



IN THE AUSTRALIAN COMPETITION TRIBUNAL

## Statement

No. ACT of #

**Tabcorp Holdings Limited**

**Proposed acquisition of Tatts Group Limited by Tabcorp Holdings Limited by way of scheme of arrangement**

Statement of: **Michael Grant**

Address: 55 Henley Street, Henley Brook, Western Australia

Occupation: Executive Chairman

Date: 15 February 2017

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I, Michael Grant, Executive Chairman, in the State of Western Australia, say that:

### BACKGROUND

#### Personal involvement in the thoroughbred racing industry

- 1 I have been involved in the Western Australia thoroughbred racing industry since 1998, as a thoroughbred trainer, breeder and owner.

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- 2 In 1998, I obtained my trainer's licence and established a thoroughbred training facility in the Swan Valley operating under my company G & G Bloodstock, which I operate with my wife.
- 3 I trained thoroughbred horses full-time from 1998 until about 2013. I continue to be involved in thoroughbred training, breeding and ownership part-time, alongside other racing industry responsibilities. I have bought and sold horses at all major thoroughbred horse sales throughout Australia and New Zealand over the last 15 years.
- 4 I have had success in Western Australia racing events as a thoroughbred owner, breeder and trainer. As a trainer, one of the most successful horses I have trained is "Cats Fun", which won in the Group 1 2006 Western Australia Derby, the Group 2 2008 Perth Cup and 2007 Cox Stakes, as well as a number of other races. As an owner or part-owner and trainer, I have had success with a number of my horses winning and placing in major Western Australia races.
- 5 I was formerly the president of the Western Australia Racing Trainers' Association (**WARTA**). I am currently the Executive Chairman of the Western Australia Racing Representative Group Inc. (**WAARRG**), an incorporated body which was established in 2014 to represent the interests of racing industry participants in Western Australia in relation to the potential privatisation of the Western Australian Totalisator Agency Board (**WA TAB**).
- 6 I make this statement in my position as Executive Chairman of WAARG and on behalf of WAARG in relation to an application by Tabcorp Holdings Limited (**Tabcorp**) to the Australian Competition Tribunal for authorisation of the proposed merger of Tatts Group Limited (**Tatts**) and Tabcorp.

#### **Former role and involvement with the Western Australia Racing Trainers' Association**

- 7 I held the role of president of WARTA from 2012 – 2014. WARTA is a Western Australia incorporated body and is one of the officially recognised racing industry stakeholder groups under the Racing and Wagering Western Australia Act 2003 and Racing and Wagering Western Australia Regulations 2003.
- 8 During my time as president of WARTA, the organisation increased its membership from 33 members to 250 members and secured ongoing funding arrangements to fund an executive officer of the organisation through negotiations with Racing and Wagering Western Australia (**RWWA**). Through these funding arrangements, trainers are provided with a rebate of \$75 for every horse they train that starts a race. This rebate comes from industry funding sources and is distributed directly to trainers by RWWA. From that \$75, \$2.50 is deducted in favour of WARTA to fund an executive officer. All trainers in Western Australia are members of WARTA.
- 9 I am currently a member of WARTA and continue to participate in the activities of WARTA, including by providing strategic advice and guidance.



## Background to establishment to WARRG

- 10 In June 2014, the Government of Western Australia announced its intention to privatise the WA TAB. The WA TAB was then and continues to be part of RWWA.
- 11 In July 2014, I attended an industry meeting of key Western Australian racing figures across the three racing codes (thoroughbred, harness and greyhound). At that meeting, it was agreed to establish WARRG as the peak consultation body to represent the interests of racing industry participants in relation to the potential privatisation of the WA TAB.
- 12 The relevant consultative groups for each of the three racing codes established by RWWA appointed the following five representatives to WAARG in order to proportionately represent the interests of the three racing codes:
- (a) myself, Michael Grant, as Chairman and President, as a thoroughbred breeder and trainer and, at that time, in the role of President of WARTA;
  - (b) Ronald Sayers, a significant thoroughbred owner in Western Australia;
  - (c) Frederick Kersley, harness racing trainer and a member of both the Australian and Western Australia Racing Industry Hall of Fame;
  - (d) Kevin Jeavons, President of the Harness Racing Owners' Association of Western Australia, Committee Member of Gloucester Park and a prominent horse owner; and
  - (e) David Simonette, former CEO of Greyhounds Western Australia.
- 13 Ronald Sayers and I were appointed by the Thoroughbred Racing Consultative Group (**TRCG**) as the two appointed thoroughbred representatives. RWWA established the TRCG as the relevant consultative group to represent the interests of thoroughbred racing. The TRCG membership comprises representatives of RWWA as well as representatives from thoroughbred owner, breeding, training and racing groups including WARTA. I understand that similar consultative bodies have been established by RWWA for the harness and greyhound racing codes and these bodies appointed the two harness and one greyhound racing representatives to WARRG.
- 14 In addition to acting as a thoroughbred racing representative to WARRG, I was appointed as the Executive Chairman of WARRG and I am currently employed in this role. The funding for my role as Executive Chairman is provided by RWWA.

## Governance and functions of WARRG

- 15 WARRG is an association incorporated in Western Australia. Copies of the:



- (a) Application for Incorporation of WARRG dated 12 October 2015;
- (b) Certificate of Incorporation for WARRG dated 28 October 2015; and
- (c) the Rules of Association of WARRG,

are annexed to this statement as **Annexures MG-1 – MG-3**, respectively.

- 16 The affairs of WARRG are managed by its five appointed representatives who collectively form the Committee of Management of WARRG. In addition to the five active appointed representatives to WARRG, there is a sixth member of WARRG (Grant Burns of WARTA) (see the list of WARRG's members at [Annexure MG-3](#) at page 6). Mr Burns is a member of WARRG in order to satisfy technical, formal requirements regarding the establishment of an Association but he does not participate in the affairs of WAARG.
- 17 RWWA convenes quarterly meetings of the representative consultative bodies for each of the three racing codes, including the TRCG. At each of these meetings subsequent to the formation of WARRG, RWWA has requested confirmation from the consultative groups that they are content for WARRG to continue to represent the interests of Western Australia racing industry participants in relation to the potential privatisation of the WA TAB. I understand that at each of these meetings, the relevant consultative groups have confirmed that WARRG is the appropriate cross-code body to represent the interests of racing industry participants and that the individual representatives of WARRG, including myself, are appropriate representatives of their respective codes.
- 18 The objects of WARRG, as set out in WARRG's Rules of Association, are:
- (a) to be a representative of the Western Australia racing industry (and official recognised stakeholder groups under the Racing and Wagering Western Australia Act 2003) on all issues pertaining to the potential privatisation of the WA TAB;
  - (b) to organise, maintain, promote and assist the rights and interests of Members with regard to matters which may be considered of common interest and to give Members the means and advantages of association and of united action so far as the law may allow;
  - (c) to facilitate the interchange of Members of their views with regard to matters of common interest and to promote the consideration and discussion of all questions affecting them;
  - (d) to communicate information on relevant matters affecting Members; and
  - (e) to do such other acts, matters and things as may be incidental to or necessary for the purpose of attaining any one or more or all of the above objects (see [Annexure MG-3](#) at page 3).



## **WARRG Commissioning of Gunston Report, November 2014**

- 19 WARRG commissioned an independent report to assist in the deliberations of the potential privatisation of the WA TAB, shortly after the establishment of WARRG. WARRG engaged Ray Gunston to prepare this report. RWWA and the Western Australia racing industry each contributed 50% towards the commissioning of this report.
- 20 In November 2014, Ray Gunston provided WARRG with his detailed Report to WARRG on the Potential Privatisation of the WA TAB (**the Gunston Report**). A copy of relevant extracts of the Gunston Report referred to in this statement is included as **Annexure MG-4** to this statement. The stated objective of the Gunston report was:
- “to explain what privatisation means, to explain how wagering works and how a TAB operates, to describe what a privatisation of WA TAB might mean, and to discuss the possible implications for the WA Racing Industry of a potential privatisation of WA TAB”* (see **Annexure MG-4** at page 2).
- 21 WARRG did not ask that Mr Gunston provide any recommendation on whether or not the privatisation of the WA TAB should occur and the Gunston Report does not make any such recommendation (see **Annexure MG-4** at page 2).
- 22 In 2016, Mr Gunston prepared a further, confidential report on behalf of WARRG and funded by the Western Australian Government entitled *“Western Australian Racing Industry Requirements and Needs Report”* (the **Gunston Requirements and Needs Report**). The Gunston Requirements and Needs Report is currently being considered as part of the Government’s deliberations on the privatisation of the WA TAB.

## **BACKGROUND TO THE WESTERN AUSTRALIAN RACING INDUSTRY**

- 23 This section describes various features of the Western Australian racing industry. My knowledge of these matters arises from my experience as a thoroughbred owner, trainer and breeder and the various roles I have referred to above. Many of these matters are also referred to in the Gunston Report, the commissioning and preparation of which I was closely involved with in my role at WARRG and which I consider provides an accurate description of the Western Australian racing Industry.

### **General Information**

- 24 The Western Australia racing industry includes the thoroughbred, harness and greyhound racing industry codes and all of those people who are employed in and participate in the production of racing animals and the racing product, in particular race meetings. This includes owners, breeders, trainers, jockeys and race clubs.



- 25 RWWA was established in 2003 as the principal racing authority for each of the three racing codes in Western Australia. RWWA is required to consult with prescribed racing bodies through consultative groups established for each code. As outlined above, the relevant consultative body for the thoroughbred code is the TRCG.
- 26 In 2016, RWWA commissioned IER Pty Ltd (**IER**) to prepare a research report on the economic contributions made by the Western Australian racing industry to the Western Australia economy. An extract of relevant pages of this report, entitled "Size and Scope of the Western Australian Racing Industry" (**2016 IER Report**) referred to in this statement is at **Annexure MG-5** to this statement. The 2016 IER Report includes the following statistics and key findings in relation to the social and economic impact of the Western Australian racing industry (based on 2014/2015 data):
- (a) Western Australia has 52 race clubs and 8,839 racing club members, which host 880 race meetings per year, consisting of 8,206 races attended by 823,249 people and involving 24,459 racing industry participants;
  - (b) in 2014/2015 the racing industry generated total direct spending of \$682.3 million and flow-on value-added impact of more than \$821 million per year in economic contribution;
  - (c) the racing industry sustains the employment of more than 7,360 full time roles, with the actual number of people employed in the industry being a much higher figure noting the number of part-time, casual and contractor roles; and
  - (d) 57% of race attendances in 2014/2015 were in regional areas, with Peel, South West and Wheatbelt recording the largest attendances outside metropolitan areas.
- 27 The 2016 IER Report findings are also reflected in a position paper released by WAARG in January 2017, to which I refer further below as the WAARG Position Paper (and is annexed to this statement at **annexure MG-9**). Set out below, extracted from the WAARG Position Paper and sourced from the 2016 IER Report, is a map of activities of Western Australian race clubs (at Figure A) and a RWWA graphical representation of Western Australian race meetings (Figure B) which demonstrates that provincial and country races make up the majority of race meetings. Further set out at Figure 3 below, is a page extract from the WAARG Position Paper, also sourced from the 2016 IER Report, which graphically depicts the economic and employment contribution of the Western Australian racing industry.



