be required to complete mandatory safety and health training modules as identified by the training and development team.

Recent improvements to the RWWA OSH management system, including updated safe work procedures, workplace inspection records and the development of a new online hazard and incident report process, have sought to maintain legislative compliance with the Western Australian Occupational Safety and Health Act 1984 and Regulations 1996. The RWWA OSH management system also

seeks to maintain compliance with the Workers Compensation and Injury Management Act 1981 via the management of all workers compensation claims, including the completion of return to work plans and the provision of vocational rehabilitation as and when required. Regular workers compensation claim reviews involving representatives from RWWA and the insurer RiskCover will continue during 2016/17 to ensure that active claims are being appropriately managed and finalised in an appropriate time frame.

## INSURANCE AND LOST TIME INJURY TABLE

| MEASURE  | ACTUAL RESULTS         |                        | RESULTS AGAINST TARGET       |                     |
|--|------------------------|------------------------|------------------------------|---------------------|
|  | 2014-15 <sup>(1)</sup> | 2015-16 <sup>(2)</sup> | TARGET                       | COMMENT ON RESULT   |
| Number of fatalities   | 0                      | 0                      | 0                            | Target Achieved     |
| Lost time injury and/or disease incidence rate   | 0.76                   | 0.26                   | 0 or 10% reduction           | Target Achieved     |
| Lost time injury and/or disease severity rate  | 0                      | 0                      | 0 or 10% reduction           | Target Achieved     |
| Percentage of injured workers returned to work:  |                        |                        | Greater than or equal to 80% | Target Achieved     |
| (i) within 13 weeks  | 100%                   | 100%                   |                              |                     |
| (ii) within 26 weeks   | 100%                   | 100%                   |                              |                     |
| Percentage of managers trained in occupational safety, health and injury management responsibilities | 66%                    | 71%                    | Greater than or equal to 80% | Target Not Achieved |

Note (1) Comparison year is 2014/15.

Note (2) The current year is 2015/16.



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# 2016 ANNUAL REPORT



RACING AND WAGERING WESTERN AUSTRALIA



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## Industry group backs TAB sale

Gareth Parker - The West Australian on November 11, 2016, 12:25 am



Chairman Michael Grant.

SHARE TWEET WHATSAPP EMAIL

**The group formed to represent the interests of the racing industry has given both sides of WA politics an effective green light to proceed with privatisation of the TAB.**

WA Racing Response Group chairman and leading trainer Michael Grant said yesterday that he had told the Government and Labor that the industry believed the TAB should be sold.

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12/2/2016

## Industry group backs TAB sale - The West Australian

This was as long as there were guarantees the industry would be no worse off under a private owner, that there was a fund set aside for infrastructure investment and that governance issues were resolved.

Mr Grant, who presided over a \$300,000 industry needs report funded by the Government, said he had delivered the message to the Government two months ago and to Labor this week.

"The industry has said, 'Get on with it,'" he said. "We've absolutely given them a green light to go ahead and do it.

"If it had been handled commercially instead of politically, it would have been done and dusted by now."

The comments come after Racing and Wagering WA, the government agency that operates the TAB, warned its viability was being undermined by uncertainty over privatisation.

With just one week left of parliamentary sittings before the March State election, it is unlikely a sale can be progressed before the second half of next year.

Shadow racing and gaming minister Mick Murray, who met Mr Grant this week, said Labor's position remained that it would sell the TAB only if it had the support of the entire racing industry.

"We will take our position as is to the election and certainly have further talks on where the industry as a whole wants to go," he said.

"That's important, because there's still some groups that don't agree with where Michael Grant's group is going."

Asked to clarify his position, Premier Colin Barnett said he had long held the view the State should not own the TAB and he believed the racing industry now shared his view.

"I am hopeful the Nationals and racing industry will join with the Liberal Party on an agreed position to sell the TAB," he said.

"Once that is agreed, legislation will be brought to the Parliament to progress the sale."

**The West Australian**

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12/2/2016

Industry group backs TAB sale - The West Australian

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ACT AUDITOR-GENERAL'S REPORT

**SALE OF ACTTAB**

REPORT NO. 7 / 2015

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AUDITOR-GENERAL AN OFFICER  
OF THE ACT LEGISLATIVE ASSEMBLY 

PA 14/12

The Speaker  
ACT Legislative Assembly  
Civic Square, London Circuit  
CANBERRA ACT 2601

Dear Madam Speaker

I am pleased to forward to you a Performance Audit Report titled 'Sale of ACTTAB' for tabling in the Legislative Assembly pursuant to Subsection 17(5) of the *Auditor-General Act 1996*.

Yours sincerely

A handwritten signature in black ink that reads 'M. Cooper.' with a decorative flourish underneath.

Dr Maxine Cooper  
Auditor-General  
26 June 2015



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## SUMMARY

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ACTTAB was an ACT Government betting agency that provided totalisator, betting and wagering services in the ACT. It had two voting shareholders, the Chief Minister and the Deputy Chief Minister, and an independent Board.

In October 2014 ACTTAB was sold to Tabcorp and continues to provide totalisator, betting and wagering services under these new arrangements.

On 17 June 2014, the Select Committee on Estimates 2014-15 made a recommendation in relation to the sale of ACTTAB:

The Committee recommends that the Legislative Assembly refer the sale process of ACTTAB Ltd to the ACT Auditor-General to consider a review of the sale.

In September 2014 the Auditor-General decided to conduct a performance audit on the sale of ACTTAB.

### Overall conclusion

The sale of ACTTAB successfully realised \$105.5 million for the Territory. This far exceeded expectations. The sale was undertaken in a timely manner. Tabcorp was selected as the successful purchaser with the appropriate experience, capacity and integrity to operate a wagering business. In this regard the Bid stage (Stage 2 of the sale process), involving two potential purchasers, was effectively undertaken.

The local racing industry was not negatively affected by the sale and the welfare of ACTTAB employees was considered as part of the sale process.

Although a successful sale was achieved, the high standard of probity that would be expected for such a complex, large and high risk sale is not evident. There is a lack of transparency due to poor documentation. Some processes were inadequate, including there being no finalised risk plan and the one that was produced being developed too late to influence processes.

At the Expression of Interest stage (Stage 1 of the sale process), involving five interested parties, there were inadequacies due to the poor quality, and the inadequate assessment, of some evaluation criteria. Correcting these and the other inadequacies, although important in terms of probity, may not have changed the result. However, the inadequacies could have been relatively easily avoided.

## Conclusions

### PREPARING FOR THE SALE

The extensive governance arrangements in place and a number of subject matter experts involved are strengths of the sale process. However, there is a lack of documentation in relation to the conduct of the overall sale process, including a finalised risk management plan and an evaluation plan for the sale. These are significant inadequacies, for such a complex, large and high risk sale.

One person undertook the Probity Advisor role and also provided legal advice. This by its nature presents a risk, which given the characteristics of the sale, would have been prudent to avoid.

### THE SALE PROCESS

The sale process was inadequate at the expression of interest stage due to the use of poorly constructed evaluation criteria and an inappropriate assessment of some evaluation criteria, including the use of information that was not submitted by potential purchasers in response to the criteria.

### SALE RESULTS

The sale was successful as it met the five Sale Objectives set out in the November 2013 resolution of the ACT Legislative Assembly:

- achieve a fair and reasonable price;
- ensure local racing industry is not negatively affected;
- achieve a timely sale;
- ensure the successful party has appropriate experience, capacity and integrity to operate a wagering business; and
- ensure employee welfare is considered.

## Key findings

### PREPARING FOR THE SALE

Paragraph

PwC's *ACTTAB Future Options Feasibility Study* (July 2013) recommended the sale of 100 percent of ACTTAB shares through a trade sale (i.e. a business to business sale). The report identified an indicative value range for the sale of \$35.6 million to \$47.6 million.

2.2

The nature of the sale, i.e. what was being sold by the Territory, whether it was ACTTAB shares or its main undertakings, was at the discretion of the interested

2.4

parties themselves as this was deemed to be the best means of maximising the sale price.

It would have been prudent to structure and manage the sale of ACTTAB with regard to the requirements of the *Government Procurement Act 2001* until it was clear that the Act did not apply (i.e. only assets were being sold and not shares). The Audit Office was advised by Chief Minister, Treasury and Economic Development Directorate that 'the sale was conducted on the basis of legal advice (albeit only verbal advice) received before the sale commenced indicating that the Procurement Act was not applicable regardless of whether it was a share sale or an asset sale.' The Sale Project Team relied on the legal advice that the sale was not subject to the *Government Procurement Act 2001*. 2.16

The sale of ACTTAB is considered to be a joint Territory and ACTTAB sale, which for all practical purposes means it would be appropriate to treat it as a 'Government sale'. 2.18

The approach adopted of an open competitive process, using expressions of interest from the broader community to shortlist and identifying interested parties' preference for an asset or a share sale for the sale was an acceptable process for implementing the Sale Objectives 2.25

The sale of ACTTAB is regarded as high risk, when compared against risk indicators identified in the Australian National Audit Office (ANAO) *Fairness and Transparency in Purchasing Decisions Better Practice Guide* (2007). This assessment was confirmed in interviews with Sale Project Team members. 2.29

The structure of the governance arrangements for the sale of ACTTAB, including the Steering Committee and Sale Project Team, were appropriate. 2.43

The draft procurement risk register (May 2014) developed for the sale of ACTTAB had very limited coverage of process risks. A more comprehensive risk assessment would have facilitated identification and treatment of a broader range of risks. 2.52

The sale of ACTTAB was a high risk procurement for which there was no finalised or approved procurement risk register. The draft procurement risk register that was prepared was inadequate and presented late in the process to the Sale Project Team. Accordingly, there was an absence of an adequate risk management framework. 2.54

Documentation of the processes used for the sale of ACTTAB was inadequate and did not meet accountability and transparency requirements for procurement commensurate with the size, complexity and risk of such a sale. Importantly, there was a lack of documented sign off or advice from the Probity Advisor following the completion of key stages of the sale process, including the finalisation of the sale. 2.84

**THE SALE PROCESS**

## Paragraph

An open approach to the market was taken, whereby any interested party responding to the advertisement of the sale received a *Request for Expression of Interest*. The open approach to the market was initially flagged as being preferred by the Treasurer in the debate of the resolution for the sale of ACTTAB in the Legislative Assembly in November 2013.

3.10

A *Request for Expression of Interest* was sent out to interested parties that responded to the newspaper advertisements from 3 February 2014 onwards. Expressions of interest were required to be submitted by no later than 5:00 pm on 14 February 2014.

3.15

The *Request for Expression of Interest* sent to interested parties contained all relevant information requirements and was structured appropriately to allow for them to respond.

3.18

No evaluation plan(s) were prepared for the sale of ACTTAB.

3.28

The evaluation criteria in the *Request for Expression of Interest* did not align with the Sale Objectives, as identified in the ACT Legislative Assembly resolution in November 2013. It would have been straightforward to directly align the evaluation criteria in the *Request for Expression of Interest* with the Sale Objectives. This would have provided greater assurance that the Sale Objectives would have been appropriately considered in the evaluation process. Not aligning the criteria to the Sale Objectives presented a risk that important objectives of the sale were not given appropriate prominence in the selection process.

3.30

The criteria used for the evaluation of expressions of interest were poorly crafted as:

3.40

- one of the criteria was 'binary' and did not lend itself to being used to make a comparative evaluation between interested parties. Binary requirements are usually conditions for participation in a process rather than an evaluation criteria; and
- one of the Sale Objectives (timeliness) was aggregated with the financial capacity criterion and consequently could not be evaluated independently from financial considerations.

Five responses to the *Request for Expression of Interest* were received by the closing time of 5:00 pm on 14 February 2014, including responses from the two holders of totalisator pools in Australia.

3.45

The evaluation of the responses took place between 14 and 27 February 2014. The evaluation was initially conducted by the Sales Advisor (Deloitte) with an evaluation report (the first evaluation report) produced and sent to the Sale Project Team on 19 February 2014. The evaluation report recommended all five interest parties proceed to the next phase of the process.

3.48

In response to the first evaluation report from the Sales Advisor (Deloitte), on 20 February 2014 the Probity Advisor who also provided legal advice sent an email to members of the Sale Project Team. The email (which was subsequently retracted and updated) provided comments on each of the expressions of interest that were received, and ranked the expressions of interest 'in order of the quality of their responses'.

3.50

Following a meeting of the Sale Project Team on 20 February, the Sales Advisor (Deloitte) produced a second evaluation report on 21 February 2014. The evaluation report recommended all five potential interested parties proceed to the next phase of the process.

3.53

On 25 February 2014 the Probity Advisor who also provided legal advice sent an email to the Sale Project Team that retracted and updated the email previously sent on 20 February 2014. Similar to the first email, comments were provided on each of the expressions of interest that were received, and the expressions of interest were ranked 'in order of the quality of their responses'. The email provided an opinion that only two of the interested parties should proceed to the next phase.

3.55

On 25 February 2014, the Steering Committee considered the Sales Advisor's (Deloitte) second evaluation report and requested that the Sales Advisor (Deloitte) update the evaluation report and provide a ranking of the interested parties.

3.57

On 27 February 2014, the Sales Advisor (Deloitte) produced a third (and ultimately final) evaluation report that recommended *inter alia* that '[two of the interested parties] should progress to the next phase ...'

3.59

At its meeting on 28 February 2014, the Steering Committee considered:

3.63

- the third (and ultimately final) evaluation report from the Sales Advisor (Deloitte); and
- an agenda paper from the Sale Project Team, which the Sale Project Team advised was its evaluation report.

The third (and ultimately final) evaluation report from the Sales Advisor (Deloitte) stated '[two interested parties] should progress to the next phase of the process. The key risk which the shareholders should consider in determining whether to progress the remaining three bidders is their ability to execute a pooling agreement, for which no party has presented a clear alternative to [one of the interested parties], presenting a significant execution concern.' The agenda paper from the Sale Project Team stated '... there are only two suitable candidates who should be invited to participate in the indicative offer stage.'

3.64

There was no evidence of:

3.74

- documented and retained individual assessments of the submissions by members of the Sales Project Team;

- documentation showing a consolidated assessment of where the individual assessments of the submissions by members of the Sales Project Team were brought together; and
- a formal evaluation report with detail and judgements highlighted.

One of the key probity objectives set out in the Probity Plan was: *Establishing and maintaining a clear audit trail for accountability purposes*. The creation and maintenance of evaluation documentation is a key part of the accountability requirement. Documentation to support the evaluation of the expression of interest criteria was inadequate. 3.77

The Australian Government Solicitor and Mr Charles Scerri, QC concluded that it was more likely than not that the principles of the Hughes Case applied to the sale of ACTTAB. As a result, a 'process contract' existed in the sale of ACTTAB and there was, therefore, an obligation to conduct the sale in accordance with the defined procedures and the stated criteria that was in the *Request for Expression of Interest*. 3.81

The ACT Government Solicitor advised in responding to the proposed audit report that the principles of the Hughes Case did not apply. 3.82

While there is a difference of views, given the type of sale with its complexities and uncertainties, and given the consequences if the Hughes Case did apply, it would have been prudent for such an issue to have been explicitly considered in a risk analysis, in preparation for the sale. However, there is no evidence that this occurred. If it had occurred, any issues emerging could have been managed to reduce any associated risk. 3.83

The evaluation of the expression of interest criteria is considered to be inadequate regardless of whether (or not) the principles of the Hughes Case apply. If the Hughes Case does apply the issues have greater gravity because of: 3.84

- the use of different criteria to those in the *Request for Expression of Interest* document;
- the evaluation of binary criteria in a non binary way; and
- evaluation using material not provided by the applicant.

Neither the final evaluation report prepared by the Sales Advisor (Deloitte) or the agenda paper from the Sale Project Team to the Steering Committee precisely or rigorously applied the evaluation criteria set out in the *Request for Expression of Interest* document sent to interested parties. The incorrect application of evaluation criteria presents a risk to the probity of the sale process. If the Hughes Case is relevant to the sale of ACTTAB, this risk is exacerbated. Regardless, there is a high probability that interested parties would have had an expectation that they would be evaluated against the criteria in the *Request for Expression of Interest* document. This did not occur. 3.89

The incorrect application of the probity criterion, which was essentially a 'binary' 3.96

criterion that did not contemplate a subjective assessment, inappropriately excluded interested parties from further consideration. These interested parties may not have met the criterion had it been more aptly worded to allow for a subjective assessment.

The use of external material in evaluating submissions, including the work associated with evaluating interested parties' responses, should not have been used as the basis for the exclusion of interested parties from further consideration. This material could have been considered had the process been designed differently. 3.107

The operational capacity criterion required that interested parties demonstrate that they currently have the ability, or have a plan, to successfully operate a wagering business including a pari mutuel pooling arrangement. 3.108

Two interested parties operated large totalisator pools in Australia. The three other interested parties did not, and submitted their planned intentions in relation to establishing a pari mutuel pooling arrangement. The three other interested parties were primarily excluded from the process because they were assessed as not meeting the operational capacity requirement. 3.110

The evaluation of the operational capacity criterion inappropriately excluded interested parties from further consideration. These interested parties may not have met the intention of the criterion, if it had specified that they should have already been operating a totalisator pool. If the evaluation criteria had explicitly stated the need to already be operating a totalisator pool, then there would be no issue. 3.129

The 'reserved discretions' in the Request for Expressions of Interest were intended to allow for greater flexibility in the sale process. However, the Australian Government Solicitor and Mr Charles Scerri, QC advised that it is more likely than not that the Hughes Case principles applied and a 'process contract' was relevant to the sale of ACTTAB. Therefore, the 'reserved discretions' in the *Request for Expressions of Interest* document cannot be relied upon. It would have been prudent not to exercise the 'reserved discretions' as if they had priority over the *Request for Expressions of Interest* criteria. 3.143

Concerns regarding the incorrect use and application of expression of interest criteria are not issues of semantics as three of the five potential interested parties that provided expressions of interest were excluded from further consideration in the sale process. 3.144

Probity activities associated with managing confidentiality agreements, the approach to the market, probity planning, responding to interested parties' clarification requests and due diligence were performed satisfactorily. 3.147

There were some areas where not all probity requirements were met: 3.148

- formal sign-off on key 'approach to market' documents and evaluation

criteria;

- formal sign-off on evaluation processes and key 'milestones' and phases of the procurement process; and
- the management of a complaint.

The *Probity Plan* (December 2013) required the Probity Advisor to prepare a written report to the Steering Committee on the complaint referred for consideration. There was no evidence of this report and the Steering Committee minutes do not indicate whether any such report was presented to them. 3.157

## SALE RESULTS

Paragraph

On 14 October 2014, the ACT Government accepted Tabcorp's final bid price of \$105.5 million, subject to a number of terms and conditions. 4.2

The final bid price was more than that offered by the other potential purchaser. Given that the indicative Trade Sale Value of ACTTAB was estimated to be between \$35.6 million and \$47.6 million, as estimated by PwC in the *ACTTAB Future Options Feasibility Study* (July 2013), this represents a good financial result for the Territory. 4.4

The sale met all of the Sale Objectives, as set out in the resolution of the Legislative Assembly on 28 November 2013. 4.8

The indicative bids and final bids offered by the two potential purchasers offered various models and revenue streams. The evaluation of the financial value of the various bids was conducted by way of a discounted cash flow analysis, which allows for a comparison of revenue streams at current day values (Net Present Value). 4.12

The rate used for discounting future cash flows required a robust technical analysis to ensure appropriate treatment of cash flows. The Sale Project Team accepted the method for discounted cash flow analysis provided by PwC in the *ACTTAB Future Options Feasibility Study* (July 2013). This provided for the valuation of projected future cash flows in applicants' bids in terms of present day values. 4.14

There was appropriate consideration of the balance of risk and benefit in evaluating the net present value of upfront payments in potential purchasers' submissions. 4.23

One of the Sale Objectives was to ensure that the local racing industry was not negatively affected by the sale. 4.24

Before the ACT Government decided to pursue the sale of ACTTAB, representatives of the racing industry had proposed that the new owner should be required to fund the local racing industry on a similar basis as other TABs in the larger states. Representatives of the local racing industry indicated that their preferred funding model included a 40 year funding agreement with a fixed annual payment of \$9.5 million indexed by CPI plus 6.3 per cent racing turnover generated by ACTTAB (in 4.28

excess of \$152 million).

PwC and the Sales Advisor (Deloitte) cautioned that a funding agreement of the magnitude proposed by representatives of the ACT racing industry would strongly deter any potential purchasers. 4.29

The racing industry has not been negatively impacted by the sale of ACTTAB. 4.36

One of the Sale Objectives was to ensure that employee welfare was considered. Accordingly, the *Request for Indicative Offers*, provided to the potential purchasers in March 2014, sought an indication from the shortlisted potential purchasers of which employees would be offered positions with the successful purchaser in the event of the sale. 4.37

In the lead up to the ACT Government's decision to pursue the sale, the Community and Public Sector Union (union) put forward its preferences for proposed sale conditions including enhanced redundancies and a three year job guarantee. Neither of the union's proposals was made a condition of sale as both PwC and the Sales Advisor (Deloitte) cautioned that this would discourage buyers who would be unable to justify investing in a business with such limited cash flows (ACTTAB's profit for 2013-14 was only \$750,000). 4.40

Potential purchasers were therefore informed of the preferences of the union and the racing industry and encouraged to submit alternative proposals with indicative pricing. However, no potential purchaser was prepared to fully adopt the preferences of the union or the racing industry. 4.41

Sufficient consideration was accorded to employee welfare during the sale process. 4.42

## Recommendations

### RECOMMENDATION 1      PROCUREMENT POLICIES, PROCEDURES AND PROCESSES

The Chief Minister, Treasury and Economic Development Directorate should examine, and if needed amend, its procurement policies, procedures and processes so they comprehensively cover:

Risk management:

- 1) all complex, high value or high risk procurements should be subject to a procurement risk assessment and be supported by an approved risk plan which is developed before procurement activity commences (this plan may subsequently be modified as needed); and
- 2) the risk assessment should guide mitigation measures and inform governance and administrative processes for the procurement;

Evaluation criteria:

- 3) evaluation criteria should be designed to match the way in which they will be evaluated; and
- 4) the assessment of evaluation criteria by an assessor and/or panel members should be precise, rigorous and documented;
- 5) Procurements that are not subject to the *ACT Government Procurement Act 2001*:
  - i) need to have the policies, procedures and processes to be used defined and documented at the beginning of a procurement activity; and
  - ii) need to be the subject of a risk assessment and have an approved risk plan;

Probity Plan and Probity Advisor role in complex, high value or high risk procurements:

- 6) a Probity Plan should include a requirement for the provision of written independent assurance at key stages of the procurement;
- 7) the Probity Advisor role as a principle should be independent of other roles in the procurement process. However, if this does not occur, the reasons for not so doing should be documented and a risk assessment undertaken to identify how any associated risks are to be managed;

Documentation and record-keeping requirements:

- 8) complex, high value or high risk procurements should be well documented; and
- 9) an audit should be undertaken immediately at the conclusion of the procurement to identify any gaps so that they can be corrected in a timely manner.

## Auditees' responses

In accordance with section 18 of the *Auditor-General Act 1996* the Director-General of the Chief Minister, Treasury and Economic Development Directorate and the ACT Government Solicitor were provided with:

- a draft proposed report for comment. Comments received were considered and required changes were included in the final proposed report;
- a final proposed report for further comment. Comments received were considered and required changes were included in the revised final proposed report; and
- a revised final proposed report for further comment. Comments received were considered and required changes were included in the final report.

Sections of the draft and final proposed report were sent to other relevant entities as was considered appropriate.

Neither the Director-General of the Chief Minister, Treasury and Economic Development Directorate or the ACT Government Solicitor provided overall comments for inclusion in the Summary of this report.



# 1 INTRODUCTION

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## Background

- 1.1 ACTTAB was an ACT Government betting agency that provided totalisator, betting and wagering services in the ACT. It had two voting shareholders, the Chief Minister and the Deputy Chief Minister, and an independent Board.
- 1.2 ACTTAB operated from 52 physical locations in the ACT, which included three oncourse venues at Canberra Racecourse, Canberra Stadium and Manuka Oval; 37 sub-agencies located within clubs, hotels and Casino Canberra; and 15 branches. In addition to the physical locations, customers could also place bets online or via telephone.
- 1.3 ACTTAB employed approximately 68 full time staff at 30 June 2013.

## ACTTAB Future Options Feasibility Study

- 1.4 In February 2013, the ACT Government engaged PricewaterhouseCoopers (PwC) to conduct a study on future options for ACTTAB.
- 1.5 In July 2013, PwC submitted a report on the outcomes of this work. The *ACTTAB Future Options Feasibility Study* report provided an analysis of the 'risks and opportunities' associated with the ACT Government's ownership of ACTTAB. The report provided an analysis of four options for the ACT Government:
  - maintaining the status quo;
  - forming a joint venture with a suitable private sector organisation;
  - retaining government ownership and contracting out the management of ACTTAB; and
  - a trade sale.
- 1.6 PwC recommended that the ACT Government should not retain ownership of ACTTAB and that the preferred method of sale should be via a trade sale (i.e. a business to business sale) of 100 percent of ACTTAB (shares).
- 1.7 PwC's rationale for recommending that ACTTAB be sold by way of a trade sale was that:
  - the industry was rapidly changing and ACTTAB's relative market position was in decline;
  - ACTTAB's commercial focus was constrained;
  - ACTTAB's financial performance was in decline;
  - the risk profile of the Territory's investment in ACTTAB was increasing;

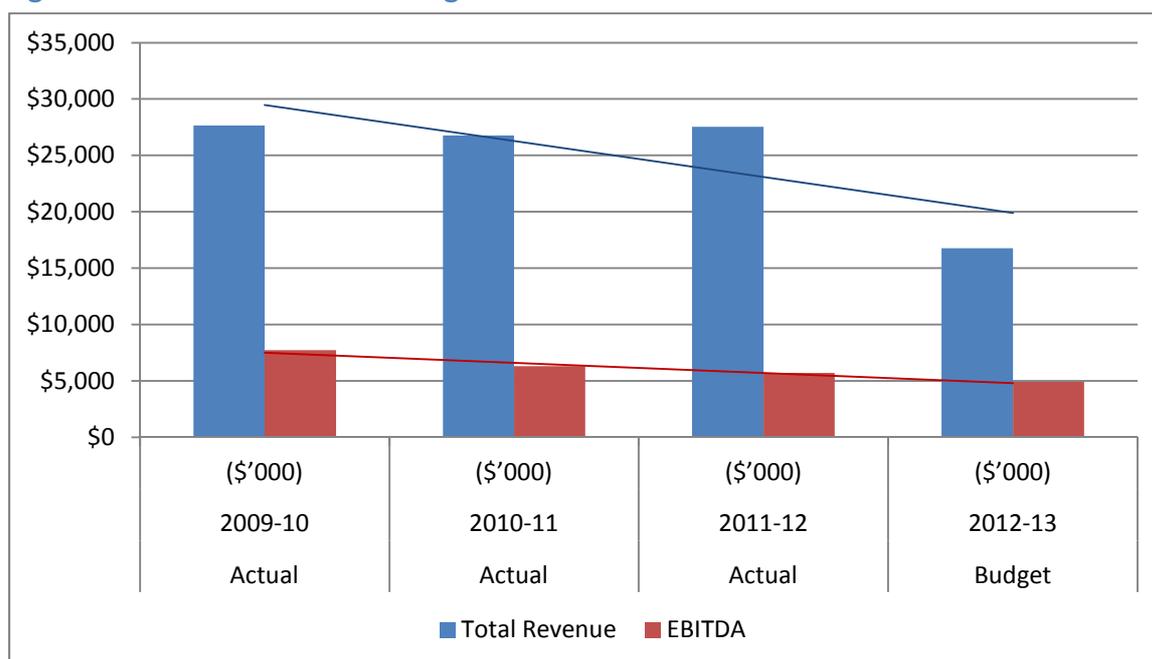
## 1: Introduction

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- the potential funding gap was material; and
  - ACTTAB's value was reducing.
- 1.8 PwC also assessed the indicative Trade Sale Value of ACTTAB (i.e. the money that might be expected to be achieved from a business to business sale) to fall within the range of \$35.6 million to \$47.6 million. Included in these valuations was the value potential buyers place on 'synergies', which was valued at \$12.6 million. In simple terms, 'synergies' reflects the fact that combining two entities allows for cost savings and/or increased revenue.

### Betting market and changes in recent times

- 1.9 The ACT wagering market comprises three types of racing: thoroughbred, harness and greyhound.
- 1.10 PwC's *ACTTAB Future Options Feasibility Study* (July 2013) noted 'the industry is rapidly changing and ACTTAB's relative market position is in decline.' The report further noted:
- In the period FY03 to FY10 the ACT share of the national wagering market has decreased from 5.0% to 1.2%. During the same period the ACT share of the national gambling market decreased from 2.3% to 1.6%.
- In recent years numerous large international wagering operators have entered the Australian market driving innovation, an increased product offering, easier access to wagering and therefore creating a strong competitive landscape. There has been a leakage of ACT residents from ACTTAB to the online bookmakers.
- 1.11 Figure 1-1 presents the financial performance data for ACTTAB for the three years to 2011-12 and the budgeted performance for 2012-13, as identified in PwC's *ACTTAB Future Options Feasibility Study* (July 2013).

**Figure 1-1 Revenue and Earnings for ACTTAB 2009-10 to 2012-13**

Source: *ACTTAB Future Operations Feasibility Study* (July 2013) (PwC)

Note 1: EBITDA is Earnings Before Interest, Taxation, Depreciation and Amortisation

1.12 PwC's ACTTAB Future Options Feasibility Study (July 2013) showed:

- ACTTAB's earnings before interest, taxation, depreciation and amortisation had fallen by 26.1 percent from 2009-10 to 2011-12; and
- ACTTAB's revenue had fallen by 5.0 percent from 2009-10 to 2011-12.

1.13 As the owner of the shares in ACTTAB the ACT Government was the recipient of licence fees and other returns from the corporation. Table 1-1 shows the total payments made by ACTTAB to the ACT Government for the period 2009-10 to 2011-12.

**Table 1-1 Payments made by ACTTAB to the ACT Government between 2009-10 to 2011-12**

|   | 2009-10<br>(\$'000) | 2010-11<br>(\$'000) | 2011-12<br>(\$'000) |
|---|---------------------|---------------------|---------------------|
| ACT Government licence fees                   | 4 071               | 4 249               | 3 990               |
| less net GST paid to ATO                      | 2 614               | 2 923               | 2 526               |
| <b>Net licence fee paid to ACT Government</b> | 1 457               | 1 326               | 1 464               |
| Income tax paid to ACT Government             | -                   | 2 015               | 1 040               |
| Net profit after tax paid to ACT Government   | -                   | 1 476               | 2 120               |
| Special Dividend                              | -                   | -                   | 3 000               |
| Racing Development Fund payment               | 7 206               | -                   | -                   |
| <b>Total payments to ACT Government</b>       | 8 663               | 4 817               | 7 624               |

Source: ACTTAB Future Operations Feasibility Study (July 2013) (PwC)

## Sale of ACTTAB

- 1.14 On 22 November 2013, the ACT Government issued a media release which stated that it 'has determined to sell ACTTAB Corporation following careful consideration of the recommendations made in the *ACTTAB Future Options Feasibility Study*'.
- 1.15 On 28 November 2013, the Legislative Assembly passed a resolution that ACTTAB be sold, either through a sale of shares or a sale of ACTTAB's main undertakings.
- 1.16 The sale necessitated an amendment to the *Territory-owned Corporations Act 1990* (ToC Act), which was achieved by the passing of the *Territory-owned Corporations Amendment Bill 2014*, which removed references from ACTTAB from the ToC Act. The Bill also provided for amendments to the *Taxation (Government Business Enterprises) Regulations 2003*, to ensure that ACTTAB would no longer be subject to this legislation as it ceased to be a government business enterprise.

## Sale Objectives

- 1.17 The objectives for the sale of ACTTAB (the Sale Objectives), as provided for by the Legislative Assembly resolution, made on 28 November 2013, were to:
- achieve a fair and reasonable price;
  - ensure local racing industry is not negatively affected;
  - achieve a timely sale;
  - ensure the successful party has appropriate experience, capacity and integrity to operate a wagering business; and
  - ensure employee welfare is considered.

## Sale process

- 1.18 The sale of ACTTAB was undertaken in two stages:
- Stage 1 – Expression of Interest (EOI); and
  - Stage 2 – Bid.
- 1.19 Stage 1 of the sale process involved seeking expressions of interest from interest parties and was focused on short listing potential purchasers for progression to the next phase.
- 1.20 Stage 2 of the sale process involved the consideration and evaluation of bids from two potential purchasers. This stage involved the receipt and evaluation of indicative bids and final bids (the Bid phase), and was focused on the value of the deal that could be agreed.

## Sale result

- 1.21 On 30 July 2014 the ACT Government announced that Tabcorp had been successful with its tender and had been selected as the purchaser. The sale amount was announced as \$105.5 million, which included ACTTAB assets and associated issue of licences. The sale was completed in October 2014.

## The Audit

### Audit objective and scope

- 1.22 The objective of this audit was to provide an independent opinion to the Legislative Assembly on the probity of the sale of ACTTAB.
- 1.23 The audit included consideration of whether there was appropriate analysis of bids received from potential purchasers against legislative, policy and financial requirements and considerations.
- 1.24 The audit focused on the conduct of the sale including the planning, administration and communication processes associated with the sale. The audit also assessed if there was appropriate consideration of bids received.
- 1.25 The audit did not consider:
- the ACT Government's decision to sell ACTTAB's assets and liabilities;
  - the ACT Government's policies and/or support with respect to the ongoing role of ACTTAB employees or the broader racing industry in the ACT; or
  - the management and administration of ACTTAB, its activities or operations.

## Audit criteria, approach and method

1.26 The audit object was addressed through examining the following audit criteria as based on better practice procurement guidance:

- Was the sale process conducted in compliance with ACT Government Legislation and policy associated with the sale of public assets?
- Was the sale process conducted using an appropriately competitive process?
- Was the sale process conducted fairly and impartially?
- Was the sale process conducted consistently and transparently?
- Was there appropriate financial consideration of bids/tenders received against ACT Government legislative policy requirements, including taxation and licensing considerations?

### Legal considerations

1.27 The audit of the sale of ACTTAB raised four key legal questions:

- Was the sale of ACTTAB subject to the Government Procurement Act 2001?
- Was the sale of ACTTAB a 'Government sale'?
- Was the sale of ACTTAB subject to the Hughes Case (*Hughes Aircraft Systems International v Airservices Australia* (1997) 76 FCR 151)?
- Do the 'reserved discretions', in the Request for Expressions of Interest, remove or reduce the application of the Hughes Case?

1.28 Discussion associated with these questions, including differing legal views, is presented in Appendix A.

1.29 The audit followed the ACT Audit Office's *Performance Audit Methods and Practices* and related policies, practice statements and guidance papers.

1.30 The approach and method consisted of:

- interviews and discussions with key Chief Minister, Treasury and Economic Development Directorate staff associated with the sale;
- interviews and discussions with other key participants in the sale and evaluation process (e.g. members of the Sale Project Team and Steering Committee, Sales Advisor (Deloitte), and Legal and Probity Advisor);
- review of key sale documents, including potential purchasers' submissions, evaluation documents and Cabinet documents;
- review of correspondence, including email communication, between key participants in the sale process for the relevant period of sale;

- sourcing legal advice from the Australian Government Solicitor (Chief Counsel Commercial; Deputy General Counsel Commercial); and Mr Charles Scerri, QC; and
- extensive consultation with auditees, and other entities involved in the sale process, on potential findings and conclusions in the draft proposed report, final proposed report and revised final proposed report.



## 2 PREPARING FOR THE SALE

2.1 This chapter examines activities associated with preparing for the sale of ACTTAB, including developing governance and administrative, risk management and probity arrangements for the sale process. It also considers documentation.

### Summary

### Conclusion

The extensive governance arrangements in place and a number of subject matter experts involved are strengths of the sale process. However, there is a lack of documentation in relation to the conduct of the overall sale process, including a finalised risk management plan and an evaluation plan for the sale. These are significant inadequacies, for such a complex, large and high risk sale.

One person undertook the Probity Advisor role and also provided legal advice. This by its nature presents a risk, which given the characteristics of the sale, would have been prudent to avoid.

### Key findings

|  | Paragraph |
|--|-----------|
| PwC's <i>ACTTAB Future Options Feasibility Study</i> (July 2013) recommended the sale of 100 percent of ACTTAB shares through a trade sale (i.e. a business to business sale). The report identified an indicative value range for the sale of \$35.6 million to \$47.6 million.   | 2.2       |
| The nature of the sale, i.e. what was being sold by the Territory, whether it was ACTTAB shares or its main undertakings, was at the discretion of the interested parties themselves as this was deemed to be the best means of maximising the sale price.   | 2.4       |
| It would have been prudent to structure and manage the sale of ACTTAB with regard to the requirements of the <i>Government Procurement Act 2001</i> until it was clear that the Act did not apply (i.e. only assets were being sold and not shares). The Audit Office was advised by Chief Minister, Treasury and Economic Development Directorate that 'the sale was conducted on the basis of legal advice (albeit only verbal advice) received before the sale commenced indicating that the Procurement Act was not applicable regardless of whether it was a share sale or an asset sale.' The Sale Project Team relied on the legal advice that the sale was not subject to the <i>Government Procurement Act 2001</i> . | 2.16      |

## 2: Preparing for the sale

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|   |      |
|---|------|
| The sale of ACTTAB is considered to be a joint Territory and ACTTAB sale, which for all practical purposes means it would be appropriate to treat it as a 'Government sale'.  | 2.18 |
| The approach adopted of an open competitive process, using expressions of interest from the broader community to shortlist and identifying interested parties' preference for an asset or a share sale for the sale was an acceptable process for implementing the Sale Objectives  | 2.25 |
| The sale of ACTTAB is regarded as high risk, when compared against risk indicators identified in the Australian National Audit Office (ANAO) <i>Fairness and Transparency in Purchasing Decisions Better Practice Guide</i> (2007). This assessment was confirmed in interviews with Sale Project Team members.   | 2.29 |
| The structure of the governance arrangements for the sale of ACTTAB, including the Steering Committee and Sale Project Team, were appropriate.  | 2.43 |
| The draft procurement risk register (May 2014) developed for the sale of ACTTAB had very limited coverage of process risks. A more comprehensive risk assessment would have facilitated identification and treatment of a broader range of risks.   | 2.52 |
| The sale of ACTTAB was a high risk procurement for which there was no finalised or approved procurement risk register. The draft procurement risk register that was prepared was inadequate and presented late in the process to the Sale Project Team. Accordingly, there was an absence of an adequate risk management framework.   | 2.54 |
| Documentation of the processes used for the sale of ACTTAB was inadequate and did not meet accountability and transparency requirements for procurement commensurate with the size, complexity and risk of such a sale. Importantly, there was a lack of documented sign off or advice from the Probity Advisor following the completion of key stages of the sale process, including the finalisation of the sale. | 2.84 |

## Nature of the sale

- 2.2 PwC's *ACTTAB Future Options Feasibility Study* (July 2013) recommended the sale of 100 percent of ACTTAB shares through a trade sale (i.e. a business to business sale). The report identified an indicative value range for the sale of \$35.6 million to \$47.6 million.
- 2.3 A 28 November 2013 resolution by the ACT Legislative Assembly approved the disposal of the ACT's interest in ACTTAB limited:

... by way of a sale of the ACTTAB Limited shares held by the Territory;

or

... by way of a sale of the main undertakings of ACTTAB Limited.

2.4 The nature of the sale, i.e. what was being sold by the Territory, whether it was ACTTAB shares or its main undertakings, was at the discretion of the interested parties themselves as this was deemed to be the best means of maximising the sale price.

2.5 PwC's *ACTTAB Future Options Feasibility Study* (July 2013) had presented forecasts of a long term decline in the value of ACTTAB:

ACTTAB's financial performance is in a state of decline, with Management forecasting a 3.6% compound annual decrease in EBITDA (pre government fees) over the next four years.

2.6 A brief to the Chief Minister and Treasurer from the Chair of the Sale Project Team on 16 May 2014 stated:

It appears inevitable that this industry will be very different in a relatively short timeframe, and no doubt by the end of ten years ... there is significant doubt over how long any value will remain in the main asset we are selling, which is the right to operate a pari-mutuel retail betting presence.

There is a strong continuing trend away from totalisators to fixed-odds betting (both racing and sports betting) ... This shift away from the product we are selling - the tote fixed retail terminal presence - presents significant uncertainty for the long term viability and value of the totalisator licence.

2.7 In part the decline in value of ACTTAB may have been attributable to a lack of access to economies of scale that larger betting organisations have and, as a consequence, the 'synergies' that would enhance the value to a potential buyer. This was recognised by the ACT Racing Industry in a letter to the Deputy Chief Minister on 28 October 2013 which stated that:

... a sale is the best outcome because ACTTAB does not have the scale of operation to maintain and grow market share or to adapt to the rapidly changing digital wagering market which is supported by the PwC study.

2.8 PwC's *ACTTAB Future Options Feasibility Study* (July 2013) also identified that ACTTAB's ownership structure 'limits its ability to operate in a profit maximising manner' and that 'ACTTAB's market position constrains its ability to attract industry leading management resources'.

### What was being sold

2.9 Notwithstanding that the precise nature of the sale was flexible, what was being sold was a complex asset. The key components being sold were:

- the physical tangible assets and liabilities of ACTTAB;
- the intangible assets such as brand and goodwill;

## 2: Preparing for the sale

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- an exclusive licence to operate a totalisator business in the ACT and a range of other wagering and betting licences; and
- the Government's commitment to certain regulatory settings with compensation provisions in the event that these settings change.

2.10 When considering the value of ACTTAB, it is important to understand that it is an asset within the context of a regulatory environment. Small changes to the ACT Government's regulation of the gaming industry could have a significant impact on the value of associated gaming licences. This relationship was commented on by the Australian Racing Board in a submission to the Productivity Commission's 2008 inquiry into Gambling:

Gambling Markets are, and have always been, a creature of regulation. The current scale and nature of the Australian Thoroughbred Racing Industry is not accidental: it is the product of a set of regulatory arrangements that have existed for some 40 years. ... (T)he future regulatory framework for the wagering market must be such that enables not only the consumer benefits from competition between operators but also industry sustainability to be achieved.

2.11 A key component of the value of ACTTAB is the level of intervention and/or regulation by the ACT Government. For example, if the ACT Government were to limit or extend the regulation of wagering and totalisator operations, and/or the validity period for exclusive licences, it could have a significant impact on the value of the business.

### Government sale

2.12 As mentioned in paragraph 2.3, the sale of ACTTAB could have resulted in either a:

- sale of the ACTTAB Limited shares held by the Territory, i.e. the ACT Government selling the Territory's shares; or
- sale of the main undertakings of ACTTAB Limited, i.e. the ACTTAB Board selling its business.

2.13 The sale process resulted in a sale of the main undertakings of ACTTAB. This was not determined until the bid stage.

2.14 As mentioned in paragraph 1.27 the sale of ACTTAB raised four key legal questions (refer to Appendix A). While all questions are relevant to the sale of ACTTAB, two are particularly pertinent to the nature of the sale. The two questions are:

- Was the sale of ACTTAB subject to the *Government Procurement Act 2001*?
- Was the sale of ACTTAB a 'Government sale'?

2.15 With respect to the application of the *Government Procurement Act 2001*, the Australian Government Solicitor advised that 'had the sale resulted in a sale of shares by the ACT Government, such a sale would then have been a "procurement" as defined in the [*Government Procurement Act 2001*]'.

- 2.16 It would have been prudent to structure and manage the sale of ACTTAB with regard to the requirements of the *Government Procurement Act 2001* until it was clear that the Act did not apply (i.e. only assets were being sold and not shares). The Audit Office was advised by Chief Minister, Treasury and Economic Development Directorate that ‘the sale was conducted on the basis of legal advice (albeit only verbal advice) received before the sale commenced indicating that the Procurement Act was not applicable regardless of whether it was a share sale or an asset sale.’ The Sale Project Team relied on the legal advice that the sale was not subject to the *Government Procurement Act 2001*.
- 2.17 With respect to whether it was a ‘government sale’, the Australian Government Solicitor advised that the sale could:
- ... be best described as being a joint Territory and ACTTAB sale. Whilst in practice only ACTTAB could sell its main undertaking and the Government could not do this itself other than via a sale of shares it is clear that in practice the Government exercised a significant degree of control over the sale of ACTTAB’s business. ACTTAB did not of its own volition independently pursue and conclude the sale of its main undertaking.
- 2.18 The sale of ACTTAB is considered to be a joint Territory and ACTTAB sale, which for all practical purposes means it would be appropriate to treat it as a ‘Government sale’.

### Sale as a ‘procurement’

- 2.19 In the following section of the report, and thereafter, references to the sale of ACTTAB frequently use the term ‘procurement’ or refer to ‘procurement’ processes. Procurement is defined in section 2A of the *Government Procurement Act 2001* as follows:

***procurement***—

- (a) means the process of acquiring goods, services, works or property by purchase, lease, rental or exchange; and
  - (b) includes the process of disposing of goods, works or property including by sale.
- 2.20 Accordingly, in this report, references to ‘procurement’ or ‘procurement processes’ are used for the sale process examined in this audit.

### Approach to the sale

- 2.21 In a Legislative Assembly debate associated with the sale of ACTTAB on 28 November 2013, the Treasurer stated:
- ... the sale will also be conducted through an open competitive process so as to maximise the number of bidders. This approach should ensure the best outcome for the Territory.

## 2: Preparing for the sale

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2.22 This approach was reinforced in a letter to the Chief Executive of the Canberra Racing Club (and others) on 13 December 2013 from the Deputy Chief Minister, which stated:

The first stage will call for expressions of interest but will not be as prescriptive as a conventional sale as to the means of meeting the Government's objectives. As such it is intended to encourage prospective bidders to provide their best offering in meeting the Government's overall objectives including support for existing staff and the racing industry. During the second stage short listed bidders will have the opportunity to improve and firm up their offerings during an intensive period of clarification and parallel negotiations.

2.23 These statements indicate that the ACT Government's intention for the sale of ACTTAB were that the sale process:

- be run as an open competitive process;
- seek expressions of interest from the broader community in order to shortlist suitable potential purchasers; and
- identify applicants' preferences for the purchase of ACTTAB.

2.24 Such an approach is not unusual and may be adopted for two reasons:

- it facilitates consideration of a range of commercial approaches to meeting the Sale Objectives (refer to paragraph 1.17); and
- it allows for the effective short listing of potential purchasers.

2.25 The approach adopted of an open competitive process, using expressions of interest from the broader community to shortlist and identifying interested parties' preference for an asset or a share sale for the sale was an acceptable process for implementing the Sale Objectives

## Scale, complexity and sensitivity

2.26 The greater the complexity, the larger the scale, and sometimes the greater the sensitivity of a procurement, the more likely it is that the level of inherent risk of the procurement is high. In these situations resources, team capabilities and processes need to be designed to reflect the level of risk that needs to be managed. One example of guidance on procurement risk is set out in the Australian National Audit Office (ANAO) *Fairness and Transparency in Purchasing Decisions Better Practice Guide* (2007). The ANAO better practice guide provides guidance on the types of factors to be considered to determine the level of risk associated with a procurement:

- The expected cost of the purchase is high, or relatively high compared with the purchases normally undertaken by the entity
- The entity has limited experience in either the nature of the purchase being undertaken or the market
- The project itself is inherently complex (technically, legally or financially)

- The project is potentially controversial or politically sensitive.

2.27 The ANAO guidance is only one of many better practice guides for procurement and is broadly representative of them.

2.28 Table 2-1 shows an assessment of the risk associated with the sale of ACTTAB, against the ANAO's indicators of risk. This report does not consider the sale process against any other Commonwealth or state better practice guidance, as it is considered that the ANAO guidance is broadly reflective of other better practice guidance. This material is used as general guidance rather than specific direction.

**Table 2-1 Risk assessment associated with the sale of ACTTAB against better practice risk indicators**

| ANAO Indicator   | Assessment of sale of ACTTAB  | Rating |
|--|---|--------|
| The expected value of the procurement is high.                                       | Value at the commencement of the process was initially estimated by PwC at \$36-\$48 million.   | High   |
| There is limited experience in either the nature of the procurement or the market.   | The sale of ACTTAB was a 'one-off' sale for the Territory.  | High   |
| The procurement process is inherently complex (technically, legally or financially). | The sale of ACTTAB involved a complex combination of: <ul style="list-style-type: none"> <li>• sale of a Territory Owned Entity with an independent management structure and Board;</li> <li>• government policies on licensing, taxation, regulation, probity and legislation;</li> <li>• tangible and intangible assets;</li> <li>• business integration;</li> <li>• forecasting and modelling; and</li> <li>• complex commercial drivers.</li> </ul>   | High   |
| The procurement is potentially controversial or politically sensitive.               | The sale of ACTTAB was recognised as highly sensitive, due to: <ul style="list-style-type: none"> <li>• political stakeholders and owners (as illustrated by the fact that the sale required a resolution by the Legislative Assembly);</li> <li>• community expectations (due to recognition of ACTTAB as a public asset);</li> <li>• industry expectations (due to the possible impact on the local racing industry); and</li> <li>• industrial matters (due to the impact on ACTTAB employees).</li> </ul> | High   |

Source: ACT Audit Office analysis of Australian National Audit Office (ANAO) *Fairness and Transparency in Purchasing Decisions Better Practice Guide* (2007) guidance.

2.29 The sale of ACTTAB is regarded as high risk, when compared against risk indicators identified in the Australian National Audit Office (ANAO) *Fairness and Transparency in Purchasing Decisions Better Practice Guide* (2007). This assessment was confirmed in interviews with Sale Project Team members.

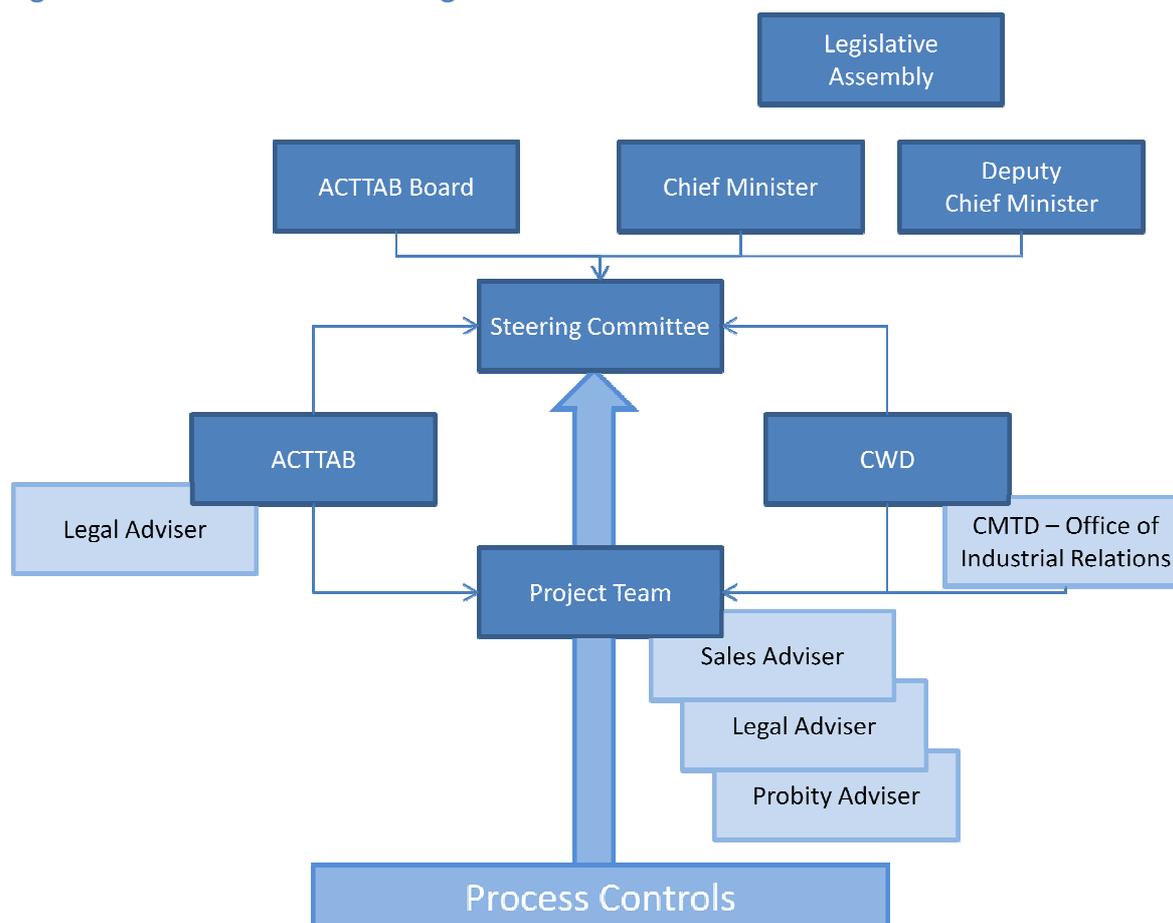
## 2: Preparing for the sale

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- 2.30 A high risk transaction, such as the sale of ACTTAB, requires greater levels of control than lower risk transactions. In particular, higher risk transactions may require:
- more detailed planning;
  - access to specialist skills;
  - access to good market knowledge; and
  - comprehensive and explicit identification, documentation and management of risk.
- 2.31 In planning for a high risk sale, such as the sale of ACTTAB, it is essential that risks are identified as early as possible, and that they are documented and understood, so that management of the risks is integrated into governance and controls at the outset of the sale.
- 2.32 Key ways to manage a high risk sale, such as the sale of ACTTAB, (and its inherent risks) would include:
- appropriate governance arrangements, including well-defined roles and responsibilities;
  - risk management, including the management of process risks and probity risks;
  - use of specialist advisors;
  - appropriate administrative policies, procedures and rules; and
  - good documentation and record-keeping.
- 2.33 These are discussed in the following sections of the report.

### Governance arrangements

- 2.34 The need for appropriate governance arrangements for the sale of ACTTAB was specifically identified in a documented *Probity Plan - Sale Process for the Territory's Interest in ACTTAB Ltd* (December 2013) and more generally in other documents associated with the sale process. The main governance elements associated with the sale process are illustrated in Figure 2-1.

**Figure 2-1 Governance arrangements for the sale of ACTTAB**

Source: ACT Audit Office

2.35 Key governance committees for the sale of ACTTAB were:

- the Steering Committee; and
- the Sale Project Team.

### *Steering Committee*

2.36 The Steering Committee had two members; the Director-General of the Commerce and Works Directorate (Chair); and the Chair of the ACTTAB Board (Deputy Chair). Following the transfer of Commerce and Works Directorate functions in July 2014 the position of Steering Committee Chair transferred to the Director-General of the Territory and Municipal Services Directorate.

2.37 The Steering Committee had primary responsibility for:

- the oversight and direction of the Sale Project Team; and
- addressing and reporting to the Shareholders any regulatory and policy issues emerging from analysis of market responses and vendor due diligence.

## 2: Preparing for the sale

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2.38 Steering Committee meetings were required to be attended by ACTTAB's Managing Director and Executive Manager Finance and Business Services, the Sales Advisor (Deloitte), the Probity Advisor (ACT Government Solicitor) and the Chair of the Sale Project Team. Other officials and advisors attended relevant meetings as required.

### *Sale Project Team*

2.39 The Sale Project Team comprised the Senior Manager, Government Business Enterprises (Commerce and Works Directorate) (Chair), the ACTTAB Chief Executive (as Deputy Chair), Director of Corporate and Governance (Commerce and Works Directorate) and ACTTAB Executive Manager Finance and Business Services.

2.40 Advisors to the Sale Project Team included a Probity and Legal Advisor (ACT Government Solicitor), the Sales Advisor (Deloitte), Specialist Legal Advisor (Thompson Geer) and the Director, Office of Industrial Relations (from the then Chief Minister and Treasury Directorate). Minter Ellison also provided legal advice to ACTTAB and its Board.

2.41 The Sale Project Team had primary responsibility for managing the entire sale process including:

- day-to-day management of the sale process (including the development and implementation of an overall project plan for the sale, providing regular updates on key elements of the project and monitoring and resolving issues in accordance with the project plan); and
- management, arrangement and participation in all aspects of due diligence for the sale process. This included establishing protocols and appropriate verification and sign-off mechanisms; the organisation of, attendance at, and reporting on, potential buyer site visits; interviews and presentations to potential purchasers; conduct of due diligence and reporting with appropriate sign-off on key issues arising; establishing and maintaining data rooms including question and answer processes.

2.42 Both the Steering Committee and Sale Project Team were required to convene at regular intervals to receive progress reports, assign tasks and to resolve issues that may arise. The Steering Committee and the Sale Project Team met regularly and considered issues put before them.

2.43 The structure of the governance arrangements for the sale of ACTTAB, including the Steering Committee and Sale Project Team, were appropriate.

## Managing procurement risk (including probity)

- 2.44 There are many publications that set out better practice guidance for managing procurement risk. The guidance provided is relatively consistent and for this report the Audit Office has relied on the Australian National Audit Office (ANAO) *Fairness and Transparency in Purchasing Decisions Better Practice Guide* (2007) which states that:

Whether relatively straightforward or complex, the nature of procurement activity means that it generates a range of probity issues. With this in mind, the Better Practice Guide emphasises the important role of procedural integrity in managing procurement and probity risks.

### Procurement risks

- 2.45 At the formative stages of procurement it is important to analyse and document procurement risks. This allows the whole procurement team to have a shared understanding of the risk and establish appropriate processes and measures to mitigate the risk so that there is assurance that the procurement does not present an unacceptable level of risk.

- 2.46 A key mechanism for managing procurement risk is to have a documented risk register.

- 2.47 The earliest evidence of a draft risk register for the sale of ACTTAB was in January 2014. It was, however, not provided to all Sale Project Team members until May 2014, which was three months after the release of the *Request for Expression of Interest* document. On 19 May 2014 an email was sent by the ACTTAB Sale Project Officer (an officer providing administrative support to the Sale Project Team and Steering Committee) requesting comments on a draft procurement risk register. On receipt of this email, a member of the Sale Project Team commented:

Sorry, but a bit late and I would have thought a complete waste of time producing this document to us for the first time on 19 May 2014 (when the finishing line is in view), unless of course the primary purpose is to rewrite history and cover backsides, which I have no interest in doing. You will recall for instance that ACTTAB was of the view that there was a risk in going to the market in the manner which the Government has subsequently chosen to do (various options and uncertainty around licence terms and conditions) and there is no mention of this despite numerous conversations at Project and Steering Committee meetings. There was also the risk in wasting time in attempting to placate vested interest groups as well as an EOI process open to all and sundry who thought it might be nice to own a Tab. The document might serve some purpose within the Directorate but doesn't require our input at this late stage.

- 2.48 Later that day the same member of the Sale Project Team continued as follows.

My response might have seemed a bit harsh ... however, I would have thought that if the project was going to have a risk assessment and register then that might have been discussed with the Project Committee members at inception and that we might have been invited to contribute before this. In racing parlance, the horse has bolted!

## 2: Preparing for the sale

2.49 The draft procurement risk register (May 2014) included the risks shown in Table 2-2.

**Table 2-2 Draft procurement risk register for the sale of ACTTAB May 2014**

| Risk Reference | Risk Description   |
|----------------|--|
| 1              | Potential Failures to key sales objectives as stated below:<br>- A fair and reasonable price is not achieved<br>- The racing industry is negatively affected<br>- Purchaser does not consider employee welfare<br>- Purchaser does not have the appropriate experience, capacity or integrity to operate a wagering business<br>- Failure to achieve a timely sale<br>- Failure to sell ACTTAB |
| 2              | Adverse Publicity / Scrutiny   |
| 3              | Racing industry and associated unions expectations do not align to Key Territory Sale objectives (see risk 1) for the sale, resulting in legislative and regulatory issues   |
| 4              | ACTTAB and CWD do not co-operate effectively on the Sale   |
| 5              | Loss of key personal / advisors to the process   |

Source: Sale of ACTTAB Risk Register v5 19 May 2014

2.50 The draft procurement risk register (May 2014) does not focus on specific risks. For example, *Adverse Publicity / Scrutiny* is a consequence rather than a risk in itself and *ACTTAB and CWD do not co-operate effectively on the Sale* is a cause and not a risk event. Poorly crafted risk registers can lead to necessary treatments being overlooked or inappropriate ones being developed.

2.51 The draft procurement risk register (May 2014) is also brief and identifies five risks that are primarily focused on outcome. In contrast, for example, the *Tasmanian Government Procurement Risk Checklist* identifies 46 procurement process risks in 10 categories as set out below:

- Identifying the need and planning the purchase;
- Developing the specification;
- Purchasing documentation;
- Inviting, clarifying and closing offers;
- Evaluating offers;
- Selecting the successful tenderer;
- Negotiations;
- Contract management;
- Evaluating the procurement process; and
- Disposals.

- 2.52 The draft procurement risk register (May 2014) developed for the sale of ACTTAB had very limited coverage of process risks. A more comprehensive risk assessment would have facilitated identification and treatment of a broader range of risks.
- 2.53 Compounding the problem of having an inadequate draft procurement risk register was the lateness of when it was developed and presented to the Sale Project Team. There is no evidence that the draft risk register guided the development of sale processes or that specific risk management actions were taken as a result of its guidance.
- 2.54 The sale of ACTTAB was a high risk procurement for which there was no finalised or approved procurement risk register. The draft procurement risk register that was prepared was inadequate and presented late in the process to the Sale Project Team. Accordingly, there was an absence of an adequate risk management framework.
- 2.55 With respect to the development of a risk register, the ACT Government Solicitor advised that:

Key aspects of the proposed sale were unknown including:

- whether prospective purchasers would wish to purchase the corporation's shares and/or assets and undertakings;
- likely purchase price (notwithstanding the "PwC" indicative value range);
- the key value points in the transaction;
- the likely conditions of the sale; and
- any undertakings a purchaser might ask of the Territory (if any) in relation to regulatory matters, and could only be the subject of speculation. This was borne out by the wide range in conformity, substance and quality of applications in response to the REOI.

Accordingly, any attempt to prepare a detailed and meaningful risk assessment at any early stage of the process for the entire sale process was not feasible. The risks of the process to ACTTAB and/or to the Territory were instead identified at each key stage of the process, with relevant and appropriate mitigation measures considered. The engagement of an experienced team of government officers and private sector advisors working day to day on the sale was seen as a key factor in the success of this strategy.

- 2.56 The Chief Minister, Treasury and Economic Development Directorate similarly advised that:

The Project Team considers it was well equipped to deal with particular risks, if and when they arose. Several members of the Project Team had been involved in previous privatisations overseas and in Australia, the Sales Advisor and the Legal Advisor are experienced in the sale of government and private businesses, and the specialist Legal Advisor has participated in the privatisation of all previous government owned TABs.

The process adopted by the joint parties was that key risks were considered continuously at each meeting of the Project Team and Steering Committee.

The success of the sale depended on a range of factors including the level of market interest, the relative strengths of the bidders, any timetable constraints, the structure

of the transaction (such as the term of the licence) and the state of the market. These factors can vary depending on the circumstances. The process adopted in each case will ultimately be a judgement call and so it was considered critical to have an experienced team with a demonstrated track record in achieving successful sale results.

- 2.57 While the advice of the ACT Government Solicitor and Chief Minister, Treasury and Economic Development Directorate is noted, given that ‘key aspects of the proposed sale were unknown’ suggests a greater need for documented risk identification and management at the earliest stages of the sale process, rather than a reason for not documenting risks early.

## Use of specialist advisors

- 2.58 The following advisors were engaged to support the sale of ACTTAB:

- **Sales Advisor** – a professional services firm (Deloitte) was engaged to provide commercial and related advice on the sale and to manage all communication (including information provided through a data room) with interested parties as part of a due diligence process.
- **Human Resource Advisor** – a senior member of staff from the Human Resources function of the then Chief Minister and Treasury Directorate (CMTD) was available to assist the Sale Project Team to ensure that ACTTAB employee matters were considered.
- **Specialist Corporate Legal Advisor** – a subject matter expert in the racing and gaming sector was engaged on 27 February 2014 to provide a specialist corporate advisory function, with additional legal advice on transactions relating to the gaming and racing industry where necessary.
- **Probity Advisor** - the ACT Government Solicitor was engaged to advise the Steering Committee with respect to any probity issue notified by the Steering Committee, or the Sale Project Team arising in relation to the procurement process and thereby monitor compliance with the Probity Plan and the sale process. The Probity Advisor was also required to attend meetings of the Steering Committee and Sale Project Team in relation to the Project.
- **Legal Advisor** - the ACT Government Solicitor was engaged to provide advice in relation to the sale process. This included the preparation of sale instruments.

## The role of the probity advisor

2.59 A representative of the ACT Government Solicitor was the identified Probity Advisor for the sale process. The Probity Plan (December 2013) provided:

The Probity Adviser will:

- (a) advise the Steering Committee with respect to any probity issue notified by the Steering Committee or the Project Team arising in relation to the procurement process and thereby monitor compliance with the Probity Plan and the Sale Process; and
- (b) attend meetings of the Steering Committee and Project team in relation to the Project.

2.60 The Probity Advisor also provided legal advice in relation to the sale process. The Probity Plan (December 2013) allowed for this by stating:

To the extent that the Probity Adviser will provide legal advice to the Steering Committee or the Project Team in relation to procedural aspects of the project, the Probity Adviser will have regard to this Probity Plan in the provision of their advice.

2.61 The Probity Advisor who was also providing legal advice was significantly involved in the entire sale process.

## Guidance on the role of a probity advisor

2.62 The Australian Government Solicitor has published guidance in relation to managing probity and process issues in procurement; *Managing probity and process issues in procurement* (Commercial Note No.15, 14 March 2005). As part of this guidance, the Australian Government Solicitor has also provided guidance in relation to the role of a probity advisor. The guidance states:

A probity adviser may be appointed under a probity plan to monitor and report on compliance with the plan. A probity adviser is usually an adviser who is external to and independent of the process, who will scrutinise (by way of observing and reviewing) the tender and evaluation process, provide advice on probity issues which may arise before and during the tender process, and advise whether the process is equitable and conducted with integrity.

The role of the probity adviser is usually to monitor the tender, evaluation and selection processes in order to advise whether they are defensible and conducted in a fair and unbiased manner. The probity adviser does not undertake the evaluation and is not responsible for advising on the legal issues that arise from the conduct of the tender process. However, the probity adviser will provide advice on the conduct of the tender process (including the tender evaluation procedures), advise whether the tender rules and procedures are followed, and whether the tender process has been conducted fairly and the tenders received are assessed in accordance with the stated evaluation criteria.

In the period following the release of the RFT, for example, the probity adviser can advise on issues such as bidder communications and bid receipt, including the treatment of late bids.

In respect of the evaluation phase, the probity adviser can advise on matters such as the establishment of an evaluation team, assessment of risk and score adjustment, and the assessment of value for money. The probity adviser can also conduct, or arrange for a third party to conduct, various types of probity and security investigations on a particular company and/or its directors and secretaries.

The probity adviser will normally advise and report to the project steering group, and may attend and monitor meetings of other tender committees. Often the probity adviser will also provide all tender evaluation team members with a probity briefing before the actual commencement of tender evaluation.

At the conclusion of the tender process, the probity adviser usually provides confirmation (or sign off) that the process has met all probity and process requirements. This would normally involve the provision of a sign off which confirms that the process followed applicable government policies and the agreed probity plan, and that the tender evaluation was conducted in accordance with the process as set out in the tender evaluation plan.

### One person undertaking a Probity Advisor role and providing legal advice

- 2.63 The Australian Government Solicitor's published guidance on the role of a probity adviser (*Managing probity and process issues in procurement* (Commercial Note No.15, 14 March 2005)) states:

A probity adviser works closely with the client from the beginning of the procurement process, providing advice on probity/process issues which may arise, and providing advice on strategies to overcome potential problems. The probity adviser is therefore expected to give advice which is proactive and strategic in nature. A probity adviser is closely involved in the procurement process, and so cannot be regarded as an 'independent' party. The probity adviser can also fulfil the role of legal adviser to the client.

...

The extent of proactive involvement by a probity or legal process adviser varies from project to project and client to client. In some cases the client may only require the adviser to be involved at certain key stages of the tender process (for example, at tender opening and to review the tender evaluation process). In other projects, a client might see the adviser as being an integral member of the tender team and expect the adviser to play a proactive role throughout. In other words the role needs to be tailored to the client's own requirements and expectations.

Some clients employ a legal process adviser without appointing a separate legal adviser for the project. In that case, they principally seek advice on process related issues with an expectation, however, that the process adviser would also comment on contractual issues where applicable (in many cases, the client will have used its in-house legal or contracting area to develop the contract in the first instance). Where this occurs the approach has been generally to have one or more team members examine the tender documentation (including the tender evaluation plan) from a probity or legal process perspective, and other team member(s) look at the proposed transaction documents (usually the contract) from a legal perspective.

On occasions the same firm may be approached to formally act as both the legal adviser and the probity adviser for a particular project, with both roles being

specifically recognised in the terms of the engagement. In this situation, unless the client otherwise agrees to the roles effectively being combined, the approach has similarly been to have one team member focus on the probity/process issues and another team member focus on the legal issues. As there can be occasions where the dividing line between probity or process and legal issues is not altogether clear, it is important that these team members work closely together. However, the client needs to be aware that the probity adviser role cannot be totally independent.

- 2.64 The Audit Office sought advice from the Australian Government Solicitor with respect to a single person undertaking the role of Probity Advisor and providing legal advice. The Australian Government Solicitor advised that:

The decision to appoint a probity adviser is typically based on a risk assessment of the procurement ... If one person is providing both legal and probity advice there is a greater risk that probity issues may not be identified or properly considered and accordingly the probity of the procurement may be compromised.

- 2.65 Consideration of the separation of probity advice and legal advice roles is consistent with other advice on high risk procurements of this type. For example, the NSW Independent Commission Against Corruption provides the following advice in relation to the independence of probity advice:

A probity adviser should not be encumbered by any actual or perceived conflict of interest that could compromise his or her duty to give candid advice about the probity aspects of the project. The probity adviser or his or her organisation must not be providing another service relating to the project. A probity adviser cannot simultaneously serve in roles such as legal adviser, technical adviser or project manager and still maintain independence. The probity adviser's role in the project should be strictly confined to probity issues and not stray into other fields of advice, even if the adviser has expertise in these areas.

- 2.66 On this issue, the ACT Government Solicitor advised:

In the circumstances of this particular process, having regard to the limited timeframes involved, embedding a probity adviser function into the process as part of the legal adviser role gives the key advantage that the probity adviser is highly conversant with all issues as part of the transaction in a timely manner. The probity adviser provided a great deal of timely and apposite advice throughout the process. This approach complemented the need for seamless and efficient advisory support functions.

It is accepted that the circumstances of each *procurement process* should be analysed and the appropriateness of any combined legal adviser/probity adviser role carefully considered. The factual circumstances must however be considered *for any other processes*, including, as was the case with the role of ACTGS in this *sale process*, that the ACTGS lawyer who assumed the lead in the legal and probity roles, was supported by a team of lawyers including variously two to four lawyers from ACTGS, three to four lawyers from Thompson Geer and three to four lawyers from Minter Ellison who provided legal and in the case of ACTGS probity input on the sale process as required.

## 2: Preparing for the sale

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- 2.67 The ACT Government Solicitor further advised that there was other legal advice that was being provided throughout the process. In this respect the ACT Government Solicitor advised:

Much of the key advice and guidance on the sale process from the Territory's perspective was provided by ... Partner of Thomson Geer who has significant prior experience in wagering and gambling sale transactions and by [a representative of] Deloitte who similarly has experience in significant wagering transactions.

- 2.68 Risk is increased by having a person undertake both a probity and legal advisory role; this is supported by much of the literature and better practice guidance available. Some of this material is referred to in this chapter. The Australian Government Solicitor advised:

In our view, where a single person is providing both legal and probity advice in a procurement that person is not in a position to independently assess whether the probity of the procurement is being adequately addressed. If one person is providing both legal and probity advice there is a greater risk that probity issues may not be identified or properly considered and accordingly the probity of the procurement may be compromised.

- 2.69 Although the ACT Government Solicitor advised that there were lawyers in, and from outside, the ACT Government Solicitor's office who provided legal advice, having the Probity Advisor also providing legal advice is not better practice and increases risk. There is no evidence that there was a need for one person to undertake the Probity Advisor role and provide legal advice. Given the complexity and size of the sale of ACTTAB it would have been prudent to have the probity advisor role separate from other roles.

## Documentation and record-keeping

- 2.70 It is standard practice in procurements to ensure that a comprehensive and complete record is retained for all decisions, processes and communication, to provide an evidence trail and facilitate accountability and transparency.

- 2.71 Section 6.2 of the *Probity Plan* (December 2013) states:

Project Personnel who make a decision that may affect the conduct of the procurement process or any potential or actual Respondent must record in writing their decision, the advisers or other persons who were consulted before making the decision and the basis on which they made that decision.

- 2.72 *Section 7 Record Keeping and Process Control* of the *Probity Plan* (December 2013) provides directions to those involved in the sale of ACTTAB about documentation requirements. This section is primarily focused on the maintenance of a Communications Register, management of confidentiality, information security and conflicts of interest. The *Probity Plan* (December 2013) does not address day-to-day record keeping requirements of the Sale Project Team and Steering Committee members associated with managing and implementing the sale process.

- 2.73 Documentation was inadequate in relation to the sale process, for example:
- the Audit Office was advised that legal advice was provided that the *Government Procurement Act 2001* did not apply, but this was not documented. (Unsigned minutes from an (Interim) ACTTAB Sale Working Group meeting on 28 November 2013 nevertheless stated: 'Confirmed that the sales advisor procurement does not fall under the Procurement Act as if we proceed with a Sale of Assets, these are ACTTAB's assets and ACTTAB does not fall under the Procurement Act. If we proceed as a Sale of Shares, then this is a investment transactions (ie not sale of a good or service).' Notwithstanding the reference to the 'sales advisor procurement, which was underway at the time, this has been cited as support for consideration and endorsement that the *Government Procurement Act 2001* did not apply); and
  - records provided to support the evaluation of the expressions of interest were reports by the external Sales Advisor (Deloitte), an agenda paper from the Sale Project Team to the Steering Committee summarising the evaluation of the expressions of interest and extracts from email correspondence. Members of the Sale Project Team confirmed during interviews that documentation of individual assessments of submissions had not been retained.
- 2.74 Transparency and accountability requires comprehensive and complete documentation to be retained to evidence transactions. Projects of this size, complexity and risk, typically have a high burden of documentation.
- 2.75 Table 2-3 shows instances where record keeping did not meet minimum requirements for accountability, transparency or risk management that the Audit Office had expected would be able to be provided.

## 2: Preparing for the sale

**Table 2-3 Documentation and record-keeping gaps**

| Documentation  | Details   | Comments   |
|--|---|--|
| Project Plan   | Required by Schedule 3, Section 4 of the Probity Plan.  | The Sales Advisor prepared and maintained a Gantt Chart but there was no other record.                               |
| Risk Management Plan (Risk Register)                         | Would be expected for a sale of the complexity and size of ACTTAB   | A draft risk register was created but it was late and inadequate.  |
| Evaluation Plan  | Would be expected for a sale of the complexity and size of ACTTAB so that it was clear from the beginning what ultimately would be assessed | No record.   |
| Probity reports on conduct of the sale process               | Provided for by Section 10 of the Probity Plan.   | A probity sign-off was provided at the Expressions of Interest stage but not on any other parts of the sale process. |
| Written reports to Steering Committee on complaints received | Provided for by Section 10 of the Probity Plan.   | None recorded.   |

Source: ACT Audit Office

## Probity sign-offs on sale process

2.76 Section 10.2 of the *Probity Plan* (December 2013) states:

The Probity Advisor may:

...

- (d) report in writing to the Project Team on whether, in the Probity Adviser's opinion, the Project has been conducted fairly and in accordance with this Plan.

2.77 Such a role accords with Australian Government Solicitor better practice guidance, (*Managing probity and process issues in procurement* (Commercial Note No.15, 14 March 2005)) (refer to paragraph 2.62) specifically:

At the conclusion of the tender process, the probity adviser usually provides confirmation (or sign off) that the process has met all probity and process requirements. This would normally involve the provision of a sign off which confirms that the process followed applicable government policies and the agreed probity plan, and that the tender evaluation was conducted in accordance with the process as set out in the tender evaluation plan.

2.78 Probity advice was provided on 4 March 2014 in relation to the Expression of Interest stage of the sale process. In a letter to the Chair of the Steering Committee, the Probity Advisor wrote:

As the appointed probity adviser to the sale process, you have asked for my confirmation that I have no concerns in relation to the public Expression of Interest

process recently completed. I note you have raised no specific issues or concerns in relation to the process.

...

Based on the Deloitte evaluation report and the Project team recommendation to the Steering Committee, I have no reason to believe Deloitte or the Project Team has assessed the responses received otherwise than in accordance with the stated evaluation criteria.

- 2.79 No other advice was provided for any other stage of the sale process.
- 2.80 On 12 August 2014 the new Chair of the Steering Committee sent an email to the Chair of the Sale Project Team which stated:
- ... as part of the finalisation of the sale of ACTTAB we should complete a probity report. You may already have that in hand. Please discuss the process for this.
- 2.81 The Audit Office has been advised that a final 'wrap-up report' has not been produced but is contemplated for when ACTTAB is de-registered, which is expected to occur in July 2015. Such advice is considered to be too late in the process to identify any actions that need to be undertaken to manage any probity risks that are identified.
- 2.82 The ACT Government Solicitor has advised:
- The view of the ACTGS is that it is the role of a probity auditor to independently examine discrete parts and/or the whole of a process and deliver reports as to that process. As is set out in the approved Probity Plan, the role of the probity adviser is iterative: attending meetings, reviewing documents and issues and providing advice as and when necessary. Unless specifically requested to provide any report by the Steering Committee, or unless adverse issues had, in the opinion of the probity adviser arisen, there was no requirement for the probity adviser to provide reports and sign-off for the various stages of the process. This is confirmed in the approved Probity Plan.
- 2.83 The Audit Office notes the views of the ACT Government Solicitor, but notes that, with the exception of advice provided at the expression of interest stage, there was no formal, documented probity advice and no sign-off at key stages of the sale process. Such documentation and sign-off accords with Australian Government Solicitor better practice guidance for a probity adviser, which provides for probity advisor 'sign off which confirms that the process followed applicable government policies and the agreed probity plan, and that the tender evaluation was conducted in accordance with the process as set out in the tender evaluation plan.' Given the risks associated with the sale of ACTTAB, it would have been prudent to have more rigorous and documented probity advice and sign-off at key stages of the sale process.
- 2.84 Documentation of the processes used for the sale of ACTTAB was inadequate and did not meet accountability and transparency requirements for procurement commensurate with the size, complexity and risk of such a sale. Importantly, there was a lack of documented sign off or advice from the Probity Advisor following the completion of key stages of the sale process, including the finalisation of the sale.

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- 2.85 As a result of the lack of documentation associated with the project, the Audit Office sought access to email records of key representatives of the Sale Project Team and Steering Committee in order to form a view of the processes associated with the sale.

## 3 THE SALE PROCESS

3.1 This chapter examines activities associated with the sale process, specifically the evaluation of expressions of interest and consideration of probity requirements.

### Summary

### Conclusions

The sale process was inadequate at the expression of interest stage due to the use of poorly constructed evaluation criteria and an inappropriate assessment of some evaluation criteria, including the use of information that was not submitted by potential purchasers in response to the criteria.

### Key findings

|  | Paragraph |
|--|-----------|
| An open approach to the market was taken, whereby any interested party responding to the advertisement of the sale received a <i>Request for Expression of Interest</i> . The open approach to the market was initially flagged as being preferred by the Treasurer in the debate of the resolution for the sale of ACTTAB in the Legislative Assembly in November 2013.   | 3.10      |
| A <i>Request for Expression of Interest</i> was sent out to interested parties that responded to the newspaper advertisements from 3 February 2014 onwards. Expressions of interest were required to be submitted by no later than 5:00 pm on 14 February 2014.  | 3.15      |
| The <i>Request for Expression of Interest</i> sent to interested parties contained all relevant information requirements and was structured appropriately to allow for them to respond.  | 3.18      |
| No evaluation plan(s) were prepared for the sale of ACTTAB.  | 3.28      |
| The evaluation criteria in the <i>Request for Expression of Interest</i> did not align with the Sale Objectives, as identified in the ACT Legislative Assembly resolution in November 2013. It would have been straightforward to directly align the evaluation criteria in the <i>Request for Expression of Interest</i> with the Sale Objectives. This would have provided greater assurance that the Sale Objectives would have been appropriately considered in the evaluation process. Not aligning the criteria to the Sale Objectives presented a risk that important objectives of the sale were | 3.30      |

not given appropriate prominence in the selection process.

The criteria used for the evaluation of expressions of interest were poorly crafted as: 3.40

- one of the criteria was ‘binary’ and did not lend itself to being used to make a comparative evaluation between interested parties. Binary requirements are usually conditions for participation in a process rather than an evaluation criteria; and
- one of the Sale Objectives (timeliness) was aggregated with the financial capacity criterion and consequently could not be evaluated independently from financial considerations.

Five responses to the *Request for Expression of Interest* were received by the closing time of 5:00 pm on 14 February 2014, including responses from the two holders of totalisator pools in Australia. 3.45

The evaluation of the responses took place between 14 and 27 February 2014. The evaluation was initially conducted by the Sales Advisor (Deloitte) with an evaluation report (the first evaluation report) produced and sent to the Sale Project Team on 19 February 2014. The evaluation report recommended all five interest parties proceed to the next phase of the process. 3.48

In response to the first evaluation report from the Sales Advisor (Deloitte), on 20 February 2014 the Probity Advisor who also provided legal advice sent an email to members of the Sale Project Team. The email (which was subsequently retracted and updated) provided comments on each of the expressions of interest that were received, and ranked the expressions of interest ‘in order of the quality of their responses’. 3.50

Following a meeting of the Sale Project Team on 20 February, the Sales Advisor (Deloitte) produced a second evaluation report on 21 February 2014. The evaluation report recommended all five potential interested parties proceed to the next phase of the process. 3.53

On 25 February 2014 the Probity Advisor who also provided legal advice sent an email to the Sale Project Team that retracted and updated the email previously sent on 20 February 2014. Similar to the first email, comments were provided on each of the expressions of interest that were received, and the expressions of interest were ranked ‘in order of the quality of their responses’. The email provided an opinion that only two of the interested parties should proceed to the next phase. 3.55

On 25 February 2014, the Steering Committee considered the Sales Advisor’s 3.57

(Deloitte) second evaluation report and requested that the Sales Advisor (Deloitte) update the evaluation report and provide a ranking of the interested parties.

On 27 February 2014, the Sales Advisor (Deloitte) produced a third (and ultimately final) evaluation report that recommended *inter alia* that '[two of the interested parties] should progress to the next phase ...'

At its meeting on 28 February 2014, the Steering Committee considered:

- the third (and ultimately final) evaluation report from the Sales Advisor (Deloitte); and
- an agenda paper from the Sale Project Team, which the Sale Project Team advised was its evaluation report.

The third (and ultimately final) evaluation report from the Sales Advisor (Deloitte) stated '[two interested parties] should progress to the next phase of the process. The key risk which the shareholders should consider in determining whether to progress the remaining three bidders is their ability to execute a pooling agreement, for which no party has presented a clear alternative to [one of the interested parties], presenting a significant execution concern.' The agenda paper from the Sale Project Team stated '... there are only two suitable candidates who should be invited to participate in the indicative offer stage.'

There was no evidence of:

- documented and retained individual assessments of the submissions by members of the Sales Project Team;
- documentation showing a consolidated assessment of where the individual assessments of the submissions by members of the Sales Project Team were brought together; and
- a formal evaluation report with detail and judgements highlighted.

One of the key probity objectives set out in the Probity Plan was: *Establishing and maintaining a clear audit trail for accountability purposes*. The creation and maintenance of evaluation documentation is a key part of the accountability requirement. Documentation to support the evaluation of the expression of interest criteria was inadequate.

The Australian Government Solicitor and Mr Charles Scerri, QC concluded that it was more likely than not that the principles of the Hughes Case applied to the sale of ACTTAB. As a result, a 'process contract' existed in the sale of ACTTAB and there was, therefore, an obligation to conduct the sale in accordance with the defined procedures and the stated criteria that was in the *Request for Expression of Interest*.

|   |       |
|---|-------|
| The ACT Government Solicitor advised in responding to the proposed audit report that the principles of the Hughes Case did not apply.   | 3.82  |
| While there is a difference of views, given the type of sale with its complexities and uncertainties, and given the consequences if the Hughes Case did apply, it would have been prudent for such an issue to have been explicitly considered in a risk analysis, in preparation for the sale. However, there is no evidence that this occurred. If it had occurred, any issues emerging could have been managed to reduce any associated risk.  | 3.83  |
| The evaluation of the expression of interest criteria is considered to be inadequate regardless of whether (or not) the principles of the Hughes Case apply. If the Hughes Case does apply the issues have greater gravity because of: <ul style="list-style-type: none"> <li>• the use of different criteria to those in the <i>Request for Expression of Interest</i> document;</li> <li>• the evaluation of binary criteria in a non binary way; and</li> <li>• evaluation using material not provided by the applicant.</li> </ul>  | 3.84  |
| Neither the final evaluation report prepared by the Sales Advisor (Deloitte) or the agenda paper from the Sale Project Team to the Steering Committee precisely or rigorously applied the evaluation criteria set out in the <i>Request for Expression of Interest</i> document sent to interested parties. The incorrect application of evaluation criteria presents a risk to the probity of the sale process. If the Hughes Case is relevant to the sale of ACTTAB, this risk is exacerbated. Regardless, there is a high probability that interested parties would have had an expectation that they would be evaluated against the criteria in the <i>Request for Expression of Interest</i> document. This did not occur. | 3.89  |
| The incorrect application of the probity criterion, which was essentially a ‘binary’ criterion that did not contemplate a subjective assessment, inappropriately excluded interested parties from further consideration. These interested parties may not have met the criterion had it been more aptly worded to allow for a subjective assessment.  | 3.96  |
| The use of external material in evaluating submissions, including the work associated with evaluating interested parties’ responses, should not have been used as the basis for the exclusion of interested parties from further consideration. This material could have been considered had the process been designed differently.   | 3.107 |
| The operational capacity criterion required that interested parties demonstrate that they currently have the ability, or have a plan, to successfully operate a   | 3.108 |

wagering business including a pari mutuel pooling arrangement.

Two interested parties operated large totalisator pools in Australia. The three other interested parties did not, and submitted their planned intentions in relation to establishing a pari mutuel pooling arrangement. The three other interested parties were primarily excluded from the process because they were assessed as not meeting the operational capacity requirement. 3.110

The evaluation of the operational capacity criterion inappropriately excluded interested parties from further consideration. These interested parties may not have met the intention of the criterion, if it had specified that they should have already been operating a totalisator pool. If the evaluation criteria had explicitly stated the need to already be operating a totalisator pool, then there would be no issue. 3.129

The 'reserved discretions' in the Request for Expressions of Interest were intended to allow for greater flexibility in the sale process. However, the Australian Government Solicitor and Mr Charles Scerri, QC advised that it is more likely than not that the Hughes Case principles applied and a 'process contract' was relevant to the sale of ACTTAB. Therefore, the 'reserved discretions' in the *Request for Expressions of Interest* document cannot be relied upon. It would have been prudent not to exercise the 'reserved discretions' as if they had priority over the *Request for Expressions of Interest* criteria. 3.143

Concerns regarding the incorrect use and application of expression of interest criteria are not issues of semantics as three of the five potential interested parties that provided expressions of interest were excluded from further consideration in the sale process. 3.144

Probity activities associated with managing confidentiality agreements, the approach to the market, probity planning, responding to interested parties' clarification requests and due diligence were performed satisfactorily. 3.147

There were some areas where not all probity requirements were met: 3.148

- formal sign-off on key 'approach to market' documents and evaluation criteria;
- formal sign-off on evaluation processes and key 'milestones' and phases of the procurement process; and
- the management of a complaint.

The *Probity Plan* (December 2013) required the Probity Advisor to prepare a written report to the Steering Committee on the complaint referred for consideration. There was no evidence of this report and the Steering Committee minutes do not indicate whether any such report was presented to them. 3.157

## Context for the sale process

3.2 The ACT Legislative Assembly passed a resolution in support of the sale of ACTTAB on 28 November 2013. The Sale Objectives set out in the resolution were:

- achieve a fair and reasonable price;
- ensure local racing industry is not negatively affected;
- achieve a timely sale;
- ensure the successful party has appropriate experience, capacity and integrity to operate a wagering business; and
- ensure employee welfare is considered.

3.3 Chapter 4 considers performance against these Sale Objectives.

### Probity Plan (December 2013)

3.4 On 10 December 2013 the ACT Government approved a *Probity Plan* for the sale process. The *Probity Plan* (December 2013) set out 'the framework that will govern procedural aspects of the sale preparation and implementation phases in a manner which reflects a high degree of probity in achieving a value for money outcome.'

3.5 The *Probity Plan* (December 2013) required that the process be conducted consistently with the Sale Objectives (as established by the resolution of the Legislative Assembly in November 2013). The *Probity Plan* (December 2013) also required that the Sale Project Team ensure that the sale process be conducted with a high standard of probity and integrity.

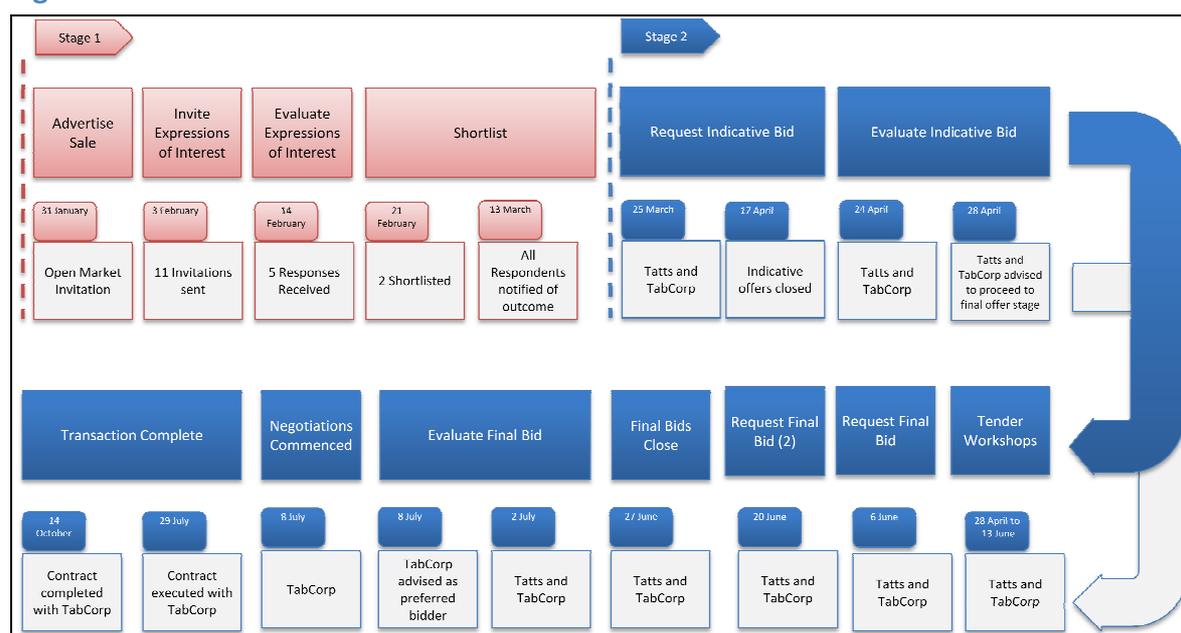
## Sale process

3.6 The sale of ACTTAB was undertaken in two stages:

- Stage 1 - Expression of Interest (EOI)
  - advertisement and contact with parties who had previously shown interest
  - invitation to express interest
  - evaluation of EOI (and Evaluation Report)
  - short list
- Stage 2 - Bid
  - indicative bid
  - indicative bid valuation
  - final bid
  - final bid evaluation
  - negotiation
  - contractual agreement.

3.7 The process for the sale of ACTTAB is illustrated in Figure 3-1. Also shown in this figure is the progression, or not, of interested parties.

**Figure 3-1 Process for the sale of ACTTAB**



Source: ACT Audit Office

3.8 Stage 1 of the sale process involved seeking expressions of interest from interest parties and was focused on short listing interested parties. The expression of interest stage was a critical stage as it was at this stage that interested parties were excluded from further participation in the process.

3.9 Stage 2 of the sale process, which involved the receipt and evaluation of indicative bids and final bids (the Bid stage), was focused on the value of the deal that could be agreed.

## Request for expressions of interest

- 3.10 An open approach to the market was taken, whereby any interested party responding to the advertisement of the sale received a *Request for Expression of Interest*. The open approach to the market was initially flagged as being preferred by the Treasurer in the debate of the resolution for the sale of ACTTAB in the Legislative Assembly in November 2013.
- 3.11 As part of the debate of the resolution for the sale of ACTTAB in the Legislative Assembly the Treasurer stated:
- The sale will also be conducted through an open competitive process so as to maximise the number of bidders. This approach should ensure the best outcome for the Territory.
- 3.12 Members of the Sale Project Team also advised that, following the release of the PwC *ACTTAB Future Options Feasibility Study* (July 2013), the market had shown some interest in the future sale. Accordingly, a number of interested parties that had submitted unsolicited expressions of interest subsequent to the release of the PwC report in July 2013 were also sent a *Request for Expression of Interest* in February 2014.
- 3.13 On 24 January 2014 a briefing was provided to the Chief Minister and Treasurer identifying that the strategy for the sale process would include seeking expressions of interest in order to short-list potential purchasers. The briefing advised:
- The sale strategy will use the Expression of Interest process to short list suitable parties to proceed to the Initial Offer Stage subject to signing a confidentiality agreement and accepting the bidding rules in order to be given access to confidential information to conduct due diligence. Short listing during this initial phase will be based on financial and operational capability to run Totalisator operations.
- 3.14 The Sales Advisor (Deloitte), on behalf of the ACT Government, Commerce and Works Directorate and ACTTAB, advertised in the press (*Australian Financial Review* and *Weekend Australian*) on 31 January 2014 and on 1 and 2 February 2014 respectively, that:
- ... it was seeking parties with a serious interest in acquiring ACTTAB. Parties responding would receive an invitation to lodge an Expression of Interest (Invitation).
- 3.15 A *Request for Expression of Interest* was sent out to interested parties that responded to the newspaper advertisements from 3 February 2014 onwards. Expressions of interest were required to be submitted by no later than 5:00 pm on 14 February 2014.
- 3.16 Eleven organisations were invited to lodge an expression of interest and five submissions were made by the due date and time.