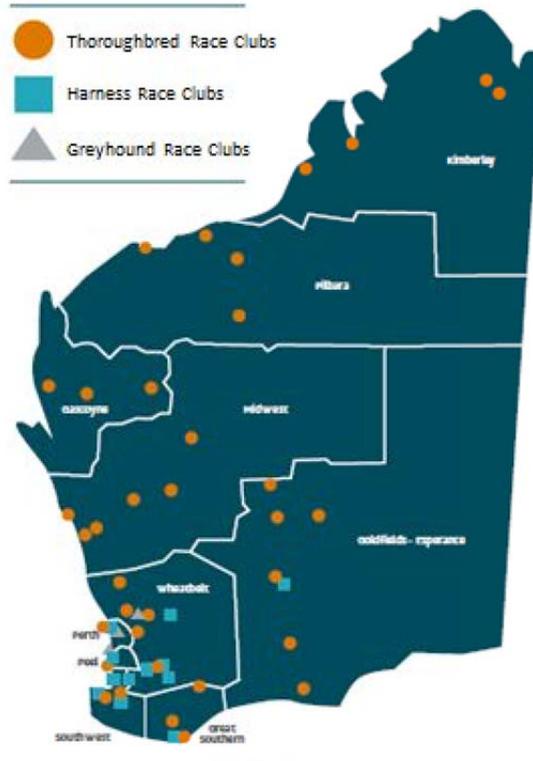


Figure A

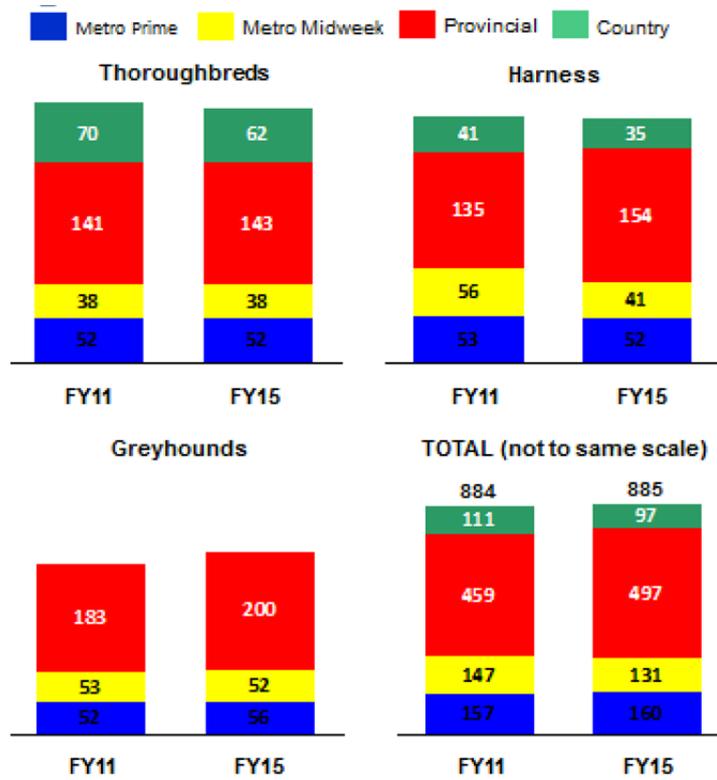
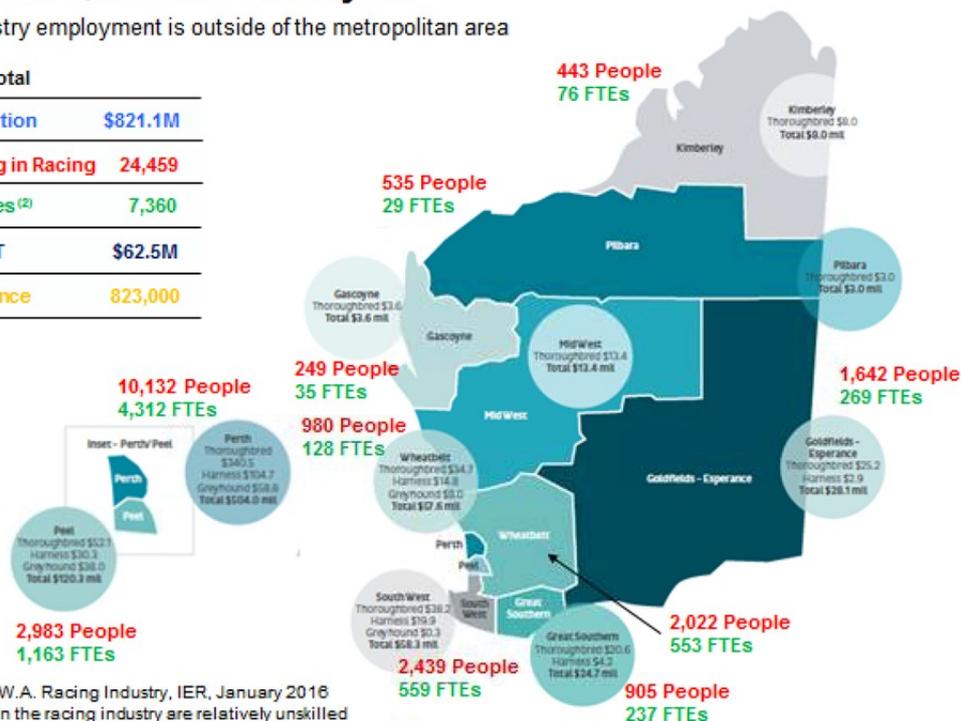


Figure B

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



(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

Figure C

## Background to Western Australia thoroughbred racing participants

- 28 The main participants involved in the thoroughbred racing industry are breeders, owners, trainers, jockeys, stable staff and the RWWA and racing club administrators. There is considerable overlap between thoroughbred breeding, training and ownership activities. There are also a number of service providers that provide services to the thoroughbred racing industry, including veterinary services, feed supply and transportation.
- 29 There is a wide and diverse group of thoroughbred owners in Western Australia, including owners who own (and often breed) a large number of horses and those who own a syndicate share in a single horse. Owners of thoroughbred horses are typically dependant on their own personal income and wealth to fund the costs of horse ownership.
- 30 Thoroughbred breeders arrange for mares to produce foals, which they then care for and seek to sell as “yearlings”. Breeders often operate on slim margins, with a typical average Western Australian yearling cost of around \$39,500 and an average sale price of \$40,000.
- 31 There are different business models operated by trainers. The key factor that influences the business model operated by trainers is horse ownership. Where trainers train horses for

external owners, the training fees levied to external owners often only barely cover the costs of training thoroughbreds. The costs involved in training thoroughbreds include pre-training costs (such as breaking in), wages for stable staff, property costs and veterinary expenses. In general, trainers are responsible for all day-to-day care of horses including feeding, shoeing and the staff at the training facility. These costs are met by training fees, which owners pay on a monthly basis.

- 32 Trainers receive a 10% stake of any prize money a horse receives, which operates as an important financial incentive but clearly cannot be relied on as a source of income as it is contingent on the success of horses trained.
- 33 Some trainers, such as myself, operate a vertically integrated business, whereby they breed and retain ownership of some horses that they train for racing which enables the return of 100% of any prize money for these horses.
- 34 Western Australian jockeys may be full-time, seasonal or part-time. Jockeys are paid jockey fees on a per ride basis by RWWA through racing clubs. Jockeys receive 5% of any stakes prize money paid to the horses they ride. Some jockeys receive payment for track-work, in addition to riding in races, but the majority of jockey income comes from race riding fee and their 5% share of any prize money. Jockeys incur significant travel costs, which are rarely reimbursed by racing clubs.
- 35 A small number of premier Australian thoroughbred racing events offer substantial prize money, which is a key attraction to racing industry participants who receive a stake in prize money. For example, I am aware that the prize money for the Cox Plate in 2016 was \$3 million. However, in my experience, most race horses do not produce commercial returns. Given the high costs to purchase and maintain thoroughbred race horses, owners are reliant on a variety of different funding sources to own quality animals for race meetings.
- 36 Racing clubs provide the venue and racing administration for race meetings to take place and allow owners to race their horses. Racing clubs incur substantial costs, including track maintenance costs and they depend on RWWA distributions (explained below), subsidies, event fees and other funding to continue to operate.

### **Wagering in Western Australia**

- 37 Wagering revenue is an integral part of the funding model for the racing industry in Western Australia and provides a large portion of the funding required to maintain the racing industry. Wagering in Western Australia is carried out through the following three channels;
  - (a) totalisator wagering – operated by RWWA;



- (b) on-course bookmaker wagering – operated by individual bookmakers present on-course for race days in the regions and metro areas; and
  - (c) corporate and betting exchange wagering – operated by wagering businesses, located outside Western Australia.
- 38 TABs (Totalisator Agency Boards), or “totes”, were established in each state and territory of Australia from the 1960s onwards to provide a legal race wagering platform and to enable the racing industry to obtain funding from race wagering. The TABs were initially established under legislation as Government owned entities and given the licence to operate off and on-course pari-mutuel betting. There is only one totalisator operator in each state and in Western Australia, RWWA is responsible for controlling the totalisator licence through the WA TAB.
- 39 Pari-mutuel betting is a betting system which involves all bets of a particular type being placed together in a single pool. A set percentage of that pool is paid back to the winning punters and the rest is retained by the TAB to meet its costs and to meet other obligations, such as the requirement to making distributions to the racing industry. The larger the totalisator pool the larger the available funding for distributions to the racing industry.
- 40 WA TAB pari-mutuel betting is conducted for all off-course betting through various channels, including retail locations, internet and mobile devices. Punters at Western Australian race tracks can place pari-mutuel bets that participate in the WA TAB pool. On-course pari-mutuel betting is offered by Western Australian racing clubs operating as a totalisator agent for the WA TAB in relation to betting on their courses on race days. In Western Australia, race clubs that offer on-course totalisator wagering retain the gross revenue on bets, rather than the gross revenue going back to the WA TAB and do not pay tax on wagering revenue.
- 41 Following a 2012 pooling agreement between RWWA and Tabcorp, the WA TAB participates in the SuperTab pools operated by Tabcorp in Victoria. Under this arrangement, punters that place pari-mutuel bets on the WA TAB have access to the larger SuperTab pool and therefore a larger prize pool.
- 42 I am aware of the presence of corporate bookmakers and their activities in the Australian wagering market through my involvement in the racing industry and the work I do with WARRG. In my role with WAARG, I need to have an understanding of the operations of corporate bookmakers, including the types of distribution and marketing systems they operate to attract people to their product, because it is directly relevant to the funding of the racing industry.
- 43 A number of corporate bookmakers in Australia offer totalisator derived wagering products, in addition to fixed odds wagering products, but these bookmakers are not running a totalisator pool.



44 I am aware of the following corporate bookmakers and am generally aware of the types of betting products they offer to punters:

- (a) Ladbrokes
- (b) William Hill;
- (c) Spotsbet;
- (d) CrownBet; and
- (e) Bet 365.

45 I note below the following statements sourced from the Gunston Report and the 2015-2016 RWWA Annual Report relating to the growth and development of corporate bookmakers in Australia, including Western Australia, which I agree with:

- (a) the growth of phone and on-line based corporate bookmakers has been a major feature of the recent trends in the Australian wagering market, which has driven the increased growth in fixed odds betting as a proportion of total Australian wagering turnover (as noted in the Gunston Report, see [Annexure MG-4](#) at page 47);
- (b) the increase in popularity of fixed-odds betting placed with corporate bookmakers has also driven growth of fixed odds betting in the TABs, which has led to the shift away from pari-mutuel betting within TABs, as it is a direct substitute product, (as noted in the Gunston Report, see [Annexure MG-4](#) at page 47);
- (c) Western Australia has seen significant TAB growth in recent years compared to other states, largely because Western Australia has operated off a low pari-mutuel base. However, fixed-odds betting has increased at a greater rate than pari-mutuel betting in Western Australia, in line with the national trend towards increased popularity of fixed-odds betting. In the period from 2009 – 2013, Western Australia experienced 40% growth in fixed-odds betting compared to 25.2% growth in pari-mutuel betting, (as noted in the Gunston Report, see [Annexure MG-4](#) at page 54);
- (d) in Western Australia, customers continue to migrate from traditional pari-mutuel pools to fixed odds betting products, as well as showing preference for the high growth mobile channel, as noted in the RWWA 2015/ 2016 Annual Report at page 38. A copy of relevant extracts of this current RWWA Annual Report is annexed as [Annexure MG-6](#) to this statement; and
- (e) on-course totalisator betting in Western Australia has significantly declined in recent years, which primarily appears to be due to falling attendances, limited or no fixed-odds



offerings, the absence of call betting, and the impact of competition from corporate bookmakers (as noted in the Gunston Report, see [Annexure MG-4](#) at page 56).

- 46 In my view the increased competition from corporate bookmakers that offer a diverse range of products in competition with and as alternatives to tote products promoted by well-funded advertising campaigns, is drawing punters away from pari-mutuel betting and the WA TAB products which, in turn has a negative impact on the WA TAB funding of the racing industry. As the WA TAB's primary purpose is to fund the racing industry, it is more prudent than corporate bookmakers and the other totalisator operators, Tatts and Tabcorp, in its expenditure on advertising, marketing, research and development which has had a negative impact on the WA TAB's position.
- 47 The continued and growing popularity of fixed-odds betting, relative to traditional pari-mutuel tote betting, poses a challenge to the racing industry as it reduces the scale of the funds available to RWWA to distribute to the racing industry. My understanding is that, in basic terms, the WA TAB gives approximately 8% of total turnover back to the racing industry, whereas fixed odds wagering operators give approximately 1.5 – 3% of turnover to the racing industry with the result being that for every dollar spent on fixed odds wagering rather than on pari-mutuel betting with the WA TAB, less money is available for racing industry funding.