## ***Request for Expression of Interest document***

- 3.17 A *Request for Expression of Interest* is expected to include sufficient information for interested parties to respond. Typically a minimum would be:
- a description of the subject of the expression of interest;
  - a formal call for expressions of interest;
  - a description of the process;
  - contact person;
  - indicative timetable;
  - evaluation criteria;
  - documents to be submitted;
  - lodgement requirements;
  - evaluation of applications; and
  - outcome of the process.
- 3.18 The *Request for Expression of Interest* sent to interested parties contained all relevant information requirements and was structured appropriately to allow for them to respond.
- 3.19 The time for the sale was short, and this was appropriately reflected in sale process documents and consequently in the times available for interested parties to respond to the *Request for Expression of Interest*, i.e. eleven days. At least one interested party requested an extension to the time, but this was not provided.
- 3.20 While a short response time is not necessarily a concern, it is important that information that is sought reflects the time available to the interested parties. The Sale Project Team, in evaluating the expressions of interest that were received, should have recognised the restricted time available to interested parties. This issue is addressed when considering the evaluation of the submissions in paragraph 3.125.

## ***The Request Expression of Interest evaluation criteria***

- 3.21 The *Request for Expression of Interest* set out the Sale Objectives as well as the evaluation criteria. In relation to the evaluation criteria, the *Request for Expression of Interest* stated:
- An Applicant's [expression of interest] should contain sufficient information to demonstrate, to the satisfaction of the Vendors ...
- 3.22 The evaluation criteria are shown in Table 3-1.

## 3: The sale process

**Table 3-1 Request for Expression of Interest evaluation criteria**

| EOI Criterion        |  |
|----------------------|--|
| Financial capacity   | Applicants must demonstrate the financial capacity to execute a contract sale and purchase for this transaction by no later than 30 June 2014 which must not be subject to the Applicant having to obtain necessary finance. As a guide Applicants should be able to demonstrate, either a net tangible asset position which is currently at least A\$100m, a year net profit after tax of at least A\$10m or if listed on a recognised stock exchange, a current market capitalisation of at least A\$100m; |
| Operational capacity | Applicants must demonstrate that they currently have the ability or have a plan to successfully operate a wagering business including the pari-mutuel pooling arrangements, since existing pooling arrangements may or may not continue post the Sale Process;   |
| Future intentions    | Applicants should provide indicative guidance in relation to their future intentions for ACTTAB post the Sale Process; and   |
| Probity requirements | Applicants must provide a statement that they see no reasons why they, and their associates, would not be considered to be suitable to hold, or to be an associate of the holder, of a totalisator licence in the ACT.   |

Source: *Request for Expression of Interest* 3 February 2014

3.23 The importance of evaluating expressions of interest against published evaluation criteria is an important principle of probity in procurement. The ACT Government Procurement Policy Circular *PC21: Probity and Ethical Behaviour* states:

The importance of probity has been reinforced by the Federal Court, which has handed down decisions that highlight the need for government agencies to deal fairly with prospective tenderers, adhere to proper procedures, and to conduct tender evaluations in accordance with the evaluation criteria as outlined in the request for offer documents.<sup>1</sup>

3.24 Similarly, the Australian Government Solicitor has also published guidance in relation to managing probity and process issues in procurement; *Managing probity and process issues in procurement* (Commercial Note No.15, 14 March 2005). The guidance states, in relation to a duty to act fairly:

... One aspect of this duty involves the requirement to evaluate bids according to the priorities and methodology specific in the RFT. In this context it is now common practice for government agencies to prepare and obtain internal sign off on a formal evaluation plan before bids are opened. Properly drafted and implemented evaluation plans enable agencies to demonstrate that they have objectively evaluated bids in accordance with the RFT and without conscious or subconscious bias towards an initially preferred bidder.

<sup>1</sup> ACT Government Procurement Policy Circular *PC21: Probity and Ethical Behaviour*, page 4. The circular provides a reference to court decisions in support of these principles, including 'Hughes Aircraft Systems International v Air Services Australia and J.S. McMillan Pty Limited, Pirie Printers Holdings Pty Limited and Imsep Pty Limited v Commonwealth of Australia.'

3.25 The Australian Government Solicitor's guidance further states:

... in practice there is often a lack of consistency between evaluation plans and the requirements specific in the applicable RFTs. To avoid this problem, the RFT and the evaluation plan should be drafted together to enable 'side by side' review to ensure that the evaluation methodology proposed in the plan is consistent with the draft RFT.

3.26 It is better practice that the basis of evaluation is also 'fixed' at the same time as the evaluation criteria. This is frequently achieved through determining the basis for the evaluation (i.e. developing an evaluation plan) and preparing the evaluation criteria at the same time and having them approved by the Probity Advisor and the ultimate delegate for the transaction. An arrangement such as this would have served to provide a check that the stipulated criteria would be likely to achieve the desired outcome of the sale.

3.27 While the development of an evaluation plan at the right time would not necessarily have affected the result of the sale, it would have been a strong control over process risk for such a complex and large sale.

3.28 No evaluation plan(s) were prepared for the sale of ACTTAB.

## Quality of the Evaluation Criteria

3.29 The evaluation criteria used in the *Request for Expression of Interest* was analysed. Table 3-2 presents an analysis of the alignment of the expression of interest criteria with the Sale Objectives.

**Table 3-2 Alignment of Sale Objectives with evaluation criteria**

| Sale Objectives  | EOI Criterion (refer to Table 3-1)                                 | Comment  |
|--|--|--|
| Achieve a fair and reasonable price.   | None   | While no price/value criterion existed, pricing was considered in the indicative Offer and Final bid stages. This is consistent with usual practice. |
| Achieve a timely sale.<br>Ensure the successful purchaser has the appropriate experience, integrity and capacity to operate a wagering business. | Financial Capacity<br>Operational Capacity<br>Probity Requirements | The timeliness of the sale is only referred to in the body of the financial criterion; this restricts the basis for evaluation.                      |
| Ensure the local racing industry is not negatively affected.<br>Ensure employee welfare is considered.   | Future Intentions  | The criterion was supported by some explanatory text about employees and assets, but did not include the racing industry.                            |

Source: ACT Audit Office

3.30 The evaluation criteria in the *Request for Expression of Interest* did not align with the Sale Objectives, as identified in the ACT Legislative Assembly resolution in November 2013. It would have been straightforward to directly align the evaluation criteria in the *Request for Expression of Interest* with the Sale Objectives. This would have provided greater

### 3: The sale process

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assurance that the Sale Objectives would have been appropriately considered in the evaluation process. Not aligning the criteria to the Sale Objectives presented a risk that important objectives of the sale were not given appropriate prominence in the selection process.

3.31 On this issue, however, the ACT Government Solicitor advises that:

The purpose of the REOI was clearly stated to be for ACTTAB and the Territory to determine those applicants that should progress into the "...competitive, staged [sale] process...". On that basis, there is not suggestion or requirement that the evaluation criteria strictly align with the stated sale objectives. The evaluation criteria could be whatever ACTTAB and the Territory considered properly identified the parties who should proceed into the asset sale process. The criteria effectively fulfilled that purpose as well as aligning in material respects with the stated sale objectives: for example, the first and third objectives were reflected in criterion 2, and the fourth and fifth objectives were reflected in criteria 3 and 4, respectively.

3.32 Two other features of the evaluation criteria are:

- the binary nature of one of the criteria; and
- aggregation of unrelated requirements in another criteria.

#### Binary criteria

3.33 The probity criterion simply required that the interested party 'provide a statement':

Applicants must provide a statement that they see no reason why they, and their associates, would not be considered to be suitable to hold, or to be an associate of the holder, of a totalisator licence in ACT.

3.34 This has two important weaknesses:

- the requirement is binary, in that the interested party either complies (by making the required statement), or does not; it does not request detailed information to allow for either a measured and/or comparative evaluation of the probity of the interested parties; and
- the criterion is only indirectly targeted at probity. The criterion is constructed in a way that the measureable element is the ability of an interested party to provide a particular statement.

3.35 The probity criterion should have been worded to facilitate a measured and comparative assessment of interested parties, or the provision of the material requested should have been made a condition for participation.

#### Aggregation of unrelated requirements

3.36 The financial capacity criterion stated:

Applicants must demonstrate the financial capacity to execute a contract for sale and purchase for this transaction by no later than 30 June 2014 which must not be subject

to the Applicant having to obtain necessary finance. As a guide Applicants should be able to demonstrate, either a net tangible asset position which is currently at least \$100m, a prior year net profit after tax of at least A\$10m or if listed on a recognised stock exchange, a current capitalisation of at least A\$100m.

3.37 A problem with this criterion is that it has defined timeliness in terms of financial capacity when there are other factors that could impact on timeliness, e.g. the time required for applicants to gain regulatory approval.

3.38 This criterion should have been disaggregated into two criteria as follows:

- financial capacity; and
- ability to meet timeline for the transaction.

3.39 This disaggregation would have been appropriate given that the requirement to achieve a timely sale was a specific Sale Objective.

3.40 The criteria used for the evaluation of expressions of interest were poorly crafted as:

- one of the criteria was 'binary' and did not lend itself to being used to make a comparative evaluation between interested parties. Binary requirements are usually conditions for participation in a process rather than an evaluation criteria; and
- one of the Sale Objectives (timeliness) was aggregated with the financial capacity criterion and consequently could not be evaluated independently from financial considerations.

3.41 The ACT Government Solicitor advised that:

The purpose of the REOI was clearly stated to be for ACTTAB and the Territory to determine those applicants that should progress into the " ... competitive, staged, [sale] process ... ". On that basis, there is no suggestion or requirement that the evaluation criteria strictly align with the stated sale objectives. The evaluation criteria could be whatever ACTTAB and the Territory considered properly identified the parties who should proceed into the asset sale process. The criteria effectively fulfilled that purpose as well as aligning in material respects with the stated asset sale objectives: for example, the first and third objectives were reflected in criterion 2, and the fourth and fifth objectives were reflected in criteria 3 and 4, respectively.

3.42 The Chief Minister, Treasury and Economic Development Directorate advised that:

... the evaluation criteria were prepared in collaboration with the Project Team, the Steering Committee, the Sales Advisor and the Legal/Probity Advisor who have a collective wealth of knowledge and experience in this regard.

The sale objectives were identified in the first paragraph of the Request for Expression of Interest document to serve as a guide to applicants.

It was not considered necessary at such an early stage to expect candidates to thoroughly address each objective before they had been given the opportunity to conduct due diligence. ACTTAB was not prepared to allow applicants to conduct due

### 3: The sale process

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diligence unless they were considered likely to be able to ultimately enter into a sale contract.

It is my understanding the eligibility criteria were prepared with two key risks in mind, namely execution and timetable risks.

- 3.43 While it is not necessary for the criteria to align with the Sale Objectives, as stated in paragraph 3.30, not aligning the criteria to the Sale Objectives increased the risk that important objectives of the sale were not given appropriate prominence in the selection process. This is what appears to have happened in relation to the ‘achieve a timely sale’ Sale Objective (refer to paragraphs 3.97 to 3.107).
- 3.44 The result of the sale process could have been achieved with less risk if the evaluation criteria had been more focused on the key factors mentioned; execution and timetable.

### Market response

- 3.45 Five responses to the *Request for Expression of Interest* were received by the closing time of 5:00 pm on 14 February 2014, including responses from the two holders of totalisator pools in Australia.

## Evaluation of expressions of interest

### The evaluation chronology and short listing

- 3.46 The evaluation of expressions of interest was initially undertaken by the Sales Advisor (Deloitte), with input from members of the Sale Project Team and Steering Committee.
- 3.47 On 19 February 2014 the Chair of the Sale Project Team sought legal advice noting that ‘as some respondents have proposed they would offer TOTE odds if they are unable to access a betting pool it may be worthwhile considering if they would be eligible for an exclusive licence under such an arrangement.’ The Audit Office was advised by the Chief Minister, Treasury and Economic Development Directorate that legal advice was provided in emails from the ACT Government Solicitor on 20 February, 25 February 2014 and 2 March 2014. This advice is discussed in paragraphs 3.50 to 3.56 and 3.120 to 3.122. The Audit Office was further advised that ‘it was the content of the legal advice received that convinced the Project Team and Deloitte to exclude three of the respondents at the Expression of Interest stage.’
- 3.48 The evaluation of the responses took place between 14 and 27 February 2014. The evaluation was initially conducted by the Sales Advisor (Deloitte) with an evaluation report (the first evaluation report) produced and sent to the Sale Project Team on 19 February 2014. The evaluation report recommended all five interest parties proceed to the next phase of the process.

- 3.49 The first evaluation report from the Sales Advisor (Deloitte) (19 February 2014) recommended:
- ... all five parties proceed to the next phase of the process since there appear to be no compelling reasons to exclude any party based on the evaluation criteria.
- 3.50 In response to the first evaluation report from the Sales Advisor (Deloitte), on 20 February 2014 the Probity Advisor who also provided legal advice sent an email to members of the Sale Project Team. The email (which was subsequently retracted and updated) provided comments on each of the expressions of interest that were received, and ranked the expressions of interest 'in order of the quality of their responses'.
- 3.51 The Probity Advisor who also provided legal advice concluded:
- We have a stated deadline of 30 June to get this matter complete. ... (T)aking through marginal and most likely unsatisfactory bidders to the IM process to my mind unnecessarily adds time, work and cost to the process ... To my mind there are only two (perhaps marginally three) out of this process.
- 3.52 The Probity Advisor who also provided legal advice provided an evaluation that was subjective and did not consider the expressions of interest against the published evaluation criteria. It concluded that certain interested parties should be excluded based on the following reasoning:
- We all knew the key distinguishing question in the EOI was how bidders would address the tote pooling issues and the responses have confirmed what we already (thought) we knew.
- ... none of these parties (the three bidders being excluded) would be entitled to hold a tote licence ...
- 3.53 Following a meeting of the Sale Project Team on 20 February, the Sales Advisor (Deloitte) produced a second evaluation report on 21 February 2014. The evaluation report recommended all five potential interested parties proceed to the next phase of the process.
- 3.54 The second evaluation report (21 February 2014) recommended:
- Considering progressing all five parties to the next phase since there appear to be no compelling reasons to exclude any party based on the evaluation criteria provided to applicants.
- 3.55 On 25 February 2014 the Probity Advisor who also provided legal advice sent an email to the Sale Project Team that retracted and updated the email previously sent on 20 February 2014. Similar to the first email, comments were provided on each of the expressions of interest that were received, and the expressions of interest were ranked 'in order of the quality of their responses'. The email provided an opinion that only two of the interested parties should proceed to the next phase.

### 3: The sale process

3.56 The email from the Probity Advisor who also provided legal advice stated:

In my view the Territory can only move into the IM phase with bidders who have satisfied the EOI criteria satisfactorily and whose bids are likely to result in the Territory meeting the sale objectives. In my view only Tabcorp and [another interested party] can be considered to satisfy these requirements.

3.57 On 25 February 2014, the Steering Committee considered the Sales Advisor's (Deloitte) second evaluation report and requested that the Sales Advisor (Deloitte) update the evaluation report and provide a ranking of the interested parties.

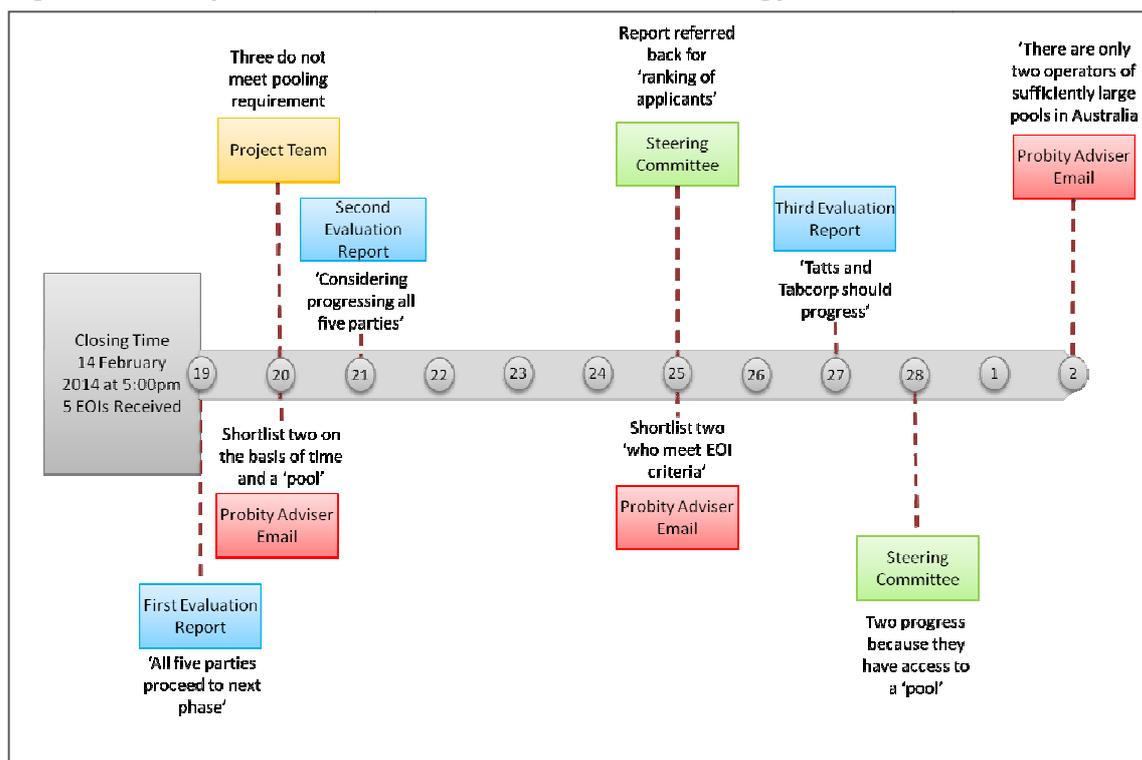
3.58 Minutes of the meeting of the Steering Committee on 25 February 2014 stated:

ACTION: Deloitte and Project Team update the evaluation report with more discussion including a ranking of the applicants.

3.59 On 27 February 2014, the Sales Advisor (Deloitte) produced a third (and ultimately final) evaluation report that recommended *inter alia* that '[two of the interested parties] should progress to the next phase ...'

3.60 The chronology of the evaluation of expressions of interest is illustrated in Figure 3-2.

**Figure 3-2 Expressions of interest evaluation chronology**



Source: ACT Audit Office

### Legal/Probity Adviser role in evaluation

3.61 The Legal/Probity Adviser sent two emails to the Sale Project Team, which provided advice and guidance in relation to the evaluation of the expressions of interest that were

received. The Probity Advisor who also provided legal advice provided an opinion in relation to which of the interested parties should progress to the next phase of the sale process.

- 3.62 The Probity Advisor who also provided legal advice should not conduct evaluations in procurements as this impairs the conduct of the probity role. The conduct of the probity role was articulated in the *Probity Plan* (December 2013) where the role was described as being one of responding to requests for probity advice.

### Documentation of evaluation

- 3.63 At its meeting on 28 February 2014, the Steering Committee considered:

- the third (and ultimately final) evaluation report from the Sales Advisor (Deloitte); and
- an agenda paper from the Sale Project Team, which the Sale Project Team advised was its evaluation report.

- 3.64 The third (and ultimately final) evaluation report from the Sales Advisor (Deloitte) stated '[two interested parties] should progress to the next phase of the process. The key risk which the shareholders should consider in determining whether to progress the remaining three bidders is their ability to execute a pooling agreement, for which no party has presented a clear alternative to [one of the interested parties], presenting a significant execution concern.' The agenda paper from the Sale Project Team stated '... there are only two suitable candidates who should be invited to participate in the indicative offer stage.'

- 3.65 The agenda paper of the Sale Project Team stated:

Attached for the consideration of the Steering Committee is the ACTTAB EOI Evaluation report submitted by Deloitte.

The Project Team has reviewed the report and each of the five submissions received in response to the request for EOI's that was advertised in the Financial Review on 31 January 2014 and the Weekend Australian on 1 February 2014 and submit their recommendation:

...

The Project Team has assessed each proposal against the criteria listed above and considers there are only two suitable candidates who should be invited to participate in the indicative offer stage. The two firms selected are ...

The Project Team found the remaining three applicants had other process risks including passing probity and/or did not provide adequate responses concerning prospective pooling arrangements. The ability to hold a licence under the proposed Totalisator Act is fundamental to the viability of the sale.

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3.66 The minutes of the Steering Committee meeting of 28 February 2014 record that the short listing of interested parties was discussed and that:

The report of the Project Team was considered and it was decided applicants had received adequate notice of the need to address the pooling requirement in order to be eligible to apply for a totalisator licence.

3.67 This issue of adequate notice is considered in paragraph 3.127.

3.68 The minutes of the 28 February Meeting of the Steering Committee also state the following action to be taken as a result of the meeting:

Shareholders to be informed on the EOI outcome subject to confirmation of ACTTAB Board position and resolution of Steering Committee.

3.69 This information was conveyed to the ACTTAB Board and on 3 March 2014 the Chief Executive Officer of ACTTAB advised the Chair of the Steering Committee that 'The Chairman has requested that I inform you that the ACTTAB Board has today unanimously endorsed the proposed recommendation of the Steering Committee to be put to the Shareholders, that only ... be progressed to the next stage of the sales process.'

3.70 On 6 March 2014, in relation to the resolution identified in the 28 February 2014 agenda paper of the Sale Project Team, the Chair of the Steering Committee advised the Chair of the Sale Project Team 'I can confirm that I support this.' On 6 March 2014 the Deputy Chair of the Steering Committee similarly advised 'I too support the recommendation that was presented to the Steering Committee.'

3.71 The three reports of the Sales Advisor (Deloitte) provided a documented assessment of each of the five expressions of interest received against selection criteria. (There are, however, issues associated with the application of the selection criteria, which are discussed in paragraphs 3.86 to 3.133).

3.72 The agenda paper of the Sale Project Team did not provide a detailed assessment of the selection criteria for each of the expressions of interest. The agenda paper of the Sale Project Team did, however, provide an overall summary of information received.

3.73 The evaluation process brought out differences in the conclusions drawn about the interested parties' submissions, specifically the discussions that focused on the short listing with respect to whether all five or only two interested parties should progress. However, the only documentation of the reasons for the evaluation was in:

- the evaluation reports prepared by the Sales Advisor (Deloitte);
- the Sale Project Team agenda paper to the Steering Committee meeting held on 28 February 2014; and
- emails sent by the Probity Advisor who also provided legal advice.

3.74 There was no evidence of:

- documented and retained individual assessments of the submissions by members of the Sales Project Team;
  - documentation showing a consolidated assessment of where the individual assessments of the submissions by members of the Sales Project Team were brought together; and
  - a formal evaluation report with detail and judgements highlighted.
- 3.75 Documentation of decision making is important to demonstrate the integrity of an evaluation process. For example, the *Commonwealth Procurement Rules 2014* state:
- In conducting procurements, officials are expected to appropriately manage risk. This requires considering the approach to procurement, evaluating available courses of action and recording and documenting relevant decisions ...
- 3.76 The Chief Minister, Treasury and Economic Development Directorate stated:
- The auditors were interested to see the working papers of members of the Project Team in relation the evaluation of the expressions of interest. These working papers do not exist as it was usual practice to circulate draft papers out of session to allow members to prepare for each meeting. Project Team members were not asked to table their working papers.
- 3.77 One of the key probity objectives set out in the Probity Plan was: *Establishing and maintaining a clear audit trail for accountability purposes*. The creation and maintenance of evaluation documentation is a key part of the accountability requirement. Documentation to support the evaluation of the expression of interest criteria was inadequate.
- 3.78 In relation to the evaluation process, the Chief Minister, Treasury and Economic Development Directorate advised that:
- The Project Team has advised it did not place unquestioning reliance on the advice of the Sales Advisor.
- The Project Team undertook to ensure that the advice was reliable and appropriately addressed all considerations on which a recommendation to the ACTTAB Board and the Voting Shareholders should be based.
- Throughout the sale process the Project Team considered the basis upon which the various experts formed their view on particular issues before taking a final position.
- On occasion the Project Team asked the Sale Advisor to undertake additional work, or sought further advice from other experts including the Legal/Probity Advisors.
- If the Project Team considered any advice may be incomplete or unreliable, I believe the Project Team had an implied duty to make further inquiries to maintain the integrity of the process and to minimise any associated risk.
- In this regard, after attaining satisfaction as to whether the information was reliable and competent, I expect the Project Team needed to ensure the Steering Committee, ACTTAB Board and Voting Shareholders were adequately briefed to be able to make an informed decision at each stage.

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I understand the Project Team did not accept on face value the initial draft report prepared by the Sale Advisor that recommended all five applicants proceed to the next stage.

...

In order to reduce the risk of the Board not agreeing to the terms of the sale, the Project Team and the Steering Committee ensured that the Board was briefed and given the opportunity to respond before key decisions were made. The following email extracts were in keeping with this protocol.

The minutes of 28 February 2014 indicate the ACTTAB Chairman would undertake to confirm the position of the Board about the proposed short listing of the Expressions of Interest.

In an email dated 3 March 2014, ACTTAB's CEO advised the Chair of the Steering Committee that the "ACTTAB Board has today unanimously endorsed the proposed recommendation of the Steering Committee to be put to the Shareholders, that only Tabcorp and [another interested party] be progressed to the next stage of the sales process".

The support of the Chair of the Steering Committee was confirmed in an email dated 4 March 2014.

The support of the Deputy Chair of the Steering Committee was confirmed in an email dated 6 March 2014.

The Voting Shareholders were advised in a brief prepared by the Chair of the Project Team on 5 March 2014 regarding the outcome of the call for expressions of interest. The brief outlined the five responses that were received and the assessment of each. The brief indicated only Tabcorp and [another interested party] would be invited to progress through to the indicative offer stage, and provided the Voting Shareholders the opportunity to comment or disagree with that course of action.

## Hughes Case

- 3.79 As mentioned in paragraph 1.27 the sale of ACTTAB raised four key legal questions (refer to Appendix A). While all questions are relevant to the sale of ACTTAB, two are particularly pertinent to how the evaluation criteria were assessed. The two questions are:
- Was the sale of ACTTAB subject to the Hughes Case?
  - Do the 'reserved discretions', in the *Request for Expression of Interest*, remove or reduce the application of the Hughes Case?
- 3.80 The Australian Government Solicitor and Mr Charles Scerri QC provided advice regarding the above questions (refer to Appendix A).
- 3.81 The Australian Government Solicitor and Mr Charles Scerri, QC concluded that it was more likely than not that the principles of the Hughes Case applied to the sale of ACTTAB. As a result, a 'process contract' existed in the sale of ACTTAB and there was, therefore, an obligation to conduct the sale in accordance with the defined procedures and the stated criteria that was in the *Request for Expression of Interest*.

- 3.82 The ACT Government Solicitor advised in responding to the proposed audit report that the principles of the Hughes Case did not apply.
- 3.83 While there is a difference of views, given the type of sale with its complexities and uncertainties, and given the consequences if the Hughes Case did apply, it would have been prudent for such an issue to have been explicitly considered in a risk analysis, in preparation for the sale. However, there is no evidence that this occurred. If it had occurred, any issues emerging could have been managed to reduce any associated risk.
- 3.84 The evaluation of the expression of interest criteria is considered to be inadequate regardless of whether (or not) the principles of the Hughes Case apply. If the Hughes Case does apply the issues have greater gravity because of:
- the use of different criteria to those in the *Request for Expression of Interest* document;
  - the evaluation of binary criteria in a non binary way; and
  - evaluation using material not provided by the applicant.
- 3.85 These are discussed in the following section of the report.

### **Inadequacies in what was evaluated**

- 3.86 The assessment of the evaluation process undertaken as part of this performance audit is based on the information contained in the third and final evaluation report prepared by the Sales Advisor (Deloitte) on 27 February 2014 and presented to the Steering Committee on 28 February 2014 and the agenda paper from the Sale Project Team.

### **Use of different criteria to those in the *Request for Expression of Interest***

- 3.87 The criteria from the *Request for Expression of Interest* have been compared to the criteria actually used in evaluating the expressions of interest in the third (and final) evaluation report from the Sales Advisor (Deloitte). Differences in the criteria are shown in Table 3-3.

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**Table 3-3 Comparison of *Request for Expression of Interest* criteria and actual evaluation criteria use in assessing bids (Deloitte Sales Advisor report)**

| EOI criterion (Full details in Table 3-1) | Evaluation report criterion used for ranking | Comment  |
|---|--|--|
| Financial capacity                        | Financial strength                           | Strong alignment   |
| Operational capacity                      | Pooling solution                             | Did not consider broader matters associated with operational capacity and focused explicitly on the pooling solution |
| Future intentions                         |  | Not considered in evaluation for ranking   |
| Probity requirements                      | Likelihood of passing probity                | Took into account a broad range of factors not identified in the EOI criterion (see 3.97)                            |
|   | Ability to meet transaction timeframes       | Evaluated separately for ranking but was not identified as a separate criterion in the EOI                           |

Source: ACT Audit Office

3.88 The agenda paper from the Sale Project Team, provided to the Steering Committee on 28 February 2014, did not provide an explicit assessment of the five responses that were received against the selection criteria. Nevertheless, the agenda paper from the Sale Project Team advised the Steering Committee that:

The request for EOI's indicated that proposals would be assessed against the following criteria:

- Demonstrated financial capacity to complete the transaction by 30 June 2014.
- Demonstrated operational capacity to successfully operate a wagering business. This included a mandatory requirement to demonstrate they currently have the ability or have a plan to successfully operate a wagering business including pari-mutuel arrangements.
- Indicative guidance in relation to the applicant's future intentions for the business.
- Providing a statement that the applicant or their associates can see no reason why they would be considered unsuitable to hold a totalisator licence in the ACT.

3.89 Neither the final evaluation report prepared by the Sales Advisor (Deloitte) or the agenda paper from the Sale Project Team to the Steering Committee precisely or rigorously applied the evaluation criteria set out in the *Request for Expression of Interest* document sent to interested parties. The incorrect application of evaluation criteria presents a risk to the probity of the sale process. If the Hughes Case is relevant to the sale of ACTTAB, this risk is exacerbated. Regardless, there is a high probability that interested parties would have had an expectation that they would be evaluated against the criteria in the *Request for Expression of Interest* document. This did not occur.

## Evaluation of binary and non binary criteria

3.90 In paragraph 3.33 the issue of 'binary' criteria was discussed. It was evident that interested parties responded to the evaluation in line with the stated requirements. For example, the probity criterion required applicants to:

... provide a statement that they see no reason why they, and their associates, would not be considered to be suitable ...

3.91 All applicants provided a statement to the effect required by the criterion.

3.92 However, ultimately, in the Sales Advisor (Deloitte) third and final evaluation report applicants were ranked based on a subjective evaluation of the quality of their response to this binary criterion. The impact of this is described below.

### *What was asked for:*

Applicants must provide a statement that they see no reason why they, and their associates, would not be considered to be suitable to hold, or to be an associate of the holder, of a totalisator licence in ACT.

### *An interested party's response:*

The consortium including its members, subsequent shareholders, directors and key staff acknowledge that in order to submit their bid they must successfully undertake probity. The consortium members and their associates acknowledge the importance and value of the probity process and see no reason why it, or its associates would not be considered suitable by the ACT Gambling and Racing Commission. Many consortium members and/or associates have undertaken probity in a variety in a number of jurisdictions.

### *The evaluation:*

3.93 The third and final evaluation report (27 February 2014) ranked this interested party as equal fourth on this criterion. The correct application of this criterion cannot be a 'ranking'. It is, of its nature, 'met' or 'not met'. The interested party 'met' the criterion through the provision of the required statement and this ranking should not have influenced a decision to exclude certain interested parties.

3.94 The agenda paper from the Sale Project Team to the Steering Committee (28 February 2014) stated:

The Project Team is concerned that the consortium may not pass the probity requirement.

3.95 There were no other statements, reasoning or arguments or documentation in support of the Sale Project Team's view, as articulated in its agenda paper (28 February 2014).

3.96 The incorrect application of the probity criterion, which was essentially a 'binary' criterion that did not contemplate a subjective assessment, inappropriately excluded interested

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parties from further consideration. These interested parties may not have met the criterion had it been more aptly worded to allow for a subjective assessment.

#### Using material not provided by the applicant (ability to complete a timely sale)

3.97 The requirement for a timely completion of the transaction was aggregated with financial capacity considerations, as discussed in paragraph 3.36. An example is set out below.

##### *What was asked for:*

Applicants must demonstrate the financial capacity to execute a contract for sale and purchase for this transaction by no later than 30 June 2014 which must not be subject to the Applicant having to obtain necessary finance. As a guide Applicants should be able to demonstrate, either a net tangible asset position which is currently at least \$100m, a prior year net profit after tax of at least A\$10m or if listed on a recognised stock exchange, a current capitalisation of at least A\$100m.

3.98 The information requirements for this criterion stated:

This information may include, but is not limited to, the following: Most recent annual report, most recent annual company return provided to the Australian Securities and Investments Commission (or such equivalent regulatory body), statement of market capital, tax return or bank statement.

##### *Interested parties' responses:*

3.99 All interested parties' responses to the financial capacity requirement were focused explicitly on their financial status. None provided a broader response to the timeliness requirement.

3.100 For example, an interested party responded:

[the interested party] is a 100% fully owned subsidiary of [the interested party's parent company], a [country] based company which is listed on the [city] Stock Exchange. ... This shows that as of today the company has a market capitalisation of [currency] 1.3b.

3.101 The interested party also included in its expression of interest a range of supporting financial material.

##### *The evaluation:*

3.102 The ranking of expressions of interest by the Sales Advisor (Deloitte) included a criterion *Ability to meet transaction timeframes*, which was assessed based on information that was not provided by applicants.

3.103 In relation to one of the expressions of interest that was received, the agenda paper from the Sale Project Team to the Steering Committee (28 February 2014) stated:

It is noted that Deloitte has previously indicated that if the process involved overseas purchasers a more comprehensive due diligence process may be required. The

required probity checks by the regulator are also expected to extend for several months which would put the expected completion within the stated timetable at risk.

- 3.104 The Probity Advisor who also provided legal advice emailed advice and analysis regarding the evaluation of the expression of interest to the Sale Project Team on 20 February 2014 in which it was stated:

We have a stated deadline of 30 June to get this matter complete. ... (T)aking through marginal and most likely unsatisfactory bidders to the IM process to my mind unnecessarily adds time, work and cost to the process ... To my mind there are only two (perhaps marginally three) out of this process.

- 3.105 This statement extends the assessment of timeliness to include consideration of additional work, cost and the likely success of an interested party. This is outside the framing of the criterion which makes a singular link to financial capacity.
- 3.106 The timeliness of the transaction was one of the Sale Objectives and was of considerable importance. However, this requirement was aggregated with other considerations in another criterion and should only have been evaluated in that context. The matter of timeliness (except to the extent it was linked to financial viability) should not have been considered in the evaluation of interested parties' expressions of interest.
- 3.107 The use of external material in evaluating submissions, including the work associated with evaluating interested parties' responses, should not have been used as the basis for the exclusion of interested parties from further consideration. This material could have been considered had the process been designed differently.

### **Evaluation of the ability to operate a wagering business, including a pari mutuel pooling arrangement**

- 3.108 The operational capacity criterion required that interested parties demonstrate that they currently have the ability, or have a plan, to successfully operate a wagering business including a pari mutuel pooling arrangement.

- 3.109 The operational capacity criterion stated:

Applicants must demonstrate that they currently have the ability or have a plan to successfully operate a wagering business including the pari mutuel pooling arrangements, since existing pooling arrangements may or may not continue post the Sale Process.

- 3.110 Two interested parties operated large totalisator pools in Australia. The three other interested parties did not, and submitted their planned intentions in relation to establishing a pari mutuel pooling arrangement. The three other interested parties were primarily excluded from the process because they were assessed as not meeting the operational capacity requirement.

### Submissions from interest parties

3.111 Two of the interested parties identified that they were currently operating totalisator pools in Australia and that they had the necessary capacity and experience to run a pari mutuel pooling arrangement in the ACT.

3.112 One of the interested parties advised of their planned intentions as follows:

- continue the existing arrangement with one of the operators of a totalisator pool in Australia;
- if agreement was not reached, seek a pooling arrangement with the other operator of a totalisator pool in Australia;
- operate its own pool; or
- 'offer the same product ... via tote odds betting.'

3.113 Another interested party advised of its planned intentions as follows:

- continue the existing arrangement with one of the operators of a totalisator pool in Australia;
- if agreement was not reached, seek a pooling arrangement with another pari mutuel operator; or
- (noting that one of its subsidiaries was currently operating a pari mutuel arrangement in Europe) seek to either licence its software or alternatively build the necessary software through its technical team in Australia.

3.114 Another interested party identified that 'pari-mutuel betting is not presently offered on any of our sites but partners have experience of running pari-mutuel and this can easily be added to the product portfolio.'

### Evaluation results

3.115 The third and final evaluation report from the Sales Advisor (Deloitte) provided an evaluation and ranking of the bidders, as shown in Table 3-4.

**Table 3-4 Evaluation of 'Pooling' criteria for interested parties**

| Interested Party                            | Evaluation  |
|---|---|
| (names removed for confidentiality reasons) |  |
|   |  |
|   |  |
|   |  |
|   |  |

Source: Information from the Deloitte Evaluation Report (27 February 2014)

Key:

|   |  |
|---|--|
| High/Strong -  | Low/Weak -  |
|---|--|

3.116 The agenda paper from the Sale Project Team to the Steering Committee (28 February 2014) stated:

The Project Team found that the three remaining applicants had other process risks including passing probity and/or did not provide adequate responses concerning prospective pooling arrangements. The ability to hold a licence under the proposed Totalisator Act is fundamental to the viability of the sale.

3.117 In relation to the expression of interest response identified above (refer to paragraph 3.112) the agenda paper from the Sale Project Team to the Steering Committee (28 February 2014) stated:

Nor has [the interested party] provided adequate information to satisfy the pooling requirements in order to be eligible for the pari-mutuel licence offered as a key part of the proposed sale.

3.118 In relation to the expression of interest response identified above (refer to paragraph 3.113) the agenda paper from the Sale Project Team to the Steering Committee (28 February 2014) stated:

The Project Team is concerned that unless [the interested party] can secure a pooling arrangement with [one of the operators of totalisator pools in Australia] they would rely on synthetic pooling or offering fixed odds. This presents a key risk as to whether they would be eligible to hold the pari-mutuel licence which comprises a key part of the proposed sale.

...

The Project Team does not consider [the interested party] has adequately addressed the pari-mutuel pooling criteria ...

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3.119 In relation to the expression of interest response identified above (refer to paragraph 3.114) the agenda paper from the Sale Project Team to the Steering Committee (28 February 2014) stated:

... the response does not adequately address the pooling requirement.

#### *Evaluation process*

3.120 In relation to the evaluation of the expressions of interest that were received, the Chief Minister, Treasury and Economic Development Directorate advised:

... the turning point came when the Chair of the Project Team sought legal advice as to whether 'tote odds betting' or 'synthetic pooling' would satisfy the requirements to obtain a totalisator licence. When the legal advice was received indicating that tote odds betting or synthetic pooling did not satisfy the requirements for pari-mutuel betting, the Project Team considered it was inevitable that only [the two operators of totalisator pools in Australia] could proceed to the next stage. In other words, no pari-mutuel pool meant not totalisator licence which in turn meant no totalisator business. The Project Team's recommendation to the Steering Committee indicated this was the primary reason for excluding three of the expressions of interest.

3.121 The Audit Office sought clarification on the legal advice that was provided. The Audit Office was referred to two emails from the Probity Advisor who also provided legal advice (20 February 2014 and 25 February 2014). These emails, as discussed previously in paragraphs 3.47 to 3.56, provided a summary of comments on the expressions of interest that were received. The emailed advice from 25 February 2014 stated:

I have three further general comments:

- what is being sold (apart from the assets of ACTTAB) is a license to operate a pari mutuel/totalisator wagering system. This is clearly set out in the new Totalisator legislation. ... all indicate they will offer fixed odds/best tote odds if they cannot do a deal with [one of the two operators of totalisator pools in Australia] to access their pools. Fixed odds offerings are not pari mutuel betting systems and accordingly, none of these parties would seem to be entitled to hold the tote licence unless they actually operate a totalisator. This would seem to defeat the purpose of the sale.
- The Treasurer made a press release in November 2013 regarding the government's intention to sell ACTTAB and to complete the process by 30 June 2014. Those parties sufficiently interested in the sale ought to have been well aware of this and I think could have commenced getting their bid structures together from that time, including addressing the issue of pari mutuel pooling.
- ...

3.122 The Audit Office was also referred to an email from the Probity Advisor who also provided legal advice on Sunday 2 March 2014 to the members of the Steering Committee. The email stated:

Further to the Steering Committee meeting on Friday 28 Feb 2014 I note you have asked for my advice in relation to the reasoning for requiring the buyer of ACTTAB to

have the ability to operate a pari mutuel totalisator and hold a licence in terms of the proposed Totalisator Act, as part of the EOI process.

I understand the pari mutuel totalisator operations of ACTTAB form a substantial part of its business undertaking and it was always in the contemplation of the Territory and ACTTAB that the business would be sold as a going concern in conjunction with an exclusive licence to operate a totalisator in the Territory. Further, it was expected that a significant part of the sale proceeds would result from the offering of the exclusive totalisator licence and it was also considered likely the licence would provide the Territory with an opportunity for ongoing value through licence fees and/or other valuable licence conditions.

It should be noted that in order to operate an effective pari mutuel totalisator pool, the operator must have access to a sufficiently large pool of bets on Australian races in order to ensure attractive returns to punters. There are only two operators of sufficiently large totalisator pools in Australia: ... ACTTAB currently contracts with ... to access its totalisator pool, but it is not clear that ... would agree to novate that agreement to a buyer and this was made clear in the EOI materials.

In light of the above, all respondents to the EOI were asked to indicate that they either already operate a pari mutuel totalisator with access to a pool, or have a plan to access such a pool. It was a matter for respondents to make necessary enquiries and arrangements to satisfy this requirement - either through perhaps an arrangement with [one of the two operators of totalisator pools in Australia] or some other pooling arrangement. Given the sale has been public since November 2013, it is difficult to accept that potential bidders have not had sufficient time to make appropriate enquiries and arrangements to address the pooling requirement.

As I understand the responses to the EOI, other than for ..., no respondent indicated they had an existing pool or had any reasonable plan to operate a pool - including none indicating they had made any contact with ... to discuss access to their pools. Those parties instead indicated they would simply offer fixed odds (or some permutation of fixed odds) if they weren't able to negotiate a novation of the [existing] agreement. An offering of fixed odds is quite distinct from odds offered via a pari mutuel totalisator, does not require a totalisator licence and a sale to such a bidder would result in a very different sale outcome than that currently envisaged.

### Issues with the evaluation of this criterion

3.123 There are three issues arising from the evaluation of the operational capacity criterion:

- the criterion states that interested parties must demonstrate that they have the ability, or have a plan, to successfully operate a wagering business, including pari mutuel arrangements. The criterion is silent on the extent, or other expectations, of any 'plan';
- there was arguably insufficient time available to interested parties for them to develop a detailed or comprehensive 'plan'; and
- there was an expectation on the part of the Sale Project Team that interested parties would have approached one of the two operators of totalisator pools in Australia and come to an arrangement with them for the purpose of the expression of interest stage.

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3.124 In relation to the first issue, the operational capacity criterion states that interested parties must demonstrate that they have the ability, or have a plan, to successfully operate a wagering business, including pari mutuel arrangements. The criterion is silent on the extent, or other expectations, of the plan. The three interested parties who were excluded from the process beyond the expression of interest stage all advised of their planned intentions, but this was considered inadequate.

3.125 In relation to the second issue and the limited time available, the applicants had eleven calendar days to prepare their expressions of interest (3 February 2014 to 14 February 2014). However, the Probity Advisor who also provided legal advice stated that:

The Treasurer made a press release in November 2013 regarding the Government's intention to sell ACTTAB and to complete the process by 30 June 2014. Those parties sufficiently interested in the sale ought to have been well aware of this and I think should have commenced getting their bid structures together from that time.

3.126 The appropriate mechanism to notify the market of an intended procurement process and to allow prospective applicants to make preparation for an upcoming procurement is through a pre-tender (or pre-sale) notification. This did not occur.

3.127 In relation to the third issue, during interviews Sale Project Team members stated that it was expected that, as part of the 'plan' required by the criterion, interested parties would have reached an agreement with one of the two totalisator pool licence holders. This was also noted by the Probity Advisor in advice to the Steering Committee on 2 March 2014.

3.128 For this expectation of the Sale Project Team to be met, the two operators of totalisator pools would need to agree (in principle) to a competitor accessing its totalisator pool to enable that competitor to compete with them. There was no evidence of analysis to support this expectation.

3.129 The evaluation of the operational capacity criterion inappropriately excluded interested parties from further consideration. These interested parties may not have met the intention of the criterion, if it had specified that they should have already been operating a totalisator pool. If the evaluation criteria had explicitly stated the need to already be operating a totalisator pool, then there would be no issue.

3.130 The ACT Government Solicitor advised that:

It was apparently plain to the decision makers (which accorded with the advice from the Project Team) that the responses to the operational capacity criteria by each of (three unsuccessful applicants) had failed to satisfy the criteria:

- (One) expressed merely that they had some experience offering pari-mutuel wagering;
- (Another) expressed that they would endeavour to reach an agreement with [one of the operators of a totalisator pool in Australia], or if not, with [the other operator of the a totalisator pool in Australia]; and

- (The last) indicated they would hope to contract with a parimutuel operator or build their own system

None of the (three unsuccessful) applicants demonstrated in their response that they operated, had access to or could likely obtain access to a totalisator system and a sufficient pari-mutuel pool in Australia - as would be required to continue to hold the exclusive totalisator licence on offer as part of the sale and operate the ACTTAB pari-mutuel wagering business.

3.131 The Chief Minister, Treasury and Economic Development Directorate advised that:

Four of the five applicants had previously submitted unsolicited expressions of interest before the decision to pursue a sale was announced.

There was significant media coverage at the time the decision was first announced and it was expected any serious bidders would have started to do their 'homework' in relation to any acquisition of the ACTTAB business and its exclusive totalisator licence.

While it was expected that as part of the 'plan' applicants would have at least approached [one of the two operators of totalisator pools in Australia] about possible pooling arrangements, the Project Team recognised that it was unlikely they would have been accepted. This was because they had both submitted an expression of interest and were unlikely to respond favourably to any such requests from rival bidders. [One operator] does not allow co-mingling in any case, and [one operator] has previously only pooled with government owned TABs.

While there was an expectation that participants in developing their 'plan' may approach [one of the two operators of totalisator pools in Australia], the Project Team recognised that there may be other potential pooling arrangements that the Project Team was not aware of and that may have been appropriate to be able to operate a totalisator. No such alternatives were forth coming.

...

I consider it would have been irresponsible and unfair to other respondents not to exclude any respondents if it was inconceivable, based on the terms of their proposal, that they would be able to be issued the exclusive totalisator licence and successfully operate the ACTTAB totalisator wagering business.

Each expression of interest was carefully evaluated in terms of their relative strengths and weaknesses. The process included an assessment of their business strategies and financial status. This required sound judgement and it was important to be able to call on the knowledge of relevant experts.

The Project Team considered it would be inappropriate to accept any respondent who stood little or no chance in acquiring the totalisator licence and successfully operating the ACTTAB totalisator wagering business. This would have made a farce of the selection process, and would have been unfair to those applicants, who would have been required to spend unnecessary time, effort and money, in participating further in the sale process.

3.132 This audit report acknowledges that the responses by the three excluded interested parties were not as comprehensive as the responses from the two operators of totalisator pools in Australia. However, the criterion required only 'a plan' without specifying the inclusions in that plan. It is also noted that only 11 calendar days were allowed for a

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response and it would be incorrect to assume that interested parties were put on notice by previous announcements.

- 3.133 The findings presented in this audit are not that the outcome would have been served by allowing more applicants to progress further in the sale process; the findings are focused on the poorly crafted criteria and the poor evaluation of the criteria.

### Reserved discretions

- 3.134 A review of the *Request for Expression of Interest* document, the expressions of interest received and the evaluation of the expressions of interest for the sale of ACTTAB demonstrates that the responses were not evaluated in accordance with the evaluation criteria included in the *Request for Expression of Interest*. This has introduced risks to the integrity of the sale.

- 3.135 The Chair of the Sale Project Team advised the Audit Office that the responses to the expression of interest had been evaluated against 'additional criteria' and that this was in line with the *Request for Expression of Interest* which stated that the submissions 'could be assessed against other criteria'.

- 3.136 The Chair of the Sale Project Team and the Probity Advisor who also provided legal advice similarly advised the Audit Office that they could use 'any other information' to make an assessment of the potential buyers.

- 3.137 The *Request for Expression of Interest* document also had 'reserved discretions'. Paragraph 6 stated:

EOIs [Expression of Interests] will be assessed by the Vendors in their absolute discretion based on the above criteria, and any other criteria determined relevant by the Vendors, to determine the Applicant's suitability to progress past the EOI stage.

- 3.138 Paragraph 8 stated:

The Vendors are under no obligation to respond to any EOI [Expression of Interest], The Vendors also reserve the right, at any time, and in their absolute discretion, to:

Accept or reject without providing reasons any EOI, offer or bid in connection with the sale of ACTTAB submitted by any applicant at any time;

Request from any or all Applicants any further information they may require;

Vary, cease or suspend the Sale Process or any part of it;

Invite further parties to participate in the Sale Process, at any time; and

Take into account any additional information obtained by the vendors during the sale process.

- 3.139 The Australian Government Solicitor advised that:

In our view none of these reserved rights operate in such a way as to expressly disclaim the REOI [Request for Expression of Interest] from being interpreted to be a "process contract" within the meaning of Hughes. In addition, the discretions do not

seek to exclude the Hughes implied obligation to act fairly in terms of the way in which the reserved rights may be exercised and the sale process conducted.

3.140 The ACT Government Solicitor in responding to the draft proposed report stated:

The Report does not appear to acknowledge the expressly reserved discretions stated in the conditions of the REOI, including paragraphs 6 and 8. 3. Reference is made in the Report to advice being obtained from the Australian Government Solicitor. As we have not been privy to the instructions provided nor the advice given, we cannot specifically address that advice

3.141 The Australian Government Solicitor after considering the response of the ACT Government Solicitor advised that:

There are expressly reserved discretions stated in the conditions of the REOI, in particular-paragraphs 6 and 8.

Paragraph 6 refers to the evaluation criteria and states that the *'EOIs will be assessed by the Vendors in their absolute discretion based on the above criteria, and any other criteria determined relevant by the Vendors, to determine the Applicant's suitability to progress past the EOI stage'*.

Paragraph 8 sets out the Vendors reserved rights in the conduct of the EOI process. These rights include a right to accept or reject without providing reasons, a right to vary, cease or suspend the Sale process, a right to request further information, take into account additional information or request further information.

In our view none of these reserved rights operate in such a way as to expressly disclaim the REOI from being interpreted to be a "process contract" within the meaning of Hughes. In addition, the discretions do not seek to exclude the Hughes implied obligation to act fairly in terms of the way in which the reserved rights may be exercised and the sale process conducted.

For completeness we do note that Paragraph 9 of the REOI deals with responsibility for costs and states that the Vendors are not liable to reimburse or compensate any Applicant for any fees, costs or expenses incurred in connection with activities relating the sale of ACTTAB and/or the sale process. There is nothing in this provision which negates the potential for the REOI to be interpreted to be a process contract or which involves an express contracting out from the implied obligation to act fairly.

3.142 Mr Charles Scerri, QC advised that:

A subsidiary question upon which AGS advised was whether certain provisions in the REOI excluded the application of *Hughes*. In particular these were provisions which referred to the vendors' right to act in their absolute discretion in assessing each expression of interest *'based on the [stated] criteria and any other criteria determined relevant by the Vendors'*. There was also the reservation of an express *'right to vary, cease or suspend the sale process'* and a provision limiting liability for bidders' costs in the sale process. See para. 12 above.

Although these provisions are relevant, I agree with AGS that they are not explicit and direct enough to exclude any obligation that the ACT Government would have otherwise to act fairly and in accordance with the stated procedures.

### 3: The sale process

- 3.143 The ‘reserved discretions’ in the Request for Expressions of Interest were intended to allow for greater flexibility in the sale process. However, the Australian Government Solicitor and Mr Charles Scerri, QC advised that it is more likely than not that the Hughes Case principles applied and a ‘process contract’ was relevant to the sale of ACTTAB. Therefore, the ‘reserved discretions’ in the *Request for Expressions of Interest* document cannot be relied upon. It would have been prudent not to exercise the ‘reserved discretions’ as if they had priority over the *Request for Expressions of Interest* criteria.
- 3.144 Concerns regarding the incorrect use and application of expression of interest criteria are not issues of semantics as three of the five potential interested parties that provided expressions of interest were excluded from further consideration in the sale process.

## Probity role and advice

- 3.145 Probity advice is important for managing risks relating to the integrity of the ACTTAB sale process, including risks in evaluation against published criteria.
- 3.146 Table 3-5 provides an assessment of probity activities associated with the sale of ACTTAB. These expected activities are drawn from the *Probity Plan* (December 2013) for the sale of ACTTAB and guidance on better practice has been taken from the *Ethics, Probity and Accountability in Procurement* document issued by the Queensland Government and Australian Government Solicitor guidance in relation to managing probity and process issues in procurement; *Managing probity and process issues in procurement* (Commercial Note No.15, 14 March 2005).

**Table 3-5 Probity activities**

| Specific probity activities                                      | Analysis rating | Assessment of actions in the ACTTAB sale process  |
|--|-----------------|---|
| Management of conflicts of interest*                             | Satisfactory    | A Register was maintained.  |
| Confidentiality Agreements                                       | Satisfactory    | Agreements were obtained.   |
| Approach to market   | Satisfactory    | No evidence of formal probity advice. However, this may not be needed as the approach to market was largely determined by the ACT Government. |
| Probity Plan   | Satisfactory    | The <i>Probity Plan</i> was developed and endorsed by ACT Government.   |
| Responding to requests for clarification from interested parties | Satisfactory    | Administered and controlled by the Sales Advisor (Deloitte).  |
| Formal sign off on approach to market documents                  | Unsatisfactory  | No evidence of formal sign off.   |
| Formal sign off on evaluation criteria to be used                | Unsatisfactory  | No evidence of formal sign off.   |

| Specific probity activities  | Analysis rating | Assessment of actions in the ACTTAB sale process  |
|--|-----------------|---|
| Formal sign off on evaluation of bids  | Unsatisfactory  | No formal sign off.<br>It is clear that the Probity Advisor was part of the evaluation and could not provide independent sign off.  |
| Formal sign off on 'milestones' of procurement process   | Unsatisfactory  | Probity advice provided confirming 'no concerns in relation to the public Expressions of Interest process recently completed.'<br>No other sign-offs for any other parts of the process, including: <ul style="list-style-type: none"> <li>• planning</li> <li>• indicative offer</li> <li>• final bid</li> <li>• final final bid</li> <li>• overall process sign off (pre-commitment)</li> </ul> |
| Referral point for complaints, consideration and formal resolution *   | Unsatisfactory  | For one complaint there was no evidence of a formal process or resolution.  |
| Arrangements for and the conduct of tender due diligence, including the development and execution of 'data room protocols and all other necessary framework documents to support the data room process'* | Satisfactory    | The due diligence was organised and executed by the Sales Advisor (Deloitte).   |
| Specific requirements of the <i>Probity Plan</i> are marked *  |                 |   |

Source: ACT Audit Office analysis based on *Probity Plan* (December 2013) for the sale of ACTTAB and the *Ethics, Probity and Accountability in Procurement* document issued by the Queensland Government, 2006.

3.147 Probity activities associated with managing confidentiality agreements, the approach to the market, probity planning, responding to interested parties' clarification requests and due diligence were performed satisfactorily.

3.148 There were some areas where not all probity requirements were met:

- formal sign-off on key 'approach to market' documents and evaluation criteria;
- formal sign-off on evaluation processes and key 'milestones' and phases of the procurement process; and
- the management of a complaint.

3.149 The ACT Government Solicitor advised that:

While the Report sought to highlight apparent shortcomings in the probity function performed during the asset sale process based almost exclusively on erroneous conclusions in relation to the REOI process, the text of the Report suggests that the relevant context appears not to have been considered. In the role of probity advisor,

### 3: The sale process

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the relevant officer provided numerous and regular advices on a significant number of probity matters throughout the asset sale process including but not limited to:

- advising the Director-General and Minister's office on appropriate responses to media enquiries;
- advising the Director-General and Minister's office on appropriate responses to approaches by the ACTT AB employees union and the Canberra Racing Club;
- advising key personnel in relation to management of potential personal conflicts of interest;
- clearing all documents and correspondence issued to potential and actual applicants;
- negotiating and clearing the verification process conducted as part of finalising the due diligence materials and information memorandum;
- clearing all individual processes adopted as part of the overall sale process including bidder interactive meetings and negotiations (this included ensuring no breach of bidder IP occurred);
- preparation and clearing of all due diligence processes and the electronic data room access;
- ensuring the mis-disclosure of certain due diligence material was promptly corrected;
- ensuring the sale advisor kept proper records of all correspondence and conversations with applicants and provided that to the government sale team;
- ensuring the sale advisor provide an assessment to the Territory of any issues they discovered pertaining to their due diligence review of ACTTAB;
- clearing of all employee communications issued to ACTTAB staff as part of the process; and
- clearing all communications processes and media and stock exchange releases.

The fact that performing the dual role allowed the probity advisor to remain in close contact with all key issues and matters on a day to day basis put the probity advisor in a very good position to identify and deal with matters of probity as and when they arose. As was the case in the selection of matters outlined above.

...

... the senior lawyer appointed to the role of probity advisor in providing both probity and legal advice was supported by a team of lawyers from ACTGS. In addition, a significant amount of legal advice and input was provided by senior lawyers from Thomson Geer and to a relevant extent Minter Ellison acting for ACTTAB. For the Report to suggest ... that one person provided the legal and probity advice on this transaction is erroneous.

The Report appears to confuse the role of a probity advisor with that of a probity auditor. It is incorrect to assert that review and sign off of each key stage of the process is a requirement of a probity advisor. While a probity advisor may provide a summary report at various stages, if requested, as was done by the probity advisor in this case as part of the REOI process, the provision of detailed probity reviews and reports is the accepted role of a probity auditor.

3.150 The findings of the report are based on the fact that a single person undertook legal and probity advisory roles and that these roles are not necessarily compatible. In this regard the Australian Government Solicitor advised:

... we do not recommend that a single person provide both legal advice and probity advice in a major procurement such as an asset sale process. If a single legal practice is providing legal advice and probity advice, various measures can be adopted such as the use of separate advisors or separate teams within the legal practice to provide the legal advice and the probity advice and the development of a comprehensive probity framework or plan for that asset sale process.

3.151 The findings about the functions that the Probity Advisor performed were based on the documentation provided, the Probity Plan requirements and better practice. The report does not contend that the Probity Advisor did not perform any activities; it contends that evidence of some activities expected of a Probity Advisor was not available. The findings about the probity advisor role are drawn from better practice guidance for that role.

### Response to a complaint and comment about the process

3.152 The requirements for dealing with complaints were set out in the *Probity Plan* (December 2013) as follows:

10.3 All written complaints from potential Respondents received by the Territory that relate to the Project must be referred in a timely way to the Probity Advisor for consideration and, if the Probity Advisor considers it appropriate, investigation.

10.4 The Probity Advisor must prepare a written report to the Steering Committee on each complaint referred to him/her for consideration.

3.153 One obvious complaint was received during the sale process from an interested party. Additionally, during the bid stage, one of the potential purchasers expressed a view that the process had changed from what had been previously discussed with the Sale Project Team. This could be interpreted as a complaint.

#### *Complaint in relation to the expression of interest*

3.154 A complaint was received by email by the Sales Advisor (Deloitte) (who at that time was managing all communication with interested parties) from an interested party in relation to the expression of interest stage. The complaint was received on 18 March 2014 and set out a number of issues relating to the conduct of the expression of interest process as follows:

I sought an extension of time which you advised that we should submit within the timeframe and that if additional information was required, you would contact us ... you specifically acknowledged this when you acknowledged receipt ... to suggest that we did not satisfactorily address the criteria in these circumstances (and without seeking further information) is a significant breach of the promise you made us.

### 3: The sale process

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3.155 On 18 March 2014 the Sales Advisor (Deloitte) sent the email to the Chair of the Sale Project Team and the Probity Advisor for advice on how to respond. The Probity Adviser forwarded the email to the Chair of the Steering Committee shortly after.

3.156 In response to a follow-up request from the Sales Advisor (Deloitte) on 21 March 2014, the Probity Advisor advised the Sales Advisor (Deloitte) to provide a brief response to the effect that:

... the Vendors did not require any further information from this bidder in order to form the view they should not proceed to the next states of the sale process ... we would be happy to provide a debriefing once the sale process has reached a conclusion.

3.157 The *Probity Plan* (December 2013) required the Probity Advisor to prepare a written report to the Steering Committee on the complaint referred for consideration. There was no evidence of this report and the Steering Committee minutes do not indicate whether any such report was presented to them.

#### *Comment in relation to the bid stage*

3.158 During the bid stage one of the potential purchasers communicated via email:

We note that the process has changed from what we discussed at our meeting on Friday 13<sup>th</sup> of June in Canberra. In particular we note that the final process letter requires bidders to submit a final bid price based on the terms of the Final Bid Documents – it does not seem to accommodate what was discussed at our last meeting when we discussed allowing mark-ups to non-identified areas for the purpose of the base bid ... We also note that the process we understood to apply to the Final Bid now relates to the Alternate offer – again we believe this will limit materially the value that could well have been ascribed through an Alternate bid process whereby bidders could amend all clauses noting the risk was on them for the changes.

3.159 This communication was in relation to the final bid process letter issued on 20 June 2014. The potential purchaser communicated that the process ‘... has changed from what was discussed in our meeting on Friday 13<sup>th</sup> June in Canberra’. The communication was referred to the Probity Advisor who provided advice to the Sales Advisor (Deloitte) on the same day who in turn provided a response to the potential purchaser. This communication could have been interpreted as a complaint, which needed to be dealt with through the manner set out in the *Probity Plan* (December 2013) which required direct intervention of the Probity Advisor and a report to the Steering Committee.

3.160 The ACT Government Solicitor advised:

The suggestion that the comments from [the potential purchaser] in the final stages of the process were a complaint is incorrect. This correspondence amounted to no more than a clarification and/or process query. No complaints were received at any time to the knowledge of the probity advisor from [the potential purchaser]. The other complaint referred to from [the interested party] may not have resulted in a

written report to the Steering Committee, however both members of the Committee were made well aware of the issue and the proposed response.

- 3.161 As evident from paragraph 3.158 one of the potential purchasers raised concerns about the conduct of the process. It would have been prudent to treat this in a more formal way.



## 4 SALE RESULTS

4.1 This chapter analyses the sale with respect to the Sale Objectives, as established by the November 2013 resolution of the ACT Legislative Assembly.

### Summary

#### Conclusion

The sale was successful as it met the five Sale Objectives set out in the November 2013 resolution of the ACT Legislative Assembly:

- achieve a fair and reasonable price;
- ensure local racing industry is not negatively affected;
- achieve a timely sale;
- ensure the successful party has appropriate experience, capacity and integrity to operate a wagering business; and
- ensure employee welfare is considered.

#### Key findings

|  | Paragraph |
|--|-----------|
| On 14 October 2014, the ACT Government accepted Tabcorp's final bid price of \$105.5 million, subject to a number of terms and conditions.   | 4.2       |
| The final bid price was more than that offered by the other potential purchaser. Given that the indicative Trade Sale Value of ACTTAB was estimated to be between \$35.6 million and \$47.6 million, as estimated by PwC in the <i>ACTTAB Future Options Feasibility Study</i> (July 2013), this represents a good financial result for the Territory. | 4.4       |
| The sale met all of the Sale Objectives, as set out in the resolution of the Legislative Assembly on 28 November 2013.   | 4.8       |
| The indicative bids and final bids offered by the two potential purchasers offered various models and revenue streams. The evaluation of the financial value of the various bids was conducted by way of a discounted cash flow analysis, which allows for a comparison of revenue streams at current day values (Net Present Value).                  | 4.12      |
| The rate used for discounting future cash flows required a robust technical analysis to ensure appropriate treatment of cash flows. The Sale Project Team accepted the   | 4.14      |

## 4: Sale results

method for discounted cash flow analysis provided by PwC in the *ACTTAB Future Options Feasibility Study* (July 2013). This provided for the valuation of projected future cash flows in applicants' bids in terms of present day values.

There was appropriate consideration of the balance of risk and benefit in evaluating the net present value of upfront payments in potential purchasers' submissions. 4.23

One of the Sale Objectives was to ensure that the local racing industry was not negatively affected by the sale. 4.24

Before the ACT Government decided to pursue the sale of ACTTAB, representatives of the racing industry had proposed that the new owner should be required to fund the local racing industry on a similar basis as other TABs in the larger states. Representatives of the local racing industry indicated that their preferred funding model included a 40 year funding agreement with a fixed annual payment of \$9.5 million indexed by CPI plus 6.3 per cent racing turnover generated by ACTTAB (in excess of \$152 million). 4.28

PwC and the Sales Advisor (Deloitte) cautioned that a funding agreement of the magnitude proposed by representatives of the ACT racing industry would strongly deter any potential purchasers. 4.29

The racing industry has not been negatively impacted by the sale of ACTTAB. 4.36

One of the Sale Objectives was to ensure that employee welfare was considered. Accordingly, the *Request for Indicative Offers*, provided to the potential purchasers in March 2014, sought an indication from the shortlisted potential purchasers of which employees would be offered positions with the successful purchaser in the event of the sale. 4.37

In the lead up to the ACT Government's decision to pursue the sale, the Community and Public Sector Union (union) put forward its preferences for proposed sale conditions including enhanced redundancies and a three year job guarantee. Neither of the union's proposals was made a condition of sale as both PwC and the Sales Advisor (Deloitte) cautioned that this would discourage buyers who would be unable to justify investing in a business with such limited cash flows (ACTTAB's profit for 2013-14 was only \$750,000). 4.40

Potential purchasers were therefore informed of the preferences of the union and the racing industry and encouraged to submit alternative proposals with indicative pricing. However, no potential purchaser was prepared to fully adopt the preferences of the union or the racing industry. 4.41

Sufficient consideration was accorded to employee welfare during the sale process. 4.42

## Final result

4.2 On 14 October 2014, the ACT Government accepted Tabcorp's final bid price of \$105.5 million, subject to a number of terms and conditions.

4.3 A summary of the deal is provided in Table 4-1.

**Table 4-1 Final sale price and conditions**

| Tabcorp   | ACT Government commitments   |
|---|--|
| <p>Final bid price of \$105.5 million.</p> <p>Annual fee of \$1 million for the sole totalisator licence (for the term of the sale).</p> <p>Tabcorp to provide for at least ten years, annual payments (indexed by CPI) of \$300,000 to the racing industry for sponsorships and hospitality, and \$400,000 per annum to community organisations. Tabcorp will also contribute \$50,000 per annum (indexed by CPI) to problem gambling over the 50 year licence period.</p> <p>Spend at least \$2 million to improve retail outlets over the next three years and to maintain a substantial retail presence in the territory for at least 10 years.</p> <p>Tabcorp committed to offer employment to staff on existing terms and conditions for at least 3 months (this included some other undertakings to facilitate employment of staff across Tabcorp operations).</p> | <p>ACT Government to issue a sole Totalisator licence for 50 years with an annual licence fee of \$1million indexed by CPI.</p> <p>ACT Government to issue a Sports Bookmaking Licence (by the Gambling and Racing Commission) for the maximum period of 15 years including retail venue exclusivity and subject to existing tax arrangements. Compensation is payable by the ACT Government if this licence is not re-issued for a second 15 year period.</p> <p>The Gambling and Racing Commission to issue Keno and Trackside approvals with existing tax arrangements.</p> <p>ACT Government to provide prescribed amounts of compensation in certain circumstances including removal of any licences, allowing competitors to enter the market, or due to a change to, or a new, fee or tax. These arrangements expire variously between 11 and 25 years from the date of completion.</p> |

Source: ACT Audit Office analysis

4.4 The final bid price was more than that offered by the other potential purchaser. Given that the indicative Trade Sale Value of ACTTAB was estimated to be between \$35.6 million and \$47.6 million, as estimated by PwC in the *ACTTAB Future Options Feasibility Study* (July 2013), this represents a good financial result for the Territory.

## Sale result

4.5 Several Sale Project Team members interviewed as part of the audit indicated that the final price paid for ACTTAB significantly exceeded their expectations. Sale Project Team members also noted that the final price was also far in excess (more than double) of the likely value range identified in the PwC report.

## 4: Sale results

- 4.6 The Deputy Chair of the Steering Committee was the only person interviewed who indicated that the final sale price was ‘about right’. He explained this in terms of the value of ACTTAB’s cash flow in the hands of an established and efficient betting business.
- 4.7 The Deputy Chair also considered that if he could have sold the business by engaging directly, in a fully commercial manner, with the two operators of pari mutuel pools in Australia, the ACT Government could have got ‘a bit more’ for the business (e.g. potentially around \$15 million more).

## Alignment to Sale Objectives

- 4.8 The sale met all of the Sale Objectives, as set out in the resolution of the Legislative Assembly on 28 November 2013.
- 4.9 Table 4-2 provides a summary of achievements against the Sale Objectives.

**Table 4-2 Achievement of Sale Objectives**

| Sale Objective  | Sale Outcome | Comment   |
|---|--------------|---|
| Achieve a fair and reasonable price   | Achieved     | Price was above that indicated by the Price Waterhouse Coopers (PwC) <i>ACTTAB Future Options Feasibility Study</i> .   |
| Ensure local racing industry is not negatively affected   | Achieved     | Ongoing funding to the local industry through the budget process has not been negatively affected by sale.  |
| Achieve a timely sale   | Achieved     | Government announced its intention to sell in November 2013, a preferred purchaser was announced in July 2014 and the sale was completed in October 2014.   |
| Ensure the successful party has appropriate experience, capacity and integrity to operate a wagering business | Achieved     | The preferred purchaser operates a large wagering business in Australia.  |
| Ensure employee welfare is considered   | Achieved     | Employee welfare was considered at relevant stages of the Sale Process. An officer from Chief Minister and Treasury Directorate was available to the Sale Project Team to ensure that these interests received appropriate consideration. |

Source: ACT Audit Office analysis

- 4.10 A number of issues were raised in the Legislative Assembly and the media following the ACT Government’s announcement that Tabcorp’s bid had been accepted. Three issues received considerable attention:
- the assessment of upfront payments versus future revenue (including taxation and licence fees);

- impact of the sale on the local racing industry; and
- consideration of employee welfare.

### Upfront payments versus future revenue

4.11 The shortlisted potential purchasers provided bids that included a mix of upfront and ongoing financial benefits. The process for the assessment of these bids followed the staged approach as follows (refer to paragraph 3.6):

- indicative bid
- indicative bid valuation
- final bid
- final bid evaluation
- negotiation
- contractual agreement.

4.12 The indicative bids and final bids offered by the two potential purchasers offered various models and revenue streams. The evaluation of the financial value of the various bids was conducted by way of a discounted cash flow analysis, which allows for a comparison of revenue streams at current day values (Net Present Value).

4.13 That is, the future value of money provided for by the different bid, e.g. ten or 20 years into the future, was valued at current day values through discounted cash flow analysis, for the purpose of appropriately comparing the different bids.

4.14 The rate used for discounting future cash flows required a robust technical analysis to ensure appropriate treatment of cash flows. The Sale Project Team accepted the method for discounted cash flow analysis provided by PwC in the *ACTTAB Future Options Feasibility Study* (July 2013). This provided for the valuation of projected future cash flows in applicants' bids in terms of present day values.

4.15 The approach to discounted cash flow evaluation was applied equitably to both bids.

### Final Bid process

4.16 The Audit Office examined the bid process, including the offers that were made by the two potential purchasers. In summary:

- in the final bid process both Tabcorp and the other potential purchaser were provided with an option to submit alternative bids subject to a number of conditions;
- Tabcorp's Alternative Bid conformed to the required conditions, but a substantial part of its value was associated with adjustments to timeframes, warranties and compensation that posed an additional level of risk to the Territory that was not acceptable to the Steering Committee;

#### 4: Sale results

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- the other potential purchaser's Alternative Bid was substantially higher than its Final Bid, but it introduced a new proposal that was not previously identified in the non-binding offers. The other potential purchaser also sought to amend items within various agreements which were considered to be non-negotiable. The other potential purchaser's Alternative Bid was found to be non-conforming and was not evaluated as part of the final evaluation process.

4.17 At the conclusion of the process Tabcorp's Final Offer, with an additional component included in its Alternative Bid, was accepted.

#### Rationale for upfront payments

4.18 By virtue of the discounted cash flow analysis conducted by the Sales Advisor (Deloitte) on behalf of the Sale Project Team, as provided for by PwC in the *ACTTAB Future Options Feasibility Study* (July 2013), there was a greater emphasis placed on monies received upfront, as compared to future cash flows, from potential purchasers.

4.19 In its analysis of industry funding scenarios as part of the *ACTTAB Future Options Feasibility Study* (July 2013) PwC advised:

Following privatisation of other state owned TABs, the relevant state based racing industries have been funded through a combination of direct payments from the TAB operator, product feed from corporate bookmakers and direct Government funding. ... The analysis suggests that unlike other states that have privatised TABs, the ACT Government's obligations to fund the industry far exceed the value of the business, therefore the ACT government will be unable to transfer all of its obligations to fund the racing industry to a new operator. Having said that, there is merit in charging the new operator an annual licence fee as it will provide the ACT government with an ongoing revenue source, and may create additional value through the tax deductibility of the licence fee by the operator. It will be important to ensure that the total licence fee imposed does not prevent ACTTAB from being presented as an attractive investment opportunity with sufficient profit and cash generation justifying a buyers interest in acquiring the business.

4.20 The basis for preferring upfront payments to future cash flows was the subject of advice from the Sales Advisor (Deloitte) and considered and accepted by the ACT Government in May 2014:

As part of the evaluation of indicative offers, Deloitte has advised that given the significant risks associated with the wagering industry the Government's preferred position should be to take all proceeds upfront rather than adopt the ongoing industry funding model.

4.21 Eligibility for Commonwealth Asset Recycling compensation also favoured upfront payment:

... should the proceeds from the ACTTAB sale be deemed eligible for the Commonwealth's proposed compensation of 15% of the proceeds, there is added incentive to maximise the up front payment.

- 4.22 The Commonwealth's Asset Recycling Initiative is designed to help unlock funding for new public infrastructure projects through reinvestment of the sale proceeds from existing government-owned assets. Under this programme the Commonwealth will provide states and territories with incentive payments of 15 per cent of the sale price of privatised assets. The programme was planned to commence in mid-2014 and close in mid-2019.
- 4.23 There was appropriate consideration of the balance of risk and benefit in evaluating the net present value of upfront payments in potential purchasers' submissions.

### Affect on the local racing industry

- 4.24 One of the Sale Objectives was to ensure that the local racing industry was not negatively affected by the sale.
- 4.25 The racing industry had been funded by ACTTAB at a rate of 4.5 per cent of total racing turnover up to 2010. Since then the racing industry has received direct funding from the ACT Government. The change to direct funding had been driven by the racing industry's concerns that ACTTAB's financial capacity to fund the industry was declining.
- 4.26 In a Memorandum of Understanding (MOU) signed in December 2013, the ACT Government agreed to continue funding the ACT racing industry in 2013-14 by an amount of \$7.827 million to be indexed each following year until the end of 2016-17. This level of funding exceeds ACTTAB's annual turnover that is attributed to local races, which was about \$4.7 million in 2013-14.
- 4.27 In 2011 the Independent Competition and Regulatory Commission found that the economic contribution of the racing industry to the ACT ranged between \$4.9 million and \$8.6 million and that this did not justify continuing a high level of budget funding support.
- 4.28 Before the ACT Government decided to pursue the sale of ACTTAB, representatives of the racing industry had proposed that the new owner should be required to fund the local racing industry on a similar basis as other TABs in the larger states. Representatives of the local racing industry indicated that their preferred funding model included a 40 year funding agreement with a fixed annual payment of \$9.5 million indexed by CPI plus 6.3 per cent racing turnover generated by ACTTAB (in excess of \$152 million).
- 4.29 PwC and the Sales Advisor (Deloitte) cautioned that a funding agreement of the magnitude proposed by representatives of the ACT racing industry would strongly deter any potential purchasers.
- 4.30 In New South Wales, Queensland and Victoria, the local racing industry receives the majority of their funding under commercial agreements with their respective TABs. The revenue generated from wagering on local races in these jurisdictions is a major profit driver for the TAB in each of those states (in the order of 50 percent or more).

## 4: Sale results

- 4.31 This is not the case in the ACT, Tasmania and the Northern Territory, where local racing industries are dependent on budget funding. This is due to the smaller scale of operations in these jurisdictions.
- 4.32 Tasmania has a 20 year funding agreement (currently being reviewed) and the Northern Territory has a five year funding agreement that is also being reviewed. Although budget funding in each case is more than the ACT, there are more racing clubs to support (16 in Tasmania and seven in the Northern Territory - when compared with three in the ACT). The funding position for the three jurisdictions in 2013-14 is summarised in Table 4-3 below.

**Table 4-3 Summary of funding provided to the racing industry in ACT, Tasmania and the Northern Territory in 2013-14**

| Financial Year | ACT                      | Tasmania                   | Northern Territory        |
|----------------|--------------------------|----------------------------|---------------------------|
| 2013-14        | \$7.8 m<br>(for 3 clubs) | \$22.3 m<br>(for 16 clubs) | \$14.7 m<br>(for 7 clubs) |

Source: ACT Audit Office analysis

- 4.33 Tabcorp has committed to provide (for at least ten years) annual payments of \$300,000 (indexed by CPI) to the racing industry for sponsorships and hospitality and \$400,000 per annum to community organisations. Tabcorp will also contribute \$50,000 per annum (indexed by CPI) to problem gambling over the 50 year licence period.
- 4.34 The 2013 Memorandum of Understanding remains in effect and is not impacted by the sale of ACTTAB.
- 4.35 The ACT Government agreed to fund the ACT racing industry in 2013-14 by an amount of \$7.827 million to be indexed each following year until the end of 2016-17. The local racing industry received \$7.5 million in 2012-13.
- 4.36 The racing industry has not been negatively impacted by the sale of ACTTAB.

### Consideration of employee welfare

- 4.37 One of the Sale Objectives was to ensure that employee welfare was considered. Accordingly, the *Request for Indicative Offers*, provided to the potential purchasers in March 2014, sought an indication from the shortlisted potential purchasers of which employees would be offered positions with the successful purchaser in the event of the sale.
- 4.38 Tabcorp's response demonstrated that it had considered this issue in some depth, including recognition of the importance of local employment opportunities within a small jurisdiction such as the ACT.
- 4.39 This resulted in a commitment from Tabcorp to the following.

- offer all staff, excluding the Board, CEO and CEO's Personal Assistant, employment in a form that recognises continuous service and on terms which are substantially similar and no less favourable than employees' current ACTTAB terms;
- ensure no redundancies, for staff offered employment, for a period of at least three months following the date of completion of the sale (and in some cases 12 months following the date of completion of the sale);
- investigate alternative roles in other parts of the Tabcorp group for any ACTTAB staff affected by redundancy (there were approximately 60 open roles for recruitment within Tabcorp at the time);
- pay all redundancy costs (in the event where no alternative roles could be identified) in accordance with the *ACTTAB Enterprise Agreement 2011-2014*. Tabcorp would also provide career transition services and outplacement services to assist affected employees locate roles outside of Tabcorp; and
- maintain staff salaries at current levels from the date of completion of the sale and to meet with all staff to discuss their future and keep formal lines of communication open during the transition period.

4.40 In the lead up to the ACT Government's decision to pursue the sale, the Community and Public Sector Union (union) put forward its preferences for proposed sale conditions including enhanced redundancies and a three year job guarantee. Neither of the union's proposals was made a condition of sale as both PwC and the Sales Advisor (Deloitte) cautioned that this would discourage buyers who would be unable to justify investing in a business with such limited cash flows (ACTTAB's profit for 2013-14 was only \$750,000).

4.41 Potential purchasers were therefore informed of the preferences of the union and the racing industry and encouraged to submit alternative proposals with indicative pricing. However, no potential purchaser was prepared to fully adopt the preferences of the union or the racing industry.

4.42 Sufficient consideration was accorded to employee welfare during the sale process.

## RECOMMENDATION 1      PROCUREMENT POLICIES, PROCEDURES AND PROCESSES

The Chief Minister, Treasury and Economic Development Directorate should examine, and if needed amend, its procurement policies, procedures and processes so they comprehensively cover:

Risk management:

- 1) all complex, high value or high risk procurements should be subject to a procurement risk assessment and be supported by an approved risk plan which is developed before procurement activity commences (this plan may subsequently be modified as needed); and
- 2) the risk assessment should guide mitigation measures and inform governance and administrative processes for the procurement;

Evaluation criteria:

- 3) evaluation criteria should be designed to match the way in which they will be evaluated; and
- 4) the assessment of evaluation criteria by an assessor and/or panel members should be precise, rigorous and documented;
- 5) Procurements that are not subject to the *ACT Government Procurement Act 2001*:
  - i) need to have the policies, procedures and processes to be used defined and documented at the beginning of a procurement activity; and
  - ii) need to be the subject of a risk assessment and have an approved risk plan;

Probity Plan and Probity Advisor role in complex, high value or high risk procurements:

- 6) a Probity Plan should include a requirement for the provision of written independent assurance at key stages of the procurement;
- 7) the Probity Advisor role as a principle should be independent of other roles in the procurement process. However, if this does not occur, the reasons for not so doing should be documented and a risk assessment undertaken to identify how any associated risks are to be managed;

Documentation and record-keeping requirements:

- 8) complex, high value or high risk procurements should be well documented; and
- 9) an audit should be undertaken immediately at the conclusion of the procurement to identify any gaps so that they can be corrected in a timely manner.

## APPENDIX A: LEGAL CONSIDERATIONS

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- A.1 The audit of the sale of ACTTAB raised four key legal questions:
- Was the sale of ACTTAB subject to the *Government Procurement Act 2001*?
  - Was the sale of ACTTAB a 'Government sale'?
  - Was the sale of ACTTAB subject to the Hughes Case (Hughes Aircraft Systems International v Airservices Australia (1997) 76 FCR 151)?
  - Do the 'reserved discretions', in the Request for Expression of Interest, remove or reduce the application of the Hughes Case?
- A.2 Advice from the Australian Government Solicitor and Mr Charles Scerri, QC was sought to assist in answering these questions. Where relevant, advice from the ACT Government Solicitor is also recognised.

### *Government Procurement Act 2001*

- A.3 The draft proposed audit report, which was provided to the auditees and other entities involved in the sale process, for consideration and comment, identified that the *Government Procurement Act 2001* did not apply to the sale of ACTTAB because the sale involved the sale of assets by ACTTAB, which was not covered by the Act.
- A.4 In its response to the draft proposed report, the ACT Government Solicitor advised that it was incorrect to categorise the sale of ACTTAB as a procurement process. The ACT Government Solicitor also advised that 'a key concern for ACTGS is that the Report is nonetheless premised on the presumption that in the Territory, the proposed sale of what was initially proposed to be the shares and/or assets and undertakings of a Territory-owned corporation under the Corporations Act, was required to be governed by procurement principles and processes generally applicable in government tendering or purchasing of goods, services or works.' The ACT Government Solicitor advised that the draft proposed report:

... erroneously characterises the process as a tender or purchase process, referring for example to: "submission of tenders", "tender documentation", "tendering equity" and best practice guide for "Purchasing Decisions" by the Commonwealth's ANAO; "process contract" in the way that term applies by virtue of case law to actual government tendering, purchasing and procurement processes; the requirements of the ACT Procurement Act and the various policies, processes and plans that underpin it, should have been applied to the ACTTAB asset sale process.

There is no purpose or utility in attempting to ascribe, as the Report does, procurement processes to an asset sale process that did not take that form and irrespective of whether or not the sale proceeded as a sale of assets and undertaking by ACTTAB or a sale of the shares of ACTTAB and by the Territory.

### *ACT Government Solicitor advice*

- A.5 The ACT Government Solicitor also advised that the *Government Procurement Act 2001* did not at any stage apply to the sale of ACTTAB, because:

## Appendix A: Legal considerations

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- the sale of the business of ACTTAB Ltd by ACTTAB Ltd was not subject to the *Government Procurement Act 2001*, because ACTTAB, as a Territory-owned corporation, was specifically excluded from the operation of the act by virtue of subsection 3(2), which provides a definition of a Territory entity; and
- the sale of the shares of ACTTAB Ltd do not come within the scope of the *Government Procurement Act 2001*, as it does not meet the definition of procurement, provided for in section 2A of the *Government Procurement Act 2001*.

A.6 Procurement is defined in section 2A of the *Government Procurement Act 2001* as follows:

***procurement***—

- (a) means the process of acquiring goods, services, works or property by purchase, lease, rental or exchange; and
- (b) includes the process of disposing of goods, works or property including by sale.

A.7 The ACT Government Solicitor further advised:

No direction was issued to ACTTAB Limited by the voting shareholders pursuant to s 17 of the Territory-owned Corporations Act as to the process to be followed. It follows that ACTTAB could not be obliged to apply the Government Procurement Act.

A.8 In support of this view, the ACT Government Solicitor advised:

The ACTTAB asset sale process, as was made clear in all public documents, was at least initially a joint sale process conducted by ACTTAB and the Territory. ACTTAB was at the relevant time a public company limited by shares and independent of the Territory. As the sale could ultimately proceed as either a sale of the assets and undertaking of ACTTAB by ACTTAB or a sale of the shares of ACTTAB by the Territory, this was the only appropriate approach to take from the outset. When it became clear, well into the indicative bid stage of the process, that the sale would proceed as a sale of assets and undertaking by ACTTAB, the Territory then in effect took on more of a supporting and facilitative role in ensuring a successful sale by ACTTAB in a form that the shareholders would approve in accordance with the TOC Act.

There was no sale legislation passed by the Legislative Assembly, as it was considered unnecessary and no direction was issued by the Territory (via the Voting Shareholders) to ACTTAB in terms of s17 of the Territory-owned Corporations Act 1990 (TOC Act).

Accordingly, at no time did the Territory have control over the asset sale process and at no time could the Territory have imposed a government procurement process, including any of the various plans and policies inherent in a government procurement process, upon ACTTAB.

A.9 The ACT Government Solicitor further advised:

It is asserted that the process should have been conducted in accordance with the Government Procurement Act in the event the Territory decided to proceed with a sale of shares. Although the view of the ACTGS is that shares of a Territory-owned Corporation are not within the scope of a procurement as that term is defined in the Government Procurement Act 2001, that is not determinative of any relevant issue as to any process that ACTTAB Ltd was obliged or might choose to follow. At no point did the Territory determine to offer the shares of ACTTAB Ltd for sale. What was

offered for sale (refer the first sentence of the REOI document) was the business undertaking of ACTTAB Ltd and ... the sale ultimately proceeded on that basis, via a business sale agreement entered into between ACTTAB Ltd and the purchaser.

#### *November 2013 (Interim) ACTTAB Sale Working Group minutes*

- A.10 On 28 November 2013 a meeting of the (Interim) ACTTAB Sale Working Group was held. The meeting was attended by the then Director-General of the Commerce and Works Directorate, two representatives of the Commerce and Works Directorate, one representative of the Chief Minister and Treasury Directorate and two representatives of the ACT Government Solicitor. Unsigned minutes of that meeting were provided to the Audit Office. Under the 'Request for Expression of Interest and Information Memorandum' issue/topic it was reported:

Confirmed that the sales advisor procurement does not fall under the Procurement Act as if we proceed with a Sale of Assets, these are ACTTAB's assets and ACTTAB does not fall under the Procurement Act. If we proceed as a Sale of Shares, then this is a investment transactions (ie not sale of a good or service).

- A.11 While there appeared to be an incorrect reference to the procurement process that was then underway for the Sales Advisor in the minutes, the minutes identify two reasons as to why the *Government Procurement Act 2001* would not apply to the sale process.
- A.12 No written legal advice was provided in relation to the application of the *Government Procurement Act 2001* at that time.

#### *Australian Government Solicitor advice*

- A.13 With respect to the application of the *Government Procurement Act 2001*, the Australian Government Solicitor advised that 'had the sale resulted in a sale of shares by the ACT Government, such a sale would then have been a "procurement" as defined in the [Government Procurement Act 2001]'. The Australian Government Solicitor further advised:

At least at the REOI [Request for Expression of Interest] stage the sale could have involved either a sale of shares by the ACT Government or the sale of ACTTAB's main undertaking. Because a sale by the ACT Government of its shares in ACTTAB was a possibility it would in our view have been prudent, at least at that stage of the sale process, to treat the process as potentially involving a procurement under the GP Act.

- A.14 In relation to the question of whether the sale of shares would be covered by the *Government Procurement Act 2001*, the Australian Government Solicitor advised:

The sale of those shares would have been a disposal of property and therefore within the definition of 'procurement' in s 2A of the GP Act. We cannot see any basis for saying that the GP Act would not apply because the sale of shares would be regarded as an 'investment transaction.'

- A.15 Mr Charles Scerri, QC also advised in relation to the application of the *Government Procurement Act 2001* that:

... It seems clear (as AGS advised) that if the sale had proceeded as a sale of shares, the sale would have been a 'procurement' within the meaning of this Act [Government Procurement Act 2001]. This is because s.2A of that Act defines 'procurement' to include disposing of property. However, also as advised by AGS,

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since the shares were held in the names of the Chief Minister and Deputy Chief Minister it is not entirely clear that a sale of shares would have been procurement by a "Territory entity" as defined in the Government Procurement Act.

The AGS characterised the sale process as a 'joint sale' by ACTTAB and the Government, and advised that it would be prudent to treat the sale process as potentially involving a 'procurement' under the Government Procurement Act at least until it was determined that it would be an asset sale.

... I consider that advice to be clearly correct. Until a sale of assets was determined upon, it was possible that there would be a sale of shares, i.e. a 'procurement' by a 'Territory entity'. It would not have been prudent to structure and manage the sale process without regard to the requirements of the Government Procurement Act until it was clear the Act did not apply.

- A.16 It would have been prudent to structure and manage the sale of ACTTAB with regard to the requirements of the *Government Procurement Act 2001* until it was clear that the Act did not apply (i.e. only assets were being sold and not shares).

### A 'Government sale'

- A.17 Advice was sought from the Australian Government Solicitor with respect to whether the sale of ACTTAB was a 'Government sale'. The Australian Government Solicitor advised that the sale could:

... be best described as being a joint Territory and ACTTAB sale. Whilst in practice only ACTTAB could sell its main undertaking and the Government could not do this itself other than via a sale of shares it is clear that in practice the Government exercised a significant degree of control over the sale of ACTTAB's business. ACTTAB did not of its own volition independently pursue and conclude the sale of its main undertaking. Our reasons for reaching this conclusion are as follows:

- the sale required specific approval by ACTTAB's shareholders - ACTTAB was a territory corporation. It was governed by the provisions of the *Territory-owned Corporations Act 1990*. Pursuant to s16(1)(a) ACTTAB required the prior written consent of its shareholders to dispose of its main undertaking i.e. it could not act or conclude a sale independently. The 2014 ACTTAB Sale Timeline document also clearly shows that the ACTTAB Board required the approval of the Voting Shareholders to approve the sale to the identified preferred purchaser;
- s 22(4)(a) of the *Territory-owned Corporations Act 1990* also provides that a territory-owned corporation must not dispose of any of its main undertaking unless the ACT Legislative Assembly approved the disposal-it is understood that consistent with this requirement the ACT Legislative Assembly passed a resolution approving a sale of shares or sale of assets;
- the REOI refers to the ACT Government and the Board of ACTTAB as jointly being the Vendors and carries the logos of both the ACT Government (Commerce and Works Directorate) as well as ACTTAB. The Request for Binding Offers is similarly expressed. Respondents to the REOI and Request for Binding Offers would in our view have reasonably concluded that the ACT Government was, at a minimum, jointly conducting the sale process with the Board of ACTTAB;
- the Probity Plan prepared by the ACT Government Solicitor for the ACT Commerce & Works Directorate was expressed to be for the "*Sale Process for the*

- Territory's interest in ACTTAB Ltd*" and clearly applied to both Territory personnel as well as to ACTTAB personnel;
- in the Request for Final Binding Offers, the description of the Sale Process Overview specifically refers to *"the licence terms that will be offered by the ACT Government as part of the sale"*.
  - the Business Sale Agreement between ACTTAB (described as the Vendor), the ACT, and the Purchaser included a number of conditions precedent to Completion-see Clause 3.1 and Schedule 8. The approval of the Minister to the transfer of the Totalisator Gaming Licence to the Purchaser, the issue of a Sports Book making licence to the Purchaser, and the approval of the Purchaser conducting lottery products known as Keno and Trackside were all expressed to be conditions precedent to Completion. A failure to satisfy any of these conditions precedent provided the Purchaser with an automatic right to terminate the Business Sale Agreement (see Clause 3.2 of the Business Sale Agreement). It seems clear that the sale of the assets of ACTTAB without the corresponding Government and Gaming Commission approvals for the transfer/granting of the required licences would not have been achievable-the sale of ACTTAB's assets and the transfer/approval of the required totalisator and gaming licences were interdependent. These licences were not assets of ACTTAB which ACTTAB could itself offer to sell to a successful purchaser;
  - pursuant to Clause 6.3(e) of the Business Sale Agreement, the Purchaser at Completion was required to *"do or execute all other acts and documents that this agreement requires the Purchaser to do or execute at Completion"*. One of the documents requiring execution by the Purchaser at Completion was the Industry and Community Support Deed between the Territory, the Purchaser and the Purchaser's Guarantor (see the definition of this Agreement in Clause 1.1 of the Business Sale Agreement). Under Clause 6.5 of the Business Sale Agreement a failure by the Purchaser to execute the Industry and Community Support Deed entitled the ACTTAB not to proceed with the sale-it is clear that the Business Sale Agreement and the Industry Community and Support Deed were interdependent and it is not unreasonable to assume that ACTTAB's shareholders would probably have refused approval for the sale to proceed unless the purchaser had executed the Community and Support Deed;
  - the Steering Committee which was responsible for making a recommendation on a preferred purchaser had joint ACTTAB and Territory representation thru the Chair of ACTTAB and the Director-General of the Commerce and Works Directorate;
  - the Project Team supporting the Steering Committee also had joint Territory and ACTTAB representation;
  - the non-binding MOU between the Territory and ACTTAB details the cooperation arrangements between the Territory and ACTTAB in relation to the sale of ACTTAB- Clause 3 identifies *"Sale Decisions"* which, in the event of a sale of the assets and undertaking of ACTTAB, were identified to be key matters that are expected to be referred to the ACTTAB Board for decision. These *"Sale Decisions"* included decisions on the bidders to be shortlisted following completion of the initial expression of interest process and a decision on the preferred bidder as a result of the lodgement of final offers by shortlisted bidders. Taken on its own this clause in the MOU would support an argument that the sale process was

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controlled by the Board of ACTTAB. In our view however this clause cannot be looked at in isolation. Indeed Clause 7.2 of the MOU states that “responsibility for making any required key decisions as part of the Sale process will rest with the Territory through the Chief Minister and Treasurer as shareholders of ACTTAB and where appropriate, the Board of ACTTAB”. Clause 6.3 of the MOU includes a provision for the Territory to reimburse sale costs to ACTTAB in the event that “the Territory determines to cease the Sale process”. Recital A of the MOU refers to the resolution of the Legislative Assembly on 28 November 2013 to approve “the disposal of the Territory’s interest in ACTTAB”;

- the Territory indemnified the ACTTAB Board in relation to any Claim arising out of or in connection with, or resulting from any act, omission or conduct of the Director in the capacity of an officer of ACTTAB or in connection with the affairs of ACTTAB which was incurred in relation to the Sale or Sale process. Sale is defined in the Deed of Indemnity to include the sale by ACTTAB of all or any of its main undertakings and assets. As long as the ACTTAB Directors did not act dishonestly, fraudulently, maliciously, in bad faith or criminally or otherwise obtain any personal gain or engage in conduct constituting Gross negligence, the Territory indemnified them for their acts, omissions and conduct in relation to the Sale. If the Territory was not itself involved in and had no control whatsoever over the sale process it is difficult to understand why such an indemnity would have been granted (or indeed needed);
- sale legislation was necessary to facilitate the sale-see the *Territory-Owned Corporations Amendment Act 2014* which effected the removal from the Act of references to ACTTAB;

A.18 The sale of ACTTAB is considered to be a joint Territory and ACTTAB sale, which for all practical purposes means it would be appropriate to treat it as a ‘Government sale’.

### Hughes Case

A.19 The draft proposed audit report, which was provided to the auditees and other entities involved in the sale process, for consideration and comment, identified that it was likely that the principles of the Hughes Case applied to the sale of ACTTAB and that the concept of a ‘process contract’ was likely to exist.

A.20 The ACT Government Solicitor, in responding to the draft proposed audit report in relation to the application of the Hughes Case, stated:

The Report makes numerous references to *Hughes Aircraft Systems International Inc v Aircservices Australia* (1997) 76 FCR 151 (Hughes), seeking to apply the judgment to the sale of a government corporation's assets. While the decision of a single judge of the Federal Court of Australia in Hughes has provided some guidance in relation to the conduct of government procurements, the facts of the case are very specific and in the absence of any clarity by an appeal court or the High Court, it is unclear the extent to which the finding of a process contract would apply beyond government tendering processes. It is the view of ACTGS that the case does not extend to the proposed sale of the shares and/or assets and undertakings of a corporation but is confined to government tendering and purchasing processes.

... the Hughes case has no bearing on the conduct of the sale process, other than a likely obligation on the Territory (but not ACTTAB) to conduct itself fairly and in good faith as part of the process. The findings of the Report in relation to the conduct of

the sale process do not identify by reference to the evaluation of EOIs against the published criteria, in what way the sale was not conducted fairly and with probity.

A.21 The Australian Government Solicitor after considering the response of the ACT Government Solicitor advised that:

We would agree that if the Government had no involvement in the sale process it would be difficult to argue that the principles in the Hughes case would apply to a sale process conducted solely by ACTTAB. This is not however what happened.

... the sale process can in our view best be described as a joint sale by the Territory and the Board of ACTTAB. It is clear to us that the Territory was intimately involved in all stages of the sale process. It is also clear that it was represented to respondents to the REOI and to the Request for Binding Offers that the sale process was a joint ACTTAB /Territory sale process.

The approach to the market to sell ACTTAB was effectively a two stage tender process consisting of the REOI and the Request for Final Binding Offers. Respondents to the REOI were shortlisted to participate in the Request for Binding Offers based on the assessment of their REOI responses. In our view the REOI and Request for Final Binding Offers should not be seen to be two completely separate and distinct processes. They are inextricably linked. Two stage or even three stage tender processes involving a REOI, followed by a Request for Tender or Request for Proposals sometimes then also followed by a further Request for Revised Offers or even a Request for a Best and Final Offer are in our experience, common Government tendering arrangements.

The ACT Solicitor General has argued that a disposal process cannot be equated with a tender process. In our view, the characterisation of the process as a tender process or as a disposal process is not a relevant consideration with respect to whether or not public law requirements associated with the application of administrative law principles apply.

...

The sale to the preferred purchaser required the approval of ACTTAB's Voting shareholders, the Chief Minister and Treasurer (acting on behalf of the Territory). Accordingly, the sale decision involved the exercise of the Government's executive power. Indeed the sale could not even commence/be conducted without the prior approval of the ACT Legislative Assembly. In addition ... for so long as the option of a sale of shares remained a possibility, the prudent approach in our view would have been to adopt a process which was governed by the requirements of the GP Act.

Against this background of Territory involvement in the conduct of the sale process, it would in our view have been reasonable for the Applicants in the sale process to have had a legitimate expectation that the process would be conducted in accordance with the rules of natural justice or procedural fairness. A legitimate expectation has been recognised by the courts for some time as an interest that is protected by procedural fairness. In the case *Attorney-General of Hong Kong v Ng Yuen-Shiu* (1983) All ER at 350 Lord Fraser explained legitimate expectations as justifiably arising on the footing that;

*"When a public authority has promised to follow a certain procedure, it is in the interests of good administration that it should act fairly and should implement its promise, so long as implementation does not interfere with statutory duty".*

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In the case of *Kioa v West* (1985) 159 CLR 550 Brennan J as he then was observed as follows:

*“There are interests beyond legal rights that the legislature is presumed to intend to protect by the principle of natural justice. It is hardly to be thought that a modern legislature when it creates regimes for the regulation of social interest-licensing and permit systems, means of securing opportunities for acquiring legal rights, schemes for the provision of privileges and benefits at the discretion of Ministers and or public officials-intends that the interests of individuals which do not amount to legal rights but which are affected by the myriad and complex powers conferred on the bureaucracy should be accorded less protection than legal rights. The protected interests which do not amount to legal rights are nowadays frequently described as “legitimate expectations”.*

In the same case, Mason J (as he then was) said as follows:

*“The law has now developed to a point where it may be accepted that there is a common law duty to act fairly, in the sense of according procedural fairness in the making of administrative decisions which affect rights, interests and legitimate expectations.....”*

As we have previously advised the potential for legal challenge for a breach of an implied condition to act fairly was addressed in the Hughes case which established for the first time in Australia authority for the existence of a ‘process contract’, that is, a contract between the entity conducting the tender process and each tenderer to govern the conduct of that tender process, and that a breach of that process contract can involve damage to the tenderer for which the latter may seek remedy. It was held in the Hughes case that the terms of the process contract were a combination of the express terms contained in the conditions of tender and two implied terms, one of which was stated to be implied as a matter of law to the effect that the government entity would exhibit fair dealing in the performance of the process contract.

...

As we have previously advised we are of the view that there would be a considerable risk that a Court would find the terms of the REOI and Request for Binding Final offers, taken together, constituted a process contract to which the Territory was a party. In reaching this conclusion we have relied on the fact that it was the Territory Government that decided to pursue a sale of its interest in ACTTAB. The sale only proceeded on the basis of an express approval of the ACT legislative Assembly. The sale was conducted jointly by the Board of ACTTAB and the ACT Community and Works Directorate and finally, the sale to the identified preferred purchaser required the approval of ACTTAB's voting shareholders, the Chief Minister and the Treasurer.

Accordingly we remain of the view that there is considerable risk that a Court would find that a process contract did exist and that the implied obligation to exhibit fair dealing (as determined by the Hughes case –and a number of following cases) applied.

A.22 Mr Charles Scerri, QC advised that he supported the Australian Government Solicitor’s view, and stated that:

I agree with that advice, and I consider that the finding that a process contract existed is more likely than not.

It is necessary to describe briefly the sale process that was undertaken.

The first step was the issue of the REOI. That provided that the sale would proceed *either* as a sale of shares in ACTTAB *or* as a sale by ACTTAB of its assets and undertaking. The 'Vendors' were defined as the ACT Government and the board of ACTTAB.

The REOI described the sale as a 'competitive sale process'. The REOI said that the exclusive licence currently held by ACTTAB would be offered to the successful purchaser on terms to be negotiated as part of the sale process. The final licence terms would not be determined by the relevant Minister 'until completion of the sale agreement with the successful purchaser.' Paragraph 3 of the REOI said that the sale would be subject to the new legislative provisions proposed by the *Totalisator Bill* 2013 and would only proceed where it was deemed to be in the best interests of the Vendors.

The REOI contained very detailed provisions as to the information that was required to be submitted in support of an expression of interest. The evaluation criteria were set out in detail. In particular, information was required in relation to the identity of any applicant and its advisors, the applicant's financial capacity, the applicant's operational capacity and the applicant's future intentions.

Applicants were requested to provide an outline of whether they had a preference to acquire the shares of ACTTAB or specified assets.

Clause 8 of the REOI dealt with 'Vendors Rights'. These included an 'absolute discretion' to accept or reject any expression of interest, offer or bid. Clause 9 provided that the vendors would not be liable to reimburse or compensate any applicant for any fees costs or expenses incurred in connection with any activities relating to the sale or the sale process.

The RFBO referred to 'licence terms that will be offered by the ACT Government as part of the sale'. The RFBO contained detailed provisions in relation to the sale process including how data would be made available and how the Q&A process was to be managed.

Other important features of the sale process include the following:

- a) By reason of s.16(1)(a) of the *Territory-Owned Corporations Act 1990*, ACTTAB was prohibited from selling its main undertaking without the consent of the Voting Shareholders (i.e. the Territory Government).
- b) The sale process was the subject of a Memorandum of Understanding between the ACTTAB and the Territory (**MOU**). That noted that the Legislative Assembly of the Territory had passed a resolution approving 'the disposal of the Territory's interest in ACTTAB by either a sale of the shares of ACTTAB or a sale by ACTTAB of its main undertaking'. (This resolution was necessary under s.16(4)(a) of the *Territory-Owned Corporations Act 1990*.) The Schedule to the MOU set out 'Sale Decisions' that were said to be 'the key matters that are expected to be referred to the Board of ACTTAB for decision'. Paragraph B of the Schedule said 'For the avoidance of doubt, if the Sale does not proceed as a sale of the assets and undertaking of ACTTAB, there are no Sale Decisions'.
- c) The sale process required the involvement of the Territory, even where it took the form of an asset sale. In particular, the sale was conditional upon the transfer or issue to the purchaser of ACTTAB's Totalisator Gaming Licence and certain other licences. The transfer of the Totalisator Gaming Licence required the approval of

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the Minister, it was necessary for the Gaming Commission to issue a Sports Bookmaking licence, and it was necessary for the Gaming Commission to give approval to the purchaser to conduct certain lottery products: see Schedule 8 to the Sale Agreement.

In *Hughes*, it was held that a tender process for the acquisition of services by the Civil Aviation Authority was subject to a ‘tender process contract’ to the effect that the tender process would be conducted fairly by the Authority and in accordance with the defined procedures and criteria that had been stipulated by the Authority.

In my opinion, a Court is likely to reach the same conclusion in this case. That is, the nature of the sale process, and the involvement of the ACT Government in that process, gave rise to a process contract under which the ACT Government was obliged to conduct the sale fairly and in accordance with the defined procedures and criteria that it had stated would apply to the sale process.

The involvement of the Government did vary once it was agreed with the purchaser that the transaction would take the form of an asset sale, rather than a sale of shares. This is reflected in the REOI and in the MOU (see above). But the Government remained critically involved in relation to the transfer and issue of the relevant licences and approvals (see above).

I have been briefed with an opinion of the Solicitor-General of the Territory dated 10 April 2015 in which he expresses the view that *Hughes* ‘does not extend to the proposed sale of the shares and/or assets of [ACTTAB] but is confined to government tendering and purchasing processes’. I respectfully disagree.

The general proposition is that where a government has stated that it will follow a particular procedure in relation to dealing with third parties, the government is under an obligation to act fairly and in accordance with the stated procedure. See, for example, *Kioa v West* (1985) CLR 550. This principle is not limited to purchasing tenders but is a general principle of modern administrative law. In the tendering context, the principle is given effect to by the imposition of a process contract.

- A.23 Legal advice provided for the audit by the Australian Government Solicitor and Mr Charles Scerri, QC concluded that it was more likely than not that the principles of the *Hughes* Case applied to the sale of ACTTAB. As a result, a ‘process contract’ existed in the sale of ACTTAB and there was, therefore, an obligation to conduct the sale in accordance with the defined procedures and the stated criteria that was in the *Request for Expression of Interest*.
- A.24 The ACT Government Solicitor advised in responding to the proposed audit report that the principles of the *Hughes* Case did not apply.
- A.25 While there is a difference of views, given the type of sale with its complexities and uncertainties, and given the consequences if the *Hughes* Case did apply, it would have been prudent for such an issue to have been explicitly considered in a risk analysis, in preparations for the sale. However, there is no evidence that this occurred. If it had occurred, any issues emerging due to differing views could have been managed to reduce any associated risk

### ‘Reserved discretions’

- A.26 For a procurement where a ‘process contract’ exists, there is less flexibility in the process, compared with one where such a concept does not apply. If a ‘process contract’ exists

then even having ‘reserved discretions’, which are designed to give a vendor flexibility, may not be relied upon.

A.27 In responding to the draft proposed report, the ACT Government Solicitor stated ‘the Report does not appear to acknowledge the expressly reserved discretions stated in the conditions of the REOI, including paragraphs 6 and 8’.

A.28 The *Request for Expressions of Interest* document had ‘reserved discretions’ identified as follows:

Paragraph 6 stated:

EOIs [Expression of Interests] will be assessed by the Vendors in their absolute discretion based on the above criteria, and any other criteria determined relevant by the Vendors, to determine the Applicant’s suitability to progress past the EOI stage.

Paragraph 8 stated:

The Vendors are under no obligation to respond to any EOI [Expression of Interest]. The Vendors also reserve the right, at any time, and in their absolute discretion, to:

- Accept or reject without providing reasons any EOI, offer or bid in connection with the sale of ACTTAB submitted by any applicant at any time;
- Request from any or all Applicants any further information they may require;
- Vary, cease or suspend the Sale Process or any part of it;
- Invite further parties to participate in the Sale Process, at any time; and
- Take into account any additional information obtained by the vendors during the sale process.

A.29 The Australian Government Solicitor advised that:

In our view none of these reserved rights operate in such a way as to expressly disclaim the REOI [Request for Expression of Interest] from being interpreted to be a “process contract” within the meaning of Hughes. In addition, the discretions do not seek to exclude the Hughes implied obligation to act fairly in terms of the way in which the reserved rights may be exercised and the sale process conducted.

A.30 The Australian Government Solicitor further advised that:

There are expressly reserved discretions stated in the conditions of the REOI, in particular-paragraphs 6 and 8.

Paragraph 6 refers to the evaluation criteria and states that the *‘EOIs will be assessed by the Vendors in their absolute discretion based on the above criteria, and any other criteria determined relevant by the Vendors, to determine the Applicant’s suitability to progress past the EOI stage’*.

Paragraph 8 sets out the Vendors reserved rights in the conduct of the EOI process. Their rights include a right to accept or reject without providing reasons, a right to vary, cease or suspend the Sale process, a right to request further information, take into account additional information or request further information.

In our view none of these reserved rights operate in such a way as to expressly disclaim the REOI from being interpreted to be a “process contract” within the meaning of Hughes. In addition, the discretions do not seek to exclude the Hughes

## Appendix A: Legal considerations

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implied obligation to act fairly in terms of the way in which the reserved rights may be exercised and the sale process conducted.

For completeness we do note that Paragraph 9 of the REOI deals with responsibility for costs and states that the Vendors are not liable to reimburse or compensate any Applicant for any fees, costs or expenses incurred in connection with activities relating the sale of ACTTAB and/or the sale process. There is nothing in this provision which negates the potential for the REOI to be interpreted to be a process contract or which involves an express contracting out from the implied obligation to act fairly.

### A.31 Mr Charles Scerri, QC advised that:

A subsidiary question upon which AGS advised was whether certain provisions in the REOI excluded the application of *Hughes*. In particular these were provisions which referred to the vendors' right to act in their absolute discretion in assessing each expression of interest 'based on the [stated] criteria and any other criteria determined relevant by the Vendors'. There was also the reservation of an express 'right to vary, cease or suspend the sale process' and a provision limiting liability for bidders' costs in the sale process.

Although these provisions are relevant, I agree with AGS that they are not explicit and direct enough to exclude any obligation that the ACT Government would have otherwise to act fairly and in accordance with the stated procedures.

### A.32 The 'reserved discretions' in the Request for Expressions of Interest were intended to allow for greater flexibility in the sale process. However, as it is more likely than not that the Hughes Case principles applied and a 'process contract' was relevant to the sale of ACTTAB the 'reserved discretions' in the *Request for Expressions of Interest* document cannot be relied upon. It therefore would have been prudent not to exercise the 'reserved discretions' as if these had priority over the *Request for Expressions of Interest* document and its criteria.

## Summary

### A.33 The Australian Government Solicitor advised that:

In summary ... the sale process can be categorised as a joint Territory and ACTTAB sale involving a staged tender process comprising a REOI [Request for Expression of Interest] and as Request for Final Binding Offers. Having regard to the Territory's decision-making and approval responsibilities with respect to the sale process there is ... a considerable risk that a Court would find that a process contract existed and that in so far as the exercise of the Territory's rights and decision-making on the sale process is concerned, there was an implied obligation to accord Applicants [bidders] "procedural fairness", i.e. act fairly.

## Audit reports

| Reports Published in 2014-15 |   |
|------------------------------|---|
| Report No. 06 – 2015         | Bulk Water Alliance   |
| Report No. 05 – 2015         | Integrity of Data in the Health Directorate   |
| Report No. 04 – 2015         | ACT Government support to the University of Canberra for affordable student accommodation                                   |
| Report No. 03 – 2015         | Restoration of the Lower Cotter Catchment   |
| Report No. 02 – 2015         | The rehabilitation of male detainees at the Alexander Maconochie Centre   |
| Report No. 01 – 2015         | Debt Management   |
| Report No. 07 – 2014         | 2013-14 Financial Audits  |
| Report No. 06 – 2014         | Annual Report 2013-14   |
| Reports Published in 2013-14 |   |
| Report No. 05 – 2014         | Capital Works Reporting   |
| Report No. 04 – 2014         | Gastroenterology & Hepatology Unit, Canberra Hospital   |
| Report No. 03 – 2014         | Single Dwelling Development Assessments   |
| Report No. 02 – 2014         | The Water and Sewerage Pricing Process  |
| Report No. 01 – 2014         | Speed Cameras in the ACT  |
| Report No. 08 – 2013         | Management of Funding for Community Services  |
| Report No. 07 – 2013         | 2012-13 Financial Audits  |
| Report No. 06 – 2013         | ACT Auditor-General's Office Annual Report 2012-13  |
| Report No. 05 – 2013         | Bushfire Preparedness   |
| Reports Published in 2012-13 |   |
| Report No. 04 – 2013         | National Partnership Agreement on Homelessness  |
| Report No. 03 – 2013         | ACT Government Parking Operations   |
| Report No. 02 – 2013         | Executive Remuneration Disclosed in ACTEW Corporation Limited's (ACTEW) 2010-11 Financial Statements and Annual Report 2011 |
| Report No. 01 – 2013         | Care and Protection System  |
| Report No. 10 – 2012         | 2011-12 Financial Audits  |
| Report No. 09 – 2012         | Grants of Legal Assistance  |
| Report No. 08 – 2012         | Australian Capital Territory Public Service Recruitment Practices   |
| Report No. 07 – 2012         | Annual Report 2011-12   |
| Report No. 06 – 2012         | Emergency Department Performance Information  |
| Reports Published in 2011-12 |   |
| Report No. 05 – 2012         | Management of Recycling Estates and E-Waste   |
| Report No. 04 – 2012         | Development Application and Approval System for High Density Residential and Commercial Developments                        |
| Report No. 03 – 2012         | Early Childhood Schooling   |
| Report No. 02 – 2012         | Whole-of-Government Information and ICT Security Management and Services  |
| Report No. 01 – 2012         | Monitoring and Minimising Harm Caused by Problem Gambling in the ACT  |
| Report No. 06 – 2011         | Management of Food Safety in the Australian Capital Territory   |
| Report No. 05 – 2011         | 2010-11 Financial Audits  |
| Report No. 04 – 2011         | Annual Report 2010-11   |

These and earlier reports can be obtained from the ACT Auditor-General's website at <http://www.audit.act.gov.au>.



*Ladbrokes PLC*

# BUILDING A BETTER LADBROKES



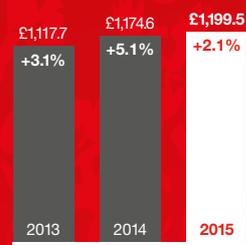
# 2015 highlights

## GROUP

- Group net revenue up 2.1% (up 4.2% excluding World Cup)
- Operating profit<sup>(1)</sup> excluding High Rollers at £80.6m reflects investment in our new strategy announced in July and increased taxation
- Statutory operating loss of £15.4m reflects exceptional items of £99.0m mainly related to shop impairments and transaction costs
- Strategy reset in July 2015, encouraging customer metrics in H2
- Ladbrokes announces proposed merger with the Coral Group to form Ladbrokes Coral plc

### GROUP NET REVENUE £M

# +2.1%

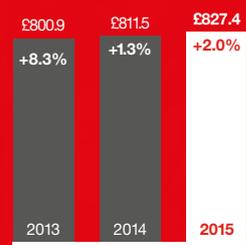


## RETAIL

- UK Retail net revenue up 2.0% (3.5% excluding World Cup)
- Self Service Betting Terminal roll out complete, encouraging staking growth delivered
- Machines growth driven by lower-staking B3 and slots

### RETAIL NET REVENUE £M

# +2.0%

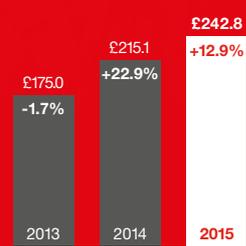


## DIGITAL

- Sportsbook staking up 29%<sup>(2)</sup>
- Gaming net revenue up 13.3%<sup>(2)</sup>
- Total actives up 15%<sup>(2)</sup>

### TOTAL DIGITAL<sup>(3)</sup> NET REVENUE £M

# +12.9%

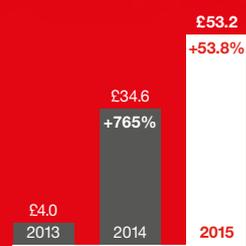


## AUSTRALIA

- Staking up 47%, net revenue up 54%, actives up 65%
- Number 3 in brand awareness<sup>(4)</sup> from a standing start two years ago

### AUSTRALIA NET REVENUE £M

# +53.8%



(1) Profit before tax, net finance expense and exceptional items.

(2) Ladbrokes.com

(3) Includes Ladbrokes.com and Exchanges, Australia and other regulated operations.

(4) Among corporate bookmakers.

# Building a better Ladbrokes

We aim to make Ladbrokes the best loved brand, with a focus on growing our recreational customer base by giving them the best betting experiences. We are investing in retail, digital and new markets so that **wherever, however** and **whenever** our customers choose to bet, we are their bookmaker of choice.

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## Chairman's statement

“The task is clear, ‘Build a Better Ladbrokes’ and deliver the growth to return the business to one that wins more customers and rewards shareholders.”



With this in mind the immediate future for Ladbrokes is one of opportunity and expectation.

It was with a sense of pride that at the end of 2015 I stepped up to be Chairman of what I regard as one of the biggest and most influential bookmakers. It is a great honour to lead this Company but it also comes with a weight of expectation as we look forward to 2016. I am acutely aware that shareholders have seen recent false dawns and am mindful that your patience has been tested.

While we have ended 2015 confident in the plans laid out by our Chief Executive, Jim Mullen, both for organic growth and for the proposed merger with the Coral Group, we have to acknowledge that these plans come at a cost. The cut in profits and the dividend were necessary steps as part of our journey.

But the task for Ladbrokes is to look forward. 2016 will be an exciting year full of opportunities. The organic plan to grow is showing encouraging signs and creating a belief in our ability to deliver scale and drive Ladbrokes back to former heights and beyond.

The proposed merger with Coral is a fast track to scale and we are pleased that shareholders gave it such a vote of confidence at the General Meeting in November 2015. The competition authorities will not be easy to satisfy, but if we are successful, as we expect to be, the opportunities created are compelling.

### **Building for long term**

The appointment of Jim Mullen came after the Board decided that a new approach was needed for the business. The task set out to him was clear, build a stronger Ladbrokes and gain the scale needed to compete ever more effectively in a challenging market.

Jim and his team were quick to move the business away from the short-term approach that had dominated, to one with a clear plan and longer term targets. Jim has united the Company behind his plan to create a business with more recreational customers, more digital revenue and growing profits by 2017.

He has been clear from day one, that the talent in the business never left, it just needed the encouragement and investment to demonstrate its expertise, particularly around sport. It has been a focus of his tenure and we believe the encouraging customer metrics seen in the second half reflect well on just how much talent there is in the business.

In parallel to Jim's ambition to get Ladbrokes back as the sports betting destination of choice for the recreational customer, he also took forward the discussion on the potential merger with Coral to the point where we now are going through the competition authority process to bring this to fruition.

Throughout the year ahead, the Board are clear on the executive team's task, focus on delivery of the day to day business, increase our appeal to the recreational customer and be ready to exploit the opportunities offered by the merger.

### **Merger**

The rationale behind our merger is clear. Organically our plan recognises that we need to grow to have scale to compete even more effectively in the market. It will create an industry leading retail, digital and international business with huge potential to build scale, and gain wide customer appeal.

We will have the opportunity to create a leading management team by choosing the best of both brands in terms of people, systems and operational excellence. Crucially it also offers significant ongoing synergy benefits of at least £65 million per annum after year three.

The case for the merger is one that you have already backed loud and clear but none of us underestimate the challenge in execution.

### **Leading the way**

2015 has seen yet more change in our market as the ever growing burden of regulation and taxation created the rationale for consolidation. We were quick to realise that this challenge offered an opportunity and moved early with our proposed merger. Others followed and over time we expect more to do so.

We have also seen the continued evolution of the customer and their habits, both on the High Street and in the digital world. The customer expectation of a good retail offer is evolving and that is why we have, and will, continue to look to innovate and to build a multi-channel, or 'One Ladbrokes' approach, as we call it.

### **Regulation**

As ever we continue to face regulatory and political headwinds. In recent years, we have seen the introduction of Point of Consumption tax, increases in Machines Games Duty, machine stake regulations and advertising restrictions.

We are a business in a sector where we accept that there should be an appropriate level of regulation. However, after such high levels of change in such a short period we do believe that it is time for there to be a pause, so that all the changes can bed in and their effectiveness be properly assessed.

While some of the change is outside our control, we seek to lead the industry in best practice. We have actively led and supported self regulation initiatives such as the Senet Group and we remain committed to focusing on fulfilling our license objectives and delivering a safe and responsible offer to our customers.

### **Board focus**

Your Board has undergone several changes this year and after over six years as Chairman, Peter Erskine stood down in December. He leaves with our very best wishes and thanks for all his hard work.

Darren Shapland also stood down from the Board after six years, five as Chair of the Audit Committee. We were delighted towards the end of the financial year to announce that Mark Pain would be joining as the new Chair of the Audit Committee, a role he will maintain in Ladbrokes Coral PLC. Mark has tremendous experience as both an executive and non executive Director and I am delighted that he has agreed to join us.

Finally in September we announced that this year's set of results would be the last for Ian Bull as our Chief Financial Officer. He left us in early 2016 and has been replaced by Richard Snow, who was our Director of Investor Relations. Richard is a chartered accountant by training and has spent his career in banking and in public companies. He will not join the Board but will attend all Board meetings.

With the option of a potential merger ahead, it is not surprising that there is a changing of the guard on the Board. Indeed I think it is essential that we keep the thinking and overview of the business fresh while maintaining experience and knowledge.

As a Board we are keen to ensure that we take a detailed view on not just the issues of today but also longer-term ones. You won't be surprised to know that key decisions such as the merger, our refinancing and the examinership process in the Republic of Ireland were all heavily discussed as well as those for the longer term such as talent management, culture and risk management systems. You can see more on our activities in the Corporate Governance section.

### **Looking ahead**

As I said in my introduction, 2016 is a year both of excitement and expectation for Ladbrokes.

We have a strong brand and a team that is enabling that brand to punch its weight in a very competitive market. We are determined to build on this foundation for the benefit of our customers, shareholders and employees.

The merger, should it be approved, will give us execution challenges. While we will allocate the resources to ensure we hit the ground running, we will be prudent in our approach and not risk our standalone performance. This will be a balancing act but the Board aim to ensure it is one we deliver.

We are confident that while 2016 will be as competitive as ever, we have the right leader, the right team and the right plan to get our brand back to what it does best; sports betting expertise allied to competitive products and excellent customer focus.

There is now a clear sense of purpose and belief amongst our people and this cannot be underestimated, because as ever it is our people who will be the key to our success and we remain thankful for all their hard work and dedication. The value it provides will never be taken for granted.



**John M Kelly**  
Chairman

## Group at a glance

We announced an aggressive three year investment programme in July 2015 to build a better Ladbrokes. The 2015 results reflect the need to carry out this significant investment to build our recreational customer base. The plan is based on ensuring that the customer and sports betting is front and centre in all that we do.

### GROUP NET REVENUE<sup>(1)</sup>

# £1,195.5m

+3.2%

### OPERATING PROFIT<sup>(1)(2)</sup>

# £80.6m

-35.7%

### DIVIDEND

# 3.0p

2014: 8.9p

#### DIGITAL

## 20.3%

Digital and Mobile sportsbetting is the fastest growing betting and gaming market.

#### EUROPEAN RETAIL

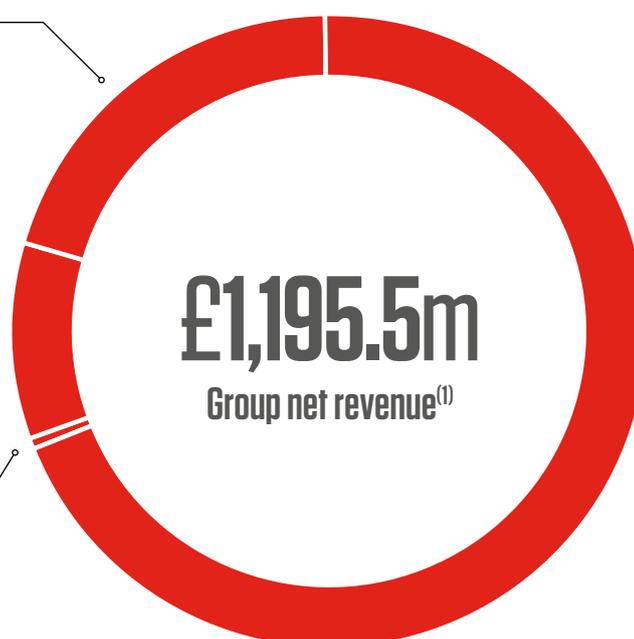
## 10.0%

Ladbrokes has extended its retail expertise to European markets including Spain, Belgium and Ireland.

#### TELEPHONE

## 0.5%

Telephone betting remains relevant to some customers.



#### UK RETAIL

## 69.2%

Our traditional business. Still relevant to our customers and a strong generator of cash flow.

(1) Excluding High Rollers. We exclude High Rollers to provide information on the underlying performance of the Group as they vary significantly year on year.

(2) Profit before tax, net finance expense and exceptional items of £99.3m (2014: £73.4m). After including profit from High Rollers of £3.3m (2014: £14.2m) and deducting exceptional items of £99.3m (2014: £73.4m) the statutory loss before interest expense and tax was £15.4m (2014: profit of £66.2m).

## UK RETAIL



Ladbrokes is a familiar name on British highstreets. Revenue is driven by traditional Over the Counter (OTC) betting on football, horse and greyhound racing as well as other sports and by machines.

| Net revenue    | Operating profit <sup>(1)</sup> | Average number of shops |
|----------------|---------------------------------|-------------------------|
| <b>£827.4m</b> | <b>£116.1m</b>                  | <b>2,177</b>            |
| +2.0%          | -2.7%                           |                         |

## DIGITAL



Our Digital business is aimed at giving customers a great user experience whenever and however they choose to bet. With mobile now accounting for circa 71% of our sportsbook staking our focus has been to evolve our product in line with the ever changing customer preferences.

| Net revenue    | Operating loss <sup>(1)</sup> | Unique active players <sup>(2)</sup> |
|----------------|-------------------------------|--------------------------------------|
| <b>£242.8m</b> | <b>£-23.8m</b>                | <b>1,104,000</b>                     |
| +12.9%         | -270.0%                       | +15%                                 |

## EUROPEAN RETAIL



We operate successful retail businesses in Ireland, Belgium and Spain where our joint venture enjoys increasing brand recognition and is growing strongly.

| Net revenue    | Operating profit <sup>(1)</sup> | Number of outlets |
|----------------|---------------------------------|-------------------|
| <b>£119.8m</b> | <b>£14.5m</b>                   | <b>2,135</b>      |
| -1.9%          | +11.5%                          | +16.8%            |

## TELEPHONE



Despite a growing customer preference for betting online, traditional telephone betting remains popular with a number of customers. We also operate a telephone service for our High Roller customers.

| Net revenue  | Operating loss <sup>(1)</sup> | High Rollers operating profit <sup>(1)</sup> |
|--------------|-------------------------------|--|
| <b>£5.5m</b> | <b>£-2.2m</b>                 | <b>£3.3m</b>                                 |
| -46.1%       | -210.0%                       | -76.8%                                       |

(1) Profit before tax, net finance expense and exceptional items.

(2) Ladbrokes.com only.

# Business model

Ladbrokes aim to deliver long-term value to shareholders and an exciting gambling experience to customers.

Our business is built on bookmaking expertise delivered through retail and telephone operations as well as Mobile and Digital services.

We are a brand leader in the UK, Ireland and Belgium, a growing force through our joint venture in Spain and we are developing good business opportunities in other key territories.

We are a regulated business and take our regulatory licensing conditions seriously. In delivering our strategy we regard health and safety and responsible gambling as a non-negotiable in how we go about our everyday business.

We aim to be available to the customer at their convenience and provide a fun experience wherever, however and whenever they choose to play with us.

**We leverage our resources**

|   |  |
|---|--|
| Brand leadership<br>Trading expertise and systems<br>Heritage<br>Market insight | Technology<br>Best of breed product<br>Best in class partners and supplier relationships |
|---|--|

**through all channels**

Retail ———  ——— Digital

**in our chosen markets**

|  |  |  |
|--|--|--|
| <b>Established</b><br>UK • Ireland • Belgium |  | <b>New</b><br>Australia • US • China • Spain |
|--|--|--|

**remaining aware of our responsibilities**

|            |                      |                      |
|------------|----------------------|----------------------|
| Regulation | Responsible gambling | Community engagement |
|------------|----------------------|----------------------|

**to deliver our promise**

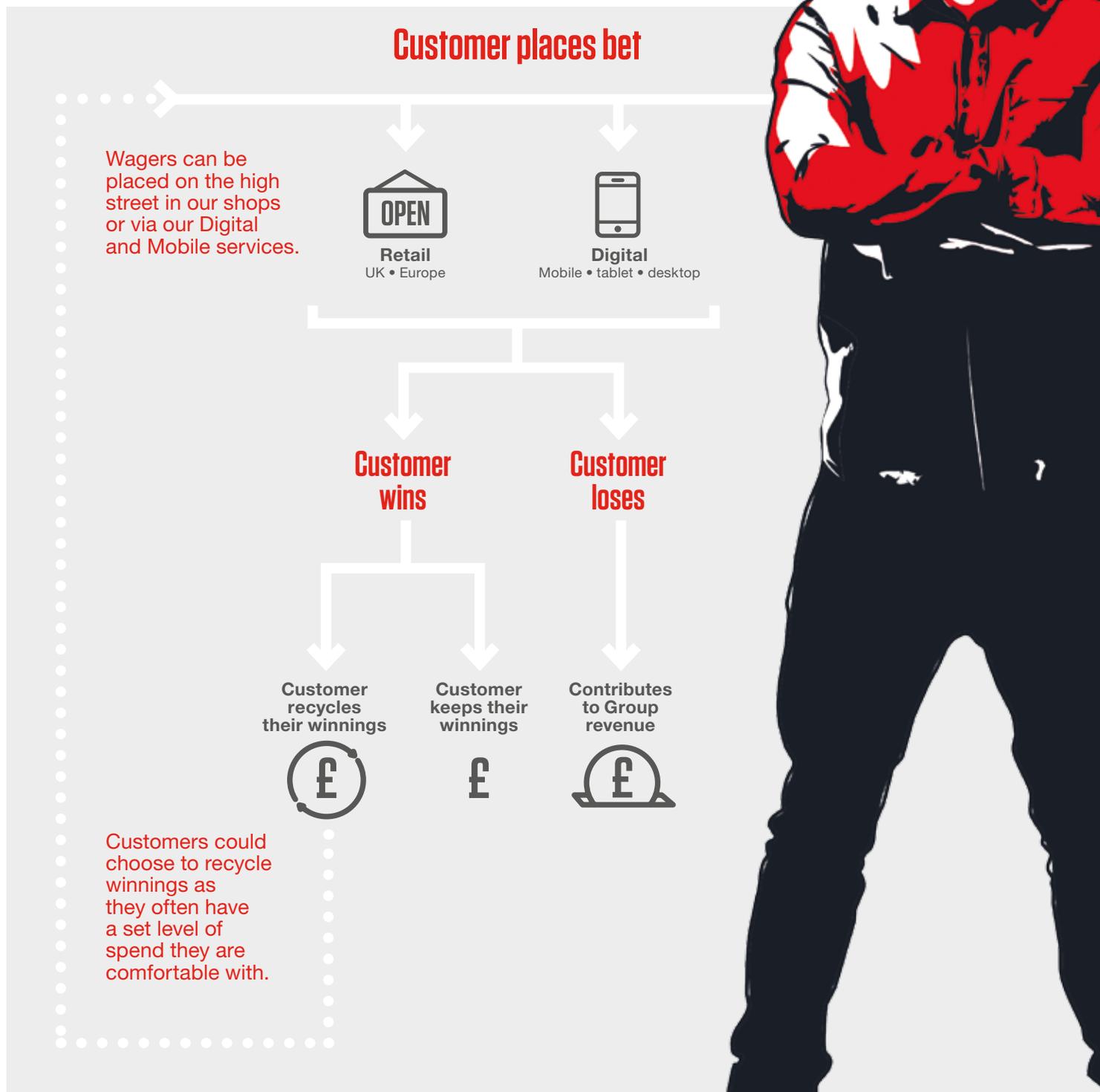
**AN EXCITING AND ENGAGING GAMING EXPERIENCE**

**and to generate returns and long-term value**

|                           |   |   |
|---------------------------|---|---|
| Dividends to shareholders | Interest and repayments to bond holders | Investment in our people, operations and businesses |
|---------------------------|---|---|

## Life of a bet

Customers enjoy placing a bet to enhance the fun of a sporting event and to experience the excitement offered by casino games.



# The betting year 2015

MARCH

## THE SIX NATIONS



The Six Nations was one of the most exciting in recent history. England, Ireland and Wales went into the final weekend all equal on six points and it was inevitable the title would come down to points difference. What ensued was the highest scoring weekend of the Six Nations on record, with all three teams in contention covering the handicap and costing bookmakers dearly. Ireland's tournament win (2/1 beforehand) was a decent consolation.

JUNE

## THE DERBY



Frankie Dettori riding the favourite to victory in The Derby was never likely to be a good result. Golden Horn's win at Epsom was just the first of a string of costly big race triumphs as he went on to take the Eclipse, Champion Stakes and Arc carrying customers with him all the way.

## Key events of 2015

### JANUARY

#### PDC Darts World Championship

Gary Anderson may have been the 5/1 third favourite coming into the PDC Darts World Championship, but some shrewd customers had taken 25/1 and bigger in the months leading up to the tournament so while it was not the worst result in the book for us, it wasn't the best either.

### FEBRUARY

#### Super Bowl

The New England Patriots' dramatic win over the Seattle Seahawks turned out to be one of the best sporting results of the entire year for Ladbrokes. In-running betting was huge, as the result was still in doubt down to the last few seconds of the match.

### APRIL

#### Grand National

Many Clouds' 33/1 victory made it three great results in a row in the biggest race of the year. We had been sweating on a huge payout had Tony McCoy's last ever ride on Shutthefrontdoor, been successful. In the end, despite leading for a long time and causing us some concern, he faded into fifth place.

### MAY

#### Mayweather v Pacquiao

The Fight of the Century went exactly as our oddsmakers predicted with a points win for Mayweather over Pacquiao and a £1 million pound plus profit for Ladbrokes in the biggest betting heat in boxing history.

Unfortunately, all of that and more went back to political punters five days later as a shock Tory majority in the general election cost us dearly. One Glasgow shop customer collected almost a quarter of a million on a £30,000 bet at 7/1.

SEPTEMBER

THE  
ST LEGER

The Ladbrokes St Leger proved to be one of the biggest horse racing stories of the year. Simple Verse passed the winning post in first place only to be disqualified by the Stewards on the day, seemingly handing the world's oldest Classic to Bondi Beach. The story didn't end there; an appeal was lodged and weeks later the British Horseracing Authority sensationally reversed the decision and handed the victory back to Simple Verse. Ladbrokes paid out backers of both horses, costing us an extra £1m, but the month-long publicity surrounding the race softened the blow.

NOVEMBER

PREMIER  
LEAGUE

Ante-post betting slips around the country were being torn up as pre-season favourites Chelsea drifted from 5/4 to 100/1 to win the Premier League following a dismal run of form for The Blues. Conversely, Leicester City's incredible start saw bookies sweating on some potential huge payouts to fans who had backed them at odds as big as 5,000/1.

JULY

## Wimbledon

Ante-post favourites Djokovic and Serena Williams both delivered at Wimbledon and a string of pre-tournament doubles hit bookmakers everywhere.

Zach Johnson's win in the Open play-off saw a £1 million swing in our favour over Racing Post tip, Louis Oosthuizen. Otherwise the golfing year was dominated by punters' favourites Spieth, Day and McIlroy.

AUGUST

## Challenge Cup

Rugby League may not, to some, be considered a mainstream sport, but to its passionate supporters it is number one for both the dedication and sporting excellence of the stars that play.

In 2015 we took up the sponsorship of the Challenge Cup, the most prestigious tournament in rugby league. It has been a great success. Not only has it engaged our northern customers, but we gained national television exposure culminating in The Challenge Cup Final, a well watched event with Ladbrokes' branding everywhere.

OCTOBER

## Rugby World Cup

Despite favourites New Zealand winning the Rugby World Cup (and England's early exit), record breaking in-play betting resulted in a hugely profitable tournament. A few surprise results helped, notably Japan's incredible 66/1 win over South Africa.

DECEMBER

## Fury v Klitschko

Despite Tyson Fury being a 4/1 outsider to beat Klitschko, patriotic punters in the shops made this a small losing result for the books.

# Strategic priorities Building a better Ladbrokes

## STRATEGY PILLARS

### 1 UK: GROW RECREATIONAL CUSTOMER BASE

- Increase marketing: brand, call to action, sponsorship
- Grow football customer base
- Grow use of Self Service Betting Terminals
- Reinforce sports betting culture and expertise
- Grow Ladbrokes.com; sportsbook and mobile

## PROGRESS SINCE JULY

- Scottish Professional Football Leagues sponsorship launched
- UK Retail football staking up 13% year on year since start of 2015/16 season
- Over 3,500 SSBTs rolled out, 8% of OTC staking in Q4 2015
- Sporting Passion campaign launched and tablets for retail shops rolled out
- Ladbrokes.com, sportsbook football staking growth of 37% in 2015
- Mobile now 71% of sportsbook stakes

### 2 UK: DEVELOP MULTI-CHANNEL

- Innovate product and deliver better customer experience
- Incentivise Ladbrokes colleagues

- 35,000 multi-channel actives by end of 2015
- My bets, cash out, cash in, track 'My Accas' launched
- One million uses of bet tracker by end of 2015
- £20 - £30 incentive for each successful digital sign up launched for retail colleagues
- 6,200 retail colleagues rewarded for recruiting digital customers
- £1000+ earned by some colleagues through multi-channel recruitment incentives

### 3 UK: INCREASE FOOTFALL IN RETAIL

- Address historic under investment
- Increase proportion of football customers
- Roll out Self Service Betting Terminals to differentiate offer
- Reinforce sports betting culture and expertise

- Planning of works to address under investment undertaken in H2
- 2ppt growth at end of Q4 for football as a percentage of staking
- Over 3,500 SSBTs rolled out, UK estate now has 6,408
- Sporting passion internal campaign launched

### 4 AUSTRALIA: GROW MARKET SHARE

- Maintain aggressive marketing intensity
- Grow product pipeline building on innovative brand reputation

- No 3 in brand awareness<sup>(1)</sup>, from zero three years ago
- Retail Cash in launched utilising 1,000 newsagents
- Bet In Play launched – delivered 10% of staking

(1) Among corporate bookmakers.

**PRIORITIES IN 2016**

- Continued increased marketing drive
- Continued growth of football product
- Delivery of England FA sponsorship opportunity
- Grow SSBT staking
- Sports Expert training to commence
- Product evolution on Ladbrokes.com to drive greater sportsbook staking
- Maximise opportunity of 2016 European championships

- Recruitment of more multi-channel customers
- Product development to give customer better user experience
- Further refinement of incentive for employees
- Roll out multi-channel opportunities overseas

- Shop fabric investment to roll out in H1 – c£11m committed
- Target competitive shops for investment
- Grow SSBT staking
- Sports Expert training to commence
- Sporting Passion campaign to continue

- Successful delivery of Ladbrokes Park sponsorship (formerly Sandown Park) and Ladbrokes Caulfield Classic and Ladbrokes Caulfield Stakes
- Continued investment in marketing
- Continued product evolution

**RELEVANT RISKS****Betting and gaming industry**

- Taxes, laws regulations and licensing, regulatory compliance
- Increased cost of product

**Operational and bookmaking**

- Trading, liability management and pricing
- Loss of key locations
- Recruitment and retention of key employees and succession planning

**Information technology and communications**

- Technology failure
- Data management
- Failure in the supply chain

**Marketplace**

- Competition
- Health and safety

**Betting and gaming industry**

- Taxes, laws regulations and licensing, regulatory compliance
- Increased cost of product

**Operational and bookmaking**

- Trading, liability management and pricing
- Loss of key locations
- Recruitment and retention of key employees and succession planning

**Information technology and communications**

- Technology failure
- Data management
- Failure in the supply chain

**Marketplace**

- Competition
- Health and safety

**Betting and gaming industry**

- Taxes, laws regulations and licensing, regulatory compliance

**Operational and bookmaking**

- Trading, liability management and pricing

**Information technology and communications**

- Technology failure
- Failure in the supply chain

**Marketplace**

- Competition
- Health and safety

**Betting and gaming industry**

- Taxes, laws regulations and licensing, regulatory compliance

**Operational and bookmaking**

- Trading, liability management and pricing
- Loss of key locations
- Recruitment and retention of key employees and succession planning

**Information technology and communications**

- Technology failure
- Data management
- Failure in the supply chain

**Marketplace**

- Competition
- Health and safety

**2017 TARGETS****UK Retail**

- Net revenue per shop greater than full year 2014 (World Cup year)
- EBIT per shop greater than full year 2014 (World Cup year)

**Digital**

- Total Digital making up 30% of Group net revenue
- Ladbrokes.com actives over 1.3m
- Ladbrokes Australia net revenue greater than twice the 2014 full year figure

## Chief Executive's review

“In 2015, we made positive progress and customer traction with continued increases in Digital and UK Retail. We saw customers responding well to our products, our value and recently launched multi-channel offer.”



### Overview

After a short and intense internal review, it was clear that we needed to change the way we ran the business, build scale, respond faster to the customer and create a sense of urgency across the business.

In July, we announced an aggressive three year investment programme to build our UK Retail, Digital and Australian recreational customer base. The plan is based on restoring a culture of sporting passion and pride in what we do at Ladbrokes and in ensuring that the recreational customer and sports betting is front and centre in all that we do.

The plan was not without challenges and came at a cost as we sought to address urgently the need to invest more heavily in the business, with an inevitable and significant reduction in our profit expectations and cutting the dividend to finance our strategy for growth.

The fall in operating profit in 2015 highlights the reality of our situation, the significant burden of c.£50m increased tax and regulation on our industry and the financial impact of delivering the plan.

It is pleasing that after two quarters of execution of our plan, we can report progress. We take encouragement that the customer metrics and revenue growth in H2 demonstrate a good response from our customers to our focus on people, product and promotions and reflect positively on some of the cultural and operational changes that have taken place. The challenge for Ladbrokes is to build on this start and remain intensely focused on reaching or exceeding the 2017 financial targets we set out in July.

The year ended with Group operating profit of £80.6m<sup>(1)</sup>, which was slightly ahead of expectations with better results in UK Retail in Q4 and somewhat stronger operational trends being the key drivers to this performance.

Within all our key strategy areas we saw improved performance in the second half, helping full year Group net revenue grow 3.2% year on year (excluding High Rollers) against a period which included the 2014 World Cup.

UK Retail in particular performed strongly and we saw an increasing contribution from our market leading Self Serving Betting Terminal (SSBT) estate and encouraging H2 OTC staking trends. Machines, where our strategy is to grow lower staking play through the regular introduction of new slots based games, also performed well.

In Digital, the Point of Consumption (POC) tax, the increased H2 marketing investment required to implement our strategy and the loss we recorded from HVCs in Q1 contributed to a significant decline in profitability. However, while the full year reflected issues both within and outside of our control, we were encouraged by the exit trends we saw under the new strategy with net revenue growth in Q4 at 31.4% and Ladbrokes.com net revenue up 28.4%.

Australia has been one of our strongest performing businesses and, despite strong competition in this market, it delivered net revenue up 70.9% in the year and up 76.3% in Q4 on local currency basis, somewhat ahead of our expectations in July.

### Strategy implementation

Following the announcement of our new strategy, the Group has focused on implementing its plan to grow recreational scale across UK Retail, Ladbrokes.com and Australia. This growth is being driven by increasing direct and brand marketing expenditure; through offering focused value propositions to our customers; and through the continuous delivery of innovative products, including, importantly, multi-channel products and services.

#### UK Retail

In UK Retail, we have sought to increase our appeal to a wider recreational customer base through a focus on people, product and promotions.

We have begun to engage our people on a journey that puts sports betting and sports expertise back at the heart of our offer. We have rolled out tablets to every shop to help promote better communication, training and product knowledge. We also established a retail experience programme to promote greater service standards in our retail estate and have recently begun the process to identify sports experts in every marketplace to help create the strongest sports betting proposition on the High Street.

Our focus has largely been on attracting the recreational football customer and we have invested heavily in marketing and sponsorships that support this aim. We have also advertised more in key media across the UK with 26% year on year increases in red top and TV media. Staking for the 2015/16 football season was up an encouraging 13.2% at the year end with gross win up 28.6% as the English premier league unpredictability contributed to a strong finish to the year.

Our product initiatives have been based around two key innovations in our offer, SSBTs and multi-channel.

We took the decision to create the UK's largest SSBT estate, based on the growing customer interest we had seen in the existing offer. We successfully rolled out over 3,500 new SSBTs in H2 to complement our existing offer and now have at least one in every shop with some of our busier shops, as determined by our local management teams, hosting up to eight terminals.

The range of betting opportunities and markets held on each terminal creates the ability for the customer to create their own multiple bets across a multitude of sports and international territories from the convenience of the UK High Street. The performance of the SSBT product has been strong, growing from just 3% of OTC staking in Q4 2014 to over 8% at the end of 2015. They have proved popular in growing our appeal with customers in the 18-35 year old segment whose primary interest is in football and over 75% of SSBT staking is on football. In addition, they allow customers to bet in-play thereby aligning our retail offer with services our digital customers already enjoy, and while in play accounts for over 30% of SSBT staking in Q4, we see this as an opportunity for further development. With the full roll out now complete, our attention has turned to optimising their performance through promotion of the product and enhancing the proposition. This will help them appeal to a wider range of customers as well as developing our in play business and driving more multiple bets.

Late in Q2 we launched our multi-channel (One Ladbrokes) offer following successful regional trials to attract the recreational customer and specifically targeted our launch to coincide with the football season. We are focused on growing digital actives through the combination of digital and OTC oriented technology products.

The One Ladbrokes appeal is focused on a product driven strategy and already customers can take advantage of products such as retail cash out, bet status trackers, my Accas, live scoreboards and the ability to transfer winnings online. These facilities have proved incredibly popular with over one million bet tracker checks by the year end. The product appeals typically to the younger recreational customer, 56% of signs ups are under 35, and so far we have seen the value of these customers is greater than a pure Ladbrokes.com only customer. All selling of the multi-channel offer has been via our High Street shop estate utilising a retail distribution network of over 2,000 shops.

**GROWTH<sup>(2)</sup>**  
**IN MOBILE SPORTSBOOK**

**+69.4%**

**INCREASE**  
**IN OTC FOOTBALL STAKING**

**+7.8%** (in H2)

(1) Excludes exceptional items and High Rollers.

(2) Ladbrokes.com

## Chief Executive's review continued

We have allied market leading product with a cost effective cash incentive to our retail colleagues to recruit customers. I have been delighted by the response of our retail teams to our multi-channel offer and they have been central to us recruiting over 35,000 new digital actives by year end. Customer recruitment continues to progress well. We believe that this combination can continue to grow our multi-channel customer base further, a view backed up by the first few weeks of 2016 and further re-enforces our view that the retail estate still has a very active role in the modern High Street.

We continue to see the benefit of investing some margin to deliver value offers to our customers in key sports through promotions such as Best Odds Guaranteed and Happy Hour or by products such as Top Prices Top Teams. Our colleagues tell us that they have driven the appeal of our retail offer as well as increased the belief of our own retail teams in our competitive proposition. It perhaps should not be a surprise that with this confidence in our people, the trends on our OTC business have improved.

Finally we have seen continued strong performance in our machine product. The key driver in this growth has been through increased play on lower stake slot games. We have grown the percentage of gross win from slots from 33% in Q4 2014 to 40% in Q4 2015. This has been a key part of our machine strategy as we move away from higher stake content and focus on lower value staking games. We launched 27 new slot games in the year compared to just five casino B2 games. Within our machine performance we also complied with all the new DCMS regulations on £50+ staking which saw a 68% reduction in that form of play.

Having prioritised establishing the largest SSBT estate in the UK in H2 2015, we are beginning to invest the £25-30m capital investment programme we set out in July across the UK Retail estate. We expect to spend up to £11m in 2016 improving the core fabric of our estate where the competitive position or local market is expected to deliver an incremental return.

### Digital

In Ladbrokes.com, where we had already established a strong sports betting and gaming product, we launched our new desktop product on the Mobenga platform, introduced cash out options across all sports betting platforms and implemented the next level of IMS creating a competitive single wallet offer for customers.

We continued to focus on increasing the quality of content available to customers on our key digital products including live scoreboards and increased the ease of access to live streamed sporting events. However, as announced in July, in the second half of the year we set about to ensure that more people were aware of our product and the significant journey of improvement it had been on. As planned, we increased our marketing intensity to over 30% of net revenue, with a focus on pay per click and affiliate channels. While the overall profit performance of Ladbrokes.com reflects the impact of increased taxation and marketing and product investment, the customer trend data as we exited the year gives cause for encouragement and we will continue to invest heavily in marketing as we approach the European Football championships in June 2016.

Sportsbook has now seen eight consecutive quarters of staking growth and despite coming up against a tough prior year comparative, it ended the year up 44% in Q4. Outside of the Grand National, Boxing Day 2015 saw the highest ever number of actives, 87,000 playing on our sportsbook, crucially showing that while new tablets, laptops and phones were unwrapped on Christmas day, our applications were willingly transferred by the customer. In the few weeks since the start of the new financial year, this number looks increasingly within reach for a normal Saturday. The customer preference to access products from mobile devices continued in the year and grew from 54% of our sportsbook stakes in 2014 to 71% at year end.

While product innovation has driven the sportsbook performance, we have seen the ability to cross sell to Gaming enhanced by the delivery of the IMS single wallet functionality in the year.

In Gaming we delivered our fifth consecutive quarter of growth in Q4, with customers responding well to weekly releases of new games, a new Casino website and the introduction of Live Dealer on all mobile platforms.

As with sportsbook, the attraction of mobile play to the customer continues and it now accounts for 52% of gaming play, up from 34% in 2014.

I called Australia one of the hidden jewels in the Ladbrokes crown in July. With stakes up 63%, actives up 65% and net revenue up 71% (local currency) it has continued to go from strength to strength. The strategy in Australia is to take the team's dedication to innovative products to build a strong customer base backed by a strong investment in brand awareness.

In the year, the business has launched partial cash out offers across all markets. It has also started to drive multi-channel growth through the innovative 'Cash In' feature that allows customers to instantly deposit money into their Ladbrokes account at over 1,000 participating newsagents across Australia. While the performance of the business has been encouraging across the board, we are particularly encouraged by how quickly the brand has grown reaching number three in the year among corporate bookmakers from a standing start in 2013. To keep up this momentum Ladbrokes Australia has become the official corporate bookmaker for the Melbourne

## AUSTRALIA STAKING INCREASE 2015<sup>(3)</sup>

# +62.9%

(3) Local currency

Racing Club from 1 January 2016 with Sandown Racecourse being renamed Ladbrokes Park and Ladbrokes will be official sponsor for key races including the Ladbrokes Caulfield Classic and Ladbrokes Caulfield Stakes.

### European Retail

In Belgium and Spain we are continuing our existing strategies for growth, building on leading retail positions to develop a multi-channel offer.

Belgium retail performance has been good with non-horse sports betting, evening openings and some investment in our estate fabric helping offset horse racing decline. The retail highlight has been our product innovation in introducing SSBTs and utilising virtual sports on them. Although there is some regulatory uncertainty over virtual sports betting in Belgium, we continue to remain positive on the potential for SSBTs in Belgium retail.

In Spain, through our joint venture, we continue to expand into new territories and saw encouraging profit growth in the more established regions such as Madrid and Aragon. In Catalunya we have achieved the number one market position in retail and saw over 200% growth in net revenue in the year. While our strategy of continuous expansion does come at a continued small operating loss, progress in established territories remains encouraging for the longer-term success of the business. We also took on the role as the official betting partner to La Liga and the raised Sportium brand profile has assisted an encouraging digital performance.

In early Q2, we took the decision to place our Republic of Ireland business into Examinership in order to establish a more viable and competitive business. We exited the process in July with a reduced estate and a reduction in workforce achieved almost entirely through a voluntary redundancy programme. The steps we took allied to a more visibly promotion led business strategy has seen the Republic return to good staking growth and profitability in the second half of 2015. Multi-channel represents an exciting opportunity for Ireland and we used our successful experience of the UK launch to roll out the product in January 2016.

### Regulation and Taxation Developments

2015 showed the impact regulation and taxation can have on our business. The increases in MGD and the introduction of POC tax account for c.£50million reduction in our full year operating profit.

We also introduced new DCMS regulations around the playing of B2 games at stakes above £50 in April. This had a significant impact in reducing the higher stakes B2 play and has driven the reduction in stakes at £50+ by just under 70%.

While my central focus has been on delivering the growth in our business necessary to build scale and return value to shareholders, I have been very clear that in delivering my plan we have two non-negotiables in our approach, health and safety and responsible gambling.

We are clear that gambling should be a safe and enjoyable pastime for both our colleagues and customers.

As part of this commitment we have undertaken a review of our approach to health and safety throughout the business. We have also committed to move to single scheduling as a voluntary only policy in the evenings and this is being rolled out through the estate with a target date of being fully operational by autumn. While this will have a financial cost, this is already factored into our wider view on a 2-3% rise in UK Retail operating costs in 2016.

As part of our commitment to responsible gambling we have continued to develop our retail algorithm which identifies changes in behaviour indicating potential problem gambling and assist in helping customers keep their gambling fun. It now covers all customers using cards in our retail estate on both machines and OTC products. We also launched a responsible gambling matrix in our Ladbrokes.com business late in the year. We have continued our membership of Senet and played a key role in the wider self-exclusion pilot schemes ahead of the national scheme to be rolled out in Q2 this year. 2015 was also the first year that responsible gambling targets were included in executive remuneration, and we believe we are the only company in the industry to have done so.

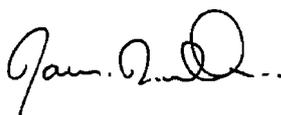
### Proposed merger

The proposed merger with the Coral Group was announced in July 2015 and we are grateful for the strong support from shareholders in November. We are now actively engaged with the Competition and Markets Authority ("CMA") in the formal phase two process. We expect to see the preliminary findings of the CMA in late April with the current timetable for publication of the final report being 24 June 2016 in line with the merger timetable we set out last July.

While this process takes place, we will continue to focus on the implementation of the organic strategy and the delivery of business as usual.

### Outlook

Our H2 results give us encouragement that our strategy is working. The current year has started well, as the unpredictability of the football season has thus far favoured bookmakers. Customer metrics continue to remain strong and, as a result we maintain our view for 2016. It will be a year of hard work, attention to detail and continued investment as we set about delivering against our 2017 targets.



**Jim Mullen**  
Chief Executive

We aim to deliver the most engaging sports betting and gaming experience and be the brand of choice for the customers, whether they are at home, out and about or on the High Street. We have seen customers responding well to our products, value and recently launched multi-channel offer.



## WHEREVER



Through our multi-channel offer, we have recruited over 35,000 digital actives. Customers are responding well to our **product innovation** such as the **Bet Slip Tracker** which has already been used over 1,000,000 times since the start of the football season. In Australia, our team has been the first to market with **Cash-in**, a product that allows customers to make deposit from their online accounts using cash/credit card via newsagents.

## HOWEVER



We are growing our Digital actives through **increased marketing and sponsorship** across all media that appeals to the **recreational customer**. This is backed by a focus on products and experience. In the UK we now have over 6,400 **SSBT's** across the estate and staking has grown 144% in the year. Customers are responding well to our **promotions** such as Best Odds Guaranteed and Top Prices Top Teams.

## WHENEVER



In **Ladbrokes.com** we have launched new desktop products and introduced cash-out options across our sports betting platform. Customers are increasingly using our **Mobile offer** to place sports bet as well as enjoy the thrill of casino games on the go.

### MULTI-CHANNEL ACTIVES

# 35,000

### LADBROKES.COM MARKETING

# 32.2%

% of net revenue

### MOBILE STAKING

# 70.5%

% of Sportsbook

### MULTI-CHANNEL AGE PROFILE

# 56%

aged between 18-35

### TOTAL SSBT ESTATE

# 6,408

### SPORTSBOOK ACTIVES

# 10%

growth year on year

# UK Retail

In UK Retail, we launched our multi-channel 'One Ladbrokes' offer nationwide following successful regional trials. This will capitalise on our strength in UK Retail and maximise the value of our existing and future customer relationships.

## UK RETAIL NET REVENUE

# £827.4m

+2.0%

## UK RETAIL OPERATING PROFIT<sup>(2)</sup>

# £116.1m

-2.7%

## Retail investment delivering revenue growth in machines and football, positive OTC staking trends in H2

Our UK Retail business performed ahead of our expectations for 2015 reflecting a stronger OTC and machines performance, continued cost control and better results driven margins in Q4. Overall, net revenue increased by 2.0% driven by strong SSBT and machine performance and operating profit declined by 2.7%, much less than the impact from the significant increase in Machines Games Duty from 1 March.

Despite the impact of the 2014 World Cup in the comparable period, OTC staking declined by only 2.1% or 0.4% on a like for like basis. Excluding the World Cup, OTC staking was in line with the prior year or up 1.7% on a like for like basis with H2 returning to growth. Football staking was down 1.5%, but excluding the World Cup period we saw underlying growth of c.14% and following the start of the English Premiership in August, football staking grew by 13.2%.

Gross win margin for the year was 16.2% (2014:16.4%). In H1 we experienced lower OTC margin reflecting the industry wide football losses in Q1 and weaker horse racing margins from our sustained focus on value for customers and customer friendly results. However, the favourable football results towards the end of the year avoided a potentially weaker result.

SSBTs, which are included in OTC, generated stakes of £117.4m, up 144%, with over 76% coming from football. We have seen a growing staking per shop throughout the year whilst margins have been maintained at 25.6% supportive of our wider deployment strategy. In 2015, our SSBT estate grew to 6,408 (2014: 1,731).

|                                  | Year ended<br>31 Dec<br>2015<br>£m | Year ended<br>31 Dec<br>2014<br>£m | Year on year<br>change<br>% |
|----------------------------------|------------------------------------|------------------------------------|-----------------------------|
| - OTC amounts staked             | <b>2,280.0</b>                     | 2,327.9                            | (2.1)%                      |
| - Machines amounts staked        | <b>11,706.4</b>                    | 11,838.6                           | (1.1)%                      |
| Amounts staked                   | <b>13,986.4</b>                    | 14,166.5                           | (1.3)%                      |
| - OTC gross win                  | <b>373.9</b>                       | 386.3                              | (3.2)%                      |
| - Machines gross win             | <b>464.6</b>                       | 437.9                              | 6.1%                        |
| Gross win                        | <b>838.5</b>                       | 824.2                              | 1.7%                        |
| Adjustments to GW <sup>(1)</sup> | <b>(11.1)</b>                      | (12.7)                             | 12.6%                       |
| - OTC net revenue                | <b>369.2</b>                       | 379.5                              | (2.7)%                      |
| - Machines net revenue           | <b>458.2</b>                       | 432.0                              | 6.1%                        |
| Net revenue                      | <b>827.4</b>                       | 811.5                              | 2.0%                        |
| Gross profits tax                | <b>(55.0)</b>                      | (56.9)                             | 3.3%                        |
| Machine Games Duty               | <b>(110.7)</b>                     | (86.3)                             | (28.3)%                     |
|                                  | <b>661.7</b>                       | 668.3                              | (1.0)%                      |
| Associate income                 | <b>4.3</b>                         | 1.2                                | 258%                        |
| Operating costs                  | <b>(549.9)</b>                     | (550.2)                            | 0.1%                        |
| Operating profit <sup>(2)</sup>  | <b>116.1</b>                       | 119.3                              | (2.7)%                      |

(1) Fair value adjustments, free bets.

(2) Profit before tax, net finance expense and exceptional items.

(3) Greyhound tracks account for £11.2m of amounts staked and £7.1m of gross win in 2015 (2014: £11.7m amounts staked and £7.6m gross win).

We have successfully launched the multi-channel strategy which has delivered 35,000 digital actives by the year end. On average, they are around twice as valuable as standalone digital customers and are cheaper to recruit with over 6,200 shop colleagues benefitting from the £0.8m paid in incentives.

In H1 we launched the new regulations governing stakes above £50. This had a significant impact in reducing the higher stakes B2 play. Good engagement with our customers through implementation of the '£50 journey' and our speed to market on launching innovative lower staking B3 slots and content has seen machine revenue grow by 6.1% with strong growth in slots which now accounts for c.39% of machines gross win (2014: c.31%).

In 2015, there was an average of 8,670 gaming machines in the estate (2014: 8,966). At 31 December 2015 there were 8,586 machines (31 December 2014: 8,789). Average gross win per machine per week was £1,028 (2014: £937).

On 1 March 2015 the rate of Machine Games Duty increased from 20% to 25% resulting in a £24.4m increase in the year.

Operating costs decreased by 0.1% in 2015 reflecting shop closures, or a 2.5% increase on a like-for-like basis. This was broadly in line with the cost guidance we issued in February as we have benefitted from a sustained focus on cost efficiency through a well managed rent renewal process and delivered on our estate optimisation programmes. Our machine revenue share payments were higher than we expected reflecting the stronger performance in 2015. Marketing costs were higher by 30.4% reflecting our investment in customer acquisition and payments to our employees in support of the multi-channel programme. In 2016, we expect UK Retail operating costs to increase by c.2-3% taking account of a continued attractive rental market, staff costs increases including the impact of the National Living Wage being introduced in March 2016 as well as voluntary single scheduling, and the small reduction in the estate planned for 2016.

In 2015, we closed 56 shops as we improve the quality of our estate and remove, where commercially sensible, loss making shops from the portfolio. The closures have generated an exceptional charge of £13.4m (total cash cost £4.4m). In 2016 we expect to close around 25 shops excluding the impact of the proposed merger.

At 31 December 2015 there were 2,153 shops in Great Britain (31 December 2014: 2,209).

**11AM - 1PM**

**BEST ODDS  
GUARANTEED\***



#### **STAND-OUT PROMOTIONS**

We are growing our Digital actives through increased marketing and sponsorship across all media that appeals to the recreational customer. Customers are responding well to our promotions such as Best Odds Guaranteed and Top Prices Top Teams.

# Digital

We have invested in our products and platforms and delivered improving customer metrics, in particular in our Digital divisions in Europe and Australia.

## DIGITAL NET REVENUE

# £242.8m

+12.9%

## DIGITAL OPERATING LOSS<sup>(1)</sup>

# £-23.8m

-270.0%

### Ladbrokes.com and Exchanges

|  | Year ended<br>31 Dec<br>2015<br>£m | Year ended<br>31 Dec<br>2014<br>£m | Year on year<br>change<br>% |
|--|------------------------------------|------------------------------------|-----------------------------|
| Net revenue                            |                                    |                                    |                             |
| – Sportsbook                           | <b>81.0</b>                        | 84.8                               | (4.5)%                      |
| – Gaming                               | <b>91.2</b>                        | 80.5                               | 13.3%                       |
| – Exchanges                            | <b>13.3</b>                        | 13.2                               | 0.8%                        |
| Net revenue                            | <b>185.5</b>                       | 178.5                              | 3.9%                        |
| Betting tax                            | <b>(0.3)</b>                       | (1.1)                              | 72.7%                       |
| POC tax                                | <b>(28.1)</b>                      | (2.1)                              | Na                          |
| VAT                                    | <b>(0.8)</b>                       | –                                  | –                           |
| Operating costs                        | <b>(177.0)</b>                     | (158.0)                            | (12.0)%                     |
| Operating (loss)/profit <sup>(1)</sup> | <b>(20.7)</b>                      | 17.3                               | Na                          |

(1) Profit before tax, net finance expense and exceptional items.

The Digital segment comprises all of our Digital operations including Ladbrokes.com and digital Exchanges; Ladbrokes Australia; and other regulated operations in Belgium and our digital joint venture Sportium.es.

In 2015, Digital net revenue increased by 12.9% to £242.8m (2014: £215.1m) driven by a combination of strong customer KPIs as well as favourable sporting results in Q4 resulting in our highest ever level of quarterly net revenue in Ladbrokes.com. However, as a result of the introduction of the POC tax in the UK, substantial losses to HVC's in Ladbrokes.com in Q1 and increased marketing investment in H2 in line with the strategic plan, we recorded an operating loss before exceptional items of £23.8m (2014: profit £14.0m).

### Ladbrokes.com and Exchanges

In Sportsbook, amounts staked increased by 29.0% (+33.5% ex World Cup) with actives increasing by 9.9%. In 2015, Mobile represented 70.5% of sportsbook stakes with mobile staking increasing by 69.4%. The gross win margin of 6.1% was 1.7 percentage points lower than 2014; this was partially due to significant losses to HVC's in Q1 but also reflects the impact of customer friendly football results in H1. As a result, Sportsbook net revenue declined by 4.5%.

In July, we launched our new desktop product, powered by the Mobenga platform which gives our customers a consistent experience with our strong Mobile and tablet offers. In addition, other enhancements such as cash-out and single wallet were launched. Whilst the decline in desktop actives has been arrested, desktop staking declined by 17.9%, reflecting increasing customer preference for Mobile products.

As a result of our improved customer offer and the benefits of Ladbrokes Israel use of the Playtech IMS platform, Gaming net revenue increased by 13.3% to £91.2m and we have now seen five sequential quarters of growth in net revenue and actives.

Net revenue from Betdaq and the Ladbrokes Exchange of £13.3m increased by 0.8%.

Operating costs increased by 12.0% to £177.0m (2014: £158.0m) impacted by the increased marketing investment in H2, in line with the strategic plan. Depreciation and amortisation increased to £28.5m (2014: £27.2m) reflecting the investment in systems and product enhancements.

Point of Consumption (POC) tax came into effect from 1 December 2014 levied at a rate of 15% of net revenue. The full year impact of POC tax, a lower Sportsbook gross win margin and the increased investment in marketing has resulted in an operating loss of £20.7m (2014: profit £17.3m).

## Australia

|                                 | Year ended<br>31 Dec<br>2015<br>£m | Year ended<br>31 Dec<br>2014<br>£m | Year on year<br>change<br>% |
|---------------------------------|------------------------------------|------------------------------------|-----------------------------|
| Net revenue                     | 53.2                               | 34.6                               | 53.8%                       |
| Operating profit <sup>(1)</sup> | 2.5                                | 2.6                                | (3.8)%                      |

(1) Profit before tax, net finance expense and exceptional items.

Our Australian business operates under the Ladbrokes, Bookmaker and Betstar brands. Ladbrokes Australia has continued to successfully pursue its challenger strategy building market share through effective use of affiliates and product innovation such as Live Play and the cash in option via a network of newsagents. This is being supported with increased marketing expenditure and investment in increased product capability and customer support which per the strategy, will be maintained in 2016.

The small operating profit decline is as a result of an increase in marketing investment as well as the weakening of the Australian Dollar.

Looking at performance on a constant currency basis, staking increased by 62.9% driven by a 64.7% increase in active customers and net revenue increased by 70.9% on the back of a 75.6% increase in marketing spend. Gross win margin was 9.8% (2014: 9.0%).

## Other regulated operations

|                                   | Year ended<br>31 Dec<br>2015<br>£m | Year ended<br>31 Dec<br>2014<br>£m | Year on year<br>change<br>% |
|-----------------------------------|------------------------------------|------------------------------------|-----------------------------|
| Net revenue                       | 4.1                                | 2.0                                | 105.0%                      |
| Operating loss <sup>(1),(2)</sup> | (5.6)                              | (5.9)                              | 5.1%                        |

(1) Profit before tax, net finance expense and exceptional items.

(2) Includes £0.9m share of loss from Sportium.es joint venture (2014: £1.7m loss).

Other regulated operations include our digital activities in Belgium and Spain (JV), the latter of which consolidates into the operating loss line.

Since launching in Q2 2014, we have increased our Belgium net revenue to £4.0m (2014: £1.6m), incurring start up losses as we drive for growth and capitalise on our significant and long-standing retail presence in Belgium. Belgium Digital actives increased by 141% reflecting the launch in Q2 2014.

Our digital joint venture with Sportium generated revenue growth of 86.2% on increased actives of c.114k up 43.8% and again incurred a development phase operating loss reflecting marketing investment in La Liga sponsorship and associated La Liga promotional campaigns to drive customer acquisition and scale.

In Q2 2015, we closed our Danish online business which had been loss making for some time, deploying our resources into markets where we can build scale.

## MULTI-CHANNEL INNOVATION

Through our multi-channel offer, we have recruited over 35,000 digital actives. Customers are responding well to our product innovation.

# European Retail

European Retail comprises operations in Belgium, Ireland and Spain. European Retail revenue was down 1.9% and operating profit was up 11.5% on 2014.

## EUROPEAN RETAIL NET REVENUE

**£119.8m**

-1.9%

## EUROPEAN OPERATING PROFIT<sup>(1)</sup>

**£14.5m**

+11.5%

### European Retail

European Retail comprises our operations in Belgium, Ireland and Spain which are discussed in detail below. European Retail revenue was down 1.9% mainly due to the smaller estate in the Republic of Ireland following the Examinership process, and operating profit before exceptional items was £14.5m, up 11.5% on 2014.

### Belgium Retail

|                                 | Year ended<br>31 Dec<br>2015<br>£m | Year ended<br>31 Dec<br>2014<br>£m | Year on year<br>change<br>(reported)<br>% | Year on year<br>change<br>(constant<br>currency)<br>% |
|---------------------------------|------------------------------------|------------------------------------|---|---|
| Amounts staked                  | <b>273.9</b>                       | 202.0                              | 35.6%                                     | 48.5%   |
| Net revenue                     | <b>55.6</b>                        | 49.9                               | 11.4%                                     | 22.2%   |
| Betting tax                     | <b>(8.4)</b>                       | (7.7)                              | (9.1)%                                    | (20.0)%   |
| Gross profit                    | <b>47.2</b>                        | 42.2                               | 11.8%                                     | 22.5%   |
| Operating costs                 | <b>(37.7)</b>                      | (32.6)                             | (15.6)%                                   | (26.5)%   |
| Operating profit <sup>(1)</sup> | <b>9.5</b>                         | 9.6                                | (1.0)%                                    | 9.2%  |

(1) Profit before tax, net finance expense and exceptional items.

In Belgium, we are benefitting from the substantial investment in enhancing the quality of the offering in our retail estate for customers with the introduction of virtual betting products and SSBTs. Amounts staked have increased 35.6% while gross win margins reflected lower margin virtual play at 20.3% (2014: 24.7%), meaning net revenue increased by 11.4%. Operating costs were up 15.6% with machine and virtual revenue share and night opening costs being the key drivers and operating profit at £9.5m was down £0.1m on 2014. Since the introduction of the virtual product, the Belgian regulator has restricted the amount of time that all market participants can run the product, which impacted revenues in H2. In January 2016, the regulator has ordered a 'shut-down' of the virtual offering from 1 June 2016 pending changes to the Royal decree on virtual product betting. We continue to lobby the authorities and are confident of a positive outcome for all operators over a product that contributes significant amount in tax revenues.

As at 31 December 2015 there were a total of 439 outlets including both Ladbrokes shops and newsagent outlets (2014: 361).

### Spain Retail

|                               | Year ended<br>31 Dec<br>2015<br>£m | Year ended<br>31 Dec<br>2014<br>£m | Year on year<br>change<br>% |
|-------------------------------|------------------------------------|------------------------------------|-----------------------------|
| Operating loss <sup>(1)</sup> | <b>(1.8)</b>                       | (1.0)                              | (80.0)%                     |

(1) Before exceptional items.

(2) Including Sportium Joint Venture on a 50% basis.

Our Sportium Retail joint venture had a record full year with amounts staked increasing by 45.3%<sup>(2)</sup> to £118.2m and gross win by 39.0%<sup>(2)</sup> to £21.6m at a GW margin of 18.2% (2014: 19.1%). In 2015, we launched in Castilla ye Leon and the Canarias and continue to develop the offer in the regions entered in 2014. Combined with the lower GW margin, this contributed towards our share of operating loss of £1.8m (2014: £1.0m).

As at 31 December 2015, Sportium services were available from a total of 1,476 outlets (2014: 1,192).

## Telephone and High Rollers

### Ireland Retail

|                                 | Year ended<br>31 Dec<br>2015<br>£m | Year ended<br>31 Dec<br>2014<br>£m | Year on year<br>change<br>% |
|---------------------------------|------------------------------------|------------------------------------|-----------------------------|
| – OTC amounts staked            | <b>443.5</b>                       | 467.6                              | (5.2)%                      |
| – Machines amounts staked       | <b>141.4</b>                       | 141.0                              | 0.3%                        |
| Amounts staked                  | <b>584.9</b>                       | 608.6                              | (3.9)%                      |
| – OTC gross win                 | <b>59.7</b>                        | 67.4                               | (11.4)%                     |
| – Machines gross win            | <b>5.6</b>                         | 5.6                                | –                           |
| Gross win                       | <b>65.3</b>                        | 73.0                               | (10.5)%                     |
| Net revenue                     | <b>64.2</b>                        | 72.2                               | (11.1)%                     |
| Betting tax                     | <b>(6.2)</b>                       | (6.6)                              | 6.1%                        |
| Machine Games Duty              | <b>(1.4)</b>                       | (1.1)                              | (25.0)%                     |
| Gross profit                    | <b>56.6</b>                        | 64.5                               | (12.2)%                     |
| Operating costs                 | <b>(49.8)</b>                      | (60.1)                             | 17.1%                       |
| Operating profit <sup>(1)</sup> | <b>6.8</b>                         | 4.4                                | 54.5%                       |

(1) Profit before tax, net finance expense and exceptional items.

Following the completion of the Examinership process in July, we now have an estate of 143 shops (down 53 since 31 December 2014) in the Republic of Ireland with a reduced operating cost base. Although almost 90 people left the business, we were pleased that almost all opted to do so under the voluntary redundancy scheme. Including costs of terminating leases early and legal and professional expenses, the total £10.0m cost of the Examinership process is reflected in our exceptional items.

Inevitably, the reduction in the estate impacted our results, and our Republic of Ireland business saw staking decline by 7.8% and revenue by 16.5%. On a like for like basis, the remaining estate of 143 shops recorded an increase of 14.3% in amounts staked including a 20.5% increase in H2. Gross win margin of 12.5% was down 1.2 percentage points reflecting a more competitive offer for our customers primarily in horse racing.

Overall trends in Northern Ireland were similar to the UK and with further cost efficiencies operating profit was slightly down on last year.

Overall Ireland operating profit at £6.8m was up £2.4m on 2014. At 31 December 2015, there were 77 shops in Northern Ireland (31 December 2014: 79).

### Core telephone betting

|  | Year ended<br>31 Dec<br>2015<br>£m | Year ended<br>31 Dec<br>2014<br>£m | Year on year<br>change<br>% |
|--|------------------------------------|------------------------------------|-----------------------------|
| Amounts staked                         | <b>107.3</b>                       | 160.9                              | (33.3)%                     |
| Net revenue                            | <b>5.5</b>                         | 10.2                               | (46.1)%                     |
| Gross profits tax                      | <b>(0.9)</b>                       | (0.2)                              | (350.0)%                    |
| Operating costs                        | <b>(6.8)</b>                       | (8.0)                              | 15.0%                       |
| Operating (loss)/profit <sup>(1)</sup> | <b>(2.2)</b>                       | 2.0                                | Na                          |

(1) (Loss)/profit before tax, net finance expense and exceptional items.

Traditional telephone betting continues to decline as we actively migrate customers to digital products and platforms. Amounts staked declined by 33.3% on 2014 but with gross win margins lower at 5.5% (2014: 7.2%), in line with trends seen across the business, net revenue declined by 46.1% and the business moved to a loss making position.

### High Rollers

High Rollers generated an operating profit for the year of £3.3m (2014: £14.2m).

# Financial review

“2015 financial results largely impacted by additional gambling taxes and higher marketing expenditure in H2.”



|  | Year ended<br>31 Dec<br>2015<br>£m | Year ended<br>31 Dec<br>2014<br>£m |
|--|------------------------------------|------------------------------------|
| Net Revenue (excluding High Rollers)                           | <b>1,195.5</b>                     | 1,158.9                            |
| High Rollers   | <b>4.0</b>                         | 15.7                               |
| Net Revenue (including High Rollers)                           | <b>1,199.5</b>                     | 1,174.6                            |
| <b>Operating profit<sup>(1)</sup></b>                          |                                    |                                    |
| UK Retail  | <b>116.1</b>                       | 119.3                              |
| Digital  | <b>(23.8)</b>                      | 14.0                               |
| European Retail  | <b>14.5</b>                        | 13.0                               |
| Core Telephone Betting   | <b>(2.2)</b>                       | 2.0                                |
| Corporate costs  | <b>(24.0)</b>                      | (22.9)                             |
| <b>Operating profit<sup>(1)</sup> (excluding High Rollers)</b> | <b>80.6</b>                        | 125.4                              |
| High Rollers   | <b>3.3</b>                         | 14.2                               |
| <b>Operating profit<sup>(1)</sup> (including High Rollers)</b> | <b>83.9</b>                        | 139.6                              |
| Exceptional items  | <b>(99.3)</b>                      | (74.5)                             |
| Net finance expense  | <b>(27.8)</b>                      | (27.4)                             |
| <b>Profit before tax</b>                                       | <b>(43.2)</b>                      | 37.7                               |
| Income tax expense   | <b>48.3</b>                        | 3.3                                |
| <b>Profit after tax</b>  | <b>5.1</b>                         | 41.0                               |

## Trading summary

The table below sets out the gross win and net revenue for each segment.

|                        | Year ended<br>31 December 2015 |                                  | Year ended<br>31 December 2014 |                                  |
|------------------------|--------------------------------|----------------------------------|--------------------------------|----------------------------------|
|                        | Gross win<br>£m                | Net revenue <sup>(2)</sup><br>£m | Gross win<br>£m                | Net revenue <sup>(2)</sup><br>£m |
| UK Retail              | <b>838.5</b>                   | <b>827.4</b>                     | 824.2                          | 811.5                            |
| Digital                | <b>316.4</b>                   | <b>242.8</b>                     | 288.3                          | 215.1                            |
| European Retail        | <b>120.9</b>                   | <b>119.8</b>                     | 122.9                          | 122.1                            |
| Core Telephone Betting | <b>5.9</b>                     | <b>5.5</b>                       | 11.6                           | 10.2                             |
| High Rollers           | <b>4.0</b>                     | <b>4.0</b>                       | 15.7                           | 15.7                             |
| <b>Total</b>           | <b>1,285.7</b>                 | <b>1,199.5</b>                   | 1,262.7                        | 1,174.6                          |

(1) Profit before tax, net finance and exceptional items.

(2) Net revenue is derived after deducting Freebets and fair value adjustments from gross win.

## Revenue

Group revenue increased by £24.9m (2.1%) to £1,199.5m (2014: £1,174.6m). Excluding High Rollers, revenue increased by £36.6m (3.2%) to £1,195.5m (2014: £1,158.9m).

The increase is mainly attributable to growth in our Australian business, strong SSBT and gaming machine performance in UK Retail, improved gaming performance within Ladbrokes.com partially offset by weaker OTC and Ladbrokes.com sportsbook margin on the back of customer friendly results in H1. Notably, 2014 covered the World Cup compared to no major football tournament in 2015.

## Operating profit

Operating profit decreased by £55.7m (39.9%) to £83.9m (2014: £139.6m). The key drivers are increased marketing spend, higher gaming taxes (MGD and POC) as well as a decline in High Roller activity.

Operating profit is stated after depreciation and amortisation of £77.4m. The Group expects full year depreciation and amortisation charge for full year ended 31 December 2016 to be in the range of £80-82m.

Excluding High Rollers, operating profit decreased by £44.8m (35.7%) to £80.6m (2014: £125.4m) reflecting the impact of increased MGD, the full year effect of POC tax as well as higher marketing spend in line with our strategy.

### Corporate costs

Before exceptional items, total corporate costs increased by £1.1m to £24.0m (2014: £22.9m). The increase is mainly due to the inclusion of bonus provisions in 2015 partially offset by a credit of £1.6m relating to the Hilton hotel guarantees.

### Finance expense

Before exceptional items, net finance expense of £28.1m was £0.7m higher than last year (2014: £27.4m) mainly due to a higher blended interest rate as a majority of the bonds were fixed rate bonds in the year.

### Profit before tax

The decrease in trading profits has resulted in a 50.3% decrease in full year profit before taxation and exceptional items to £55.8m (2014: £112.2m).

### Operating exceptional items before tax

Total operating exceptional items before tax of £99.3m (2014 £73.4m) includes the following:

- £58.3m (2014: £44.5m) impairment loss following review of UK Retail and Ireland shops and software
- £19.8m (2014: £30.7m) of losses on closure of shops in the UK and Ireland (£13.4m loss in closure in UK Retail and £6.4m in European Retail mainly as a result of the Examinership process in the Republic of Ireland)
- £17.6m in relation to transaction costs relating to the proposed recommended merger with the Coral Group
- £3.5m credit in relation to reversal of European indirect tax liability
- £3.8m in relation to the legal and redundancy costs following the Examinership process in the Republic of Ireland
- £3.1m early settlement of contractual liability with an affiliate in Australia
- £0.2m relating to the re-measurement of the contingent considerations in respect of business combinations from 2014 (2014: £3.1m credit)

Of these, c£31.9m is expected to be payable in cash of which c£25.1m was paid in 2015 with the remainder payable in 2016 and beyond.

The total exceptional charge of £99.0m includes a £0.3m credit in relation to exceptional finance income.

### Taxation

The UK tax environment has become increasingly challenging in that the tax risk associated with potential change of law could mean that previously agreed losses may never have been fully used in the future. With this backdrop, the Board considered ways in which we can crystallise the value for our shareholders and also further strengthen the balance sheet. The Board approved steps to be taken to accelerate the use of historic corporation tax losses. This has involved adjustments to prior period filings and discussions with HMRC over certain outstanding matters, and the recorded position reflects the agreed or expected outcome of these matters. Previously, the utilisation of certain losses was

expected to require future restructuring activity or settlement of matters with HMRC, and as such was not considered sufficiently likely to permit recognition in previous periods. £37.4m of previously unrecognised tax losses have been recognised with £29.3m arising from adjustments to prior years and £8.1m in the current year. We expect c£37.0m tax repayment in 2016.

Going forward, we anticipate that our accounting tax rate will be in the mid teens, more in line with comparable UK based companies. As at 31 December 2015, the Group had £33.6 million (2014: £76.5 million) of unrecognised deferred tax assets, relating to losses, the utilisation of which is not likely at the current time. This is because the losses are within loss making holding companies which are not anticipated to make future profits.

### Dividend

The Board today announces a proposed final dividend of 2.0 pence per share (2014: 4.6 pence per share) taking the full year dividend to 3.0 pence per share (2014: 8.9 pence per share). The dividend will be payable on 12 May 2016 to shareholders on the register on 29 March 2016. This is consistent with the dividend policy announced in July 2015.

### Earnings per share (EPS)

#### Underlying

EPS (before exceptional items and High Rollers) decreased by 9.9% to 9.1 pence (2014: 10.1 pence), reflecting the reduced profit before tax and exceptional items, and corporation tax credit in the year.

#### Statutory

EPS (before exceptional items) decreased 19.0% to 9.4 pence (2014: 11.6 pence), reflecting the reduced profit before tax. EPS (including the impact of exceptional items) was 0.5 pence (2014: 4.4 pence). Fully diluted EPS (including the impact of exceptional items) was 0.5 pence (2014: 4.4 pence) after adjustment for outstanding share options.

### Cash flow, capital expenditure, borrowings and banking facilities

Cash generated by operations was £165.2m (2014: £159.0m). After net finance expense paid of £26.6m (2014: £26.4m), income taxes paid of £2.3m (2014: £2.1m) and £66.1m (2014: £59.9m) on capital expenditure and intangible additions; cash inflow was £70.2m (2014: £65.4m). Net proceeds from the share placing of £112.9m were mostly used to pay down borrowings. Post dividend payment of £52.3m (2014: £81.4m) and other net cash outflows of £15.7m (2014: £4.6m), net debt at the end of the period decreased by £115.1m.

The Group expects capital expenditure for full year ended 31 December 2016 to be in the range of £90-£95m.

At 31 December 2015, gross borrowings of £332.4m less the net of cash and short-term deposits of £28.3m resulted in a net debt of £304.1m (2014: £419.2m). Gross borrowings at 31 December 2015 consists of a £225m, 7.625% bond maturing in 2017 and a £100m, 5.125% retail bond maturing in 2022.



**Ian Bull FCMA**  
Chief Financial Officer

# Risks and how we manage them

## RISK GOVERNANCE AND RESPONSIBILITIES

### THE BOARD

- Overall responsibility for risk management as an integral part of strategic planning
- Formal review of risks twice yearly
- Setting clear policies on acceptable levels of risk
- Bi-annual assessment of the effectiveness of Internal Controls System



### THE AUDIT COMMITTEE

- Responsible for assessing the scope and effectiveness of the systems established to identify, assess, manage and monitor risks
- Reviews reports from Internal Audit (four times per year) and external audit (PwC)
- Internal audit function (outsourced to Deloitte LLP) has an annual audit programme that addresses most of the principal risks as well as other operational and business risks



### EXECUTIVE COMMITTEE

- Executive directors and senior executives identify key risks and make recommendations on the overall approach to risk management
- Reviews overall assessment of likely risks
- Responsible for enforcing risk management as an integral part of the Group's internal control, planning and approval process
- Each key risk is assigned Executive Committee member ownership



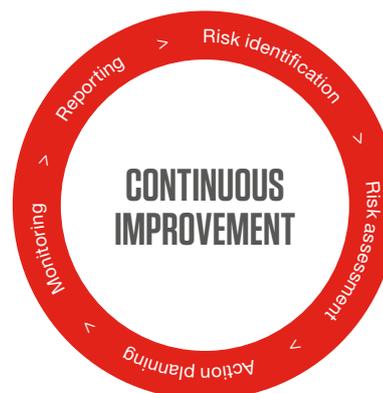
### RISK COMMITTEE

- Constitutes Group and divisional executives and senior managers
- Responsible for maintaining the corporate risk register including periodic monitoring of the mitigating actions as well as the likelihood and consequence of each risk
- Meets four times a year
- Business units report into the Risk Committee

## RISK MANAGEMENT PROCESS AND METHODOLOGY

The effective understanding, acceptance and management of risk is fundamental to the strategy of the Group and what could materially affect the ability to achieve strategic goals. Over the period of the year, Ladbrokes has looked to improve its risk management capabilities and enhance its ability to detect and monitor principal risks.