#### **Distribution of funding by RWWA to the Western Australia racing industry**

- 48 In 2003, RWWA assumed the responsibility for controlling WA TAB wagering under the Racing and Wagering Western Australia Act 2003.
- 49 RWWA, as the operator of the WA TAB, is obliged to distribute revenue received from the operation of the WA TAB to the three codes (thoroughbred, harness and greyhound).
- 50 Racing industry funding flows from punters who bet with WA TAB/ RWWA and/ or other wagering operators on WA race events. After paying taxes to the Western Australia Government and operating costs for the TAB and Racing Services, RWWA pays the balance of revenue generated from the WA TAB as distributions and other funding to the Western Australia racing industry.
- 51 RWWA, funded through the WA TAB, also meets all of the costs of the administrative and regulatory oversight and integrity of the racing industry and racing events.
- 52 RWWA generates most of its income from the WA TAB, supplemented by race field fees (described below).
- 53 RWWA makes distributions to the Western Australia racing industry in various forms, including as prize money, owners and breeders bonuses, participants' payments, event fees and training



services, funding for initiatives such as the Australian Jockey Association and grants and club subsidies to assist clubs with infrastructure grants.

- 54 I am aware, based on information in the publicly available 2015/2016 RWWA Annual Report, that for the 2015/2016 financial year RWWA contributed:
- (a) \$136.2 million in distributions to the Western Australian racing industry;
  - (b) a further \$16 million in grants and subsidies to clubs and investment in community sport; and
  - (c) an additional \$20.5 million in funding towards racing and integrity services (see [Annexure MG-6](#) at page 13).
- 55 Distributions paid by RWWA are the key source of funding to the Western Australian racing industry, which are funded by wagering operators and predominantly by the operations of the WA TAB. The RWWA distributions largely determine the stakes prize money for the races run by racing clubs, which operate as a key commercial incentive and attraction for racing participants. For that reason it is a critical driver of the success of the racing industry. While TABs, including the WA TAB, are obliged to fund the racing industry in the manner described above, no such obligations apply to corporate bookmakers. In order to partly address the lack of contribution by corporate bookmakers towards the racing industry, state and territory governments in Australia introduced race fields fee legislation. Western Australia introduced race fields legislation in 2009. Under this legislation, “racing bets levies” are payable by betting operators in exchange for the use of Western Australia race field information, including the information that identifies the animals participating in a race that enables betting operators to offer wagering on those races. I am aware, from RWWA’s 2015 – 2016 Statement of Corporate Intent (a copy of which is annexed at [Annexure MG-7](#) to this statement) that for 2015-2016 that \$92,123 million of racing distribution funding was sourced from wagering revenue (through the WA TAB) and \$41,651 million was sourced from racefields grants income – that is government grants received through the Western Australia race fields legislation. This information, as well as the distribution information for each of the 3 codes, is set out at [Annexure MG-7](#) at page 11.
- 56 Another factor impacting the level of distributions available to the racing industry is the wagering tax rate, as the WA TAB/ RWWA pay tax to the Western Australian State Government on both pari-mutuel and fixed odds wagering. Currently, the Western Australian tax rate on pari-mutuel betting is 11.91% on gross margin for racing, which is significantly higher than the 7.6% pari-mutuel racing wagering tax rate in place in Victoria and New South Wales. The comparatively high taxation rate levied against RWWA, reduces the amount of funding available to the racing industry. If the Western Australian tax rate were levied at the same rate of 7.6% that is in place in Victoria and New South Wales, this would result in \$17.1million in additional funding that



would be available to the Western Australian racing industry (see page 6 of the WAARG Position Paper, at [Annexure MG-9](#), referred to below), I am aware that other state Governments have taken steps to reduce the levels of wagering taxation on TAB operators in recognition of the relatively high race field fees paid by TAB operators compared to the race field fees paid by corporate bookmakers and to improve the funding to the racing industry. This is in particular because higher wagering taxes applied on a gross-margin basis for pari-mutuel racing wagering place a taxation burden on TAB operators that are competing with corporate bookmakers that are based in low/ no tax and/ or fee jurisdictions such as the Northern Territory (see Gunston Report at [MG-4](#) page 123 - 124). As outlined further below, one of WAARG's policy platforms is taxation reform and potential tax parity with other states so that the WA TAB is not burdened with a relatively higher wagering tax in order to promote increased racing industry funding from pari-mutuel racing wagering.

- 57 The Australian funding model that channels funds from the TABs to racing industry participants, including by the provision of prize money, is what affords the opportunity for normal Australians to own and race horses.
- 58 Based on my knowledge and experience in the racing industry, those countries (such as the United Kingdom) that have a long history of strong corporate bookmakers and no history of state run tote operators providing industry funding tend to have a restricted level of industry funding. In these countries, race horse ownership is typically restricted to the wealthy who are self-funding and not reliant on prize money. In contrast, countries (such as Australia, Hong Kong, Japan, France and Singapore) that have a strong heritage of a national/ state-based totes that fund the racing industry tend to have greater access to racing industry funding which affords greater opportunities for participation in the racing industry.

#### **POTENTIAL PRIVATISATION OF THE WA TAB**

- 59 As outlined above, WARRG was established in response to the Western Australian Government's announced intention to sell the licence to operate the WA TAB and the Gunston Report was commissioned to assist in the deliberations of potential privatisation of the WA TAB.
- 60 The Gunston Report does not provide a distinct recommendation, including because it notes that privatisation is a complex matter with many considerations and impacted stakeholders.
- 61 Some of the key conclusions of the Gunston Report in relation to the proposed privatisation, which were endorsed by WAARG, were that:
- (a) the Western Australia racing industry is effectively just self-funding on an operational cashflow basis, with infrastructure funding to maintain, improve and keep safe existing facilities posing an ongoing challenge. Any racing funding model that did not sustain at least current funding levels nor provide some certainty on future funding, would



immediately impact the Western Australia racing industry and reduce investment (see [Annexure MG-4](#) at page 14);

- (b) if a privatisation of the WA TAB is to occur, due to the fragile financial model of the Western Australia racing industry, there must be a commitment to secure at least a “no worse off” funding industry model for the Western Australia racing industry to be met by the WA TAB operator (see [Annexure MG-4](#) at page 10);
- (c) in general terms, “no worse off”, means that the funding outcome of a potential privatisation to the Western Australia racing industry reflects what WA TAB/ 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 for the Western Australia racing industry at greater uncertainty in terms of level and security (see [Annexure MG-4](#) at page 47); and
- (d) other than the requirement that the Western Australia racing industry be “no worse off” in relation to funding, the form of the appropriate model could not be determined at the time the Gunston Report was published(see [Annexure MG-4](#) at page 16).

62 As reflected in the Gunston Report, WARRG’s primary concern is that any potential privatisation of the WA TAB ensures at least a “no worse off” industry funding and risk profile position for the overall funding of the Western Australia racing industry, across all three codes (see [Annexure MG-4](#) at page 108). By “risk profile”, I mean the risk of the performance and management of the new operator including the risk that they may arbitrage by moving of customers moving away from the Western Australian tote

63 In my role at WARRG, I have recently delivered the message on behalf of racing industry participants that WAARG believes that the WA TAB should be privatised, subject to a series of conditions and guarantees being satisfied and resolved by government. This message has been delivered to the Western Australian Government primarily through the Gunston Requirements and Needs Report referred to at paragraph 22 above, as well as through a series of discussions I have participated in with various levels of Government including the Premier, the Treasury and the Minister for Racing and Gaming and a position paper released by WAARG in January 2017, referred to in more detail below. .

64 The WARRG position has been reflected in public comments made by me which were reported on 11 November 2016 in the West Australian newspaper in an article entitled “*Industry group backs TAB sale*” which included a statement that:

*“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. 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.”*

A copy of this article is at [Annexure MG-8](#) to this statement.

My reported comments reflect the WARRG position conveyed to the Western Australian Government, although it does not include all of the points that WARRG has raised as issues that need to be addressed by the Western Australian Government before privatisation of the WA TAB should occur.

65 On 30 January 2017, WARRG released a position paper entitled “*..Racing Towards the 2017 State Election*” (**WAARG Position Paper**) on behalf of the Western Australian racing industry setting out WAARG’s position on the potential privatisation of the WA TAB in advance of the March 2017 State election. A copy of the WARRG Position Paper is at [Annexure MG-9](#) to this statement. WAARG’s position and policy platform, as reflected in the Position Paper is the following:

- (a) RWWA and the Western Australian Government have underfunded race clubs and infrastructure over the last decade, which has resulted in a shortfall of \$100million required for investment in infrastructure and OHS;
- (b) WAARG’s four policy platforms are:
  - (i) to strengthen the economic, social and community impact of racing, in particular by outlining the key areas funding is required;
  - (ii) calling for the next State Government to determine its WA TAB privatisation position in the first half of 2017 on the basis that indecision about proposed privatisation is negatively affecting the Western Australian racing industry;
  - (iii) that the Western Australian racing industry has formally adopted a position of conditional support of the WA TAB privatisation; and
  - (iv) committing to national best practice in integrity and animal welfare.

66 The five points that WARRG has raised as part of its third policy platform of conditional support of the WA TAB privatisation that need to be addressed by the Western Australian Government before privatisation can occur are:

- (a) “at least no worse off” recurring funding and risk profile. The “at least no worse off” funding principle equates to \$193.7 million for FY2016 time, which is derived from workings in the confidential Gunston Requirements and Needs Report, and recognises that the racing industry funding under RWWA is diminishing over time. In this way,



WAARG is seeking no worse funding under RWWA and potentially improved funding in a privatisation scenario;

- (b) taxation reform/ parity with other States so that Western Australia does not remain burdened by the highest wagering tax rates in Australia;
- (c) guarantee of an infrastructure fund of at least \$100 million from the privatisation proceeds. This is on the basis that any amount paid by a successful bidder will represent a capital contribution to the State Government, a proportion of which should be directed to the racing industry; product expansion within the existing TAB retail footprint, including the potential introduction of TAB Trackside and Keno (but not the introduction of gaming machines); and
- (d) development of an appropriate post-privatisation operating model, including a governance and integrity framework, based on racing industry stakeholder consultation.

(see the WAARG Position Paper at [Annexure MG-9](#), pages 6 – 8).

- 67 I have an understanding, from consulting with racing industry stakeholders, the Western Australian Government and the opposition, of the range of views that exist in the Western Australian racing industry and the Western Australian parliament and how these views have evolved over time. I consider that there is support for privatisation generally from the racing industry, including amongst all of the relevant Western Australian racing consultative groups (described at paragraph 12 above) which has prompted WAARG's formal adoption of a position of conditional support of the WA TAB privatisation. While the relevant consultative groups have all endorsed and voted in support of the WA TAB privatisation, there are some racing industry participants that retain concerns about the implications of privatisation and from both a racing industry and government perspective and there remain a number of issues that need to be worked through before privatisation could proceed.
- 68 The issues raised by WAARG as part of its policy platform need to be resolved, at least in principle, before a privatisation process can proceed. I acknowledge that it may take some time for these issues to be resolved. If privatisation does proceed, there would need to be ongoing involvement and negotiation with the racing industry through to the selection of the preferred bidder to ensure the bidder met WAARG's criteria and I anticipate there would be a significant period of ongoing commercial negotiations and discussions which WAARG would want and would expect to be involved in.
- 69 The position adopted by Western Australian political parties has developed over time, with the major opposition parties initially against privatisation. Following the release of the WAARG Position Paper there have been press reports indicating that both the current Liberal Government and the major opposition parties, WA Labor and the Nationals are supportive of the



privatisation of the WA TAB provided that the racing industry is supportive. For example, a West Australian newspaper article published on 2 February 2017 entitled "*Privatising TAB back on track*" includes statements from the current Premier Colin Barnett, Opposition leader Mark McGowan and Nationals leader Brendon Grylls in support of privatisation. The article also includes a quote from me that WAARG looks "*forward to working with the next State Government to find a positive outcome*". A copy of this article is at [Annexure MG-10](#) to this statement. While I have not had any direct engagement with the One Nation party, I understand they have announced a position of opposition to the WA TAB privatisation as part of a broader policy position against privatisation. I am not aware that the One Nation party has considered the WA TAB privatisation matter in any detail or taken into account the views of the industry.