We have adopted an integrated and proactive approach to our risk management and responsibilities, this includes improvement in our ability to discuss and understand our risk. A new Enterprise Risk Management Framework has been established, which includes an assessment of risk appetite and tolerance within the Group as a whole. The level of risk it is considered appropriate to accept in achieving Ladbrokes' strategic objectives is reviewed by the Board.



The Risk Committee considers all identified risks to the business but focuses on the principal risks of the business.

For each risk identified within the impact areas the likelihood, consequence, risk owner (Executive Committee member) and operational lead are identified by the Risk Committee.

The risk owner and operational lead suggest the appropriate mitigating control and actions which are reviewed for appropriateness and monitored regularly by the Risk Committee.

Throughout the year the risk management approach is the subject of continuous review and updated to reflect new and developing issues which might impact business strategy.

Emerging or topical risks are examined to understand the significance to the business. Risks are identified and monitored through workshops and risk registers at the Group level and within key business units.

A Risk Matrix and risk indicators have been established and further developed which helps to monitor progress on risks.

## PRINCIPAL RISKS



The risks outlined here are those principal risks that are material to the Group. They do not include all those associated with Group activities and are not set out in any order of priority. Additional risks not presently known to management, or currently deemed less material may also have an adverse effect on the business including:

- **Marketplace and Operational** – changes in the economic environment, the European Union, changes in consumer leisure spend and international expansion.
- **Financial** – availability of debt financing and costs of borrowing, taxation and pension fund liability.

### SPECIFIC RISKS THAT ARE MATERIAL TO LADBROKES ARE:

| Risks  | Mitigation   | Relevance to strategy                                     | Change in risk to the business |
|--|--|---|--------------------------------|
| <b>Betting and gaming industry</b>   |  |   |                                |
| <b>Taxes, laws, regulations and licensing, regulatory compliance</b>   |  | All   |                                |
| Regulatory, legislative and fiscal regimes for betting and gaming in key markets around the world can change, sometimes at short notice. Such changes could benefit or have an adverse effect on Ladbrokes and additional costs might be incurred in order to comply with any new laws or regulations.   | Regulatory, legislative and fiscal developments in key markets are monitored closely, allowing Ladbrokes to assess and adapt quickly to changes in the environment and minimise risks to the business. Ladbrokes engages with its regulators and the relevant trade organisations with regard to the betting and gaming regulatory framework and other issues of shared concern, such as problem gambling. Ladbrokes has entered into a voluntary code of practice and has a Social Responsibility Committee.      |   |                                |
| <b>Increased cost of product</b>   |  | Grow recreational customer base/<br>develop multi-channel |                                |
| Ladbrokes is subject to certain financing arrangements intended to support industries from which it profits. Examples are the horse racing and the voluntary greyhound racing levies which respectively support the British horse racing and greyhound industries. In addition, Ladbrokes enters into contracts for the distribution of television pictures, audio and other data that are broadcast into Ladbrokes' betting shops. A number of these are under negotiation at any one time. | Ladbrokes engages with the relevant trade associations and the principal bodies of sport and event industries with regard to sports rights payments, including the statutory horse racing levy, animal welfare and other issues.   |   |                                |
| <b>Operational and bookmaking</b>  |  |   |                                |
| <b>Trading, liability management and pricing</b>   |  | All   |                                |
| Ladbrokes may experience significant losses as a result of a failure to determine accurately the odds in relation to any particular event and/or any failure of its risk management processes.   | Ladbrokes' core expertise is trading liability management and it has developed the skills and systems to be able to offer a wide range of betting opportunities and accept large bets. There is in place a highly experienced trading team and risks are spread across a wide range of events. A bookmaker's odds are determined so as to provide an average return to the bookmaker over a large number of events and therefore, over the longterm, Ladbrokes' gross win percentage has remained fairly constant. |   |                                |

## Risks and how we manage them continued

### PRINCIPAL RISKS continued

| Risks  | Mitigation  | Relevance to strategy  | Change in risk to the business  |
|--|---|--|---|
| <b>Operational and bookmaking</b> <small>continued</small>   |   |  |   |
| <b>Loss of key locations</b>   |   | Develop multi-channel/<br>grow recreational<br>customer base/Australia |    |
| Ladbrokes has a number of key sites, in particular Imperial House at Rayners Lane in London, its head office and main operations centre, its premises at Europort in Gibraltar from where online betting and gaming operations are based, and in Tel Aviv, Israel from where our Digital marketing operates and our operations in Australia.   | Existing business continuity plans and arrangements for off-site data storage, alternate system availability and remote working for key operational and senior management continue to be developed and refined as part of an ongoing review process.  |  |   |
| <b>Recruitment and retention of key employees and succession planning</b>  |   | Develop multi-channel/<br>grow recreational<br>customer base/Australia |    |
| Our people are our greatest asset. We aim to be an employer of choice for talented and passionate people and we need a high level of competence across the business to meet our objectives and respond to changing market needs.   | Performance Management, Development, Reward and Recognition systems are all constantly reviewed and updated to marry business needs with best practice. An increasingly important part is being played by formal, biannual Talent Management and Succession Plan reviews.   |  |   |
| <b>Information technology and communications</b>   |   |  |   |
| <b>Technology failure</b>  |   | All  |  |
| Ladbrokes' operations are highly dependent on technology and advanced information systems and there is a risk that such technology or systems could fail. In particular, any damage to, or failure of online systems and servers, electronic point of sale systems and electronic display systems could result in interruptions to financial controls and customer service systems.  | Ladbrokes has a level of resilience in place which seeks to eliminate single points of failure within key technology locations.   |  |   |
| <b>Data management</b>   |   | Develop multi-channel/<br>grow recreational<br>customer base/Australia |  |
| Ladbrokes process sensitive personal customer data (including name, address, age, bank details and betting and gaming history) as part of its business and therefore must comply with strict data protection and privacy laws in all jurisdictions in which the Group operates. Ladbrokes is exposed to the risk that this data could be wrongfully appropriated, lost or disclosed, or processed in breach of data protection regulation. This could also result in prosecutions including potential financial penalties and the loss of the goodwill of its customers and deter new customers. | Security systems are deployed to protect transactional data. Sophisticated hardware and security mechanisms are used to ensure all sensitive and confidential data is fully encrypted.<br><br>To provide fail-safe integrity of all data, a series of storage systems are used to replicate all data processed by online services. In respect of fraud protection, an extensive programme of data monitoring is in place with both prevention and detection audit controls.<br><br>A cyber security programme is in place supporting our ongoing approach to assessing the threats and improving our security maturity. |  |   |

| Risks  | Mitigation  | Relevance to strategy | Change in risk to the business  |
|--|---|-----------------------|---|
| <b>Information technology and communications</b> continued |   |                       |   |
| <b>Failure in the supply chain</b>                         | Ladbrokes is dependent on a number of third parties for the operation of its business. The withdrawal or removal from the market of one or more of these major third party suppliers, or failure of third party suppliers to comply with contractual obligations could adversely affect Ladbrokes' operations.  | All                   |    |
|  | Infrastructure suppliers, network and telecommunication suppliers and application service providers are long-term partners in providing an infrastructure which seeks to ensure the delivery of sophisticated and high performance transaction processing systems. There is continual communication with these suppliers and providers at an operating level and service level agreements have been established to maintain high service levels. The ongoing review of business continuity plans includes key supplier alternatives and the continued development of the Supply Relationship Management (SRM) platform. |                       |   |
| <b>Marketplace</b>   |   |                       |   |
| <b>Competition</b>   | Ladbrokes faces competition primarily from other land-based bookmakers, online betting exchanges and other online gambling operators. In particular, the online gambling market is characterised by intense and substantial competition and by relatively low barriers to entry for new participants. In addition, Ladbrokes faces competition from market participants who benefit from greater liquidity as a result of accepting bets and wagers from jurisdictions in which Ladbrokes chooses not to operate (because of legal reasons or otherwise).   | All                   |  |
|  | Ladbrokes' performance and competitive position are continuously monitored and, where appropriate, changes are instituted, including in relation to marketing, product development, yield management, cost control and investment. Acquisition opportunities, with a view to taking advantage of market consolidation, are continuously evaluated.  |                       |   |
| <b>Health and Safety</b>                                   | Failure to meet the requirements of the various domestic and international rules and regulations could expose the company (and individual employees and directors) to material civil/criminal action with the associated financial and reputational consequences.   | All                   |  |
|  | Ladbrokes has numerous policies and procedures in place and these are the subject of a continual review.  |                       |   |

## Risks and how we manage them continued

### VIABILITY STATEMENT

- In accordance with provision c2.2 of the 2014 revision of the Corporate Governance Code, the Directors have assessed the prospect of Ladbrokes over a longer period than the 12 months required by the ‘Going Concern’ provision.
  - The Board notes that the business has, for many years, a history of planning, budgeting and forecasting and that the nature of forecasts and plans is that they are ‘best’ expectation of the business going forward; thus, they already contain uncertainty and expectations.
  - The directors concluded that three years was an appropriate period of assessment given that this is the key period of focus within the Group’s strategic planning process and is a typical time period for visibility of commercial implications of key drivers of the business. The objectives of the strategic planning process are to consider the Groups strategy and address challenges to this strategy. In support, the Company builds a consolidated financial model containing scenarios which the directors have used to assess the principal risks and uncertainties to the business within the three-year time period.
  - In order to confirm the longer-term viability of Ladbrokes, a series of scenarios were modelled to simulate the potential impacts of exposure to the Company’s principal risks being realised (see section Principal Risks in the Strategic Report). These scenarios included:
    - The impacts of changes to the regulatory landscape (involving a range of risks: taxes, laws, regulations and licensing, regulatory compliance, recruitment and retention of key employees, technology failure, competition, and data management);
    - Loss of trading and reputational damage from data losses (involving increased cost of product and technology failure);
    - Increasing burdens on operating margins due to legislative changes (involving a range of risks: taxes, laws, regulations and licensing, regulatory compliance, recruitment and retention of key employees, technology failure, competition, and data management);
    - Loss of a major site (focused on loss of a key location); and
    - Loss of key leadership personnel (involving a range of risks: taxes, laws, regulations and licensing, regulatory compliance, trading liability management and pricing, and technology failure).
  - These scenarios were assessed taking into account the current risk appetite and mitigation actions Ladbrokes takes in respect of these principal risks.
  - The viability statement and the modelling carried out to support it are made based upon the current Ladbrokes plc business model and balance sheet together with the assumption that future finance facilities that mature during the three-year period will be refinanced.
  - This viability assessment takes into account all the committed expenditure of the Group together with corporate transaction costs securing the completion of the proposed merger with certain businesses of the Gala Coral Group. It does not include the financial results, position and prospects of Gala Coral entities subject of the merger nor the financing facilities as mentioned on page 128 that have been arranged in connection with the proposed merger.
  - Based on the results of the this analysis, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of this assessment.
- The going concern statement is contained on page 73.

## Corporate responsibility

Behaving responsibly has always been a priority for Ladbrokes and Fair Play is built into the way we do business. We do our best to remain leaders in responsible betting and gaming, have a positive impact on our communities and operate with integrity.





## Leading the way in responsible betting and gaming

We have always placed great emphasis on being a responsible business, advocating and maintaining high standards across our sector. Our activities during 2015 have continued to support this aim. We have been working across our industry to push the boundaries of our understanding of responsible gambling behaviours and the options for harm minimisation. We are active participants of the Association of British Bookmakers (ABB) and Remote Gambling Association's (RGA) responsible gambling committees, and were key instigators in setting up the IGRG (Industry Group on Responsible Gambling) and the Senet Group.

Through our involvement in several industry working groups, we have:

- Established an update to the ABB Responsible Gambling Code incorporating new requirements for advertising and player protection. The 2015 Responsible Gambling Code includes best practice standards for the use of behavioural data to identify customers who may be developing problems with their gambling based on agreed markers of harm – this measure will enable shop staff to engage earlier with customers who may be at risk;
- Piloted cross-industry self-exclusion schemes in Glasgow, Kent and London. Under these schemes, any customer who visits one of the participating shops and feels they are getting into difficulty with their gambling can now 'self-exclude' by contacting a central team of advisers, who will then tailor their self-exclusion based on locations they frequently visit. These pilot schemes are playing a key part in developing a multi-operator scheme that will be rolled out to all bookmakers during the spring of 2016; and
- Launched a new Player Awareness Systems (PAS) initiative to minimise harm on machine play. The PAS initiative is a response to RGT research in 2014 that showed it was possible to distinguish between problem and non-problem gambling behaviour by players using gaming machines in licensed betting offices. All members of the ABB have signed up to the initiative, which is believed to be a world first in retail betting.

As founding members of the Senet Group, an independent body set up to promote responsible gambling standards, we have helped to run a high impact TV and advertising campaign to educate people about the risks of gambling and how to stay in control.

We are fully aligned with the GB Gambling Commission's objectives to ensure that gambling is crime free, fair and open and children and vulnerable people are protected and indeed commit to these objectives across the whole of our business wherever we operate. During 2015 we were audited by the Gambling Commission – one of the first in the industry – and there were no major issues to report.

### Incentivising responsible behaviours

Our Board Committee to oversee delivery against our responsible gambling objectives has continued to evolve. The Social Responsibility Committee is led by Sly Bailey, and comprises two independent non-executive directors, with the Chairman and the Chief Executive in attendance. Following our commitment in 2014, we have now established KPIs to link executive remuneration with responsible gambling performance. This is a major step for us and

a first within the sector. This year we have focused the KPIs on: the roll out of our responsible gambling policy especially around colleague understanding and engagement; successful implementation of the DCMS regulations on machine play with stakes over £50; implementation of the Senet Group guidelines; and development of our own trial algorithm on responsible gambling. We recognise that many of the targets are focused on the short term and in implementing new codes and systems, which will also continue into next year. In the future we would like to establish KPIs which are directly linked to the ongoing responsible performance of the business and this is something we are currently working on.

### Developing our algorithms to detect problem gambling

Late in 2014 we embarked on a pilot study to track customer behaviour and intervene when we suspect problem gambling might be occurring. Using data from customer loyalty cards, we systematically assessed the gambling habits of approximately 8,000 shop customers on a weekly basis. We defined a set of rules that may indicate a player showing signs of problem gambling and monitored individual players' behaviour against these. During 2015 we dedicated more resources to this algorithm trial, expanded the coverage, experimented with different ways of intervening and teamed up with external partners for greater insights. We also developed a separate algorithm for our Digital customers. Having said that, we are increasingly taking a multi-channel approach to customer development, including offers and promotions and hence need to take a multi-channel approach to monitoring customer behaviours. In an industry first, our algorithm trial now covers OTC transactions as well as machines and is in operation across the UK estate. Our aim is not only to detect and intervene when problem gambling occurs, but to identify the trajectories that lead to such behaviour. If we believe a customer is on a trajectory towards harm, then we will interact with them to try and prevent this from happening.

### Positive interactions with our customers

This year we have continued to implement the ABB's Responsible Gambling Code across our business.

The Code highlights four areas for improved performance:

- Providing adequate information on how to gamble responsibly;
- Providing tools to help customers better control their activity;
- Training staff to detect signs of potential problems; and
- Undertaking central analysis of data to spot signs of abnormal activity.

We have stepped up the promotion of responsible gambling messages. As part of this, we have introduced more prominent, more frequent and clearer messages on staying in control in our shops, on our machines and across our Digital estate.

### Supporting research, education and treatment

We promote multiple harm minimisation initiatives through our support of the Responsible Gambling Trust (RGT). Organisations that benefited from RGT funding in 2014 included GamCare, the National Problem Gambling Clinic (CNWL) and the Gordon Moody Association.

Our total contribution to RGT amounted to £682,500 in 2015.

## Corporate responsibility continued

### Keeping crime out of gambling

Reducing crime and anti-social behaviour remains a key priority for us. Our efforts to date have been focused on machine damage, monitoring customer behaviour in and around our shops and eliminating gambling related crime (such as money laundering). We have also continued to be vigilant and active on all matters relating to sporting integrity.

Ladbrokes' dedicated Anti-Money Laundering (AML) team ensures compliance with AML and anti-terrorism financing legislation wherever we operate. To this effect, we have established a comprehensive compliance programme, including detection and monitoring systems across all our business activities.

Similarly, health and safety is another key priority for us. During the year Jim Mullen, CEO, emphasised the importance of having a robust health and safety culture throughout the business. As part of implementing his new strategy, we have looked at how we approach health and safety and decided to make some changes. These largely affect the structure and reporting lines but we are also embarking on a cultural shift to re-enforce that everybody has a part to play in this vital area. Separate to this, within our retail estate we have decided to move to single scheduling in the evenings to a voluntary basis only.

Betting shops have some of the lowest levels of crime among high street retailers. However, during 2015 we were unfortunate to have a serious incident involving the attack of one of our employees. This is currently the subject of an ongoing criminal prosecution by the Crown Prosecution Service against the attackers.

Where possible, we work in partnership with local authorities and other bodies to ensure gambling remains crime free. Our partners include Crimestoppers, the Association of Business Crime Partnerships and the Safe Bet Alliance (SBA). We also continue to support the SBA's National Standards for Bookmakers.

### Protecting our customers and keeping our data safe

Having effective data and information security systems in place is only a first step to protecting our customer and corporate information. Human behaviour can be the biggest threat to maintaining cyber security. To address this we have developed a comprehensive cyber security programme based on the UK Government's 10 steps to Cyber Security, and, during 2015, launched a new information security web portal to help educate our employees and tell them what they need to know to minimise our risks. We will be implementing further elements of this programme in 2016, including global staff training and development of our IT monitoring and security systems.

### Benchmarking our performance

We continually compare our performance with that of our peers through external benchmarking and peer review. We actively engage with two investor indices, the Dow Jones Sustainability Index (DJSI) and FTSE4Good – both provide us with benchmarking information on our CR and sustainability programmes. For the 13th consecutive year we have been a constituent of the DJSI, an elite index for responsible companies. We are the only European betting company

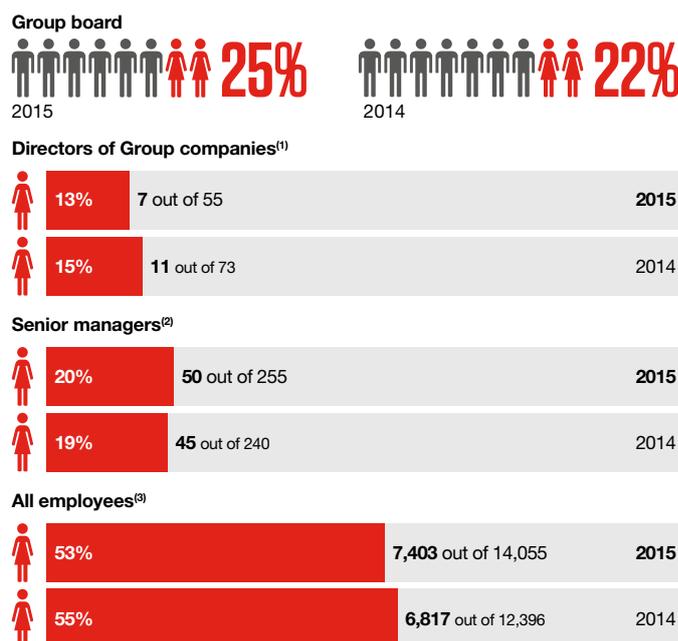
included in the prestigious World Index, achieving maximum scores of 100% for our approach to responsible gambling and our anti-crime measures. Since 2002 we have also been a member of FTSE4Good. This year we were ranked in the 99th percentile of companies in our industry segment, achieving maximum scores for customer responsibility and corporate governance.

### Having a positive impact on our communities An employer of choice

As our international operations continue to grow, it's important that our people have plenty of reasons to be excited about working at Ladbrokes and grow with us. From the moment someone joins us, training and career progression is our top priority. We're proud of our 'grow our own' approach and we offer all of our people every opportunity they need to develop and progress with us. Our Chief Executive, Jim Mullen is a case in point, since he started life in the industry working as a retail assistant in a shop in Glasgow.

We have further developed our learning and development programmes, across all our grades, and extended our 'Females in Leadership' programme, offering mentoring opportunities and increasing the visibility of senior female role models.

#### Gender diversity – females as a % of total employees



(1) 2014 data restated to be the number of individuals who were directors of Group companies rather than the number of directorships.

(2) The top four management grades, including those who were also directors of Group companies.

(3) 2015 data includes UK, Ireland, Gibraltar and Australia. 2014 data for the UK only.

Our policies remain consistent with the requirements of the Universal Declaration on Human Rights and the spirit of the International Labour Organization core labour standards.

### Employees of the future engaging with our communities

The Ladbrokes UK-wide apprenticeship scheme is in its third year and has grown steadily. We received over 13,200 applications to join the scheme in 2015, with a selection of 419 eventually joining us. We lifted the maximum age-restriction of 24 years so that any talented candidate could secure a place. The 12-month, fully supported, development programme provides candidates with accredited training in customer service, literacy and numeracy and responsible gambling. Upon completion, successful apprentices obtain an NVQ Level 2 in Customer Service and a position in one of our shops.

### Economic contribution to society

At Ladbrokes we employ over 14,700 people across 15 countries, contributing substantially to economic activity and employment wherever we do business. According to research conducted in 2013, the UK betting industry directly accounts for £2.3 billion toward GDP and 38,800 full-time equivalent jobs. The indirect economic footprint is even greater, amounting to £5 billion and around 100,000 full-time equivalent jobs in total. In 2015, Ladbrokes paid a total of £264m in wages and salaries, of which £232m was in the UK.

### Our tax impacts

Tax revenue is vital to economic prosperity and social stability. We recognise that our contribution to governments and national finances through the taxes we pay is important and significant. Our approach to tax payments and disclosure is guided by the four principles below:

- Complying with and following the law in all countries of operation;
- Being transparent in our reporting of tax affairs to all our stakeholders, meeting all regulatory requirements and reflecting best practice;
- Engaging proactively and openly with local and national tax authorities; and
- Driving sustainable returns for our shareholders.

We take part in PwC's Total Tax Contribution survey, an annual benchmarking exercise comparing the total tax contribution and wider socio-economic impacts of some of the biggest companies in the UK. Of the ~100 companies taking part in the assessment, Ladbrokes is among the smallest when measured by market capitalisation. However, the 2015 results show that Ladbrokes punches well above its weight, ranking 26th for taxes borne in the UK and 57th for wages and salaries paid in the UK.

It is clear that the betting sector is heavily taxed. In 2015 our effective tax-rate on profits amounted to 86%. This covers tax contributions of over £20m to local councils in the UK and over £277m in taxes to the UK Treasury and the greyhound and horse racing industries. Internationally, we paid an additional £42.8m in taxes across our markets of operation.

### Operating with integrity

As with any major business, our activities have an impact on the environment. Our main impact is caused by the electricity and gas used on our premises. Fossil fuel consumption emits greenhouse gases (GHG) which contribute to climate change. Climate change in turn poses a risk to our business, especially as we expand into overseas markets.

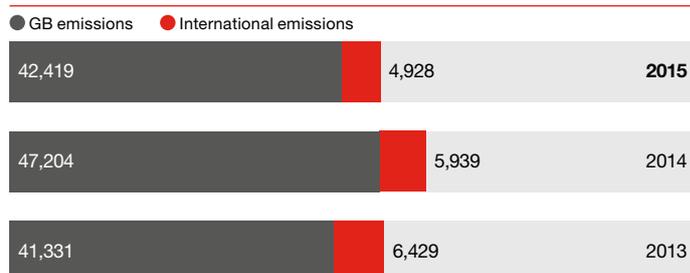
### Our carbon footprint

Our GHG emissions decreased by 11% in 2015. The energy usage of our GB shop estate decreased by 3.3%, mainly due to the implementation of new LED lighting systems.

### Global GHG emissions by revenue<sup>1,2,3,4</sup>

|  | 2015 | 2014 |
|--|------|------|
| Metric tonnes CO <sub>2</sub> e per £m net revenue | 39.6 | 45.9 |

### GHG emissions from our global operations in tonnes CO<sub>2</sub>e



(1) Based on 2015 UK Defra GHG reporting guidance and conversion factors and includes Scope 1: direct emissions from the combustion of fuel and Scope 2: indirect emissions from the purchase of electricity.

(2) Emissions from our global operations include those arising from our businesses in the UK, Ireland, Belgium, Gibraltar and Spain. We are working on gathering GHG data for our other overseas activities. We estimate (based on pro-rata headcount) that this will increase our global GHG emissions by no more than an additional 3%.

(3) Excluding fugitive emissions from refrigerants, which represent less than 2% of GHG emissions from our business operations.

(4) Excluding High Rollers.

### For more information

Our CR Report contains further details on Fair Play at Ladbrokes. Our full disclosure and supporting documents are available at <http://www.ladbrokesplc.com/corporate-responsibility>.

### Ladbrokes is a proud constituent of the following indices

MEMBER OF  
**Dow Jones Sustainability Indices**  
In Collaboration with RobecoSAM



# Board of Directors



## 1 JOHN M KELLY OBE (68)

### Chairman

John was appointed as Senior Independent Non-Executive Director in September 2010, and subsequently as Chairman in December 2015.

#### Skills and experience

John brings extensive experience from the gaming and betting industry having previously been a Board member of a number of betting companies. With over 30 years' experience as a director in a wide range of leisure companies, John also has a wealth of experience to draw from in his role as Chairman and leader of the Board.

#### Career experience

Founder and Chief Executive of Gala Coral Group having led a management buy-in from Bass Plc in 1997 and subsequently became Chairman. After founding Gala Coral, he was a Board member at Mecca Leisure Limited, the Chairman of Trainline.com and Chairman of Novus Leisure Limited. He was also a Board member of The Prince of Wales' Business in the Community Charity.

#### Other roles

Chairman of Kings Park Capital LLP Advisory Board and Kings Park Capital LLP Investment Committee and co-founder of Dunelmia Partners LLP.

#### Committee membership

Nomination Committee (Chairman) and Remuneration Committee.

## 2 JIM MULLEN (45)

### Chief Executive Officer

Jim was appointed as Chief Executive Officer in April 2015 and a director in May 2015.

#### Skills and experience

Jim's extensive experience in the gaming and betting industry, particularly online gaming, brings valuable insight to lead the Group and implement the strategy to grow our recreational customer base and build scale.

#### Career experience

Joined Ladbrokes in November 2013 as Managing Director of the Digital business. Prior to joining Ladbrokes, Jim was Chief Operating Officer for William Hill's Digital operations for three years and held senior positions at the Murray Group, Arc Worldwide and News International where he was Director of Digital Strategy.

#### Other roles

None.

#### Committee membership

None.

## 3 IAN BULL (55)

### Chief Financial Officer

Ian was appointed as Chief Financial Officer in July 2011.

#### Skills and experience

Ian's skills and extensive experience in finance, with over 25 years in finance-based roles, allows him to effectively manage the Group's affairs relating to accounting, tax, treasury and investor relations. Ian also brings commercial experience to the Board's discussions.

#### Career experience

Group Finance Director of Greene King plc and held a number of senior finance positions with BT Group plc, including CEO of BT Retail Enterprises and CFO of BT Retail. Prior to this he was Vice President, Finance of Buena Vista Home Entertainment (Walt Disney Group) and held senior finance positions with Whitbread plc.

#### Other roles

Non-Executive Director of St Modwen Properties Plc.

#### Committee membership

None.

## 4 CHRISTINE HODGSON (51)

### Senior Independent Non-Executive Director

Christine was appointed as Independent Non-Executive Director in May 2012 and as Senior Independent Non-Executive Director in December 2015.

#### Skills and experience

Christine has extensive experience in business leadership, finance, accounting and technology having worked in a number of international organisations. This brings valuable experience to Board and Committee discussions.

#### Career experience

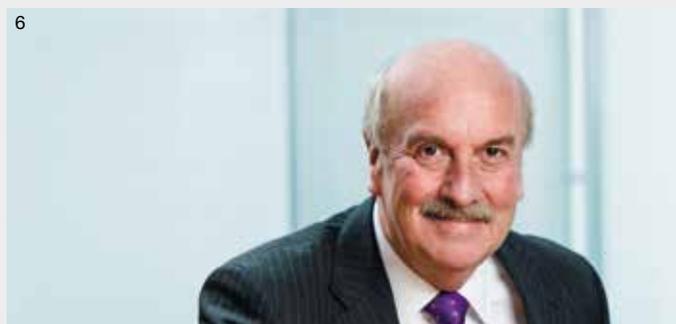
Christine was a senior manager at Coopers & Lybrand and the Corporate Development Director of Ronson plc before joining Caggemini, where she has held various UK and global roles including CEO of Technology Services North West Europe and CFO of Global Outsourcing.

#### Other roles

Chairman of Caggemini UK and Non-Executive Director of Standard Chartered PLC. Christine is a Board member of The Prince of Wales' Business in the Community Charity and sits on the Audit Committee of The Queen Elizabeth Diamond Jubilee Trust.

#### Committee membership

Audit Committee, Nomination Committee, Remuneration Committee and Social Responsibility Committee.



5  
**SLY BAILEY (54)**  
**Independent Non-Executive Director**

Sly was appointed as Independent Non-Executive Director in November 2009.

**Skills and experience**

Sly brings extensive skills and experience in media, marketing and sales along with broad business experience gained as both a senior executive and non-executive director in various public and private companies and charitable organisations. She also has experience as a director in the successful sale and purchase of a number of businesses.

**Career experience**

Chief Executive of Trinity Mirror plc and Non-Executive Director and Chairman of the Remuneration Committee of the Press Association. Sly also held senior positions with IPC Media Limited, including Chief Executive, and was also Senior Independent Director and Remuneration Committee Chairman of EMI plc, Non-Executive Director of Littlewoods Plc, President of NewstrAid and Governor of the English National Ballet School.

**Other roles**

Non-Executive Director of Greencore Group plc and the London Real Estate Exchange.

**Committee membership**

Social Responsibility Committee (Chairman), Nomination Committee and Remuneration Committee.

6  
**DAVID MARTIN (64)**  
**Independent Non-Executive Director**

David was appointed as Independent Non-Executive Director in October 2013.

**Skills and experience**

David has a wealth of experience leading and building a highly successful major pan-European growth business from a strong UK base in regulated and non-regulated markets, involving multiple M&A activity, change management in labour intensive operations and contract and stakeholder management across many differing cultures.

**Career experience**

Chief Executive of Arriva plc, having previously been Deputy Chief Executive and Group Managing Director of its International business. David joined Arriva plc on its acquisition of British Bus plc and became a Board member. He was previously involved in the acquisition of National Express and subsequent management buy-outs leading to the creation of British Bus Group Limited. Prior to joining the bus industry, he held various senior financial positions, including Financial Director of Holyhead Group.

**Other roles**

Director of Arriva plc.

**Committee membership**

Remuneration Committee (Chairman), Audit Committee, and Nomination Committee.



7  
**RICHARD MOROSS MBE (38)**  
**Independent Non-Executive Director**

Richard was appointed as Independent Non-Executive Director in May 2012.

**Skills and experience**

Richard is a digital entrepreneur and brings over 15 years of digital industry experience. Having worked in the London technology sector since 2000, Richard has been featured in the 'Wired 100' and 'Media Guardian 100' lists, was named amongst the Telegraph Newspaper's '1,000 Most Powerful People in British Business', and was ranked in the Guardian Newspaper's top 10 most influential people in digital media.

**Career experience**

Founder of Moo.com. Prior to this, he worked for the design company, Imagination, sorted.com and the BBC.

**Other roles**

Chief Executive of Moo.com, a member of the Government's Tech City Advisory Group, the Young Presidents Organisation and the International Academy of Digital Arts and Sciences.

**Committee membership**

Nomination Committee and Remuneration Committee.

8  
**MARK PAIN (54)**  
**Independent Non-Executive Director**

Mark Pain was appointed as Independent Non-Executive Director in December 2015.

**Skills and experience**

Mark brings a range of skills and experience in financial management, strategic planning, business leadership and change. He also has over 17 years' experience as a board director in a number of sectors.

**Career experience**

Held senior executive and board positions at Abbey National plc, was Group Finance Director of Barratt Developments PLC and has also been a Non-Executive Director on the boards of LSL Property Services plc, Punch Taverns plc and Spirit Pub Group plc.

**Other roles**

Chairman and a non-executive of London Square Developments Limited, Senior Independent Director of Johnston Press Plc, a Non-Executive Director of the Yorkshire Building Society and Aviva Insurance Ltd and a Trustee of Somerset House.

**Committee membership**

Audit Committee (Chairman) and Nomination Committee.

# Corporate governance



## Dear Shareholder

I am pleased to present the Corporate Governance Report for 2015 and my first as Chairman of the Company.

During 2015, the Company again complied fully with all of the provisions of the UK Corporate Governance Code.

In 2016, I will be conducting a review of the Company's governance structure and arrangements to ensure they are robust and appropriate in light of the proposed merger with certain businesses of Gala Coral, which, if completed, will form Ladbrokes Coral plc. Any proposed changes will be implemented during 2016 and will be reported in the Annual Report and Accounts 2016.

## Board composition

During the year, we welcomed two new directors to the Board: Jim Mullen succeeded Richard Glynn as Chief Executive on 1 April 2015 and was subsequently appointed as a director on 7 May 2015 and Mark Pain joined as Non-Executive Director on 3 December 2015.

Darren Shapland retired as Non-Executive Director on 24 September 2015, having served for six years on the Board and Peter Erskine retired as Chairman on 3 December 2015 after serving as Chairman of the Company for six years. As announced in September 2015, Ian Bull will be retiring from the Board at the end of February 2016. I would like to thank Darren, Peter and Ian for their commitment and contribution to the Board during their tenures with the Company.

### BOARD FOCUS DURING 2015

- Approved the proposed merger with certain businesses of Gala Coral
- Appointment of new Chief Executive
- Approval of new strategic plan
- Agreed a new financing arrangement
- Reviewed cyber security risk
- Considered talent management and culture
- Assessed the performance of the business units
- Reviewed the Group's risk tolerance and risk management systems

For further details on the Board's activities during 2015, see page 40.

Further details on the appointment processes are contained in the Nomination Committee Report on page 48.

## Committee memberships

Following my appointment as Chairman of the Board, I also became Chairman of the Nomination Committee and Christine Hodgson took over as Senior Independent Director. During the year, there were also a number of other changes to the Committee memberships: Mark Pain was appointed Chairman of the Audit Committee and David Martin was also appointed as a member of the Audit Committee; Christine Hodgson and Darren Shapland were appointed as members of the Nomination Committee; I was appointed as a member of the Remuneration Committee; and Sly Bailey was appointed as a member, and subsequently became Chairman, of the Social Responsibility Committee. Mark Pain has subsequently been appointed as a member of the Nomination Committee.

## Board effectiveness

In 2015, we again conducted an external evaluation of the Board and its Committees. Details are contained on pages 40 and 41.

**John M Kelly**  
Chairman

### BOARD FOCUS FOR 2016

- Delivering against strategic plan
- Planning for the integration of certain businesses of Gala Coral
- Review the governance structure in light of the proposed enlarged Group
- Embed culture further into the Company
- Hold additional deep dives on specific areas of the business
- Increased site visits for the non-executive directors

## Board Diversity

The Board has endorsed the aims of the Davis Report entitled 'Women on Boards' and in 2015 aimed to increase the percentage of women on the Board to 25% by 2016. Following the change in directors during the year, the Board has met its aim with the current percentage of women on the Board having increased from 22% in 2014 to 25%. The charts illustrate the diversity of the Board in terms of gender, balance of executive directors to non-executive directors ('NEDs') and length of tenure of the NEDs as at 31 December 2015.



## UK Corporate Governance Code

The UK Corporate Governance Code (the Code) published in 2014 by the Financial Reporting Council (FRC) is available at [www.frc.org.uk](http://www.frc.org.uk). This Governance section of the Annual Report, including the Directors' Remuneration Report on pages 51 to 71 and the disclosures contained in the Risks section on pages 26 to 30, provides details of how the Company applied the principles and complied with the provisions of the Code during 2015.

## The Board Role

The Board provides strategic leadership and oversight. It is responsible for the Company's culture, values and ethical standards and is committed to high standards of corporate governance throughout the Group's operations. Each director brings experience, independence of character and judgement to their role. The independent non-executive directors bring a broad perspective to the deliberations of the Board. They support the development of the Group's strategic direction, provide critical and constructive challenge to the executive directors and exercise oversight through their participation in the work of the Board's principal Committees on matters such as remuneration, risk management systems, financial controls, financial reporting, the appointment of further directors and social responsibility.

## Composition

The Board is comprised of the Chairman, two executive directors, the Senior Independent Director and four independent Non-Executive Directors. The names and significant commitments of all directors are contained on pages 36 and 37. There were no significant changes to those commitments during 2015.

The division of responsibilities between the Chairman and the Chief Executive has been clearly established, set out in writing and agreed by the Board.

## Diversity

The Company recognises the value that diversity brings to its Boardroom and believes that the Board performs better and supports its overall objectives within the business strategy when it includes the best people representing a range of capabilities, experience and perspectives. In line with this, the Company aims to foster a diverse Board, including a mix of gender, ethnicity and backgrounds. The Nomination Committee Report on page 48 contains further information on Board composition and the charts above illustrate the diversity of the Board.

## Matters reserved for the Board

The Board has a formal schedule of matters specifically reserved for its decision and approval which includes:

- Approval of the strategic and annual profit plans;
- Key announcements e.g. financial statements;
- Dividend declarations;
- Board appointments;
- Major capital expenditure, acquisitions and disposals;
- Material contracts; and
- Treasury policy and other Group policies.

The section 'Financial reporting, internal control and risk management systems' on pages 41 to 43 contains further information on how the Board operates.

## Operation of the Board

### Board attendance

The Board and its Committees meet regularly according to a schedule linked to key events in the Company's corporate calendar. Ad hoc meetings are also arranged to consider matters requiring review and decision outside the scheduled meetings. During the year, nine scheduled Board meetings were held. Six additional Board meetings were held, five were in relation to the proposed merger with certain businesses of Gala Coral and one was to approve the appointment of the Chief Executive.

The following sets out the division of responsibilities on the Board:

| Role                               | Director   | Responsibility   |
|------------------------------------|--|--|
| Chairman                           | John Kelly   | Responsible for the operation, leadership and governance of the Board and its effectiveness in all respects, and for relations with shareholders.  |
| Chief Executive                    | Jim Mullen   | To manage the Group's operations, including the development of strategic plans and initiatives to be approved by the Board, and subsequent implementation.   |
| Chief Financial Officer            | Ian Bull   | To manage all aspects of the Group's financial affairs and to contribute to the management of the Group's operations.  |
| Senior Independent Director        | Christine Hodgson                                      | To act as a sounding board for the Chairman and to serve as an intermediary for the other directors where necessary. Also to be available to shareholders if they have concerns, where contact through the normal channels of Chairman, Chief Executive and Chief Financial Officer has failed to resolve the concern, or for which such contact is inappropriate. |
| Independent Non-Executive Director | Sly Bailey, David Martin, Richard Moross and Mark Pain | To constructively challenge the executive directors, develop proposals on strategy, scrutinise the performance of management, satisfy themselves on the integrity of financial information, controls and systems of risk management and to set the levels of remuneration for executive directors and senior management.   |

## Governance

### Corporate governance continued

In addition to the Board meetings, during the year, the Chairman met with the non-executive directors without the executive directors present.

Attendance at Board meetings held during the year is shown below:

| Directors as at 31 December 2015 | Number of meetings eligible to attend | Number of meetings attended |
|----------------------------------|---------------------------------------|-----------------------------|
| John Kelly                       | 15                                    | 15                          |
| Jim Mullen <sup>(1)</sup>        | 11                                    | 11                          |
| Ian Bull                         | 15                                    | 15                          |
| Sly Bailey <sup>(2)</sup>        | 15                                    | 14                          |
| Christine Hodgson                | 15                                    | 15                          |
| David Martin <sup>(3)</sup>      | 15                                    | 14                          |
| Richard Moross                   | 15                                    | 15                          |
| Mark Pain <sup>(4)</sup>         | 1                                     | 1                           |
| <b>Former directors</b>          |                                       |                             |
| Peter Erskine <sup>(5)</sup>     | 15                                    | 15                          |
| Richard Glynn <sup>(6)</sup>     | 3                                     | 2                           |
| Darren Shapland <sup>(7)</sup>   | 12                                    | 12                          |

(1) Jim Mullen was appointed to the Board on 7 May 2015.

(2) Sly Bailey was unable to attend one Board meeting due to prior business commitments.

(3) David Martin was unable to attend one Board meeting due to prior personal commitments.

(4) Mark Pain was appointed to the Board on 3 December 2015.

(5) Peter Erskine ceased to be a director on 3 December 2015.

(6) Richard Glynn ceased to be a director on 31 March 2015. He was unable to attend one Board meeting due to it relating to the appointment of the Chief Executive.

(7) Darren Shapland ceased to be a director on 24 September 2015.

#### Board and Committees support

The Company has systems in place to ensure that the Board is supplied with appropriate and timely information to enable it to discharge its duties. An encrypted electronic Board Portal is used to distribute Board and Committee papers and to provide efficient distribution of business updates and other resources to the Board. Board members request additional information or variations to regular reporting as required. A procedure exists for directors to seek independent professional advice in the furtherance of their duties if necessary.

The Company Secretary is responsible for advising the Board through the Chairman and the Committees on all governance matters. All directors have access to the advice and services of the Company Secretary.

The Committees are also provided with sufficient resources to undertake their duties. They have access to the Company Secretary (who acts as secretary to all Committees), all other employees and is able to take independent legal or professional advice when they believe it is necessary to do so.

All directors receive an induction on joining the Board.

A combination of tailored Board and Committee agenda items and other Board activities, including briefing sessions, assist the directors in continually updating their skills and the knowledge and familiarity with the Company required to fulfil their role both on the Board and on Board Committees. In addition, external seminars, workshops and presentations are made available to directors. The Company provides the necessary resources for developing and updating directors' knowledge and capabilities.

#### Board activities

Details of the Board's main areas of focus during the year are summarised below:

|  |   |
|--|---|
| <b>Strategy, finance and performance</b> | <ul style="list-style-type: none"> <li>- Considered and assessed the strategic and operational performance of each business unit</li> <li>- Held deep-dive sessions on the Digital and Retail businesses</li> <li>- Approved a new strategic plan for the Group</li> <li>- Reviewed and approved that the Retail business in the Republic of Ireland be entered into Examinership</li> <li>- Considered and approved revised terms on the commercial arrangements with Playtech</li> <li>- Reviewed and approved a new financing arrangement</li> <li>- Considered and approved the merger between the Company and certain business of Gala Coral.</li> </ul> |
| <b>Governance and risk</b>               | <ul style="list-style-type: none"> <li>- Reviewed and approved the Group's anti-bribery compliance programme and the revised Anti-Bribery Policy Statement</li> <li>- Reviewed the Group's cyber security risk management plan</li> <li>- Reviewed the overall risk tolerance for the Group and that the processes for ensuring the necessary risk management systems and culture were embedded within the business.</li> </ul>   |
| <b>Leadership, culture and employees</b> | <ul style="list-style-type: none"> <li>- Considered the senior management structure given the change in Chief Executive</li> <li>- Reviewed and approved the revised Whistleblowing Policy</li> <li>- Assessed with support of the Nomination Committee, the plans relating to talent management, succession planning and the culture and values to be embedded within the Company.</li> </ul>  |
| <b>Shareholder engagement</b>            | <ul style="list-style-type: none"> <li>- Regularly reviewed reports on investor relations activity</li> <li>- Reviewed and approved the Circular and Notice of General Meeting to shareholders with regards to the proposed merger with certain businesses of Gala Coral.</li> </ul>  |

#### Board evaluation

An annual formal Board evaluation is undertaken focusing on the performance of the Board and of its Committees and individual directors. In 2015, the evaluation was externally facilitated by Lintstock Limited. Other than the provision of a software solution to manage insider lists, Lintstock has no other connection with the Company. The evaluation exercise used questionnaires tailored to the requirements and specific circumstances of the Company. The questionnaires were completed by each director in relation to their own performance and on the effectiveness of the Board and its Committees.

The evaluation was thematic and considered:

- Board composition, expertise and dynamics;
- Board support and time management;
- Board Committees;
- Strategic oversight;
- Risk management and internal control;
- Succession planning and human resources management; and
- Priorities for change.

The results of the evaluation were considered by the Board and the individual Committees and actions arising were agreed.

In addition, the Chairman conducted an appraisal of each director. The Senior Independent Director, having consulted with each of the other directors, conducted an appraisal interview with the Chairman.

The Board's 2015 evaluation highlighted a number of areas of focus, including:

- Enhancing the Board's engagement with the Retail and Digital businesses through a tailored programme of operational visits and management presentations;
- More effective use of the depth of talent and experience that exists around the Board table; and
- Refreshing the Board's membership to ensure that the composition is appropriate for the Group's next phase of development.

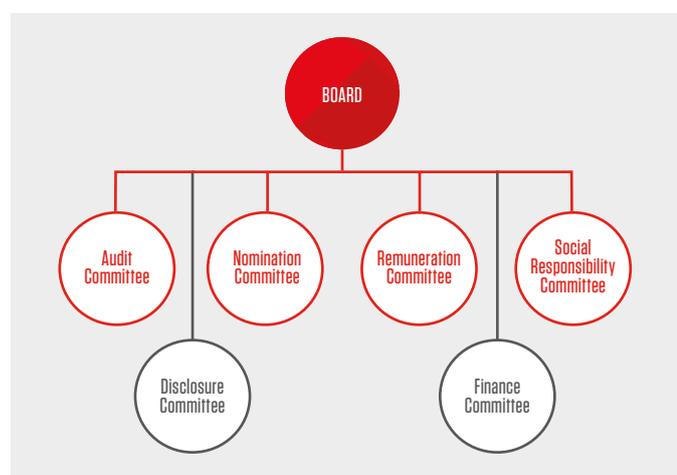
An update on progress in these areas will be provided in the Annual Report and Accounts 2016.

In 2014, the annual evaluation highlighted a number of areas of focus and progress against these areas is as follows:

| 2014 area of focus  | Progress made during 2015  |
|---|--|
| Reviewing the structure and content of papers presented to the Board  | A revised Board pack structure has been agreed with the Chairman and is being implemented in 2016.   |
| Increasing the proportion of time at meetings devoted to discussions on strategic issues and a range of specific topics | A greater proportion of the Board's meeting time was devoted to strategy during the year.  |
| Increased focus on the Group's risk management process, principal risks and key dependencies                            | The frequency of reporting on principal risks has been increased.  |
| Greater exposure to senior management and more engagement in the evaluation of the Group's talent pool                  | The Nomination Committee's membership was extended to include all Independent Non-Executive Directors and the Committee receives regular updates on senior management and talent developments. |

## Board committees

The Board has four principal Committees and two standing Committees:



## Principal Committees

The principal Committees of the Board are the Audit Committee, Nomination Committee, Remuneration Committee and Social Responsibility Committee. The membership of each of the Committees is comprised of only independent non-executive directors. Terms of Reference for the principal Committees are available on the Company's website at [www.ladbrosesplc.com/investors](http://www.ladbrosesplc.com/investors). Details of the responsibilities and activities of the principal Committees are outlined in each of the respective reports on pages 44 to 71.

## Standing Committees

In addition to the principal Committees, the Board has established two standing Committees which review and approve routine operating and regulatory matters. These standing Committees generally comprise any two of the Chairman, Chief Executive or Chief Financial Officer.

The Disclosure Committee meets on an ad hoc basis to consider and make decisions relating to the handling of inside information concerning the Company and the Group. The Disclosure Committee is responsible for ensuring the timely and accurate disclosure of inside information to the market in accordance with the Company's obligations under the Financial Conduct Authority's Disclosure and Transparency Rules and for monitoring compliance with the Company's disclosure controls and procedures.

The Finance Committee meets as required to deal with all routine business (excluding matters that are specifically reserved to the Board or to another Committee) and specific matters delegated to it by the Board requiring attention between scheduled Board meetings.

Attendance at meetings of the Disclosure Committee and Finance Committee are set out in the table below:

| Directors as at 31 December 2015 | Disclosure Committee | Finance Committee |
|----------------------------------|----------------------|-------------------|
| John Kelly                       | 0                    | 1                 |
| Jim Mullen                       | 3                    | 22                |
| Ian Bull                         | 8                    | 28                |
| <b>Former directors</b>          |                      |                   |
| Peter Erskine                    | 5                    | 6                 |
| Richard Glynn                    | 2                    | 1                 |

In addition, the Executive Committee, Risk Committee and Investment Committee referred to elsewhere in this Annual Report are not formal Board Committees.

## Financial reporting, internal control and risk management systems

The Board has ultimate responsibility for the internal control and risk management systems operating throughout the Group and for reviewing their effectiveness. No such systems can provide absolute assurance against material misstatement or loss. The Group's systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and to provide the Board with reasonable assurance that potential problems will normally be prevented or will be detected in a timely manner for appropriate action.

## Corporate governance continued

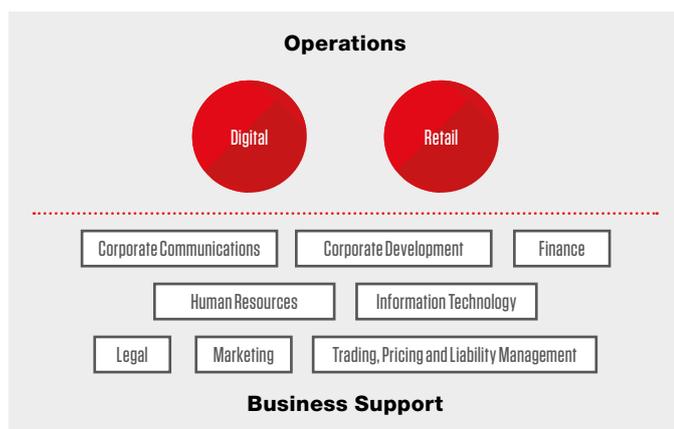
The Board as a whole is responsible for ensuring that the Annual Report is fair, balanced and understandable. The Board has reviewed the Annual Report 2015 and, taken as a whole, considers it to be fair, balanced and understandable and provides shareholders with information necessary to assess the Company's position and performance, business model and strategy. In arriving at this conclusion, the Board's review draws on its collective knowledge of the business, which is regularly updated by management reports and presentations at scheduled Board and Committee meetings and other business updates provided between meetings.

The Company had procedures in place throughout the year and up to 22 February 2016, the date of approval of this Annual Report, which accord with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the FRC in September 2014. The Board has delegated the detailed design of the systems of internal control and risk management to the executive directors.

### Control framework

The control framework and key procedures during 2015 in relation to the financial reporting process were as follows.

The Group operates through two primary Business Channels and a number of Business Support Units:



There is an Executive Head responsible for each of these Business Channels and Business Support Units.

### Business planning

Corporate strategy and Group-wide business objectives are reviewed annually by the Board and the Group profit plan is approved by the Board. The Business Support Unit management integrate Group-wide objectives into business strategies for presentation to the Board with supporting financial objectives. Operating plans for each Business Support Unit comprise financial and operating targets, capital expenditure proposals and performance indicators and are reviewed by the Executive Committee.

### Reporting and oversight

The Chief Executive and the Executive Heads comprise the Executive Committee and meet monthly to consider Group strategy, financial performance, business development and management issues. Other senior executives participate as appropriate. In addition, there are weekly and monthly financial

and operational review meetings together with an annual programme of plan/forecasting and strategy reviews attended by the Chief Executive and Chief Financial Officer together with, as appropriate, other Executive Heads and executives. The Board regularly receives reports from Executive Heads covering areas such as operations, forecasts, business development, strategic planning, human resources, legal and corporate matters, compliance, health and safety and corporate responsibility.

### Investment

There is a Group-wide policy governing appraisal and approval of investment expenditure and asset disposals. An Investment Committee comprising of the Chief Executive and the Chief Financial Officer, consider all significant financial commitments, including past investment appraisals. Major projects are reported on at each scheduled Board meeting. Post-investment appraisals are undertaken on a systematic basis and are formally reviewed by both the Board and the Investment Committee.

### Risk

An ongoing process is in place for identifying, evaluating and managing the risks faced by the Group. Principal (including specific material) risks and their financial implications are appraised by the Executive Committee which is assisted by a committee of Business Support Unit executives (the Risk Committee). This is an integral part of the strategic planning process. The appropriateness of controls is considered, having regard to cost/benefit, materiality and the likelihood of risks crystallising. Principal (including specific material) risks and actions to mitigate those risks are considered at Board meetings and are formally reviewed and approved by the Board twice yearly. Each significant risk is assigned executive director/ Executive Head ownership. During the year, the Group's risk management systems were enhanced. A new Enterprise Risk Management Framework has been established, which includes an assessment of risk appetite and tolerance within the Group as a whole. The Board has conducted a robust assessment of the principal risks facing the Company and the Group. Details of the principal risks and how they are managed are shown on pages 26 to 29.

### Policies and controls

Key policies and control procedures (including treasury, compliance and information system controls) are documented and have Group-wide application. There are also operating procedure manuals that are integrated with Group-wide controls. High standards of business ethics and compliance with laws, regulations and internal policies are demanded from employees at all levels. To underpin the effectiveness of controls, it is Group policy to recruit and develop management and other employees of high calibre, integrity and with appropriate disciplines. A system of bi-annual self-certification of compliance with key controls and procedures is operated throughout the Group.

The role of the Audit Committee in reviewing the effectiveness of the systems of internal control and risk management is explained in the Audit Committee Report on page 45. The Group has an internal audit function, which is outsourced to Deloitte LLP, and reports to management and the Audit

Committee on Group operations. The Board also conducts a continual assessment of the effectiveness of the internal control and risk management systems. The assessment takes account of all significant aspects including risk assessment, the control environment and control activities, information and communication, and monitoring.

### Anti-bribery and whistleblowing

The Board recognises that as a global betting and gaming business there is potential for exposure to bribery and corruption. Failure by employees, suppliers or agents to comply with anti-bribery and corruption legislation (including the UK Bribery Act and the US Foreign Corrupt Practices Act), or any failure in policies and procedures to monitor and prevent non-compliance, anywhere in the world, could result in substantial penalties, criminal prosecution and significant damage to the reputation of the Company.

The Board ensures that there are a number of policies, procedures, management systems and internal controls in place across the business to prevent bribery and corruption occurring. This includes policies on whistleblowing, anti-bribery, gifts and hospitality, charitable donations and sponsorship. Supplementary audit, monitoring and review processes are designed to identify breaches of Group controls. The Whistleblowing Policy enables and encourages employees to report in confidence any possible malpractice, impropriety or other matters of concern which may arise in the business. Any matters raised in accordance with the Policy are investigated thoroughly and reports are provided at each meeting of the Audit Committee.

### Relations with shareholders

There is a regular programme of meetings with major institutional shareholders to consider the Group's performance and prospects. In addition, presentations are made twice yearly after the announcement of results, the details of which, together with the Group's financial reports and announcements, can be accessed at [www.ladbrokeplc.com/investors](http://www.ladbrokeplc.com/investors). During 2015, the Chairman met with several institutional investors and their representative bodies in addition to results presentations, the Annual General Meeting and the General Meeting to approve the proposed merger with certain businesses of Gala Coral (Gala Coral). Other directors are available to meet the Company's major shareholders if requested. A report on investor relations, which includes updates on meetings with major institutional shareholders, is given at each Board meeting. The Company's brokers also present to the Board annually.

Principles of ownership, corporate governance and voting guidelines issued by the Company's major institutional shareholders, their representative bodies and advisory organisations are circulated to, and considered by, the Board.

The Company corresponds regularly on a range of subjects with its individual shareholders who have an opportunity to question the Board at the Annual General Meeting. Further information on our relations with shareholders is contained in the 'Shareholder information' section on page 142.

**2015**

During the year, the Company has reported to and engaged with investors as follows:

| Reporting event  |           | Investor engagement   |
|--|-----------|---|
| <ul style="list-style-type: none"> <li>– 2014 Preliminary Results announced</li> </ul>   | <b>Q1</b> | <ul style="list-style-type: none"> <li>– Investor conference call on the 2014 Preliminary Results</li> <li>– Analyst briefing on the 2014 Preliminary Results</li> </ul>  |
| <ul style="list-style-type: none"> <li>– Circular and Notice of Annual General Meeting made available</li> <li>– Q1 Trading Statement announced</li> </ul>   | <b>Q2</b> | <ul style="list-style-type: none"> <li>– Investor conference call on the Q1 Trading Statement</li> <li>– 2015 Annual General Meeting</li> </ul>   |
| <ul style="list-style-type: none"> <li>– Proposed merger with Gala Coral announced</li> <li>– New strategic plan announced</li> <li>– 2015 Interim Results announced</li> </ul>  | <b>Q3</b> | <ul style="list-style-type: none"> <li>– Investor conference call on the proposed merger and new strategic plan</li> <li>– Analyst briefing on the proposed merger and new strategic plan</li> <li>– Investor conference call on the 2015 Interim Results</li> <li>– Analyst briefing on the 2015 Interim Results</li> <li>– Meetings with institutional investors regarding the proposed merger with Gala Coral</li> </ul> |
| <ul style="list-style-type: none"> <li>– New financing arrangement announced</li> <li>– Q3 Trading Statement announced</li> <li>– Circular and Notice of General Meeting relating to the proposed merger with Gala Coral made available</li> </ul> | <b>Q4</b> | <ul style="list-style-type: none"> <li>– Investor conference call on the Q3 Trading Statement</li> <li>– Meetings with institutional investors regarding the proposed merger with Gala Coral</li> <li>– General Meeting to approve the proposed merger with Gala Coral</li> </ul>   |

Corporate governance continued**Dear Shareholder**

I am pleased to present the activities of the Audit Committee during the year.

During the year, there were a number of changes to the membership of the Committee. I succeeded Darren Shapland as Chairman of the Committee, David Martin was appointed as a member and John Kelly ceased to be a member following his appointment as Chairman of the Company.

I would like to thank Darren for his contribution to the work of the Committee during his six years on the Board.

In addition to our usual matters, including the financial results for the full year and half year and the quarterly trading statements, applicable accounting policies and going concern assumptions, the Committee has increased its focus on the Group's risk management processes and procedures, specifically in relation to the international businesses, and has also regularly reviewed the Group's approach to managing cyber security.

A review was again carried out of the Committee's effectiveness which concluded that the Committee continued to operate effectively. A number of areas of improvement were also identified, for which I will lead the implementation process.

**Mark Pain**

Chairman of the Audit Committee

**AUDIT COMMITTEE REPORT****Composition and constitution**

The Audit Committee oversees the Group's financial reporting and internal controls and provides a formal reporting link with the external auditors. The Committee's Terms of Reference, which are reviewed annually, are available on the Company's website, [www.ladbrokeplc.com/investors](http://www.ladbrokeplc.com/investors).

The Audit Committee comprises three members, all of whom are independent non-executive directors. Appointments to the Committee are made by the Board at the recommendation of the Nomination Committee, which consults with the Chairman of the Audit Committee. The Board has satisfied itself that the Committee's membership includes directors with recent and relevant financial experience.

The members of the Committee that served during the year were:

|                                | Appointment date  | Committee role |
|--------------------------------|-------------------|----------------|
| Mark Pain                      | 3 December 2015   | Chairman       |
| Christine Hodgson              | 1 May 2012        | Member         |
| David Martin                   | 25 September 2015 | Member         |
| <b>Former members</b>          |                   |                |
| John Kelly <sup>(1)</sup>      | 1 September 2010  | Member         |
| Darren Shapland <sup>(2)</sup> | 16 February 2010  | Chairman       |

(1) John Kelly ceased to be a member of the Committee on 3 December 2015.

(2) Darren Shapland ceased to be Chairman of the Committee on 24 September 2015.

**Main responsibilities of the Committee**

The main responsibilities of the Committee are to:

- Monitor the integrity of the financial statements of the Company and significant financial reporting issues and judgements;
- Review the effectiveness of the Company's internal controls and risk management systems;
- Review the Company's arrangements for its employees to raise concerns in confidence and procedures for detecting fraud;
- Consider and approve the remit of work of the Company's internal audit function, as well as monitor and review their effectiveness;
- Oversee the relationship with the external auditor;
- Review and approve the external annual audit plan and reviewing the finding of the audit;
- Implement a policy on the supply of non-audit services by the external auditor; and
- Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process.

## Meetings attendance

The Committee meets as required, but not less than three times a year. Other directors, including the Chief Financial Officer, attend Audit Committee meetings. The Committee met for private discussions with the external auditor, whose representatives attend all of its meetings, together with the internal auditor, Deloitte LLP.

Details of the number of Committee meetings held during the year and the attendance of Committee members is shown below:

| Members as at 31 December 2015 | Number of meetings eligible to attend | Number of meetings attended |
|--------------------------------|---------------------------------------|-----------------------------|
| Mark Pain                      | 0                                     | 0                           |
| Christine Hodgson              | 5                                     | 5                           |
| David Martin <sup>(1)</sup>    | 2                                     | 1                           |
| <b>Former members</b>          |                                       |                             |
| John Kelly                     | 5                                     | 5                           |
| Darren Shapland                | 3                                     | 3                           |

(1) David Martin was unable to attend one Committee meeting due to prior business commitments.

## Committee activities

The main activities of the Committee during 2015 included:

- The critical review of the significant financial reporting issues in connection with the preparation of the Company's financial and related formal statements, with the assistance of reports received from management and the external auditor, including the process for assessing whether the going concern basis of accounting remains appropriate;
- Assessing the scope and effectiveness of the systems established to identify, assess, manage and monitor financial and non-financial risks;
- Monitoring the integrity and effectiveness of the Company's internal financial controls by reference to:
  - (a) summaries of business risks and mitigating controls
  - (b) regular reports and presentations from the heads of key risk functions, internal audit and external audit
  - (c) the results of the system of annual self-certification of compliance with key controls and procedures;
- Monitoring and reviewing the plans, work and effectiveness of the internal audit function, including any actions taken following any significant failures in internal controls. During the year, the Committee focused on the control improvements required and progress made. Whilst progress has been steady, there remain improvements to be made so that the necessary controls are embedded fully across the Group's operations;
- Reviewing, with the external auditor, its terms of engagement, the findings of its work, and at the end of the audit process reviewing its effectiveness;
- Reviewing the independence and objectivity of the external auditor; and
- Considered the due diligence performed with regard to the disclosures made in the Circular to shareholders in relation to the proposed merger with certain businesses of Gala Coral.

## External auditor

The Company's external auditor, PricewaterhouseCoopers LLP (PwC), were appointed at the Annual General Meeting held on 7 May 2014 following a competitive tender process. The provision of statutory audit services to the Company and its subsidiary undertakings will be subject to a competitive tender process prior to 7 May 2024.

The external auditor reports to the Committee on the actions taken to comply with professional and regulatory requirements and with best practice designed to ensure its independence. In addition, the Committee has adopted a policy on the engagement of external auditors for the provision of non-audit services which can be viewed at [www.ladbrosesplc.com/investors](http://www.ladbrosesplc.com/investors).

The policy sets out controls intended to ensure that the independence of the external auditor is not impaired and stipulates:

- The nature of non-audit services that are permitted to be performed by the external auditor;
- Levels of authority for management to engage the external auditor for approved non-audit services; and
- That any non-audit services to be provided by the external auditor for a single project or specific services for fees in excess of £100,000 must be approved in advance by the Committee.

Details of non-audit services are presented to the Committee for its review at each meeting. Fees for non-audit services provided by PwC in the year amounted to £2.0m (2014: £0.5m) of which £1.6m related to one-off services provided for the proposed merger with certain businesses of Gala Coral. The Committee considered that PwC was best placed to perform this work because of its knowledge of the Group which would enable the service to be provided efficiently. The Committee is satisfied that the provision of approved non-audit services has not compromised the independence and objectivity of the external auditor.

The performance of the external auditor is reviewed by the Committee on an annual basis through a qualitative assessment of the services provided against the agreed audit plan and taking account of feedback received from management. Following this review the Committee is satisfied that the external audit process operates effectively.

## Corporate governance continued

### Accounting and key areas of judgement

The main areas considered by the Committee in relation to 2015 are set out below:

| Matter considered   | Action  |
|---|---|
| <b>Taxation</b>   |   |
| <p>Accounting for uncertain tax positions and the level of deferred and current tax asset recognition and disclosure in relation to accumulated tax losses are based on a series of judgements. These judgements have an impact on the corporation tax rate and recognition of deferred tax assets in 2015 the Group has recognised a corporation tax credit of £35.0m (excluding the tax credit on exceptional items). In addition to the recognition, the Committee also considered the appropriateness of the disclosures provided in the Annual Report.</p> | <p>The Committee received regular reports from management on the corporation tax rate as well as the judgements exercised in arriving at the corporation tax rate, recognition of corporation tax credits and the deferred tax recognised and disclosed. Assumptions underlying the positions taken on significant deferred tax assets were supported by reports from other tax, advisory and legal firms. The Committee discussed the key judgements in relation to both the uncertain tax positions and understood the basis on which deferred and current tax was recognised or disclosed. The Committee also considered the work done and the conclusions reached by PwC over this area as part of their audit.</p> |
| <b>Carrying value of long-lived assets</b>  |   |
| <p>In addition to the licences in the Retail estate, as a result of recent acquisitions and the significant level of investment in technology over the past three years, the Group has significant goodwill and other intangible assets which needed to be reviewed for impairment. In 2015, the Group has recognised an impairment loss of £53.2m in respect of long-lived assets.</p>   | <p>The carrying value of all long-lived assets are tested for impairment annually. The Committee reviewed the methodology and the outcome of the various impairment review papers presented by management and reviewed the key assumptions in respect of each of the Retail and Digital businesses, understanding how these related to Board approved plans and forecasts. The Committee also reviewed analysis and support for the Group's software assets and debated the basis for the impairments recorded. The Committee also considered the work done and the conclusions reached by PwC over this area as part of their audit.</p>   |
| <b>Exceptional items</b>  |   |
| <p>The Group classifies certain items in the income statement as exceptional, to allow a clearer understanding of the trading performance on a consistent and comparable basis together with an understanding of the effect of non-recurring or large individual transactions upon the overall profitability of the Group. In 2015, the Group has incurred total operating exceptional costs of £99.3m.</p>   | <p>The Committee has reviewed the items considered exceptional by management which have been discussed at each of the past four Committee meetings. The Committee has challenged the appropriateness and classification of these items of costs as well as income as exceptional. The Committee also considered the work done and the conclusions reached by PwC over this area as part of their audit.</p>   |



## Dear Shareholder

I am pleased to present the Report of the Nomination Committee.

Christine Hodgson and Darren Shapland were appointed as additional members of the Committee during the year and, Mark Pain was also appointed as a member of the Committee on 25 January 2016. These appointments further strengthened the composition of the Committee. I was appointed as Chairman of the Committee on 3 December 2015.

During the year, the Committee led the processes for the appointment of the Chief Executive, a new Non-Executive Director and the replacement of Chairman of the Company. Further details on the appointment processes can be found on page 48.

In light of the retirement of Ian Bull as Chief Financial Officer at the end of February 2016, the Committee also considered who would act as Chief Financial Officer until the proposed merger with certain businesses of Gala Coral was completed.

During 2016, the Committee will focus further on refreshing its membership and Board and senior management succession planning.

**John M Kelly**

Chairman of the Nomination Committee

## NOMINATION COMMITTEE REPORT

### Composition and constitution

The Nomination Committee reviews and makes recommendations to the Board on the composition of the Board and leads the process for the appointment of directors to the Board. The Committee's Terms of Reference, which are reviewed annually, are available on the Company's website, [www.ladbrokeplc.com/investors](http://www.ladbrokeplc.com/investors).

The Nomination Committee comprises the Chairman and all of the independent non-executive directors. Appointments to the Committee are made by the Board.

The members of the Committee that served during the year were:

|                                | Appointment date | Committee role |
|--------------------------------|------------------|----------------|
| John Kelly <sup>(1)</sup>      | 15 February 2011 | Chairman       |
| Sly Bailey                     | 1 May 2013       | Member         |
| Christine Hodgson              | 31 March 2015    | Member         |
| David Martin                   | 7 May 2014       | Member         |
| Richard Moross                 | 31 March 2015    | Member         |
| <b>Former members</b>          |                  |                |
| Peter Erskine <sup>(2)</sup>   | 18 February 2009 | Chairman       |
| Darren Shapland <sup>(3)</sup> | 1 May 2013       | Member         |

(1) John Kelly was appointed as Chairman of the Committee on 3 December 2015.

(2) Peter Erskine ceased to be Chairman of the Committee on 3 December 2015.

(3) Darren Shapland ceased to be a member of the Committee on 24 September 2015.

### Main responsibilities of the Committee

The main responsibilities of the Committee are to:

- Review the structure, size and composition of the Board, taking into account the balance of skills, knowledge, experience and diversity, and to make recommendations to the Board with regard to any changes;
- Consider succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the Company;
- Identify and nominate for approval by the Board, candidates to fill Board vacancies as and when they arise;
- Prepare a job specification for the appointment of the Chairman;
- Identify candidates for the role of Senior Independent Director and for membership of the Audit, Remuneration and Social Responsibility Committees, in consultation with the Chairmen of those Committees; and
- Make recommendations to the Board concerning the directors standing for re-election by shareholders.

### Meetings attendance

The Committee meets as required but not less than twice a year. Details of the number of Committee meetings held during the year and the attendance of Committee members is shown below:

| Members as at 31 December 2015 | Number of meetings eligible to attend | Number of meetings attended |
|--------------------------------|---------------------------------------|-----------------------------|
| John Kelly                     | 8                                     | 8                           |
| Sly Bailey <sup>(1)</sup>      | 8                                     | 7                           |
| Christine Hodgson              | 5                                     | 5                           |
| David Martin <sup>(2)</sup>    | 8                                     | 7                           |
| Richard Moross                 | 5                                     | 5                           |
| <b>Former members</b>          |                                       |                             |
| Peter Erskine                  | 8                                     | 8                           |
| Darren Shapland                | 5                                     | 5                           |

(1) Sly Bailey was unable to attend one Committee meeting due to prior business commitments.

(2) David Martin was unable to attend one Committee meeting due to prior personal commitments.

## Corporate governance continued

### Committee activities

The main activities of the Committee during 2015 included:

- Led the processes for the appointment of a new Chief Executive Officer and a new Non-Executive Director;
- Considered the composition of the Board Committees and recommended to the Board that David Martin be appointed as a member of the Audit Committee following the departure of Darren Shapland, and that Sly Bailey be appointed as a member of the Social Responsibility Committee;
- Led the process to consider candidates to replace Peter Erskine as Chairman of the Company. John Kelly was not involved in the Committee's subsequent decision concerning his appointment as Chairman;
- Following the appointment of John Kelly as Chairman of the Board, recommended that Christine Hodgson be appointed as Senior Independent Director and Sly Bailey be appointed as Chairman of the Social Responsibility Committee;
- Recommended the appointment of Richard Snow as Acting Chief Financial Officer; and
- Considered the output of the 2014 Board evaluation in terms of candidates for re-election at the 2015 Annual General Meeting.

### Diversity

The Company has a well established and published equal opportunities policy that guides all colleagues in how they fairly deal with all colleagues and customers irrespective of age, gender, sexual orientation, religion, disability or ethnic origin. That policy applies on how people are selected to work at the Company and applies at all levels. The Company has a succession policy that ensures all key roles including director positions are considered and the Company considers candidates for roles from the widest possible field. The Board regularly reviews succession arrangements for all key roles and the Nomination Committee reviews succession arrangements for directors. The Strategic report includes details of wider workforce gender diversity which are shown on page 34.

The Board endorses the aims of the Davies Report entitled 'Women on Boards' and when considering future appointments, with the support of the Nomination Committee, will aim to build on its current position. The Company currently has two women on the Board (Christine Hodgson and Sly Bailey) and therefore 25% of the Board is made up of women. The Company has therefore achieved its aspiration to increase the percentage of women on the Board to 25% by 2016. The Board will continue to ensure appropriate representation by women, both on the Board and throughout the business, whilst at all times ensuring the Company selects on merit. The charts on page 39 illustrate the diversity of the Board.

The Committee continued to provide support for fostering and developing talent and increasing diversity in the talent pool. A series of presentations were made to the Committee which led to a number of constructive discussions. Their advice and support has assisted the management team in improving the content of their talent programmes and talent mapping exercises.

### Time commitments

On 17 February 2016, the Committee considered the output of the 2015 Board evaluation, following which the Committee concluded that each of the current directors is devoting sufficient time to their duties and responsibilities and brings relevant skills and judgement to the work of the Board. Each of the current directors, with the exception of Ian Bull, will therefore stand for re-election at the 2016 Annual General Meeting.

### Appointment of Jim Mullen

In 2014, the Committee began the process for the appointment of a new Chief Executive Officer and appointed JCA Group and Korn Ferry to assist with the executive search process. JCA Group and Korn Ferry are both signatories to the Executive Search Firms Voluntary Code of Conduct. The process was led by the Chairman with regular updates being provided to the Board by the Committee.

The Board as a whole considered the specific qualities they wanted in the Chief Executive, which included:

- Experience of the betting and gaming industry and a passion for the sports industry as a whole;
- A proven track record as a successful leader;
- Knowledge and experience in operating an international business; and
- Extensive and proven experience in the digital marketplace.

JCA Group and Korn Ferry proposed a number of candidates who were initially interviewed by the Chairman and Senior Independent Director. The final candidates were then interviewed by the non-executive directors, following which, it was determined by the Committee that it be recommended to the Board that Jim Mullen be appointed as Chief Executive from 1 April 2015. The recommendation was subsequently approved by the Board.

Following the identification of Jim Mullen as the preferred candidate, the Remuneration Committee approved a competitive remuneration package for Jim Mullen. Further details on this can be found in the Directors' Remuneration Report on page 53.

### Appointment of Mark Pain

During the year, the Committee began the search for an independent non-executive director and engaged Lygon Group to identify suitable candidates to join the Board. Lygon Group is a signatory to the Executive Search Firms Voluntary Code of Conduct.

As part of the Committee's role in refreshing the Board, it was determined that the new non-executive director would be appointed to act as Chairman of the Audit Committee, and would also continue as a non-executive director of the enlarged Group should the merger with Gala Coral complete.

Potential candidates were identified by Lygon Group and details were circulated to the Committee, following which a short-list of candidates was produced. Potential candidates were interviewed by Committee members, the executive directors and board members of Gala Coral. It was determined that Mark Pain be appointed as a non-executive director and the Committee recommended the appointment to the Board, which subsequently approved the appointment.

### Appointment of Chairman

On 7 May 2015, it was announced that Peter Erskine would be retiring as Chairman during 2015 and that a search process would be undertaken to find his successor. Subsequently, Korn Ferry and Lygon were appointed to commence the search exercise. During the Board's discussions around the proposed merger with Gala Coral it became clear that John Kelly's in-depth industry experience, coupled with his understanding of the businesses and cultures of both the Company and Gala Coral, identified him as the prime candidate to succeed Peter Erskine. Following consultation with the Company's major shareholders, John Kelly was appointed as Chairman with effect from 3 December 2015.



### Dear Shareholder

I am pleased to present the activities of the Social Responsibility Committee during the year.

During the year, I was appointed as an additional member of the Committee and subsequently was appointed as Chairman of the Committee following the appointment of John Kelly as Chairman of the Board.

During the year, the Committee further reviewed the policies and procedures relating to responsible gambling, which included a visit to the Group's operations in Gateshead. Further details on the Committee's visit to Gateshead can be found on page 50.

During 2016, the Committee will focus further on responsible gambling and will also review and monitor the policies and processes in relation to ethics, supply chain and health and safety.

**Sly Bailey**

Chairman of the Social Responsibility Committee

## SOCIAL RESPONSIBILITY COMMITTEE REPORT

### Composition and constitution

The Social Responsibility Committee reviews and advises the Board on the effectiveness of the Group's strategy and policies for ensuring that the Group operates a socially responsible and sustainable business that protects the young, protects the vulnerable, ensures the business is not associated with crime and disorder and that the Group's reputational standing is maintained. The Committee's Terms of Reference, which are reviewed annually, are available on the Company's website, [www.ladbrokeplc.com/investors](http://www.ladbrokeplc.com/investors).

The Social Responsibility Committee comprises of two or more independent non-executive directors. Appointments to the Committee are made by the Board on the recommendation of the Nomination Committee, which consults with the Chairman of the Social Responsibility Committee.

The members of the Committee that served during the year were:

|                           | Appointment date  | Committee role |
|---------------------------|-------------------|----------------|
| Sly Bailey <sup>(1)</sup> | 25 September 2015 | Chairman       |
| Christine Hodgson         | 3 July 2014       | Member         |
| <b>Former members</b>     |                   |                |
| John Kelly <sup>(2)</sup> | 3 July 2014       | Chairman       |

(1) Sly Bailey was appointed as Chairman of the Committee on 3 December 2015.

(2) John Kelly ceased to be Chairman of the Committee on 3 December 2015.

### Main responsibilities of the Committee

The main responsibilities of the Committee are to:

- Review and advise the Board on the effectiveness of the Group's strategy and policies for ensuring that the Group operates a socially responsible and sustainable business;
- Receive reports, monitor performance and review Group policies on regulatory compliance, including responsible gambling, underage gambling, anti-money laundering, bribery, health and safety, security, human rights and ethics; and
- Monitor progress on the implementation of key social responsibility programmes.

### Meetings attendance

The Committee meets as required but not less than twice a year. Details of the number of Committee meetings held during the year and the attendance of Committee members is shown below:

| Members as at 31 December 2015 | Number of meetings eligible to attend | Number of meetings attended |
|--------------------------------|---------------------------------------|-----------------------------|
| Sly Bailey <sup>(1)</sup>      | 1                                     | 0                           |
| Christine Hodgson              | 3                                     | 3                           |
| <b>Former members</b>          |                                       |                             |
| John Kelly                     | 3                                     | 3                           |

(1) Sly Bailey was unable to attend one Committee meeting due to prior business commitments.

## Corporate governance continued

### Committee activities

The main activities of the Committee during 2015 included:

- Reviewed the communications in relation to responsible gambling;
- Considered the responsible gambling targets for awards made to directors and senior executives under the Performance Share Plan;
- Reviewed the requirements for the Annual Assurance Statement that was required to be submitted to the GB Gambling Commission; and
- Visited the operational team in Gateshead and reviewed the retail algorithm which was being used to track the behaviour of machine customers and compare them with historic known gamblers.

### COMMITTEE VISIT TO THE GATESHEAD OPERATIONS

In November 2015, the Committee and Jim Mullen, Chief Executive, visited our Gateshead Audit Centre, which was established in 1973 to support the growing Retail estate. During 2015, the headcount at Gateshead grew as the team expanded to incorporate our growing focus on responsible gambling.

During the visit, the Committee were given an overview and live demonstrations of the responsible gambling reports generated by the audit team, that included activity relating to exceptional business occurrences, debit card usage, potential anti-money laundering and the retail algorithm process.

Commenting on the visit, Jim Mullen said “It was an extremely worthwhile day and gave the Committee a valuable insight into the activities of our Gateshead team who now use their skills and experience to help keep our customers gambling responsibly”.

## Directors' remuneration report

“2016 will be a pivotal year for the business. The Remuneration Committee is committed to ensuring that remuneration arrangements at Ladbrokes continue to support its objectives.”



### Dear shareholder

As the Chairman of the Ladbrokes Remuneration Committee, I am pleased to present the 2015 Directors' Remuneration Report, which has been prepared in accordance with the relevant provisions of the Listing Rules, section 421 of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). The Report is set out in two parts:

- Our remuneration policy (Policy Report) which was approved by shareholders on 7 May 2014. For clarity we have updated the Policy Report to reflect 2016 figures where relevant. There will be no vote on this section at the 2016 Annual General Meeting (AGM); and
- Our Annual Report on Remuneration detailing how our policy was implemented in the year ending 31 December 2015 and how it will be implemented in the year ending 31 December 2016, which is subject to an advisory vote.

**David Martin**

Chairman of the Remuneration Committee

## Directors' remuneration report continued

### Impact on remuneration of key events in 2015

2015 has been a momentous year for Ladbrokes. In June, our newly appointed Chief Executive, Jim Mullen, announced a three-year strategic plan to build a stronger Ladbrokes. The proposed merger with Gala Coral fast-tracks progress to the scale proposed under the strategic plan and was approved by shareholders at the General Meeting on 24 November 2015.

Notwithstanding these significant corporate changes, the principles underpinning the Ladbrokes remuneration policy still remain applicable and are unchanged from last year.

These remuneration principles are to:

- Be strongly aligned with shareholder value creation;
- Support the achievement of organisational goals and be aligned with long-term business strategy;
- Enable the Company to attract, retain and motivate key individuals; and
- Be positioned competitively against best market practice, while paying no more than necessary.

After the announcement of the new strategic plan and proposed merger, the Remuneration Committee reviewed the remuneration arrangements across the business to assess whether current arrangements continue to align with these principles. The review showed that the existing arrangements broadly continue to support Ladbrokes' objectives; however changes were required to the 2015 bonus.

The new strategy requires significant up-front investment in Ladbrokes' core businesses. Although these investments will build a materially stronger business in the medium/long term, these do impact profits in the short term. Therefore, to ensure that our employees are incentivised to implement our strategy, the 2015 bonus PBIT threshold, on-target and stretch numbers were changed from £95m, £110m and £120m to £80.4m, £90m and £101.25m respectively which takes into account the strategic investment made by Ladbrokes in the business in the second half of the year. Further details on resulting bonus payouts are provided later in this statement.

We have also granted a number of share and cash-based awards to key below-Board colleagues to aid retention over the critical merger period. These awards are likely to vest in 2016 and 2017. None of the executive directors have received an award linked to retention in relation to the merger.

At the 2015 AGM, Ladbrokes received a 69.8% vote in favour of the 2014 annual report on remuneration. The Board notes the level of votes against the report primarily related to Richard Glynn's termination arrangements. Richard Glynn's termination arrangements were agreed at the time of his recruitment and were determined to be in line with UK damages principles. The Remuneration Committee understands that contracts of this type are no longer best practice and confirms the termination arrangements for current executive directors are in line with market practice and will be determined using payment in lieu of notice (PILON) principles.

### 2015 performance

In July 2015, Jim Mullen laid out his strategy and whilst still early days, customer metrics in H2 have been encouraging. Operating profit of £80.6 million for the year reflects the increased marketing spend in line with the new strategy and c.£50 million increase in gambling taxation.

For the 2015 annual bonus, up to 60% of the maximum bonus opportunity was dependent on stretching profit targets with the remainder dependent on individual objectives. For the Chief Executive and Chief Financial Officer this included a number of financial and strategic measures which were primarily focused on the delivery of the new strategy for Ladbrokes and work on the proposed merger.

In 2015, the operating profit excluding High Rollers was £80.6m which is above the threshold requirement of £80.4m. Therefore, for achieving this level of profit, the Chief Executive received £27,316 which is 7% of his salary pro-rated for his tenure as Chief Executive in 2015. The Chief Executive also achieved his personal objectives to a satisfactory level therefore in total he received £97,891 which is 26% of his salary pro-rated for his tenure as Chief Executive in 2015. The Chief Financial Officer received £101,502 which is 25% of his salary. For the Chief Executive, a third of the earned bonus was deferred into shares for three years. As the bonus targets were reset for the new strategy on 1 July 2015, the Remuneration Committee has ensured that the bonus payouts reflect the performance outcome of the second half of the year.

Further details on the 2015 bonus targets and resulting bonus outcomes can be found on page 64.

The 2013 awards under the Performance Share Plan (PSP) were based 50% on three-year Earnings per Share (EPS) performance and 50% on three-year Total Shareholder Return (TSR) to the end of 2015. Neither the EPS nor TSR threshold targets were met, therefore the 2013 PSP awards will lapse fully.

The third and final performance test of the Ladbrokes Growth Plan (LGP), a one-off share plan, was measured at the end of June 2015. No additional shares were earned as the share price did not exceed the share price required during the performance measurement period. However, as per the rules of the plan, a third of shares earned from the first performance test at the end of June 2013 by the Chief Financial Officer and by the former Chief Executive vested in August 2015.

### Ladbrokes remuneration in 2016

A key event for Ladbrokes in 2016 is the outcome of the proposed merger with Gala Coral. The Committee intends to continue to operate its existing remuneration programmes until the proposed merger with Gala Coral, including a 2016 PSP award.

If the merger is confirmed, the Remuneration Committee will review the existing remuneration policy prior to completion to determine whether any revisions are required to ensure the policy continues to be appropriate for the enlarged Group post-completion. Any revisions will be offered for shareholder approval at a General Meeting once this review has been completed. The pay structure for executive directors of the enlarged Group post-completion will reflect their roles and responsibilities and will reflect market norms for those executives who will remain with the enlarged Group longer term.

Upon merger, Ladbrokes outstanding incentives will be treated in line with plan rules. It is anticipated that outstanding awards granted under the PSP will be rolled over into Ladbrokes Coral shares.

Certain performance targets and measures attached to the 2015 and 2016 PSP will require review and potential revision upon merger to reflect and incentivise the objectives of the enlarged Group. Shareholders will be consulted with regard to any proposed changes.

### Other

There have been a number of changes in Board membership in 2015. Jim Mullen became the new Chief Executive of Ladbrokes on 1 April 2015. His remuneration arrangements in 2015 are in line with the approved policy and consist of a base salary of £500,000 p.a.; a bonus of up to 170% of base salary, one-third of which will be deferred for three years; a pension allowance of 22.5% of his base salary and benefits worth c.£15,000 which includes car allowance and private healthcare. In 2015, Jim Mullen received a share award equal to 200% of his base salary under the PSP. This award has stretching performance conditions attached to its vesting. Effective from 1 March 2016, Jim Mullen's base salary will be £525,000 p.a. This salary increase takes into account his performance over the year and his below-market positioning. We also intend to grant a PSP award in 2016 equal to 175% of his salary (at 1 January 2016, £500,000 p.a.) which is in line with the approved policy. All other arrangements remain the same and are in line with the approved policy.

Ian Bull will be leaving Ladbrokes before the end of February 2016. His termination arrangements are in line with the key terms and conditions detailed in his service contract:

- He will receive six months pay in lieu of notice which will be paid in six monthly instalments and is equivalent to salary, pension and benefits that would have been paid to him during this time. He received his first monthly instalment of £42,500 in November 2015. The remainder will be paid in the five months following his departure;
- His termination agreement stated that his pay in lieu of notice will be reduced accordingly if he finds alternative employment. Ian Bull has found alternative employment at Parkdean Resorts therefore his remaining payments will be reduced accordingly. These amounts are yet to be determined and will be disclosed in next year's Annual Report;
- He will receive his 2015 annual bonus in cash which is equal to £101,502;
- His 2015 PSP share award will vest at the normal vesting date subject to the extent which performance conditions have been satisfied. In recognition of his contribution to Ladbrokes, the Committee has disapplied any time pro-rata to his 2015 PSP award and will not apply a two-year holding period; and
- The temporary monthly allowance of £10,000 paid to Ian Bull from 1 March 2015 to 30 November 2015 was not taken into account when calculating his termination arrangements.

As announced on 11 December 2015, Richard Snow, Director of Investor Relations became the acting Chief Financial Officer upon Ian Bull's departure on 26 February 2016. He will not join the Board but will be invited to attend Board meetings.

We have also had a number of changes to non-executive director membership of the Board. Peter Erskine stood down from the Board in December 2015, with John Kelly appointed Non-Executive Chairman. John Kelly's annual fee for this role is £285,000. Upon John Kelly's appointment, Christine Hodgson became the acting senior independent non-executive director and will receive a total annual fee of £70,000. Mark Pain, who joined the Board on 3 December 2015 will receive a total annual fee of £70,000 which takes into account his role as Audit Committee Chair.

2016 will be a pivotal year for the business. The Remuneration Committee is committed to ensuring that remuneration arrangements at Ladbrokes continue to support its objectives. The Remuneration Committee values all feedback from shareholders, and hopes to receive your support at the forthcoming AGM.

## POLICY REPORT

The following sections set out the Directors' Remuneration Policy (the Policy). The Policy was approved by shareholders at the 2014 AGM on 7 May 2014.

For avoidance of doubt, it is the Company's policy to honour in full any pre-existing obligations that have been entered into prior to the effective date of this Policy. Therefore, the Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the Policy, where the terms of these payments were agreed:

- (i) before the Policy came into effect; or
- (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a director of the Company.

## Governance

Directors' remuneration report *continued*

For these purposes 'payments' includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

Further details regarding the operation of the Policy can be found on pages 63 to 71 of this report.

**Policy table****Fixed remuneration**

| Purpose and link to strategy   | Operation  | Maximum opportunity  | Performance measures  |
|--|--|--|---|
| <b>Salary</b>  |  |  |   |
| <ul style="list-style-type: none"> <li>- Core element of remuneration reflecting the size and scope of an individual's responsibilities.</li> <li>- Salary levels are set at a level to attract and retain the talent necessary to deliver the business strategy.</li> </ul> | <ul style="list-style-type: none"> <li>- Salaries are typically reviewed annually by the Remuneration Committee with any change normally being effective from 1 March of each year.</li> <li>- The Remuneration Committee typically takes into consideration a number of internal and external factors when setting salaries, including:               <ul style="list-style-type: none"> <li>- business and individual performance;</li> <li>- the individual's skills and experience;</li> <li>- affordability;</li> <li>- inflation;</li> <li>- market positioning; and</li> <li>- pay and conditions elsewhere in the Group.</li> </ul> </li> <li>- The Remuneration Committee has the discretion to review salaries at any point as it considers appropriate.</li> </ul>  | <ul style="list-style-type: none"> <li>- Salary increases for executive directors will normally be in line with increases for the wider workforce. There is no maximum salary opportunity.</li> <li>- Higher increases may be awarded in individual circumstances, at the Remuneration Committee's discretion, including, but not limited to:               <ul style="list-style-type: none"> <li>- a significant increase in scope and/or responsibility of the role; or</li> <li>- if a new executive director is appointed at a lower salary which is to be aligned with market over time based on performance.</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>- Overall performance of the business and the individual are key considerations in setting salary levels.</li> </ul> |
| <b>Benefits</b>  |  |  |   |
| <ul style="list-style-type: none"> <li>- Fixed element of remuneration providing market competitive benefit to support the attraction and retention of talent.</li> </ul>  | <ul style="list-style-type: none"> <li>- Benefits to executive directors may include private healthcare (for the executive director and his family), critical illness, disability and life assurance, injury in service benefits, an allowance for tax advice and a cash allowance in lieu of a company car.</li> <li>- The Remuneration Committee keeps the benefits offered, the policies and levels under regular review.</li> <li>- The Remuneration Committee may also remove benefits that executive directors receive or introduce other benefits if it considers it is appropriate to do so.</li> <li>- Where executive directors are required to relocate or complete an international assignment, the Remuneration Committee may offer additional benefits, if considered appropriate, or vary benefits according to local practice.</li> <li>- Executive directors are also eligible to participate in the Company's two all-employee share plans (the Share Incentive Plan and the Savings-Related Share Option Scheme) on the same basis as other eligible colleagues.</li> </ul> | <ul style="list-style-type: none"> <li>- Whilst no maximum monetary value exists, benefits are set by taking into account a number of factors including market practice for comparable roles within appropriate pay comparators and taking into account individual circumstances, e.g. relocation.</li> <li>- Participation in the Share Incentive Plan and the Savings-Related Share Option Scheme is limited to the maximum award levels permitted by the relevant legislation.</li> </ul>   | <ul style="list-style-type: none"> <li>- None.</li> </ul>   |

## Fixed remuneration continued

| Purpose and link to strategy  | Operation  | Maximum opportunity   | Performance measures                                    |
|---|--|---|---|
| <b>Retirement benefits</b>  |  |   |   |
| <ul style="list-style-type: none"> <li>Fixed element of remuneration to assist with retirement planning which supports the attraction and retention of talent.</li> </ul> | <ul style="list-style-type: none"> <li>Executive directors can opt to join the Company's defined contribution scheme or take a cash supplement in lieu.</li> <li>The Remuneration Committee keeps the cash supplement and/or employer defined contribution level under regular review.</li> <li>The cash supplement is not included in calculating annual bonus or long-term incentive quantum.</li> </ul> | <ul style="list-style-type: none"> <li>In general, the levels of cash supplement and/or employer defined contribution provided are intended to be broadly market typical for the role. The Remuneration Committee reserves the right to make adjustments to these levels in the event of market movements.</li> <li>Whilst there is no maximum pension level, the current level is 22.5% of base salary.</li> </ul> | <ul style="list-style-type: none"> <li>None.</li> </ul> |

## Variable remuneration

|   |  |  |   |
|---|--|--|---|
| <b>Annual bonus</b>   |  |  |   |
| <ul style="list-style-type: none"> <li>Incentivise performance on an annual basis against key financial metrics and demanding individual objectives.</li> <li>Deferral into shares is intended to enhance shareholder alignment and reinforce retention.</li> </ul> | <ul style="list-style-type: none"> <li>Performance is measured over one year; bonus is payable after the year end.</li> <li>Measures and targets are reviewed and determined by the Remuneration Committee annually. The Remuneration Committee reviews the performance against these targets after the year end to determine the level of bonus pay-out.</li> <li>A portion of any bonus earned (currently one-third) is compulsorily deferred into an award of shares (or equivalents in nil-cost options or cash) under the deferred bonus plan (DBP). These shares are not subject to any further performance conditions, will not normally vest for a period of at least three years and are forfeitable if the participant leaves employment before the vesting date (unless the Remuneration Committee decides otherwise).</li> <li>Participants may receive the value (in cash or shares) of dividends paid on shares that vest in respect of the period between the grant and satisfaction of a deferred bonus award.</li> <li>In line with the UK Corporate Governance Code, malus provisions apply under which the Remuneration Committee may cancel or reduce vesting of unvested awards or impose further conditions on those awards in the event of a material misstatement of the Group's financial results or gross misconduct.</li> <li>The annual bonus is operated in accordance with the terms of the annual bonus plan and DBP rules which include the capacity for the Remuneration Committee to adjust or amend the terms of the awards.</li> </ul> | <ul style="list-style-type: none"> <li>170% of base salary for the Chief Executive, 130% of salary for other executive directors.</li> </ul> | <ul style="list-style-type: none"> <li>Performance is measured against a combination of financial measures (currently profit-based) and strategic and/or individual objectives. At least 60% of the bonus will be based on financial measures and the remainder on strategic and/or individual objectives. No bonus will be awarded if a base level of profit is not achieved in the bonus year.</li> <li>Strategic and individual measures selected may vary each year depending on business context and strategy, and will be weighted accordingly to business priorities. These objectives are reviewed and approved by the Remuneration Committee at the start of the financial year.</li> <li>Between 0% and 100% of the maximum award applies for achievement between base level of profit and a personal rating of 3 (which is considered to be good performance measured against the Company's high standards) and stretch performance targets and a personal rating of 5 (which is considered to be truly exceptional).</li> </ul> |

## Governance

### Directors' remuneration report *continued*

#### Variable remuneration *continued*

| Purpose and link to strategy   | Operation  | Maximum opportunity  | Performance measures  |
|--|--|--|---|
| <b>Performance Share Plan (PSP)</b>  |  |  |   |
| <ul style="list-style-type: none"> <li>- Promotes the long-term success of the business.</li> <li>- Incentivises executives (and the broader senior management team) to deliver performance over the long term.</li> <li>- Helps retain executives.</li> <li>- Share based to provide greater alignment with shareholder interests.</li> </ul> | <ul style="list-style-type: none"> <li>- Awards will be structured in the form of conditional share awards (or equivalents in nil-cost options or cash) with vesting dependent on the achievement of stretching performance measures over at least three years.</li> <li>- For awards granted in 2015 onwards vested shares will be mandatorily held for an additional two years by executive directors.</li> <li>- Dividends (or equivalents) may accrue during the vesting period only on shares that vest.</li> <li>- In line with the UK Corporate Governance Code, malus provisions apply under which the Remuneration Committee may cancel or reduce vesting of unvested awards or impose further conditions on those awards in the event of a material misstatement of the Group's financial results or gross misconduct.</li> <li>- The PSP is operated in accordance with the terms of the PSP rules which was approved by shareholders on 18 May 2007 and include the Remuneration Committee's capacity to adjust or amend the terms of the awards.</li> </ul> | <ul style="list-style-type: none"> <li>- The normal award levels as a percentage of base salary will be 175% for the Chief Executive and 150% for other executive directors.</li> <li>- The Remuneration Committee will have the discretion to make higher awards in exceptional circumstances subject to the individual plan limit of 250% of base salary.</li> </ul> | <ul style="list-style-type: none"> <li>- Awards vest based on performance against a combination of performance measures.</li> <li>- At least 50% of the award will be based on financial measures and a further portion of no more than 50% will be based on TSR performance. Any balance would be linked to performance against specific strategic objectives.</li> <li>- For 'threshold' levels of performance up to 25% of the award vests, increasing on a straight line basis to 100% of the award for maximum performance.</li> <li>- In line with the rules of the PSP, the performance condition may be replaced or varied if an event occurs or circumstances arise, e.g. a significant regulatory change, which causes the Committee, acting fairly and reasonably, to determine that a substituted or amended performance condition would be appropriate (taking into account the interests of the shareholders of the Company) provided that the amended performance condition would continue to achieve its original purpose.</li> </ul> |

#### Notes to the policy table

There have been no changes to the policy table from the policy table presented in the 2014 Director's Remuneration Report.