- 70 Further, while WAARG has outlined its policy platforms publicly, there continues to be uncertainty about the position the State Government will adopt in relation to these policy platforms, in particular because of the upcoming State election.
- 71 If privatisation does not proceed, as set out in the WAARG Position Paper, the Western Australian 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 (see [Annexure MG-9](#) at page 8).

#### **VIEWS ON PROPOSED MERGER OF TABCORP AND TATTS**

- 72 I am aware that Tabcorp has proposed to acquire the issued shares of Tatts by a scheme of arrangement (the **Proposed Transaction**). I have been briefed informally by Doug Freeman of Tabcorp and have seen and reviewed a copy of the Tabcorp public investor presentation, a copy of which is at [Annexure MG-11](#) to this statement. I understand that Tabcorp expects to obtain the following benefits from the Proposed Transaction, which are anticipated to improve the competitive position of its tote product:
- (a) potential further benefits from the increased attractiveness of merged pools, subject to regulatory and racing industry approvals;
  - (b) alignment of product offering between Tatts' and Tabcorp's wagering operations;
  - (c) targeted investment in the UBET retail network based on TAB's multi-channel offering;  
and
  - (d) combined digital expertise.
- 73 I understand that Tabcorp expects that the benefits of the Proposed Transaction (outlined at paragraph 72 above) have been projected by Tabcorp to deliver at least \$139 million of annual



EBITDA synergies and business improvements, net of benefits to the racing industry which is projected to lead to an improvement in fixed-odds yield and wagering turnover growth. If this does occur, this should result in greater funding returns to the racing industry.

- 74 I have not had an opportunity or a particular need to investigate and consider those anticipated benefits in any detail.
- 75 As the current Western Australia pari-mutuel wagering licence is operated exclusively by RWWA and neither Tabcorp or Tatts currently have the licence to operate on-course or off-course retail totalisator pools in Western Australia, I consider that the Proposed Transaction would not adversely impact Western Australian punters from a competition perspective. Currently, there is strong wagering competition available to Western Australian punters, through the range of online corporate bookmaker fixed odd options and the WA TAB tote product, as well as online Tabcorp and Tatts products. Given the strength of the corporate bookmakers and the fact that WA TAB operates the Western Australia licensed tote, the merger of Tabcorp and Tatts would have no real effect on the level of competition for Western Australian punters.
- 76 The Proposed Transaction may actually have a positive impact for Western Australian punters if the proposed Tabcorp/Tatts transaction can strengthen the existing SuperTab pool. To the extent that the Tabcorp/Tatts Proposed Transaction can improve the competitive position of the SuperTab pool, and thereby lead to an increased size of pool, then WA TAB and punters who access the SuperTab pool through WA TAB would benefit. This is because a larger pool reduces the uncertainty around the ultimate pool payout for a winning bet, compared to the quoted odds at the time of the bet. One way to achieve greater pool liquidity would be through national pooling.
- 77 As to the implications for racing industry funding, it is my understanding from discussions with RWWA, that RWWA has taken steps to consider and review any impacts of the Proposed Transaction on RWWA's current joint venture arrangements and industry funding arrangements in order to seek to ensure that the Proposed Transaction has no adverse effect on these arrangements. I would expect that RWWA would take steps to ensure that the Proposed Transaction does not adversely affect the operating arrangements between RWWA and Tabcorp in relation to pooling with SuperTab and also licensing arrangements between RWWA and Tabcorp. On the basis that RWWA is satisfied as to those matters, then I consider the proposed transaction should have no adverse effect, and it may have the capacity to strengthen the WA TAB through the improved competitiveness of the SuperTab, which would be positive for industry funding in Western Australia.
- 78 In the event that the WA Government does proceed to privatise the WA TAB, and a merged Tabcorp/Tatts was successful, then that could overall provide a stronger, more competitive tote product in Western Australia, which may be strongly beneficial in terms of industry funding for



the racing industry. This would be subject to the Western Australian Government, through RWWA, ensuring that there was no leakage to other state pools through the privatisation process. To the extent that the proposed transaction leads to cost and revenue synergies for the merged Tabcorp and Tatts, as Tabcorp anticipates, then this should enhance its ability to be a strong and competitive tote operator in Western Australia, which would be good for racing industry funding.

79 I have not yet formed a concluded view as to the impact of the proposed transaction on the Western Australian racing industry and from that perspective, I consider it important that RWWA and the WA TAB have at least no less favourable positions in relation to access to pooling arrangements should privatisation not proceed and no less favourable positions with Sky on program/ race scheduling with or without privatisation.

## **ANNEXURES**

80 Set out in Schedule "A" of my statement is a table of annexures that I refer to in my statement.



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Signature of witness

**Michael Grant, Executive Chairman, Western Australia Racing Representative Group Inc**

Date: 15 February 2017

## SCHEDULE A

### TABLE OF ANNEXURES REFERRED TO IN STATEMENT OF MICHAEL GRANT

Annexure	Description	Confidentiality
<b>MG-1</b>	Application for Incorporation of WARRG dated 12 October 2015	-
<b>MG-2</b>	Certificate of Incorporation for WARRG dated 28 October 2015	-
<b>MG-3</b>	Rules of Association of WARRG	-
<b>MG-4</b>	Extracts from Ray Gunston Report to WARRG on the Potential Privatisation of the WA TAB, November 2014 (the <b>Gunston Report</b> )	-
<b>MG-5</b>	Extracts from 2016 IER Report entitled ' <i>Size and Scope of the Western Australian Racing Industry</i> '	-
<b>MG-6</b>	Extracts from Racing and Wagering Western Australia ( <b>RWWA</b> ) Annual Report 2015/ 2016	-
<b>MG-7</b>	RWWA 2015-2016 Statement of Corporate Intent	-
<b>MG-8</b>	Article from the West Australian Newspaper – ' <i>Industry group backs TAB sale</i> ', dated 11 November 2016	-
<b>MG-9</b>	WARRG position paper entitled " <i>..Racing Towards the 2017 State Election</i> ", January 2017.	-
<b>MG-10</b>	Article from the West Australian Newspaper – ' <i>Privatising TAB back on track</i> ', dated 2 February 2017	-
<b>MG-11</b>	Tabcorp public investor presentation in relation to the Recommended Combination of Tabcorp Holdings Limited and Tatts Group Limited, submitted to Australian Securities Exchange (ASX) 19 October 2016	-

I certify that this is a true copy of the original document. Dated 29-11-2016



Government of **Western Australia**  
Department of **Commerce**

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Lodged in the office of the  
Commissioner for  
Consumer Protection on the

28 OCT 2015

## Form 1

*Associations Incorporation Act (1987) ss.4, 5,  
6, 9*  
(includes certificate required by s5(2)(b))

(This form is prescribed)

# Application for Incorporation of an Association

**IMPORTANT** – The Department of Commerce is collecting and holding the information supplied in this form for the purposes of the *Associations Incorporation Act 1987*. A copy of this form and the information it contains can be inspected and purchased by the public upon payment of a prescribed fee.

Date Received <b>12 October 2015</b>	Job Number <b>1689458</b>
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This section is for Office Use only

### Association Details

Full name of Association applying for Incorporation:

**WESTERN AUSTRALIA RACING REPRESENTATIVE GROUP INC.**

Describe the main purpose(s) of the Association:

**to be a representative of the Western Australia Racing Industry (and official recognised stakeholder groups under the Racing and Wagering Act 2003 (WA)) on all issues pertaining to the potential privatisation of the Western Australia TAB.**

The Association's purpose/s fall within the following category:

**Sport**  
**Community**  
**Politics**

Is the association formed for the purpose of trading or securing a pecuniary profit to its members? **No**

*Important – Associations formed for the purpose of trading or securing a pecuniary profit for their members are **not** eligible for incorporation.*

### Applicant Details

Full Name: **Mr Shannon Coleman**

Address: **2536 Great Northern Hwy**

**BULLSBROOK WA AUSTRALIA**

Postcode  
**6084**

Telephone: **0895713030**

Mobile:

Fax: **0895713031**

Email: **glbrush@bigpond.com**

I have been authorised by the Association to apply for incorporation

**Yes**

### AssociationsOnline

I, the applicant, wish to enrol for access to AssociationsOnline on behalf of the Association and agree to be bound by the AssociationsOnline Terms and Conditions of Use.

**Yes**

I certify that this is a true copy of the original document. Dated 29-11-2016 **Contact Person**

Full Name:	Mr Shannon Coleman		
Address:	2536 Great Northern Hwy		
	BULLSBROOK WA AUSTRALIA	Postcode	6084
Telephone:	0895713030	Mobile:	
Fax:	0895713031	Email:	glbrush@bigpond.com

**Advertising**

An advertisement (in the form of Form 2) giving notice of my intention to apply for Incorporation of the Association has been published in a newspaper as required under section 6 of the Act: **Yes**

Name of newspaper:	The West Australia	Date of publication of advertisement:	27 August 2015
--------------------	--------------------	---------------------------------------	----------------

**Members**

The Association has at least six members: **Yes**

List the names and addresses of six of the Association's members:

1. Michael John Grant 55 Henley Street, Henley Brook, WA 6055
2. David Vincent Simonette 35 Selkirk Street, North Perth, WA 6006
3. Kevin John Jeavons 29 Monaco Place, Dianella, WA 6059
4. Fredrick Ross Kersley 6/166 Mill Point Road, South Perth, WA 6151
5. Ronald George Sayers 536 O'Brien Road, Gidgegannup, WA 6083
6. Grant Burns CJ- WA Racing Trainers Association, PO Box 612, Belmont WA 6984

**Rules**

The rules of the Association -

- Include provisions dealing with all matters listed in Schedule 1 to the Act **Yes**
- Comply with all other requirements of the Act **Yes**
- The copy of the association's rules uploaded with this application and marked annexure "A" is a true copy of the association's rules **Yes**

**IMPORTANT:** You must write the following statement upon the copy of the rules that accompanied this application:  
*"This is the annexure of [insert the total number of pages in the rules document] pages marked "A" referred to in the Form 1. Signed by me and dated [insert date] [insert your signature]."*

The copy of the Association's rules identified as **Rules of Association Annexure Form.pdf**, accompanied this application.

**Declaration**

I, the person named as the applicant, certify that:

- a) all the details set out in this application are true and correct; and
- b) I hereby acknowledge that by participating in the lodgement of this application electronically I agree to be bound by the Associations Online Terms and Conditions of use.

Yes, I Agree

Date **12 October 2015**

*Warning: It is an OFFENCE, with a penalty of \$500, to make a false statement in this application*

**Fees**

I would like to have the certificate of incorporation laminated **Yes**  
 I have submitted a fee of **\$148.00**



Government of **Western Australia**  
Department of **Commerce**

**DUPLICATE**

## **WESTERN AUSTRALIA**

*Associations Incorporation Act 1987*  
(Section 9(1))

Registered No: A1019698F

# **Certificate of Incorporation**

This is to certify that

**WESTERN AUSTRALIA RACING REPRESENTATIVE GROUP INC.**

has on this day been incorporated  
under the *Associations Incorporation Act 1987*

Dated this twenty eighth day of October 2015

Commissioner for Consumer Protection



**CERTIFICATE**

I certify that this is a true copy of the original document. Dated 29-11-2016

  
Lodged in the office of the  
Commissioner for  
Consumer Protection on the

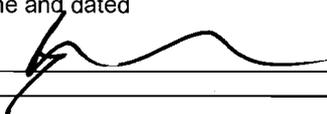
28 OCT 2015

## RULES OF ASSOCIATION

### Western Australian Racing Representative Group Inc.

**Please complete:**

This is the annexure of [...14...] pages marked "A" referred to in the Form No [...2...] signed by me and dated

Signature:  Date: 27/10/15

For Office Use only

Empty rounded rectangular box for office use.

# RULES OF ASSOCIATION

## 1 Name of Association

The name of the Association is the Western Australian Racing Representative Group Inc.

## 2 Definitions

In these rules, unless the contrary intention appears-

"**annual general meeting**" is the meeting convened under paragraph (b) of rule 16 (1);

"**Committee meeting**" means a meeting referred to in rule 15;

"**Committee member**" means person referred to in paragraph (a), (b), (c), (d) or (e) of rule 10 (1);

"**convene**" means to call together for a formal meeting;

"**department**" means the government department with responsibility for administering the *Associations Incorporation Act (1987)*;

"**financial year**" means a period not exceeding 15 months fixed by the Committee, being a period commencing on the date of incorporation of the Association and ending on 30 June; and thereafter each period commencing 1 July and ending on 30 June in the following year;

"**general meeting**" means a meeting to which all members are invited;

"**member**" means member of the Association;

"**ordinary resolution**" means resolution other than a special resolution;

"**poll**" means voting conducted in written form (as opposed to a show of hands);

"**special general meeting**" means a general meeting other than the annual general meeting;

"**special resolution**" has the meaning given by section 24 of the Act, that is-

A resolution is a special resolution if it is passed by a majority of not less than three-fourths of the members of the association who are entitled under the rules of the association to vote and vote in person or, where proxies or postal votes are allowed by the rules of the association by proxy or postal vote, at a general meeting of which notice specifying the intention to propose the resolution as a special resolution was given in accordance with those rules.

At a meeting at which a resolution proposed as a special resolution is submitted, a declaration by the person presiding that the resolution has been passed as a special resolution shall be evidence of the fact unless, during the meeting at which the resolution is submitted, a poll is demanded in accordance with the rules of the Association or, if the rules do not make provision as to the manner in which a poll may be demanded, by at least 3 members of the association present in person or, where proxies are allowed, by proxy.

If a poll is held, a declaration by the person presiding as to the result of a poll is evidence of the matter so declared.

"**the Act**" means the *Associations Incorporation Act 1987*;

"**the Association**" means the Association referred to in rule 1;

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**"the Chairperson"** means-

- (a) in relation to the proceedings at a Committee meeting or general meeting, the person presiding at the Committee meeting or general meeting in accordance with rule 11; or
- (b) otherwise than in relation to the proceedings referred to in paragraph (a), the person referred to in paragraph (a) of rule 10 (1);

**"the Commissioner"** means the Commissioner for Consumer Protection exercising powers under the Act;

**"the Committee"** means the Committee of Management of the Association referred to in rule 10 (1);

**"the Secretary"** means the secretary of Association or if no Secretary is appointed, the Chairperson shall be responsible for the duties of the Secretary;

**"the Treasurer"** means the treasurer of the Association or if no Treasurer is appointed, the Chairperson shall be responsible for the duties of the Treasurer;

### 3 Objects of Association

(1) The objects of the Association are:

- (a) to be a representative of the Western Australia racing industry (and official recognised stakeholder groups under the *Racing and Wagering Act 2003 (WA)*) on all issues pertaining to the potential privatisation of the Western Australia TAB;
- (b) to organise, maintain, promote and assist the rights and interests of Members with regard to matters which may be considered of common interest and to give Members the means and advantages of association and of united action so far as the law may allow;
- (c) to facilitate the interchange of Members of their views with regard to matters of common interest and to promote the consideration and discussion of all questions affecting them;
- (d) to communicate information on relevant matters affecting Members;
- (e) to do such other acts, matters and things as may be incidental to or necessary for the purpose of attaining any one or more or all of the above objects.

(2) The property and income of the Association shall be applied solely towards the promotion of the objects of the Association and no part of that property or income may be paid or otherwise distributed, directly or indirectly, to members, except in good faith in the promotion of those objects.

### 4 Powers of Association

The powers conferred on the Association are the same as those conferred by section 13 of the Act, so that subject to the Act and any additions, exclusions or modifications inserted below, the Association may do all things necessary or convenient for carrying out its objects and purposes, and in particular, may:

- (a) acquire, hold, deal with, and dispose of any real or personal property;
- (b) open and operate bank accounts;
- (c) invest its money -
  - (i) in any security in which trust monies may lawfully be invested; or

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- (ii) in any other manner authorised by the rules of the Association;
- (d) borrow money upon such terms and conditions as the Association thinks fit;
- (e) give such security for the discharge of liabilities incurred by the Association as the Association thinks fit;
- (f) appoint agents to transact any business of the Association on its behalf;
- (g) enter into any other contract it considers necessary or desirable; and
- (h) may act as trustee and accept and hold real and personal property upon trust, but does not have power to do any act or thing as a trustee that, if done otherwise than as a trustee, would contravene this Act or the rules of the Association.

## **5 Qualifications for membership of Association**

- (1) Membership of the Association is open to members of the thoroughbred industry, greyhound industry and harness industry or any similar industries approved by the Committee.
- (2) A person who wishes to become a member must-
  - (a) apply for membership to the Committee in writing-
    - (i) signed by that person and by both of the members referred to in paragraph (b); and
    - (ii) in such form as the Committee from time to time directs; and
  - (b) be proposed by one member and seconded by another member.
- (3) The Committee members must consider each application made under sub-rule (2) at a Committee meeting and must at the Committee meeting or the next Committee meeting accept or reject that application.
- (4) An applicant whose application for membership of the Association is rejected under sub-rule (3) must, if he or she wishes to appeal against that decision, give notice to the Secretary of his or her intention to do so within a period of 14 days from the date he or she is advised of the rejection.
- (5) When notice is given under sub-rule (4), the Association in a general meeting no later than the next annual general meeting, must either confirm or set aside the decision of the Committee to reject the application, after having afforded the applicant who gave that notice a reasonable opportunity to be heard by, or to make representations in writing to, the Association in the general meeting.

## **6 Register of members of Association**

- (1) The Secretary, on behalf of the Association, must comply with section 27 of the Act by keeping and maintaining in an up to date condition a register of the members of the Association and their postal or residential addresses and upon the request of a member of the Association, shall make the register available for the inspection of the member and the member may make a copy of or take an extract from the register but shall have no right to remove the register for that purpose.
- (2) The register must be so kept and maintained at the Secretary's place of residence, or at such other place as the members at a general meeting decide.
- (3) The Secretary must cause the name of a person who dies or who ceases to be a member under rule 8 to be deleted from the register of members referred to in sub-rule (1).

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## **7 Subscriptions of members of Association**

(1) The members may from time to time at a general meeting determine the amount of the subscription to be paid by each member (if any).

(2) Each member must pay to the Treasurer, annually on or before 1 July or such other date as the Committee from time to time determines, the amount of the subscription determined under sub-rule (1).

(3) Subject to sub-rule (4), a member whose subscription is not paid within 3 months after the relevant date fixed by or under sub-rule (2) ceases on the expiry of that period to be a member, unless the Committee decides otherwise.

(4) A person exercises all the rights and obligations of a member for the purposes of these rules if his or her subscription is paid on or before the relevant date fixed by or under sub-rule (2) or within 3 months thereafter, or such other time as the Committee allows.

## **8 Termination of membership of the Association**

Membership of the Association may be terminated upon-

- (a) receipt by the Secretary or another Committee member of a notice in writing from a member of his or her resignation from the Association. Such person remains liable to pay to the Association the amount of any subscription due and payable by that person to the Association but unpaid at the date of termination; or
- (b) non-payment by a member of his or her subscription within three months of the date fixed by the Committee for subscriptions to be paid, unless the Committee decides otherwise in accordance with rule 7(3); or
- (c) expulsion of a member in accordance with rule 9.

## **9 Suspension or expulsion of members of Association**

(1) If the Committee considers that a member should be suspended or expelled from membership of the Association because his or her conduct is detrimental to the interests of the Association, the Committee must communicate, either orally or in writing, to the member-

- (a) notice of the proposed suspension or expulsion and of the time, date and place of the Committee meeting at which the question of that suspension or expulsion will be decided; and
- (b) particulars of that conduct,

not less than 30 days before the date of the Committee meeting referred to in paragraph (a).

(2) At the Committee meeting referred to in a notice communicated under sub-rule (1), the Committee may, having afforded the member concerned a reasonable opportunity to be heard by, or to make representations in writing to, the Committee, suspend or expel or decline to suspend or expel that member from membership of the Association and must, forthwith after deciding whether or not to suspend or expel that member, communicate that decision in writing to that member.

(3) Subject to sub-rule (5), a member has his or her membership suspended or ceases to be a member 14 days after the day on which the decision to suspend or expel a member is communicated to him or her under sub-rule (2).

(4) A member who is suspended or expelled under sub-rule (2) must, if he or she wishes to appeal against that suspension or expulsion, give notice to the Secretary of his or her intention to do so within the period of 14 days referred to in sub-rule (3).

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(5) When notice is given under sub-rule (4)-

(a) the Association in a general meeting, must either confirm or set aside the decision of the Committee to suspend or expel the member, after having afforded the member who gave that notice a reasonable opportunity to be heard by, or to make representations in writing to, the Association in the general meeting; and

(b) the member who gave that notice is not suspended or does not cease to be a member unless and until the decision of the Committee to suspend or expel him or her is confirmed under this sub-rule.

## 10 Committee of Management

(1) Subject to sub-rule (9), the affairs of the Association will be managed exclusively by a Committee of Management consisting of five (5) members including a Chairperson and four other persons, all of whom must be members of the Association.

(2) Committee members must be elected to membership of the Committee at an annual general meeting or appointed under sub-rule (8). The members of the Committee must have the following representation:

(a) two members from the thoroughbred industry;

(b) two members from the harness industry; and

(c) one member from the greyhound industry.

(3) Subject to sub-rule (8), a Committee member's term will be from his or her election at an annual general meeting until the election referred to in sub-rule (2) at the next annual general meeting after his or her election, but he or she is eligible for re-election to membership of the Committee.

(4) Except for nominees under sub-rule (7), a person is not eligible for election to membership of the Committee unless a member has nominated him or her for election by delivering notice in writing of that nomination, signed by-

(a) the nominator; and

(b) the nominee to signify his or her willingness to stand for election,

to the Secretary not less than 7 days before the day on which the annual general meeting concerned is to be held.

(5) A person who is eligible for election or re-election under this rule may -

(a) propose or second himself or herself for election or re-election; and

(b) vote for himself or herself.

(6) If the number of persons nominated in accordance with sub-rule (4) for election to membership of the Committee does not exceed the number of vacancies in that membership to be filled-

(a) the Secretary must report accordingly to; and

(b) the Chairperson must declare those persons to be duly elected as members of the Committee at,

the annual general meeting concerned.

(7) If vacancies remain on the Committee after the declaration under sub-rule (6), additional nominations of Committee members may be accepted from the floor of the annual general meeting. If such nominations from the floor do not exceed the number of vacancies the Chairperson must declare those persons to be duly elected as members of Committee. Where the number of

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nominations from the floor exceeds the remaining number of vacancies on the Committee, elections for those positions must be conducted.

(8) If a vacancy remains on the Committee after the application of sub-rule (7), or when a casual vacancy within the meaning of rule 14 occurs in the membership of the Committee-

- (a) the Committee may appoint a member to fill that vacancy; and
- (b) a member appointed under this sub-rule will -
  - (i) hold office until the election referred to in sub-rule (2); and
  - (ii) be eligible for election to membership of the Committee,
 at the next following annual general meeting.

(9) The Committee may delegate, in writing, to one to more sub-committees (consisting of such member or members of the association as the Committee thinks fit) the exercise of such functions of the Committee as are specified in the delegation other than-

- (a) the power of delegation; and
- (b) a function which is a duty imposed on the Committee by the Act or any other law.

(10) Any delegation under sub-rule (9) may be subject to such conditions and limitations as to the exercise of that function or as to time and circumstances as are specified in the written delegation and the Committee may continue to exercise any function delegated.

(11) The Committee may, in writing, revoke wholly or in part any delegation under sub-rule (9).

(12) The Association must not spend money or incur debts or liabilities without the prior approval of all of the Committee members, such approval can be obtained either by circular resolution by email or at a meeting of the Committee.

## **11 Chairperson**

(1) Subject to this rule, the Chairperson must preside at all general meetings and Committee meetings.

(2) In the event of the absence from a general meeting of the Chairperson, a member elected by the other members present at the general meeting, must preside at the general meeting.

(3) In the event of the absence from a Committee meeting of the Chairperson, a Committee member elected by the other Committee members present at the Committee meeting, must preside at the Committee meeting.

## **12 Secretary**

The Secretary must-

- (a) co-ordinate the correspondence of the Association;
- (b) keep full and correct minutes of the proceedings of the Committee and of the Association;
- (c) comply on behalf of the Association with-
  - (i) section 27 of the Act with respect to the register of members of the Association, as referred to in rule 6;
  - (ii) section 28 of the Act by keeping and maintaining in an up to date condition the rules of the Association and, upon the request of a member of the Association, must make available those rules for the inspection of the member and the member may make a copy

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of or take an extract from the rules but will have no right to remove the rules for that purpose; and

(iii) section 29 of the Act by maintaining a record of -

(A) the names and residential or postal addresses of the persons who hold the offices of the Association provided for by these rules, including all offices held by the persons who constitute the Committee and persons who are authorised to use the common seal of the Association under rule 22; and

(B) the names and residential or postal addresses of any persons who are appointed or act as trustees on behalf of the Association,

and the Secretary must, upon the request of a member of the Association, make available the record for the inspection of the member and the member may make a copy of or take an extract from the record but will have no right to remove the record for that purpose;

(d) unless the members resolve otherwise at a general meeting, have custody of all books, documents, records and registers of the Association, including those referred to in paragraph (c) but other than those required by rule 13 to be kept and maintained by, or in the custody of, the Treasurer; and

(e) perform such other duties as are imposed by these rules on the Secretary.