#### Performance measures – annual bonus

The annual bonus performance measures are chosen to provide an appropriate balance between incentivising executive directors to meet financial targets for the year and to deliver specific strategic, operational and individual goals. This balance allows the Remuneration Committee to reward performance effectively against the key elements of our strategy.

The precise bonus targets are set by the Remuneration Committee each year to ensure that executive directors are appropriately focused on the key objectives for the next 12 months. In doing so, the Remuneration Committee intends to take into account a number of internal and external reference points, including the Company's business plan.

#### Performance measures – PSP

The ultimate goal of our strategy is to provide long-term sustainable returns to shareholders. The Remuneration Committee strives to achieve this by aligning the performance

measures under the PSP with the long-term strategy and priorities of the Company and considers that strong performance under these metrics should result in sustainable long-term growth.

The Remuneration Committee considers that a combination of financial and strategic measures and a measure of value delivered to shareholders is most appropriate when measuring long-term sustainable performance at Ladbrokes. The use of a scorecard of measures recognises and rewards performance against a wide range of relevant measures and helps ensure awards are less 'all or nothing', and therefore more motivational.

#### Additional disclosure – legacy arrangements LGP

The LGP was approved by shareholders on 14 May 2010. Full details of the LGP were set out in the circular sent to shareholders seeking approval for the LGP at the time of implementation. As a legacy arrangement which has now expired, the LGP is not included within the policy table above or in the rest of this policy report. However, we have chosen to voluntarily disclose summary details of the LGP here for ease of reference.

- **Purpose and link to strategy** – The LGP was a one-off long-term incentive plan which was designed to incentivise over 140 key senior executives to support revitalisation of the business and create significant, sustainable long-term shareholder value. The plan rewarded value creation of between £400m to £1.3bn for shareholders.
  - **Operation** – One-off awards were made under this plan in 2010 to the then Chief Executive and in 2011 to other participants. No further awards will be made under the plan as it ended in June 2015. The performance period for all awards is five years, which began in June 2010 and ended in June 2015. A portion of the award was eligible for vesting at the end of year three of the performance period (June 2013). In 2013, 40.7% of the maximum award did vest, as a share price of 220.7 pence was maintained for a period of 30 consecutive dealing days. No further vesting occurred at the end of year four (June 2014) or at the end of year five (June 2015). Participants may receive the value of dividends paid on any vested shares.
  - **Maximum opportunity** – Executive directors were required to invest up to 150% of base salary in shares and could receive up to a four times matching award in respect of that investment. The matching award normally only vested to the extent this investment is retained. In the case of the then Chief Executive, he was required to invest in c.1 million Ladbrokes shares and was eligible to receive a four times matching award.
  - **Performance measures** – Awards were subject to share price performance conditions. Any share price target must be attained throughout a period of 30 consecutive dealing days. 25% of the award would have vested if a share price of £2.00 was achieved. 100% of the award would have vested if a share price of £2.97 was achieved. Vesting was on a straight line basis between the minimum and maximum share price targets, i.e. between £2.00 and £2.97. A share price of 220.7 pence was maintained at the end of year three therefore 40.7% of the maximum award vested.
- The Remuneration Committee had the authority to amend the targets if it is necessary to take account of exceptional factors including, for example, corporate events or exceptional market or industry factors which would otherwise render the targets inappropriate.

### Timeframe of remuneration arrangements

The table below shows the timeframe of executive directors' remuneration arrangements.

| Element of remuneration                | 2016 (Y)           | Y+1   | Y+2 | Y+3 | Y+4                                     | Y+5               |
|--|--------------------|---|-----|-----|---|-------------------|
| Salary                                 | 100% paid          |   |     |     |   |                   |
| Benefits including retirement benefits |                    |   |     |     |   |                   |
| Annual bonus                           | Performance period | 2/3 paid in cash  |     |     |   |                   |
|  |                    | 1/3 deferred as shares for three-years and subject to malus |     |     |   |                   |
| PSP                                    |                    | Performance period  |     |     | 100% subject to two-year holding period | Award exercisable |

### Remuneration arrangements throughout the Company

The remuneration policy for our executive directors is designed to be aligned with the remuneration philosophy and principles that underpin remuneration for the wider Group.

Although there are differences in pay between the executive directors and the wider colleague population, all reward arrangements are built around the common objectives and principles outlined below:

| Remuneration objectives  | Arrangement(s) used for wider Group  |
|--|--|
| Be strongly aligned with shareholder value creation.   | <ul style="list-style-type: none"> <li>– Key personnel participate in PSP with the same performance metrics as for executive directors.</li> <li>– Two all-employee share incentive schemes are in operation (the Share Incentive Plan and the Savings-Related Share Option Scheme) to encourage share ownership.</li> <li>– Key Group financial measures under colleague bonus arrangements are aligned with those for executive directors to ensure consistency across the organisation and delivery of strategic goals. Colleagues also have relevant (and therefore motivational) team and individual targets to focus the team on key deliverables in their area of business.</li> <li>– Use of survey data to ensure all elements of remuneration are aligned with market as appropriate.</li> </ul> |
| Support the achievement of organisational goals and be aligned with long-term business strategy. |  |
| Enable the Company to attract, retain and motivate key individuals.                              |  |
| Be positioned competitively against market practice, while paying no more than necessary.        |  |

## Directors' remuneration report continued

### Chairman and non-executive directors

| Purpose and link to strategy   | Operation  | Maximum opportunity   | Performance measures                                      |
|--|--|---|---|
| <b>Non-Executive Chairman and non-executive directors (NEDs) fees</b>  |  |   |   |
| <ul style="list-style-type: none"> <li>– Sole element of remuneration, paid for fulfilling the relevant role.</li> </ul> | <ul style="list-style-type: none"> <li>– The Non-Executive Chairman receives an all-inclusive fee for the role.</li> <li>– The remuneration of the Non-Executive Chairman is set by the Remuneration Committee. The Non-Executive Chairman receives a basic annual fee.</li> <li>– NEDs receive a basic annual fee in respect of their Board duties. Further fees are paid to NEDs in respect of chairmanship and membership of certain Board committees.</li> <li>– Fees are normally based on the level of fees paid to Chairmen and NEDs serving on boards of similar companies, the time commitment required of the role and the duties involved and take into consideration the requirement to attract and retain the quality of individuals required by the Company.</li> <li>– Fees are normally reviewed at least once annually.</li> <li>– The Board is responsible for determining fees for other NEDs, although the NEDs are not involved in discussions about their own fees.</li> <li>– There are currently no clawback provisions in place to enable recovery of sums paid.</li> <li>– Fees are normally paid in cash, although the Company retains the right to settle all/part of the fees as shares of equivalent value.</li> </ul> | <ul style="list-style-type: none"> <li>– Whilst there is no maximum individual fee level, fees are set at a level which is considered appropriate to attract and retain the calibre of individual required by the Company, but the Company avoids paying more than necessary for this purpose. The Board may determine fee increases at any point as it considers appropriate in line with market movements and to take into account the time commitment and duties involved.</li> <li>– Fees are paid for the following roles/duties: <ul style="list-style-type: none"> <li>– Non-Executive Chairman;</li> <li>– senior independent non-executive director;</li> <li>– other NEDs;</li> <li>– supplementary fee for chair of the Audit or Remuneration Committee*; and</li> <li>– supplementary fee for membership of the Audit and/or Remuneration Committees.*</li> </ul> </li> <li>– The Chairman and NEDs will not be eligible for annual bonus, share incentives and pensions.</li> <li>– Reasonable expenses, e.g. travel, accommodation and subsistence associated with Chairman and NEDs' duties will be reimbursed, including any tax due on the benefits.</li> </ul> <p>* Not paid to Chairman or senior non-executive independent director</p> | <ul style="list-style-type: none"> <li>– None.</li> </ul> |

### Recruitment policy

#### Principles and approach

In determining remuneration arrangements for new appointments to the Board (including internal promotions), the Remuneration Committee applies the following principles:

- The Remuneration Committee is at all times conscious that any arrangements should be in the best interests of Ladbroke's and our shareholders, without paying more than is necessary;
- The Remuneration Committee takes into consideration all relevant factors, including the calibre of the individual, the nature of the role, local market practice, the individual's current remuneration package, Ladbroke's remuneration policy, internal relativities and existing arrangements for other executive directors;

- Salaries will reflect the skills and experience of the individual, and may be set at a level to allow future salary progression to reflect performance in the role. The Committee also retains the right to determine that in the first year of appointment any annual bonus award will be subject to such conditions as it may determine; and
- Typically, the remuneration package for a new appointment will be based on (or be transitioned onto) the same elements of the remuneration package as the other executive directors, in line with the policy table presented above.

It would be expected that the structure and quantum of the variable pay elements would reflect those set out in the policy table above. However, at recruitment, the Committee would retain the discretion to flex the balance between annual and long-term incentives and the measures used to assess performance for these elements, with the intention that a significant portion would be delivered in shares.

At recruitment, variable pay could, in exceptional circumstances, be delivered via alternative structures, again with the intention that a significant portion would be share-based, but in all circumstances subject to the overriding cap of 420% of salary.

The Committee retains discretion to make appropriate remuneration decisions outside the standard policy to meet the individual circumstances when an interim executive director is required to fill a role on a short-term basis or if exceptional circumstances require that the Chairman or a non-executive director takes on an executive function on a short-term basis.

#### Buy-outs

To facilitate recruitment, the Remuneration Committee may make compensatory payments and/or awards for any remuneration arrangements subject to forfeiture on leaving a previous employer.

In doing so, the Remuneration Committee will take account of any terms attached to the forfeited arrangements. Awards will take such form as the Committee considers appropriate taking into account all relevant factors such as the nature of the award, any performance conditions attached to those awards, the likelihood of those conditions being met, and the proportion of vesting/performance period remaining. The Committee's intention is that the value awarded would be equivalent to the value forfeited.

#### Recruitment of the Chairman and non-executive directors

In the event of the appointment of a new Chairman or non-executive director, remuneration arrangements will normally be in line with those detailed in the relevant table on page 70.

#### Disclosure

The remuneration structure of any new director will be disclosed in a timely manner and, as far as possible, in the relevant RNS notification at the time of appointment. In the next remuneration report, the Remuneration Committee will explain to shareholders the rationale for the relevant arrangements.

### Executive director service contracts

The key employment terms and conditions of the current Chief Executive, as stipulated in his service contract, are set out below.

|   | Notice Period (months)  | Termination payment   | Treatment of remuneration   |
|---|---|---|---|
| <b>Company policy</b><br>No fixed term contracts                | Six months by executive and 12 months by Company.<br><br>In a recruitment scenario, an executive director may initially be hired on a contract requiring the Company to provide 24 months' notice which then reduces, pro-rata over the course of the first year of the contract, to requiring 12 months' notice to terminate the contract. | May terminate employment by making a PILON equivalent to the value of base salary and benefits (including pension allowance) in respect of the notice period.                                   | Participation in all incentive plans, including the annual bonus and the PSP, is non-contractual.<br><br>Outstanding awards will be treated in accordance with the relevant plan rules. |
| <b>Jim Mullen</b><br>Effective date of contract is 1 April 2015 | Six months by executive and nine months by Company.   | In line with Company policy.<br><br>Also contains additional specific provisions requiring a reduction in PILON in the event he finds alternative employment during the 12-month notice period. | In line with Company policy.  |

For ease of reference, we have included the key terms and conditions for Richard Glynn and Ian Bull

|  |                              |   |                              |
|--|------------------------------|---|------------------------------|
| <b>Richard Glynn</b><br>Effective date of contract was 22 April 2010<br>Contract predates current policy | 12 months by both sides.     | Does not contain PILON clause.<br>His termination payment was calculated on a damages basis and took into account contractual obligations and the circumstances of his departure.                 | In line with Company policy. |
| <b>Ian Bull</b><br>Effective date of contract was 4 July 2011  | In line with Company policy. | In line with Company policy.<br><br>Also contains additional specific provisions requiring a reduction in PILON in the event he finds alternative employment during the 12 months' notice period. | In line with Company policy. |

## Directors' remuneration report continued

### Policy on payment for loss of office

The Remuneration Committee takes a number of factors into account when determining leaving arrangements for an executive director:

- The Remuneration Committee must satisfy any contractual obligations: (a) being consistent with the Policy set out in this report; or (b) if they are inconsistent having been entered into on a date on or before 27 June 2012 in accordance with relevant legislation;
- The treatment of outstanding share awards is governed by the relevant share plan rules. The following table summarises the leaver provisions of share plans under which executive directors may currently hold awards;
- Other payments which may be made as a result of loss of office include legal fees within an agreed maximum limit, outplacement counselling within an agreed maximum limit, payment for any outstanding accrued holiday and any other payments required by statute; and
- The Remuneration Committee strongly believes that there should be no reward for failure. When exercising any discretion under the plans referred to below, the Committee will take into account the circumstances of the individual's departure and performance in the role.

| Plan                            | Good leaver categories   | Treatment for a good leaver   | Treatment for any other leaver  |
|---------------------------------|--|---|---|
| <b>Annual Bonus Plan</b>        | <ul style="list-style-type: none"> <li>– Ill health and disability.</li> <li>– Death.</li> <li>– Redundancy.</li> <li>– Any other scenario in which the Remuneration Committee determines good leaver treatment is justified.</li> </ul>   | <p>Participant must have a minimum of nine months' full service in the relevant year a cash bonus will be paid. This amount will normally be subject to the achievement of the financial and individual objectives set at the beginning of the plan year. Any payment will be following the end of the relevant financial year and will normally be pro-rated for time served during the year, unless the Remuneration Committee determines otherwise.</p> <p>Any amounts which would have ordinarily been deferred into the deferred bonus plan may be paid in cash at the same time.</p> <p>The Remuneration Committee, however, has the ability to exercise its discretion to pay a bonus as it considers appropriate.</p> | No bonus.   |
| <b>Deferred Bonus Plan</b>      | <ul style="list-style-type: none"> <li>– Ill health and disability.</li> <li>– Death.</li> <li>– Redundancy.</li> <li>– Any other scenario in which the Remuneration Committee determines good leaver treatment is justified.</li> </ul>   | Awards will vest on cessation of employment.  | Unvested awards lapse in full if cessation of employment occurs prior to the normal vesting date. |
| <b>Performance Share Plan</b>   | <ul style="list-style-type: none"> <li>– Injury, ill-health or disability.</li> <li>– Death.</li> <li>– Redundancy.</li> <li>– Retirement by agreement with the employing company.</li> <li>– Transfer of whole or part of the business by which the participant is employed outside the Group.</li> <li>– Any other scenario in which the Remuneration Committee determines good leaver treatment is justified (other than summary dismissal).</li> </ul> | <p>Awards will vest at the normal vesting date, unless the Remuneration Committee determines that awards should vest early.</p> <p>In either case, awards will vest to the extent that performance conditions have been satisfied and on a time apportioned basis, unless the Remuneration Committee determines otherwise.</p>  | Unvested awards lapse in full if cessation of employment occurs during the performance period.    |
| <b>All-employee share plans</b> | <ul style="list-style-type: none"> <li>– Leaver treatment under these plans will be in accordance with HMRC rules.</li> </ul>  |   |   |

### Corporate events affecting discretionary share plans

Ladbrokes' discretionary share plans shall be operated in accordance with the relevant rules as approved by shareholders and amended from time to time in accordance with these rules. In particular, the plan rules provide for adjustments in certain circumstances. For example, awards may be adjusted in the event of any variation of share capital, demerger, special dividend, reorganisation or similar event.

In the event of a change in control or winding up of the Company, existing share awards under these plans will be treated as follows:

| Plan                          | Treatment in an event of a change of control  |
|-------------------------------|---|
| <b>Deferred Bonus Plan</b>    | Vest in full on the date on which the change in control occurs.   |
| <b>Performance Share Plan</b> | Vest in line with the plan rules to the extent the Remuneration Committee determines the performance conditions have been satisfied and on a time-apportioned basis, subject to Remuneration Committee discretion to determine otherwise. |

Awards under the share plans may vest on the same basis in the event of a voluntary winding up of the Company.

### Non-executive directors' letters of appointment

The non-executive directors, including the Chairman of the Company, have letters of appointment which set out their duties and responsibilities. They do not have service contracts with either the Company or any of its subsidiaries.

The key terms of the appointments are set out in the table below:

| Provision          | Policy   |
|--------------------|--|
| <b>Period</b>      | <ul style="list-style-type: none"> <li>- After the initial term, non-executive directors are typically expected to serve a further three-year term.</li> <li>- Whilst appointed for a three-year term, in line with the UK Corporate Governance Code, the Chairman and all non-executive directors are subject to annual re-election by shareholders at each AGM.</li> </ul> |
| <b>Termination</b> | <ul style="list-style-type: none"> <li>- The appointment of a Chairman or a non-executive director is terminable without notice by either the Company or the director.</li> <li>- Non-executive directors and the Chairman are not entitled to any compensation upon leaving office.</li> </ul>  |

### Availability of documentation

All executive directors' service contracts and the letters of appointment for non-executive directors are available for inspection at the Company's registered office during normal hours of business, and at the place of the Company's 2016 Annual General Meeting on 5 May 2016 from 10.45am until the close of the meeting.

### Illustration of our forward-looking remuneration policy

In support of the remuneration philosophy, Ladbrokes' remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of stretching short-term and long-term performance targets, aligned with the creation of sustainable shareholder value.

The Remuneration Committee considers the level of remuneration that may be received under different performance outcomes to ensure that this is appropriate in the context of the performance delivered and the value added for shareholders.

The following charts provide illustrative values of the remuneration package for executive directors under three assumed performance scenarios. Details relating to Ian Bull's arrangements which he has until he leaves the Company before the end of February 2016 have been included to illustrate the remuneration policy for executive directors other than for the Chief Executive.

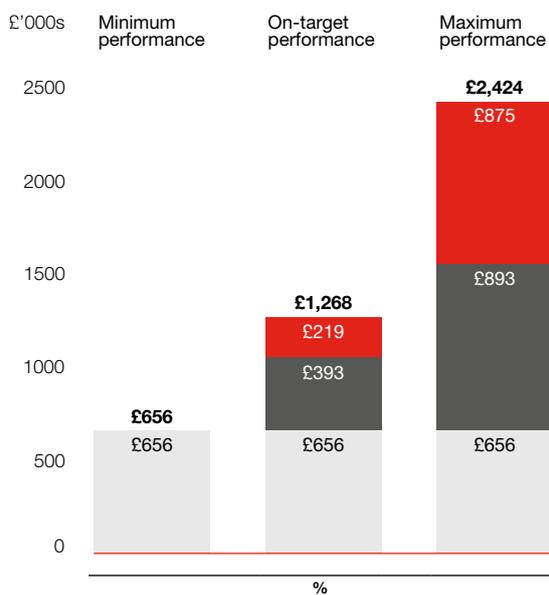
In line with the regulations, the illustrations show the potential remuneration levels under Ladbrokes' forward-looking remuneration policy. These charts are for illustrative purposes only and actual outcomes may differ from that shown.

## Governance

Directors' remuneration report *continued*

## Chief Executive

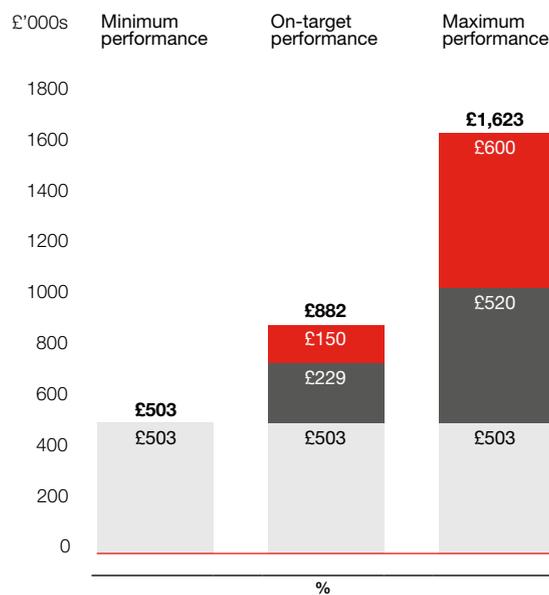
● PSP ● Annual Bonus ● Fixed pay



|              | Minimum     | On-target   | Maximum     |
|--------------|-------------|-------------|-------------|
| Fixed pay    | 100%        | 52%         | 27%         |
| Annual bonus | 0%          | 31%         | 37%         |
| PSP          | 0%          | 17%         | 36%         |
| <b>Total</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> |

## Chief Financial Officer

● PSP ● Annual Bonus ● Fixed pay



|              | Minimum     | On-target   | Maximum     |
|--------------|-------------|-------------|-------------|
| Fixed pay    | 100%        | 57%         | 31%         |
| Annual bonus | 0%          | 26%         | 32%         |
| PSP          | 0%          | 17%         | 37%         |
| <b>Total</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> |

| Plan   | Assumptions used   |
|--|--|
| <b>Fixed pay</b><br><b>All performance scenarios</b> | <ul style="list-style-type: none"> <li>- Consists of total fixed pay, including base salary, benefits and retirement benefits (cash allowance in lieu of pension)</li> <li>- Base salary – salary effective as at 1 March 2016</li> <li>- Benefits – estimated to be received by each executive director in 2016 (based on 2015 value)</li> <li>- Pensions – estimated to be received by each executive director in 2016 (based on 2016 salary)</li> </ul> |
| <b>Variable pay</b><br><b>Minimum performance</b>    | <ul style="list-style-type: none"> <li>- No pay-out under the annual bonus</li> <li>- No vesting under the PSP</li> </ul>  |
| <b>On-target performance (see note)</b>              | <ul style="list-style-type: none"> <li>- 44% of the maximum pay-out under the annual bonus (cash and deferred elements)</li> <li>- 25% vesting under the PSP</li> </ul>  |
| <b>Maximum performance (see note)</b>                | <ul style="list-style-type: none"> <li>- 100% of the maximum pay-out under the annual bonus (cash and deferred elements)</li> <li>- 100% vesting under the PSP</li> </ul>  |

Note: PSP awards have been shown at face value (normal PSP opportunity applied to salary at 1 January 2016), with no share price growth, dividend accrual or discount rate assumption. All-employee share plans have been excluded. The Chief Financial Officer chart is based on Ian Bull's package as the most recent Chief Financial Officer. The scenario chart for the Chief Financial Officer does not include the 2015 temporary monthly allowance of £10,000 paid to Ian Bull from 1 March 2015 to 30 November 2015.

## Consideration of conditions elsewhere in the Company

The Remuneration Committee takes into consideration the pay and conditions of colleagues throughout the Group when determining remuneration arrangements for executive directors. Information relating to wider workforce remuneration is provided in regular updates to the Remuneration Committee. This takes the form of a comparison of reward elements across all main workforce groups, updates on total reward communications and details of business wide reviews such as annual bonus awards and salary increases.

In particular, the Remuneration Committee pays specific attention to the general level of salary increases and bonus outcomes within the wider population.

Whilst the Remuneration Committee does not directly consult with our colleagues as part of the process of determining executive pay, the Committee does receive feedback from colleague surveys and takes this into account when reviewing executive pay. In addition, a significant number of our colleagues are shareholders and so are able to express their views in the same way as other shareholders.

## Consideration of shareholder views

The Remuneration Committee continues to be mindful of shareholder views when evaluating and setting on-going remuneration strategy, and we commit to consulting with shareholders prior to any significant changes to our remuneration policy.

The Remuneration Committee also considers shareholder feedback received in relation to an AGM at its next meeting following the AGM.

## Minor amendments to policy

The Remuneration Committee may make minor changes to this policy, which do not have a material advantage to directors, to aid in its operation or implementation without seeking shareholder approval for a revised version of this policy.

# ANNUAL REPORT ON REMUNERATION

## Audited information

The information presented from this section up until the relevant note on page 67 represents the audited section of this report.

## Single total figure of remuneration

The following table sets out the total remuneration for executive directors and non-executive directors for the year ended 31 December 2015, with prior year figures also shown.

| All figures shown in £'000                                | Salary and fees (a) |      | Benefits (b) |      | Cash allowance in lieu of pension (c) |      | Annual bonus (d) |      | Long-term incentives (e) |      | Other (f) |      | Total |      |
|---|---------------------|------|--------------|------|---------------------------------------|------|------------------|------|--------------------------|------|-----------|------|-------|------|
|   | 2015                | 2014 | 2015         | 2014 | 2015                                  | 2014 | 2015             | 2014 | 2015                     | 2014 | 2015      | 2014 | 2015  | 2014 |
| <b>Current executive directors</b>                        |                     |      |              |      |                                       |      |                  |      |                          |      |           |      |       |      |
| Jim Mullen <sup>(g)</sup>                                 | 375                 | –    | 10           | –    | 84                                    | –    | 98               | –    | –                        | –    | –         | –    | 567   | –    |
| Ian Bull  | 400                 | 400  | 13           | 13   | 110                                   | 90   | 102              | –    | –                        | –    | 90        | –    | 715   | 503  |
| <b>Former executive directors</b>                         |                     |      |              |      |                                       |      |                  |      |                          |      |           |      |       |      |
| Richard Glynn <sup>(h)</sup>                              | 145                 | 580  | 6            | 23   | 33                                    | 131  | –                | –    | –                        | –    | –         | –    | 183   | 734  |
| <b>Chairman and non-executive directors<sup>(i)</sup></b> |                     |      |              |      |                                       |      |                  |      |                          |      |           |      |       |      |
| Peter Erskine   | 232                 | 250  | –            | –    | –                                     | –    | –                | –    | –                        | –    | 30        | –    | 262   | 250  |
| John Kelly  | 77                  | 60   | –            | –    | –                                     | –    | –                | –    | –                        | –    | 9         | –    | 86    | 60   |
| Christine Hodgson   | 52                  | 50   | –            | –    | –                                     | –    | –                | –    | –                        | –    | –         | –    | 52    | 50   |
| Sly Bailey  | 50                  | 50   | –            | –    | –                                     | –    | –                | –    | –                        | –    | –         | –    | 50    | 50   |
| David Martin  | 60                  | 60   | –            | –    | –                                     | –    | –                | –    | –                        | –    | –         | –    | 60    | 60   |
| Richard Moross  | 53                  | 60   | –            | –    | –                                     | –    | –                | –    | –                        | –    | –         | –    | 53    | 60   |
| Darren Shapland   | 44                  | 60   | –            | –    | –                                     | –    | –                | –    | –                        | –    | –         | –    | 44    | 60   |
| Mark Pain   | 6                   | –    | –            | –    | –                                     | –    | –                | –    | –                        | –    | –         | –    | 6     | –    |

### Methodology

- (a) **Salary and fees** – this represents the base salary or fees paid in respect of the relevant financial year. No sums were paid to third parties in respect of any executive director's services (2014: nil).
- (b) **Benefits** – this represents the taxable value of all benefits paid in respect of the relevant financial year. Executive director benefits include private healthcare (for the executive and his family), and a cash allowance in lieu of a company car.
- (c) **Cash allowance in lieu of pension** – executive directors receive a cash allowance in lieu of pension contributions equivalent to 22.5% of salary. In 2015, Ian Bull received an overpayment of £2,250 which will be offset accordingly against his termination payments.
- (d) **Annual bonus** – this reflects the nil bonus awarded in respect of the performance year for 2014. Bonuses of 26% and 25% of salary were awarded to the Chief Executive and Chief Financial Officer respectively for the 2015 performance year. For the Chief Executive, one third of his bonus, equivalent to £32,630, was deferred into shares for three years. As part of the Chief Financial Officer's termination agreement, his entire bonus for the performance year for 2015 was paid in cash. Further details are provided on page 64. Under Richard Glynn's termination arrangements, he was entitled to receive a bonus as if he had been in service for 2015. This table does not include this payment, further details can be found on page 66.
- (e) **Long-term incentives** – this figure represents the value of long-term incentive plans with a performance period ending in the relevant year. PSP: The 2014 and 2015 figures reflect that no shares vested under the 2012 and 2013 awards under the PSP for Richard Glynn and Ian Bull. Jim Mullen joined Ladbrokes in November 2013 therefore did not receive an award under the 2013 PSP. Further details in respect of the achievement of performance conditions are provided on page 64. LGP: The 2014 and 2015 figures reflect that there was no additional vesting under the second and third performance tests in June 2014 and June 2015. Further details in respect of the achievement of performance conditions are provided on page 65.
- (f) **Other** – Ian Bull was paid a temporary monthly allowance of £10,000 between 1 March 2015 to 30 November 2015. Peter Erskine and John Kelly received an expense payment of £30,283 and £8,690 representing the reimbursement of the costs of holidays which both had to cancel due to corporate activity associated with the proposed merger with Gala Coral.
- (g) Remuneration for Jim Mullen covers only his period since his appointment as Chief Executive. Jim Mullen was appointed Chief Executive on 1 April 2015 on a salary of £500,000 p.a. He was previously the Managing Director of Ladbrokes Digital. His salary, bonus, benefits and pensions for 2015 have been pro-rated to reflect the period from 1 April 2015 to 31 December 2015.
- (h) This table does not include payments relating to Richard Glynn's loss of office which can be found on page 66.
- (i) Peter Erskine's Chairman fee was £250,000 p.a. which he received until 3 December 2015. John Kelly's Chairman fee is £285,000 p.a. which he received from his appointment on 3 December 2015. The senior independent non-executive director and Chairman of the Audit Committee received a total fee of £70,000 p.a. from 3 December 2015 onwards; previously these roles received £60,000 p.a. Other non-executive directors receive a basic fee of £43,000 p.a. Additional fees are payable for the role of Chairman of the Remuneration Committee at a rate of £10,000 p.a. and for membership of the Audit and/or Remuneration Committee at a rate of £7,000 per annum. David Martin's fee was paid to Arriva plc by mutual agreement up to 31 December 2015. Peter Erskine retired on 3 December 2015 and Darren Shapland retired on 24 September 2015. John Kelly became the Chairman, Christine Hodgson became the acting Senior Independent Non-Executive Director and Mark Pain joined the Board on 3 December 2015 as the Chairman of the Audit Committee. Fees paid to each non-executive director reflect time spent on the Board in 2015 and responsibilities. The fees for Richard Moross in 2014 were reported in error as £50,000 and have now been restated as £60,000.

## Directors' remuneration report continued

### Additional disclosures in respect of the single figure table

#### Annual bonus

The table below sets out the annual bonus awards made to executive directors in respect of 2015:

|            | 2015 annual bonus | As % of 2015 salary |
|------------|-------------------|---------------------|
| Jim Mullen | £97,891           | 26%                 |
| Ian Bull   | £101,502          | 25%                 |

60% of the 2015 annual bonus was based on PBIT for the year (excluding profit from High Rollers and exceptional items). 40% of the 2015 annual bonus was based on individual objectives, which are primarily financial in nature. Furthermore, the individual objectives element of the bonus remains subject to a profit underpin.

In June 2015, the Chief Executive announced a new three-year strategy which requires significant up-front investment. Although these investments will build a materially stronger business in the medium/long term, these do impact the PBIT in the short term. Therefore, to ensure that our executive directors and other employees are incentivised to implement our strategy, the 2015 bonus PBIT threshold, on-target and stretch numbers were changed from £95m, £110m and £120m to £80.4m, £90m and £101.25m respectively which takes into account the strategic investment made by Ladbrokes in the business in the second half of the year. At threshold PBIT up to 10% of this element of bonus can vest, at on-target PBIT up to 40% of this element can vest, and at stretch PBIT 100% of this element can vest. Please note this is dependent on achieving at least a personal performance rating of 3 or above.

In 2015, operating profit excluding High Rollers was £80.6m which is in-between the threshold requirement of £80.4m and target of £90m. Therefore for the profit element the Chief Executive received £27,316 which is 7% of his salary pro-rated for his tenure as Chief Executive in 2015. The Chief Financial Officer received £20,880 which is 5% of his salary.

The Chief Executive was also awarded £70,575 which is equivalent to 19% of base salary under individual objectives. This is because he received a personal performance rating of 4 out of 5.

This rating takes into account the development and implementation of the new long-term strategy and positive progress made against this strategy in 2015.

The Chief Financial Officer was also awarded £80,622 which is equivalent to 20% of base salary under individual objectives. This is because he received a personal performance rating of 5 out of 5.

This rating takes into account support with the potential merger and positive progress of the new long-term strategy in 2015.

The Chief Executive and Chief Financial Officer were able to receive payment under the individual objectives as the profit underpin of £80.4m was met. The Committee has ensured that the bonus payouts reflect the performance outcome of the second half of the year. Please note that executive directors only receive full vesting under the individual objectives element of the annual bonus if a personal performance rating of 5 is received, and stretch PBIT targets are achieved.

### Performance Share Plan

The PSP value shown in the single figure table relates to the 2013 award, for which the performance period was 1 January 2013 to 31 December 2015.

The performance conditions for this award are set out below:

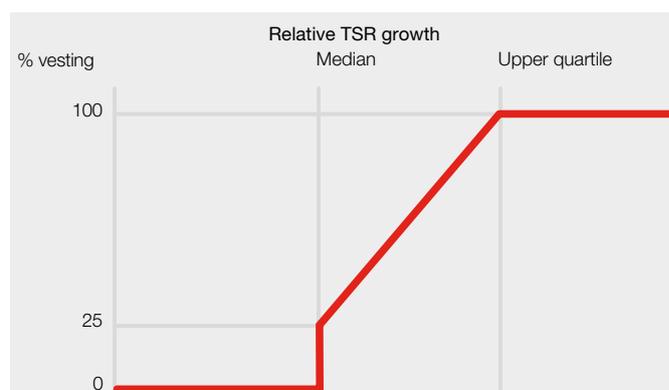
50% of the award – three-year relative TSR performance against a peer group of sectoral peer companies.

The peer group for the 2013 award is set out below:

|                     |               |
|---------------------|---------------|
| 888 Holdings        | Paddy Power   |
| Boyd Gaming         | Punch Taverns |
| Bwin PartyGaming    | Rank Group    |
| Enterprise Inns     | Whitbread     |
| Mitchells & Butlers | William Hill  |
| OPAP                |               |

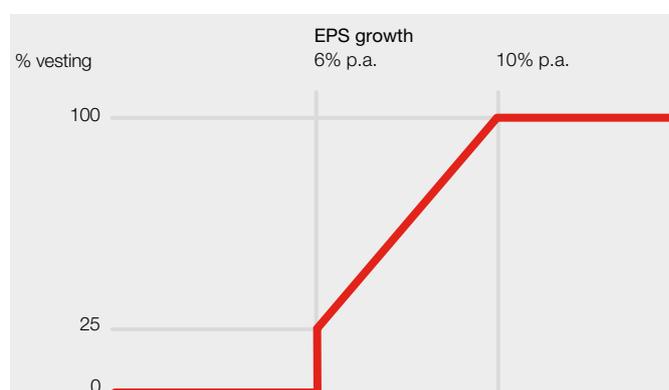
The original comparator group consisted of 14 comparators, however Sportingbet and GTech were removed for the entire performance period as they were acquired in March 2013 and April 2015 respectively.

#### Three-year TSR growth vs. sectoral peer growth



50% of the award – three-year EPS growth

#### Three-year EPS growth



|               | Actual performance     | Vesting as % of element |
|---------------|------------------------|-------------------------|
| Relative TSR  | 12 out of 12 companies | 0%                      |
| EPS growth    | -35% per annum         | 0%                      |
| Total vesting |                        | 0% of maximum           |

There will be nil vesting of the PSP awards made in 2013.

### Ladbrokes' Growth Plan

The LGP was a one-off long-term incentive plan where awards were made under this plan in 2010 to the then Chief Executive and in 2011 to other participants. The performance period for all awards was five years which began in June 2010 and ended in June 2015. A portion of the award was eligible for vesting after three years in 2013 (first performance test) with a further portion eligible for vesting at the end of year four (June 2014, second performance test) and year five (June 2015, third performance test) if performance targets had not been fully met at previous performance tests. The performance conditions for this award are set out below:

| Share price maintained for a period of 30 consecutive dealing days | Percentage of the award vesting |
|--|---------------------------------|
| 200 pence  | 25%                             |
| Between 200 pence and 297 pence                                    | Pro rata                        |
| 297 pence  | 100%                            |

Straight line vesting operates between these points.

The first performance test on 29 June 2013 resulted in 40.7% vesting of the maximum opportunity as a share price of 220.7 pence was maintained for a period of 30 consecutive dealing days. The second performance test on 29 June 2014 resulted in no additional vesting as a share price of above 220.7 pence was not maintained for a period of 30 consecutive dealing days between 29 June 2013 and 29 June 2014. Therefore, at the third performance test on 30 June 2015, a share price of above 220.7 pence had to be maintained for a period of 30 consecutive days between 30 June 2014 and 29 June 2015, for any additional vesting to occur.

### Performance out-turn

A share price above 220.7 pence was not maintained at any point between 30 June 2014 and 29 June 2015, therefore there was no vesting under the third performance test in 2015.

### Scheme interests awarded during the financial year

#### Performance Share Plan awards

For 2015, PSP awards are granted over Ladbrokes shares with the number of shares under award determined by reference to a percentage of base salary.

Performance for these awards is measured over the three financial years from 1 January 2015 to 31 December 2017. They are subject to the following performance conditions.

#### 25% of the award will be based on TSR percentage outperformance of six sector peers

| TSR % outperformance of the six sector comparators | Percentage of the award vesting |
|--|---------------------------------|
| Less than median                                   | 0%                              |
| Median   | 25%                             |
| Median + 10% p.a.                                  | 100%                            |

Straight line vesting operates between these points.

The peer group for the 2015 award is set out below:

|                  |              |
|------------------|--------------|
| 888 holdings     | Paddy Power  |
| Betfair          | Sporthex     |
| Bwin Partygaming | William Hill |

If the peer group for 2015 was to fall below five companies, i.e. in the event of takeovers, a peer will be selected from a 'reserve list' of companies (which originally included for 2015, GTech, International Game Technology, Betsson, Rank Group and Playtech). This would ensure that the peer group consists of a minimum of five companies. The replacement company will be effective for the entire performance period. In February 2016, Bwin Partygaming was acquired by GVC Holdings and Betfair and Paddy Power merged to form Paddy Power Betfair. The Committee has decided to replace Bwin Partygaming with GVC Holdings over the entire performance period. The Committee has also decided that Paddy Power and Betfair both remain in the peer group with the TSR of both 'companies' adjusted in line with changes to Paddy Power Betfair's share price from 1 February 2016. Please note that GTech acquired International Game Technology in April 2015 with the new entity renamed International Game Technology. Therefore both companies have been removed from the reserve list.

#### 25% of the award will be based on three-year cumulative EPS performance

| EPS performance      | Percentage of the award vesting |
|----------------------|---------------------------------|
| Less than 29.0 pence | 0%                              |
| 29.0 pence           | 25%                             |
| 37.0 pence           | 100%                            |

Straight line vesting operates between cumulative EPS performance of 29.0 pence and 37.0 pence. Cumulative EPS performance excludes exceptional items and High Rollers.

#### 25% of the award will be based on three-year Free Cash Flow (FCF) performance

| FCF performance   | Percentage of the award vesting |
|-------------------|---------------------------------|
| Less than £273.9m | 0%                              |
| £273.9m           | 25%                             |
| £345.3m           | 100%                            |

Straight line vesting operates between FCF performance of £273.9m and £345.3m.

FCF for the purposes of the Plan is defined as the new cash flow from operating activities plus dividends received from joint ventures and associates, less income taxes paid, net capital expenditure and net interest payments (including bond coupons). FCF excludes distribution of dividends, repayment of debt and merger and acquisition activity.

#### 25% of the award will be based on performance against responsible gambling measures

The measures in relation to this element of the award will be determined and independently measured and assessed by the Social Responsibility Committee through a set of KPIs. These KPIs will reflect the GB Gambling Commission's objectives and regulatory and voluntary sector-level changes and our own initiatives.

These KPIs will be assessed over the three-year performance period using three annual scorecards and the cumulative impact over the same period.

## Directors' remuneration report continued

The Remuneration Committee and the Social Responsibility Committee intend to disclose targets and the performance level at the end of the performance period due to commercial sensitivity. As with all measures under the 2015 PSP, threshold performance will result in 25% of this element of the PSP vesting.

The following table provides details of the awards made under the PSP in 2015.

|            | Type of award      | Number of shares | Face value (£) | Face value (% of salary) | Threshold vesting (% of face value) | Maximum vesting (% of face value) | End of performance period |
|------------|--------------------|------------------|----------------|--------------------------|-------------------------------------|-----------------------------------|---------------------------|
| Jim Mullen | Performance shares | 910,580          | £999,999       | 200%                     | 25%                                 | 100%                              | 31 December 2017          |
| Ian Bull   |                    | 546,348          | £599,999       | 150%                     |                                     |                                   |                           |

Face value has been calculated using the five-day average share price prior to the date of grant (12 May 2015) of 109.82 pence. Vesting of these awards is subject to the achievement of stretching performance conditions as detailed on page 65.

### Share Incentive Plan awards

Executive directors are eligible to participate in HMRC-approved all-employee share plans on the same basis as other eligible colleagues. During 2015, Ian Bull participated in the Share Incentive Plan (SIP). During 2015 under the SIP, Ian Bull purchased 811 shares and 811 bonus shares were awarded to him, along with 130 shares in respect of dividends paid by the Company on 14 May 2015 and 12 November 2015.

### Payments to past directors

There were no payments to past directors in 2015.

### Payments for loss of office

Richard Glynn left Ladbrokes on 31 March 2015. His service contract, effective from 22 April 2010, provides for a 12-month notice period and was structured that any termination payments had to be determined in line with UK damages principles. He received the following payments upon his departure:

- £580,000 and £131,000 for 12 months salary and pension contribution;
- £34,000 for 12 months car allowance and private medical insurance;
- £6,692 in lieu of accrued untaken holiday as at his leaving date;
- £100,000 for failure to grant a Performance Share Award in March 2015; and
- £1,000 for value of expenses in relation to his laptop and mobile phone for 12 months.

He also received life assurance cover (equal to four times salary) for 12 months and a contribution of £10,000 towards his legal costs and £40,000 (excluding VAT) for outplacement counselling services.

Richard Glynn was also allowed to receive a bonus in 2015 as if he had been in service for 2015, and on the basis that his personal performance would have been in line with the Remuneration Committee's ratings for the financial year 2013 and 2014 and the financial performance conditions would be applied on the same basis as for other executive directors. Therefore he is entitled to £31,687 relating to the profit element of the bonus and £81,867 based on his personal performance rating of 4 (out of 5). This equates to £113,554.

His existing unvested share awards held under Ladbrokes' executive share plans on his departure date were treated upon the discretion of the Remuneration Committee in accordance with good leaver provisions:

- 87,173 shares held under the Deferred Bonus Plan for performance in 2012 with a normal vesting date of February 2016 vested in May 2015;
- 2013 and 2014 PSP awards of 446,271 and 759,958 shares respectively will vest at the end of the performance period (February 2016 and February 2017 respectively), subject to satisfaction of performance conditions and time pro-rating in accordance with the plan rules; and
- The final one third of the shares under the Ladbrokes Growth Plan of 547,522 shares, vested at the end of the normal vesting date of August 2015. Richard Glynn would have been also entitled to any additional shares if there was any improvement on share price by the third performance test in June 2015, i.e. a share price of above 220.7p is maintained for 30 consecutive days by 29 June 2015. However, there was no further improvement therefore no additional shares vested under this plan.

Richard Glynn was also entitled to continue to hold nil-cost options granted to him in April 2010 under 2010 Share Option Plan which vested in April 2013. These options would continue to be exercisable until April 2020 and were exercised in 2015.

Under the rules of the all-employee Share Incentive Plan and the relevant tax legislation, in 2015 Richard Glynn forfeited the 560 'bonus shares' (termed free shares under tax legislation) that he had held for less than one year; and retained the remaining 2,079 'bonus shares' which he had held for more than one year. He also retained the 860 'salary shares' (termed partnership shares under the legislation) and 114 'dividend shares' which he had held for more than one year.

Ian Bull will leave Ladbrokes before the end of February 2016. As part of his settlement agreement, he received a payment of £42,500 in November 2015 which is the first monthly instalment of his PILON. The remaining five instalments will be paid following his departure in February 2016 and will be reduced accordingly for his new employment at Parkdean Resorts.

## Statement of directors' shareholdings and share interests

### Directors' shareholdings and share ownership guidelines

The Company's shareholding guidelines require executive directors to build up over time a personal shareholding equivalent in value to at least one year's base salary. Executives are encouraged to retain vested shares earned under the Company's incentive plans until the shareholding guidelines have been met.

Shares which the executive directors hold outright and/or vested shares under the Company's share plans count towards the requirement. Unvested share awards only count towards the requirement if vesting is not subject to any further performance conditions or other conditions such as continued employment.

On this basis, Ian Bull has met the Company's shareholding requirement in full. Jim Mullen has not yet met his requirement as 2015 is his first year in the Chief Executive role and as an executive director.

| Director                        | Shares owned outright at 31 December 2015 or date of cessation <sup>(1)</sup> | Interests in share incentive schemes, without performance conditions at 31 December 2015 <sup>(2)</sup> | Interests in share incentive schemes, subject to performance conditions at 31 December 2015 <sup>(3)</sup> | Unexercised interests in option schemes, without performance conditions at 31 December 2015 <sup>(4)</sup> | Shares owned outright at 31 December 2014 or later date of date of appointment <sup>(1)</sup> | Actual shareholding (% of base salary) |
|---------------------------------|---|---|--|--|---|--|
| Jim Mullen <sup>(5)</sup>       | 37,005  | 157,348   | 1,520,185  | 15,345   | 37,005  | 27%                                    |
| Ian Bull <sup>(6)</sup>         | 827,642   | 46,582  | 1,246,199  | 14,528   | 676,505   | 236%                                   |
| John Kelly                      | 58,041  | –   | –  | –  | 28,041  |  |
| Sly Bailey                      | 10,000  | –   | –  | –  | 10,000  |  |
| Christine Hodgson               | 15,000  | –   | –  | –  | 15,000  |  |
| David Martin                    | 55,000  | –   | –  | –  | 55,000  |  |
| Richard Moross                  | 5,000   | –   | –  | –  | 5,000   |  |
| Mark Pain <sup>(7)</sup>        | 50,000  | –   | –  | –  | –   |  |
| <b>Previous directors</b>       |   |   |  |  |   |  |
| Richard Glynn <sup>(8)</sup>    | 523,343   | –   | –  | –  | 456,751   |  |
| Peter Erskine <sup>(9)</sup>    | 158,095   | –   | –  | –  | 158,095   |  |
| Darren Shapland <sup>(10)</sup> | 35,000  | –   | –  | –  | 35,000  |  |

(1) Includes partnership shares and dividend shares under the SIP.

(2) This relates to shares awarded under the DBP, Restricted Share Plan and bonus shares awarded under the SIP.

(3) This relates to outstanding shares awarded under the PSP.

(4) This relates to options under the SAYE scheme.

(5) Jim Mullen was appointed as a director on 7 May 2015.

(6) During 2015, Ian Bull exercised 208,058 shares which had vested under the LGP and received an additional 44,732 dividend shares. Between 31 December 2015 and 22 February 2016, Ian Bull purchased 126 shares under the SIP and was also awarded 126 bonus shares.

(7) Mark Pain was appointed as a director on 3 December 2015.

(8) Richard Glynn ceased to be a director on 31 March 2015. During 2015, Richard Glynn exercised (a) 1,642,564 shares which had vested under the LGP and received an additional 526,140 dividend shares; and (b) 1,177,103 shares relating to his 2010 Share Award and received an additional 387,459 dividend shares.

(9) Peter Erskine ceased to be a director on 3 December 2015.

(10) Darren Shapland ceased to be a director on 24 September 2015.

For the purposes of determining executive director shareholdings, the individual's salary at the year end and the three-month average share price to 31 December 2015 has been used.

**This represents the end of the audited section of the report.**

## Governance

Directors' remuneration report *continued*

## Historical TSR performance and Chief Executive's remuneration outcomes

As the Company is a constituent of the FTSE250, it is considered an appropriate indication of market movements against which to benchmark the Company's performance. The chart below summarises the Company's TSR performance against the FTSE250 index over the seven-year period to 31 December 2015 below.

## Seven-year TSR performance



The table below summarises the Chief Executive's single figure for total remuneration, annual bonus pay-outs and long-term incentive vesting levels as a percentage of maximum opportunity over the seven-year period to 31 December 2015.

| Director   | Chief Executive Office | 2009  | 2010 <sup>(1)</sup> | 2011  | 2012  | 2013  | 2014  | 2015 <sup>(2)</sup> |
|--|------------------------|-------|---------------------|-------|-------|-------|-------|---------------------|
| <b>Chief Executive Officer single figure of remuneration (£m)</b>  | Christopher Bell       | £0.9m | £0.7m               |       |       |       |       |                     |
|  | Richard Glynn          |       | £1.0m               | £1.2m | £2.5m | £4.7m | £0.7m | £0.2m               |
|  | Jim Mullen             |       |                     |       |       |       |       | £0.6m               |
| <b>Annual bonus pay-out</b><br>(as a % of maximum opportunity)   |                        | 0%    | 76%                 | 50%   | 50%   | 0%    | 0%    | 15%                 |
| <b>Long-term incentive vesting out-turn<sup>(3)</sup></b><br>(includes PSP and LGP opportunity, shown as a % of maximum opportunity) |                        | 0%    | 0%                  | 0%    | 82%   | 38%   | 0%    | 0%                  |

(1) The above number for Christopher Bell in 2010 reflects his remuneration including in respect of his notice period and excludes any payments associated with his departure. Richard Glynn was appointed as Chief Executive on 22 April 2010 and the above number reflects his remuneration from that time to the year end.

(2) The above number for Richard Glynn in 2015 reflects his remuneration including in respect of his notice period and excludes any payments associated with his departure. Jim Mullen was appointed as Chief Executive on 1 April 2015 and the above number reflects his remuneration from that time to the year end. The annual bonus payout relates to what was paid to Jim Mullen in 2015 as Chief Executive.

(3) Increases in total compensation in 2012 and 2013 have been as a result of increased pay-outs under the Company's long-term incentive plans, as a result of meeting the relevant performance targets, e.g. PSP and LGP. Richard Glynn did not receive any changes to salary or cash allowance in lieu of pension since his appointment in April 2010 to his departure in March 2015.

## Percentage change in remuneration of the Chief Executive

The table below illustrates the increase in salary, benefits (including cash allowance in lieu of pension) and annual bonus for the Chief Executive and that of a representative group of the Company's colleagues.

For these purposes, we have used all UK-based colleagues as the comparative group, as this represents the most appropriate comparator group for reward purposes for our UK-based Chief Executive.

|                         | % change in base salary 2015 vs. 2014 | % change in benefits (including cash allowance in lieu of pension) 2015 vs. 2014 | % change in annual bonus 2015 vs. 2014 |
|-------------------------|---------------------------------------|--|--|
| Chief Executive         | -10.3%                                | -14.0%   | N/A                                    |
| All UK-based colleagues | 2.5%                                  | 0%   | N/A                                    |

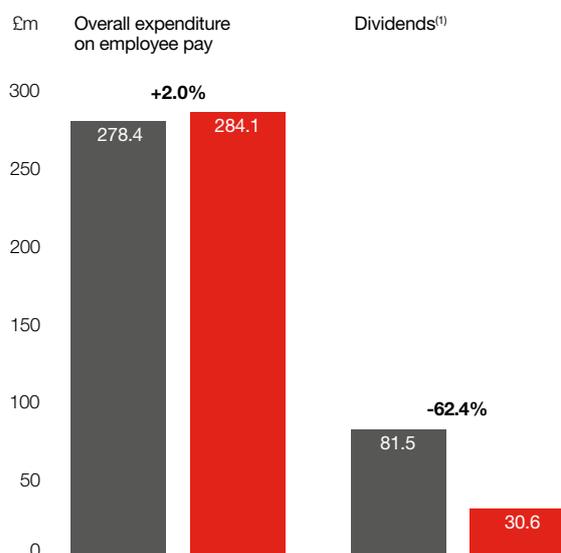
The % changes for the Chief Executive have been determined with reference to aggregate numbers for Jim Mullen and Richard Glynn when undertaking Chief Executive responsibilities. The % change in annual bonus for 2015 vs. 2014 cannot be calculated as annual bonus pay-outs in 2014 were zero for the Chief Executive and other UK-based colleagues.

## Relative importance of the spend on pay

The chart below illustrates the current year and prior year overall expenditure on pay and dividends paid.

### Relative importance of the spend on pay

● 2014 ● 2015



The figures presented have been calculated on the following basis:

- Overall expenditure on employee pay – represents total staff costs; and
- Dividends – dividends paid (or declared to be paid) in respect of the year.

(1) Total dividend per share FY2015: 3.0 pence (FY2014: 8.9 pence)

## Implementation of remuneration policy in 2016

This section provides an overview of how the Committee is proposing to implement the remuneration policy in 2016.

The Committee is intending to implement the policy as follows until the completion of the proposed merger. Prior to completion of the proposed merger, the Committee will review the policy and its execution and will make any necessary revisions which would be communicated to shareholders for their approval. Remuneration arrangements after the proposed merger for executive directors, including those from Gala Coral, will be in line with the applicable policy.

Ian Bull will be leaving at the end of February 2016, therefore specific detail on his arrangements have not been included below as he is not entitled to a bonus or a PSP award for 2016. He will be however receiving a salary, benefits and pensions until his departure date in line with implementation of the remuneration policy in 2015, and payment in lieu of notice as described on page 53.

## Base salary

In determining salary increases for 2016, the Remuneration Committee took into consideration business performance, affordability and pay and conditions across the Group and determined that there will be 5% increase for the Chief Executive in 2016.

The table below shows base salaries for 2016:

|            | Base salary from 1 March 2016 |
|------------|-------------------------------|
| Jim Mullen | £525,000                      |

## Benefits

Benefits are generally set at an appropriate market competitive level, taking into account a number of factors including market practice for comparable roles within appropriate pay comparators.

There will be no changes to the benefits package received by executive directors in 2016.

## Cash allowance in lieu of pension

The executive directors have elected to receive a cash allowance of 22.5% of salary in lieu of pension, and there will be no change to cash allowance levels for 2016.

The table below shows cash allowances for 2016:

|            | 2016 cash allowance in lieu of pension £ (% of salary) |
|------------|--|
| Jim Mullen | £116,719 (22.5%)                                       |

2016 cash allowance has been calculated taking into account his salary increase of 5% from 1 March 2016.

Please note that the executive directors do not have a prospective right to defined benefit pension arrangements.

## Annual bonus

The maximum annual bonus opportunity will remain at 170% of base salary for the Chief Executive in 2016.

The table below provides further information on the performance measures against which performance will be measured:

|  | Relative weighting (% of maximum bonus opportunity) |
|--|---|
| Financial – operating profit <sup>(1)</sup>    | 60%   |
| Individual – mainly specific financial targets | 40%   |

(1) Profit before tax, net financial expense and exceptional items.

Profit is the key financial measure for Ladbrokes. Profit attributed to High Rollers is excluded from the profit performance calculations for annual bonus purposes. The individual objective element of the bonus remain subject to a profit underpin.

At this stage, the annual bonus targets are considered commercially sensitive. This is because of the close link between the selected performance measures and strategy. However, in next year's Annual Report, we commit to providing shareholders with as much context as possible on performance against those targets and the resulting bonus out-turn rationale, within commercial constraints.

## Governance

### Directors' remuneration report *continued*

#### Performance Share Plan

It is anticipated that Jim Mullen will receive a 2016 PSP award of 175% of his salary (as at 1 January 2016). The performance measures will be the same as for the 2015 PSP award, with the TSR peer group modified to take M&A activity into account, i.e. will consist of 888 Holdings, GVC Holdings, Paddy Power Betfair, Sportech and William Hill, and the TSR outperformance and responsible gambling targets in line with the 2015 PSP award. The three-year cumulative EPS and FCF 2016 targets will be as follows:

| EPS performance      | Percentage of the award vesting |
|----------------------|---------------------------------|
| Less than 21.7 pence | 0%                              |
| 21.7 pence           | 25%                             |
| 26.4 pence           | 100%                            |

| FCF performance | Percentage of the award vesting |
|-----------------|---------------------------------|
| Less than £219m | 0%                              |
| £219m           | 25%                             |
| £310m           | 100%                            |

#### Non-executive director remuneration

The table below shows the non-executive director fee structure as at 1 January 2016.

|   | 2016 fees       |
|---|-----------------|
| Chairman (inclusive of Board member fee)                                  | £285,000        |
| Senior independent non-executive director                                 | £70,000         |
| Board member  | £43,000-£55,000 |
| Additional fee for Audit Committee Chairman*                              | £15,000         |
| Additional fee for Remuneration Committee Chairman*                       | £10,000         |
| Additional fee for membership of the Audit and/or Remuneration Committee* | £7,000          |

\* Not payable to Chairman or senior independent non-executive director.

Board members who receive a fee of £55,000 for being a Board member will not be entitled to the additional £7,000 for being a member of the Audit and/or Remuneration Committee. However, they will be entitled to the applicable additional fee for being an Audit or Remuneration Committee Chairman.

On 3 December 2015, in light of the changes to the Board membership, it was decided to increase the Chairman's annual fee from £250,000 to £285,000, the senior independent non-executive director's total annual fee from £60,000 to £70,000 and offer a total annual fee to the Chairman of the Audit Committee of £70,000.

There are no additional fees for membership of the Social Responsibility Committee or the Nomination Committee.

#### External appointments

The Company recognises the benefits of executive directors taking on external appointments as non-executive directors, subject to the limitations set out in the Policy Report and to Committee approval.

With effect 1 September 2014, Ian Bull became a non-executive director of St Modwen Properties PLC. For the period from 1 January 2015 until 31 December 2015, Ian received fees of £49,392, which he is allowed to retain.

#### Consideration by the Committee of matters relating to directors' remuneration

The Ladbrokes Board entrusts the Committee with the responsibility for the remuneration policy in respect of executive directors and senior executives and ensuring its ongoing appropriateness and relevance. In setting the remuneration for these groups, the Committee takes into account the pay and conditions of the wider workforce as a matter of course.

The table below shows the Committee members during the year and their attendance at Committee meetings:

| Directors as at 31 December 2015 | Number of meetings eligible to attend | Number of meetings attended |
|----------------------------------|---------------------------------------|-----------------------------|
| David Martin                     | 8                                     | 8                           |
| Sly Bailey <sup>(1)</sup>        | 8                                     | 7                           |
| Christine Hodgson                | 8                                     | 8                           |
| John Kelly <sup>(2)</sup>        | 0                                     | 0                           |
| Richard Moross                   | 8                                     | 8                           |
| <b>Former members</b>            |                                       |                             |
| Peter Erskine                    | 8                                     | 8                           |

(1) Sly Bailey was unable to attend one Committee meeting due to prior business commitments.

(2) John Kelly became Chairman and a member of the Committee as of 3 December 2015. He attended two meetings during the year by invitation to support his handover as Chairman of the Company.

The Chief Executive, the Group HR Director and the Group Head of Reward attend Committee meetings by invitation, other than when their personal remuneration is being discussed. The Company Secretary acted as secretary to the Committee.

During the year, the Committee received independent advice on executive remuneration matters from Kepler, a brand of Mercer which is part of the MMC group of companies (Kepler). Kepler was appointed by the Committee as independent remuneration advisers following a tender process in 2014 and was retained during the 2015 financial year. Kepler is a signatory to the Code of Conduct for Remuneration Consultants in the UK, details of which can be found on the Remuneration Consultants Group's website at [www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com). Services provided by Kepler included advice on remuneration packages for executives and non-executives, assistance with a review of the current incentive arrangements in light of the new strategy and potential merger and drafting the Director's remuneration report, as well as other ad-hoc advice related to remuneration. The fees paid to Kepler in relation to advice provided to Committee for 2015 were £98,465.

Deloitte LLP also provided the Company with a TSR monitoring update. Deloitte received £1,750 for their services in 2015. Deloitte also provides the Company with internal audit and miscellaneous tax and consulting services.

Mercer provides advice to pensions trustees in Ireland. However, the Committee is satisfied that neither Kepler as a part of Mercer nor Deloitte, in providing remuneration advice to the Committee, had any connection that impaired its independence.

## Shareholder voting

The table below outlines the result of the votes on the 2014 Directors' Remuneration Report at the 2015 AGM:

| AGM date |                               | Number of votes cast | For                    | Against                | Withheld   |
|----------|-------------------------------|----------------------|------------------------|------------------------|------------|
| 2015     | Annual Report on Remuneration | 523,171,666          | 365,015,508<br>(69.8%) | 158,156,158<br>(30.2%) | 84,319,464 |

The Policy Report was last approved at the 2014 AGM where it received a 98.0% 'for' vote.

As discussed in the Chairman's letter, the Board notes the vote in respect of the Directors' Remuneration Report and understands that it primarily relates to Richard Glynn's termination arrangements. Ladbrokes has spoken with several shareholders about the termination arrangements for Richard Glynn where his contract required that any settlement had to be determined in line with UK damages principles. The Remuneration Committee acknowledges that the use of such contracts is no longer best practice; therefore the current executive team have contracts where termination arrangements are determined on PILON principles which are in line with market practice.

On behalf of the Board



**David Martin**

Chairman of the Remuneration Committee

22 February 2016

# Directors' report

The directors present their Annual Report and the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2015.

The Corporate Governance reports on pages 38 to 71 are deemed to be incorporated into this Directors' report (the Report) by reference. Details of the likely future developments of the business are described in the Strategic report on pages 2 to 35. The Strategic report, Directors' report and other sections from the Annual Report which are incorporated by reference, collectively comprise the 'Management Report' for the purposes of DTR 4.1.5.

## Directors

Biographical details of the directors at the date of the Report are shown on pages 36 and 37. Richard Glynn served as a director until 31 March 2015, Darren Shapland served as a director until 24 September 2015 and Peter Erskine served as a director until 3 December 2015.

Details of the directors' service contracts, their share interests and other details of their remuneration by the Company are contained in the Directors' remuneration report.

The Chairman and the independent non-executive directors are appointed, subject to re-election, for a specified term of approximately three years, renewable by one additional period of three years and renewable thereafter at the discretion of the Company.

The Board has in place an established procedure for managing, and where appropriate approving, any conflicts of interest.

## Appointment and replacement of directors

Directors are appointed to, or removed from, the Board according to the provisions contained in the Company's Articles of Association (the 'Articles') and the requirements of the Companies Act 2006. A copy of the Articles is available to view on the Company's website [www.ladbrokeplc.com/investors](http://www.ladbrokeplc.com/investors).

In accordance with the provisions of the UK Corporate Governance Code, all directors, with the exception of Ian Bull, will stand for election or re-election at the 2016 Annual General Meeting.

## Directors' indemnities and insurance

Each of the directors has been provided with a qualifying third-party indemnity from the Company which remain in force at the date of the Report. The Company also maintains directors' and officers' liability insurance.

## Amendment of the Company's Articles of Association

The Company's Articles may be amended by the members of the Company by special resolution (requiring a majority of at least 75% of the persons voting on the relevant resolution).

## Annual General Meeting

This year's Annual General Meeting will be held at Deutsche Bank AG, Winchester House, 1 Great Winchester Street, London EC2N 2DB on 5 May 2016 at 11.00am.

## Dividends

The directors recommend the payment of a final dividend of 2.0 pence per ordinary share, making a total of 3.0 pence for the year. Subject to approval by shareholders at the Annual General Meeting, the final dividend is expected to be paid on 12 May 2016 to shareholders registered on 29 March 2016.

## Listing Rule 9.8.4

The Trustee of the Ladbroke Share Ownership Trust, which is used in connection with certain of the Company's employee share ownership plans, waives dividends on shares in the Trust not allocated to plan members. There are no other items that are required to be disclosed under Listing Rule 9.8.4.

## Share capital

At 22 February 2016, the Company had been notified, in accordance with the FCA's Disclosure and Transparency Rules, of the following holdings of voting rights attaching to the Company's shares:

|                                      | Number of shares | % of issued share capital |
|--------------------------------------|------------------|---------------------------|
| Playtech Limited                     | 98,589,095       | 9.71                      |
| The Capital Group of Companies, Inc. | 71,234,245       | 7.00                      |
| Old Mutual Plc                       | 61,570,205       | 6.05                      |
| FIL Limited                          | 51,635,952       | 5.07                      |
| Jupiter Asset Management Limited     | 45,953,525       | 5.00                      |

None of the interests stated above have changed since 31 December 2015.

Further details in respect of the share capital are shown in note 27 to the consolidated financial statements which forms part of the Report. Rights attributable to the Company's ordinary shares are as set out in the Articles and in applicable company law. Holders of the Company's ordinary shares have the right to attend, speak and vote (either in person or by proxy) at a general meeting of the Company and the right to participate in any distribution of the Company which includes, but is not limited to, dividends.

The Company operates a number of employee share plans which are detailed in note 28. The voting rights of shares held in trust for share plan participants, as beneficial holders, are exercised at the direction of the participant.

## Directors' authority to issue and purchase shares

At the Annual General Meeting held on 7 May 2015, the directors were authorised to allot ordinary shares up to a nominal value of £87,167,847 and were further authorised to make market purchases of up to 92,295,379 of the Company's ordinary shares.

No purchases of Company shares were made during the year. Details of shares allotted during the year are shown in note 27 to the consolidated financial statements. To the extent the authorities granted by shareholders remain unused they remain in effect until the earlier of the Annual General Meeting in 2016 or 30 June 2016.

## Corporate responsibility

The 2015 Corporate Responsibility (CR) report is available at [www.ladbrokeplc.com](http://www.ladbrokeplc.com) and should be considered in conjunction with the highlights disclosed on pages 31 to 35.

The processes described in the section 'Financial reporting, internal control and risk management systems' on pages 41 to 43 applied to CR (including human rights issues as appropriate), as did the practices described on page 40 for ensuring the Board is supplied with appropriate and timely information and training and for assisting the directors to update their knowledge. In addition to business presentations regularly

made to the Board at which CR was considered as appropriate, the Board conducts an annual CR review and Board members regularly receive CR updates. CR performance is included in business unit accountability systems and remuneration arrangements. The Remuneration Committee, in determining executive remuneration, takes into account CR matters as described in the Directors' remuneration report.

The risks and opportunities relating to CR in 2015 and going forward primarily revolve around the reputation of the Group and the quality of its brands. The promotion of responsible gambling and the protection of children and the vulnerable was of particular importance. CR also impacted on the performance of the Group's employees on whom the Group relies for the provision of high-quality services to customers and the health and safety of these employees and the customers they serve.

The identification and management of CR issues, the CR reporting framework and any associated data has been reviewed by the Company's CR adviser, Carnstone Partners LLP.

Details of the Group's disclosure of its greenhouse gas emissions are set out in the Strategic report on page 35.

### Employee policies

The Board values two-way communication between senior management and employees on all aspects of the Company's strategy, Company performance, management effectiveness and approach to wellbeing.

There is a rolling three-year internal communications strategy and delivery plan which includes interventions such as regular management roadshows, virtual strategy briefings, visits to operating units, responses to the regular colleague opinion survey and updates on performance.

The internal communications channels include a mobile device platform, face to face events, a corporate intranet, phone broadcasting, SMS alerts, a Company magazine, leadership and line manager briefing packs.

The UK Retail Colleague Forum, which was launched in 2012 as an evolution of our Staff Council, provides a further mechanism for employee dialogue and engagement.

In addition, those employees who are eligible are also encouraged to become involved in the Group's performance through participation in share schemes. Retail colleagues also have the opportunity to raise issues with the senior management team by submitting emails for consideration to our 'speak up' mailbox, or by calling on one of our 'speak up' days.

Throughout the Group, the principles of equal opportunities are recognised in the formulation and development of employment policies.

It is the Company's policy to give full and fair consideration to applications from people with disabilities, having regard to their particular aptitudes and abilities. If an employee becomes disabled, the Company's objective is the continued provision of suitable employment, either in the same or an alternative position, with appropriate adjustments being made if necessary. Employees with disabilities share equally in the opportunities for training, career development and promotion.

### Significant agreements that take effect, alter or terminate upon a change of control following a takeover bid

The agreements between Ladbrokes Group Finance plc (LGF), a wholly-owned subsidiary of the Company, and five separate banks for the provision by the banks of revolving credit facilities of up to £350m on a committed basis provide that the banks may give notice of cancellation if a change of control occurs. On cancellation the amounts drawn would be immediately repayable. In the context of a takeover bid, the acquirer would normally arrange substitute facilities. In addition, LGF issued bonds in March 2010 and June 2014. The bonds have a 'Put Event' that allows bondholders to exercise put options when a change of control occurs. The put options allow the bondholders to require LGF to purchase the bonds at a price of 101 pence.

### Nevada regulator

Shareholders of Ladbrokes are subject to regulation by the Nevada State Gaming Control Board and the Nevada Gaming Commission as a result of the Company's ownership of licensed subsidiaries in Nevada, USA and the Company's registration as a publicly traded company operating in Nevada. Information regarding Nevada gaming regulatory requirements is available at [www.ladbrokesplc.com/investors](http://www.ladbrokesplc.com/investors).

### Financial risk management

A description of the Group's financial risk management objectives and policies and its exposure to price, credit liquidity and cash flow risk is contained in note 24 to the consolidated financial statements and forms part of the Report.

### Auditor and disclosure of information to the auditor

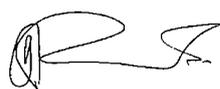
Each of the directors in office as of the date of approval of the Report confirms that, so far as he or she is aware, there is no relevant audit information (being information needed by the auditor in connection with preparing its report) of which the auditor is unaware and that he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information.

### Going concern

Having assessed the principal risks and other matters discussed in the connection with the viability statement on page 30, the directors considers it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

The Directors' report and the Strategic report were approved by the Board and have been signed on its behalf by the Company Secretary.

By order of the Board.



**Adrian Bushnell**  
Company Secretary  
22 February 2016

Ladbrokes plc  
Registered Number 566221

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# Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the consolidated and Company financial statements respectively;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in pages 36 to 37 of this Annual Report confirm that, to the best of their knowledge:

- the consolidated financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic report and Directors' report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Each director in office at the date the directors' report is approved, that:

- (a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Jim Mullen**  
**Ian Bull**

Directors

# Independent auditors' report to the members of Ladbrokes plc

## Report on the financial statements

### Our opinion

In our opinion:

- Ladbrokes plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2015 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the consolidated balance sheet as at 31 December 2015;
- the Company balance sheet as at 31 December 2015;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

## Our audit approach

### Overview



- Overall group materiality: £4.7 million which represents 5% of average profit before tax and exceptional items over the previous three years (2014: £5.7 million).
- We conducted full scope audits at five reporting units: UK Retail, UK Digital, Australia and two reporting units included within Corporate costs.
- Specific audit procedures on revenue and receivables were performed on the High Rollers reportable segment.
- Our audit scope addressed over 80% of the Group's revenue and profit before tax and exceptional items.
- Impairment assessments for: Goodwill, and retail licence intangible assets and property, plant and equipment ("PPE").
- Compliance with laws and regulations given the developing nature of the digital gaming sector.
- Accounting for the fair value of contingent consideration relating to business combinations made in 2013 (Playtech and Betdaq).
- Recognition and disclosure of tax losses and the provision for uncertain tax positions.
- Nature and presentation of exceptional items.

### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

| Area of focus  | How our audit addressed the area of focus  |
|--|--|
| <p><b>Impairment assessments for: Goodwill, retail licence intangible assets and property, plant and equipment ('PPE');</b></p> <p>Refer to page 46 (Audit Committee Report), note 4 (Summary of significant accounting policies), note 14 (Impairment testing of goodwill and indefinite life intangible assets).</p> <p>IAS 36 'Impairment of Assets' requires that Goodwill and other indefinite lived intangible assets are subject to an impairment review at least annually, or more frequently when there is evidence of a trigger event. IAS 36 also requires a number of specific disclosures in respect of the impairment assessment.</p> <p>A new Strategy was announced during the first half of the year, which included a reassessment of the prospects of the Group, in particular the cash generating units that make up the Retail segments, together with a plan for greater investment in the shorter term.</p> <p>The impairment reviews performed by management did not identify any impairment in respect of goodwill, but did result in an impairment charge of £53.2m in respect of retail licence intangible assets and PPE which was recorded in the first half of the year and reported in the interim results to 30 June 2015.</p> | <p>In respect of each impairment assessment, over goodwill and retail licence intangible assets and PPE, a key component of our work was to consider the budgets and cash flow forecasts prepared by management, as outlined below. This was then supplemented by specific procedures in relation to the goodwill assessments and in relation to retail licence intangible assets and PPE.</p> <p><i>Procedures on budgets and cash flow forecasts:</i></p> <p>We obtained the annual impairment assessments performed by management in respect of goodwill and agreed the cash flow forecasts therein to the latest Board approved budgets and plans as at 31 December 2015. We evaluated the assumptions in the forecasts and plans and considered the evidence in support of them, principally in relation to historical trends and actual performance in 2015. This included considering trends in gross win and margins and changes to the cost base (such as Machine Game Duty and marketing costs) and whether the expected growth in Digital were appropriately reflected as relevant. Our work did not highlight any material issues.</p> <p>We also compared the actual results for each cash generating unit for the year ended 31 December 2015 and the latest Board approved budgets and plans to the forecasts prepared with the new Strategy prior to June 2015 and found management's forecasting ability to be reliable for the purposes of the impairment assessments.</p> |
| <p><b>Goodwill</b></p> <p>The Group has goodwill of £157.2 million including amounts relating to the business combinations of Playtech (£34.9 million) and Betdaq (£31.5 million) and Gaming Investments Pty Ltd (£19.4 million).</p> <p>Whilst the annual impairment review of goodwill performed by management as at 31 December 2015 supported the carrying values above, we focused on this area as the preparation of these assessments involve a significant degree of judgement and the results are sensitive to changes in the future forecasts of cash flows and other assumptions such as growth and discount rates.</p>   | <p>We also considered the discount rates used in the goodwill and retail licence intangible assets and PPE impairment assessments by comparing them to the cost of capital for the Group. We found these to be consistent and in line with our expectations.</p> <p>In addition to testing the results of the impairment assessments performed by management and whether the amount of any impairment charge identified was appropriate, we also considered the disclosures given in the Annual Report and found that these satisfied the requirements of IAS 36.</p> <p>For the goodwill impairment reviews showing headroom and not giving rise to impairments, we also performed sensitivity analysis on the level of cash flows, the discount and growth used in the impairment assessments and concurred with management's conclusion that a material change in these assumptions would be required to trigger an impairment charge.</p>  |

## Independent auditors' report to the members of Ladbrokes plc continued

| Area of focus   | How our audit addressed the area of focus   |
|---|---|
| <p><b>Retail licence intangible assets and PPE</b></p> <p>As noted above, an impairment assessment was performed for the Retail cash generating units in mid 2015 following the announcement of the new Strategy. As a result, management determined that an impairment charge of £53.2 million was required to reduce the value of these assets to their recoverable amount. As at 31 December 2015 the Group has retail licence intangible assets with an indefinite life of £383.4 million following the impairment noted above.</p> <p>We focused on the UK Retail, Northern Ireland and Republic of Ireland cash generating units in particular as these comprise the majority of the Group's Retail licence intangible assets and PPE balances.</p> <p>Our focus was on the sufficiency of the impairment charge of £53.2 million recorded in the interim results for the six months ended 30 June 2015 and whether an additional impairment charge was required at the year end.</p> | <p>We obtained the impairment assessments for retail licence intangible assets and PPE prepared by management at the interim stage and agreed the forecasts to the latest Board approved plans at that time and performed procedures consistent with those described above.</p> <p>We evaluated management's determination of individual cash generating units either at a shop or group of shops level and evaluated the evidence of player activity in support of grouping where relevant. We found the basis for the grouping to be supported. We understood the basis of preparation of shop (or group of shops) forecasts compared to the overall Retail forecasts and found them to be consistent.</p> <p>Having considered the above we found the impairment charge of £53.2m recorded at the interim stage to be appropriate.</p> <p>We also compared the actual results of UK Retail, Northern Ireland and Republic of Ireland for the year ended 2015 and the budgets for 2016 to the previous forecasts and plans under the Strategy announced in mid 2015 and found that they were consistent and that management's forecasts were reliable for the purposes of the impairment assessments and that, accordingly, there was no indication that further impairments were required at 31 December 2015.</p> <p>We also performed sensitivity analysis on the level of cash flows, the discount and growth used in the impairment assessments and we concurred with management's conclusion that a reasonably possible change in these could trigger impairment charges in the future.</p> |
| <p><b>Compliance with laws and regulations given the developing nature of the digital gaming sector</b></p> <p>The international legal and licencing framework for digital gaming is territory specific. Regulations are developing and this evolving environment makes compliance an increasingly complex area with territory specific regulations, responsible gambling and anti-money laundering obligations.</p> <p>Given the potential for litigation and licence withdrawal, the risk of non-compliance with digital gaming laws and licence regulations could give rise to material fines, penalties, legal claims or market exclusion.</p>  | <p>We evaluated the controls and risk management processes in operation in respect of compliance with digital licencing regulations responsible gambling and anti-money laundering obligations covering player registration controls, customer deposits and withdrawals.</p> <p>We assessed how the management monitor legal and regulatory developments and their assessment of the potential impact on the business.</p> <p>We also read the Group's reports on litigation matters provided by management. We discussed each of the material cases noted in the reports to determine the Group's assessment of the likelihood and magnitude of any liability that may arise. Our work included testing to assess the completeness of the matters in the Group's litigation reports in order to assess the appropriateness of the provisions recorded by management.</p> <p>We also read, where required, external legal or regulatory advice sought by the Group.</p> <p>Whilst acknowledging that this is a judgemental area, we found that the Group had an appropriate basis of accounting for these matters in the financial statements.</p>  |

| Area of focus   | How our audit addressed the area of focus   |
|---|---|
| <p><b>Accounting for the fair value of contingent consideration relating to business combinations made in 2013 (Playtech and Betdaq)</b></p> <p>The Group is required to fair value the contingent consideration associated with the business combinations of Playtech and Betdaq made in 2013 at each balance sheet date. At 31 December 2015 the total contingent consideration was £32.3 million with a fair value movement of £0.2 million recognised in the income statement for the year.</p> <p>This is determined through a cash flow forecast model. The inputs to these models are subject to judgement regarding the determination of EBITDA forecasts, discount rates and a multiple specific to the Ladbrokes share price.</p>   | <p>We obtained the Playtech and Betdaq contingent consideration models prepared by management. We assessed the appropriateness of the models by testing the integrity, comparing the data in the models to the relevant agreements and testing key inputs to third party sources and publically available information where appropriate.</p> <p>The key inputs we focused on were the forecast results for each business, the probability range associated with future EBITDA forecasts and the discount rate.</p> <p>We compared the forecast results with the latest Board approved budgets and considered the results of the testing performed on the same forecasts for the impairment area of focus above.</p> <p>The nature of the valuation of the contingent consideration results in a number of scenarios where a reasonably probable change in the assumptions may materially impact the fair value. We therefore considered management's proposed disclosures with regard to the impact of changes in assumptions and found them to be reasonable in light of our procedures.</p>         |
| <p><b>Recognition and disclosure of tax losses and the provision for uncertain tax positions.</b></p> <p>Refer to page 46 (Audit Committee Report), note 4 (Summary of Significant Accounting Policies) and note 10 (Income tax expense)</p> <p>The Group's total tax credit of £48.3 million for the year reflects the recognition and use of previously unrecognised tax losses. This includes £35.6 million relating to mainly UK adjustments in respect of prior years, a further £18.4 million in respect of tax losses utilised during the year, offset by a number of individually immaterial items.</p> <p>The Group also has unresolved tax positions in the UK, the valuation of which is a judgemental area.</p> <p>There is significant judgement applied in determining the Group's deferred tax assets relating to tax losses, in terms of both recognition and disclosure.</p> | <p>We considered the overall tax figures recorded in the financial statements and the related disclosures in the context of the Group's Board approved tax strategy.</p> <p>With regard to adjustments in respect of prior years we read and understood the Group's correspondence with HMRC and considered the advice received by the Group from its third party advisers to assess the appropriateness of the related amounts and disclosures in the financial statements.</p> <p>We assessed whether there was evidence to determine that additional deferred tax assets should be recognised or disclosed, taking into account forecast profits and the Board's approved tax strategy.</p> <p>We also assessed the key judgements with respect to open positions and settlements and read correspondence with the taxation authorities. We obtained evidence to support the provisions and consider these to reflect management's best estimates.</p> <p>We found that the overall position adopted in the financial statements and the related disclosures in respect of tax was reasonable.</p> |

## Independent auditors' report to the members of Ladbrokes plc continued

| Area of focus   | How our audit addressed the area of focus  |   |  |                           |                                    |                      |  |
|---|--|---|--|---------------------------|------------------------------------|----------------------|--|
| <p><b>Nature and presentation of exceptional items</b><br/>Refer to page 46 (Audit Committee Report), note 2 (Basis of Preparation) and note 6 (Exceptional items)</p> <p>The financial statements include certain items which are disclosed as 'exceptional'. The most significant of these exceptional charges are:</p> <ul style="list-style-type: none"> <li>– Impairment loss of £58.3 million;</li> <li>– Loss on shop closures of £19.8 million; and</li> <li>– Corporate transaction costs of £17.6 million</li> </ul> <p>Total exceptional items amounted to £99.0 million.</p> <p>We focused on this area because exceptional items are not defined by IFRSs and it therefore requires judgement regarding their size and nature by management to identify such items. Consistency in identifying and disclosing items as exceptional is important to maintain comparability of the results year on year.</p>   | <p>We assessed the appropriateness and application of the Group's accounting policy in respect of those items classified as exceptional in nature.</p> <p>We tested the presentation of the exceptional items in the financial statements by assessing whether the classification was in line with the Group's accounting policy on exceptional items set out in note 2 of the financial statements and whether, in our view it was reasonable for these items to be separately disclosed as exceptional. We also tested the nature of costs included to supporting documentation on a sample basis.</p> <p>We found that the Group's accounting policy had been followed, and that the costs disclosed were appropriate for inclusion.</p>  |   |  |                           |                                    |                      |  |
| <p><b>How we tailored the audit scope</b></p> <p>We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.</p> <p>The Group is structured into five reportable segments being UK Retail, European Retail, Digital, Core Telephone Betting and High Rollers. The Consolidated financial statements are a consolidation of reporting units that make up the five reportable segments and Corporate costs.</p> <p>We identified five of the Group's reporting units (UK Retail, UK Digital, Australia and two reporting units included within Corporate costs) that required an audit of their complete financial information, due to their size or risk characteristics. In addition we performed specified audit procedures on revenue and receivables in the High Rollers reportable segment due to risk of fraud in revenue recognition.</p> <p>All work was undertaken by the Group engagement team with the exception of Australia for which a component PwC audit team performed the audit work under the instruction and direction of the Group engagement team. Our audit scope addressed over 80% of the Group's revenue and profit before tax and exceptional items.</p> <p>The Group consolidation and a number of other areas were audited centrally. This included tax, share-based payments and pensions.</p> <p><b>Materiality</b></p> <p>The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.</p> | <p>Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:</p> <table border="1" data-bbox="799 1051 1465 1219"> <tr> <td colspan="2">materiality for the financial statements as a whole as follows:</td> </tr> <tr> <td>Overall Group materiality</td> <td>£4.7 million (2014: £5.7 million).</td> </tr> <tr> <td>How we determined it</td> <td>5% of average profit before tax and exceptional items over the previous three years.</td> </tr> </table> <p>Rationale for benchmark applied</p> <p>We applied this benchmark because, in our view, profit before tax and exceptional items is the metric against which the performance of the Group is most commonly measured and because in our view this is the most relevant measure of recurring performance. For the current year, our materiality calculation was based on average profit before tax and exceptional items over the previous three years as the Group's new Strategy includes significant additional marketing spend which impacts profitability in the shorter term.</p> <p>We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £250,000 (2014: £300,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.</p> | materiality for the financial statements as a whole as follows: |  | Overall Group materiality | £4.7 million (2014: £5.7 million). | How we determined it | 5% of average profit before tax and exceptional items over the previous three years. |
| materiality for the financial statements as a whole as follows:   |  |   |  |                           |                                    |                      |  |
| Overall Group materiality   | £4.7 million (2014: £5.7 million).   |   |  |                           |                                    |                      |  |
| How we determined it  | 5% of average profit before tax and exceptional items over the previous three years.   |   |  |                           |                                    |                      |  |

**Going concern**

Under the Listing Rules we are required to review the directors' statement, set out on page 73, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

**Other required reporting****Consistency of other information****Companies Act 2006 opinion**

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**ISAs (UK & Ireland) reporting**

|  |                                  |
|--|----------------------------------|
| Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:   |                                  |
| information in the Annual Report is:   | We have no exceptions to report. |
| <ul style="list-style-type: none"> <li>– materially inconsistent with the information in the audited financial statements; or</li> <li>– apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or</li> <li>– otherwise misleading.</li> </ul>  |                                  |
| the statement given by the directors on page 75, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit. | We have no exceptions to report. |
| the section of the Annual Report on page 46, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.  | We have no exceptions to report. |

## Independent auditors' report to the members of Ladbrokes plc continued

### The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

|   |  |
|---|--|
| the directors' confirmation on page 42 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. | We have nothing material to add or to draw attention to. |
|---|--|

|   |  |
|---|--|
| the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated. | We have nothing material to add or to draw attention to. |
|---|--|

|   |  |
|---|--|
| the directors' explanation on page 30 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. | We have nothing material to add or to draw attention to. |
|---|--|

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

#### Directors' remuneration report - Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

#### Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 75, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**What an audit of financial statements involves**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to

provide a reasonable basis for us to draw conclusions.

We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Stuart Newman** (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
22 February 2016

# Consolidated income statement

|   | Notes | 2015                        |                      |                  | 2014                        |                      |          |
|---|-------|-----------------------------|----------------------|------------------|-----------------------------|----------------------|----------|
|   |       | Before exceptional items £m | Exceptional items £m | Total £m         | Before exceptional items £m | Exceptional items £m | Total £m |
| For the year ended 31 December  |       |                             |                      |                  |                             |                      |          |
| Revenue   | 5     | <b>1,199.5</b>              | –                    | <b>1,199.5</b>   | 1,174.6                     | –                    | 1,174.6  |
| Operating expenses before depreciation and amortisation               | 7     | <b>(1,042.2)</b>            | <b>(27.9)</b>        | <b>(1,070.1)</b> | (957.1)                     | (16.2)               | (973.3)  |
| Share of results from joint venture and associates                    | 16,17 | <b>4.0</b>                  | –                    | <b>4.0</b>       | (0.2)                       | –                    | (0.2)    |
| Depreciation, amortisation and amounts written off non-current assets |       | <b>(77.4)</b>               | <b>(71.4)</b>        | <b>(148.8)</b>   | (77.7)                      | (57.2)               | (134.9)  |
| Profit/(loss) before tax and finance expense                          | 7     | <b>83.9</b>                 | <b>(99.3)</b>        | <b>(15.4)</b>    | 139.6                       | (73.4)               | 66.2     |
| Finance expense   | 8     | <b>(28.2)</b>               | <b>(0.1)</b>         | <b>(28.3)</b>    | (27.5)                      | (1.1)                | (28.6)   |
| Finance income  | 8     | <b>0.1</b>                  | <b>0.4</b>           | <b>0.5</b>       | 0.1                         | –                    | 0.1      |
| Profit/(loss) before tax  |       | <b>55.8</b>                 | <b>(99.0)</b>        | <b>(43.2)</b>    | 112.2                       | (74.5)               | 37.7     |
| Income tax credit/(expense)   | 10    | <b>35.0</b>                 | <b>13.3</b>          | <b>48.3</b>      | (5.6)                       | 8.9                  | 3.3      |
| <b>Profit for the year</b>  |       | <b>90.8</b>                 | <b>(85.7)</b>        | <b>5.1</b>       | 106.6                       | (65.6)               | 41.0     |
| Attributable to:  |       |                             |                      |                  |                             |                      |          |
| Equity holders of the parent  |       | <b>90.8</b>                 | <b>(85.7)</b>        | <b>5.1</b>       | 106.6                       | (65.6)               | 41.0     |
| Earnings per share on profit for the year                             |       |                             |                      |                  |                             |                      |          |
| – basic   | 12    | <b>9.4p</b>                 | –                    | <b>0.5p</b>      | 11.6p                       | –                    | 4.4p     |
| – diluted   | 12    | <b>9.3p</b>                 | –                    | <b>0.5p</b>      | 11.5p                       | –                    | 4.4p     |
| Proposed dividends  | 11    | <b>2.0p</b>                 | –                    | <b>2.0p</b>      | 4.6p                        | –                    | 4.6p     |

The notes on pages 89 to 128 are an integral part of these consolidated financial statements

# Consolidated statement of comprehensive income

| For the year ended 31 December   | Notes | £m           | 2015<br>£m   | £m  | 2014<br>£m |
|--|-------|--------------|--------------|-----|------------|
| <b>Profit for the year</b>   |       |              | <b>5.1</b>   |     | 41.0       |
| Other comprehensive income/(expense):  |       |              |              |     |            |
| <i>Items that may be reclassified to profit or loss:</i>   |       |              |              |     |            |
| Currency translation differences   |       |              | <b>(5.8)</b> |     | (3.6)      |
| Total items that will be reclassified to profit or loss  |       |              | <b>(5.8)</b> |     | (3.6)      |
| <i>Items that will not be reclassified to profit or loss:</i>  |       |              |              |     |            |
| Remeasurement of defined benefit pension scheme  | 30    | <b>3.2</b>   |              | 1.6 |            |
| Tax on remeasurement of defined benefit pension scheme   |       | <b>(0.6)</b> |              | 2.7 |            |
| Share of other comprehensive income of associates and joint ventures accounted for using the equity method |       | <b>(0.6)</b> |              | -   |            |
| Total items that will not be reclassified to profit or loss  |       |              | <b>2.0</b>   |     | 4.3        |
| Other comprehensive (expense)/income for the year, net of tax  |       |              | <b>(3.8)</b> |     | 0.7        |
| <b>Total comprehensive income for the year</b>   |       |              | <b>1.3</b>   |     | 41.7       |
| Attributable to:   |       |              |              |     |            |
| Equity holders of the parent   |       |              | <b>1.3</b>   |     | 41.7       |
| Non-controlling interests  |       |              | -            |     | -          |

The notes on pages 89 to 128 are an integral part of these consolidated financial statements

# Consolidated balance sheet

| At 31 December                                     | Notes | 2015<br>£m     | 2014<br>£m |
|--|-------|----------------|------------|
| <b>Assets</b>                                      |       |                |            |
| <b>Non-current assets</b>                          |       |                |            |
| Goodwill and intangible assets                     | 13    | 674.3          | 742.0      |
| Property, plant and equipment                      | 15    | 177.9          | 187.4      |
| Interest in joint venture                          | 16    | 11.5           | 9.1        |
| Interest in associates and other investments       | 17    | 21.3           | 18.0       |
| Other financial assets                             |       | 11.4           | 7.2        |
| Deferred tax assets                                | 10    | 0.7            | –          |
| Retirement benefit asset                           | 30    | 76.3           | 69.5       |
|  |       | <b>973.4</b>   | 1,033.2    |
| <b>Current assets</b>                              |       |                |            |
| Trade and other receivables                        | 18    | 53.5           | 57.2       |
| Corporation tax recoverable                        |       | 47.1           | 12.0       |
| Derivative financial instruments                   |       | 0.2            | –          |
| Cash and short-term deposits                       | 19    | 68.4           | 62.0       |
|  |       | <b>169.2</b>   | 131.2      |
| <b>Total assets</b>                                |       | <b>1,142.6</b> | 1,164.4    |
| <b>Liabilities</b>                                 |       |                |            |
| <b>Current liabilities</b>                         |       |                |            |
| Bank overdraft                                     | 19    | –              | (1.0)      |
| Trade and other payables                           | 20    | (242.4)        | (205.9)    |
| Corporation tax liabilities                        |       | (4.2)          | (7.4)      |
| Other financial liabilities                        | 25    | –              | (1.1)      |
| Lease liabilities                                  | 23    | (4.9)          | –          |
| Provisions   | 21    | (9.2)          | (6.4)      |
|  |       | <b>(260.7)</b> | (221.8)    |
| <b>Non-current liabilities</b>                     |       |                |            |
| Interest bearing loans and borrowings              | 22    | (323.1)        | (439.3)    |
| Other financial liabilities                        | 25    | (35.6)         | (42.5)     |
| Deferred tax liabilities                           | 10    | (52.7)         | (64.1)     |
| Lease liabilities                                  | 23    | (4.4)          | –          |
| Provisions   | 21    | (9.6)          | (5.0)      |
|  |       | <b>(425.4)</b> | (550.9)    |
| <b>Total liabilities</b>                           |       | <b>(686.1)</b> | (772.7)    |
| <b>Net assets</b>                                  |       | <b>456.5</b>   | 391.7      |
| <b>Shareholders' equity</b>                        |       |                |            |
| Issued share capital                               | 27    | 297.5          | 270.5      |
| Share premium                                      |       | 302.9          | 214.9      |
| Treasury and own shares                            |       | (112.3)        | (116.1)    |
| (Accumulated losses)/retained earnings             |       | (28.1)         | 20.1       |
| Foreign currency translation reserve               |       | (3.6)          | 2.2        |
| <b>Equity attributable to owners of the Parent</b> |       | <b>456.4</b>   | 391.6      |
| Non-controlling interests                          |       | 0.1            | 0.1        |
| <b>Total equity</b>                                |       | <b>456.5</b>   | 391.7      |

The financial statements on pages 84 to 128 were approved by the Board of Directors on 22 February 2016 and signed on its behalf by.