### 13 Treasurer

The Treasurer must-

- (a) be responsible for the receipt of all moneys paid to or received by, or by him or her on behalf of, the Association and must issue receipts for those moneys in the name of the Association;
- (b) pay all moneys referred to in paragraph (a) into such account or accounts of the Association as the Committee may from time to time direct;
- (c) make payments from the funds of the Association with the authority of a general meeting or of the Committee and in so doing ensure that all cheques are signed by himself or herself and at least one other authorised Committee member, or by any two others as are authorised by the Committee;
- (d) comply on behalf of the Association with sections 25 and 26 of the Act with respect to the accounting records of the Association by-
  - (i) keeping such accounting records as correctly record and explain the financial transactions and financial position of the Association;
  - (ii) keeping its accounting records in such manner as will enable true and fair accounts of the Association to be prepared from time to time;
  - (iii) keeping its accounting records in such manner as will enable true and fair accounts of the Association to be conveniently and properly audited; and
  - (iv) submitting to members at each annual general meeting of the Association accounts of the Association showing the financial position of the Association at the end of the immediately preceding financial year.
- (e) whenever directed to do so by the Chairperson, submit to the Committee a report, balance sheet or financial statement in accordance with that direction;

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- (f) unless the members resolve otherwise at a general meeting, have custody of all securities, books and documents of a financial nature and accounting records of the Association, including those referred to in paragraphs (d) and (e); and
- (g) perform such other duties as are imposed by these rules on the Treasurer.

#### **14 Casual vacancies in membership of Committee**

A casual vacancy occurs in the office of a Committee member and that office becomes vacant if the Committee member-

- (a) dies;
- (b) resigns by notice in writing delivered to the Chairperson or, if the Committee member is the Chairperson, to another member of the Committee and that resignation is accepted by resolution of the Committee;
- (c) is convicted of an offence under the Act;
- (d) is permanently incapacitated by mental or physical ill-health;
- (e) is absent from more than-
  - (i) 3 consecutive Committee meetings; or
  - (ii) 3 Committee meetings in the same financial year without tendering an apology to the person presiding at each of those Committee meetings;
 of which meetings the member received notice, and the Committee has resolved to declare the office vacant;
- (f) ceases to be a member of the Association; or
- (g) is the subject of a resolution passed by a general meeting of members terminating his or her appointment as a Committee member.

#### **15 Proceedings of Committee**

- (1) The Committee must meet together for the dispatch of business not less than six (6) in each year and the Chairperson, or at least half the members of the Committee, may at any time convene a meeting of the Committee.
- (2) Each Committee member has a deliberative vote.
- (3) A question arising at a Committee meeting must be decided by a majority of votes, but, if there no majority, the person presiding at the Committee meeting will have a casting vote in addition to his or her deliberative vote.
- (4) At a Committee meeting four (4) Committee members constitute a quorum.
- (5) Subject to these rules, the procedure and order of business to be followed at a Committee meeting must be determined by the Committee members present at the Committee meeting.
- (6) As required under sections 21 and 22 of the Act, a Committee member having any direct or indirect pecuniary interest in a contract, or proposed contract, made by, or in the contemplation of, the Committee (except if that pecuniary interest exists only by virtue of the fact that the member of the Committee is a member of a class of persons for whose benefit the Association is established), must-
  - (a) as soon as he or she becomes aware of that interest, disclose the nature and extent of his or her interest to the Committee; and
  - (b) not take part in any deliberations or decision of the Committee with respect to that contract.

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(7) Sub-rule (6) (a) does not apply with respect to a pecuniary interest that exists only by virtue of the fact that the member of the Committee is an employee of the Association.

(8) The Secretary must cause every disclosure made under sub-rule (6) (a) by a member of the Committee to be recorded in the minutes of the meeting of the Committee at which it is made.

## 16 General meetings

### (1) The Committee-

(a) may at any time convene a special general meeting;

(b) must convene annual general meetings within the time limits provided for the holding of such meetings by section 23 of the Act, that is, in every calendar year within 4 months after the end of the Association's financial year or such longer period as may in a particular case be allowed by the Commissioner, except for the first annual general meeting which may be held at any time within 18 months after incorporation; and

(c) must, within 30 days of-

(i) receiving a request in writing to do so from not less than three (3) members, convene a special general meeting for the purpose specified in that request; or

(ii) the Secretary receiving a notice under rule 9 (4), convene a general meeting to deal with the appeal to which that notice relates.

(d) must, after receiving a notice under rule 5 (4), convene a general meeting, no later than the next annual general meeting, at which the appeal referred to in the notice will be dealt with. Failing that, the applicant is entitled to address the Association at that next annual general meeting in relation to the Committee's rejection of his or her application and the Association at that meeting must confirm or set aside the decision of the Committee.

### (2) The members making a request referred to in sub-rule (1) (c) (i) must-

(a) state in that request the purpose for which the special general meeting concerned is required; and

(b) sign that request.

### (3) If a special general meeting is not convened within the relevant period of 30 days referred to-

(a) in sub-rule (1) (c) (i), the members who made the request concerned may themselves convene a special general meeting as if they were the Committee; or

(b) in sub-rule (1) (c) (ii), the member who gave the notice concerned may him or herself convene a special general meeting as if he or she were the Committee.

(4) When a special general meeting is convened under sub-rule (3) (a) or (b) the Association must pay the reasonable expenses of convening and holding the special general meeting.

(5) Subject to sub-rule (7), the Secretary must give to all members not less than 14 days notice of a special general meeting and that notice must specify-

(a) when and where the general meeting concerned is to be held; and

(b) particulars of the business to be transacted at the general meeting concerned and of the order in which that business is to be transacted.

(6) Subject to sub-rule (7), the Secretary must give to all members not less than 21 days notice of an annual general meeting and that notice must specify-

(a) when and where the annual general meeting is to be held;

(b) the particulars and order in which business is to be transacted, as follows-

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- (i) first, the consideration of the accounts and reports of the Committee;
- (ii) second, the election of Committee members to replace outgoing Committee members; and
- (iii) third, any other business requiring consideration by the Association at the general meeting.

(7) A special resolution may be moved either at a special general meeting or at an annual general meeting, however the Secretary must give to all members not less than 21 days notice of the meeting at which a special resolution is to be proposed. In addition to those matters specified in sub-rule (5) or (6), as relevant, the notice must also include the resolution to be proposed and the intention to propose the resolution as a special resolution.

(8) The Secretary must give a notice under sub-rule (5), (6) or (7) by-

- (a) serving it on a member personally; or
- (b) sending it by post to a member at the address of the member appearing in the register of members kept and maintained under rule 6; or
- (c) sending it by electronic means.

(9) When a notice is sent by post under sub-rule (8) (b), sending of the notice will be deemed to be properly effected if the notice is sufficiently addressed and posted to the member concerned by ordinary prepaid mail. Where a notice is sent by email, it is deemed to be properly effected at the time the email left the sender's email system, unless the sender receives a notification that the email was not received by the recipient.

## **17 Quorum and proceedings at general meetings**

(1) At a general meeting four (4) members present in person constitute a quorum.

(2) If within 30 minutes after the time specified for the holding of a general meeting in a notice given under rule 16 (5) or (6)-

- (a) as a result of a request or notice referred to in rule 16 (1) (c) or as a result of action taken under rule 16 (3) a quorum is not present, the general meeting lapses; or
- (b) otherwise than as a result of a request, notice or action referred to in paragraph (a), the general meeting stands adjourned to the same time on the same day in the following week and to the same venue.

(3) If within 30 minutes of the time appointed by sub-rule (2) (b) for the resumption of an adjourned general meeting a quorum is not present, the members who are present in person or by proxy may nevertheless proceed with the business of that general meeting as if a quorum were present.

(4) The Chairperson may, with the consent of a general meeting at which a quorum is present, and must, if so directed by such a general meeting, adjourn that general meeting from time to time and from place to place.

(5) There must not be transacted at an adjourned general meeting any business other than business left unfinished or on the agenda at the time when the general meeting was adjourned.

(6) When a general meeting is adjourned for a period of 30 days or more, the Secretary must give notice under rule 16 of the adjourned general meeting as if that general meeting were a fresh general meeting.

(7) At a general meeting-

- (a) an ordinary resolution put to the vote will be decided by a majority of votes cast on a show of hands, subject to sub-rule (9); and

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(b) a special resolution put to the vote will be decided in accordance with section 24 of the Act as defined in rule 2, and, if a poll is demanded, in accordance with sub-rules (9) and (11).

(8) A declaration by the Chairperson of a general meeting that a resolution has been passed as an ordinary resolution at the meeting will be evidence of that fact unless, during the general meeting at which the resolution is submitted, a poll is demanded in accordance with sub-rule (9).

(9) At a general meeting, a poll may be demanded by the Chairperson or by three or more members present in person or by proxy and, if so demanded, must be taken in such manner as the Chairperson directs.

(10) If a poll is demanded and taken under sub-rule (9) in respect of an ordinary resolution, a declaration by the Chairperson of the result of the poll is evidence of the matter so declared.

(11) A poll demanded under sub-rule (9) must be taken immediately on that demand being made.

### **18 Minutes of meetings of Association**

(1) The Secretary must cause proper minutes of all proceedings of all general meetings and Committee meetings to be taken and then to be entered within 30 days after the holding of each general meeting or Committee meeting, as the case requires, in a minute book kept for that purpose.

(2) The Chairperson must ensure that the minutes taken of a general meeting or Committee meeting under sub-rule (1) are checked and signed as correct by the Chairperson of the general meeting or Committee meeting to which those minutes relate or by the Chairperson of the next succeeding general meeting or Committee meeting, as the case requires.

(3) When minutes have been entered and signed as correct under this rule, they are, until the contrary is proved, evidence that-

(a) the general meeting or Committee meeting to which they relate (in this sub-rule called "the meeting") was duly convened and held;

(b) all proceedings recorded as having taken place at the meeting did in fact take place at the meeting; and

(c) all appointments or elections purporting to have been made at the meeting have been validly made.

### **19 Voting rights of members of Association**

(1) Subject to these rules, each member present in person or by proxy at a general meeting is entitled to a deliberative vote.

(2) A member which is a body corporate may appoint in writing a natural person, whether or not he or she is a member, to represent it at a particular general meeting or at all general meetings.

(3) An appointment made under sub-rule (2) must be made by a resolution of the board or other governing body of the body corporate concerned-

(a) which resolution is authenticated under the common seal of that body corporate; and

(b) a copy of which resolution is lodged with the Secretary.

(4) A person appointed under sub-rule (2) to represent a member which is a body corporate is deemed for all purposes to be a member until that appointment is revoked by the body corporate or, in the case of an appointment in respect of a particular general meeting, which appointment is not so revoked, the conclusion of that general meeting.

## **20 Proxies of members of Association**

A member (in this rule called "the appointing member") may appoint in writing another member who is a natural person to be the proxy of the appointing member and to attend, and vote on behalf of the appointing member at, any general meeting.

## **21 Rules of Association**

(1) The Association may alter or rescind these rules, or make rules additional to these rules, in accordance with the procedure set out in sections 17, 18 and 19 of the Act, which is as follows-

- (a) Subject to sub-rule (1) (d) and (1) (e), the Association may alter its rules by special resolution but not otherwise;
- (b) Within one month of the passing of a special resolution altering its rules, or such further time as the Commissioner may in a particular case allow (on written application by the Association), the Association must lodge with the Commissioner notice of the special resolution setting out particulars of the alteration together with a certificate given by a member of the Committee certifying that the resolution was duly passed as a special resolution and that the rules of the Association as so altered conform to the requirements of this Act;
- (c) An alteration of the rules of the Association does not take effect until sub-rule (1) (b) is complied with;
- (d) An alteration of the rules of the Association having effect to change the name of the association does not take effect until sub-rules (1) (a) to (1) (c) are complied with and the approval of the Commissioner is given to the change of name;
- (e) An alteration of the rules of the Association having effect to alter the objects or purposes of the association does not take effect until sub-rules (1) (a) to (1) (c) are complied with and the approval of the Commissioner is given to the alteration of the objects or purposes.