**Jim Mullen**

**Ian Bull**

Directors

The notes on pages 89 to 128 are an integral part of these consolidated financial statements

# Consolidated statement of changes in equity

|  | Issued share capital<br>£m | Share premium<br>£m | Treasury and own shares<br>£m | Retained earnings/<br>(Accumulated losses)<br>£m | Foreign currency translation reserve <sup>(1)</sup><br>£m | Equity attributable to owners of the parent<br>£m | Non-controlling interests<br>£m | Total equity<br>£m |
|--|----------------------------|---------------------|-------------------------------|--|---|---|---------------------------------|--------------------|
| <b>At 1 January 2014</b>                                 | 269.5                      | 212.9               | (116.7)                       | 55.5   | 5.8   | 427.0   | 1.3                             | 428.3              |
| Profit for the year                                      | –                          | –                   | –                             | 41.0   | –   | 41.0  | –                               | 41.0               |
| Other comprehensive income/(expense)                     | –                          | –                   | –                             | 4.3  | (3.6)   | 0.7   | –                               | 0.7                |
| Total comprehensive income                               | –                          | –                   | –                             | 45.3   | (3.6)   | 41.7  | –                               | 41.7               |
| Issue of shares  | 1.0                        | 2.0                 | –                             | –  | –   | 3.0   | –                               | 3.0                |
| Share-based payments charge                              | –                          | –                   | –                             | 2.8  | –   | 2.8   | –                               | 2.8                |
| Net movement in shares held in ESOP trusts               | –                          | –                   | 0.6                           | (3.3)  | –   | (2.7)   | –                               | (2.7)              |
| Equity dividends   | –                          | –                   | –                             | (81.4)   | –   | (81.4)  | –                               | (81.4)             |
| Non-controlling interests                                | –                          | –                   | –                             | 1.2  | –   | 1.2   | (1.2)                           | –                  |
| <b>At 31 December 2014</b>                               | 270.5                      | 214.9               | (116.1)                       | 20.1   | 2.2   | 391.6   | 0.1                             | 391.7              |
| <b>At 1 January 2015</b>                                 | <b>270.5</b>               | <b>214.9</b>        | <b>(116.1)</b>                | <b>20.1</b>                                      | <b>2.2</b>  | <b>391.6</b>                                      | <b>0.1</b>                      | <b>391.7</b>       |
| Profit for the year                                      | –                          | –                   | –                             | 5.1  | –   | 5.1   | –                               | 5.1                |
| Other comprehensive income/(expense)                     | –                          | –                   | –                             | 2.0  | (5.8)   | (3.8)   | –                               | (3.8)              |
| Total comprehensive income/(expense)                     | –                          | –                   | –                             | 7.1  | (5.8)   | 1.3   | –                               | 1.3                |
| Issue of shares, net of transaction costs <sup>(2)</sup> | 27.0                       | 88.0                | –                             | –  | –   | 115.0   | –                               | 115.0              |
| Share-based payments charge                              | –                          | –                   | –                             | 3.1  | –   | 3.1   | –                               | 3.1                |
| Net movement in shares held in ESOP trusts               | –                          | –                   | 3.8                           | (6.1)  | –   | (2.3)   | –                               | (2.3)              |
| Equity dividends   | –                          | –                   | –                             | (52.3)   | –   | (52.3)  | –                               | (52.3)             |
| <b>At 31 December 2015</b>                               | <b>297.5</b>               | <b>302.9</b>        | <b>(112.3)</b>                | <b>(28.1)</b>                                    | <b>(3.6)</b>  | <b>456.4</b>                                      | <b>0.1</b>                      | <b>456.5</b>       |

(1) The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

(2) The issue of shares has been disclosed net of transaction costs of £2.6m, refer to note 27 for further details.

The notes on pages 89 to 128 are an integral part of these consolidated financial statements

# Consolidated statement of cash flows

| For the year ended 31 December                          | Notes | 2015<br>£m     | 2014<br>£m |
|---|-------|----------------|------------|
| <b>Net cash flows from operating activities</b>         | 29    | <b>136.2</b>   | 130.5      |
| <b>Cash flows from investing activities:</b>            |       |                |            |
| Interest received                                       |       | <b>0.1</b>     | 0.1        |
| Dividends received from associates                      | 17    | –              | 1.2        |
| Purchase of intangible assets                           |       | <b>(37.9)</b>  | (39.8)     |
| Purchase of property, plant and equipment               |       | <b>(28.2)</b>  | (20.1)     |
| Proceeds from the sale of property, plant and equipment |       | –              | 5.2        |
| Acquisition of businesses, net of cash acquired         |       | –              | (10.4)     |
| Purchase of interest in joint venture                   | 16    | <b>(2.8)</b>   | (4.1)      |
| Net cash used in investing activities                   |       | <b>(68.8)</b>  | (67.9)     |
| <b>Cash flows from financing activities:</b>            |       |                |            |
| Proceeds from issue of ordinary shares                  |       | <b>113.4</b>   | 0.8        |
| Purchase of ESOP shares                                 |       | <b>(0.6)</b>   | (0.6)      |
| Proceeds from borrowings, net of issue costs            |       | –              | 98.7       |
| Finance lease payments                                  |       | <b>(3.1)</b>   | –          |
| Repayment of borrowings                                 |       | <b>(117.0)</b> | (82.0)     |
| Dividends paid  | 11    | <b>(52.3)</b>  | (81.4)     |
| Net cash used in financing activities                   |       | <b>(59.6)</b>  | (64.5)     |
| Net increase/(decrease) in cash and cash equivalents    |       | <b>7.8</b>     | (1.9)      |
| Effect of changes in foreign exchange rates             |       | <b>(0.4)</b>   | 0.2        |
| Cash and cash equivalents at beginning of the year      |       | <b>61.0</b>    | 62.7       |
| <b>Cash and cash equivalents at end of the year</b>     | 19    | <b>68.4</b>    | 61.0       |
| Cash and cash equivalents comprise:                     |       |                |            |
| Cash and short-term deposits                            | 19    | <b>28.3</b>    | 21.1       |
| Customer funds  |       | <b>40.1</b>    | 40.9       |
| Bank overdraft  |       | –              | (1.0)      |
|   |       | <b>68.4</b>    | 61.0       |

The notes on pages 89 to 128 are an integral part of these consolidated financial statements

# Notes to the consolidated financial statements

## 1 Corporate information

Ladbrokes plc (the Company) is a public limited company incorporated and domiciled in the United Kingdom whose shares are publicly traded on the London Stock Exchange. The address of its registered office and principal place of business is disclosed in the corporate information section of the Annual Report.

The consolidated financial statements of the Company and its subsidiaries (together, 'the Group') for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the directors on 22 February 2016.

The nature of the Group's operations and its principal activities are set out in note 5.

## 2 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRS Interpretations Committee (IFRS IC) pronouncements as adopted for use in the European Union and the Companies Act 2006 applicable to companies reporting under IFRSs. The accounting policies set out in this section as detailed have been applied consistently year on year.

The Group financial statements are prepared under the historical cost convention unless otherwise stated. The statements are also prepared on a going concern basis.

The consolidated financial statements are presented in Pounds Sterling (£), which is the Group's functional and presentational currency. All values are in millions (£m) rounded to one decimal place except where otherwise indicated.

To assist in understanding its underlying performance, the Group has defined the following items of pre-tax income and expense as exceptional in nature:

- profits or losses on disposal, closure or impairment of non-current assets or businesses;
- unrealised gains and losses on derivative financial instruments;
- corporate transaction costs;
- changes in the fair value of contingent consideration; and
- the related tax effect of these items.

Any other non-recurring items are considered individually for classification as exceptional by virtue of their nature and size.

The separate disclosure of these items allows a clearer understanding of the trading performance on a consistent and comparable basis, together with an understanding of the effect of non-recurring or large individual transactions upon the overall profitability of the Group.

The exceptional items have been included within the appropriate classifications in the consolidated income statement. Further details are given in note 6.

## 3 Changes in accounting policies

From 1 January 2015 the Group has applied, for the first time, certain standards, interpretations and amendments. These include *Annual Improvements to IFRSs – 2010-2012 Cycle and 2011-2013 Cycle* and *Defined Benefit Plans: Employee Contribution – Amendments to IAS 19*.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

## 4 Summary of significant accounting policies

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group at 31 December each year. The underlying financial statements of subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee.

All intercompany transactions, balances, income and expenses are eliminated on consolidation.

Subsidiaries are consolidated, using the acquisition method of accounting, from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred from the Group.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at fair value at the date of acquisition. Any excess of the cost of acquisition over the fair values of the separately identifiable net assets acquired is recognised as goodwill. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

### Critical accounting estimates and judgements

The preparation of financial information requires the use of assumptions, estimates and judgements about future conditions. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future may differ from those reported. In this regard, management believes that the accounting policies where judgement is necessarily applied are those that relate to: the measurement and impairment of goodwill and indefinite life intangible assets; the measurement and accounting for business combinations; the measurement of pension and other post-employment benefit obligations; the determination of the initial fair value of betting and gaming transactions; the recoverable amount of trade receivables; income tax and the valuation of financial guarantee contracts. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

## Notes to the consolidated financial statements continued

### 4 Summary of significant accounting policies continued

Further information about key assumptions concerning the future and other key sources of estimation uncertainty are set out below.

#### Goodwill and indefinite life intangible assets

The Group has determined that betting shop licences have indefinite lives (see note 13 for further details).

The Group determines whether goodwill and indefinite life intangible assets are impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash generating units to which the goodwill and intangible assets are allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from each cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in notes 13 and 14.

#### Business combinations

The Group applies judgement in determining whether a transaction is a business combination, which includes consideration as to whether the Group has acquired a business or a group of assets.

For business combinations, the Group estimates the fair value of the consideration transferred, which includes assumptions about the future business performance of the business acquired and an appropriate discount rate to determine the fair value of any contingent consideration. Judgement is also applied in determining whether any future payments should be classified as contingent consideration or as remuneration for future services.

The Group then estimates the fair value of assets acquired and liabilities assumed in the business combination, including any separately identifiable intangible assets. These estimates also require inputs and assumptions including future earnings, customer attrition rates and discount rates. The Group engages external experts to support the valuation process, where appropriate.

The fair value of contingent consideration recognised in business combinations is reassessed at each reporting date, using updated inputs and assumptions based on the latest financial forecasts for the relevant business. Judgement is applied as to whether changes should be applied at the acquisition date or as post-acquisition changes. Further details of these judgements are given in note 33. Fair value movements and the unwinding of the discounting is recognised within operating expenses.

#### Pension and other post-employment benefit obligations

The cost of defined benefit pension plans and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in note 30.

#### Betting and gaming transactions

Betting and gaming transactions are measured at the fair value of the consideration received or receivable from customers.

This is normally the nominal amount of the consideration but on certain occasions, the fair value is estimated using valuation techniques, taking into account the credit profile of customers in determining the collectability of the consideration. In addition, where there are indicators that any trade receivable is impaired at the balance sheet date, management makes an estimate of the asset's recoverable amount. Further details are given in note 18.

#### Income tax

The Group is subject to tax in a number of jurisdictions.

Significant judgement is required in determining the provision for income taxes due to uncertainty of the amount of income tax that may be payable, and in respect of determining the level of the future taxable profits of the Group that support the recognition and recoverability of deferred tax assets. Further details are given in note 10.

Provisions in relation to uncertain tax positions are established on an individual rather than portfolio basis, considering whether, in each circumstance, the Group considers it more likely than not that the uncertainty will crystallise.

#### Financial guarantee contracts

The valuation of financial guarantee contracts and related indemnities requires use of assumptions of the risks of default of the guaranteed entities and the credit profiles of the counterparties. Further details are given in note 25.

#### Investments in joint ventures

A joint venture is an entity in which the Group holds an interest on a long-term basis and which is jointly controlled by the Group and one or more other venturers under a contractual agreement.

Management has assessed whether it has joint control of the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement. In assessing this joint control no significant judgements have been necessary.

The Group's share of results of joint ventures is included in the Group consolidated income statement using the equity method of accounting. Investments in joint ventures are carried in the Group consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the entity less any impairment in value. The carrying value of investments in joint ventures includes acquired goodwill.

If the Group's share of losses in the joint venture equals or exceeds its investment in the joint venture, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture. Further details are given in note 16.

### Investments in associates

Associates are those businesses in which the Group has a long-term interest and is able to exercise significant influence over the financial and operational policies but does not have control or joint control over those policies.

The Group's share of results of associates is included in the Group's consolidated income statement using the equity method of accounting. Investments in associates are carried in the Group's consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the entity less any impairment in value. The carrying value of investments in associates includes acquired goodwill. Further details are given in note 17.

### Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the separately identifiable assets, liabilities and contingent liabilities of a subsidiary or associate at the date of acquisition. In accordance with IFRS 3 *Business Combinations*, goodwill is not amortised but reviewed annually for impairment and as such, is stated at cost less any provision for impairment of value. Any impairment is recognised immediately in the consolidated income statement and is not subsequently reversed. On acquisition, any goodwill acquired is allocated to cash generating units for the purpose of impairment testing. Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

### Intangible assets

Intangible assets acquired separately are capitalised at cost and those acquired as part of a business combination are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. The costs relating to internally generated intangible assets, principally software costs, are capitalised if the criteria for recognition as assets are met. Other expenditure is charged in the year in which the expenditure is incurred. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the consolidated income statement through the 'depreciation, amortisation and amounts written off non-current assets' line item. Useful lives are reviewed on an annual basis.

Intangible assets with indefinite useful lives are tested for impairment annually at the cash generating unit level.

A summary of the policies applied to the Group's intangible assets is as follows:

|   | Licences   | Software   | Customer relationships                  | Brand                                   | Domain names                            |
|---|--|--|---|---|---|
| Useful lives                                  | indefinite   | finite   | finite                                  | finite                                  | finite                                  |
| Method used                                   | not depreciated or revalued                          | 2-5 years straight line                          | 1-15.5 years straight line              | 3-10 years straight line                | 10 years straight line                  |
| Internally generated or acquired              | acquired   | acquired and internally generated                | acquired                                | acquired                                | acquired                                |
| Impairment testing/recoverable amount testing | annually and where an indicator of impairment exists | useful lives reviewed at each financial year end | where an indicator of impairment exists | where an indicator of impairment exists | where an indicator of impairment exists |

An intangible asset is derecognised on disposal, with any gain or loss arising (calculated as the difference between the net disposal proceeds and the carrying amount of the item) included in the consolidated income statement in the year of disposal.

### Property, plant and equipment

Land is stated at cost less any impairment in value. Buildings, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated using the straight line method to allocate the cost of each asset to its residual value over its useful economic life as follows: Buildings – 50 years or estimated useful life of the building, or lease, whichever is less, to estimated residual value. Fixtures, fittings and equipment – four to 10 years as considered appropriate to write down cost to estimated residual value.

The carrying values of plant and equipment are reviewed for impairment annually as to whether there are events or changes in circumstances indicating that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Impairment losses are recognised in the consolidated income statement in the 'depreciation and amounts written off non-current assets' line item.

An item of property, plant and equipment is derecognised upon disposal, with any gain or loss arising (calculated as the difference between the net disposal proceeds and the carrying amount of the item) included in the consolidated income statement in the year of disposal.

## Notes to the consolidated financial statements continued

### 4 Summary of significant accounting policies continued

#### Leases

Leases that transfer to the Group substantially all the risks and rewards associated with ownership of the leased item are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains substantially all the benefits and risks of ownership of the asset are classified as operating leases. Operating lease payments, other than contingent rentals, are recognised as an expense in the consolidated income statement on a straight line basis over the lease term.

#### Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, short-term deposits with an original maturity of less than three months and customer balances, net of outstanding bank overdrafts.

#### Financial assets

Financial assets are recognised when the Group becomes party to the contracts that give rise to them.

The Group classifies financial assets at inception as loans and receivables, financial assets at fair value through profit or loss or available-for-sale financial assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. On initial recognition, loans and receivables are measured at fair value net of transaction costs. Subsequently, the fair values are measured at amortised cost, using the effective interest method, less any allowance for impairment.

Trade receivables are generally accounted for at amortised cost. The Group reviews indicators of impairment on an ongoing basis and where such indicators exist, the Group makes an estimate of the asset's recoverable amount.

Financial assets at fair value through profit or loss comprise derivative financial instruments. Financial assets through profit or loss are measured initially at fair value with transaction costs taken directly to the consolidated income statement.

Subsequently, the fair values are remeasured, and gains and losses are recognised in the consolidated income statement.

Available for sale financial assets comprise equity investments that are neither classified as held for trading nor designated at fair value through profit or loss. Available for sale financial assets are measured initially at fair value. Subsequently, the fair values are remeasured, and gains and losses are recognised in the consolidated statement of comprehensive income.

#### Financial liabilities

Financial liabilities comprise trade and other payables, interest bearing loans and borrowings, contingent consideration, ante-post bets, guarantees and derivative financial instruments. On initial recognition, financial liabilities are measured at fair value plus transaction costs where they are not categorised as financial liabilities at fair value through profit or loss. Financial liabilities at fair value through profit or loss include contingent consideration, derivative financial instruments, ante-post bets and guarantees.

Trade and other payables are held at amortised cost and include amounts due to clients representing customer deposits and winnings, which is offset by an equal and opposite amount within cash and cash equivalents.

Financial liabilities at fair value through profit or loss are measured initially at fair value, with transaction costs taken directly to the consolidated income statement. Subsequently, the fair values are remeasured and gains and losses from changes therein are recognised in the consolidated income statement.

All interest bearing loans and borrowings are initially recognised at fair value net of issue costs associated with the borrowing. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

The Group has provided financial guarantees to third parties in respect of lease obligations of certain of the Group's former subsidiaries within the disposed hotels division. Financial guarantee contracts are classified as financial liabilities and are measured at fair value by estimating the probability of the guarantees being called upon and the related cash outflows from the Group.

#### Derecognition of financial assets and liabilities

Financial assets are derecognised when the right to receive cash flows from the assets has expired or when the Group has transferred its contractual right to receive the cash flows from the financial assets or has assumed an obligation to pay the received cash flows in full without material delay to a third party, and either:

- substantially all the risks and rewards of ownership have been transferred; or
- substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

### Derivative financial instruments

The Group uses derivative financial instruments such as cross currency swaps, foreign exchange swaps and interest rate swaps, to hedge its risks associated with interest rate and foreign currency fluctuations. Derivative financial instruments are recognised initially and subsequently at fair value. The gains or losses on remeasurement are taken to the consolidated income statement.

Derivative financial instruments are classified as assets where their fair value is positive, or as liabilities where their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists and the parties intend to settle the cash flows on a net basis.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance expense.

### Foreign currency translation

The presentation and functional currency of Ladbrokes plc and the functional currencies of its UK subsidiaries are Pounds Sterling (£).

Transactions in foreign currencies are initially recorded in Pounds Sterling at the foreign currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign currency rate of exchange ruling at the balance sheet date.

All foreign currency translation differences are taken to the consolidated income statement. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The main functional currencies of overseas subsidiaries is the Euro (€) and the Australian Dollar (\$). At the reporting date, the assets and liabilities of these overseas subsidiaries are translated into Pounds Sterling (£) at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average exchange rates for the year. The post-tax exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign entity is recognised in the consolidated income statement.

The following exchange rates were used in 2014 and 2015:

| Currency               | 2015    |          | 2014    |          |
|------------------------|---------|----------|---------|----------|
|                        | Average | Year end | Average | Year end |
| Euro (€)               | 1.37    | 1.36     | 1.25    | 1.28     |
| Australian Dollar (\$) | 2.03    | 2.03     | 1.83    | 1.90     |

### Income tax

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the tax profit; and
- associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences and carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the tax profit; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax balances are not discounted.

Interest or penalties payable and receivable in relation to income tax are recognised as an income tax expense or credit in the consolidated income statement. The impact of the change in the current year is described in note 10.

Income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated income statement.

## Notes to the consolidated financial statements continued

### 4 Summary of significant accounting policies continued

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as
- part of the expense item as applicable; and
- receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated balance sheet.

#### Pensions and other post-employment benefits

The Group's defined benefit pension plan, the Ladbrokes Pension Plan holds assets separately from the Group. The pension cost relating to this plan is assessed in accordance with the advice of independent qualified actuaries using the projected unit credit method.

Actuarial gains or losses are recognised in the consolidated statement of comprehensive income in the period in which they arise.

Any past service cost is recognised immediately to the extent that the benefits have already vested and otherwise is amortised on a straight line basis over the average period until the benefits vest. The retirement benefit asset recognised in the balance sheet represents the fair value of scheme assets less the value of the defined benefit obligations as adjusted for unrecognised past service cost.

The Group's contributions to defined contribution schemes are charged to the consolidated income statement in the period to which the contributions relate.

In accounting for the Group's defined benefit pension plan, it is necessary for management to make a number of estimates and assumptions each year. These include the discount rates, future changes to salaries, employee turnover, inflation rates and life expectancy. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries. Where actual experience differs to these estimates, actuarial gains and losses are recognised directly in equity. Refer to note 30 for details of the values of assets and obligations and key assumptions used.

Although the Group anticipates that plan surpluses will be utilised during the life of the plan to address member benefits, the Group recognises its pension surplus in full on the basis that it does not consider there to be substantive restrictions on the return of residual plan assets in the event of a winding up of the plan after all member obligations have been met. The related tax is accounted on an income basis.

#### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

#### Treasury shares

Own equity instruments that are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

#### ESOP trusts

Where the Group holds its own equity shares through ESOP trusts these shares are shown as a reduction in equity.

Any consideration paid or received for the purchase or sale of these shares is shown in the reconciliation of movements in shareholders' funds and no gain or loss is recognised within the consolidated income statement or the statement of comprehensive income on the purchase, sale, issue or cancellation of these shares.

#### Dividends

Final dividends proposed by the Board of Directors and unpaid at the year end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting. Interim dividends are recognised when paid.

#### Revenue

The Group reports the gains and losses on all betting and gaming activities as revenue, which is measured at the fair value of the consideration received or receivable from customers less free bets, promotions, bonuses and other fair value adjustments. Gross win includes free bets, promotions and bonuses.

For licensed betting offices, on course betting, Core Telephone Betting, mobile betting, High Rollers, Digital businesses (including sportsbook, betting exchange, casino, games, other number bets), revenue represents gains and losses, being the amounts staked and fees received, less total payouts. Open betting positions are carried at fair value and gains and losses arising on these positions are recognised in revenue.

Revenue from the online poker business reflects the net income (rake) earned from poker games completed by the year end.

In the case of the greyhound stadia, revenue represents income arising from the operation of the greyhound stadia in the year, including sales of refreshments, net of VAT.

#### Finance expense and income

Finance expense and income arising on interest bearing financial instruments carried at amortised cost are recognised in the consolidated income statement using the effective interest rate method. Finance expense includes the amortisation of fees that are an integral part of the effective finance cost of a financial instrument, including issue costs, and the amortisation of any other differences between the amount initially recognised and the redemption price. All finance expenses are recognised over the availability period.

Net gains and losses in respect of mark to market adjustments on financial instruments carried at fair value, foreign exchange adjustments and net gains and losses on financial guarantees are included in exceptional items in the consolidated income statement.

### Share-based payment transactions

Certain employees (including directors) of the Group receive remuneration in the form of equity settled share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity settled transactions).

The cost of equity settled transactions is measured by reference to the fair value at the date on which they are granted. Further details of which are given in note 31. In valuing equity settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Ladbrokes plc (market conditions).

The cost of equity settled transactions is recognised in the consolidated income statement with a corresponding credit in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Group at that date, based on the best available estimate of the number of equity instruments, will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share as shown in note 12.

The Group has an employee share incentive plan and an employee share trust for the granting of non-transferable options to executives and senior employees.

Shares in the Group held by the employee share trust are treated as treasury shares and presented in the balance sheet as a deduction from equity. Refer to consolidated statement of changes in equity.

### Future accounting developments

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, '*Financial instruments*', addresses the classification, measurement and recognition of financial assets and liabilities

was issued in July 2015. IFRS 9 retains and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of the classification depends on the business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

IFRS 15, '*Revenue from contracts with customers*' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 will only impact revenue that is not governed by IAS 39. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 '*Revenue*' and IAS 11 '*Construction contracts*' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier adoption is permitted. The Group is assessing the impact of IFRS 15.

IFRS 16, '*Leases*' sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. The standard replaces IAS 17 '*Leases*' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. The Group is assessing the impact of IFRS 16.

IFRS 9, 15 and 16 are yet to be EU endorsed.

There are no other IFRSs or IFRS IC interpretations that are not yet effective that would be expected to have a material impact on the Group.

## Financial statements

## Notes to the consolidated financial statements continued

## 5 Segment information

The Group's operating segments are based on the reports reviewed by the Board of Directors (who are collectively considered to be the Chief Operating Decision Maker) to make strategic decisions, and allocate resources.

The performance of the Group's segments is assessed and measured according to the nature of the services provided. IFRS 8 requires segment information to be presented on the same basis as that used by the Board for assessing performance and allocating resources, and the Group's operating segments are aggregated into the five reportable segments detailed below:

- UK Retail: comprises betting activities in the shop estate in Great Britain.
- European Retail: comprises all activities connected with the Ireland (Northern and Republic of), Belgium and Spain (JV) shop estates.
- Digital: comprises betting and gaming activities from online and mobile operations which includes Ladbrokes.com, Ladbrokes Australia, Betdaq, Belgium online and Spain (JV) online.
- Core Telephone Betting: comprises activities relating to bets taken on the telephone, excluding High Rollers.
- High Rollers: comprises activities primarily relating to bets taken on the telephone from High Rollers.

The Board continues to assess the performance of operating segments based on a measure of net revenue, profit before tax and net finance expenses. This measurement basis excludes the effect of exceptional items (income or expenditure) from the operating segments.

Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties.

|   | UK Retail<br>£m | European Retail<br>£m | Digital<br>£m | Core Telephone Betting<br>£m | High Rollers<br>£m | Total<br>£m |
|---|-----------------|-----------------------|---------------|------------------------------|--------------------|-------------|
| 2015  |                 |                       |               |                              |                    |             |
| Segment revenue   | 827.4           | 119.8                 | 242.8         | 5.5                          | 4.0                | 1,199.5     |
| Segment profit/(loss) before exceptional items                    | 116.1           | 14.5                  | (23.8)        | (2.2)                        | 3.3                | 107.9       |
| Exceptional items (note 6)  | (27.5)          | (49.9)                | (3.7)         | (0.2)                        | –                  | (81.3)      |
| Segment profit/(loss)   | 88.6            | (35.4)                | (27.5)        | (2.4)                        | 3.3                | 26.6        |
| Corporate costs <sup>(1)</sup>                                    |                 |                       |               |                              |                    | (42.0)      |
| Profit before tax and net finance expense                         |                 |                       |               |                              |                    | (15.4)      |
| Net finance expense   |                 |                       |               |                              |                    | (27.8)      |
| Profit before tax   |                 |                       |               |                              |                    | (43.2)      |
| Income tax credit   |                 |                       |               |                              |                    | 48.3        |
| Profit for the year   |                 |                       |               |                              |                    | 5.1         |
| Other disclosures:  |                 |                       |               |                              |                    |             |
| Share of results from joint venture and associates <sup>(2)</sup> | 4.3             | 1.0                   | (0.9)         | –                            | –                  | 4.4         |
| Depreciation and amortisation <sup>(2)</sup>                      | (37.6)          | (7.1)                 | (31.2)        | (0.3)                        | –                  | (76.2)      |
| Capital expenditure <sup>(2)</sup>                                | 37.0            | 8.7                   | 28.8          | –                            | –                  | 74.5        |

(1) Corporate costs include exceptional items.

(2) Share of results from joint venture and associates, depreciation and amortisation and capital expenditure include amounts not allocated to reportable segments of £0.4 million loss, £1.2 million, and £1.2 million, respectively.

|   | UK Retail<br>£m | European Retail<br>£m | Digital<br>£m | Core Telephone Betting<br>£m | High Rollers<br>£m | Total<br>£m |
|---|-----------------|-----------------------|---------------|------------------------------|--------------------|-------------|
| 2014  |                 |                       |               |                              |                    |             |
| Segment revenue   | 811.5           | 122.1                 | 215.1         | 10.2                         | 15.7               | 1,174.6     |
| Segment profit/(loss) before exceptional items                    | 119.3           | 13.0                  | 14.0          | 2.0                          | 14.2               | 162.5       |
| Exceptional items (note 6)  | (41.4)          | (6.9)                 | (29.4)        | –                            | –                  | (77.7)      |
| Segment profit/(loss)   | 77.9            | 6.1                   | (15.4)        | 2.0                          | 14.2               | 84.8        |
| Corporate costs <sup>(1)</sup>                                    |                 |                       |               |                              |                    | (18.6)      |
| Profit before tax and net finance expense                         |                 |                       |               |                              |                    | 66.2        |
| Net finance expense   |                 |                       |               |                              |                    | (28.5)      |
| Profit before tax   |                 |                       |               |                              |                    | 37.7        |
| Income tax expense  |                 |                       |               |                              |                    | 3.3         |
| Profit for the year   |                 |                       |               |                              |                    | 41.0        |
| Other disclosures:  |                 |                       |               |                              |                    |             |
| Share of results from joint venture and associates <sup>(2)</sup> | 1.2             | 0.1                   | (1.7)         | –                            | –                  | (0.4)       |
| Depreciation and amortisation <sup>(2)</sup>                      | (39.3)          | (7.7)                 | (29.5)        | (0.4)                        | –                  | (76.9)      |
| Capital expenditure <sup>(2)</sup>                                | 20.0            | 6.9                   | 31.9          | 0.2                          | –                  | 59.0        |

(1) Corporate costs include exceptional items.

(2) Share of results from joint venture and associates, depreciation and amortisation and capital expenditure include amounts not allocated to reportable segments of £0.2 million profit, £0.8 million, and £0.7 million, respectively.

## 5 Segment information continued

### Geographical information

Revenue by destination and non-current assets on a geographical basis for the Group, are as follows:

|                   | 2015          |  | 2014          |  |
|-------------------|---------------|--|---------------|--|
|                   | Revenue<br>£m | Non-current<br>assets <sup>(1)</sup><br>£m | Revenue<br>£m | Non-current<br>assets <sup>(1)</sup><br>£m |
| United Kingdom    | 1,030.7       | 716.7                                      | 998.3         | 785.8                                      |
| Rest of the world | 168.8         | 179.7                                      | 176.3         | 177.9                                      |
| Total             | 1,199.5       | 896.4                                      | 1,174.6       | 963.7                                      |

(1) Non-current assets excluding deferred tax assets and retirement benefit assets.

## 6 Exceptional items

|  | 2015<br>£m | 2014<br>£m |
|--|------------|------------|
| Impairment loss <sup>(1)</sup>                                   | (58.3)     | (44.5)     |
| Loss on closure <sup>(2)</sup>                                   | (19.8)     | (30.7)     |
| Corporate transaction costs <sup>(3)</sup>                       | (17.6)     | (0.5)      |
| Fair value adjustment to contingent consideration <sup>(4)</sup> | (0.2)      | 3.1        |
| European indirect tax liability <sup>(5)</sup>                   | 3.5        | (5.7)      |
| Examinership costs <sup>(6)</sup>                                | (3.8)      | –          |
| Early termination of contract <sup>(7)</sup>                     | (3.1)      | –          |
| Exceptional finance income/(charge)                              | 0.3        | (1.1)      |
| Digital – exit costs   | –          | (3.8)      |
| Net pension curtailment gain                                     | –          | 4.8        |
| Profit on sale and leaseback                                     | –          | 3.9        |
| Total before tax   | (99.0)     | (74.5)     |
| Exceptional tax credit   | 13.3       | 8.9        |
| Exceptional items after taxation                                 | (85.7)     | (65.6)     |

(1) Impairment loss of £58.3 million comprises a £51.8 million impairment of shop licences, impairment of £1.4 million of shop assets and a £5.1 million asset impairment of which £4.9 million relates to software. The total £53.2 million shop impairment has arisen as a result of the annual licence impairment review and includes a £13.5 million charge in UK Retail and a £39.7 million charge in European Retail (Ireland). The £5.1 million asset impairment relates to assets no longer in use.

(2) The £19.8 million loss on closure includes a £13.4 million loss on closure of UK Retail shops and a £6.4 million loss on closure of European Retail shops. These include a loss on disposal of intangible assets of £7.8 million, a loss on disposal of property, plant and equipment of £5.3 million and cost accruals of £6.7 million.

(3) The Group incurred corporate transaction costs of £17.6 million in relation to the proposed merger with the Coral Group.

(4) The fair value of the contingent consideration in respect of the business combinations with Playtech and Betdaq has been remeasured at 31 December 2015. This resulted in an overall charge to the income statement of £0.2 million.

(5) At 31 December 2014 a provision was made for a liability arising from European indirect tax changes. A subsequent settlement has been agreed which has resulted in an exceptional credit of £3.5 million.

(6) Legal and redundancy costs of £3.8m in relation to the Examinership in Republic of Ireland.

(7) Early settlement of a contractual agreement with an affiliate in Australia.

Operating expenses include corporate transaction costs, the fair value adjustment to contingent consideration, the provision for gaming European indirect tax liability, Examinership costs, the early termination of contract and £6.7 million of costs relating to the shop closures.

In addition to the defined exceptional items set out in note 2 the Group considered the credits arising on the reversal of the provision for European indirect tax liability, Examinership costs and early termination of contract to be of sufficient materiality to be separately identified and of a nature unrelated to the underlying trading performance of the Group in the year.

The cash flow effect of the exceptional items was an outflow of £25.1 million in the year.

## Notes to the consolidated financial statements continued

### 7 Profit before tax and net finance expense

Profit before tax, net finance expense and exceptional items has been arrived at after charging:

|   | 2015<br>£m | 2014<br>£m |
|---|------------|------------|
| Gross profits tax, Betting tax and Machine Games Duty   | 183.6      | 160.0      |
| Point of consumption tax                                | 28.1       | 2.1        |
| Salaries and payroll-related expenses (note 9)          | 284.3      | 278.4      |
| Property expenses                                       | 131.3      | 137.1      |
| Content and levy expenses                               | 124.3      | 125.7      |
| Marketing expenses                                      | 103.8      | 82.4       |
| Software and geographical partners                      | 23.4       | 18.5       |
| Other operating expenses                                | 163.4      | 152.9      |
| Operating expenses before depreciation and amortisation | 1,042.2    | 957.1      |

Fees payable to PricewaterhouseCoopers LLP were as follows:

|  | 2015<br>£m | 2014<br>£m |
|--|------------|------------|
| <b>Audit and audit-related services:</b>                   |            |            |
| Audit of the parent Company and Group financial statements | 0.4        | 0.3        |
| Audit of the Company's subsidiaries                        | 0.2        | 0.3        |
| Audit-related assurance services                           | 0.1        | –          |
|  | 0.7        | 0.6        |
| <b>Non-audit services:</b>                                 |            |            |
| Tax advisory services                                      | 0.1        | –          |
| Corporate finance services <sup>(1)</sup>                  | 1.6        | –          |
| Other non audit services                                   | 0.3        | 0.5        |
|  | 2.0        | 0.5        |
| Total fees   | 2.7        | 1.1        |

(1) Fees for corporate finance services relate to due diligence and investment circular work in connection with the proposed merger with certain businesses of the Coral group.

### 8 Finance expense and income

|  | 2015<br>£m | 2014<br>£m |
|--|------------|------------|
| Bank loans and overdrafts                    | (1.4)      | (3.3)      |
| Bonds at amortised cost                      | (23.1)     | (20.6)     |
| Finance charges payable under finance leases | (0.2)      | –          |
| Fee expenses                                 | (3.5)      | (3.6)      |
| Total finance expense                        | (28.2)     | (27.5)     |
| Interest receivable                          | 0.1        | 0.1        |
| Total finance income                         | 0.1        | 0.1        |
| Net finance expense before exceptional items | (28.1)     | (27.4)     |
| Exceptional finance expense                  | (0.1)      | (1.1)      |
| Exceptional finance income                   | 0.4        | –          |
| Net finance expense after exceptional items  | (27.8)     | (28.5)     |

## 9 Staff costs

The average weekly number of employees (including executive directors) was:

|                   | 2015<br>Number | 2014<br>Number |
|-------------------|----------------|----------------|
| UK Retail         | 11,955         | 11,823         |
| European Retail   | 1,276          | 1,404          |
| Digital           | 766            | 696            |
| Telephone Betting | 134            | 123            |
| Central services  | 100            | 95             |
|                   | <b>14,231</b>  | <b>14,141</b>  |

The number of people employed by the Group at 31 December 2015 was 14,340 (2014: 13,954).

|                                | 2015<br>£m   | 2014<br>£m   |
|--------------------------------|--------------|--------------|
| Wages and salaries             | 256.3        | 251.1        |
| Social security costs          | 20.1         | 20.2         |
| Pension costs (note 30)        | 3.8          | 4.3          |
| Share-based payments (note 31) | 4.1          | 2.8          |
|                                | <b>284.3</b> | <b>278.4</b> |

In addition to salary, employees may qualify for various benefit schemes operated by the Group. Eligibility for benefits is normally determined primarily according to an employee's length of service and level of responsibility. The amounts of some benefits are proportionate to individual salary.

Benefits may include paid leave for holidays, maternity and illness, as well as insured benefits. The latter can cover private healthcare for the employee and their immediate family, long-term disability, personal accident and death in service cover. Company cars, including fuel benefits, are provided predominantly to meet job requirements but also to certain executives.

The principal benefit schemes are:

(i) Pensions

Ladbrokes Pension Scheme (LPS)

Under the auto-enrolment legislation, employees meeting the statutory eligibility requirements are automatically enrolled in the LPS, a defined contribution scheme. The contributions paid by the Group and employees meet those statutorily required.

Subject to meeting certain eligibility and employment grade criteria, employees can choose for the Group to match their contributions up to specified limits. For the majority of employees the maximum match is 6% of base salary. The maximum match is higher for some employees, depending upon grade and pensionable service.

Ladbrokes Pension Plan (LPP)

This was closed to new employees on 1 August 2007 and closed to benefit built up from 31 August 2015, at which date all active members were offered membership of the LPS. Members contributed on average six per cent of pensionable salary per annum (executives contributed on average seven per cent of pensionable salary per annum). Calculated to 31 August 2015, members and Executive Section members received deferred pension benefits (including contingent death benefits) under the LPP based on their service, accrual rates and Final Pensionable Salary linked to their pension histories. Benefit generally accrued to provide a target pension of half (for joiners before June 2002: two thirds) of final pensionable salary for an employee attaining age 65 with at least 40 years' membership. A spouse's pension is payable following death. See note 30 for further details.

LPP – Executive Section

Members contribute on average seven per cent of pensionable salary per annum. Benefit accrued to provide a target pension from all sources of two thirds of final pensionable salary for an executive attaining age 65 with at least 26.7 years' membership (for joiners before June 2002, employees attaining age 60 with at least 20 years' service). A spouse's and children's pensions are payable following death.

LPP incorporated an Earnings Cap on Pensionable Salary. Executive directors and senior executives, for whom this applies, had a choice between:

- (i) membership of the Executive Section of the LPP plus a cash supplement of up to 22.5 per cent of base salary in excess of the Earnings Cap; or
- (ii) a cash supplement of up to 22.5 per cent of base salary in lieu of membership of the LPP.

(ii) Share-based payments

Details of employee share schemes operated by the Group are shown in the Directors' remuneration report on pages 51 to 71 that forms part of the Annual Report 2015.

Details of options granted in 2015 and outstanding at 31 December 2015 are shown in note 31. Details of directors' remuneration can be found in the Directors' remuneration report on page 63.

## Financial statements

Notes to the consolidated financial statements continued**10 Income tax expense**

Analysis of (credit)/charge for the year:

|  | 2015<br>£m | 2014<br>£m |
|--|------------|------------|
| Current income tax:  |            |            |
| – UK   | (0.7)      | 8.7        |
| – overseas   | 0.5        | 2.2        |
| – adjustments in respect of previous years <sup>(1)</sup>              | (35.6)     | (13.4)     |
| Deferred tax:  |            |            |
| – relating to origination and reversal of temporary differences        | (5.5)      | (3.8)      |
| – tax rate reduction   | –          | –          |
| – adjustments in respect of previous years <sup>(1)</sup>              | (7.0)      | 3.0        |
| Income tax credit reported in the income statement                     | (48.3)     | (3.3)      |
| Deferred tax charged/(credited) directly to other comprehensive income | 0.6        | (2.7)      |

A reconciliation of income tax expense applicable to profit before tax at the UK statutory income tax rate to the income tax expense for the years ended 31 December 2015 and 31 December 2014 is as follows:

|   | 2015<br>£m | 2014<br>£m |
|---|------------|------------|
| (Loss)/profit before tax  | (43.2)     | 37.7       |
| Corporation tax (credit)/charge thereon at 20.25% (2014: 21.5%)   | (8.7)      | 8.1        |
| Adjusted for the effects of:  |            |            |
| – Lower effective tax rates on overseas earnings  | 8.3        | (0.7)      |
| – Recognition of tax losses   | (8.1)      | (10.4)     |
| – Non-deductible expenses   | 3.7        | 3.6        |
| – Non-deductible expenses included in exceptional items   | 6.8        | 7.0        |
| – Tax rate reduction  | (7.0)      | –          |
| – Other   | (0.7)      | (0.5)      |
| Adjustments in respect of prior years   |            |            |
| – Resolution of historical tax matters and utilisation of previously unrecognised losses against profits of previous years <sup>(1)</sup> | (29.3)     | (9.4)      |
| – Adjustment of deferred tax in respect of previous years   | (7.0)      | 3.0        |
| – Overseas current tax adjustments <sup>(2)</sup>   | (4.3)      | –          |
| – Other prior year movements <sup>(1)</sup>   | (2.0)      | (4.0)      |
| Income tax credit   | (48.3)     | (3.3)      |
| Reported as:  |            |            |
| – (credit)/expense in consolidated income statement (before exceptional items)  | (35.0)     | 5.6        |
| – credit in consolidated income statement (tax on exceptional items) (note 6)   | (13.3)     | (8.9)      |
| Income tax credit   | (48.3)     | (3.3)      |

(1) The 2015 prior year adjustment arises from a decision to recognise the offset of historic losses. This, together with the recognition of current year losses and other movements has resulted in a c£40 million tax receivable. The greater part of this will be received in 2016.

(2) This relates to a reassessment of a provision.

## 10 Income tax expense continued

### Deferred tax

Deferred tax at 31 December relates to the following:

|   | Consolidated<br>balance sheet |               | Consolidated<br>income statement |            |
|---|-------------------------------|---------------|----------------------------------|------------|
|   | 2015<br>£m                    | 2014<br>£m    | 2015<br>£m                       | 2014<br>£m |
| Deferred tax liabilities                              |                               |               |                                  |            |
| Accelerated depreciation for tax purposes             | 0.4                           | 0.3           | 0.1                              | (0.1)      |
| Licences  | 47.4                          | 61.1          | (13.7)                           | 4.9        |
| Fair value adjustments on acquisitions <sup>(1)</sup> | 6.6                           | 9.2           | (2.4)                            | (5.2)      |
| Retirement benefit asset <sup>(1)</sup>               | 13.7                          | 13.8          | (0.7)                            | 2.9        |
| <b>Deferred tax liabilities</b>                       | <b>68.1</b>                   | <b>84.4</b>   |                                  |            |
| Deferred tax assets                                   |                               |               |                                  |            |
| Accelerated depreciation for tax purposes             | (10.2)                        | (3.7)         | (6.5)                            | (3.7)      |
| Losses  | (3.6)                         | (13.6)        | 10.0                             | –          |
| Share-based payments                                  | (1.2)                         | (2.4)         | 1.2                              | 0.4        |
| Other temporary differences                           | (1.1)                         | (0.6)         | (0.5)                            | –          |
| <b>Deferred tax assets</b>                            | <b>(16.1)</b>                 | <b>(20.3)</b> |                                  |            |
| Deferred tax credit                                   |                               |               | (12.5)                           | (0.8)      |
| Amounts presented on the consolidated balance sheet:  |                               |               |                                  |            |
| Deferred tax liabilities                              | 52.7                          | 64.1          |                                  |            |
| Deferred tax assets                                   | (0.7)                         | –             |                                  |            |
| <b>Net deferred tax liability</b>                     | <b>52.0</b>                   | <b>64.1</b>   |                                  |            |

(1) The movement in the deferred tax liabilities in relation to the fair value adjustments on acquisitions and the retirement benefit asset include a £0.2 million movement in relation to foreign exchange and a £0.6 million movement charged directly to other comprehensive income, respectively.

As at 31 December 2015, the Group had £33.6 million (2014: £76.5 million) of unrecognised deferred tax assets, relating to losses, the utilisation of which is not likely at the current time. This is because the losses are within loss making holding companies which are not anticipated to make future profits. There are no significant taxable temporary differences associated with investments in subsidiaries.

The standard rate of UK Corporation Tax was reduced from 23% to 21% from 1 April 2014. This was further reduced to 20% from 1 April 2015. Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 20.25%. It was also announced that the standard rate of UK Corporation Tax will be reduced from 20% to 19% from 1 April 2017, with a further reduction to 18% from 1 April 2020.

The deferred tax assets and liabilities at the balance sheet date are calculated at the substantively enacted rate of 18%. Although the reduction to 18% is effective from 1 April 2020, this was substantively enacted on 26 October 2015.

## 11 Dividends

|                         | 2015<br>pence | 2014<br>pence |
|-------------------------|---------------|---------------|
| Pence per share         |               |               |
| Interim dividend paid   | 1.0           | 4.3           |
| Final dividend proposed | 2.0           | 4.6           |
|                         | <b>3.0</b>    | <b>8.9</b>    |

A final dividend of 2.0 pence (2014: 4.6 pence) per share, amounting to £20.4 million (2014: £42.1 million) in respect of the year ended 31 December 2015 was declared by the directors on 22 February 2016. The total amount payable in respect of the final dividend is based on the expected number of shares in issue on 24 March 2016. The 2015 interim dividend of 1.0 pence per share (£10.2 million) was paid on 12 November 2015.

## Notes to the consolidated financial statements continued

### 12 Earnings per share

Basic earnings per share has been calculated by dividing the profit for the year attributable to shareholders of the Company of £5.1 million (2014: £41.0 million) by the weighted average number of shares in issue during the year of 966.4 million (2014: 921.4 million).

At 31 December 2015, there were 1,018.3 million 28<sup>1/3</sup> pence ordinary shares in issue excluding treasury shares (1,050.0 million including treasury shares). At 31 December 2014, 922.9 million 28<sup>1/3</sup> pence ordinary shares in issue excluding treasury shares (954.6 million including treasury shares).

At 31 December 2015, 6.2 million (2014: 5.8 million) shares were deemed anti-dilutive for the purpose of calculating adjusted earnings per share.

The calculation of adjusted earnings per share before exceptional items is included as it provides a better understanding of the underlying performance of the Group. Exceptional items are defined in note 2 and disclosed in note 6.

| <b>Profit from operations and Group</b>      | <b>2015</b> | 2014  |
|--|-------------|-------|
|  | <b>£m</b>   | £m    |
| Profit attributable to shareholders          | <b>5.1</b>  | 41.0  |
| Exceptional items net of tax (note 6)        | <b>85.7</b> | 65.6  |
| Adjusted profit attributable to shareholders | <b>90.8</b> | 106.6 |

| <b>Weighted average number of shares (millions)</b>                 | <b>2015</b>  | 2014  |
|---|--------------|-------|
| Shares for basic earnings per share                                 | <b>966.4</b> | 921.4 |
| Potentially dilutive share options and contingently issuable shares | <b>5.8</b>   | 2.5   |
| Shares for diluted earnings per share                               | <b>972.2</b> | 923.9 |

| <b>Earnings per share (pence)</b> | Before exceptional items |      | After exceptional items |      |
|-----------------------------------|--------------------------|------|-------------------------|------|
|                                   | <b>2015</b>              | 2014 | <b>2015</b>             | 2014 |
| Basic earnings per share          | <b>9.4</b>               | 11.6 | <b>0.5</b>              | 4.4  |
| Diluted earnings per share        | <b>9.3</b>               | 11.5 | <b>0.5</b>              | 4.4  |

### 13 Goodwill and intangible assets

|                                      | Goodwill<br>£m | Licences<br>£m | Software<br>£m | Customer<br>relationships,<br>brand and<br>domain<br>names<br>£m | Total<br>£m  |
|--------------------------------------|----------------|----------------|----------------|--|--------------|
| <b>Cost</b>                          |                |                |                |  |              |
| At 1 January 2014                    | 138.6          | 540.2          | 196.1          | 50.0   | 924.9        |
| Exchange adjustment                  | (3.5)          | (3.3)          | 0.1            | (1.3)  | (8.0)        |
| Additions                            | 11.3           | 0.4            | 42.9           | –  | 54.6         |
| Additions from business combinations | 8.0            | –              | –              | 4.6  | 12.6         |
| Disposals                            | –              | (12.8)         | –              | –  | (12.8)       |
| Reclassifications                    | 4.8            | (4.8)          | –              | –  | –            |
| At 31 December 2014                  | 159.2          | 519.7          | 239.1          | 53.3   | 971.3        |
| Exchange adjustment                  | (2.0)          | (2.4)          | (0.2)          | (0.4)  | (5.0)        |
| Additions                            | –              | 0.6            | 40.8           | –  | 41.4         |
| Disposals                            | –              | (12.3)         | (0.6)          | –  | (12.9)       |
| Reclassifications                    | –              | (0.4)          | (1.6)          | –  | (2.0)        |
| <b>At 31 December 2015</b>           | <b>157.2</b>   | <b>505.2</b>   | <b>277.5</b>   | <b>52.9</b>  | <b>992.8</b> |
| <b>Accumulated amortisation</b>      |                |                |                |  |              |
| At 1 January 2014                    | –              | 54.1           | 91.1           | 9.0  | 154.2        |
| Exchange adjustment                  | –              | (0.4)          | (0.1)          | –  | (0.5)        |
| Amortisation charge                  | –              | 0.2            | 28.4           | 5.2  | 33.8         |
| Impairment charge                    | –              | 18.7           | 23.1           | –  | 41.8         |
| At 31 December 2014                  | –              | 72.6           | 142.5          | 14.2   | 229.3        |
| Exchange adjustment                  | –              | (0.2)          | (0.2)          | (0.1)  | (0.5)        |
| Amortisation charge                  | –              | 0.2            | 32.4           | 5.2  | 37.8         |
| Impairment charge                    | –              | 51.8           | 6.3            | –  | 58.1         |
| Disposals                            | –              | (3.6)          | (3.2)          | –  | (6.8)        |
| Reclassifications                    | –              | 1.0            | (0.4)          | –  | 0.6          |
| <b>At 31 December 2015</b>           | <b>–</b>       | <b>121.8</b>   | <b>177.4</b>   | <b>19.3</b>  | <b>318.5</b> |
| Net book value                       |                |                |                |  |              |
| At 31 December 2014                  | 159.2          | 447.1          | 96.6           | 39.1   | 742.0        |
| <b>At 31 December 2015</b>           | <b>157.2</b>   | <b>383.4</b>   | <b>100.1</b>   | <b>33.6</b>  | <b>674.3</b> |

Goodwill relates to the consideration exceeding the fair value of net assets of business combinations including the deferred tax liability arising on statutory licence acquisitions.

Licences comprises the cost of acquired betting shop licences. The acquired betting shop licences are not amortised as they are considered to have an indefinite life for a combination of reasons:

- Ladbrokes is a leading operator in well-established markets;
- there is a proven, sustained demand for bookmaking services;
- existing law acts to restrict entry; and
- Ladbrokes has a very strong track record of renewing its betting permits and licences at minimal cost.

Software relates to the cost of software acquisition and the capitalised costs in respect of internally generated software together with software acquired as part of business combinations.

The customer relationships intangible assets relate to the Group's acquisition of its former partner in the Nordic region, acquisitions in the prior years of Betdaq and Gaming Investments Pty and Betstar Pty.

Brand and domain names intangible assets relate to the Group's acquisitions prior years of Betdaq, Gaming Investments Pty Ltd and Betstar Pty.

Refer to notes 6 and 14 for details of the impairment charge.

## Notes to the consolidated financial statements continued

### 14 Impairment testing of goodwill and indefinite life intangible assets

Goodwill and indefinite life intangible assets are tested annually for impairment at each reporting date by comparing the carrying amounts of these assets with their recoverable amounts (being the higher of fair value less costs to sell and value in use).

#### Goodwill

Goodwill is tested for impairment by allocating its carrying amount to groups of cash generating units (CGUs) expected to benefit from the synergies of the combination. If the recoverable amount of a group of CGUs exceeds its carrying amount, the group of CGUs and any goodwill allocated to that group of CGUs would be regarded as not impaired. The carrying amounts of goodwill by segment are as follows:

|                 | 2015<br>£m   | 2014<br>£m   |
|-----------------|--------------|--------------|
| Goodwill        |              |              |
| UK Retail       | 35.4         | 35.4         |
| European Retail | 11.6         | 12.7         |
| Digital         | 110.2        | 111.1        |
|                 | <b>157.2</b> | <b>159.2</b> |

No impairments were identified in both years.

#### Licences

Licences have been allocated to the individual UK and European Retail CGUs that are expected to benefit from the assets. Each CGU represents the lowest level within the Group at which the licences are monitored for internal management purposes which in the majority of instances is an individual shop. Where the cash flows of one or more shops are not entirely independent, these are grouped to form a CGU. The carrying value of licences at 31 December 2015 was £383.4 million (2014: £447.1 million) allocated as £264.4 million to UK Retail (2014: £284.5 million) and £119.0 million to European Retail (2014: £162.6 million).

#### Basis on which recoverable amount has been determined

The recoverable amounts of the CGUs are determined from value in use calculations. These are based on budgets approved by the Board for the next four years extrapolated thereafter using a 2% growth rate (2014: 1%) for UK Retail and Digital and 1-2% growth rate for European Retail (2014: 1%). This rate does not exceed the average long-term growth rate for the relevant markets.

#### Key assumptions used in value in use calculations

The key assumptions taken into account by management are the net cash flows (which are impacted by amounts staked and gross win margin) and the discount rate applied. The estimated amounts staked and gross win margin are based upon historic experience, management's best estimate of future trends and performance taking account of industry sources. The pre-tax discount rate applied to cash flow projections for CGUs in UK Retail is 10.9% (2014: 10.8%), in European Retail is between 9.9% and 10.9% (2014: between 9.4% and 10.4%) and in Digital is 8.5% (2014: 9.6%).

The recoverable amounts of certain individual UK Retail CGUs were below their carrying amounts at 31 December 2015 and accordingly an impairment loss of £21.1 million has been recognised in the consolidated income statement for the year ended 31 December 2015 (2014: £26.8 million) offset by impairment reversals of £7.6 million within the 'Depreciation, amortisation and amounts written off non-current assets' line as an exceptional item. In respect of European Retail shop licences there has been a charge of £40.2 million for year ended 31 December 2015 (2014: £13.1 million) offset by impairment reversals of £0.5 million (2014: £10.0 million).

The recoverable amount of individual CGUs is sensitive to changes in cash flows, growth rates or discount rate. Change in the cash flow projections or the discount rate would trigger a further impairment loss. For example, an increase of 0.5% in the pre-tax discount rate would have resulted in an additional impairment loss of approximately £3.9 million (2014: £7.9 million) for UK Retail and £3.6 million (2014: £3.2 million) for European Retail, or a reduction in projected cash flows of 5% would have resulted in an additional impairment loss of approximately £3.8 million (2014: £4 million) for UK Retail and £4.4 million (2014: £3.3 million) for European Retail. An assumption of no growth after 2019 would have resulted in an increase in impairment loss of approximately £11.1 million for UK Retail and £9.5 million for European Retail. For Digital, no reasonably possible change in key assumptions would result in an impairment.

## 15 Property, plant and equipment

|                                 | Land and buildings<br>£m | Fixtures, fittings and equipment<br>£m | Total<br>£m   |
|---------------------------------|--------------------------|--|---------------|
| <b>Cost</b>                     |                          |  |               |
| At 1 January 2014               | 141.5                    | 453.7                                  | 595.2         |
| Exchange adjustment             | (1.0)                    | (3.5)                                  | (4.5)         |
| Additions                       | 2.8                      | 13.6                                   | 16.4          |
| Disposals                       | (6.1)                    | (9.9)                                  | (16.0)        |
| Reclassifications               | 3.2                      | (3.2)                                  | –             |
| At 31 December 2014             | 140.4                    | 450.7                                  | 591.1         |
| Exchange adjustment             | <b>(0.8)</b>             | <b>(3.5)</b>                           | <b>(4.3)</b>  |
| Additions                       | <b>3.2</b>               | <b>31.1</b>                            | <b>34.3</b>   |
| Disposals                       | <b>(4.7)</b>             | <b>(13.2)</b>                          | <b>(17.9)</b> |
| Reclassifications               | <b>3.8</b>               | <b>(1.8)</b>                           | <b>2.0</b>    |
| <b>At 31 December 2015</b>      | <b>141.9</b>             | <b>463.3</b>                           | <b>605.2</b>  |
| <b>Accumulated depreciation</b> |                          |  |               |
| At 1 January 2014               | 89.3                     | 281.4                                  | 370.7         |
| Exchange adjustment             | (0.5)                    | (2.3)                                  | (2.8)         |
| Depreciation charge             | 12.0                     | 31.9                                   | 43.9          |
| Disposals                       | (3.3)                    | (7.5)                                  | (10.8)        |
| Impairment charge               | 1.0                      | 1.7                                    | 2.7           |
| At 31 December 2014             | 98.5                     | 305.2                                  | 403.7         |
| Exchange adjustment             | <b>(0.6)</b>             | <b>(2.1)</b>                           | <b>(2.7)</b>  |
| Depreciation charge             | <b>10.2</b>              | <b>29.4</b>                            | <b>39.6</b>   |
| Disposals                       | <b>(2.9)</b>             | <b>(10.0)</b>                          | <b>(12.9)</b> |
| Impairment charge               | <b>0.1</b>               | <b>0.1</b>                             | <b>0.2</b>    |
| Reclassifications               | <b>–</b>                 | <b>(0.6)</b>                           | <b>(0.6)</b>  |
| <b>At 31 December 2015</b>      | <b>105.3</b>             | <b>322.0</b>                           | <b>427.3</b>  |
| <b>Net book value</b>           |                          |  |               |
| At 31 December 2014             | 41.9                     | 145.5                                  | 187.4         |
| <b>At 31 December 2015</b>      | <b>36.6</b>              | <b>141.3</b>                           | <b>177.9</b>  |

At 31 December 2015, the Group had not entered into contractual commitments for the acquisition of any property, plant and equipment (2014: £nil).

Included within fixtures, fittings and equipment are assets in the course of construction, which are not being depreciated, of £2.4 million (2014: £3.9 million). This comprises mainly shop refurbishment programmes in the UK.

Land and buildings includes an investment property with a net book value of £2.4 million (2014: £2.4 million).

### Leased assets

Fixtures, fittings and equipment includes the following amounts where the Group is a lessee under a finance lease:

|                          | 2015<br>£m   | 2014<br>£m |
|--------------------------|--------------|------------|
| Cost                     | <b>12.2</b>  | –          |
| Accumulated depreciation | <b>(1.0)</b> | –          |
| Net book value           | <b>11.2</b>  | –          |

## Financial statements

Notes to the consolidated financial statements continued**16 Interest in joint venture**

|                            | Share of joint<br>venture's net<br>assets<br>£m |
|----------------------------|---|
| <b>Cost</b>                |   |
| At 1 January 2014          | 6.5   |
| Exchange adjustment        | 0.1   |
| Additions                  | 4.1   |
| Share of loss after tax    | (1.6)   |
| At 31 December 2014        | 9.1   |
| Exchange adjustment        | (0.5)   |
| Additions                  | 2.8   |
| Share of profit after tax  | 0.1   |
| <b>At 31 December 2015</b> | <b>11.5</b>                                     |

The joint venture is the Group's investment in Sportium Apuestas Deportivas SA, an online and retail gaming business in Spain, in which it holds a 50% equity interest (note 33). Summarised financial information in respect of the joint venture's net assets is set out below:

|  | 2015<br>£m    | 2014<br>£m |
|--|---------------|------------|
| Non-current assets                               | <b>30.0</b>   | 24.4       |
| Cash and cash equivalents                        | <b>7.8</b>    | 5.2        |
| Other current assets                             | <b>2.2</b>    | 1.6        |
| Current assets                                   | <b>10.0</b>   | 6.8        |
| Current financial liabilities                    | –             | –          |
| Other current liabilities                        | <b>(16.8)</b> | (12.8)     |
| Current liabilities                              | <b>(16.8)</b> | (12.8)     |
| Non-current financial liabilities                | –             | –          |
| Other non-current liabilities                    | <b>(0.2)</b>  | (0.2)      |
| Non-current liabilities                          | <b>(0.2)</b>  | (0.2)      |
| Joint venture's net assets                       | <b>23.0</b>   | 18.2       |
| Group's share of joint venture's net asset (50%) | <b>11.5</b>   | 9.1        |

|  | 2015<br>£m    | 2014<br>£m |
|--|---------------|------------|
| Summarised statement of comprehensive income           |               |            |
| Revenue  | <b>54.6</b>   | 35.2       |
| Finance income   | –             | –          |
| Depreciation and amortisation                          | <b>(4.2)</b>  | (3.8)      |
| Other operating expenses                               | <b>(50.2)</b> | (36.0)     |
| Finance expense  | –             | –          |
| Income tax expense                                     | –             | 1.4        |
| Profit/(loss) for the year                             | <b>0.2</b>    | (3.2)      |
| Other comprehensive income                             | –             | –          |
| Total comprehensive profit/(loss)                      | <b>0.2</b>    | (3.2)      |
| Group's share of the total comprehensive profit/(loss) | <b>0.1</b>    | (1.6)      |

There are no contingent liabilities relating to the Group's interest in the joint venture. Sportium Apuestas Deportivas SA is a private company and there is no quoted market price available for its shares.

## 17 Interest in associates and other investments

|                                   | Share of<br>associates'<br>net assets<br>£m | Other<br>investments<br>£m | Total<br>£m |
|-----------------------------------|---|----------------------------|-------------|
| <b>Cost</b>                       |   |                            |             |
| At 1 January 2014                 | 16.8  | 0.7                        | 17.5        |
| Share of profit after tax         | 1.4   | –                          | 1.4         |
| Additions                         | –   | 0.3                        | 0.3         |
| Dividends received                | (1.2)                                       | –                          | (1.2)       |
| At 31 December 2014               | 17.0  | 1.0                        | 18.0        |
| Exchange adjustment               | –   | –                          | –           |
| Share of profit after tax         | 3.9   | –                          | 3.9         |
| Share of other comprehensive loss | (0.6)                                       | –                          | (0.6)       |
| <b>At 31 December 2015</b>        | <b>20.3</b>                                 | <b>1.0</b>                 | <b>21.3</b> |

### Associates

Summarised financial information in respect of the associates is set out below:

|                                       | 2015<br>£m | 2014<br>£m |
|---------------------------------------|------------|------------|
| Associates' current assets            | 103.5      | 65.8       |
| Associates' non-current assets        | 53.7       | 77.7       |
| Associates' current liabilities       | (66.3)     | (65.5)     |
| Associates' non-current liabilities   | (2.8)      | (5.3)      |
| Associates' net assets                | 88.1       | 72.7       |
| Group's share of associate net assets | 20.3       | 17.0       |

|   | 2015<br>£m | 2014<br>£m |
|---|------------|------------|
| Associates' revenue for the year                        | 230.9      | 234.4      |
| Associates' profit for the year                         | 17.8       | 5.9        |
| Associates' other comprehensive income                  | (2.5)      | (0.3)      |
| Associates' total comprehensive income                  | 15.3       | 5.6        |
| Group's share of associates' total comprehensive income | 3.3        | 1.4        |

Further details of the Group's associates are listed in note 33.

The financial year end of Satellite Information Services (Holdings) Limited (SIS), an associate of the Group, is 31 March.

The Group has included the results for SIS for the 12 months ended 31 December 2015. SIS is a private company and there is no quoted market price available for its shares.

### Other investments

Other investments of £1.0 million consist of investments in ordinary shares, which therefore have no fixed maturity rate or coupon rate.

## Financial statements

## Notes to the consolidated financial statements continued

**18 Trade and other receivables**

|                   | 2015<br>£m  | 2014<br>£m  |
|-------------------|-------------|-------------|
| Trade receivables | 5.2         | 7.5         |
| Other receivables | 10.8        | 5.5         |
| Prepayments       | 37.5        | 44.2        |
|                   | <b>53.5</b> | <b>57.2</b> |

Trade receivables are non-interest bearing and are generally on 30-90 day terms. Trade receivables are reviewed for impairment on an ongoing basis, taking account of the ageing of outstanding amounts and the credit profile of customers. Impaired receivables, including all trade receivables that are a year old, are provided for in an allowance account. Impaired receivables are derecognised when they are assessed as irrecoverable.

At 31 December 2015, trade receivables with an initial fair value of £1.0 million (2014: £0.6 million) were provided for in full. Movements in the provision for impairment of trade receivables were as follows:

|                        | 2015<br>£m | 2014<br>£m |
|------------------------|------------|------------|
| At 1 January           | 0.6        | 2.3        |
| Increases in provision | 0.6        | –          |
| Utilised               | (0.2)      | (1.7)      |
| At 31 December         | <b>1.0</b> | <b>0.6</b> |

At 31 December, the analysis of trade receivables that were past due but not impaired is as follows:

|             | Total<br>£m | Neither past<br>due nor<br>impaired<br>£m | Past due but not impaired |                     |                     |                   |
|-------------|-------------|---|---------------------------|---------------------|---------------------|-------------------|
|             |             |   | <30<br>days<br>£m         | 30-60<br>days<br>£m | 60-90<br>days<br>£m | 90+<br>days<br>£m |
| <b>2015</b> | <b>5.2</b>  | <b>3.1</b>                                | <b>0.1</b>                | <b>–</b>            | <b>–</b>            | <b>2.0</b>        |
| 2014        | 7.5         | 2.7                                       | 2.2                       | 0.4                 | 0.2                 | 2.0               |

**19 Cash and cash equivalents**

|                                 | 2015<br>£m  | 2014<br>£m  |
|---------------------------------|-------------|-------------|
| Cash and short-term deposits    | 28.3        | 21.1        |
| Customer funds                  | 40.1        | 40.9        |
| Bank overdraft                  | –           | (1.0)       |
| Total cash and cash equivalents | <b>68.4</b> | <b>61.0</b> |

Cash and cash equivalents in the consolidated statement of cash flows comprises cash at bank with a maturity of three months or less, customer funds and overdrafts. The customer funds are matched by liabilities of an equal value.

**20 Trade and other payables**

|   | 2015<br>£m   | 2014<br>£m   |
|---|--------------|--------------|
| Trade payables                                    | 48.4         | 52.7         |
| Other payables <sup>(1)</sup>                     | 40.2         | 35.4         |
| Other taxation and social security <sup>(1)</sup> | 70.3         | 43.4         |
| Accruals  | 83.5         | 74.4         |
|   | <b>242.4</b> | <b>205.9</b> |

(1) In 2015 other taxation and social security has been represented to include betting and gaming duty. In 2014 this was included in other payables (£30.8 million).

## 21 Provisions

|                            | Vacant property provision <sup>(1)</sup><br>£m | Other provisions<br>£m | Total<br>£m  |
|----------------------------|--|------------------------|--------------|
| At 1 January 2014          | 3.6  | 0.2                    | 3.8          |
| Provided                   | 9.7  | 0.2                    | 9.9          |
| Utilised                   | (2.3)  | –                      | (2.3)        |
| Released                   | –  | –                      | –            |
| At 31 December 2014        | 11.0   | 0.4                    | 11.4         |
| Provided                   | <b>9.5</b>                                     | <b>1.7</b>             | <b>11.2</b>  |
| Utilised                   | <b>(3.6)</b>                                   | –                      | <b>(3.6)</b> |
| Released                   | –  | <b>(0.2)</b>           | <b>(0.2)</b> |
| <b>At 31 December 2015</b> | <b>16.9</b>                                    | <b>1.9</b>             | <b>18.8</b>  |

(1) The periods of vacant property commitments range from one to 14 years (2014: one to 12 years).

Of the total provisions at 31 December 2015, £9.2 million (2014: £6.4 million) is current and £9.6 million (2014: £5.0 million) is non-current.

## 22 Interest bearing loans and borrowings

|                       | 2015<br>£m   | 2014<br>£m |
|-----------------------|--------------|------------|
| <b>Non-current</b>    |              |            |
| Bank facilities       | –            | 117.0      |
| 7.625% bonds due 2017 | <b>224.2</b> | 223.6      |
| 5.125% bonds due 2022 | <b>98.9</b>  | 98.7       |
|                       | <b>323.1</b> | 439.3      |

Committed bank facilities, which are denominated in Pounds Sterling, mature on 13 June 2019. There were no drawings under these facilities at 31 December 2015 (2014: £23.0 million expiring on 1 December 2016, £94.0 million expiring on 13 June 2019). Drawings under these facilities had an average interest rate of 2.5% in 2015 (2014: 2.4%).

£55.0 million of committed bank facilities were cancelled in the year. This leaves the total of £350.0 million of committed bank facilities (2014: £405.0 million) at 31 December 2015.

As at 31 December 2015, the committed bank facilities maturities are £350.0 million (2014: £350.0 million) on 13 June 2019 and £nil (2014: £55.0 million) on 1 December 2016.

The Group has total undrawn committed bank facilities of £346.8 million at 31 December 2015 (2014: £283.0 million).

The Group had a £nil (2014: £0.4 million) overdraft denominated in Euros at 31 December 2015. All of the Group's remaining borrowings in 2015 and 2014 were denominated in Pounds Sterling.

## 23 Lease liabilities

Commitments in relation to finance leases are payable as follows:

|   | 2015<br>£m   | 2014<br>£m |
|---|--------------|------------|
| Within one year                                   | <b>4.9</b>   | –          |
| Later than one year but not later than five years | <b>4.8</b>   | –          |
| Later than five years                             | –            | –          |
| Minimum lease payments                            | <b>9.7</b>   | –          |
| Future finance charges                            | <b>(0.4)</b> | –          |
| Total lease liabilities                           | <b>9.3</b>   | –          |

## Notes to the consolidated financial statements continued

### 23 Lease liabilities continued

The present value of finance lease liabilities is as follows:

|   | 2015<br>£m | 2014<br>£m |
|---|------------|------------|
| Within one year                                   | 4.9        | –          |
| Later than one year but not later than five years | 4.4        | –          |
| Later than five years                             | –          | –          |
| Minimum lease payments                            | 9.3        | –          |

### 24 Financial risk management objectives and policies

The Group's treasury function provides a centralised service for the provision of finance and the management and control of liquidity, foreign exchange rates and interest rates. The function operates as a cost centre and manages the Group's treasury exposures to reduce risk in accordance with policies approved by the Board.

The Group's principal financial instruments comprise bank loans, overdrafts, loan notes, bonds, financial guarantee contracts, and cash and short-term deposits, together with certain derivative financial instruments. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade receivables, trade payables and accruals that arise directly from its operations. At 31 December 2015 and at 31 December 2014 the Group had no significant derivatives.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken other than betting and gaming transactions. The Group's exposure to ante-post betting and gaming transactions is not significant.

The main financial risks for the Group are interest rate risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. The Group also monitors the market price risk arising from all financial instruments.

#### Interest rate risk

The Group is exposed to interest rate risk on interest bearing loans and borrowings and on cash and cash equivalents.

The Group's policy for the year ended 31 December 2015 was to maintain a minimum of 25% (2014: 25%) of total borrowings at fixed interest rates to reduce its sensitivity to movements in variable short-term interest rates. At 31 December 2015, £323.1 million or 100% (2014: £322.3 million or 73.4%) of the Group's gross borrowings were at fixed rates.

Interest on financial instruments at floating rates is repriced at intervals of less than six months. Interest on financial instruments at fixed rates is fixed until the maturity of the instrument.

#### Interest rate sensitivity

The table below demonstrates the sensitivity to reasonably possible changes in interest rates on income and equity for the year when this movement is applied to the carrying value of financial assets and liabilities.

| Effect on:                | Profit before tax |            | Equity     |            |
|---------------------------|-------------------|------------|------------|------------|
|                           | 2015<br>£m        | 2014<br>£m | 2015<br>£m | 2014<br>£m |
| 100 basis points increase | 1.1               | 0.1        | –          | –          |
| 200 basis points increase | 2.2               | 0.2        | –          | –          |

The sensitivity has been estimated by applying the basis points movement to the carrying value of the financial assets and liabilities, subject to interest at floating rates, held by the Group at the year end. Due to current low interest rates, any further decline would not have a material impact on income and equity for the year. As such, sensitivity to a decrease in interest rates has not been presented.

#### Foreign currency risk

Other than the translation of foreign currency subsidiaries, there is no significant foreign currency exposure.

The Group had no other foreign currency borrowings at 31 December 2015 (2014: £0.4 million overdraft denominated in Euros).

## 24 Financial risk management objectives and policies continued

### Credit risk

The Group is not subject to significant concentration of credit risk, with exposure spread across a large number of counterparties and customers.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. Any changes to credit terms are assessed and authorised by senior management on an individual basis.

The Group's High Rollers division consists of individuals who place sizeable stakes. The Group manages this activity and the associated risk exposure by utilising senior management expertise to manage the levels of stakes placed. Of the £5.2 million (2014: £7.5 million) trade receivables balance, £1.9 million (2014: £3.2 million) relates to the Group's Core Telephone Betting and High Rollers divisions.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and a loan to a joint venture, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Credit risk in respect of cash and cash equivalents is managed by restricting those transactions to banks that have a defined minimum credit rating and by setting an exposure ceiling per bank.

The Group also has exposure to credit risk arising from the financial guarantee contracts provided by the Group. This risk is partly mitigated by the indemnity received from Hilton Hotels Corporation for any loss incurred in connection with these guarantees. For further detail of these guarantees refer to note 25.

### Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings with a range of maturities. The Group's policy on liquidity is to ensure that there are sufficient medium-term and long-term committed borrowing facilities to meet the medium-term funding requirements. At 31 December 2015, there were undrawn committed borrowing facilities of £346.8 million (2014: £283.0 million). Total committed facilities had an average maturity of 3.5 years (2014: 4.1 years).

The total gross contractual undiscounted cash flows of financial liabilities, including interest payments, fall due as follows. Cash flows in respect of financial guarantee contracts reflect the probability weighted cash flows. The maximum exposure is described in note 25.

|                                       | On demand<br>or within<br>1 year<br>£m | 1-2 years<br>£m | 2-5 years<br>£m | > 5 years<br>£m | Total<br>£m  |
|---------------------------------------|--|-----------------|-----------------|-----------------|--------------|
| 2015                                  |  |                 |                 |                 |              |
| Interest bearing loans and borrowings | 22.3                                   | 238.7           | 15.4            | 107.7           | 384.1        |
| Other financial liabilities           | 2.1                                    | 0.4             | 47.3            | 6.3             | 56.1         |
| Trade and other payables              | 242.0                                  | –               | –               | –               | 242.0        |
| <b>Total</b>                          | <b>266.4</b>                           | <b>239.1</b>    | <b>62.7</b>     | <b>114.0</b>    | <b>682.2</b> |

|                                       | On demand<br>or within<br>1 year<br>£m | 1-2 years<br>£m | 2-5 years<br>£m | > 5 years<br>£m | Total<br>£m  |
|---------------------------------------|--|-----------------|-----------------|-----------------|--------------|
| 2014                                  |  |                 |                 |                 |              |
| Interest bearing loans and borrowings | 26.1                                   | 48.1            | 349.3           | 112.8           | 536.3        |
| Other financial liabilities           | 4.1                                    | 11.2            | 46.5            | 8.7             | 70.5         |
| Trade and other payables              | 205.5                                  | –               | –               | –               | 205.5        |
| <b>Total</b>                          | <b>235.7</b>                           | <b>59.3</b>     | <b>395.8</b>    | <b>121.5</b>    | <b>812.3</b> |

### Capital risk management

The primary objective of the Group's capital management is to ensure that it maintains a credit quality that enables the Group to raise funds at an economic interest rate and to maintain healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, adjusted borrowings, return capital to shareholders or issue new shares.

The Group monitors capital using a net debt to EBITDA ratio (before exceptional items). The target range is less than 2.0 (2014: less than 2.0) times net debt to EBITDA ratio. The ratio at 31 December 2015 was 1.9 times (1.9 adjusted to remove profit from High Rollers) and at 31 December 2014 was 1.9 times (2.1 adjusted to remove profit from High Rollers).

The Group's funding policy is to raise funds centrally to meet the Group's anticipated requirements. These are planned so as to mature at different stages in order to reduce refinancing risk. The Board reviews the Group's capital structure and liquidity periodically.

## Notes to the consolidated financial statements continued

**25 Financial instruments and fair value disclosures****Other financial liabilities**

|  | 2015<br>£m  | 2014<br>£m |
|--|-------------|------------|
| Contingent consideration   | 32.3        | 32.1       |
| Financial guarantee contracts  | 3.2         | 4.8        |
| Deferred revenues associated with the fair value of reward points issued | –           | 1.1        |
| Other  | 0.1         | 5.6        |
|  | <b>35.6</b> | 43.6       |

Of the total other financial liabilities at 31 December 2015 £nil (2014: £1.1 million) is current and £35.6 million (2014: £42.5 million) is non-current.

The table below analyses the Group's financial instruments into their relevant categories:

| 31 December 2015  | Loans and<br>receivables<br>£m | Loans at<br>amortised<br>cost<br>£m | Assets/<br>(liabilities)<br>at fair value<br>through<br>profit loss<br>£m | Available<br>for sale<br>financial<br>assets<br>£m | Total<br>£m    |
|---|--------------------------------|-------------------------------------|---|--|----------------|
| <b>Assets</b>   |                                |                                     |   |  |                |
| Non-current:  |                                |                                     |   |  |                |
| Other financial assets                                  | 1.4                            | –                                   | –   | 3.4  | 4.8            |
| Current:  |                                |                                     |   |  |                |
| Trade and other receivables                             | 16.0                           | –                                   | –   | –  | 16.0           |
| Derivatives   | –                              | –                                   | 0.2   | –  | 0.2            |
| Cash and short-term deposits (including customer funds) | 68.4                           | –                                   | –   | –  | 68.4           |
| <b>Total</b>  | <b>85.8</b>                    | <b>–</b>                            | <b>0.2</b>  | <b>3.4</b>   | <b>89.4</b>    |
| <b>Liabilities</b>                                      |                                |                                     |   |  |                |
| Current:  |                                |                                     |   |  |                |
| Trade and other payables                                | –                              | (236.7)                             | (5.3)   | –  | (242.0)        |
| Obligations under finance leases                        | –                              | (4.9)                               | –   | –  | (4.9)          |
| Non-current:  |                                |                                     |   |  |                |
| Interest bearing loans and borrowings                   | –                              | (323.1)                             | –   | –  | (323.1)        |
| Other financial liabilities                             | –                              | –                                   | (35.5)  | –  | (35.5)         |
| Obligations under finance leases                        | –                              | (4.4)                               | –   | –  | (4.4)          |
| <b>Total</b>  | <b>–</b>                       | <b>(569.1)</b>                      | <b>(40.8)</b>   | <b>–</b>   | <b>(609.9)</b> |
| <b>Net financial assets/(liabilities)</b>               | <b>85.8</b>                    | <b>(569.1)</b>                      | <b>(40.6)</b>   | <b>3.4</b>   | <b>(520.5)</b> |

## 25 Financial instruments and fair value disclosures continued

| 31 December 2014  | Loans and<br>receivables<br>£m | Loans at<br>amortised<br>cost<br>£m | Assets/<br>(liabilities)<br>at fair value<br>through<br>profit loss<br>£m | Available<br>for sale<br>financial<br>assets<br>£m | Total<br>£m    |
|---|--------------------------------|-------------------------------------|---|--|----------------|
| <b>Assets</b>   |                                |                                     |   |  |                |
| Non-current:  |                                |                                     |   |  |                |
| Other financial assets                                  | 1.4                            | –                                   | –   | 3.4  | 4.8            |
| Current:  |                                |                                     |   |  |                |
| Trade and other receivables                             | 13.0                           | –                                   | –   | –  | 13.0           |
| Cash and short-term deposits (including customer funds) | 62.0                           | –                                   | –   | –  | 62.0           |
| <b>Total</b>  | <b>76.4</b>                    | <b>–</b>                            | <b>–</b>  | <b>3.4</b>   | <b>79.8</b>    |
| <b>Liabilities</b>                                      |                                |                                     |   |  |                |
| Current:  |                                |                                     |   |  |                |
| Bank overdraft  | –                              | (1.0)                               | –   | –  | (1.0)          |
| Trade and other payables                                | –                              | (200.2)                             | (5.3)   | –  | (205.5)        |
| Other financial liabilities                             | –                              | –                                   | (1.1)   | –  | (1.1)          |
| Non-current:  |                                |                                     |   |  |                |
| Interest bearing loans and borrowings                   | –                              | (439.3)                             | –   | –  | (439.3)        |
| Other financial liabilities                             | –                              | (5.6)                               | (36.9)  | –  | (42.5)         |
| <b>Total</b>  | <b>–</b>                       | <b>(646.1)</b>                      | <b>(43.3)</b>   | <b>–</b>   | <b>(689.4)</b> |
| <b>Net financial assets/(liabilities)</b>               | <b>76.4</b>                    | <b>(646.1)</b>                      | <b>(43.3)</b>   | <b>3.4</b>   | <b>(609.6)</b> |

### Fair value of financial instruments

Assets and liabilities designated at fair value through profit or loss and available for sale financial assets are carried at fair value. The fair value of cash at bank and in hand approximates to book value due to its short-term maturity. The fair value of the £225 million 7.625% bond at 31 December 2015 was £239.7 million (2014: £244.3 million) and is classified as a level 1 fair value measurement for disclosure purposes, as the fair value is determined based on quoted prices in active markets for identical liabilities. The fair value of the £100 million 5.125% bond at 31 December 2015 was £98.3 million (2014: £100.2 million) and is classified as a level 1 fair value measurement for disclosure purposes, as the fair value is determined based on quoted prices in active markets for identical liabilities. The amortised cost of interest bearing loans and borrowings, with the exception of the £225 million 7.625% bond and the £100 million 5.125% bond, and the carrying value of all other assets and liabilities approximates to fair value.

### Fair value hierarchy

The following tables illustrate the Group's financial assets and liabilities measured at fair value after initial recognition at 31 December 2015 and 31 December 2014:

|   | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m | 2015<br>Total<br>£m |
|---|---------------|---------------|---------------|---------------------|
| <b>Assets measured at fair value</b>          |               |               |               |                     |
| Derivatives                                   | –             | 0.2           | –             | 0.2                 |
| Other financial assets                        | –             | –             | 3.4           | 3.4                 |
| <b>Total</b>                                  | <b>–</b>      | <b>0.2</b>    | <b>3.4</b>    | <b>3.6</b>          |
| <b>Liabilities measured at fair value</b>     |               |               |               |                     |
| Ante-post liabilities                         | –             | –             | (5.3)         | (5.3)               |
| Other non-current financial liabilities       | –             | –             | (35.5)        | (35.5)              |
| <b>Total</b>                                  | <b>–</b>      | <b>–</b>      | <b>(40.8)</b> | <b>(40.8)</b>       |
| <b>Net liabilities measured at fair value</b> | <b>–</b>      | <b>0.2</b>    | <b>(37.4)</b> | <b>(37.2)</b>       |

Notes to the consolidated financial statements continued**25 Financial instruments and fair value disclosures continued**

|   | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m | 2014<br>Total<br>£m |
|---|---------------|---------------|---------------|---------------------|
| <b>Assets measured at fair value</b>      |               |               |               |                     |
| Other financial assets                    | –             | –             | 3.4           | 3.4                 |
| <b>Liabilities measured at fair value</b> |               |               |               |                     |
| Ante post liabilities                     | –             | –             | (5.3)         | (5.3)               |
| Other current financial liabilities       | –             | –             | (1.1)         | (1.1)               |
| Other non-current financial liabilities   | –             | –             | (36.9)        | (36.9)              |
| Total                                     | –             | –             | (43.3)        | (43.3)              |
| Net liabilities measured at fair value    | –             | –             | (39.9)        | (39.9)              |

Included within other financial assets is the Group's investment in TBHG, a financial asset measured at initial fair value of £3.4 million on 28 February 2013 which was acquired in connection with the business combination with Betdaq. There have been no changes in the fair value of the investment at 31 December 2015.

Included in trade and other payables are £5.3 million of ante-post liabilities (2014: £5.3 million). Ante post liabilities are valued using methods and inputs that are not based upon observable market data. There are no reasonably probable changes to assumptions or inputs that would lead to material changes in the fair value determined, although the final value will be determined by future sporting results. The principal assumptions relate to anticipated gross win margins on unsettled bets.

Included within other non-current financial liabilities is contingent consideration associated with business combinations of £32.3 million (2014: £32.1 million), classified as level 3 financial instruments, as its fair value is measured using techniques where the significant inputs are not based on observable market data. The fair values are remeasured at each reporting date and gains and losses from changes therein are recorded in the consolidated income statement within exceptional items (note 6).

**Betdaq**

Betdaq contingent consideration is linked to the performance of the business over a four year period and is capped at €535.0 million. The fair value of the contingent consideration has been estimated using a discounted cash flow analysis at the balance sheet date. The key assumptions in estimating the fair value are the EBITDA projections of the Betdaq business for 2016, the predicted Ladbrokes plc EBITDA multiple in 2016 (9.8x) and the discount rate applied (13.5%). All of these assumptions have been applied on a probability-weighted basis.

The contingent consideration is sensitive to changes in these assumptions. For example, an increase of 10% in EBITDA projections would result in an increase in contingent consideration of £1.5 million and a decrease of 2% in the discount rate would result in an increase in contingent consideration of less than £0.1 million. A decrease in the EBITDA multiple of 2x would result in a decrease in contingent consideration of £0.2 million.

**Playtech**

The fair value of the contingent consideration in relation to Playtech has been estimated using a discounted cash flow analysis at the balance sheet date. The key assumptions in estimating the fair value are a range of EBITDA projections of the Digital business for 2017, which are based on the projections in place at the time of the acquisition and then updated with an estimated uplift for the benefits of the transaction, the predicted Ladbrokes plc EBITDA multiple in 2017 (9.8x); and the discount rate applied (a range of 13.7% to 20.7%, depending on the year). All of these assumptions have been applied on a probability-weighted basis.

The contingent consideration is sensitive to changes in these assumptions. For example, an increase of 10% in EBITDA projections would result in an increase in contingent consideration of £12.6 million and a decrease of 2% in the discount rate would result in an increase in contingent consideration of £1.3 million. An increase of 1x in the EBITDA multiple would increase the contingent consideration by £3.5 million.

**Other**

Also included within other non-current financial liabilities are financial guarantee contracts of £3.2 million (2014: £4.8 million), classified as level 3 financial instruments as their fair value is measured using techniques where the significant inputs are not based on observable market data. Further information about financial guarantee contracts, including sensitivities, and a reconciliation of changes in fair value in the year, is included below.

## 25 Financial instruments and fair value disclosures continued

### Financial guarantee contracts

The Group has given guarantees to third parties in respect of lease liabilities of former subsidiaries within the disposed hotels division. The Group received an indemnity from Hilton Hotels Corporation (HHC), at the time of the hotels disposal, in relation to any loss the Group may subsequently incur under these third party guarantees. The guarantees expire between 2017 and 2042 and the lease liabilities comprise a combination of minimum contractual and turnover based elements.

The undiscounted maximum liability exposure in respect of the guarantees for all years up to 2042 is £560.8 million (2014: £679.6 million), with a maximum indemnity receivable of the same amount. Included in the maximum liability exposure is £402.1 million (2014: £434.8 million) in relation to the turnover based element of the hotel rentals and £158.7 million (2014: £244.8 million) in relation to the minimum contractual based element. The maximum liability represents the total of all guaranteed rentals under the non-cancellable agreements into which the Group has entered.

The net present value of the maximum exposure at 31 December 2015 is £210.3 million (2014: £258.7 million). Included in the net present value of the maximum exposure is £141.4 million (2014: £149.1 million) in relation to the turnover based element of the hotel rentals and £68.9 million (2014: £109.6 million) in relation to the minimum contractual based element.

The Group monitors its exposure under these guarantees on a regular basis and seeks, where appropriate, to novate its obligations. The financial guarantees liability has been valued using a probability based model to estimate the net present value of the liabilities payable in the event of a default by the hotels covered by the guarantees, and the probability of such a default and new tenants being identified.

At 31 December 2015 the Group has recognised a financial liability of £3.2 million (2014: £4.8 million) in respect of these guarantees. The liability has reduced in 2015 as a result of the Group being released from its obligations for one of its hotels, the liability of which was due to expire in 2029. The key assumption in the probability model is the hotels default rate. A rate of 1.5% has been used at 31 December 2015 (2014: 1.5%). The £1.6 million credit has been included within the Group's corporate costs. The table below provides a breakdown of the movement in the liability since 1 January 2015:

|   | Liability<br>£m |
|---|-----------------|
| <b>At 1 January 2015</b>                          | 4.8             |
| Reduction due to release from one hotel guarantee | (1.6)           |
| <b>At 31 December 2015</b>                        | <b>3.2</b>      |

A 0.5 percentage point increase in the default rate would increase the financial liability by £1.0 million. A 1.0 percentage point increase in the discount rate would reduce the financial liability by £0.2 million.

### 26 Net debt

The components of the Group's net debt are as follows:

|  | Notes | 2015<br>£m     | 2014<br>£m |
|--|-------|----------------|------------|
| <b>Current assets</b>                        |       |                |            |
| Cash and short-term deposits <sup>(1)</sup>  | 19    | <b>28.3</b>    | 21.1       |
| <b>Current liabilities</b>                   |       |                |            |
| Bank overdrafts                              | 19    | –              | (1.0)      |
| Current obligations under finance leases     | 23    | <b>(4.9)</b>   | –          |
| <b>Non-current liabilities</b>               |       |                |            |
| Non-current obligations under finance leases | 23    | <b>(4.4)</b>   | –          |
| Interest bearing loans and borrowings        | 22    | <b>(323.1)</b> | (439.3)    |
| <b>Net debt</b>                              |       | <b>(304.1)</b> | (419.2)    |

(1) Customer funds are not included in the Group's net debt.

## Notes to the consolidated financial statements continued

**27 Issued share capital**

|  | Number of 28½p<br>ordinary shares | Total<br>£m  |
|--|-----------------------------------|--------------|
| Issued and fully paid:                     |                                   |              |
| At 1 January 2014                          | 951,165,221                       | 269.5        |
| During the year                            | 3,460,108                         | 1.0          |
| At 31 December 2014                        | 954,625,329                       | 270.5        |
| Issued during the year <sup>(1), (2)</sup> | <b>95,387,740</b>                 | <b>27.0</b>  |
| At 31 December 2015                        | <b>1,050,013,069</b>              | <b>297.5</b> |

(1) During the year, the following fully paid shares of 28½ pence each were issued: 387,459 shares on allocation of shares under the 2010 Share Award Plan, 2,259,944 shares under the Ladbrokes Growth Plan, 61,734 shares on exercise of options under the 1983 Savings Related Share Option Scheme, 299,923 shares under the OWN Plan.

(2) In addition to the above, the Group completed a placing of 92,378,680 new ordinary shares at 125 pence each on 24 July 2015. The net proceeds of the placing was £112.9 million – consisting of the gross proceeds of £115.5 million net of the associated transactions costs of £2.6 million. The net proceeds of the placing were allocated as £26.2 million to the share capital account and £86.7 million to the share premium account.

|  | Number of 28½p<br>ordinary shares |
|--|-----------------------------------|
| Shares issued at 31 December 2014                                  | 954,625,329                       |
| Treasury shares  | (31,760,568)                      |
| Shares issued at 31 December 2014 excluding treasury shares        | 922,864,761                       |
| Shares issued at 31 December 2015                                  | 1,050,013,069                     |
| Treasury shares  | (31,760,568)                      |
| <b>Shares issued at 31 December 2015 excluding treasury shares</b> | <b>1,018,252,501</b>              |

**28 Employee share ownership plans**

The Ladbrokes Share Ownership Trust (LSOT) is used in connection with the Group's Deferred Bonus Plan, the Ladbrokes Growth Plan, the Restricted Share Plan, the Performance Share Plan and the 2010 Share Award Plan (together 'the Plans') (refer to note 31 for further details of the Plans and the various performance conditions). The LSOT may also be used in connection with the Group's other share-based plans, including the 1978 and 1983 Share Option Scheme and the International Share Option Scheme. The trustee of the LSOT, Computershare Trustees (CI) Limited, subscribes for the Group's shares or purchases them in the open market, as required, on the basis of regular reviews of the anticipated commitments of the Group, with financing provided by the Group.