(2) These rules bind every member and the Association to the same extent as if every member and the Association had signed and sealed these rules and agreed to be bound by all their provisions.

## **22 Common seal of Association**

(1) The Association must have a common seal on which its corporate name appears in legible characters.

(2) The common seal of the Association must not be used without the express authority of the Committee and every use of that common seal must be recorded in the minute book referred to in rule 18.

(3) The affixing of the common seal of the Association must be witnessed by any two of the Chairperson, the Secretary and the Treasurer.

(4) The common seal of the Association must be kept in the custody of the Secretary or of such other person as the Committee from time to time decides.

## **23 Inspection of records, etc. of Association**

A member may at any reasonable time inspect without charge the books, documents, records and securities of the Association.

## **24 Disputes and mediation**

- (1) The grievance procedure set out in this rule applies to disputes under these rules between-
  - (a) a member and another member; or
  - (b) a member and the Association; or
  - (c) if the Association provides services to non-members, those non-members who receive services from the Association, and the Association.
- (2) The parties to the dispute must meet and discuss the matter in dispute, and, if possible, resolve the dispute within 14 days after the dispute comes to the attention of all of the parties.
- (3) If the parties are unable to resolve the dispute at the meeting, or if a party fails to attend that meeting, then the parties must, within 10 days, hold a meeting in the presence of a mediator.
- (4) The mediator must be-
  - (a) a person chosen by agreement between the parties; or
  - (b) in the absence of agreement-
    - (i) in the case of a dispute between a member and another member, a person appointed by the Committee of the Association;
    - (ii) in the case of a dispute between a member or relevant non-member (as defined by sub-rule (1) (c)) and the Association, a person who is a mediator appointed to, or employed with, a not for profit organisation.
- (5) A member of the Association can be a mediator.
- (6) The mediator cannot be a member who is a party to the dispute.
- (7) The parties to the dispute must, in good faith, attempt to settle the dispute by mediation.
- (8) The mediator, in conducting the mediation, must-
  - (a) give the parties to the mediation process every opportunity to be heard;
  - (b) allow due consideration by all parties of any written statement submitted by any party; and
  - (c) ensure that natural justice is accorded to the parties to the dispute throughout the mediation process.
- (9) The mediator must not determine the dispute.
- (10) The mediation must be confidential and without prejudice.
- (11) If the mediation process does not result in the dispute being resolved, the parties may seek to resolve the dispute in accordance with the Act or otherwise at law.

## **25 Distribution of surplus property on winding up of Association**

If upon the winding up or dissolution of the Association there remains after satisfaction of all its debts and liabilities any property whatsoever, the same must not be paid to or distributed among the members, or former members. The surplus property must be given or transferred to another association incorporated under the Act which has similar objects and which is not carried out for the purposes of profit or gain to its individual members, and which association shall be determined by resolution of the members.

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 (RWVA) as WATAB sits within RWVA. 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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## APPENDIX 2 HORSE AND GREYHOUND TRAINING AWARD 2010

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.

- 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.

#### 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.

#### 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 (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.

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 2008/9 – 2012/13	CAGR 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 TRAINING AWARD 2010)	23.2%	3.5%
VETERINARY	35.0%	6.0%
FEED AND PRODUCE	SAY 20.0% 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.

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 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 Betting Sports</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). A rebate of 10.0% in respect of investments made by premium players. Fixed odds racing wagering 2% of turnover.</p> <p><b>Sports</b> Pari-mutuel sports betting tax is set at 5% of turnover. Fixed odds sports betting is set at 0.50% of turnover. 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. Sportsbetting Pari-mutuel turnover 5% of turnover Fixed Odds: 0.5% of turnover</p>	<p>Wagering tax on SATAB race betting operations abolished from 1 July 2012. 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. 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. For races other than thoroughbred, harness horse and greyhound races and prescribed sporting events held: <b>In Australia:</b> 20% of licensee's commission deducted less GST. <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).

# Size and Scope of the Western Australian Racing Industry



FOCUSED THINKING

Prepared by IER January 2016



RACING AND WAGERING WESTERN AUSTRALIA



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## Overview of Key Results

### Direct Spending Impacts

(\$mil)	Thoroughbred	Harness	Greyhound	Total
<b>Total Direct Expenditure<sup>1</sup></b>	<b>\$447.5</b>	<b>\$147.2</b>	<b>\$87.6</b>	<b>\$682.3</b>

<sup>1</sup>Direct expenditure is defined as expenditure associated with producing foals & pups (breeding & rearing), preparing racehorses and greyhound (training), wagering related revenues, racing customer expenditure and non-raceday revenues

In 2014/15, the WA Racing Industry generated total direct spending of \$682.3 million. This expenditure is responsible for creating a direct value-added impact (or wages, salaries and profits) of \$329.3 million.

However, the flow-on effects linked to this expenditure increases the size of the industry's value-added contribution to more than \$821 million.

The economic output generated by the racing industry in WA is responsible for sustaining more than 7,360 full time equivalent jobs in the State.

Just over 61% of the total value-added impact occurs in the Perth region, with the Peel (14.7%), South West (7.1%) and Wheatbelt (7.0%) regions representing the largest areas of racing related economic activity. Thoroughbred racing is responsible for generating more than 65% of this impact, with harness racing (21.5%) and greyhound racing (12.8%) generating the remainder.

### Economic Impacts

(\$mil)	Thoroughbred	Harness	Greyhound	Total
<b>Total Value-Added<sup>2</sup></b>	<b>\$539.3</b>	<b>\$176.8</b>	<b>\$105.1</b>	<b>\$821.1</b>
<b>% of Industry Value-Added</b>	<b>65.7%</b>	<b>21.5%</b>	<b>12.8%</b>	
<b>Total Household Income</b>	<b>\$275.8</b>	<b>\$90.1</b>	<b>\$54.0</b>	<b>\$419.9</b>
<b>Total FTE Employment</b>	<b>4,822</b>	<b>1,579</b>	<b>960</b>	<b>7,361</b>

Note: Some totals do not add due to rounding

<sup>2</sup>Value-added is defined as the value of sales less the value of inputs used in production, i.e. it is equal to the income (wages, salaries and profits) generated in production

<sup>3</sup>Household Incomes is defined as being wages and salaries (before tax) earned from employment generated by the racing industry



The WA Racing Industry is responsible for generating more than \$821 million in Real Gross Value-Added to the WA Economy

## At a glance

### 860 Breeders

Thoroughbred 427  
 Harness 238  
 Greyhound 195

### 2,184 Foals & Pups Produced

Thoroughbred 1,226  
 Harness 413  
 Greyhound 545

### 13,055 Owners & Syndicate Members

Thoroughbred 7,845  
 Harness 2,485  
 Greyhound 2,725

### 1,426 Trainers

Thoroughbred 607  
 Harness 556  
 Greyhound 263

### 10,887 Horses & Greyhounds in Training

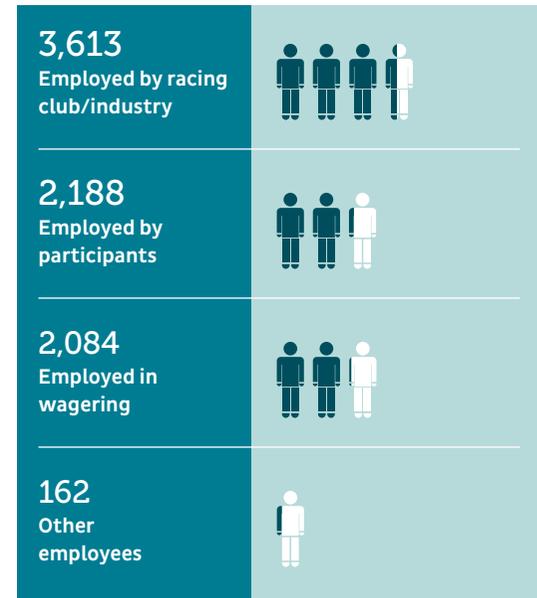
Thoroughbred 5,492  
 Harness 2,977  
 Greyhound 2,418

### 147 Jockeys, Drivers & Apprentices

Thoroughbred 85  
 Harness 62

More than 24,400 people participate directly within the racing industry in WA as an employee, participant or volunteer – Approximately 1 in every 79 adult residents in the state.

### Employed Directly in Racing (Total)



Key:  = 1,000 people

Participants are the lifeblood of the industry. They provide the investment, time, skills and passion that underpins horse and greyhound racing in the State.

In total, there are more than 24,400 individuals who participate in the racing industry. Many of these people find gainful employment of their specific skillset where they may find limited opportunities otherwise. Furthermore, many participants hold more than one role within the industry. This is generally more prominent within the harness and greyhound racing industries.



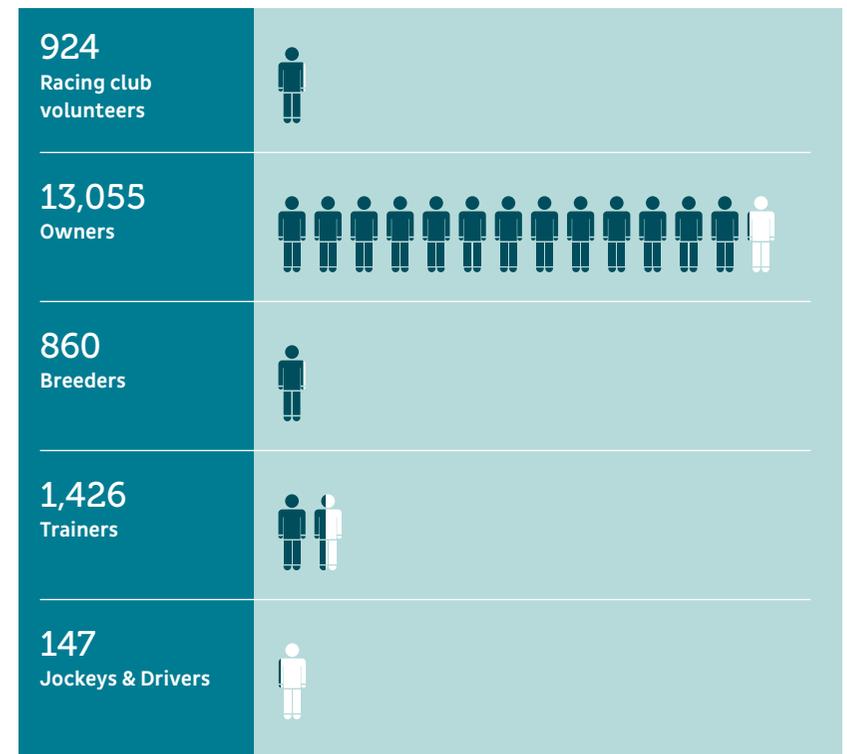


Owners are a key participant group, as they provide much of the investment from which the chain of activity follows. In WA, there are more than 13,055 people who have an ownership interest in a racehorse or greyhound. Many of these owners are involved in the industry as part of a group ownership initiative such as syndication or partnership.

The industry is also supported by nearly 1,000 people who volunteer their time and resources. This is particularly prevalent in regional areas where many racing clubs are run almost entirely by volunteers.

Key:  = 1,000 people

Participants in Racing (Total)



## At a glance

### 52 Racing Clubs

Thoroughbred 37  
Harness 14  
Greyhound 1

### 880 Race Meetings

Thoroughbred 295  
Harness 277  
Greyhound 308

### 8,206 Races

Thoroughbred 2,242  
Harness 2,341  
Greyhound 3,623

### 8,839 Racing Club Members

Thoroughbred 1,057  
Harness 1,718  
Greyhound 64

### 823,249 Attendances

Thoroughbred 411,312  
Harness 314,735  
Greyhound 97,202

### \$28.0 mil Raceday Customer Spending On-course

Thoroughbred \$21.9 mil  
Harness \$2.4 mil  
Greyhound \$3.6mil

### \$23.4 mil Raceday Customer Spending Off-course

Thoroughbred \$14.7 mil  
Harness \$6.9 mil  
Greyhound \$1.7 mil

In 2014/15, more than 823,000 attendances were recorded at thoroughbred, harness and greyhound race meetings in WA. More than 57% of these attendances were made at regional racecourses, with Peel (127,497), South west (103,839) and Wheatbelt (70,474) representing the largest regions. The following table illustrates the attendances at race meetings, for each code within each region:

Attendees, at race meetings in WA, are responsible for generating more than \$60 million in spending – more than 38% of which occurs outside the racecourse. Major racing events, in particular, generate significant stimulus for the businesses in the local economy. Over the years, this has been reinforced through the strong link established between racing and fashion retail. Overall, it is estimated that for every dollar spent on-course by racing customers, a further \$0.84 is spent off-course. Retail, fashion, food and accommodation are particular beneficiaries of this expenditure.