The Ladbrokes Share Incentive Plan (LSIP) is currently used in connection with the Group's OWN share plan (the OWN plan) and Freeshare share plan (Freeshare) (refer to note 31 for further details). The trustee of the LSIP, Computershare Trustees Limited, purchases the Company's shares in the open market, as required, using:

- (i) Deductions made from the salaries of participants in the OWN plan; and
- (ii) Dividends paid on the shares held by the LSIP. Under the OWN plan, to match those shares acquired using participants' salary deductions, one additional share is allotted by the Group to the LSIP for every one share purchased by the employee.

All expenses of the LSOT and LSIP are settled directly by the Group and charged in the financial statements as incurred.

The following table shows the number of shares held in trust that have not yet vested unconditionally and the associated movement in shareholders' funds.

|   | LSOT                  |                      | LSIP                  |                      | Total                 |                      |
|---|-----------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|
|   | Shares held<br>Number | Cost of shares<br>£m | Shares held<br>Number | Cost of shares<br>£m | Shares held<br>Number | Cost of shares<br>£m |
| At 1 January 2015 <sup>(1)</sup>        | 7,661,052             | 10.4                 | 865,143               | 0.4                  | 8,526,195             | 10.8                 |
| Shares purchased/allotted               | 600,000               | 0.6                  | 486,021               | 0.3                  | 1,086,021             | 0.9                  |
| Vested in year                          | (3,882,972)           | (4.3)                | (305,734)             | (0.3)                | (4,188,706)           | (4.6)                |
| <b>At 31 December 2015</b>              | <b>4,378,080</b>      | <b>6.7</b>           | <b>1,045,430</b>      | <b>0.4</b>           | <b>5,423,510</b>      | <b>7.1</b>           |
| <b>Market value of shares in trusts</b> |                       | <b>5.2</b>           |                       | <b>1.3</b>           |                       | <b>6.5</b>           |

(1) Includes an award of 4,035,784 shares allotted by the Group in 2010 and held jointly between the participant and Computershare Trustees (CI) Limited under the Ladbrokes Growth Plan.

## 29 Notes to the statement of cash flows

Reconciliation of profit to net cash inflow from operating activities:

|   | 2015<br>£m    | 2014<br>£m |
|---|---------------|------------|
| <b>(Loss)/profit before tax and net finance expense</b> | <b>(15.4)</b> | 66.2       |
| Adjustments for:  |               |            |
| Non cash exceptional items                              | <b>74.2</b>   | 65.4       |
| Depreciation of property, plant and equipment           | <b>39.6</b>   | 43.9       |
| Amortisation of intangible assets                       | <b>37.8</b>   | 33.8       |
| Share based payments charge                             | <b>4.1</b>    | 2.8        |
| Increase in other financial assets                      | <b>(3.8)</b>  | (1.3)      |
| Decrease/(increase) in trade and other receivables      | <b>3.4</b>    | (3.7)      |
| Decrease in other financial liabilities                 | <b>(3.1)</b>  | (11.3)     |
| Increase/(decrease) in trade and other payables         | <b>38.6</b>   | (27.9)     |
| Decrease in provisions                                  | <b>(1.4)</b>  | –          |
| Contributions to retirement benefit scheme              | <b>(3.6)</b>  | (8.9)      |
| Share of results from joint venture                     | <b>(0.1)</b>  | 1.6        |
| Share of results from associates                        | <b>(3.9)</b>  | (1.4)      |
| Other items   | <b>(1.2)</b>  | (0.2)      |
| <b>Cash generated by operations</b>                     | <b>165.2</b>  | 159.0      |
| Income taxes paid                                       | <b>(2.3)</b>  | (2.1)      |
| Finance expense paid                                    | <b>(26.7)</b> | (26.4)     |
| <b>Net cash generated from operating activities</b>     | <b>136.2</b>  | 130.5      |

## Notes to the consolidated financial statements continued

### 30 Retirement benefit schemes

#### Defined contribution schemes

The total cost charged to the consolidated income statement of £3.8 million (2014: £3.1 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the scheme.

#### Defined benefit plans

The Group's only significant defined benefit retirement plan is the Ladbrokes Pension Plan, which is a final salary pension plan for UK employees. This was closed to new employees on 1 August 2007 and closed to future accrual on 31 August 2015.

At retirement each member's pension is related to their pensionable service and final pensionable salary. The weighted average duration of the expected benefit payments from the Plan is around 17 years.

The Plan's assets are held separately from those of the Group. The Plan is approved by HMRC for tax purposes, and is managed by an independent set of Trustees. The Plan is subject to UK regulations, which require the Group and Trustees to agree a funding strategy and contribution schedule at least every three years. Under the current contribution schedule in place, the Group pays contributions to the Plan of £0.75 million each year to cover the expenses of running the Plan and will pay £0.125 million each month from April 2016 to June 2017.

There is a risk to the Group that adverse experience could lead to a requirement for the Group to make additional contributions to recover any deficit that arises.

The results of the formal actuarial valuation as at 30 June 2013 were updated to 31 December 2015 by an independent qualified actuary in accordance with IAS 19 (Revised) Employee Benefits. The value of the defined benefit obligation and current service cost have been measured using the projected unit credit method, as required by IAS 19 (Revised). Actuarial gains and losses are recognised immediately through other comprehensive income.

The amounts recognised in the balance sheet are as follows:

|   | 2015<br>£m     | 2014<br>£m |
|---|----------------|------------|
| Present value of funded obligations                         | <b>(283.2)</b> | (296.3)    |
| Fair value of plan assets                                   | <b>359.5</b>   | 365.8      |
| Net asset   | <b>76.3</b>    | 69.5       |
| Disclosed in the balance sheet as: Retirement benefit asset | <b>76.3</b>    | 69.5       |

The Group has considered the appropriate accounting treatment in respect of the pension plan surplus, taking into account the current agreement with the Trustees to pay contributions into the Plan. The Group has concluded that under current accounting rules recognition of the surplus as an asset is appropriate on the grounds that the Group has an unconditional right to a refund of a current (or projected future) surplus at the end of the life of the Plan.

The amounts recognised in the income statement are as follows:

|  | 2015<br>£m   | 2014<br>£m |
|--|--------------|------------|
| <b>Analysis of amounts charged to staff costs</b>                |              |            |
| Current service cost (excluding employee element)                | <b>1.6</b>   | 2.8        |
| Administrative expenses  | <b>1.0</b>   | 1.0        |
| Net interest on net asset  | <b>(2.6)</b> | (2.6)      |
| Pension curtailment gain <sup>(1)</sup>                          | –            | (7.1)      |
| Total (credit) recognised in the income statement in staff costs | –            | (5.9)      |

(1) The pension curtailment gain was included within exceptional items in the income statement.

The actual return on plan assets over the year was a gain of £4.1 million (2014: gain of £48.2 million).

The amounts recognised in the statement of comprehensive income are as follows:

|  | 2015<br>£m   | 2014<br>£m |
|--|--------------|------------|
| Actual return on assets less interest on plan assets   | <b>(8.6)</b> | 33.8       |
| Actuarial gains/(losses) on defined benefit obligation due to changes in financial assumptions | <b>8.6</b>   | (30.6)     |
| Changes in demographic assumptions   | –            | (3.9)      |
| Experience adjustments on benefit obligation   | <b>3.2</b>   | 2.3        |
| <b>Actuarial gains recognised in the statement of comprehensive income</b>                     | <b>3.2</b>   | 1.6        |

### 30 Retirement benefit schemes continued

Changes in the present value of the defined benefit obligation are as follows:

|  | 2015<br>£m     | 2014<br>£m |
|--|----------------|------------|
| At 1 January   | <b>(296.3)</b> | (268.8)    |
| Current service cost (excluding employee element)                | <b>(1.6)</b>   | (2.8)      |
| Employee contributions   | <b>(0.5)</b>   | (0.7)      |
| Interest on obligation   | <b>(10.1)</b>  | (11.8)     |
| Actuarial gains/(losses) due to changes in financial assumptions | <b>8.6</b>     | (30.6)     |
| Changes in demographic assumptions                               | <b>–</b>       | (3.9)      |
| Experience adjustments on obligations                            | <b>3.2</b>     | 2.3        |
| Benefits paid  | <b>13.5</b>    | 12.7       |
| Pension curtailment gain   | <b>–</b>       | 7.3        |
| At 31 December   | <b>(283.2)</b> | (296.3)    |

Changes in the fair value of plan assets are as follows:

|  | 2015<br>£m    | 2014<br>£m |
|--|---------------|------------|
| At 1 January   | <b>365.8</b>  | 321.9      |
| Interest on plan assets                              | <b>12.7</b>   | 14.4       |
| Administration expenses                              | <b>(1.0)</b>  | (1.0)      |
| Actual return less interest on plan assets           | <b>(8.6)</b>  | 33.8       |
| Contributions by the sponsoring companies            | <b>3.6</b>    | 8.9        |
| Employee contributions                               | <b>0.5</b>    | 0.7        |
| Benefits paid  | <b>(13.5)</b> | (12.7)     |
| Running costs relating to pension scheme curtailment | <b>–</b>      | (0.2)      |
| At 31 December                                       | <b>359.5</b>  | 365.8      |

The Group expects to contribute £1.8 million to its defined benefit plan in 2016.

The major categories of plan assets as a percentage of total plan assets are as follows:

|                                       | 2015<br>%  | 2014<br>% |
|---------------------------------------|------------|-----------|
| Equities and Diversified Growth Funds | <b>65</b>  | 62        |
| LDI (%)                               | <b>19</b>  | 24        |
| Cash                                  | <b>16</b>  | 14        |
|                                       | <b>100</b> | 100       |

The Plan assets are held exclusively within instruments with quoted market prices in an active market with the exception of the holdings in an insurance policy. At 31 December 2015 these represented c.0.2% of the Plan's total assets.

The Plan does not invest directly in property occupied by the Group or in financial securities issued by the Group. Although, as the Plan holds pooled investment vehicles, there may at times be indirect employer related investment. At 31 December 2015 these represented less than 0.1% of the Plan's total assets.

The investment strategy is set by the Trustees of the Plan in consultation with the Group. The current long-term strategy is to invest in a matching portfolio sufficient to meet the next 15 years of cash flows with the remaining assets invested in return seeking funds.

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages where appropriate):

|   | 2015<br>% p.a. | 2014<br>% p.a.  |
|---|----------------|-----------------|
| Discount rate                           | <b>3.7</b>     | 3.5             |
| Price inflation (CPI/RPI)               | <b>2.0/3.0</b> | 2.0/3.0         |
| Future salary growth                    | <b>n/a</b>     | 3% p.a. in 2015 |
| Future pension increases – LPI 5% (CPI) | <b>2.1</b>     | 2.1             |
| – LPI 3% (RPI)                          | <b>2.3</b>     | 2.3             |
| – LPI 2.5% (CPI)                        | <b>1.7</b>     | 1.7             |

## Notes to the consolidated financial statements continued

### 30 Retirement benefit schemes continued

The post-retirement mortality assumed for most members is based on the standard SAPS mortality table with the CMI 2012 projections, which takes into account future improvements, adjusted to reflect plan specific experience. The assumption used implies that the expected lifetime of members aged 65 in 2015 is 87.0 (2014: 86.9) years for males and 89.2 (2014: 89.1) years for females. For members with large pensions a longer lifetime is assumed (90.1 (2014: 90.1) for males and 91.2 (2014: 91.1) for females).

Changes to the assumptions will impact the amounts recognised in the consolidated balance sheet and the consolidated income statement in respect of the Plan. For the significant assumptions, the following sensitivity analysis provides an indication of the impact on the defined benefit obligation for the year ended 31 December 2015:

|   | 2015<br>% | 2014<br>% |
|---|-----------|-----------|
| – 0.5% p.a. decrease in the discount rate | 8.1       | 8.3       |
| – 0.5% p.a. increase in price inflation   | 5.0       | 5.2       |
| – One year increase in life expectancy    | 2.6       | 2.4       |

These sensitivities have been calculated to show the movement in the defined benefit obligation in isolation, and assuming no other changes in market conditions at the accounting date. This is unlikely in practice, for example, a change in discount rate is unlikely to occur without any movement in the value of the assets held by the Plan.

### 31 Share-based payments

The Group has the following share-based payment plans, all of which are settled by equity: the Restricted Share Plan; the Deferred Bonus Plan; the Performance Share Plan; the Ladbrokes Growth Plan; the International Share Option Scheme; the 1978 Share Option Scheme; Sharesave; the OWN Plan; and Freeshare. The plans and the various performance conditions are discussed in more detail below:

#### (i) Restricted Share Plan

Awards made under the Restricted Share Plan will vest after three years and are not subject to performance conditions, other than service conditions.

#### (ii) Deferred Bonus Plan

For certain senior executives, one third of the gross annual bonus is delivered in shares that vest after three years. For other employees, one third of the gross annual bonus is delivered in shares that vest after two years.

#### (iii) Performance Share Plan

An award under the Performance Share Plan consists of a conditional allocation of shares that will vest, subject to the achievement of performance conditions, at the end of the three year performance period. The awards have two separate performance conditions; half of the award vests based on TSR and half of the award vests based on EPS growth.

#### (iv) Ladbrokes Growth Plan

Awards are subject to share price growth performance conditions. Any share price target must be attained throughout a period of 30 consecutive dealing days and performance is assessed over a five year period. Up to one third of the award may vest at the end of year three if the performance targets have been achieved at that time. A further third may vest at the end of year four if the targets have been met at that time. The remainder of the award may vest at the end of year five, subject to the achievement of the performance targets.

#### (v) International Share Option Scheme and the 1978 Share Option Scheme

The share options granted are all market value options with a three year vesting period. Vested options lapse if they have not been exercised within 10 years of the date of grant. All options have an EPS growth based performance condition. Options have not been granted since 2009 and there is no present intention to grant options in the future.

#### (vi) 1983 Savings Related Share Option Scheme ('Sharesave')

Under Sharesave, options are granted at a 20% discount to market value. The scheme operates with a savings period of either three or five years, at the end of which the option may be exercised.

#### (vii) OWN Plan

Under the OWN Plan, employees can contribute up to £75 per month to acquire shares. For every one share purchased, the Group provides a match of one additional share.

#### (viii) Freeshare

Under Freeshare, an award of up to £250 in value was made to participating employees on reaching one year's service. Freeshares have not been awarded since 2010 and there is no present intention to make awards in the future.

### 31 Share-based payments continued

The following table sets out the number of share awards outstanding at the beginning of the year, the number of shares granted, lapsed and vested during the year together with the outstanding share balances as at the end of the year in respect of the Restricted Share Plan, Deferred Bonus Plan, Performance Share Plan, Ladbrokes Growth Plan and 2010 Share Award Plan.

|  | Restricted Share Plan | Deferred Bonus Plan | Performance Share Plan | Ladbrokes Growth Plan | 2010 Share Award Plan | Total             |
|--|-----------------------|---------------------|------------------------|-----------------------|-----------------------|-------------------|
| Outstanding at 1 January 2015 <sup>(1)</sup> | 1,894,388             | 842,380             | 14,113,998             | 11,035,680            | 1,177,103             | 29,063,549        |
| Granted                                      | 3,331,890             | –                   | 6,769,395              | –                     | –                     | 10,101,285        |
| Reinstated                                   | –                     | –                   | 29,145                 | 353,828               | –                     | 382,973           |
| Dividend equivalent awards                   | –                     | –                   | –                      | 795,945               | 387,459               | 1,183,404         |
| Lapsed                                       | (380,441)             | (39,570)            | (6,575,355)            | (8,096,077)           | –                     | (15,091,443)      |
| Vested/Exercised                             | (368,552)             | (729,753)           | –                      | (3,902,508)           | (1,564,562)           | (6,565,375)       |
| <b>Outstanding at 31 December 2015</b>       | <b>4,477,285</b>      | <b>73,057</b>       | <b>14,337,183</b>      | <b>186,868</b>        | <b>–</b>              | <b>19,074,393</b> |

(1) The number of awards outstanding at 31 December 2014 for the Restricted Share Plan, Deferred Bonus Plan and the Ladbrokes Growth Plan were incorrectly stated in the Annual Report and Accounts 2014. The outstanding awards at 1 January 2015 for these three plans as disclosed above have therefore been restated.

Share awards granted during the year in respect of the Performance Share Plan:

|                             | 2015      | 2014      |
|-----------------------------|-----------|-----------|
| Number                      | 6,769,395 | 6,826,422 |
| Weighted average fair value | £0.96     | £0.93     |

The fair value of share awards was measured by calculating the present value of the dividends receivable between the grant date and the vesting date and valuing the market related performance conditions through the use of a closed-form model, similar to a Monte Carlo simulation.

The following table shows the number and weighted average exercise prices of share options granted, exercised and lapsed during the year in respect of the 1978 and International Share Option Schemes and also Sharesave:

|   | 1978 and International Schemes | Sharesave   | 2015 Number | 2015 WAEP – £ | 2014 Number | 2014 WAEP – £ |
|---|--------------------------------|-------------|-------------|---------------|-------------|---------------|
| Outstanding at 1 January                  | 1,788,414                      | 3,985,947   | 5,774,361   | 1.85          | 5,629,931   | 2.01          |
| Granted                                   | –                              | 3,255,308   | 3,255,308   | 0.92          | 2,298,754   | 1.17          |
| Reinstated                                | –                              | 784         | 784         | 0.92          | –           | –             |
| Exercised                                 | –                              | (61,734)    | (61,734)    | 1.13          | (480,142)   | 1.20          |
| Lapsed                                    | (687,213)                      | (2,076,856) | (2,764,069) | 1.54          | (1,674,182) | 2.18          |
| Outstanding at 31 December <sup>(2)</sup> | 1,101,201                      | 5,103,449   | 6,204,650   | 1.51          | 5,774,361   | 1.69          |
| Exercisable at 31 December                | 1,101,201                      | 571,777     | 1,672,978   | 2.71          | 2,177,898   | 2.82          |

(2) Of the 6,204,650 share options outstanding at 31 December 2015, 1,877,285 (31 December 2014: 5,436,956) are at a price above the year end share price of 119.7 pence (31 December 2014: 110.5 pence). The total value of these shares is £4.9 million (2014: £10.2 million).

The weighted average share price at the date of exercise for share options exercised during the year was £1.11 (2014: £1.35). The weighted average fair value of options granted during the year was 25.0 pence (2014: 33.0 pence). The weighted average remaining contractual life for the share options outstanding at 31 December 2015 is between two and three years (2014: between two and three years). The range of exercise prices for options outstanding at the end of the year was £0.91 – £3.60 (2014: £1.10 – £3.60).

At 31 December 2015, there were 2,743,200 options outstanding with an exercise price below £1.00, 2,368,579 options outstanding with an exercise price between £1.01 and £2.00, 6,752 options outstanding with an exercise price between £2.01 and £3.00, and 1,086,119 options outstanding with an exercise price between £3.01 and £3.60.

At 31 December 2014, there was no options outstanding with an exercise price below £1.00, there were 3,994,227 options outstanding with an exercise price between £1.10 and £2.00, 589,271 options outstanding with an exercise price between £2.01 and £3.00, and 1,190,863 options outstanding with an exercise price between £3.01 and £3.60.

## Notes to the consolidated financial statements continued

### 31 Share-based payments continued

The key inputs into the valuation models were as follows:

|                                     | 2015 | 2014 |
|-------------------------------------|------|------|
| Weighted average share price (£)    | 1.11 | 1.35 |
| Weighted average exercise price (£) | 0.92 | 1.17 |
| Expected volatility (%)             | 32.0 | 32.0 |
| Expected life (years)               | 2.2  | 2.10 |
| Risk free rate (%)                  | 0.79 | 1.10 |
| Expected dividend yield (%)         | 7.3  | 5.9  |

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised total expenses of £4.1 million (2014: £2.8million) relating to equity settled share-based payment transactions.

### 32 Commitments and contingencies

#### Operating lease commitments – Group as lessee

The Group has a number of lease agreements that, pursuant to their economic substance, qualify as non-cancellable operating lease agreements. These primarily relate to rents payable on land and buildings. The terms of the leases vary significantly but can broadly be summarised as follows:

#### Lease terms

Shop leases are typically agreed on five year exit cycles (either expiry or break), with a maximum term length of 15 years. Some leases are shorter in duration or with earlier exits.

#### Determination of rent payments

Rent payments are based on the amount specified in the agreement.

#### Terms of renewal

The agreements are not terminated automatically after expiry of the lease term and in the majority of cases, lease extension options have been agreed upon and in many other cases, there will be an opportunity to negotiate lease extensions with the lessor at market rates.

#### Restrictions

There are no restrictions imposed upon the Group concerning dividends, additional debt or further leasing under any of the existing lease arrangements.

Lease payments recognised as an expense for the year:

|                        | 2015<br>£m | 2014<br>£m |
|------------------------|------------|------------|
| Minimum lease payments | 68.9       | 68.3       |

Analysis of minimum lease payments by division:

|                 | 2015<br>£m  | 2014<br>£m  |
|-----------------|-------------|-------------|
| UK Retail       | 58.8        | 57.4        |
| European Retail | 8.8         | 9.8         |
| Digital         | 1.3         | 1.1         |
| <b>Total</b>    | <b>68.9</b> | <b>68.3</b> |

Future minimum rentals payable under non-cancellable operating leases at 31 December are as follows:

|   | 2015<br>£m   | 2014<br>£m   |
|---|--------------|--------------|
| Within one year                             | 60.5         | 64.9         |
| After one year but not more than five years | 147.8        | 168.7        |
| After five years                            | 58.0         | 88.8         |
| <b>Total</b>                                | <b>266.3</b> | <b>322.4</b> |

## 32 Commitments and contingencies continued

### Operating lease commitments – Group as lessor

The Group has entered into sublease agreements for unutilised space in the UK shop estate. These non-cancellable leases have remaining lease terms of between one and nine years.

Lease receipts recognised as income for the year:

|                        | 2015<br>£m | 2014<br>£m |
|------------------------|------------|------------|
| Minimum lease receipts | 2.9        | 2.4        |

Future minimum annual rentals receivable under non-cancellable operating leases at 31 December are as follows:

|   | 2015<br>£m | 2014<br>£m |
|---|------------|------------|
| Within one year                             | 0.3        | 0.6        |
| After one year but not more than five years | 1.0        | 0.9        |
| After five years                            | 0.5        | 0.4        |
|   | 1.8        | 1.9        |

### Contingent liabilities

Guarantees have been given in the ordinary course of business in respect of loans and derivative contracts granted to subsidiaries amounting to £325.0 million (2014: £442.0 million). There have been no loan guarantees given by subsidiaries in the normal course of business to other subsidiary companies (2014: £nil). Bank guarantees have been issued on behalf of subsidiaries with a value of £5.9 million (2014: £8.5 million) and the joint venture with a value of £8.9 million (2014: £7.7 million).

## 33 Related party disclosures

The consolidated financial statements include the financial statements of Ladbrokes plc and its subsidiaries. The companies listed below are those which were part of the Group at 31 December.

### Subsidiaries based in the United Kingdom

| Company   | % equity interest |       |
|---|-------------------|-------|
|   | 2015              | 2014  |
| Arbiter & Weston Limited <sup>(4)</sup>                                 | 100.0             | 100.0 |
| Bartletts Limited <sup>(4)</sup>  | 100.0             | 100.0 |
| Birchgree Limited <sup>(1), (3), (4)</sup>                              | 100.0             | 100.0 |
| Chequered Racing Limited <sup>(4)</sup>                                 | 100.0             | 100.0 |
| Competition Management Services Co. Limited <sup>(4)</sup>              | 97.5              | 97.5  |
| E.F. Politt & Son Limited <sup>(4)</sup>                                | 100.0             | 100.0 |
| Forestal Land, Timber and Railways Company Limited (The) <sup>(4)</sup> | 100.0             | 100.0 |
| Gable House Estates Limited <sup>(1), (4)</sup>                         | 100.0             | 100.0 |
| Ganton House Investments Limited  | 100.0             | 100.0 |
| Greatmark Limited <sup>(4)</sup>  | 100.0             | 100.0 |
| Hillford Estates Limited <sup>(4)</sup>                                 | 97.5              | 97.5  |
| Hindwain Limited  | 100.0             | 100.0 |
| J. Ward Hill & Company <sup>(4)</sup>                                   | 100.0             | 100.0 |
| Jack Brown (Bookmaker) Limited  | 100.0             | 100.0 |
| Jerusalem Development (Mamilla) Co. Limited <sup>(4)</sup>              | 100.0             | 100.0 |
| Jerusalem Development Corporation (Holdings) Limited <sup>(4)</sup>     | 100.0             | 100.0 |
| Krullind Limited <sup>(4)</sup>   | 100.0             | 100.0 |
| Ladbroke & Co., Limited <sup>(4)</sup>                                  | 100.0             | 100.0 |
| Ladbroke (Course) Limited <sup>(4)</sup>                                | 100.0             | 100.0 |
| Ladbroke (Rentals) Limited  | 100.0             | 100.0 |
| Ladbroke Corporate Director Limited <sup>(4)</sup>                      | 100.0             | 100.0 |
| Ladbroke Corporate Secretaries Limited <sup>(4)</sup>                   | 100.0             | 100.0 |
| Ladbroke Dormant Holding Company Limited <sup>(1), (3), (4)</sup>       | 100.0             | 100.0 |
| Ladbroke Entertainments Limited <sup>(1), (3)</sup>                     | 100.0             | 100.0 |
| Ladbroke Group <sup>(3), (4)</sup>                                      | 100.0             | 100.0 |
| Ladbroke Group Homes Limited <sup>(4)</sup>                             | 100.0             | 100.0 |

## Notes to the consolidated financial statements continued

**33 Related party disclosures continued****Subsidiaries based in the United Kingdom continued**

|  |       |       |
|--|-------|-------|
| Ladbroke Group International <sup>(4)</sup>                    | 100.0 | 100.0 |
| Ladbroke Group Properties Limited <sup>(1), (4)</sup>          | 100.0 | 100.0 |
| Ladbroke Land Limited <sup>(1), (4)</sup>                      | 100.0 | 100.0 |
| Ladbroke Leasing (South East) Limited <sup>(4)</sup>           | 100.0 | 100.0 |
| Ladbroke Racing (Reading) Limited <sup>(3), (4)</sup>          | 100.0 | 100.0 |
| Ladbroke Racing (South East) Limited <sup>(3)</sup>            | 100.0 | 100.0 |
| Ladbroke Retail Parks Limited <sup>(4)</sup>                   | 100.0 | 100.0 |
| Ladbroke US Investments Limited <sup>(4)</sup>                 | 100.0 | 100.0 |
| Ladbrokes (CLJEA) Limited <sup>(4)</sup>                       | 100.0 | 100.0 |
| Ladbrokes (CLJHC) Limited <sup>(4)</sup>                       | 100.0 | 100.0 |
| Ladbrokes (CLJSW) Limited <sup>(4)</sup>                       | 100.0 | 100.0 |
| Ladbrokes (Northern Ireland) (Holdings) Limited <sup>(4)</sup> | 100.0 | 100.0 |
| Ladbrokes (Northern Ireland) Limited <sup>(4)</sup>            | 100.0 | 100.0 |
| Ladbrokes Betting & Gaming Limited <sup>(2)</sup>              | 100.0 | 100.0 |
| Ladbrokes Contact Centre Limited <sup>(3)</sup>                | 100.0 | 100.0 |
| Ladbrokes Coral Limited <sup>(3)</sup>                         | 100.0 | 100.0 |
| Ladbrokes CPCB Limited <sup>(4)</sup>                          | 100.0 | 100.0 |
| Ladbrokes E-Gaming Limited <sup>(1)</sup>                      | 100.0 | 100.0 |
| Ladbrokes Group Finance plc <sup>(1), (2)</sup>                | 100.0 | 100.0 |
| Ladbrokes Group Holdings Limited <sup>(4)</sup>                | 100.0 | 100.0 |
| Ladbrokes Investments Holdings Limited <sup>(3), (4)</sup>     | 100.0 | 100.0 |
| Ladbrokes IT & Shared Services Limited <sup>(1)</sup>          | 100.0 | 100.0 |
| Ladbrokes Life Benefits Trustee Limited <sup>(1), (4)</sup>    | 100.0 | 100.0 |
| Ladbrokes PT Limited <sup>(4)</sup>                            | 100.0 | 100.0 |
| Ladbrokes Trustee Company Limited                              | 100.0 | 100.0 |
| London & Leeds Estates Limited <sup>(4)</sup>                  | 93.5  | 93.5  |
| Maple Court Investments Limited <sup>(3)</sup>                 | 100.0 | 100.0 |
| Margolis and Ridley Limited                                    | 100.0 | 100.0 |
| Moffat Lodge Motor Inn Limited <sup>(4)</sup>                  | 100.0 | 100.0 |
| New Angel Court Limited <sup>(1), (4)</sup>                    | 100.0 | 100.0 |
| North West Bookmakers Limited                                  | 100.0 | 100.0 |
| Paddington Casino Limited <sup>(1), (4)</sup>                  | 100.0 | 100.0 |
| Sabrinet Limited   | 100.0 | 100.0 |
| Sponsio Limited  | 100.0 | 100.0 |
| Techno Land Improvements Limited <sup>(4)</sup>                | 100.0 | 100.0 |
| Town and County Factors Limited <sup>(1)</sup>                 | 100.0 | 100.0 |
| Travel Document Service  | 100.0 | 100.0 |
| Ventnear Limited   | 100.0 | 100.0 |
| Vernons Competitions Company                                   | 100.0 | 100.0 |

**33 Related party disclosures continued****Subsidiaries based overseas**

| Country of incorporation                 | Company   | % equity interest |       |
|--|---|-------------------|-------|
|  |   | 2015              | 2014  |
| Australia                                | Gaming Investments Pty Ltd                              | 100.0             | 100.0 |
|  | Ladbrokes Digital Australia Pty Ltd <sup>(2)</sup>      | 100.0             | 100.0 |
|  | Ladbrokes Operations Australia Pty Ltd <sup>(4)</sup>   | 100.0             | 100.0 |
|  | LB Australia Holdings Pty Ltd <sup>(1)</sup>            | 100.0             | 100.0 |
|  | Panda Gaming Pty Ltd                                    | 100.0             | 100.0 |
| Belgium                                  | ALL BETS SPRL   | 100.0             | –     |
|  | ALMAK SPRL  | 100.0             | –     |
|  | BURAK SPRL  | 100.0             | –     |
|  | Ladbroke Belgium S.A. <sup>(1)</sup>                    | 100.0             | 100.0 |
|  | Lucky Bets SPRL   | 100.0             | –     |
|  | N.V. Derby S.A. <sup>(1)</sup>                          | 100.0             | 100.0 |
|  | PARI BENELUX SPRL                                       | 100.0             | –     |
|  | Pari Mutuel Management Services S.A.                    | 100.0             | 100.0 |
| Tierce Ladbroke S.A. <sup>(1), (2)</sup> | 100.0   | 100.0             |       |
| British Virgin Islands                   | Creative Trend Limited <sup>(4)</sup>                   | 100.0             | 100.0 |
|  | CTL Holdings International Limited <sup>(4)</sup>       | 100.0             | 100.0 |
|  | SRL Holdings International Limited <sup>(4)</sup>       | 100.0             | 100.0 |
|  | Sunrise Resources Limited <sup>(4)</sup>                | 100.0             | 100.0 |
| Cayman Islands                           | Cayman Investments Number 1 <sup>(4)</sup>              | 100.0             | 100.0 |
|  | International Finance Investment <sup>(4)</sup>         | 100.0             | 100.0 |
| Denmark                                  | Ladbrokes ApS   | 100.0             | 100.0 |
|  | Sponsio Denmark A/S                                     | 100.0             | 100.0 |
| Gibraltar                                | Balltree (International) Limited                        | 100.0             | 100.0 |
|  | Ladbrokes International plc <sup>(2)</sup>              | 100.0             | 100.0 |
|  | Ladbrokes Sportsbook Limited Partnership <sup>(2)</sup> | 100.0             | 100.0 |
| Guernsey                                 | Exchange Platform Solutions Limited                     | 100.0             | 100.0 |
| Hong Kong                                | Ladbrokes Lottery (Asia) Co. Limited <sup>(4)</sup>     | 100.0             | 100.0 |
| Ireland                                  | Ace Racing Limited <sup>(4)</sup>                       | 100.0             | 100.0 |
|  | Dara Properties Limited                                 | 100.0             | 100.0 |
|  | Gossamer Limited <sup>(4)</sup>                         | 100.0             | 100.0 |
|  | Harney Bookmakers Limited <sup>(4)</sup>                | 100.0             | 100.0 |
|  | Keenan Sport & Leisure Limited <sup>(4)</sup>           | 100.0             | 100.0 |
|  | Ladbroke (Ireland) Limited <sup>(2)</sup>               | 100.0             | 100.0 |
|  | Ladbroke Leisure (Ireland) Limited <sup>(2)</sup>       | 100.0             | 100.0 |
|  | Ladbroke Services (Ireland) Limited                     | 100.0             | 100.0 |
|  | Ladbrokes Payments (Ireland) Limited                    | 100.0             | –     |
| M D Betting Limited <sup>(4)</sup>       | 100.0   | 100.0             |       |
| Israel                                   | Ladbrokes Israel Limited <sup>(1), (2)</sup>            | 100.0             | 100.0 |
| Jersey                                   | IHF (Jersey) Limited                                    | 100.0             | 100.0 |
|  | Ladbroke (Channel Islands) Limited <sup>(4)</sup>       | 100.0             | 100.0 |
|  | Maple Court Investments (Jersey) Limited                | 100.0             | 100.0 |
| South Africa                             | Ladbrokes (SA) (Pty) Ltd <sup>(1)</sup>                 | 60.0              | 60.0  |
| Spain                                    | Ladbrokes Betting and Gaming Spain, S.A.                | 100.0             | 100.0 |
| Sweden                                   | Ladbrokes AB  | 100.0             | 100.0 |
|  | Sponsio Norden AB                                       | 100.0             | 100.0 |
| United States                            | Ladbrokes Holdco, Inc. <sup>(1)</sup>                   | 100.0             | 100.0 |
|  | Stadium Technology Group LLC                            | 79.0              | 79.0  |

(1) Directly owned by Ladbrokes plc.

(2) Companies that form part of the Group as at 31 December 2015 and which in the opinion of the directors principally affected the Group's reported results for the year.

(3) The Group will be exempting the indicated companies from an audit under section 479A of the Companies Act 2006, all of which are fully consolidated in these financial statements.

(4) Dormant and holding companies.

Notes to the consolidated financial statements continued**33 Related party disclosures continued****Joint Ventures**

| Country of incorporation | Company                                      | % equity interest |      |
|--------------------------|--|-------------------|------|
|                          |  | 2015              | 2014 |
| Mexico                   | Digital Gaming Mexico S.A.P.I.*              | 50.0              | 50.0 |
| Panama                   | Sportium Apuestas Panama*                    | 50.0              | –    |
| Spain                    | Cirsa Digital S.A.U.*                        | 50.0              | 50.0 |
|                          | Sportium Apostes Catalunya S.A.U.*           | 50.0              | 50.0 |
|                          | Sportium Apuestas Deportivas, S.A.           | 50.0              | 50.0 |
|                          | Sportium Apuestas Aragon, S.L.U.*            | 50.0              | 50.0 |
|                          | Sportium Apuestas Asturias S.A.U.*           | 50.0              | –    |
|                          | Sportium Apuestas Canarias S.L.U.*           | 50.0              | 50.0 |
|                          | Sportium Apuestas Castilla La Mancha S.L.U.* | 50.0              | 50.0 |
|                          | Sportium Apuestas Galicia, S.L.U.*           | 50.0              | 50.0 |
|                          | Sportium Apuestas Levante, S.A.U.*           | 50.0              | 50.0 |
|                          | Sportium Apuestas Melilla S.L.U.*            | 50.0              | –    |
|                          | Sportium Apuestas Navarra S.A.U.*            | 50.0              | 50.0 |
|                          | Sportium Apuestas Oeste S.A.U.*              | 50.0              | 50.0 |
|                          | Sportium Zona Norte S.A.U.*                  | 50.0              | 50.0 |

**Other Associates**

| Country of incorporation | Company   | % equity interest |      |
|--------------------------|---|-------------------|------|
|                          |   | 2015              | 2014 |
| China                    | Asia Gaming Technologies (Beijing) Co., Ltd*      | 49.0              | 49.0 |
|                          | Asia Gaming Technologies (Tianjin) Co., Ltd*      | 49.0              | 49.0 |
| Hong Kong                | Asia Gaming Technologies Limited                  | 49.0              | 49.0 |
| United Kingdom           | 49's Limited                                      | 33.3              | 33.3 |
|                          | Games For Good Causes PLC                         | 36.3              | 36.3 |
|                          | Lucky Choice Limited                              | 33.3              | 33.3 |
|                          | Satellite Information Services (Holdings) Limited | 23.4              | 23.4 |

\* Subsidiary of Sportium Apuestas Deportivas, S.A. in Spain.

### 33 Related party disclosures continued

Other than its associates and joint venture, the related parties of the Group are the executive directors, non-executive directors and members of the Executive Committee of the Group.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates and joint venture and other related parties are disclosed below.

#### Trading transactions

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

|   | 2015<br>£m | 2014<br>£m |
|---|------------|------------|
| <b>Equity investment</b>                              |            |            |
| – Joint venture <sup>(1)</sup>                        | 2.8        | 4.1        |
| <b>Loans</b>  |            |            |
| – Movement in loan balance with joint venture partner | –          | (1.6)      |
| – Movement in loan balance with joint venture         | 0.1        | –          |
| <b>Dividends received</b>                             |            |            |
| – Associates <sup>(2)</sup>                           | –          | 1.2        |
| <b>Sundry expenditure</b>                             |            |            |
| – Associates <sup>(3)</sup>                           | 52.1       | 51.0       |

(1) Equity investment in Sportium Apuestas Deportivas SA.

(2) Dividend received from Satellite Information Services (Holdings) Limited.

(3) Payments in the normal course of business made to Satellite Information Services (Holdings) Limited.

#### Details of related party outstanding balances

|                                      | 2015<br>£m | 2014<br>£m |
|--------------------------------------|------------|------------|
| <b>Loan balances outstanding</b>     |            |            |
| – Joint venture                      | 0.6        | 0.5        |
| <b>Other receivables outstanding</b> |            |            |
| – Associates                         | 1.6        | 1.4        |
| – Joint venture                      | 1.6        | 1.2        |

#### Terms and conditions of transactions with related parties

Sales to, and purchases from, related parties are made at market prices and in the ordinary course of business. Outstanding balances at 31 December 2015 are unsecured and settlement occurs in cash. For the year ended 31 December 2015, the Group has not raised any provision (2014: £nil) for doubtful debts relating to amounts owed by related parties as the payment history has been good. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

## Notes to the consolidated financial statements continued

### 33 Related party disclosures continued

#### Compensation of key management personnel of the Group

The remuneration of key management personnel is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Key management personnel comprise executive directors, non-executive directors and members of the Executive Committee. Further information about the remuneration of individual directors, which totalled £2.1 million (2014: £1.8 million), is provided in the audited part of the Directors' Remuneration Report on pages 51 to 71.

|  | 2015<br>£m | 2014<br>£m |
|--|------------|------------|
| Short-term employee benefits                               | 2.9        | 3.1        |
| Post-employment benefits                                   | 0.6        | 0.5        |
| Termination benefits                                       | 1.4        | 0.2        |
| Share-based payments                                       | 2.6        | 2.4        |
| <b>Total compensation paid to key management personnel</b> | <b>7.5</b> | <b>6.2</b> |

Directors' interests in the employee share incentive plan and employee share trust are disclosed within the Directors' remuneration report.

### 34 Proposed merger with Coral

Ladbrokes plc and Gala Coral Group Limited have agreed terms of a recommended merger (the "Merger") of Ladbrokes with certain businesses of Gala Coral, including Coral Retail, Eurobet Retail and Gala Coral's Online business to create a leading European betting and gaming group that is better positioned to compete more effectively (the "Combined Entity").

#### Funding

In October 2015 the Group signed a £1.35 billion facility with a syndicate of relationship banks to provide committed financing for the proposed merger.

The new facility has three tranches and will be available for drawing subject to completion of the merger with Coral.

- Tranche A – £600 million Term Facility - October 2016 and, subject to extension options, January 2018
- Tranche B – £400 million Revolving Credit Facility – October 2020
- Tranche C – £350 million Revolving Credit Facility – June 2019

The Group's remaining standalone £350 million June 2019 bank facilities will be cancelled as a condition precedent to drawing on the new facility.

Cash costs of £3.8 million in relation to the new facility have been capitalised within financial assets.

#### Playtech Agreement

To assist in the flexibility for the Combined Entity to achieve integration and realise synergies, Playtech plc has agreed conditional upon completion, to accelerate the determination of amounts due to it under its marketing services agreement with Ladbrokes.

The sum agreed is £75 million, of which £40 million shall be satisfied by way of the issue of shares in the Combined Entity on completion of the Merger and with a further guaranteed £35 million in cash paid upon the delivery by Playtech of key operational milestones but, in any event, within 42 months following completion of the Merger.

### 35 Subsequent events

There were no material subsequent events that required adjustment or disclosure in the financial statements.

# Company financial statements contents

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# Company balance sheet

| At 31 December                    | Note | 2015<br>£m       | 2014<br>£m |
|-----------------------------------|------|------------------|------------|
| <b>Assets</b>                     |      |                  |            |
| <b>Non-current assets</b>         |      |                  |            |
| Investments in subsidiaries       | 7    | 2,264.0          | 3,893.9    |
| Retirement benefit asset          |      | 76.3             | 69.5       |
|                                   |      | <b>2,340.3</b>   | 3,963.4    |
| <b>Current assets</b>             |      |                  |            |
| Trade and other receivables       | 8    | 2.2              | 0          |
| Cash and cash equivalents         |      | 2.3              | 2.6        |
|                                   |      | <b>4.5</b>       | 2.6        |
| <b>Total assets</b>               |      | <b>2,344.8</b>   | 3,966.0    |
| <b>Liabilities</b>                |      |                  |            |
| <b>Current liabilities</b>        |      |                  |            |
| Trade and other payables          | 9    | (1,025.9)        | (2,272.8)  |
|                                   |      | <b>(1,025.9)</b> | (2,272.8)  |
| <b>Non-current liabilities</b>    |      |                  |            |
| Trade and other payables          | 9    | (3.9)            | (9.5)      |
| Deferred tax liabilities          | 10   | (12.5)           | (11.4)     |
|                                   |      | <b>(16.4)</b>    | (20.9)     |
| Total liabilities                 |      | <b>(1,042.3)</b> | (2,293.7)  |
| <b>Net assets</b>                 |      | <b>1,302.5</b>   | 1,672.3    |
| <b>Shareholders' equity</b>       |      |                  |            |
| Issued share capital              | 12   | 297.5            | 270.5      |
| Share premium                     | 13   | 302.9            | 214.9      |
| Treasury and own shares           | 13   | (112.3)          | (116.1)    |
| Capital reserve                   | 13   | 0.1              | 0.1        |
| Retained earnings                 | 13   | 814.3            | 1302.9     |
| <b>Total shareholders' equity</b> |      | <b>1,302.5</b>   | 1,672.3    |

The notes on pages 131 to 140 are an integral part of these financial statements.

Approved by the Board of Directors on 22 February 2016.

**Jim Mullen**

**Ian Bull**

Directors

# Notes to the Company financial statements

## 1 General information

Ladbrokes Plc ('the Company') is a limited company incorporated and domiciled in the United Kingdom. The address of its registered office and principal place of business is disclosed in the Directors' report.

The financial statements of the Company for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the directors on 22 February 2016.

The parent Company loss for the year was £430.3 million (2014: loss of £155.8 million (restated)).

The Company has taken advantage of the exemption from preparing a cash flow statement under paragraph 8(g) of the disclosure exemptions from EU-adopted IFRS for qualifying entities included in Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The Ladbrokes plc consolidated financial statements for the year ended 31 December 2015 contain a consolidated statement of cash flows.

The Company is exempt under paragraph 8(k) of the disclosure exemptions from EU-adopted IFRS included in FRS 101 for qualifying entities from disclosing related party transactions with entities that form part of the Ladbrokes plc group of which Ladbrokes plc is the ultimate parent undertaking.

The Company's financial statements are presented in Pounds Sterling (£), which is also the Company's functional currency, and all values are rounded to the nearest million (£m) except when otherwise indicated. The Company's financial statements are individual entity financial statements.

## 2 Basis of preparation

The Company transitioned to FRS 101 'Reduced disclosure framework'. Figures for comparative periods have been restated with details of adjustments set out in note 17.

These financial statements were prepared in accordance with FRS 101 and Companies Act 2006. The financial statements are prepared on a going concern basis under the historical cost convention except for certain financial liabilities measured at fair value.

The accounting policies which follow in note 3 set out those policies which apply in preparing the financial statements for the year ended 31 December 2015 and have been applied consistently to all years presented.

The Company has taken advantage of the following disclosure exemptions under FRS 101 in respect of:

- (a) IFRS 3 Business Combinations;
- (b) the requirements of IFRS 7 Financial Instruments: Disclosures;
- (c) IFRS 13 Fair Value Measurement
- (d) Share-based payments
- (e) Intra-Group-related party transactions;
- (f) Related party transactions.

## Income statement

For details of audit fees, see note 7 of the consolidated financial statements.

As permitted by section 408 of the Companies Act 2006, the income statement and the statement of comprehensive income of the parent Company have not been separately presented in these financial statements.

## 3 Summary of significant accounting policies

### Investments

Investments held as fixed assets are stated at cost less provision for impairment.

As at 1 January 2014, in accordance with Paragraph D15 of IFRS 1 'First time adoption of International Financial Reporting Standards' (IFRS 1) Appendix D, the Company has measured all investments at a deemed cost, being the previous GAAP carrying amount as at this date.

The Company assesses these investments for impairment wherever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of the recoverable amount. If the recoverable amount is less than the value of the investment, the investment is considered to be impaired and is written down to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account.

### Cash and cash equivalents

Cash and short term deposits in the balance sheet consist of cash at banks and in hand, short-term deposits with an original maturity of less than three months.

### Financial assets

Financial assets are recognised when the Company becomes party to the contracts that give rise to them.

The Company classifies financial assets at inception as either financial assets at fair value or loans and receivables. On initial recognition, loans and receivables are measured at fair value. Financial assets at fair value comprise guarantees provided to the Company. Financial assets at fair value through profit or loss are measured initially at fair value, with transaction costs taken directly to income statement. Subsequently, the fair values are remeasured and gains and losses from changes therein are recognised in the income statement.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. On initial recognition, loans and receivables are measured at fair value plus directly attributable transaction costs. Subsequently, such assets are measured at amortised cost, using the effective interest (EIR) method, less any allowance for impairment.

## Notes to the Company financial statements continued

### 3 Summary of significant accounting policies continued

#### Financial liabilities

Financial liabilities comprise guarantees given to third parties and contingent consideration. On initial recognition, financial liabilities are measured at fair value plus transaction costs where they are not categorised as financial liabilities at fair value through profit or loss. Financial liabilities at fair value through profit or loss are measured initially at fair value, with transaction costs taken directly to the income statement. Subsequently, the fair values are remeasured and gains and losses from changes therein are recognised in the income statement.

#### Financial guarantee contracts

The Company has provided financial guarantees to third parties in respect of lease obligations of certain of the Company's former subsidiaries relating to the disposed hotels division.

Financial guarantee contracts are classified as financial liabilities and are measured at fair value by estimating the probability of the guarantees being called upon and the related cash outflows from the Company.

#### Derecognition of financial assets and liabilities

Financial assets are derecognised when the right to receive cash flows from the assets has expired or when the Company has transferred its contractual right to receive the cash flows from the financial assets or has assumed an obligation to pay the received cash flows in full without material delay to a third party, and either:

- Substantially all the risks and rewards of ownership have been transferred; or
- Substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

#### Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is recognised using the tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply then the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are only recognised to the extent it is probable that there will be suitable taxable profits from which they can be recovered.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax balances are not discounted.

#### Foreign currency translation

The presentation and functional currency of the Company is Pounds Sterling (£).

Transactions in foreign currencies are initially recorded in Pounds Sterling (£) at the foreign currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Pounds Sterling (£) at the rates of exchange ruling at the balance sheet date (the closing rate).

All foreign currency translation differences are taken to the income statement with the exception of differences on foreign currency borrowings that provide a post-tax hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

#### Dividends

Final dividends proposed by the Board of directors and unpaid at the year end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting. Interim dividends are recognised when paid.

### **Pensions and other post-employment benefit obligations**

The Company is the principal employer of the Ladbrokes Pension Plan, a funded defined benefit group plan. The pension cost relating to the plan is assessed in accordance with the advice of independent qualified actuaries using the projected unit credit method.

Any actuarial gains or losses are taken to equity in the period in which they arise. Any past service costs are recognised immediately to the extent that benefits have already vested and, otherwise, are amortised on a straight line basis over the average period until the benefits vest.

The defined benefit asset recognised in the balance sheet represents the fair value of plan assets less the present value of defined benefit obligations as adjusted for any unrecognised past service costs. The Company recognises its pension surplus in full on the basis that it does not consider there to be substantive restrictions on the return of residual plan assets in the event of a winding up of the plan after all member obligations have been met. The related tax is accounted on an income basis.

#### **Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

#### **ESOP trusts**

Where the Company holds its own equity shares through an ESOP trust these shares are shown as a reduction in equity. Any consideration paid or received for the purchase or sale of these shares is recognised as deductions in equity and no gain or loss is recognised within the income statement or the statement of total recognised gains and losses on the purchase, sale or cancellation of these shares.

#### **Treasury shares**

Own equity instruments that are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

#### **Share-based payments**

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted (see note 31 of the consolidated financial statements for further details).

The cost of equity settled transactions is recharged to the respective employing entities, with a corresponding increase in equity booked within Ladbrokes plc.

### **4 Judgements and key sources of estimation uncertainty**

The preparation of financial statements requires management to make assumptions, estimates and judgements that affect the amounts reported as assets and liabilities as at the balance sheet date and the amounts reported as revenues and expenses during the year. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future may differ from those reported. In this regard, management believes that the accounting policies where judgement is necessarily applied are those that relate to:

- the cost of pension and other post employment benefit obligations;
- income tax;
- contingent consideration; and
- valuation of financial guarantee contracts.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. The following estimates are dependent upon assumptions which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the balance sheet date:

#### **Pension and other post-employment benefit obligations**

The cost of defined benefit pension plans and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

#### **Financial guarantee contracts**

The valuation of financial guarantee contracts and related indemnities requires use of assumptions of the risks of default of the guaranteed entities and the credit profiles of the counterparties.

#### **Income tax**

Significant judgement is required in determining the provision for income taxes due to the uncertainty of the amount of income tax that may be payable, and in respect of determining the level of the future taxable profits of the Company that support the recoverability of the deferred tax asset.

## Financial statements

## Notes to the Company financial statements continued

## 5 Dividends

| Pence per share                        | 2015<br>pence | 2014<br>pence |
|--|---------------|---------------|
| Interim dividend paid                  | 1.0           | 4.3           |
| Final dividend proposed <sup>(1)</sup> | 2.0           | 4.6           |
|  | 3.0           | 8.9           |

(1) A final dividend of 2.0 pence (2014: 4.6 pence) per share, amounting to £20.4 million (2014: £42.1 million) in respect of the year ended 31 December 2015 was declared by the directors on 22 February 2016. The total amount payable in respect of the final dividend is based on the expected number of shares in issue on 24 March 2016. The 2015 interim dividend of 1.0 pence per share (£10.2 million) was paid on 12 November 2015.

## 6 Investments in subsidiaries

|                                  | Shares in<br>Group<br>companies<br>£m | Unlisted<br>investments at<br>cost<br>£m | Total<br>£m    |
|----------------------------------|---------------------------------------|--|----------------|
| <b>Cost</b>                      |                                       |  |                |
| At 1 January 2014 <sup>(1)</sup> | 3,968.2                               | 10.2                                     | 3,978.4        |
| Additions                        | 46.5                                  | –  | 46.5           |
| Disposals                        | (38.6)                                | –  | (38.6)         |
| <b>At 31 December 2014</b>       | <b>3,976.1</b>                        | <b>10.2</b>                              | <b>3,986.3</b> |

## Impairment provision

|                                     |             |          |             |
|-------------------------------------|-------------|----------|-------------|
| At 1 January 2014                   | –           | –        | –           |
| Provided in the year <sup>(2)</sup> | 92.4        | –        | 92.4        |
| <b>At 31 December 2014</b>          | <b>92.4</b> | <b>–</b> | <b>92.4</b> |

## Net book value

|                            |                |             |                |
|----------------------------|----------------|-------------|----------------|
| At 1 January 2014          | 3,968.2        | 10.2        | 3,978.4        |
| <b>At 31 December 2014</b> | <b>3,883.7</b> | <b>10.2</b> | <b>3,893.9</b> |

## Cost

|                            |                |             |                |
|----------------------------|----------------|-------------|----------------|
| At 1 January 2015          | 3,976.10       | 10.2        | 3,986.3        |
| Additions <sup>(3)</sup>   | 9.1            | –           | 9.1            |
| Disposals <sup>(4)</sup>   | (1,639.0)      | –           | (1,639.0)      |
| <b>At 31 December 2015</b> | <b>2,346.2</b> | <b>10.2</b> | <b>2,356.4</b> |

## Impairment provision

|                            |             |          |             |
|----------------------------|-------------|----------|-------------|
| At 1 January 2015          | 92.4        | –        | 92.4        |
| <b>At 31 December 2015</b> | <b>92.4</b> | <b>–</b> | <b>92.4</b> |

## Net book value

|                            |                |             |                |
|----------------------------|----------------|-------------|----------------|
| At 1 January 2015          | 3,883.7        | 10.2        | 3,893.9        |
| <b>At 31 December 2015</b> | <b>2,253.8</b> | <b>10.2</b> | <b>2,264.0</b> |

(1) As at 1 January 2014, in accordance with Paragraph D15 of IFRS 1 'First time adoption of International Financial Reporting Standards' (IFRS 1) Appendix D, the Company has measured all investments at a deemed cost, being the previous GAAP carrying amount as at this date. On this basis, as at 1 January the accumulated impairment balance (£3,659.9 million) been netted off against the cost of the shares in Group companies (£7,628.1 million).

(2) The Company had provided against three of its subsidiaries following the annual impairment review.

(3) Additions of £9.1 million for additional subscription of 19.3 million shares in LB Australia Holdings Pty Ltd, a subsidiary of the Company.

(4) Disposals of £1,639 million relates to the sale of 100% ordinary shares in Ladbrokes Group Holdings Limited for a loss of £337.4 million.

Subsidiaries and other related entities are listed in note 33 of the consolidated financial statements.

**7 Trade and other receivables**

|                                  | 2015<br>£m | 2014<br>£m |
|----------------------------------|------------|------------|
| Amounts due from Group companies | 2.2        | –          |
|                                  | <b>2.2</b> | –          |

**8 Trade and other payables**

|                                | 2015<br>£m     | 2014<br>£m |
|--------------------------------|----------------|------------|
| <b>Current</b>                 |                |            |
| Amounts due to Group companies | 1,021.4        | 2,270.6    |
| Accruals and deferred income   | 2.6            | 2.2        |
| Other payables                 | 1.9            | –          |
|                                | <b>1,025.9</b> | 2,272.8    |
| <b>Non-current</b>             |                |            |
| Other payables                 | 3.9            | 9.5        |
|                                | <b>3.9</b>     | 9.5        |

**Financial guarantee contracts to third parties**

The Company has given guarantees to third parties in respect of lease liabilities of former subsidiaries within the disposed hotels division. See note 25 of the consolidated financial statements for full disclosure.

**9 Deferred tax**

Deferred tax at 31 December relates to the following:

|                            | Company<br>balance<br>sheet |            | Company<br>income<br>statement |            |
|----------------------------|-----------------------------|------------|--------------------------------|------------|
|                            | 2015<br>£m                  | 2014<br>£m | 2015<br>£m                     | 2014<br>£m |
| Deferred tax liabilities   |                             |            |                                |            |
| Retirement benefit asset   | 13.7                        | 13.8       | (0.7)                          | 2.9        |
| Deferred tax liabilities   | 13.7                        | 13.8       |                                |            |
| Deferred tax assets        |                             |            |                                |            |
| Share-based payments       | (1.2)                       | (2.4)      | 1.2                            | 0.4        |
| Deferred tax assets        | (1.2)                       | (2.4)      |                                |            |
| Deferred tax charge        |                             |            | 0.5                            | 3.3        |
| Net deferred tax liability | 12.5                        | 11.4       |                                |            |

Analysis of movements in deferred tax:

|  | 2015<br>£m    | 2014<br>£m    |
|--|---------------|---------------|
| At 1 January   | (11.4)        | (10.8)        |
| Amounts charged to the profit and loss account for the year            | (0.5)         | (3.3)         |
| Deferred tax (credited)/charged directly to other comprehensive income | (0.6)         | 2.7           |
| <b>At 31 December</b>  | <b>(12.5)</b> | <b>(11.4)</b> |

Deferred tax assets have not been recognised in respect of the carried forward tax losses, because it is not probable that future taxable profit will be available against which the Company can use the benefits therefrom.

|            | 2015<br>£m | 2014<br>£m |
|------------|------------|------------|
| Tax losses | 20.1       | 27.7       |

Notes to the Company financial statements continued**10 Financial risk management objectives and policies**

The financial risk management objectives and policies applied by the Company are in line with those of the Group as disclosed in note 24 to the Consolidated financial statements.

**11 Share capital**

|                                | Number of 28½p<br>ordinary shares | £m           |
|--------------------------------|-----------------------------------|--------------|
| Issued and fully paid:         |                                   |              |
| At 1 January 2014              | 951,165,221                       | 269.5        |
| During the year                | 3,460,108                         | 1.0          |
| At 31 December 2014            | 954,625,329                       | 270.5        |
| During the year <sup>(1)</sup> | 95,387,740                        | 27.0         |
| <b>At 31 December 2015</b>     | <b>1,050,013,069</b>              | <b>297.5</b> |

(1) See note 27 in the notes to the consolidated financial statements.

|  | Number of 28½p<br>ordinary shares |
|--|-----------------------------------|
| Shares issued at 31 December 2014                                  | 954,625,329                       |
| Treasury shares  | (31,760,568)                      |
| Shares issued at 31 December 2014 excluding treasury shares        | 922,864,761                       |
| <b>Shares issued at 31 December 2015</b>                           | <b>1,050,013,069</b>              |
| <b>Treasury shares</b>   | <b>(31,760,568)</b>               |
| <b>Shares issued at 31 December 2015 excluding treasury shares</b> | <b>1,018,252,501</b>              |

## 12 Reconciliation of movements in equity

|  | Called up<br>share capital<br>£m | Share<br>premium<br>account<br>£m | Treasury and<br>own shares<br>£m | Capital<br>reserve<br>£m | Retained earnings<br>£m | Total<br>£m    |
|--|----------------------------------|-----------------------------------|----------------------------------|--------------------------|-------------------------|----------------|
| <b>At January 2014</b>                     | <b>269.5</b>                     | <b>212.9</b>                      | <b>(116.7)</b>                   | <b>0.1</b>               | <b>1,536.3</b>          | <b>1,902.1</b> |
| Loss for the year                          | –                                | –                                 | –                                | –                        | (155.8)                 | (155.8)        |
| Other comprehensive income                 | –                                | –                                 | –                                | –                        | 4.3                     | 4.3            |
| Total comprehensive expense                | –                                | –                                 | –                                | –                        | (151.5)                 | (151.5)        |
| Issue of shares                            | 1.0                              | 2.0                               | –                                | –                        | –                       | 3.0            |
| Share-based payments charge                | –                                | –                                 | –                                | –                        | 2.8                     | 2.8            |
| Net movement in shares held in ESOP trusts | –                                | –                                 | 0.6                              | –                        | (3.3)                   | (2.7)          |
| Equity dividends                           | –                                | –                                 | –                                | –                        | (81.4)                  | (81.4)         |
| <b>At 31 December 2014</b>                 | <b>270.5</b>                     | <b>214.9</b>                      | <b>(116.1)</b>                   | <b>0.1</b>               | <b>1,302.9</b>          | <b>1,672.3</b> |
| Loss for the year                          | –                                | –                                 | –                                | –                        | (430.3)                 | (430.3)        |
| Other comprehensive income                 | –                                | –                                 | –                                | –                        | 2.6                     | 2.6            |
| Total comprehensive expense                | –                                | –                                 | –                                | –                        | (427.7)                 | (427.7)        |
| Issue of shares <sup>(1)</sup>             | 27.0                             | 88.0                              | –                                | –                        | –                       | 115.0          |
| Share-based payments charge                | –                                | –                                 | –                                | –                        | 3.1                     | 3.1            |
| Net movement in shares held in ESOP trusts | –                                | –                                 | 3.8                              | –                        | (11.7)                  | (7.9)          |
| Equity dividends                           | –                                | –                                 | –                                | –                        | (52.3)                  | (52.3)         |
| <b>At 31 December 2015</b>                 | <b>297.5</b>                     | <b>302.9</b>                      | <b>(112.3)</b>                   | <b>0.1</b>               | <b>814.3</b>            | <b>1,302.5</b> |

(1) The issue of shares has been disclosed net of transaction cost of £2.6m.

## 13 Employee share ownership plans

Details of the employee share ownership plans of the Company are given in note 27 of the Consolidated financial statements. The following table shows the number of shares held in trust that have not yet vested unconditionally and the associated reduction in shareholders' funds.

|   | LSOT                  |                         | LSIP                  |                         | Total                 |                         |
|---|-----------------------|-------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
|   | Shares held<br>Number | Cost of<br>shares<br>£m | Shares held<br>Number | Cost of<br>shares<br>£m | Shares held<br>Number | Cost of<br>shares<br>£m |
| At 1 January 2015 <sup>(1)</sup>        | 7,661,052             | 10.4                    | 865,143               | 0.4                     | 8,526,195             | 10.8                    |
| Shares purchased/allocated              | 600,000               | 0.6                     | 486,021               | 0.3                     | 1,086,021             | 0.9                     |
| Vested in year                          | (3,882,972)           | (4.3)                   | (305,734)             | (0.3)                   | (4,188,706)           | (4.6)                   |
| <b>At 31 December 2015</b>              | <b>4,378,080</b>      | <b>6.7</b>              | <b>1,045,430</b>      | <b>0.4</b>              | <b>5,423,510</b>      | <b>7.1</b>              |
| <b>Market value of shares in trusts</b> |                       | <b>5.2</b>              |                       | <b>1.3</b>              |                       | <b>6.5</b>              |

(1) Includes an award of 4,035,784 shares allotted by the Company in 2010 and held jointly between the participant and Computershare Trustees (CI) Limited under the Ladbroke's Growth Plan.

## 14 Retirement benefit schemes

As Ladbroke's plc is the 'Principal Employer' under the Scheme rules and as it ultimately bears the risk and cost of the Plan in practice the defined benefit pension scheme is solely accounted for in Ladbroke's plc.

There is also no contractual agreement or stated policy in place between sponsoring entities for recharging net defined benefit cost of the pension scheme.

See note 30 of the consolidated financial statements for disclosure of retirement benefit schemes.

## 15 Contingencies

Guarantees have been given in the ordinary course of business in respect of loans and derivative contracts granted to subsidiaries amounting to £325.0 million (2014: £442.0 million). There have been no loans guaranteed by subsidiary companies.

Bank guarantees have been issued on behalf of subsidiaries with a value of £5.9 million (2014: £8.5 million) and the joint venture with a value of £8.9 million (2014: £7.7 million).

For UK corporation tax purposes, the Company has made collective payment arrangements with other undertakings in the Group. Under these arrangements the Company has a joint and several liability for amounts owed by those undertakings to HM Revenue & Customs.

## Notes to the Company financial statements continued

**16 Related party transactions**

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly-owned subsidiaries. See note 33 of the consolidated financial statements for disclosure of key management personnel.

**17 Transition to FRS 101**

The financial statements for the year ended 31 December 2015 are the first the Company has prepared in accordance with FRS 101. For periods up to and including the year ended 31 December 2014, the Company prepared its financial statements in accordance with UK generally accepted accounting practice (UK GAAP).

In preparing these financial statements, the Company's opening balance sheet was prepared as at 1 January 2014, the Company's date of transition to FRS 101. This note explains the principal adjustments made by the Company in restating its UK GAAP statement of financial position as at 1 January 2014 and its previously published UK GAAP financial statements as at and for the year ended 31 December 2014.

**Exemptions applied**

IFRS 1 allows first-time adopters certain exemptions from the general requirement to apply IFRS as effective for 31 December 2015 year ends retrospectively. The Company has taken the following exemptions:

- The Company has applied the transitional provision in IFRS 1 to recognise investments in subsidiaries and joint ventures at 1 January 2014 at deemed cost, being the carrying value under UK GAAP; and
- *IFRS 3 Business Combinations* has not been applied to acquisitions that occurred before 1 January 2014.

**Reconciliation of equity as at 1 January 2014**

| At 31 December 2013               | Note 17 | UK GAAP<br>£m | Reclassifications<br>£m | Remeasurements<br>£m | FRS 101<br>£m |
|-----------------------------------|---------|---------------|-------------------------|----------------------|---------------|
| <b>Assets</b>                     |         |               |                         |                      |               |
| <b>Non-current assets</b>         |         |               |                         |                      |               |
| Investments in subsidiaries       |         | 3,978.4       | –                       | –                    | 3,978.4       |
| Retirement benefit asset          | 1,2     | 26.8          | 6.7                     | 19.6                 | 53.1          |
|                                   |         | 4,005.2       | 6.7                     | 19.6                 | 4,031.5       |
| <b>Current assets</b>             |         |               |                         |                      |               |
| Trade and other receivables       | 3       | 19.4          | (2.8)                   | (16.4)               | 0.2           |
| Cash and cash equivalents         |         | 2.5           | –                       | –                    | 2.5           |
|                                   |         | 21.9          | (2.8)                   | (16.4)               | 2.7           |
| <b>Total assets</b>               |         | 4,027.1       | 3.9                     | 3.2                  | 4,034.2       |
| <b>Liabilities</b>                |         |               |                         |                      |               |
| <b>Current liabilities</b>        |         |               |                         |                      |               |
| Trade and other payables          | 2       | (2,068.6)     | –                       | (45.5)               | (2,114.1)     |
|                                   |         | (2,068.6)     | –                       | (45.5)               | (2,114.1)     |
| <b>Non-current liabilities</b>    |         |               |                         |                      |               |
| Trade and other payables          |         | (7.2)         | –                       | –                    | (7.2)         |
| Deferred tax liabilities          | 1,4     | –             | (3.9)                   | (6.9)                | (10.8)        |
|                                   |         | (7.2)         | (3.9)                   | (6.9)                | (18.0)        |
| <b>Total liabilities</b>          |         | (2,075.8)     | (3.9)                   | (52.4)               | (2,132.1)     |
| <b>Net assets</b>                 |         | 1,951.3       | –                       | (49.2)               | 1,902.1       |
| <b>Shareholders' equity</b>       |         |               |                         |                      |               |
| Issued share capital              |         | 269.5         | –                       | –                    | 269.5         |
| Share premium                     |         | 212.9         | –                       | –                    | 212.9         |
| Treasury and own shares           |         | (116.7)       | –                       | –                    | (116.7)       |
| Capital reserve                   |         | 0.1           | –                       | –                    | 0.1           |
| Retained earnings                 |         | 1,585.5       | –                       | (49.2)               | 1,536.3       |
| <b>Total shareholders' equity</b> |         | 1,951.3       | –                       | (49.2)               | 1,902.1       |

**17 Transition to FRS 101 continued****Reconciliation of equity as at 31 December 2014**

| At 31 December 2014               | Note 17 | UK GAAP<br>£m | Reclassifications<br>£m | Remeasurements<br>£m | FRS 101<br>£m |
|-----------------------------------|---------|---------------|-------------------------|----------------------|---------------|
| <b>Assets</b>                     |         |               |                         |                      |               |
| <b>Non-current assets</b>         |         |               |                         |                      |               |
| Investments in subsidiaries       |         | 3,893.9       | –                       | –                    | 3,893.9       |
| Retirement benefit asset          | 1,2     | 1.3           | 0.3                     | 67.9                 | 69.5          |
|                                   |         | 3,895.2       | 0.3                     | 67.9                 | 3,963.4       |
| <b>Current assets</b>             |         |               |                         |                      |               |
| Trade and other receivables       | 1,3     | 57.2          | (2.4)                   | (54.8)               | –             |
| Cash and cash equivalents         |         | 2.6           | –                       | –                    | 2.6           |
|                                   |         | 59.8          | (2.4)                   | (54.8)               | 2.6           |
| <b>Total assets</b>               |         | 3,955.0       | (2.1)                   | 13.1                 | 3,966.0       |
| <b>Liabilities</b>                |         |               |                         |                      |               |
| <b>Current liabilities</b>        |         |               |                         |                      |               |
| Trade and other payables          | 2       | (2,224.6)     | –                       | (48.2)               | (2,272.8)     |
|                                   |         | (2,224.6)     | –                       | (48.2)               | (2,272.8)     |
| <b>Non-current liabilities</b>    |         |               |                         |                      |               |
| Trade and other payables          |         | (9.5)         | –                       | –                    | (9.5)         |
| Deferred tax liabilities          | 1,4     | –             | 2.1                     | (13.5)               | (11.4)        |
|                                   |         | (9.5)         | 2.1                     | (13.5)               | (20.9)        |
| <b>Total liabilities</b>          |         | (2,234.1)     | 2.1                     | (61.7)               | (2,293.7)     |
| <b>Net assets</b>                 |         | 1,720.9       | –                       | (48.6)               | 1,672.3       |
| <b>Shareholders' equity</b>       |         |               |                         |                      |               |
| Issued share capital              |         | 270.5         | –                       | –                    | 270.5         |
| Share premium                     |         | 214.9         | –                       | –                    | 214.9         |
| Treasury and own shares           |         | (116.1)       | –                       | –                    | (116.1)       |
| Capital reserve                   |         | 0.1           | –                       | –                    | 0.1           |
| Retained earnings                 |         | 1,351.5       | –                       | (48.6)               | 1,302.9       |
| <b>Total shareholders' equity</b> |         | 1,720.9       | –                       | (48.6)               | 1,672.3       |

## Notes to the Company financial statements continued

### 17 Transition to FRS 101 continued

#### Notes to the reconciliation of equity from UK GAAP to FRS 101 as at 1 January 2014 and 31 December 2014

##### 1. Reclassification of deferred tax liabilities and assets

Previously under UK GAAP, the Company presented:

- the retirement benefit asset net of the related deferred tax liability. Under FRS 101, deferred tax liabilities are separately disclosed as non-current liabilities on the balance sheet; and
- deferred tax assets in relation to share based payments as current trade receivables. Under FRS 101, deferred tax assets are offset with deferred tax liabilities when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Based on the above, the following reclassification adjustments were recognised:

|   | 1 Jan 2014   | 31 Dec 2014  |
|---|--------------|--------------|
|   | £m           | £m           |
| Increase retirement benefit asset   | 6.7          | 0.3          |
| Decrease trade and other receivables  | (2.8)        | (2.4)        |
| <b>Net reclassification adjustment to increase deferred tax liabilities</b> | <b>(3.9)</b> | <b>(2.1)</b> |

##### 2. Remeasurement of the retirement benefit asset

Remeasurement to reflect movement from FRS 17 to the requirements of IAS 19.

Based on the above, the following remeasurement adjustments have been recognised:

|                                      | 1 Jan 2014 | 31 Dec 2014 |
|--------------------------------------|------------|-------------|
|                                      | £m         | £m          |
| Increase retirement benefit asset    | 19.6       | 67.9        |
| Increase trade and other payables    | (45.5)     | (48.2)      |
| Decrease trade and other receivables | –          | (29.2)      |

##### 3. Remeasurement of trade and other receivables and trade and other payables

Previously under UK GAAP, the Company recognised all tax related balances (corporation tax and deferred tax) of the Group on the basis that all United Kingdom based entities are treated as a single entity for tax purposes. Under IFRS, tax balances that relate to the activities, assets and liabilities of other subsidiary companies should not be recognised in the financial statements of the Company.

Based on the above, the remeasurement adjustment to trade and other receivables consists of the following:

|   | 1 Jan 2014    | 31 Dec 2014   |
|---|---------------|---------------|
|   | £m            | £m            |
| De-recognition of corporation tax debtor balances | (2.8)         | (9.4)         |
| Reduction of deferred tax asset balances          | (13.6)        | (16.7)        |
| Trade and other receivables                       | –             | 0.5           |
| <b>Total</b>                                      | <b>(16.4)</b> | <b>(25.6)</b> |

##### 4. Remeasurement of deferred tax liabilities

The deferred tax liabilities of the Company have been restated as a result of the derecognition of the deferred tax asset in relation to the asset limit, adjustments to the actuarial gain recognised in other comprehensive income and other temporary differences relating to the retirement benefit asset.

|  | 1 Jan 2014 | 31 Dec 2014 |
|--|------------|-------------|
|  | £m         | £m          |
| Increase retirement benefit asset related deferred tax liabilities | (6.9)      | (13.5)      |

### 18 Subsequent events

There were no material subsequent events that required adjustment or disclosure in the financial statements.

# Five year financial record

|  | 2015<br>£m     | 2014<br>£m | 2013<br>£m | 2012<br>£m | 2011<br>£m |
|--|----------------|------------|------------|------------|------------|
| <b>Revenue</b>   | <b>1,199.5</b> | 1,174.6    | 1,117.7    | 1,084.4    | 976.1      |
| <b>Profit before tax and net finance expense<sup>(1)</sup></b>     |                |            |            |            |            |
| UK Retail  | <b>116.1</b>   | 119.3      | 133.9      | 180.7      | 152.3      |
| European Retail  | <b>14.5</b>    | 13.0       | 15.6       | 20.2       | 13.4       |
| Digital  | <b>(23.8)</b>  | 14.0       | 8.2        | 31.8       | 52.4       |
| Core Telephone Betting   | <b>(2.2)</b>   | 2.0        | (1.7)      | (1.5)      | (4.0)      |
| High Rollers   | <b>3.3</b>     | 14.2       | 5.9        | 30.0       | (3.2)      |
|  | <b>107.9</b>   | 162.5      | 161.9      | 261.2      | 210.9      |
| Corporate costs <sup>(1)</sup>                                     | <b>(24.0)</b>  | (22.9)     | (17.7)     | (25.1)     | (23.2)     |
|  | <b>83.9</b>    | 139.6      | 144.2      | 236.1      | 187.7      |
| Net finance expense <sup>(1)</sup>                                 | <b>(28.1)</b>  | (27.4)     | (25.0)     | (29.7)     | (32.8)     |
| Profit before taxation <sup>(1)</sup>                              | <b>55.8</b>    | 112.2      | 119.2      | 206.4      | 154.9      |
| Income tax credit/(expense) <sup>(1)</sup>                         | <b>35.0</b>    | (5.6)      | (6.1)      | (10.7)     | (18.4)     |
| Profit for the year <sup>(1)</sup>                                 | <b>90.8</b>    | 106.6      | 113.1      | 195.7      | 136.5      |
| Non-controlling interests  | <b>-</b>       | -          | -          | -          | -          |
| Profit attributable to equity holders of the parent <sup>(1)</sup> | <b>90.8</b>    | 106.6      | 113.1      | 195.7      | 136.5      |
| Exceptional items  | <b>(99.0)</b>  | (74.5)     | (51.6)     | (5.7)      | (19.9)     |
| Tax credit on exceptional items                                    | <b>13.3</b>    | 8.9        | 5.5        | 0.3        | 1.6        |
| Profit attributable to equity holders of the parent                | <b>5.1</b>     | 41.0       | 67.0       | 190.3      | 118.2      |
| Dividends  | <b>(52.2)</b>  | (81.4)     | (81.2)     | (74.0)     | (69.0)     |
| Non-current assets   | <b>973.4</b>   | 1,033.2    | 1,077.8    | 969.7      | 931.0      |
| Equity shareholders' funds   | <b>456.5</b>   | 391.6      | 427.0      | 421.0      | 306.0      |
| Dividend per share   | <b>3.0p</b>    | 8.9p       | 8.9p       | 8.9p       | 7.8p       |
| Basic earnings per share <sup>(1)</sup>                            | <b>9.4p</b>    | 11.6p      | 12.3p      | 21.6p      | 15.0p      |
| Basic earnings per share   | <b>0.5p</b>    | 4.4p       | 7.3p       | 21.0p      | 13.0p      |

(1) Before exceptional items.

# Shareholder information

## 2016 Financial calendar

|  |                   |
|--|-------------------|
| Record date for 2015 final dividend                          | 29 March 2016     |
| Annual General Meeting                                       | 5 May 2016        |
| Payment date for 2015 final dividend                         | 12 May 2016       |
| Announcement of half-year results and 2016 interim dividend* | 4 August 2016     |
| Record date for 2016 interim dividend*                       | 23 September 2016 |
| Payment date for 2016 interim dividend*                      | 10 November 2016  |

\* Provisional date.

## Dividends

From April 2016, dividend tax credits will be replaced by an annual £5,000 tax-free allowance on dividend income across an individual's entire share portfolio. Above this amount, individuals will pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. The Company will continue to provide shareholders with confirmation of the dividends paid to them and this should be included with any other dividend income received when calculating and reporting total dividend income received. It is the shareholder's responsibility to include all dividend income when calculating any tax liability.

Details of dividends paid in the past can be found on the Company's website at [www.ladbrokes.co.uk/investors](http://www.ladbrokes.co.uk/investors).

## Direct credit of dividend payments

Ladbrokes is keen to encourage all its shareholders to have their dividends paid directly into their bank or building society account.

If you want your dividends to be paid directly into your UK account, you should apply online at [www.investorcentre.co.uk](http://www.investorcentre.co.uk) or contact our Registrar for a dividend mandate form.

The overseas global dividend service provided by our Registrar enables shareholders living overseas to have their dividend paid directly into their bank account for a fee. For further details please visit [www.investorcentre.co.uk/faq](http://www.investorcentre.co.uk/faq) and select the 'Dividends and Payments tab' followed by 'Global Payment Service'.

## Dividend reinvestment plan

The Company provides a dividend reinvestment plan, which enables shareholders to apply all of their cash dividends to buy additional shares in Ladbrokes. For more information and a mandate to join the plan, visit [www.investorcentre.co.uk](http://www.investorcentre.co.uk) or contact our Registrar.

## Manage your shareholding online

You can view and manage your shareholding online at by registering for an online account with our Registrar. This service allows you to view your share portfolio and see the latest market price of your shares, check your dividend payments and tax information, change your address, update payment instructions and receive your shareholder communications electronically. To register for an account, visit [www.investorcentre.co.uk](http://www.investorcentre.co.uk) and click on the register tab. To set up an account you will need your Shareholder Reference Number (which can be found on your Proxy Form) and postcode.

Shareholders are encouraged to be notified by email when your communications are available online. By providing your email address you will no longer receive paper copies of annual reports or any other shareholder communications. Instead you will receive an email advising you when and how to access documents online.

## Share dealing service

A share dealing service for Ladbrokes' shares is available through The Share Centre Ltd, a member of the London Stock Exchange, which is authorised and regulated by the Financial Conduct Authority. For further details, please contact: The Share Centre, PO Box 2000, Aylesbury, Bucks HP21 8PB; Telephone: 01296 414141.

## American depositary receipts (ADRs)

Ladbrokes has a sponsored level 1 ADR programme for which Deutsche Bank Trust Company Americas acts as depositary. The ADRs are traded on the Over the Counter market in the US under the symbol LDBKY, where one ADR is equal to one ordinary share. When dividends are paid to shareholders, the depositary makes the equivalent payment in US Dollars to ADR holders.

## UK tax on capital gains

Information for UK capital gains tax purposes, which includes details of rights and capitalisation issues which have occurred since 31 March 1982, is available at [www.ladbrokesplc.com/investors](http://www.ladbrokesplc.com/investors).

## Contact details

### Shareholders

For queries regarding your shareholding, please contact our Registrar, Computershare Investor Services PLC:

- ☎ By telephone: +44 (0)370 702 0127
- @ By email: [web.queries@computershare.co.uk](mailto:web.queries@computershare.co.uk)
- 🌐 Online: [www.investorcentre.co.uk](http://www.investorcentre.co.uk)
- 📄 In writing: Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ

### ADR holders

Registered ADR holders should contact the Ladbrokes ADR shareholder services line:

- ☎ By telephone: +1 866 249 2593
- 🌐 Online: [www.adr.db.com](http://www.adr.db.com)

## Be on your guard – beware of fraudsters!

The Company is aware of shareholders receiving unsolicited calls or correspondence concerning investment matters. Calls are typically from people stating they are 'brokers' based overseas and they offer to 'buy' the individual's shares at inflated prices claiming that there is a 'secret' takeover or merger. Shareholders are advised to be very wary of any unsolicited advice, offers to sell or buy their shares or offers of free company reports. Operations to buy shares at inflated prices or to sell what often turn out to be worthless, high risk or even non-existent shares are commonly known as 'boiler room' scams.

More detailed information on boiler room scams is available at [www.ladbrokesplc.com/investors](http://www.ladbrokesplc.com/investors). If you think you have been contacted by share fraudsters, you can report the matter to the Financial Conduct Authority by calling +44 (0)800 111 6768 or by completing the online form available at [www.fca.org.uk/scams](http://www.fca.org.uk/scams).

# Corporate information

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# Glossary

## **ABB**

Association of British Bookmakers.

## **Actives**

The number of individuals who have placed a bet during the year.

## **Bet in Play**

Betting-in-Play allows bettors the opportunity to bet on out-comes during a live event.

## **Category B2 gaming machine**

Gaming machine with maximum stake of £100 and maximum prize of £500.

## **Category B3 gaming machine**

Gaming machine with maximum stake of £2 and maximum prize of £500.

## **EBITDA**

Earnings before interest, tax, depreciation and amortisation.

## **Gambling Act**

The Gambling Act 2005 is the primary piece of legislation governing gambling regulations in Great Britain.

## **GamCare**

A charitable organisation which provides counselling to those with gambling related problems.

## **Gambling Commission**

Set up under the Gambling Act 2005, the Gambling Commission regulates casinos, bingo, gaming machines and lotteries. It is also responsible for the regulation of betting and remote gambling, as well as helping to protect children and vulnerable people.

## **Gaming Machines**

Betting shops can operate machines with B2 content (including old FOBT content) and B3 content, as defined by the 2005 Gambling Act.

## **Gross Win**

Total customer stakes less customer winnings plus commission, i.e. the amount of money left behind by the customer.

## **MGD (Machine Games Duty)**

MGD is charged at 25% of the gross profit generated from machine games.

## **Net Revenue**

Gross win less fair value adjustments, e.g. fair value of reward points, free bets and promotional bonuses, VAT and associate income.

## **Operating profit**

Profit before net finance expense, tax and exceptional items.

## **OTC**

Over the Counter.

## **POC**

Point of consumption tax.

## **Real Money Sign-up**

A new player who has registered and deposited funds into an account with the Company. To address the issues posed by shared wallets, customers are categorised between lines of business according to where they first register on the gaming site.

## **Responsible Gambling Trust**

A charity that funds treatment, education and research related to problem gambling.

## **SIS (Satellite Information Services)**

Ladbrokes owns 23.4% of SIS, a leading supplier of television programming and sports data to licensed betting offices in the UK, Ireland, Isle of Man and Channel Islands.

## **SSBTs**

Self Service Betting Terminals.

## **The Coral Group**

The proposed merger between Gala Coral Group Limited and Ladbrokes plc is with certain businesses of Gala Coral, including Coral Retail, Eurobet Retail and Gala Coral's online business.

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15/12/2016

RNS Number : 2053G  
Ladbrokes plc  
04 August 2016

4 August 2016

# INTERIM RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2016

**Jim Mullen**  
Chief Executive

**Richard Snow**  
Chief Financial Officer

**Snehal Shah**  
Group Financial Controller and  
Head of Investor Relations

**Donal McCabe**  
Group Communications Director

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## LADBROKES PLC

### UNAUDITED INTERIM RESULTS FOR HALF YEAR ENDED 30 JUNE 2016

**Strong customer metrics across all key channels; H1 financial results ahead of our expectations benefitting from good staking and favourable sporting results**

| Half year ended 30 June                       | Headline <sup>(1)</sup> |            |        | Statutory    |            |
|---|-------------------------|------------|--------|--------------|------------|
|   | 2016<br>£m              | 2015<br>£m | Growth | 2016<br>£m   | 2015<br>£m |
| Revenue                                       | <b>661.8</b>            | 585.4      | +13.1% | <b>661.8</b> | 588.8      |
| Group operating profit <sup>(2)</sup> /(loss) | <b>52.3</b>             | 38.9       | +34.4% | <b>37.7</b>  | (37.2)     |
| Profit/(loss) before tax                      | <b>39.8</b>             | 24.7       | +61.1% | <b>25.2</b>  | (51.4)     |
| Profit/(loss) after tax                       | <b>34.9</b>             | 22.2       | +57.2% | <b>20.7</b>  | (41.4)     |
| Basic EPS                                     | <b>3.4p</b>             | 2.4p       | +41.7% | <b>2.0p</b>  | (4.5)p     |
| Interim dividend per share                    | <b>1.0p</b>             | 1.0p       | -      | <b>1.0p</b>  | 1.0p       |

**Strategy delivering growth:** sustained marketing investment, popular products and accelerated delivery on multi-channel programme generating strong growth in staking, actives and revenue

**Group operating profit<sup>(2)</sup> +34.4%:** ahead of management's expectations, driven by delivery of growth strategy and largely beneficial sporting results

**Strong free cash flow generation:** net debt reduced to £227.2m (2015 H1: £414.3m). Net debt/EBITDA 1.3x (2015 H1: 2.1x)

**Exceptional items:** £14.5m predominantly merger related

**Headline earnings per share:** 3.4p +41.7%. Basic earnings per share 2.0p, up 6.5p

**Merger:** conditional clearance achieved in July 2016; business performance positions Ladbrokes well for merger with the Coral Group

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**Jim Mullen, Chief Executive, commented:**

"These strong numbers show customers are responding positively to the new strategy at a time when the sporting gods have generally been on our side and we've enjoyed some helpful bookmaker friendly results. This combination has helped boost profits in the first half of the year.

"History would strongly dictate that such a run of results in our favour would see customer staking suffer, but encouragingly these numbers firmly buck that trend and combine strong staking and a good margin. However, 130 years of experience in sports betting has shown us that we will endure a run of customer friendly results and margins will normalise. Despite this assumption on results and our intention to continue investing in marketing, we have slightly increased our full year expectations.

"Encouragingly we have delivered a good performance across all the key customer metrics outlined in last year's strategic plan and that gives us confidence that we are well placed to deliver against our stated 2017 targets. We have grown recreational customers, increased our football business, attracted more multi-channel customers and grown strongly in Australia. However, we are taking nothing for granted.

"We will continue to compete hard on pricing, product and customer services and maintain a relentless focus on meeting and exceeding customer expectations. With the merger on the horizon we recognise there is a lot of hard work still to come, but this is an exciting time for Ladbrokes and we approach the opportunities ahead with a strong sense of confidence."

| Divisional Summary        | Headline net revenue <sup>(1)</sup> |       |        | Headline operating profit <sup>(1)(2)</sup> |        |         |
|---------------------------|-------------------------------------|-------|--------|---|--------|---------|
|                           | 2016                                | 2015  | Growth | 2016  | 2015   | Growth  |
|                           | £m                                  | £m    |        | £m  | £m     |         |
| Half year ended 30 June   |                                     |       |        |   |        |         |
| UK Retail                 | 436.6                               | 410.5 | +6.4%  | 63.5  | 56.9   | +11.6%  |
| Digital                   | 158.1                               | 112.2 | +40.9% | (9.6)                                       | (11.5) | +16.5%  |
| European Retail           | 64.4                                | 60.0  | +7.3%  | 8.9   | 6.2    | +43.5%  |
| Core Telephone Betting    | 2.7                                 | 2.7   | -      | (0.8)                                       | (0.5)  | (60.0)% |
| Corporate costs           |                                     |       |        | (9.7)                                       | (12.2) | +20.5%  |
| Total before High Rollers | 661.8                               | 585.4 | +13.1% | 52.3  | 38.9   | +34.4%  |
| Total incl. High Rollers  | 661.8                               | 588.8 | +12.4% | 52.2  | 41.7   | +25.2%  |

- UK Retail:** **Good OTC staking trends; continued growth from SSBTs (BetStation) and machines**
- OTC staking like for like +1.3%
  - Football growth continues; staking +14.7% for full EPL season<sup>(3)</sup>
  - BetStation at c.10% of OTC staking, established as a key customer product
  - Gross win margin 17.4% (15H1: 16.0%) as unpredictability of football results more than mitigate tough horseracing festivals
  - Machines net revenue +5.3%, over 90% of gross win from stakes at or less than £50
- Digital:** **Positive customer metrics driven by marketing investment, product quality and multi-channel**
- Ladbrokes.com record half year net revenue, +45.5% yoy
    - Sportsbook staking +30.4%<sup>(4)</sup> and actives +38.4%
    - Sportsbook strategy delivering staking growth; yoy Mobile +44.5%, bet-in-play +43.6%<sup>(4)</sup> and football +50.6%<sup>(4)</sup>
    - Gaming delivers 7<sup>th</sup> consecutive quarter of yoy net revenue growth
    - Multi-channel: over 100,000 actives in 10 months
  - Australia<sup>(5)</sup>: actives +70.6%, staking +53.7% and revenue +41.5%
- European Retail<sup>(5)</sup>:** **Growth following product and footprint investment**
- Belgium: staking +14.3%; SSBTs drove net revenue +17.7%
  - Republic of Ireland: like for like staking +9.7% within optimised estate and more competitive offers
  - Spain: investment continues in new regions, staking +41.4% and net revenue +38.7%

**Contacts: +44 (0) 20 8515 5513**

Jim Mullen, Chief Executive  
 Richard Snow, Chief Financial Officer  
 Donal McCabe, Group Communications Director  
 Snehal Shah, Group Financial Controller and Head of Investor Relations

<sup>(1)</sup> Excludes exceptional items and High Rollers

<sup>(2)</sup> Headline operating profit is defined as profit before tax, net finance expense and exceptional items. Headline operating profit excludes High Rollers so as to provide information on underlying performance of the Group as results from High Rollers can vary significantly period on period

<sup>(3)</sup> 2015/2016 football season from August 2015 to May 2016 on a like for like basis

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- (4) *Adjusted for the impact of losses following significant HVC activity in Q1 2015*
- (5) *Local currency*

#### **Conference call and Notes to Editors:**

The Company will be hosting an analyst presentation at UBS, Ground Floor Conference Centre, 1 Finsbury Avenue, London EC2M 2PP at 9:30am this morning. This will be available to listen into by dialling +44 (0)203 140 8286 - pass code: 4886342.

Alternatively a live webcast of the presentation, with slides, will be available at the 'Investor' section on [www.ladbrokesplc.com](http://www.ladbrokesplc.com).

A recording of the webcast will be available, at the same location, from 12pm (UK time) the same day. Similarly a replay phone facility will be available, for 7 days, on +44 (0) 203 427 0598 - pass code: 4886342.

This document contains certain statements that are forward-looking statements. They appear in a number of places throughout this document and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this document and, unless otherwise required by applicable law, the Company undertakes no obligation to update or revise these forward-looking statements. Nothing in this document should be construed as a profit forecast. The Company and its directors accept no liability to third parties in respect of this document save as would arise under English law.

## **Chief Executive's Review**

### **Overview**

These half year results illustrate the progress that has been made at Ladbrokes after our first full year of operations under our strategic plan. Ladbrokes is now on a better footing than it was when we announced the strategy and these numbers show the customer is responding and the positive impact it is beginning to have on our numbers.

Our whole strategy is based on delivering against our 2017 targets. In the UK, we have grown our recreational customer base and developed our multi-channel product whilst increasing footfall in retail; in Australia we have concentrated on growing our market share. Underpinning the entire performance has been the cultural return to one of sporting passion within Ladbrokes: it's at the heart of our business and gets us closer to our customers to help deliver what they want when they want it.

We fully recognise that we have had the better of the sporting results in the UK which is reflected in the strong gross win margin for the half year. More encouraging, however, are the underlying customer metrics. Staking has held up impressively despite the bookie friendly margin. One year on from unveiling our strategy we are encouraged by the progress but are not getting carried away.

While we are now ahead of our expectations for the full year we are yet to experience a customer friendly run of results in this calendar year but believe it prudent to expect them at some time.

At the half year, our Group operating profit of £52.3m, up 34.4% year on year reflects the improved customer metrics we have seen across the different divisions combined with favourable sporting results.

In this half, we have continued to bolster our marketing presence to attract recreational customers. With our sponsorship of the SPFL and the announcement of our exciting new partnership with the English FA to become its official betting partner we have continued to prioritise football as a key growth area. We have been encouraged by the customer response to our football offer and our underlying customer metrics are good; like for like staking in the 2015-16 English Premier League season grew 14.7% year on year in UK Retail and 11.7% in Ladbrokes.com and as at 30 June, football as a percentage of staking had grown by four percentage points to 19.0% of Retail OTC staking.

Our BetStation product (formerly SSBTs), in which we took a market-leading position by number of machines across the estate as part of our strategy, has continued to perform well and now account for c10% of staking in OTC. Gaming machines have continued to perform well with sustainable growth continuing to come from lower stake slots and B3 content. Over 90% of machine gross win now comes from stakes of £50 or less.

In Ladbrokes.com, the continued marketing investment required to implement our strategy has helped deliver a record half year with net revenue up 45.5%. Importantly customer metrics in sportsbook and gaming demonstrate the attractiveness of our products, their value and their reliability. With staking in sportsbook up 19.5% (30.4% adjusted for significant HVC activity in H1 2015), actives up 38.4% and mobile staking growth of 44.5% we have now delivered ten consecutive quarters of year on year growth. Gaming saw 124 new games introduced with gaming actives growing 47.9% and net revenue up 26.8%.

Our multichannel strategy has now delivered over 100,000 actives and has now been rolled out to Ireland and Belgium.

Australia continues to go from strength to strength with staking up 53.7%, actives up 70.6% and net revenue up 41.5% year on year on a local currency basis.

### **Sporting Headlines**

The half has been notable for the ongoing unpredictability of the EPL. 5000/1 shots Leicester City, who won the league and saw us pay out c.£3m to far-sighted customers, were the perfect example of the league's unpredictability. Week in week out customers' accumulators and coupons were victims of surprise results.

This trend continued as the European Championship got underway. Despite Wales's good showing, the early exit of the other Home Nations and Republic of Ireland meant that while significant liabilities were avoided we ran the risk of customer appetite declining. However, this did not materialise. The final, ending at 0-0 after 90 minutes, with a winning goal by an unfancied substitute in extra-time was a fitting snapshot of the tournament and the season. While results

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were obviously welcome it was pleasing that against the European Championship in 2012, we managed to deliver 43.5% staking growth for UK Retail and 103% staking growth and 65.1% actives growth for Ladbrokes.com.

The bookie-friendly results of football helped to offset the worst Cheltenham Festival on record and a very customer-friendly Royal Ascot. The fiercely competitive nature of our industry around racing festivals ensure that when results go against you it can leave its mark. Even though Rule The World's Grand National win gave us a good result, the Aintree meeting was also costly.

### **Strategy Implementation**

The Group has continued to implement its plan to grow recreational scale across UK Retail, Ladbrokes.com and Australia. This growth is being driven by increasing direct and brand marketing expenditure; through offering clear value propositions to our customers; and through the continuous delivery of innovative products, including, importantly, multi-channel products and services.

#### UK Retail

Our UK Retail performance has been good. While we have benefitted from favourable results we have not seen the overall decline in staking that our industry would normally expect. Ultimately that assures us we are attracting the right type of recreational customers who are responding to our product offerings, and that UK retail is still an attractive proposition for both customers and our business.

We have worked at leveraging the Ladbrokes brand to revitalise our retail offering: we have an increased presence in the tabloid press, we're offering clear calls to action and are staying close to the customer with relevant, consistent offers, such as "Best Odds Guaranteed +" for horseracing customers.

Football remains a key priority for us, and with competitive pricing, relevant promotions and a strong product offering we are seeing positive results.

It has also been an integral part of the growth we have seen in BetStation where football accounts for over 75% of staking. We took the bold decision last year to expand to have the largest SSBT estate on the UK High Street and as a percentage of OTC staking they now account for c.10% (vs 15H1 c.4%). Staking grew over 160% and whilst there is inevitably a degree of substitution, there is meaningful net incremental growth which we estimate to be c.30%. BetStation are now a core part of the retail environment and during the Euros we enjoyed our first ever £5 million staking week.

Multi-channel has been one of the four key pillars of the Ladbrokes strategy. We have delivered over 100,000 actives from a standing start last August with 79,000 recruited in this H1. The recent Euros saw us promote our multichannel product with over 13,000 new actives generated during this period. Retail customers converted to multi-channel continue to be more valuable than purely digital customers.

Our success in recruiting customers has been through improving the customer experience and motivating our retail colleagues who are the most effective sales people for our digital product. Over 9,400 colleagues have been rewarded so far with over 170 earning an additional £1,000 plus for their hard work.

Our strategy for machines' growth remains simple as we look to encourage low staking, recreational use with net revenue up 5.3%. We continue to develop our responsible gambling measures and along with industry partners we have introduced a range of responsible gambling features to our machines product. Ultimately, the combination of a rigorous approach to responsible machine play coupled with a clear focus on slots games and B3 play are providing a more sustainable income for the business.

Underpinning all of the encouraging results and customer trends we have seen in UK Retail has been the embedding of a sporting passion culture that is returning to our colleagues across the country. We will continue to work hard to ensure that our people share the sporting passion of our customers, allowing them to engage more authentically with each other and deliver a first rate High Street service.

#### Digital

Total digital net revenue increased by 40.9% to £158.1m (H1 2015: £112.2m) as customers responded to our improved brand presence, product quality and stability, and the business benefitted from favourable sporting results.

In Ladbrokes.com, we have increased our marketing spend and the improvements to our products in H1 have been driven by a customer-focus rather than a technology-focus. We have deliberately steered clear of major capital projects. Our products have evolved to reflect changing customer demands and align the Ladbrokes experience to their own expectations. The response has been positive.

During H1, Sportsbook delivered a 10<sup>th</sup> consecutive quarter of year on year growth with staking up 19.5% (30.4% adjusted for significant HVC activity in H1 2015) and actives up 38.4%. The encouraging numbers stem from a simple approach focused on three key areas: mobile growth, bet in play and football. The share of staking from mobile is now 77.8% and football growth is 50.6% whilst bet-in-play growth is 43.6% when adjusted for significant HVC activity in H1 2015.

We have also expanded our coverage of other sports: while the likes of tennis, golf and cricket remain popular, basketball is now the fourth most popular sport in our Sportsbook. The revenue derived from sports such as basketball are especially encouraging as the breadth of our recreational customer base is widened and we become less reliant on HVCs and major sporting events to deliver positive numbers.

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In H1, Gaming enjoyed its 7<sup>th</sup> consecutive quarter of year on year net revenue growth with positive trends across all key products. The consistent growth in Gaming actives is now being seen in net revenue (H1 up 26.8%) while delivering our non-negotiable position on responsible gambling: we have planned thoroughly for the impact of the changes such as time outs and auto self-exclusions required to fulfil our Responsible Gambling obligations and remain comfortable that their impact is in line with our expectations.

As one of our four key pillars for successful delivery of the strategy, we are pleased to see that Australia has delivered another strong set of numbers. A differentiated approach compared to our competitors Down Under has allowed us to capitalise on the excellence of our product, and the entrepreneurial abilities of our management team have been supported by a higher intensity of marketing activity. As a result, year on year revenue on a local currency basis increased by 41.5%, driven by a 70.6% increase in active customers and staking growth of 53.7%.

While Australia experiences a period of regulatory uncertainty, such as the changes to the bet-in-play product, we continue to view it as a very attractive market. Our team have led the Australian bookmaking field in delivering innovative products to customers, such as Odds Boost which up to 80% of our daily customers are taking advantage of and InfoHub which helps to make Ladbrokes the go-to bookmaker in Australia for a data-rich experience.

#### European Retail (local currency)

In Belgium retail, our investment in SSBTs and virtual products helped to account for staking growth of 14.3%. A slight increase in gross win margin to 20.2% helped deliver a net revenue increase of 17.7%.

Our Republic of Ireland business has seen the benefits of a more competitive estate following the Examinership process last year. Our 'value proposition' work has helped us reposition the brand for our Irish audience. On a like for like basis, the reduced estate of 142 shops saw staking grow 9.7%. We have invested in BetStation and the rollout of multi-channel and are encouraged by the customer response.

We continue to invest in Spain with launches in three new regions, Cantabria, Asturias and Meilla helping to explain a small EBIT loss. Our Sportium retail JV had staking growth of 41.4% and gross win growth of 38.7% which reassures us that the Spanish business will emerge from this investment phase to contribute positively to the bottom line.

#### **Regulation Developments**

While our central strategy is on delivering growth, building scale and returning value to shareholders, we are clear that we have two non-negotiables in our approach: health and safety and responsible gambling.

As part of this commitment we have undertaken a review of our approach to health and safety throughout the business. We have begun to roll out the move to single scheduling as a voluntary only policy in the evenings. Having reviewed the practical application of the policy, expected costs will be higher than planned. We are on track to have this policy operating across the UK retail estate by October. We remain convinced it is the right decision for the business.

As part of our commitment to responsible gambling we have continued to develop our retail algorithm which identifies changes in behaviour indicating potential problem gambling and assist in helping customers keep their gambling fun. It now covers all customers using cards in our retail estate on both machines and OTC products. We have now begun to develop our responsible gambling facility in Gateshead and expanded the team there to grow our ability to track multi-channel players as well as build our analytical capability. We recently had our retail algorithm independently assessed and have been making improvements to its operations based on this work. We are now looking at ways to improve our recently launched Digital matrix.

We have continued our membership of Senet and played a key role in the wider industry self-exclusion pilot scheme roll out in Q2 this year. We have also introduced industry initiatives such as a reduction in the auto pop-up time limit from 30 to 20 minutes and a stake auto pop-up reduction from £250 to £150 on our machines.

The Board have once again signed off responsible gambling remuneration targets for 2016 and we believe we are the only company in the industry to do so.

In Belgium, regulatory uncertainty over virtual betting remains, but we do not expect this to have any material impact in the remainder of the financial year.

Australia has seen several bursts of regulatory activity with the New South Wales Government banning greyhound racing in July and the lack of clarity around the legality of the bet-in-play product being decided with a ban earlier in the period. While regulatory complexity will continue in Australia, neither of these two decisions is viewed as having a major impact on our business.

#### **Merger Update**

While our organic strategy continues to deliver we also have the exciting opportunity provided by the potential merger with the Coral Group.

The recent publication of the final conclusions by the CMA that the merger can proceed subject to 350-400 shop disposals to ease competition concerns is a significant step forward for the merger. We are now engaging with potential buyers and remain hopeful that a competitive process can be successfully completed by the end of Q3. The timetable from then would be for completion in autumn with significant restructuring of the organisation taking place in Q4.

#### **Trading Update and Outlook**

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Our H1 results give us encouragement that our strategy is working. The traditional relationship between staking and favourable results was not so evident in H1 and although we enjoyed the better of the sporting results we were even more pleased to see the customer continuing to respond to the delivery of our strategy.

H2 has started much like H1 2016. We have had a strong finish to Euro 2016, whereas the Goodwood and Galway festivals have heavily favoured customers. For the five week period ended 2 August 2016, Group net revenue (excluding High Rollers) was up 14.5% year on year.

2016 is a year of investment in growing our recreational customer base and the Group will therefore elect to invest a proportion of incremental profit in further customer acquisition. Taking into account our H1 performance, management's expectations for the current financial year have increased slightly.

We are confident that our business is in a better position than it was to withstand the vagaries of sporting results. There remains much to do, notwithstanding the merger, to ensure Ladbrokes remains where we want to be as we head towards 2017 with sustained confidence.

### Unaudited interim results for the half year ended 30 June 2016

|  | Half year ended<br>30 June 2016<br>£m | Half year ended<br>30 June 2015<br>£m |
|--|---------------------------------------|---------------------------------------|
| <i>Net revenue by segment:</i>                                 |                                       |                                       |
| UK Retail  | 436.6                                 | 410.5                                 |
| Digital  | 158.1                                 | 112.2                                 |
| European Retail  | 64.4                                  | 60.0                                  |
| Core Telephone Betting   | 2.7                                   | 2.7                                   |
| Group net revenue (exc. High Rollers)                          | 661.8                                 | 585.4                                 |
| High Rollers   | -                                     | 3.4                                   |
| Group net revenue  | 661.8                                 | 588.8                                 |
| Group operating profit <sup>(1)</sup> (exc. High Rollers)      | 52.3                                  | 38.9                                  |
| Group operating (loss)/profit <sup>(1)</sup> from High Rollers | (0.1)                                 | 2.8                                   |
| Profit before net finance expense, tax and exceptional items   | 52.2                                  | 41.7                                  |
| Operating exceptional items <sup>(2)</sup>                     | (14.5)                                | (78.9)                                |
| Profit/(loss) before net finance expense and tax               | 37.7                                  | (37.2)                                |
| Net finance expense  | (12.5)                                | (14.2)                                |
| Profit/(loss) before tax                                       | 25.2                                  | (51.4)                                |
| Income tax (expense)/credit <sup>(3)</sup>                     | (4.5)                                 | 10.0                                  |
| Profit/(loss) after tax  | 20.7                                  | (41.4)                                |

<sup>(1)</sup> Operating profit is defined as profit before tax, net finance expense and exceptional items. Exceptional items before finance expense and taxation were £14.5m (2015: £78.9m).

<sup>(2)</sup> Exceptional items are profits or losses on disposal or impairment of non-current assets or businesses, unrealised gains and losses on derivative financial instruments, corporate transaction costs, changes in fair value of contingent consideration and any other non-recurring items considered exceptional by virtue of their nature and size. The separate disclosure of these items allows a clearer understanding of the trading performance on a consistent and comparable basis, together with an understanding of the effect of non-recurring or large individual transactions upon the overall profitability of the Group.

<sup>(3)</sup> Income tax includes a credit of £0.4m on exceptional items (2015: credit of £12.8m).

## Business Review

### 1. UK Retail

|                 |              |
|-----------------|--------------|
| Half year ended | Year on year |
|-----------------|--------------|

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|   | 30 June 2016 | Half year ended<br>30 June 2015 | change  |
|---|--------------|---------------------------------|---------|
|   | £m           | £m                              |         |
| - OTC amounts staked                    | 1,146.3      | 1,145.4                         | 0.1%    |
| - Machines amounts staked               | 5,948.5      | 5,898.4                         | 0.8%    |
| Amounts staked                          | 7,094.8      | 7,043.8                         | 0.7%    |
| - OTC gross win                         | 202.8        | 185.4                           | 9.4%    |
| - Machines gross win                    | 241.5        | 230.7                           | 4.7%    |
| Gross win                               | 444.3        | 416.1                           | 6.8%    |
| Adjustments to gross win <sup>(1)</sup> | (7.7)        | (5.6)                           | (37.5)% |
| - OTC net revenue                       | 197.6        | 183.5                           | 7.7%    |
| - Machines net revenue                  | 239.0        | 227.0                           | 5.3%    |
| Net revenue                             | 436.6        | 410.5                           | 6.4%    |
| Gross profits tax                       | (29.9)       | (27.2)                          | (9.9)%  |
| Machine Games Duty                      | (59.6)       | (53.0)                          | (12.5)% |
|   | 347.1        | 330.3                           | 5.1%    |
| Associate income                        | 1.8          | 1.6                             | 12.5%   |
| Operating costs                         | (285.4)      | (275.0)                         | (3.8)%  |
| Operating profit <sup>(2)</sup>         | 63.5         | 56.9                            | 11.6%   |

*(1) Fair value adjustments, free bets.*  
*(2) Before exceptional items.*  
*(3) Greyhound tracks account for £6.0m of amounts staked and £3.9m of gross win in 2016 (2015: £5.6m amounts staked and £3.6m gross win).*

H1 delivered a strong margin led OTC performance and machines growth. Net revenue for the period was 6.4% higher supported by strong growth in BetStation and operating profit increased 11.6% despite the increased rate of Machine Games Duty. OTC staking continued to prove resilient, growing 1.3% on a like for like basis despite higher margins, primarily in football. Staking in traditional racing products continued to decline exacerbated by a rise in the number of UK horse racing cancellations.

OTC gross win margin of 17.4% (H1 2015: 16.0%) benefitted from our continued focus on football, the unpredictability of the Premier League and favourable results in Euro 2016 which more than offset customer friendly Cheltenham and Royal Ascot festivals.

Staking through BetStation, which is included in OTC, grew 164.4% reflecting the enlarged BetStation estate and strong customer adoption. BetStation now represent c.10% of OTC staking (H1 2015: c.4%) with over 75% of staking coming from football. At 30 June 2016 there were 6,458 BetStation (H1 2015: 2,810).

We have continued to drive our multi-channel offer, signing up an additional 79,000 digital customers in H1 2016.

Machines net revenue grew 5.3% driven by our sustained focus on introducing and promoting lower staking slots and B3 content. Machine gross win per terminal per week in H1 2016 was £1,083 (H1 2015: £1,022).

Operating costs increased by 3.8% or by 5.3% on a like for like basis reflecting higher revenue share payments on machines and BetStation, higher staff costs from the impact of the National Living Wage, implementation of voluntary single scheduling as well as higher colleague bonus charges owing to the strong performance in H1. Marketing costs were higher by 13.6% reflecting our investment in customer acquisition through our multi-channel programme. We expect full year operating costs to increase c.4-5%.

In H1 2016, we closed 6 shops as we improve the quality of our estate and remove, where commercially sensible, loss making shops from the portfolio. Our target for 2016 remains c.25 closures excluding the impact of the proposed merger.

At 30 June 2016, there were 2,147 shops in Great Britain (30 June 2015: 2,169). At 30 June 2016 there were 8,560 gaming machines (30 June 2015: 8,643) reflecting shop closures.

## 2. Digital

The Digital segment comprises all of our Digital operations including Ladbrokes.com and digital Exchanges; Ladbrokes Australia; and other regulated operations including our operations in Belgium and our digital joint venture Sportium.es.

In H1 2016, Digital net revenue increased by 40.9% to £158.1m (H1 2015: £112.2m) reflecting strong underlying KPIs and favourable sporting results mainly in the U.K. However, as a result of the sustained marketing investment in H1, in line with our strategic plan, we recorded an operating loss before exceptional items, including our share of the digital joint venture Sportium.es, of £9.6m albeit an improvement on H1 2015.

### Ladbrokes.com and Exchanges

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|                               | Half year ended<br>30 June 2016 | Half year ended<br>30 June 2015 | Year on<br>year<br>change |
|-------------------------------|---------------------------------|---------------------------------|---------------------------|
|                               | £m                              | £m                              | %                         |
| Net revenue                   |                                 |                                 |                           |
| - Sportsbook                  | 58.3                            | 34.5                            | 69.0%                     |
| - Gaming                      | 54.9                            | 43.3                            | 26.8%                     |
| - Exchanges                   | 6.4                             | 6.8                             | (5.9)%                    |
| Net revenue                   | 119.6                           | 84.6                            | 41.4%                     |
| Betting tax                   | (1.1)                           | (0.4)                           | (175.0)%                  |
| POC tax                       | (18.7)                          | (12.6)                          | (48.4)%                   |
| Operating costs               | (109.4)                         | (82.6)                          | (32.4)%                   |
| Operating loss <sup>(1)</sup> | (9.6)                           | (11.0)                          | 12.7%                     |

<sup>(1)</sup> Before exceptional items.

Sportsbook staking increased by 19.5% (up 30.4% excluding the impact of significant HVC activity in Q1 2015) and sportsbook actives were up 38.4%. Mobile staking increased by 44.5% and represented 77.8% of H1 sportsbook staking. The gross win margin of 7.7% benefitted from favourable results, primarily in football, and as a result sportsbook net revenue increased by 69.0% (up 48.0% excluding the impact of significant HVC activity in Q1 2015).

Gaming saw its seventh consecutive quarter of year on year net revenue growth with positive trends across all products. Net revenue was up 26.8% to £54.9m benefitting from increased cross-sell and CRM.

Revenue from Betdaq and the Ladbrokes Exchange declined by 5.9% in H1 2016.

Operating costs increased by 32.4% to £109.4m (H1 2015: £82.6m) reflecting the increased marketing investment in line with our strategic plan. Fixed costs increased by £4.0m, primarily as a result of higher streaming and staff costs. Ladbrokes.com and Exchanges marketing expense in H1 was 35.5% of net revenue (H1 2015: 28.4%).

Despite net revenue being up 41.4% increased marketing investment resulted in Ladbrokes.com and Exchanges having an operating loss of £9.6m (2015: loss £11.0m).

## Australia

|                                 | Half year ended<br>30 June 2016 | Half year ended<br>30 June 2015 | Year on year<br>change<br>(reported) | Year on year<br>change<br>(local currency) |
|---------------------------------|---------------------------------|---------------------------------|--------------------------------------|--|
|                                 | £m                              | £m                              | %                                    | %  |
| Net revenue                     | 35.5                            | 25.4                            | 39.8%                                | 41.5%                                      |
| Operating profit <sup>(1)</sup> | 2.1                             | 2.7                             | (22.2)%                              | (23.1)%                                    |

<sup>(1)</sup> Before exceptional items.

Our Australian business operates under the Ladbrokes, Bookmaker and Betstar brands. The increased marketing investment outlined in the strategy coupled with innovative product offerings such as InfoHub has enabled Ladbrokes Australia to continue to successfully build market share.

On a local currency basis, staking increased by 53.7% driven by a 70.6% increase in active customers and net revenue increased by 41.5% on a 9.8% gross win margin (H1 2015: 9.6%).

## Other Regulated Operations

|                                  | Half year ended<br>30 June 2016 | Half year ended<br>30 June 2015 | Year on year<br>change |
|----------------------------------|---------------------------------|---------------------------------|------------------------|
|                                  | £m                              | £m                              | %                      |
| Net revenue                      | 3.0                             | 2.2                             | 36.4%                  |
| Operating loss <sup>(1)(2)</sup> | (2.1)                           | (3.2)                           | 34.4%                  |

<sup>(1)</sup> Before exceptional items.  
<sup>(2)</sup> Includes £0.6m share of loss from Sportium.es joint venture (2015: £0.7m loss).

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Other regulated operations includes our digital activities in Belgium and Spain (JV).

Belgium net revenue increased to £3.0m (H1 2015: £2.1m) however we incurred start up losses as we continue to invest and capitalise on our large retail presence in Belgium. Belgium actives were up 37.7%. In June, the Belgian federal government announced that on-line gaming will be subject to a 21% VAT which will come into force in August 2016. We expect this will have a small negative impact for 2016 as we will be able to recover input VAT.

Our digital joint venture with Sportium generated revenue growth of 59.6% on increased actives of c.88,000, up 24.5% and again incurred a development phase operating loss.

### 3. European Retail

European Retail comprises our operations in Belgium, Spain and Ireland which are discussed in detail below. European Retail revenue was up 7.3% and operating profit before exceptional items was £8.9m, up 43.5% on H1 2015.

#### Belgium Retail

|                                 | Half year ended<br>30 June 2016 | Half year ended<br>30 June 2015 | Year on<br>year<br>change<br>(reported) | Year on<br>year<br>change<br>(local<br>currency) |
|---------------------------------|---------------------------------|---------------------------------|---|--|
|                                 | £m                              | £m                              | %                                       | %  |
| Amounts staked                  | 158.2                           | 134.3                           | 17.8%                                   | 14.3%  |
| Net revenue                     | 32.0                            | 26.4                            | 21.2%                                   | 17.7%  |
| Betting tax                     | (4.8)                           | (4.0)                           | (20.0)%                                 | (16.7)%  |
| Gross profit                    | 27.2                            | 22.4                            | 21.4%                                   | 17.5%  |
| Operating costs                 | (22.5)                          | (17.9)                          | (25.7)%                                 | (22.4)%  |
| Operating profit <sup>(1)</sup> | 4.7                             | 4.5                             | 4.4%                                    | -  |

<sup>(1)</sup> Before exceptional items.

In Belgium, our investment in SSBTs and virtual products helped deliver staking growth of 17.8%. Gross win margin increased 0.5ppts to 20.2% translating into net revenue growth of 21.2%. Operating costs were up 25.7% with SSBTs and virtual revenue share and night opening costs being the key drivers. Operating profit at £4.7m was up £0.2m.

As at 30 June 2016 there were a total of 456 outlets including both Ladbrokes shops and newsagent outlets (30 June 2015: 447).

#### Spain Retail

|                               | Half year ended<br>30 June<br>2016 | Half year ended<br>30 June<br>2015 | Year on year<br>change |
|-------------------------------|------------------------------------|------------------------------------|------------------------|
|                               | £m                                 | £m                                 | %                      |
| Operating loss <sup>(1)</sup> | (0.2)                              | (0.8)                              | 75.0%                  |

<sup>(1)</sup> Before exceptional items.

Our Sportium retail joint venture had staking growth of 41.4% and gross win growth of 38.7%. There was growth across all existing regions and our continued investment in existing regions as well as launching into new regions meant we incurred a small operating loss.

Sportium Retail was launched into 3 new regions in the first half and as at 30 June 2016, Sportium services were available from a total of 1,672 outlets (30 June 2015: 1,291).

#### Ireland Retail

|                      | Half year ended<br>30 June 2016 | Half year ended<br>30 June 2015 | Year on year<br>change |
|----------------------|---------------------------------|---------------------------------|------------------------|
|                      | £m                              | £m                              | %                      |
| - OTC amounts staked | 218.1                           | 235.9                           | (7.5)%                 |

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|                                      |        |        |         |
|--------------------------------------|--------|--------|---------|
| - Machines amounts staked            | 74.4   | 68.5   | 8.6%    |
| Amounts staked                       | 292.5  | 304.4  | (3.9)%  |
| - OTC gross win                      | 30.3   | 31.4   | (3.5)%  |
| - Machines gross win                 | 3.0    | 2.7    | 11.1%   |
| Gross win                            | 33.3   | 34.1   | (2.3)%  |
| Net revenue                          | 32.4   | 33.6   | (3.6)%  |
| Betting tax                          | (3.1)  | (3.2)  | 3.1%    |
| Machine Games Duty                   | (0.8)  | (0.6)  | (33.3)% |
| Gross profit                         | 28.5   | 29.8   | (4.4)%  |
| Operating costs                      | (24.1) | (27.3) | 11.7%   |
| Operating profit <sup>(1)</sup>      | 4.4    | 2.5    | 76.0%   |
| <i>(1) Before exceptional items.</i> |        |        |         |

Our Irish business saw OTC staking decline 7.5% reflecting the smaller estate of shops in the Republic of Ireland following the conclusion of the Examinership process in July last year. On a like for like basis, the reduced estate saw staking grow 9.7% and net revenue increased 2.0%.

Product trends in Northern Ireland were similar to the UK and operating profit was slightly down on last year mainly due to adverse horse racing results.

Overall Ireland operating profit at £4.4m was up 76.0% on H1 2015 reflecting the Republic of Ireland's return to profitability vs. H1 2015. At 30 June 2016 there were 77 shops in Northern Ireland (30 June 2015: 79) and 142 shops in the Republic of Ireland (30 June 2015: 192).

#### 4. Telephone Betting

|                                     | Half year ended<br>30 June 2016 | Half year ended<br>30 June 2015 | Year on year<br>change |
|-------------------------------------|---------------------------------|---------------------------------|------------------------|
|                                     | £m                              | £m                              | %                      |
| Amounts staked                      | 49.8                            | 56.0                            | (11.1)%                |
| Net revenue                         | 2.7                             | 2.7                             | -                      |
| Gross profits tax                   | (0.5)                           | (0.1)                           | (400.0)%               |
| Operating costs                     | (3.0)                           | (3.1)                           | 3.2%                   |
| Operating loss <sup>(1)</sup>       | (0.8)                           | (0.5)                           | (60.0)%                |
| <i>(1) Before exceptional items</i> |                                 |                                 |                        |

Telephone Betting continues its long term decline with many customers migrating to digital products and platforms. Amounts staked declined by 11.1% on H1 2015 but with gross win margins higher at 5.8% (H1 2015: 5.2%) net revenue was flat and the business recorded a small operating loss.

#### 5. High Rollers

High Rollers generated an operating loss for the period of £0.1m (H1 2015 profit: £2.8m).

#### 6. Quarterly Trends Table

| YoY (except where stated)           | Q1 2015          | Q2 2015          | Q3 2015          | Q4 2015         | Q1 2016         | Q1 2016<br>excluding<br>HVC <sup>(1)</sup> | Q2 2016         |
|-------------------------------------|------------------|------------------|------------------|-----------------|-----------------|--|-----------------|
| <b>UK Retail</b>                    |                  |                  |                  |                 |                 |  |                 |
| OTC Amounts Staked                  | (4.8)%           | (5.6)%           | +1.6%            | +1.1%           | (1.3)%          | na   | +1.4%           |
| SSBT % OTC staking                  | 3.5%             | 3.6%             | 5.3%             | 8.3%            | 9.8%            | na   | 9.3%            |
| OTC Gross Win Margin                | 15.7%<br>(0.5)pp | 16.2%<br>(0.3)pp | 15.5%<br>(1.5)pp | 17.3%<br>+1.7pp | 17.5%<br>+1.8pp | na   | 17.4%<br>+1.2pp |
| Machine Gross Win growth            | +12.2%           | +4.3%            | +4.6%            | +3.7%           | +1.5%           | na   | +7.9%           |
| Machine Gross Win per shop per week | +16.4%           | +8.7%            | +8.6%            | +6.4%           | +4.1%           | na   | +9.3%           |
| <b>Total Net Revenue</b>            | +4.3%            | (1.7)%           | (1.0)%           | +6.5%           | +4.1%           | na   | +8.6%           |

|   |  |  |  |  |  |  |  |
|---|--|--|--|--|--|--|--|
| <b>Ladbrokes.com plus Exchanges<sup>(2)</sup></b> |  |  |  |  |  |  |  |
|---|--|--|--|--|--|--|--|

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|                                  |                 |                 |                 |                |                |                |                |
|----------------------------------|-----------------|-----------------|-----------------|----------------|----------------|----------------|----------------|
| <b>Total Net Revenue</b>         | (8.4)%          | (5.5)%          | +5.7%           | +25.1%         | +57.2%         | +38.4%         | +29.5%         |
| <b>Sportsbook Net Revenue</b>    | (31.5)%         | (23.0)%         | (0.5)%          | +53.8%         | +122%          | +59.0%         | +39.4%         |
| Sportsbook Amounts Staked        | +28.8%          | +12.7%          | +34.1%          | +43.9%         | +12.4%         | +35.2%         | +26.5%         |
| Mobile Sportsbook Amounts Staked | +62.7%          | +66.5%          | +69.0%          | +77.3%         | +57.6%         | na             | +35.0%         |
| Sportsbook Actives               | +18.5%          | (5.4)%          | +1.7%           | +25.5%         | +27.8%         | na             | +42.4%         |
| Sportsbook Gross Win Margin      | 4.0%<br>(2.5)pp | 6.3%<br>(2.8)pp | 6.8%<br>(2.1)pp | 7.0%<br>+0.5pp | 7.9%<br>+3.9pp | 7.9%<br>+1.6pp | 7.5%<br>+1.2pp |
| <b>Gaming Net Revenue</b>        | +13.0%          | +19.1%          | +11.5%          | +10.3%         | +27.3%         | na             | +26.3%         |
| Gaming Actives                   | +34.5%          | +13.2%          | +29.4%          | +41.5%         | +43.8%         | na             | +50.6%         |

|  |                |                |                 |                 |              |    |                |
|--|----------------|----------------|-----------------|-----------------|--------------|----|----------------|
| <b>Ladbrokes Australia (AUD)<sup>(3)</sup></b> |                |                |                 |                 |              |    |                |
| <b>Net Revenue</b>                             | +132%          | +73.6%         | +26.3%          | +76.3%          | +38.4%       | na | +44.4%         |
| Sportsbook Amounts Staked                      | +77.8%         | +52.7%         | +61.4%          | +63.0%          | +51.5%       | na | +55.7%         |
| Sportsbook Actives                             | +138%          | +65.9%         | +88.8%          | +60.2%          | +86.9%       | na | +66.8%         |
| Sportsbook Gross Win Margin                    | 9.8%<br>+2.4pp | 9.5%<br>+0.8pp | 8.3%<br>(1.2)pp | 11.3%<br>+1.7pp | 9.8%<br>flat | na | 9.8%<br>+0.3pp |

**Notes:**

(1) Adjusted for the impact of losses following significant HVC activity in Q1 2015

(2) Sportsbook and Gaming are related to Ladbrokes.com only

(3) Local currency basis; Australia quarterly data as reported, not pro forma

**Financial review****Trading summary****Revenue recognition - reconciliation to gross win**

The Group reports the gains and losses on all betting and gaming activities as revenue, which is measured at the fair value of the consideration received or receivable from customers less free bets, promotions, bonuses and other fair value adjustments. Gross win includes free bets and promotions and bonuses. Open betting positions are carried at fair value and gains and losses arising on these positions are recognised in revenue.

A reconciliation of gross win to revenue for the Group is shown below.

|                            | Half year ended<br>30 June<br>2016<br>£m | Half year ended<br>30 June<br>2015<br>£m |
|----------------------------|--|--|
| Gross win                  | 723.5                                    | 628.0                                    |
| Adjustments <sup>(1)</sup> | (58.1)                                   | (36.6)                                   |
| GST                        | (3.6)                                    | (2.6)                                    |
| Revenue                    | <u>661.8</u>                             | <u>588.8</u>                             |

(1) Includes free bets, promotions, bonuses and other fair value adjustments.

The table below sets out the gross win and net revenue for each segment.

|                   | Half year ended 30 June 2016 |                   | Half year ended 30 June 2015 |                   |
|-------------------|------------------------------|-------------------|------------------------------|-------------------|
|                   | Gross win<br>£m              | Net revenue<br>£m | Gross win<br>£m              | Net revenue<br>£m |
| UK Retail         | 444.3                        | 436.6             | 416.1                        | 410.5             |
| Digital           | 211.0                        | 158.1             | 145.1                        | 112.2             |
| European Retail   | 65.3                         | 64.4              | 60.5                         | 60.0              |
| Telephone Betting | 2.9                          | 2.7               | 2.9                          | 2.7               |
| High Rollers      | -                            | -                 | 3.4                          | 3.4               |
| Total             | <u>723.5</u>                 | <u>661.8</u>      | <u>628.0</u>                 | <u>588.8</u>      |

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## Revenue

Group revenue increased by £73.0m (12.4%) to £661.8m (H1 2015: £588.8m). Excluding High Rollers, revenue increased by £76.4m (13.1%) to £661.8m (H1 2015: £585.4m).

The increase is mainly attributable to higher Digital Sportsbook staking, higher UK Retail OTC and Digital sportsbook gross win margins, strong growth in machine performance in UK Retail, improved gaming performance in Digital and the Euro 2016 Championship.

## Operating profit <sup>(1)</sup>

Operating profit increased by £10.5m (25.2%) to £52.2m (H1 2015: £41.7m).

Operating profit is stated after depreciation and amortisation of £39.6m (H1 2015: £39.1m). The Group expects full year depreciation and amortisation charge to be in the range of £82-84m.

Excluding High Rollers, operating profit <sup>(1)</sup> increased by £13.4m (34.4%) to £52.3m (H1 2015: £38.9m) reflecting increased profits from all segments apart from Telephone Betting.

Margins in H1 have benefitted from results and were ahead of our expectations. Therefore, the 40:60 guidance for H1:H2 operating profit we provided in February 2016 is no longer applicable.

## Corporate costs

Before exceptional items, total corporate costs decreased by £2.5m to £9.7m (H1 2015: £12.2m). The decrease is primarily due to the inclusion of redundancy costs in relation to the International head office team in the comparable period and reversal of provisions in the current period.

The Group expects corporate costs before exceptional items for 2016 to be broadly in line with the charge in the full year ended 31 December 2015.

## Finance expense

Before exceptional items, net finance expense of £12.5m was £1.7m lower than last year (H1 2015: £14.2m) reflecting a lower average net debt in the period.

## Profit before tax

The improved trading performance has resulted in a 44.4% increase in first half profit before taxation and exceptional items to £39.7m (H1 2015: £27.5m).

## Exceptional items before tax

Total exceptional items before tax of £14.5m (H1 2015: £78.9m) comprises the following:

- £5.6m in relation to transaction costs relating to the proposed merger with the Coral Group (H1 2015: £3.8m)
- £6.5m in relation to integration planning costs relating to the proposed merger with the Coral Group
- £3.4m in relation to provisions for contract disputes
- £0.8m credit in relation to closure of shops in the UK and Ireland (H1 2015: charge of £17.1m) following release of provision in respect of prior year closures
- £0.2m credit relating to the re-measurement of the contingent considerations in respect of business combinations from 2014 (H1 2015: £1.8m credit)

In H2, the Group expects to incur further exceptional items from UK shop closures, transaction advisory and financing fees in respect of the proposed merger with Coral Group, as well as merger related integration planning costs.

## Taxation

The Group taxation charge before exceptional items was £4.9m. This represents an effective tax charge of 12.3% (H1 2015: 10.2%). There was a tax credit of £0.4m in relation to exceptional items in H1 2016 (H1 2015: £12.8m credit). The estimate of the full year effective taxation rate remains broadly in line with previous guidance to the market in February 2016.

## Dividend

The Board today announces an interim dividend of 1.0 pence per share. The dividend will be payable on 10 November 2016 to shareholders on the register on 23 September 2016.

## Earnings per share (EPS)

*Underlying*

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EPS (before exceptional items and High Rollers) increased by 41.7% to 3.4 pence (H1 2015: 2.4 pence), reflecting the increased profit before tax and exceptional items.

#### *Statutory*

EPS (before exceptional items) increased 25.9% to 3.4 pence (H1 2015: 2.7 pence), reflecting the increased profit before tax. EPS (including the impact of exceptional items) was 2.0 pence (H1 2015: (4.5) pence). Fully diluted EPS (including the impact of exceptional items) was 2.0 pence (H1 2015: (4.5) pence) after adjustment for outstanding share options.

### **Cash flow, capital expenditure, borrowings and banking facilities**

Cash generated by operations was £117.0m. After net finance expense paid of £14.1m, income taxes received of £34.6m and £31.8m incurred on capital expenditure and intangible additions; cash inflow was £105.7m. Post dividend payment of £20.3m and other net cash outflows of £8.5m, net debt at the end of the period decreased by £76.9m.

The Group expects capital expenditure for full year ended 31 December 2016 to be in the range of £90-£95m.

At 30 June 2016, gross borrowings of £323.6m and lease liabilities of £4.6m less the net of cash and short-term deposits of £101.0m resulted in a net debt of £227.2m (31 December 2015: £304.1m).

### **Going concern**

In assessing the going concern basis, the directors considered the Group's business activities, the financial position of the Group and the Group's financial risk management objectives and policies. The directors consider that the Group has adequate resources to continue in operational existence and that it is therefore appropriate to adopt the going concern basis in preparing the unaudited interim financial statements for the half year ended 30 June 2016.

(1) *Profit before tax, net finance expense and exceptional items.*

### **Principal risks and uncertainties**

Key risks are reviewed by the Executive Committee (made up of executive directors and senior management) and the Audit Committee advises the Board of Ladbrokes plc on a regular basis and where appropriate, actions are taken to mitigate the key risks that are identified. The Board has overall responsibility for risk management as an integral part of strategic planning.

The principal risks and uncertainties which could have a significant effect on the Group are as follows:

#### **Strategy**

Achieving the Group's strategy will deliver long-term growth for the benefit of all stakeholders whilst minimising some of the key risks that Ladbrokes faces. Failure to achieve the strategy has the potential to affect the business and its performance.

#### **Principal risks faced by Ladbrokes that are comparable to those faced by most other businesses and not set out in any order of priority:**

Additional risks not presently known to management, or currently deemed less material may also have an adverse effect on the business.

#### **Marketplace and operational**

Changes in the general economic environment, changes in consumer leisure spend, and international expansion could impact demand for the Group's products and services. Whilst the UK's decision to exit the European Union has currently caused economic and political uncertainty, the Group has not noted any material adverse changes in customer behaviour. The vote has also led to a weakening of Sterling and to date this has not had a material impact on the Group's results. The uncertainty and market volatility seems likely to continue for a period of time and the Group's Executive Committee continues to monitor political developments to identify and assess medium to long term implications of the UK exiting the European Union and the impact that it may have on our business.

#### **Financial**

The costs of borrowing, taxation and the pension fund liability could increase and/or debt financing could cease to be available. The Group is subject to risks resulting from currency and interest rate fluctuations.

#### **Specific risks which are either unique or material to Ladbrokes or apply to the industry it operates in and not set out in any order of priority:**

#### **Betting and gaming industry**

##### *Taxes, laws, regulations, licensing and regulatory compliance*

Taxes, laws and regulatory, licensing, legislative and fiscal regimes for betting and gaming in key markets around the world can change, sometimes at short notice. Such changes could benefit or have an adverse effect on Ladbrokes and additional costs might be incurred in order to comply with any new laws or regulations. In addition, Ladbrokes' systems and controls to ensure regulatory compliance (including in relation to anti-money laundering) may fail or be found to be inadequate, which could result in criminal or civil claims.

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***Increased cost of product***

Ladbrokes is subject to certain financing arrangements intended to support industries from which it profits. Examples are the horseracing and the voluntary greyhound racing levies which respectively support the British horseracing and greyhound industries. Such arrangements could change resulting in increased levies. In addition, Ladbrokes enters into contracts for the distribution of television pictures, audio and other data that are broadcast into Ladbrokes' betting shops. A number of these are under negotiation at any one time and increased costs under these contracts could result in increases in content costs.

***Operational and bookmaking******Trading, liability management and pricing***

Ladbrokes may experience significant losses as a result of any failure to determine accurately the odds in relation to any particular event and/or any failure of its pricing, trading liability and risk management processes.

***Loss of key locations***

Ladbrokes has a number of key sites, in particular Imperial House at Rayners Lane in London, its head office and main operations centre, its premises in Europort in Gibraltar from where online betting and gaming operations are based, and in Tel Aviv, Israel from where our Digital marketing operates and our operations in Australia. The unplanned unavailability of any of the key sites could have an adverse effect on the Group.

***Recruitment and retention of key employees and succession planning***

There is competition in the betting and gaming industry for skilled personnel. The loss of any of the Group's key personnel or inability to continue to recruit, motivate and retain highly experienced and qualified employees could have an adverse effect on the Group.

***Information technology and communications******Technology failure***

Ladbrokes' operations are highly dependent on technology and advanced information systems and there is a risk that such technology or systems could fail or be subject to cyber attacks or be disrupted. In particular, any damage to, or failure of online systems and servers, electronic point of sale systems and electronic display systems could result in interruptions to financial controls and customer service systems. In addition, technological developments could require upgrades or replacement of the Group's technology and systems.

***Data management***

Ladbrokes processes a large amount of sensitive personal customer data (including name, address, age, bank details and betting and gaming history) as part of its business and therefore must comply with strict data protection and privacy laws in all jurisdictions in which the Group operates. Ladbrokes is exposed to the risk that this data could be wrongfully appropriated, lost or disclosed, or processed in breach of data protection regulation including the new General Data Protection Regulation (EU) (GDPR) when such regulation comes into force in 2018. This could also result in prosecutions including financial penalties and the loss of the goodwill of its customers and could deter new customers.

***Failure in the supply chain***

Ladbrokes is dependent on a number of third parties for the operation of its business. The withdrawal or removal from the market of one or more of these major third party suppliers, or failure of third party suppliers to comply with their contractual obligations could adversely affect Ladbrokes' operations.

***Marketplace******Competition***

Ladbrokes faces competition primarily from other land-based bookmakers, online betting exchanges and other online gambling operators. In particular, the online gambling market is characterised by intense and substantial competition between operators and by relatively low barriers to entry for new participants. In addition, Ladbrokes faces competition from market participants operating in low tax jurisdictions and from those who benefit from greater liquidity as a result of accepting bets and wagers from jurisdictions in which Ladbrokes chooses not to operate (because of legal reasons or otherwise).

***Health and Safety***

Failure to meet the requirements of the various domestic and international rules and regulations which relate to health and safety could expose the Group (and individual employees and directors) to material civil/criminal action with associated financial and reputational consequences.

Further information in relation to these principal risks and uncertainties can be found on pages 26 and 30 of the Group's Annual Report and Accounts 2015.

**Statement of Directors' Responsibilities**

The directors confirm that this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

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- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year, and
- material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

A list of current directors is maintained on the Ladbrokes plc website [www.ladbrokesplc.com](http://www.ladbrokesplc.com).

By order of the Board

J J Mullen  
Chief Executive

J Kelly  
Chairman

3 August 2016

## ***Independent review report to Ladbrokes plc***

### **Report on the condensed consolidated financial statements**

#### **Our conclusion**

We have reviewed Ladbrokes plc's condensed consolidated financial statements (the "interim financial statements") in the interim report of Ladbrokes plc for the 6 month period ended 30 June 2016. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

#### **What we have reviewed**

The interim financial statements comprise:

- the condensed consolidated statement of financial position as at 30 June 2016;
- the condensed consolidated income statement and statement of comprehensive income for the period then ended;
- the condensed consolidated statement of cash flows for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

#### **Responsibilities for the interim financial statements and the review**

##### **Our responsibilities and those of the directors**

The interim report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

##### **What a review of interim financial statements involves**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing

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Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP  
Chartered Accountants  
London  
3 August 2016

## Notes:

- The maintenance and integrity of the Ladbrokes plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Unaudited financial statements Interim consolidated income statement

|   | Half year ended<br>30 June 2016      |   |             | Half year ended<br>30 June 2015      |   |               |
|---|--------------------------------------|---|-------------|--------------------------------------|---|---------------|
|   | Before<br>exceptional<br>items<br>£m | Exceptional<br>items <sup>(1)</sup><br>£m | Total<br>£m | Before<br>exceptional<br>items<br>£m | Exceptional<br>items <sup>(1)</sup><br>£m | Total<br>£m   |
| Revenue   | 661.8                                | -   | 661.8       | 588.8                                | -   | 588.8         |
| Operating expenses before depreciation and amortisation               | (572.1)                              | (13.5)                                    | (583.4)     | (509.2)                              | (10.2)                                    | (519.4)       |
| Share of results from joint venture and associates                    | 2.1                                  | -   | 2.1         | 1.2                                  | -   | 1.2           |
| Depreciation, amortisation and amounts written off non-current assets | (39.6)                               | (1.0)                                     | (42.8)      | (39.1)                               | (68.7)                                    | (107.8)       |
| Profit / (loss) before tax and net finance expense                    | 52.2                                 | (14.5)                                    | 37.7        | 41.7                                 | (78.9)                                    | (37.2)        |
| Finance expense   | (13.3)                               | -   | (13.3)      | (14.2)                               | -   | (14.2)        |
| Finance income  | 0.8                                  | -   | 0.8         | -                                    | -   | -             |
| Profit / (loss) before tax  | 39.7                                 | (14.5)                                    | 25.2        | 27.5                                 | (78.9)                                    | (51.4)        |
| Income tax (expense) / credit   | (4.9)                                | 0.4                                       | (4.5)       | (2.8)                                | 12.8                                      | 10.0          |
| <b>Profit / (loss) for the period</b>                                 | <b>34.8</b>                          | <b>(14.1)</b>                             | <b>20.7</b> | <b>24.7</b>                          | <b>(66.1)</b>                             | <b>(41.4)</b> |
| Attributable to:  |                                      |   |             |                                      |   |               |
| - equity holders of the parent  | 34.8                                 | (14.1)                                    | 20.7        | 24.7                                 | (66.1)                                    | (41.4)        |
| - non-controlling interests   | -                                    | -   | -           | -                                    | -   | -             |
|   | 34.8                                 | (14.1)                                    | 20.7        | 24.7                                 | (66.1)                                    | (41.4)        |
| Earnings per share on profit / (loss) for the period:                 |                                      |   |             |                                      |   |               |
| - basic   | 3.4p                                 | -   | 2.0p        | 2.7p                                 | -   | (4.5)p        |
| - diluted   | 3.4p                                 | -   | 2.0p        | 2.7p                                 | -   | (4.5)p        |
| Proposed dividends  | 1.0p                                 | -   | 1.0p        | 1.0p                                 | -   | 1.0p          |

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- (1) *Exceptional items are profits or losses on disposal or impairment of non-current assets or businesses, unrealised gains and losses on derivative financial instruments, corporate transaction costs, changes in fair value of contingent consideration and any other non-recurring items considered exceptional by virtue of their nature and size. Details of the exceptional items are given in note 4.*

### Interim consolidated statement of comprehensive income

|  | Half year<br>ended<br>30 June<br>2016<br>£m | Half year<br>ended<br>30 June<br>2015<br>£m |
|--|---|---|
| Profit / (loss) for the period   | 20.7  | (41.4)                                      |
| <b>Other comprehensive income/(expense):</b>                             |   |   |
| <i>Items that may be reclassified to profit or loss:</i>                 |   |   |
| Currency translation differences   | 11.4  | (8.2)                                       |
| <i>Total items that will be reclassified to profit or loss</i>           | 11.4  | (8.2)                                       |
| <i>Items that will not be re-classified to profit or loss:</i>           |   |   |
| Re-measurement of defined benefit pension scheme                         | 15.5  | 3.1   |
| Tax on re-measurement of defined benefit pension scheme                  | (2.8)                                       | (0.6)                                       |
| <i>Total items that will not be reclassified to profit or loss</i>       | 12.7  | 2.5   |
| <b>Other comprehensive income / (expense) for the period, net of tax</b> | 24.1  | (5.7)                                       |
| <b>Total comprehensive income / (expense) for the period</b>             | 44.8  | (47.1)                                      |
| Attributable to:   |   |   |
| - equity holders of the parent   | 44.8  | (47.1)                                      |
| - non-controlling interests  | -   | -   |

### Interim consolidated balance sheet

|  | 30 June 2016<br>£m | 31 December 2015<br>£m |
|--|--------------------|------------------------|
| <b>ASSETS</b>                                |                    |                        |
| <b>Non-current assets</b>                    |                    |                        |
| Goodwill and intangible assets               | 682.5              | 674.3                  |
| Property, plant and equipment                | 173.6              | 177.9                  |
| Interest in joint venture                    | 13.9               | 11.5                   |
| Interest in associates and other investments | 24.1               | 21.3                   |
| Other financial assets                       | 8.0                | 11.4                   |
| Deferred tax assets                          | 8.0                | 0.7                    |
| Retirement benefit asset                     | 93.5               | 76.3                   |
|  | 1,003.6            | 973.4                  |
| <b>Current assets</b>                        |                    |                        |
| Trade and other receivables                  | 61.9               | 53.5                   |
| Corporation tax recoverable                  | 4.8                | 47.1                   |
| Derivative financial instrument              | -                  | 0.2                    |
| Cash and short-term deposits                 | 149.5              | 68.4                   |
|  | 216.2              | 169.2                  |
| <b>TOTAL ASSETS</b>                          | <b>1,219.8</b>     | <b>1,142.6</b>         |
| <b>LIABILITIES</b>                           |                    |                        |
| <b>Current liabilities</b>                   |                    |                        |
| Interest bearing loans and borrowings        | (224.6)            | -                      |
| Trade and other payables                     | (293.5)            | (242.4)                |
| Corporation tax liabilities                  | (4.8)              | (4.2)                  |
| Lease liabilities                            | (1.5)              | (4.9)                  |
| Provisions                                   | (11.1)             | (9.2)                  |
|  | (535.5)            | (260.7)                |
| <b>Non-current liabilities</b>               |                    |                        |
| Interest bearing loans and borrowings        | (99.0)             | (323.1)                |
| Other financial liabilities                  | (35.4)             | (35.6)                 |
| Deferred tax liabilities                     | (59.6)             | (52.7)                 |
| Lease liabilities                            | (3.1)              | (4.4)                  |
| Provisions                                   | (3.5)              | (9.6)                  |
|  | (200.6)            | (425.4)                |

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|                                      |                |                |
|--------------------------------------|----------------|----------------|
| <b>TOTAL LIABILITIES</b>             | <b>(736.1)</b> | <b>(686.1)</b> |
| <b>NET ASSETS</b>                    | <b>483.7</b>   | <b>456.5</b>   |
| <b>EQUITY</b>                        |                |                |
| Issued share capital                 | 297.6          | 297.5          |
| Share premium                        | 303.1          | 302.9          |
| Treasury and own shares              | (111.3)        | (112.3)        |
| Retained earnings                    | (13.6)         | (28.1)         |
| Foreign currency translation reserve | 7.8            | (3.6)          |
| <b>Equity shareholders' funds</b>    | <b>483.6</b>   | <b>456.4</b>   |
| Non-controlling interests            | 0.1            | 0.1            |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>    | <b>483.7</b>   | <b>456.5</b>   |

### Interim consolidated statement of changes in equity

|  | Issued share capital<br>£m | Share premium<br>£m | Treasury and own shares<br>£m | Retained earnings<br>£m | Foreign currency translation reserve <sup>(1)</sup><br>£m | Attributable to the equity shareholders of the Company<br>£m | Non-controlling interest<br>£m | Total shareholders equity<br>£m |
|--|----------------------------|---------------------|-------------------------------|-------------------------|---|--|--------------------------------|---------------------------------|
| At 1 January 2015                          | <b>270.5</b>               | <b>214.9</b>        | <b>(116.1)</b>                | <b>20.1</b>             | <b>2.2</b>  | <b>391.6</b>   | <b>0.1</b>                     | <b>391.7</b>                    |
| Loss for the period                        | -                          | -                   | -                             | (41.4)                  | -   | (41.4)   | -                              | (41.4)                          |
| Other comprehensive income/(expense)       | -                          | -                   | -                             | 2.5                     | (8.2)   | (5.7)  | -                              | (5.7)                           |
| Total comprehensive income                 | -                          | -                   | -                             | (38.9)                  | (8.2)   | (47.1)   | -                              | (47.1)                          |
| Issue of shares                            | -                          | 0.1                 | -                             | -                       | -   | 0.1  | -                              | 0.1                             |
| Share-based payments charge                | -                          | -                   | -                             | 2.2                     | -   | 2.2  | -                              | 2.2                             |
| Net movement in shares held in ESOP trusts | -                          | -                   | 1.2                           | (1.2)                   | -   | -  | -                              | -                               |
| Equity dividends                           | -                          | -                   | -                             | (42.1)                  | -   | (42.1)   | -                              | (42.1)                          |
| Non-controlling interests                  | -                          | -                   | -                             | -                       | -   | -  | -                              | -                               |
| <b>At 30 June 2015</b>                     | <b>270.5</b>               | <b>215.0</b>        | <b>(114.9)</b>                | <b>(59.9)</b>           | <b>(6.0)</b>  | <b>304.7</b>   | <b>0.1</b>                     | <b>304.8</b>                    |
| At 1 January 2016                          | <b>297.5</b>               | <b>302.9</b>        | <b>(112.3)</b>                | <b>(28.1)</b>           | <b>(3.6)</b>  | <b>456.4</b>   | <b>0.1</b>                     | <b>456.5</b>                    |
| Profit for the period                      | -                          | -                   | -                             | 20.7                    | -   | 20.7   | -                              | 20.7                            |
| Other comprehensive income                 | -                          | -                   | -                             | 12.7                    | 11.4  | 24.1   | -                              | 24.1                            |
| Total comprehensive income                 | -                          | -                   | -                             | 33.4                    | 11.4  | 44.8   | -                              | 44.8                            |
| Issue of shares                            | 0.1                        | 0.2                 | -                             | -                       | -   | 0.3  | -                              | 0.3                             |
| Share-based payments charge                | -                          | -                   | -                             | 3.0                     | -   | 3.0  | -                              | 3.0                             |
| Net movement in shares held in ESOP trusts | -                          | -                   | 1.0                           | (1.6)                   | -   | (0.6)  | -                              | (0.6)                           |
| Equity dividends                           | -                          | -                   | -                             | (20.3)                  | -   | (20.3)   | -                              | (20.3)                          |
| Non-controlling interests                  | -                          | -                   | -                             | -                       | -   | -  | -                              | -                               |
| <b>At 30 June 2016</b>                     | <b>297.6</b>               | <b>303.1</b>        | <b>(111.3)</b>                | <b>(13.6)</b>           | <b>7.8</b>  | <b>483.6</b>   | <b>0.1</b>                     | <b>483.7</b>                    |

<sup>(1)</sup> The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

### Interim consolidated statement of cash flows

|   | Notes | Half year ended<br>30 June 2016<br>£m | Half year ended<br>30 June 2015<br>£m |
|---|-------|---------------------------------------|---------------------------------------|
| <b>Net cash generated from operating activities</b> | 10    | 137.5                                 | 76.2                                  |

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|   |               |               |
|---|---------------|---------------|
| <b>Cash flows from investing activities:</b>          |               |               |
| Purchase of intangible assets                         | (16.9)        | (13.8)        |
| Purchase of property, plant and equipment             | (14.9)        | (13.6)        |
| Proceeds from sales of plant, property and equipment  | -             | 0.5           |
| Purchase of interest in joint venture                 | (0.4)         | (1.9)         |
| <b>Net cash used in investing activities</b>          | <b>(32.2)</b> | <b>(28.8)</b> |
| <b>Cash flows from financing activities:</b>          |               |               |
| Proceeds from issue of ordinary shares                | 0.3           | 0.1           |
| Purchase of ESOP shares                               | (0.6)         | -             |
| Finance lease payments                                | (4.8)         | -             |
| Repayment of borrowings                               | -             | (4.5)         |
| Equity dividends paid                                 | 6             | (42.1)        |
| <b>Net cash used in financing activities</b>          | <b>(25.4)</b> | <b>(46.5)</b> |
| Net increase in cash and cash equivalents             | 79.9          | 0.9           |
| Effect of changes in foreign exchange rates           | 1.2           | (0.6)         |
| Cash and cash equivalents at beginning of the period  | 68.4          | 61.0          |
| <b>Cash and cash equivalents at end of the period</b> | <b>149.5</b>  | <b>61.3</b>   |
| Cash and cash equivalents comprise:                   |               |               |
| Cash and short-term deposits                          | 101.0         | 24.0          |
| Customer funds  | 48.5          | 40.3          |
| Bank overdraft  | -             | (3.0)         |
|   | 149.5         | 61.3          |

## Notes to financial information

### 1. Corporate information

Ladbrokes plc ("the Company") is a limited company incorporated and domiciled in the United Kingdom whose shares are publicly traded. The principal activities of the Company and its subsidiaries ("the Group") are described in Note 3.

### 2. Basis of preparation

- (a) The directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing its financial statements.
- (b) The Group's annual financial statements for the year ended 31 December 2015 were prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee (IFRS IC) pronouncements as adopted for use in the European Union. The interim condensed consolidated financial statements for the half year ended 30 June 2016 have been prepared in accordance with IAS 34 Interim Financial Reporting and the Disclosure Rules and Transparency Rules of the UK Financial Conduct Authority.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015 other than taxes on income in the interim periods being accrued using the tax rate that would be applicable to expected total annual profit and loss.

The interim financial information was approved by a duly appointed and authorised committee of the Board of Directors on 3 August 2016 and is unaudited.

The financial information does not amount to full statutory accounts within the meaning of section 434 of the Companies Act 2006 and does not include all of the information and disclosures required for full annual financial statements. It should be read in conjunction with the Annual Report and Accounts of Ladbrokes plc for the year ended 31 December 2015 which was prepared in accordance with IFRS as adopted by the European Union and were filed with the Registrar of Companies. This report is available either on request from the Company's registered office or to download from [www.ladbrokesplc.com](http://www.ladbrokesplc.com). The auditors' report on these accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

A number of amendments to IFRSs became effective for the financial year beginning 1 January 2016 however these have had no material impact on the financial statements.

## Notes to financial information

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## 2. Basis of preparation (continued)

(c) To assist in understanding the underlying performance, the Group has defined the following items of pre-tax income and expense as exceptional in nature:

- profits or losses on disposal or impairment of non-current assets or businesses;
- unrealised gains and losses on derivative financial instruments;
- corporate transaction costs; and
- changes in the fair value of contingent consideration
- the related tax impact effect on these items.

Any other non-recurring items are considered individually for classification as exceptional by virtue of their nature and size. The separate disclosure of these items allows a clearer understanding of the trading performance on a consistent and comparable basis, together with an understanding of the effect of non-recurring or large individual transactions upon the overall profitability of the Group.

The exceptional items have been included within the appropriate classifications in the consolidated income statement.

## 3. Segment information

The Group's operating segments are based on the reports reviewed by the Board of Directors (who are collectively considered to be the Chief Operating Decision Maker) to make strategic decisions.

The performance of the Group's segments is assessed and measured according to the nature of the services provided. IFRS 8 requires segment information to be presented on the same basis as that used by the Board for assessing performance and allocating resources, and the Group's operating segments are aggregated into the five reportable segments detailed below:

- UK Retail: comprises betting activities in the shop estate in Great Britain.
- European Retail: comprises all activities connected with the Ireland (Northern and Republic of), Belgium and Spain shop estates.
- Digital: comprises betting and gaming activities from online and mobile operations which include Ladbrokes Israel, Ladbrokes Australia, Betdaq and Exchanges and Digital operations in Belgium and Spain.
- Core Telephone Betting: comprises activities primarily relating to bets taken on the telephone, excluding High Rollers.
- High Rollers: comprises activities primarily relating to bets taken on the telephone from High Rollers.

The Board continues to assess the performance of operating segments based on a measure of net revenue, profit before tax and net finance expense. This measurement basis excludes the effect of exceptional items (income or expenditure) from the operating segments.

Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties.

## Notes to financial information

### 3. Segment information (continued)

The segment results for the half year ended 30 June 2016 were as follows:

|   | Revenue<br>£m | Profit / (loss) before<br>tax and exceptional<br>items<br>£m | Profit / (loss) before<br>tax and after<br>exceptional items<br>£m |
|---|---------------|--|--|
| UK Retail                                 | 436.6         | 63.5   | 64.3   |
| Digital                                   | 158.1         | (9.6)  | (12.8)   |
| European Retail                           | 64.4          | 8.9  | 8.9  |
| Core Telephone Betting                    | 2.7           | (0.8)  | (0.8)  |
| High Rollers                              | -             | (0.1)  | (0.1)  |
| Segment revenue and profit                | 661.8         | 61.9   | 59.5   |
| Corporate costs                           |               | (9.7)  | (21.8)   |
| Profit before tax and net finance expense |               | 52.2   | 37.7   |
| Net finance expense                       |               | (12.5)   | (12.5)   |
| Group revenue and profit before tax       | 661.8         | 39.7   | 25.2   |

The segment results for the half year ended 30 June 2015 were as follows:

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|  | Revenue<br>£m | Profit before tax<br>and exceptional<br>items<br>£m | Profit / (loss) before<br>tax and after<br>exceptional items<br>£m |
|--|---------------|---|--|
| UK Retail  | 410.5         | 56.9  | 32.0   |
| Digital  | 112.2         | (11.5)  | (14.2)   |
| European Retail                                    | 60.0          | 6.2   | (41.3)   |
| Core Telephone Betting                             | 2.7           | (0.5)   | (0.5)  |
| High Rollers                                       | 3.4           | 2.8   | 2.8  |
| Segment revenue and profit / (loss)                | 588.8         | 53.9  | (21.2)   |
| Corporate costs                                    |               | (12.2)  | (16.0)   |
| Profit / (loss) before tax and net finance expense |               | 41.7  | (37.2)   |
| Net finance expense                                |               | (14.2)  | (14.2)   |
| Group revenue and profit / (loss) before tax       | 588.8         | 27.5  | (51.4)   |

Assets and liabilities for reportable segments are not disclosed as they are not regularly reported to the chief operating decision maker.

## Notes to financial information

### 4. Exceptional items

|  | Half year ended<br>30 June 2016<br>£m | Half year ended<br>30 June 2015<br>£m |
|--|---------------------------------------|---------------------------------------|
| Corporate transaction costs <sup>(1)</sup>                       | (5.6)                                 | (3.8)                                 |
| Integration planning costs <sup>(2)</sup>                        | (6.5)                                 | -                                     |
| Provision for contract disputes                                  | (3.4)                                 | -                                     |
| Gain / (loss) on closure <sup>(3)</sup>                          | 0.8                                   | (17.1)                                |
| Fair value adjustment to contingent consideration <sup>(4)</sup> | 0.2                                   | 1.8                                   |
| Impairment loss  | -                                     | (58.3)                                |
| Examinership costs   | -                                     | (2.1)                                 |
| Early termination of contract                                    | -                                     | (2.9)                                 |
| European indirect tax liability                                  | -                                     | 3.5                                   |
| Total before tax   | (14.5)                                | (78.9)                                |
| Exceptional tax credit   | 0.4                                   | 12.8                                  |
| Total after tax  | (14.1)                                | (66.1)                                |

(1) The Group incurred £5.6m of costs in relation to the proposed merger with the Coral Group.

(2) Integration planning costs of £6.5m have been incurred in relation to the proposed merger with the Coral Group.

(3) The £0.8m gain on closure relates to UK Retail. This gain includes a loss on disposal of intangible assets of £0.7m, a loss on disposal of property, plant and equipment of £0.3m and release of £1.8m in respect of onerous lease provisions for prior shop closures.

(4) The fair value of the contingent consideration in respect of the business combinations with Playtech and Betdaq has been remeasured at 30 June 2016. This resulted in an overall credit to the income statement of £0.2m.

Operating expenses include corporate transaction costs, integration planning costs, the fair value adjustment to contingent consideration, the provision for contract disputes and a £1.8m credit relating to shop closures.

In addition to the defined exceptional items, set out in note 2, the Group considered the integration planning costs and a provision in relation to contract disputes to be of sufficient materiality, to be separately identified, and of a nature unrelated to the underlying trading performance of the Group in the half year.

### 5. Taxation

The tax charge for the half year ended 30 June 2016 was £4.5m (30 June 2015: credit of £10.0m) of which a credit of £0.4m (30 June 2015: credit of £12.8m) related to exceptional items.

In 2015 it was announced that the standard rate of UK Corporation Tax will be reduced from 20% to 19% from 1 April 2017, with a further reduction to 18% from 1 April 2020. However, the Chancellor, in his Budget on 16 March 2016, announced that the main rate of corporation tax will be cut further to 17% from 1 April 2020.

The deferred tax assets and liabilities at the balance sheet date are calculated at the substantively enacted rate of 18%; applicable at the balance sheet date. Whilst detailed calculations have not been prepared at this stage, it is estimated that the impact of the future corporation tax rate reductions to 17% would be to reduce

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the deferred tax liabilities by approximately £4.0m and to reduce the deferred tax assets by approximately £1.2m.

Net deferred tax liability of £51.6m consists of £20.7m of deferred tax asset which has been offset against a deferred tax liability of £72.3m due to the right of offset.

## Notes to financial information

### 6. Dividends

|         | Half year ended<br>30 June 2016<br>Pence | Half year ended<br>30 June 2015<br>Pence |
|---------|--|--|
| Interim | 1.0                                      | 1.0                                      |
|         | <u>1.0</u>                               | <u>1.0</u>                               |

An interim dividend of 1.0 pence per share (30 June 2015: 1.0 pence) was declared by the directors at their meeting on 2 August 2016. These financial statements do not reflect this dividend payable. The 2015 final dividend of 2.0 pence per share (£20.3m) was paid in the half year ended 30 June 2016 (30 June 2015: £42.1m).

### 7. Earnings per share

Basic earnings per share has been calculated by dividing the profit attributable to shareholders of the Company of £20.7m (30 June 2015: loss of £41.4m) by the weighted average number of shares in issue during the half year of 1,018.4m (30 June 2015: 923.0m).

The calculation of adjusted earnings per share before exceptional items is included as it provides a better understanding of the underlying performance of the Group. Exceptional items are defined in note 2 and disclosed in note 4.

|  | Half year ended<br>30 June 2016<br>£m | Half year ended<br>30 June 2015<br>£m |
|--|---------------------------------------|---------------------------------------|
| Profit / (loss) attributable to shareholders | 20.7                                  | (41.4)                                |
| Exceptional items after tax (note 4)         | 14.1                                  | 66.1                                  |
| Adjusted profit attributable to shareholders | <u>34.8</u>                           | <u>24.7</u>                           |

### Weighted average number of shares (million):

|   |                |              |
|---|----------------|--------------|
| Shares for basic earnings per share                                 | 1,018.4        | 923.0        |
| Potentially dilutive share options and contingently issuable shares | 9.9            | 3.9          |
| Shares for diluted earnings per share                               | <u>1,028.3</u> | <u>926.9</u> |

| Stated in pence            | Half year ended 30 June  |      |                         |       |
|----------------------------|--------------------------|------|-------------------------|-------|
|                            | Before exceptional items |      | After exceptional items |       |
|                            | 2016                     | 2015 | 2016                    | 2015  |
| Basic earnings per share   | 3.4                      | 2.7  | 2.0                     | (4.5) |
| Diluted earnings per share | 3.4                      | 2.7  | 2.0                     | (4.5) |

## Notes to financial information

### 8. Non-current assets

During the half year ended 30 June 2016, the Group acquired intangible assets at a cost of £15.4m (30 June 2015: £13.8m) and plant, property and equipment of £17.6m (30 June 2015: £18.8m).

At 30 June 2016 the Group had no contractual commitments for the acquisition of property, plant and equipment (31 December 2015: £nil).

### 9. Net debt

The components of the Group's net debt are as follows:

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|                                       | 30 June 2016<br>£m | 31 December 2015<br>£m |
|---------------------------------------|--------------------|------------------------|
| <b>Current assets</b>                 |                    |                        |
| Cash and short-term deposits          | 101.0              | 28.3                   |
| <b>Current liabilities</b>            |                    |                        |
| Lease liabilities                     | (1.5)              | (4.9)                  |
| Interest bearing loans and borrowings | (224.6)            | -                      |
| <b>Non-current liabilities</b>        |                    |                        |
| Interest bearing loans and borrowings | (99.0)             | (323.1)                |
| Lease liabilities                     | (3.1)              | (4.4)                  |
| <b>Net debt</b>                       | <b>(227.2)</b>     | <b>(304.1)</b>         |

Cash and short-term deposits presented on the balance sheet of £149.5m (31 December 2015: £68.4m) include customer funds of £48.5m (31 December 2015: £40.1m)

As at 30 June 2016 £346.8m of committed bank facilities were undrawn.

## Notes to financial information

### 10. Note to the statement of cash flows

|  | Half year ended<br>30 June<br>2016<br>£m | Half year ended<br>30 June<br>2015<br>£m |
|--|--|--|
| Profit / (loss) before tax and net finance expense | 37.7                                     | (37.2)                                   |
| Non-cash exceptional items                         | 6.2                                      | 77.4                                     |
| Depreciation of property, plant and equipment      | 20.4                                     | 20.1                                     |
| Amortisation of intangible assets                  | 19.2                                     | 19.0                                     |
| Share-based payments charge                        | 3.0                                      | 2.2                                      |
| Increase in trade and other receivables            | (1.8)                                    | (2.2)                                    |
| Decrease in other financial liabilities            | -  | (2.4)                                    |
| Increase in trade and other payables               | 40.8                                     | 26.1                                     |
| Decrease in provisions                             | (5.3)                                    | (2.4)                                    |
| Contribution to retirement benefit scheme          | (0.8)                                    | (2.4)                                    |
| Share of results from joint venture                | (0.4)                                    | 0.3                                      |
| Share of results from associates                   | (1.7)                                    | (1.5)                                    |
| Other items  | (0.3)                                    | 0.5                                      |
| Cash generated by operations                       | 117.0                                    | 97.5                                     |
| Income taxes received / (paid)                     | 34.6                                     | (7.8)                                    |
| Net finance expense paid                           | (14.1)                                   | (13.5)                                   |
| <b>Net cash inflow from operating activities</b>   | <b>137.5</b>                             | <b>76.2</b>                              |

### 11. Related party transactions

During the period, Group companies entered into the following transactions with related parties who are not members of the Group:

|                                | Half year ended<br>30 June<br>2016<br>£m | Half year ended<br>30 June<br>2015<br>£m |
|--------------------------------|--|--|
| <b>Equity investment</b>       |  |  |
| - Joint venture <sup>(1)</sup> | 0.4                                      | 1.9                                      |
| - Associates                   | 1.1                                      | -  |
| <b>Sundry expenditures</b>     |  |  |
| - Associates <sup>(2)</sup>    | 26.3                                     | 26.4                                     |

(1) *Equity investment in Sportium Apuestas Deportivas SA.*

(2) *Payments in the normal course of business made to Satellite Information Services (Holdings) Limited.*

The following table provides related party outstanding balances.

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|   | 30 June 2016<br>£m | 31 December 2015<br>£m |
|---|--------------------|------------------------|
| <b>Loan balances outstanding</b>                |                    |                        |
| - Joint venture                                 | 0.6                | 0.6                    |
| <b>Other receivables/(payables) outstanding</b> |                    |                        |
| - Associates                                    | (3.0)              | 1.6                    |
| - Joint venture                                 | 1.6                | 1.6                    |

## Notes to financial information

### 12. Financial guarantees

The Group has given guarantees to third parties in respect of lease liabilities of former subsidiaries within the disposed hotels division. The Group received an indemnity from Hilton Hotels Corporation (HHC), at the time of the hotels disposal, in relation to any loss the Group may subsequently incur under these third party guarantees. The guarantees expire between 2017 and 2042 and the lease liabilities comprise a combination of minimum contractual and turnover based elements. The undiscounted maximum liability exposure in respect of the guarantees for all years up to 2042 is £550.2m (31 December 2015: £560.8m), with a maximum indemnity receivable of the same amount. Included in the maximum liability exposure is £395.7m (31 December 2015: £402.1m) in relation to the turnover based element of the hotel rentals and £154.5m (31 December 2015: £158.7m) in relation to the minimum contractual based element. The maximum liability represents the total of all guaranteed rentals under the non-cancellable agreements into which the Group has entered.

The net present value of the maximum exposure at 30 June 2016 is £201.9m (31 December 2015: £210.3m). Included in the net present value of the maximum exposure is £136.1m (31 December 2015: £141.4m) in relation to the turnover based element of the hotel rentals and £65.8m (31 December 2015: £68.9m) in relation to the minimum contractual based element.

The Group monitors its exposure under these guarantees on a regular basis and seeks, where appropriate, to novate its obligations.

At 30 June 2016 the Group has recognised a financial liability of £3.2m (31 December 2015: £3.2m) in respect of these guarantees. The key assumption in the probability model is the hotels default rate. A rate of 1.5% has been used at 30 June 2016 (31 December 2015: 1.5%).

The financial guarantees liability has been valued using a probability based model to estimate the net present value of the liabilities payable in the event of a default by the hotels covered by the guarantees, and the probability of such a default and new tenants being identified.

A 0.5 percentage point increase in the default rate would increase the financial liability by £1.0m. A 1.0 percentage point increase in the discount rate would reduce the financial liability by £0.2m.

## Notes to financial information

### 13. Financial instruments

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2016, by level of fair value hierarchy. All assets and liabilities measured at fair value are measured as level 3 (fair value is measured using techniques where the significant inputs are not based on observable market data).

|   | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m |
|---|---------------|---------------|---------------|
| 30 June 2016                                  |               |               |               |
| <b>Assets measured at fair value</b>          |               |               |               |
| Other financial assets                        | -             | -             | 3.4           |
| <b>Liabilities measured at fair value</b>     |               |               |               |
| Ante-post liabilities                         | -             | -             | (9.0)         |
| Other non-current financial liabilities       | -             | -             | (35.3)        |
| <b>Total</b>                                  | -             | -             | (44.3)        |
| <b>Net liabilities measured at fair value</b> | -             | -             | (40.9)        |

#### Carrying amounts versus fair values

Assets and liabilities designated at fair value through profit or loss and available for sale financial assets are carried at fair value. The fair value of cash at bank and in hand approximates to book value due to its short-term maturity. The fair value of the £225m 7.625% bond at 30 June 2016 was £231.9m (31 December 2015: £239.7m). The fair value of the £100m 5.125% bond at 30 June 2016 was £101.7m (31 December 2015: £98.3m). The amortised cost of interest bearing loans and borrowings, with the exception of the £225m 7.625% bond and the £100m 5.125% bond, and the carrying value of all other assets and liabilities approximates to fair value.

Trade and other payables

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Included in trade and other payables are £9.0m of ante-post liabilities (31 December 2015: £5.3m). Changes in the fair value of these instruments are recorded in the consolidated income statement.

#### Other non-current financial liabilities

Included within other non-current financial liabilities is contingent consideration associated with previous business combinations of £32.1m (31 December 2015: £32.3m), classified as level 3 financial instruments, as its fair value is measured using techniques where the significant inputs are not based on observable market data. Financial guarantees are also classified as level 3 financial instruments; a description of the valuation techniques, significant inputs and assumptions is described in note 12.

#### a) Betdaq

The estimated fair value of the contingent consideration at 30 June 2016 is £nil (31 December 2015: £0.8m), which is classified at Level 3 in the fair value hierarchy. The change in fair value since the acquisition date has been recorded in the income statement within exceptional items.

Betdaq contingent consideration is linked to the performance of the business over a four year period and is capped at €535.0m. The fair value of the contingent consideration has been estimated using a discounted cash flow analysis at the acquisition date. The key assumptions in estimating the fair value are the EBITDA projections of the Betdaq business for 2016, the predicted Ladbrokes plc EBITDA multiple in 2016 (9.1x) and the discount rate applied (14.4%). All of these assumptions have been applied on a probability-weighted basis.

The contingent consideration is sensitive to changes in these assumptions. For example, an increase of 10% in EBITDA projections would result in an increase in contingent consideration of £1.4m.

## Notes to financial information

### 13. Financial instruments (continued)

#### b) Playtech

The estimated fair value of the contingent consideration at 30 June 2016 is £32.1m (31 December 2015: £31.5m), which is classified at Level 3 in the fair value hierarchy. The change in fair value since the acquisition date has been recorded in the income statement within exceptional items. This valuation does not include the impact of the updated agreement which is contingent on merger completion.

The fair value of the contingent consideration in relation to Playtech has been estimated using a discounted cash flow analysis at the acquisition date. The key assumptions in estimating the fair value are a range of EBITDA projections of the Digital business for 2017, which are based on the projections in place at the time of the acquisition and then updated with an estimated uplift for the benefits of the transaction, the predicted Ladbrokes plc EBITDA multiple in 2017 (9.1x); and the discount rate applied (a range of 20.7% to 13.5%, depending on the year). All of these assumptions have been applied on a probability-weighted basis.

The contingent consideration is sensitive to changes in these assumptions. For example, an increase of 10% in EBITDA projections would result in an increase in contingent consideration of £13.5m and a decrease of 2% in the discount rate would result in an increase in contingent consideration of £1.0m. An increase of 1x in the EBITDA multiple would increase the contingent consideration by £3.9m.

### 14. Post balance sheet events

On 26 July 2016 the CMA (Competition & Markets Authority) issued its final findings report, with completion subject to adherence to a set of conditions, primarily the sale of 350-400 shops.

The group has in place facilities of £1,350,000,000 which are contingent on the completion of the proposed merger with the Coral Group. The facilities comprise 3 tranches, one term loan with a maturity, subject to extension options, of July 2018 and two revolving credit facilities with maturities of June 2019 and October 2020 respectively. On the completion of the merger, bilateral revolving credit facilities of £350,000,000 will be cancelled.

The Facilities Agreement was amended in June 2016. The amendment allows for borrowings under the £600,000,000 term loan tranche to be extended, at the option of the borrower, for an additional period of 6 months to July 2018.

This information is provided by RNS  
The company news service from the London Stock Exchange

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# Ladbrokes reports profit as digital turnaround begins to take hold

By **Derek du Preez** August 4, 2016

## SUMMARY:

Bookmaker Ladbrokes has turned its fortunes around and has reported a profit for the first six months of the year – compared with a loss of £54.1 million last year.



0 Comments

British betting  
and gambling



company **Ladbrokes is thanking the “sporting gods”** as it reports a profit of £25.2 million for the first six months of the year. This compares to a loss of £54.1 million for the same period last year.

And whilst chief executive Jim Mullen was quick to acknowledge that the company had experienced some “helpful bookmaker friendly results”, its also clear that Ladbroke’s investments in digital are working favourably for the firm.

The turnaround will be welcome news for investors, **which last quarter saw Ladbrokes indicating that the digital investments** were impacting the bottom line – with the company citing shop closures, software write downs and increased digital marketing spend.

However, it seems that Ladbrokes' decision to implement a new strategy, following a short and intense internal review, is finally paying off. The company is attempting to attract and retain multi-channel digital customers that will use its new, digitally integrated 'One Ladbrokes' platform.

The results out today show a 13.1% year-on-year increase in revenue to £661.8 million, while pre-tax profits also surged 61.1% to £39.8 million.

Chief executive Mullen said:

*These strong numbers show customers are responding positively to the new strategy at a time when the sporting gods have generally been on our side and we've enjoyed some helpful bookmaker friendly results. This combination has helped boost profits in the first half of the year.*

*History would strongly dictate that such a run of results in our favour would see customer staking suffer, but encouragingly these numbers firmly buck that trend and combine strong staking and a good margin. However, 130 years of experience in sports betting has shown us that we will endure a run of customer friendly results and margins will normalise. Despite this assumption on results and our intention to continue investing in marketing, we have slightly increased our full year expectations.*

*Encouragingly we have delivered a good performance across all the key customer metrics outlined in last year's strategic plan and that gives us confidence that we are well placed to deliver against our stated 2017 targets. We have grown recreational customers, increased our football business, attracted more multi-channel customers and grown strongly in Australia. However, we are taking nothing for granted.*

*We will continue to compete hard on pricing, product and customer services and maintain a relentless focus on meeting and exceeding*

*customer expectations.*

## Progress

Ladbrokes noted that the half year results indicate that progress is being made after a first full year of operations under the strategic plan. It said that the numbers show the customer is responding to the investments and that it is beginning to have a positive impact on numbers.

The company said that its multi-channel strategy had now delivered over 100,000 active users and had been rolled out to Ireland and Belgium – this number is from a standing start last August and 79,000 users have been recruited in the first half of this year.

Interestingly, Ladbrokes is using its in-store retail staff to help recruit users to the digital products and is rewarding them for the efforts. The betting maker said:

*Our success in recruiting customers has been through improving the customer experience and motivating our retail colleagues who are the most effective sales people for our digital product. Over 9,400 colleagues have been rewarded so far with over 170 earning an additional £1,000 plus for their hard work.*

## Digital results



Ladbrokes said that total digital net revenue increased by an impressive 40.9% to £158.1 million, up from £112.2 million for the same period last year, which it claimed was down to

“improved brand presence, product quality and stability”.

It added that it is staying clear of capital intensive projects and its focus is primarily on the customer experience.

*In Ladbrokes.com, we have increased our marketing spend and the improvements to our products in H1 have been driven by a customer-focus rather than a technology-focus. We have deliberately steered clear of major capital projects. Our products have evolved to reflect changing customer demands and align the Ladbrokes experience to their own expectations. The response has been positive.*

Ladbrokes highlighted, however, how telephone betting continues its long term decline, with many customers migrating to digital products and platforms. Amounts staked declined by 11.1%.

Interestingly, the bookmaker is also using its digital prowess to try and become a more responsible betting company, where it is making investments in data and algorithms to try and assess customers that may have a problem. Ladbrokes said:

*As part of our commitment to responsible gambling we have continued to develop our retail algorithm which identifies changes in behaviour indicating potential problem gambling and assist in helping customers keep their gambling fun. It now covers all customers using cards in our retail estate on both machines and OTC products.*

*We have now begun to develop our responsible gambling facility in Gateshead and expanded the team there to grow our ability to track multi-channel players as well as build our analytical capability. We recently had our retail algorithm independently assessed and have been making improvements to its operations based on this work.*

## **My take**

Although Ladbrokes points to favourable sporting conditions for the uptick in its results, its clear that its digital priorities are beginning to




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# Liberal MP pours cold water on TAB sale bid

Gareth Parker and Jay Rooney - The West Australian on November 14, 2016, 12:20 am

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**Government backbencher Murray Cowper has spoken out against a building political consensus for selling the TAB.**

**VIDEO** [Country racing on show](#)

Mr Cowper, whose Murray-Wellington electorate includes significant horse breeding and training operations, claimed there was not the support from the industry that Premier Colin Barnett and leading trainer Michael Grant said there was.

Last week, *The West Australian* revealed the WA Racing Response Group, chaired by Mr Grant and formed to formulate the industry's response to the privatisation issue, had given the Government the green light to proceed with the sale process.

It was done on the basis that the industry would be no worse off financially, that sale proceeds were set aside for an infrastructure fund and that governance issues were settled.

But Mr Cowper said Mr Grant did not speak for the whole industry and he remained personally opposed to the sale.

"The industry is bigger than just Perth and there are significant elements in country gallops, trots and greyhounds that aren't on board," he said.

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The West Australian canvassed opinion of racing leaders across codes and from representatives of regional racing groups and found general support for Mr Grant's position.

Country Racing Association president Kevin Scott said the CRA supported Mr Grant and WARRG "100 per cent".

"We believe the WARRG will do everything to get the best outcome for the industry," he said.

"If we don't go as one constructive group we might as well not go at all.

"All we want is to be no worse off."

Pinjarra Harness Racing Club president Barry Warwick said: "I'm for it as long as we can get the right result out of it.

"At first I was pretty anti-selling but I've had a good, hard look at it.

"It all comes down to the outcome for the industry."

Gloucester Park president John Burt said WARRG had set parameters for the industry's support and presented them to Government.

"If they're met, we're happy to see the TAB sold," he said.

Mr Barnett and Nationals Leader and Racing Minister Brendon Grylls have both said they want to sell the TAB and believe they have the support of the industry.

Labor says it will sell only if the industry agrees and wants to consult more widely.

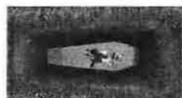
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## Transcript

Station: **PERTH CONFERENCE UNIT** Date: **19/10/2016**  
 Program: **PRESS CONFERENCE** Time: **10:00 AM**  
 Compere: **0** Summary ID: **P00067985679**  
 Item: **COLIN BARNETT, PREMIER OF WESTERN AUSTRALIA, HOLDS A  
 DOORSTOP TO TALK ABOUT THE PROPOSED SALE OF WESTERN POWER.**  
**INTERVIEWEE: COLIN BARNETT**

| Audience: | Male 16+ | Female 16+ | All people |
|-----------|----------|------------|------------|
|           | N/A      | N/A        | N/A        |

UNIDENTIFIED SPEAKER: Nice to come down here and see how the other half live actually. [Laughs].

UNIDENTIFIED SPEAKER: Get that chip off your shoulder.

[Laughter]

UNIDENTIFIED SPEAKER: [Laughs] Just mucking around.

UNIDENTIFIED SPEAKER: Hard working people.

COLIN BARNETT: Okay, what do you want to talk about?

QUESTION: Western Power, if I may.

COLIN BARNETT: Yeah sure.

QUESTION: Mark McGowan obviously has launched this campaign, yesterday he denied it's a fear campaign but then at the same press conference flanked by union officials

they said that they're worried about the risk of bushfires because of a lack of maintenance if it's sold. Surely it is just a fear campaign?

COLIN BARNETT:

It is. And look, the government's seriously looking at either the full or part privatisation of Western Power. We haven't made a decision but I expect we will in the next few weeks. And I would hope that both the Liberal and National Party are aligned on that. But there's obviously some sensitivity; Western Power's a utility in Western Australia. But the world's changing. If we are to continue as a government- and it applies to any government to build new infrastructure. Hospitals, schools, roads, bridges, whatever it might be, it costs a lot of money. And that's traditionally been financed by taxes - that will continue - and borrowings, but there's an opportunity now to allow Australians - in this case maybe Western Power customers, superannuation funds - to also invest in that utility. And probably a better thing to be paying dividends for superannuation than simply paying interest rates to international banks. So it's a different way of looking at financing.

If Western Power is privatised it would pay off a large amount of debt. Not debt that the government itself has incurred, it's just debt of Western Power. Because we've had 450,000 increase in population in the last eight years. That means more power lines, more connections and the like. So that's just natural growth. Someone's got to pay for it and some private investment might be the way to do it. So Western Power if it is privatised will operate as it is now. As a regulated monopoly, if you like. A regulated utility, so

the public have nothing to fear. What it does do is free up money to reduce debt and free up money for new expenditure on schools, hospitals, all the things that a growing population needs.

QUESTION:

Is it a bit dishonest though, that scaremongering? Particularly around bushfire threats?

COLIN BARNETT:

Oh look, Western Power does an excellent job in responding to bushfires. Just recently in Yarloop I think something like about \$20 million was spent by Western Power on restoring power supplies immediately. And there's just been a massive program of replacing wooden poles throughout the state. That's one of the reasons Western Power's got a high level of debt. The huge expenditure on ensuring that the risk of fire was absolutely minimised.

QUESTION:

Is the assurance there that nothing with change for this business model? That there will be no compromise on safety or maintenance because it will still be under the same regulator?

COLIN BARNETT:

That's right. It'll have to meet the national standards in every sense. Even its level of profit will be regulated, so for customers- and Western Power runs the poles and wires so it doesn't have that direct customer base like say Synergy does or Horizon. People will not see any difference. But what they will see is the level of debt is significantly reduced and that frees up money for important investment by government in other essential areas.



|                |   |
|----------------|---|
| QUESTION:      | You said before you're worried about a Medicare-style campaign around Western Power. Are you still fearful of that given it's been two days in a row now with some pretty hard lines from the opposition in relation to this?   |
| COLIN BARNETT: | Look, I'm sure that will happen. I'm sure during the election campaign the Labour Party and the unions will campaign that way. I have said clearly we will make a decision on Western Power. We will make that public when we've made that decision. And we will take it to the election. So, I think that's a proper responsible way for a government to behave and that would give the opportunity for the public of Western Australia to think about it. And there's no doubt freeing up of those funds would allow much needed expenditure in a whole range of areas, and that in itself will create literally thousands of jobs. |
| QUESTION:      | Is the share float plan something you're seriously considering?   |
| COLIN BARNETT: | We're looking at all those options, we are. We have- and I'll be quite honest, we have not yet made the decision.   |
| QUESTION:      | Tatts and Tabcorp are looking at a merger, it's being reported. What impact on the price- what impact would it have, sorry, on the price of any potential TAB sale here in WA?  |
| COLIN BARNETT: | Look, I don't believe it will make a difference on the price. I mean I guess if they weren't merged they may  |

bid against each other. But I think today in a very sophisticated financial world, people- any bidder will just simply do their own financial modelling. Analyse, you know, the cash flow that will come from a TAB. And I'm pleased that the racing industry in broad terms now supports the privatisation of the TAB again.

Racing's in trouble. It's been declining in terms of people going to the races; revenue's not as strong as it could be. So a privatised TAB I think offers a lifeline to the racing industry in terms of upgrading facilities, whether it's Ascot or Belmont, and regenerating that sport, that interest.

QUESTION:

But it would have to impact on price wouldn't it? Because Tabcorp and Tatts- my understanding from what the Treasurer said [indistinct] were the two main likely bidders for TAB. So if they're then one big conglomerate surely that would [indistinct]?

COLIN BARNETT:

[Talks over] No, look I don't it will. There may well be other bidders as well. In fact I'd expect there to be other bidders. But the government will only sell the TAB if it gets the right price for it. And you can be pretty certain what the price is going to be for these assets. Everyone knows the finances and that put it through the analys- spits out a number and that's what people will bid.

QUESTION:

Have you got your in-principle agreement with the racing industry or are you still working towards that?

- COLIN BARNETT: Well the Government doesn't require the agreement of the racing industry but now I think most sections of the racing industry do agree that it's the right thing to do and I think broadly in terms of sort of government policy, it's not appropriate today for a government to own a betting agency, I just don't think that's - that's not life in the 21st century.
- QUESTION: Are you sure...
- QUESTION: That was the term that you used, you said that you'd like to get an in-principle agreement before the election.
- COLIN BARNETT: Well yes and I think we have now, the racing industry's come out broadly in support of it,.I mean they're looking for some investment into facilities, we accept that, they're wanting to be assured that the revenue stream to the racing codes will continue and it will, that will be part of the sale conditions.
- QUESTION: The issue with the importation of the Adler shotgun has come up in Federal Parliament. It's been pushed from I think the Liberal Democrats in areas above [indistinct]. The Prime Minister says it's up to the states to regulate there and come up with a consensus. Do you have a view, or have you added any risk advice on what the WA's view is on the importation?
- COLIN BARNETT: Look I am far from being an expert on guns but I guess as a matter of policy I do not support that gun. I saw some footage on television of it being fired, it's obviously rapid fire capacity. Australia has put in

policies to contain gun ownership and use and I do not support allowing a weapon like that into this state.

QUESTION:

The Opposition have just held a press conference outside ABV which is a transformer manufacturing company that used to make the transformers for Western Power. They say that that company's lost that contract either to New South Wales or New Zealand companies and 80 jobs will go, do you know much about that?

COLIN BARNETT:

I don't know about that but look, Western Power's a huge business. It buys equipment from all over the place so that's a commercial matter and then they just simply act almost independent of government, with their own independent board and make those commercial decisions.

QUESTION:

But it would be linked to any potential sale is it?

COLIN BARNETT:

No.

QUESTION:

No. Can I also just clarify though do you think unions warning of more bushfires if you sell Western Power and there's not the maintenance going into it, is it a bit irresponsible and insensitive to people who have lost homes to these sorts of things?

COLIN BARNETT:

Well look, most bushfires - the vast majority of bushfires are handled by volunteer fire brigades, not by Western Power. If power lines come down then the utility, whether it's government or privately owned has

a responsibility to restore power supplies. That's what it does. It's not out there fighting fires.

QUESTION:

What do you think about Laine McDonald's calls for breastfeeding, bottle feeding to be allowed in the Parliament?

COLIN BARNETT:

Well a new member of parliament and I wish her well in her parliamentary career. That issue came up a few years ago. Look it is not in my view necessary for a mother to take a baby into the chamber. All members of parliament have their own offices within the Parliament where they've got privacy and if a mother and a baby needs to breastfeed, and that mother's not peered(\*) I can guarantee from a government point of view, we will always give her an immediate peer so that that mother can leave the chamber, look after her baby and return when she's finished.

QUESTION:

Do you think though that it is capacity for parliament though, WA Parliament, to be a bit more family-friendly?

COLIN BARNETT:

No, no.

QUESTION:

I mean potentially crèche or something like that?

COLIN BARNETT:

Well there may be an argument but I don't - there's not many members of parliament that have a baby but everyone respects the mother and the child but not on the floor of the chamber. I mean it is only for members of parliament, and that's the principle; we don't start

to have babies and children in the Parliament and there's plenty of opportunity for privacy. There is other spaces in the Parliament that can be used if a mother's breastfeeding and as I said from my point of view in the Liberal Party, we would always give a balance peer to make sure that there's no disadvantage to a political party if there is a mother with a baby so we have covered that vote and make sure we take one of our members out so there is no advantage.

QUESTION:

Can you just tell us about what you opened today and why you think it's money well spent?

COLIN BARNETT:

Yes at the Dog Refuge Home in Shenton Park has now just rebuilt its facilities. That was made possible by a grant from Lottery West of \$1.2 million and this allows not only a better way of dealing with the hundreds of dogs that this refuge home handles for to introduce the dog to the new family and make sure they understand the dog and any personality or quirks it's got and also importantly an education centre so dog owners and prospective dog owners can know how to care for a dog, help train a dog, to feed it properly and the like and be most of all responsible dog owners. And I would urge people if you are getting a dog, they're wonderful pets to have. Get a rescue dog, that's terrific. If you want a particular breed then buy from an accredited quality breeder and also make sure that your dogs are sterilised so that you don't have unwanted litters and therefore unwanted puppies so responsible dog ownership's a big part of this.

Okay thanks for coming out.



QUESTION: One more question if that's alright.

COLIN BARNETT: Yeah sure yeah.

QUESTION: You spoke previously today about a new draft policy as part of Design WA, what's the expected benefit to Western Australians?

COLIN BARNETT: Well our housing patterns are changing, more people are wanting to live closer into the city, more people are choosing to live in apartments, both younger people and also [inaudible] downsizing when the children have left home. So the design of the...

\* \* END \* \*

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