### Attendances (Total)

	Thoroughbred	Harness	Greyhound	Total
Gascoyne	8,400			8,400
Goldfields-Esperance	54,772	3,000		57,772
Great Southern	16,750	2,990		19,740
Kimberley	32,200			32,200
Mid West	27,490			27,490
Peel	27,000	79,113	21,384	127,497
Pilbara	23,300			23,300
South West	26,200	77,639		103,839
Wheatbelt	31,200	22,750	16,524	70,474
<b>Total Regional</b>	<b>247,312</b>	<b>185,491</b>	<b>37,909</b>	<b>470,712</b>
Metro	164,000	129,244	59,293	352,537
<b>Total</b>	<b>411,312</b>	<b>314,735</b>	<b>97,202</b>	<b>823,249</b>



RACING AND WAGERING WESTERN AUSTRALIA



# 2016

## ANNUAL REPORT

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## 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)

## 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.

# RACING AND WAGERING WESTERN AUSTRALIA



RACING AND WAGERING  
WESTERN AUSTRALIA



## Statement of Corporate Intent 2015 - 2016

## Racing and Wagering Western Australia

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## INTRODUCTION

Racing and Wagering Western Australia (RWVA) was established on August 1, 2003. RWVA'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.

Section S77(1) of the *Racing and Wagering Western Australia Act 2003* requires RWVA to produce a Statement of Corporate Intent (SCI) that is consistent with Strategic Development Plan which in this instance reflects the 2015-16 financial year and in particular sets out RWVA's objectives, main undertakings for the year, the nature and scope of the functions proposed to be performed, performance targets and accounting policies. The Strategic Development Plan was submitted to the Minister in April 2015.

# RWWA'S OBJECTIVES

RWWA's objectives are set out in our "Clear line of sight". The Clear line of sight aligns the management priorities to address our strategic challenges with our cultural enablers that together will ensure we continue to achieve our vision and purpose.

The strategic challenges and management priorities are as follows;

## **Our Strategic Challenges**

RWWA faces considerable challenges in the form of the efficiency of the racing model, intense competition from corporate bookmakers, the profitability of our product mix, the quality of our core racing product, participation in the industry, securing increased levels of support from the government and public perception around animal welfare issues, responsible wagering and integrity.

## **Our Management Priorities**

- Working with the industry to increase the effectiveness and utilisation of racing assets;
- Increase our share of the competitive wagering market by enhancing our products and services in both the retail and digital channels and cross channel;
- Strengthen the level of government support for infrastructure and new product licences by demonstrating the financial benefits of the current model and the economic and social benefits of the racing industry;
- Implement strategies to demonstrate best practice in animal welfare, as well as the promotion & delivery of responsible wagering;
- Improve quality of the core racing product and track attendance through increasing stakes distribution, improved quality of fields, race programming and product fees; and
- Strengthen integrity standards across WA racing to ensure public confidence and support.

# SUMMARY OF STRATEGIC INITIATIVES AND ACTIVITIES

RWWA will continue to focus strongly on customer strategies to deliver wagering growth and has a coordinated set of initiatives to achieve them.

A key part of RWWA's purpose in providing a sustainable future for the racing industry is to ensure its funding is maintained at appropriate levels, recognising that the racing industry nationally is becoming increasingly competitive, as racing bodies chase the income and sponsorship that accrues to quality and competitive racing products.

## WAGERING

Critical to RWWA's success in delivering on its purpose is how successfully it chooses initiatives to invest in, and how quickly and cost effectively it is able to implement those initiatives that will deliver the best returns for the industry. In addition to maximising its revenue from wagering, RWWA is constantly looking for innovative ways to reduce costs without impacting its revenue objectives.

The key challenges that RWWA faces and the strategies that are being implemented are described below:

### **Improve the Capacity to Deliver Customer Loyalty**

RWWA has worked hard to improve its customer service and price competitiveness as part of its 'Customer First' values approach. Nevertheless, the ability to retain customers in the face of intensifying competition requires RWWA not only match the offerings of its competitors but also to offer something unique in the market.

The system architecture to support these initiatives is only partially complete with more development to occur.

### **Adapt the Retail Business to the Digital Age**

Like many other retail businesses, this channel faces increasing challenges, especially the full time agencies, as customers migrate to the digital channel and mobile devices in particular. It is extremely important to ensure that the best possible experience exists in the retail stores as a compelling alternative to wagering online. RWWA's retail channel requires important changes and prudent investment in order to optimise the retail offering in the digital age.

The rapid growth of mobile wagering and the use of mobile apps to provide additional experiences, information and value are allowing the business to reposition the retail and electronic businesses as cross channel complimentary services. A new "Bricks and Clicks" operating model is now emerging.

One of the most significant innovations in retail revolves around the deployment of the race and sports walls technology. The development of the Racewall technology has given RWWA the opportunity to fundamentally change and improve the retail customer experience. The Racewall's 'next race to jump' nature not only assists our customers in their management of a busy race day but also allows them to be better informed with more wagering detail. Essentially it allows vision, form and both tote and fixed odds prices to be displayed in a simple and easy to read digital visual format.

### **Product Innovation**

Product innovation within its existing wagering licence is one of the areas in which RWWA can seek to sustainably grow its revenue base and share of the overall wagering market. Over the past couple of years RWWA has trialled and developed a number of wagering initiatives.

## RACING

RWWA distributes funds to the racing industry using a structured framework called the Distribution Model. The model meets all statutory requirements.

During the period 2009 through 2011, in conjunction with the racing industry stakeholders, RWWA developed strategic plans for all three racing codes. Reviews of the Distribution Model funding framework are conducted in light of those strategic directions for the industry, with all three code plans focussing on driving improved performance, greater sustainability and ensuring the long-term positive future for Western Australian racing.

The Strategic Plans and ongoing revision of the Distribution Model take into account the independent nature of the individual codes, each having quite different needs and requirements. These include unique participant and punter attractions, upon which their future viability is dependent and therefore determination of the funding model requires relevant strategies specific to the needs of each code.

### **Participation in the Western Australia Racing Industry**

RWWA encourages participation in the racing industry via attractive base and feature race stake money levels, rewarding industry participants across three codes with local breeding schemes and a sustainable return on investment through prize money (stakes), rider and driver fees. Continual revision of the Plans ensure new strategies are implemented which promote the primary areas of participation – ownership retention and growth, breeding, animal and human training, welfare, general assistance and support of the racing industry where need is required. RWWA is providing training and sustaining employment across a wide variety of occupations, and actively creates career paths in administration, judges and racing administrators, stewards and other official roles as well as apprentice jockey development.

Over recent years RWWA has broadened its communication to industry through consultation with industry eligible bodies, clubs and individuals, Outreach Information session across the State and racing industry forums and symposiums.

RWWA has set key objectives for the industry over the next 3-5 years in relation to linking licensing of industry participants to accredited training competencies, reviewing the size and scope of the industry participant base – registered persons, breeders, owners, trainers, jockeys and drivers to enable a sustainable and viable racing industry into the future. We are particularly focused on those areas of declining participation, to arrest any negative trends and provide strategies for retention of existing numbers and growth.

### **Quality of the Racing Product in Western Australia**

RWWA's funding of the industry is highly motivated by the quality of product emanating from the racing industry breeding schemes; our reputation in terms of integrity, having a strong ownership base and that the WA racing industry has a sound foundation for driving increased performance across all breeding, training, animal welfare, club and punter segments.

Ongoing support of structured industry training and accreditation programmes for participants further enhances racing in Western Australia from an industry employment perspective, whilst initiatives across all three codes for breeding schemes encourages sustainable investment and interest in the breeding and animal rearing sectors. RWWA maintains a strong focus on those declining areas of the racing product and supports strategies that will improve the WA racing product, assisting in promoting breeding of quality progeny for West Australian stakeholders across all codes.

## **Efficiency of RWWA Racing Model**

As the principal racing authority for the three codes in WA, the *Racing and Wagering Western Australia Act 2003* prohibits RWWA from conducting the affairs and supervision of a registered racing club and limits our ability to direct clubs in respect to safety compliance and to produce records.

Whilst RWWA consults widely with industry stakeholders and in particular, with club administration on a regular basis, it is becoming increasingly evident that many of the racing clubs heavily rely on RWWA for support and assistance on administrative requirements, Occupational Health and Safety (OSH) and in some cases financial management.

The role of the racing clubs are to 'Event Manage' their race meetings. That is to:

- Advertise, promote and provide race meetings which attract on-course attendees;
- Conduct betting activity on their own meetings; and
- Generate on-course revenue from gate receipts, food and beverage, on-course totalisator operations, hospitality, functions and sponsorship.

With increasing competition from other wagering operators and entertainment options, attaining optimum profitable results in these areas of income is becoming increasingly difficult.

In light of this general downturn at the club level, the RWWA Board and Management are focusing on this as one of its key strategic issues and are in the process of defining what RWWA needs to do now and in future years to assist and sustain the viability of clubs operating in WA. Many of the clubs are being supported through marketing assistance, with future plans to rollout race wall technology at the metropolitan race clubs, the first floor public facility at Ascot being already completed. This will enhance the on-course experience for punters and assist in arresting the declining trend of on-course wagering.

RWWA remains committed to advancing this strategic direction across the wider racing industry sector, through the industry associations and with the club sector. Regular communication to regional and metropolitan stakeholders, incorporating discussion over key funding initiatives, RWWA's trading trends, race programming, wagering activity, etc. and through its official publication distributed to the industry, will ensure the key issues affecting clubs and participant sustainability are being addressed.

## **Delivering on our Purpose**

**RWWA's Purpose is to "Provide a positive sustainable future for the Western Australian Racing Industry".**

Arising from the 2012 Industry Economic Review (IER) of the Western Australian Racing Industry, there have been a number of strengths identified within the racing industry's employment, club and participant sectors. RWWA remains committed to the continued sustainability of the industry and longer-term viability of those who participate. RWWA has had a focus over recent years of minimising costs in its operations and by maximising returns from its Parimutuel and Fixed Odds wagering, it has been able to deliver strong growth to meet its goals and objectives. Distribution funding to the Racing industry in 2015-16 is forecasting an increase of \$7.7M over the amount provided in the 2014-15 SDP.

Both the Strategic Plans and Distribution Model going forward, equip the industry with proactive and targeted strategies to defend against threats and unforeseen conditions confronting the Racing and Wagering industry.

RWWA adheres to best practice initiatives in relation to integrity and welfare and continues to maintain this high standard on the race track and off as animals retire from racing. RWWA introduced *Off The Track WA*, an initiative that will provide a retirement and re-homing programme for equine racing animals as they complete their racing careers. It also assists the greyhound code by providing funding to the Greyhound as Pets (GAP) program.

RWWA continues to acknowledge a key threat to the racing industry is increased animal activism. Whilst our strategic direction includes programmed initiatives to mitigate against this and other threats, the controls in place regarding the use of whips in Thoroughbred and Harness racing, the issuing of licenses for the exportation of Greyhounds and the introduction of responsible animal breeding in racing, all assist in ensuring that Western Australian racing is able to defend itself against such threats.

### **Racing Industry Grants and Development**

RWWA's strategic position for race clubs is for racecourses to be developed with modern and comfortable facilities for patrons and to provide the safest racing for the utmost integrity of the racing product. Clubs must strive to introduce a number of advancements that include:

- Presentation of a modern, visually exciting product, both in terms of quantity and quality for both on-course and off-course punters;
- A plan to protect the environmental sustainability of the industry, including minimisation of water use (mostly relevant to metropolitan and regional zones);
- Meeting the expectations of the on-course patron, in the entertainment market, particularly encouraging the high-value off-course punter to come on-course;
- Addressing the operational needs of the racing industry participants, with a focus on the racecourse as a workplace; and
- Servicing the essential needs of horse training by providing high quality, affordable training infrastructure.

With both Racecourse Infrastructure Grants Programme (RIGP) and Royalties for Regions (RfR) funding to be fully committed by the end of 2014-15 it is critical that further infrastructure funding support be forthcoming for the racing industry if it is to retain patronage as expectations when attending recreational and sporting pursuits are on the increase. RWWA has undertaken to provide additional marketing support for the Race Clubs, as indicated within this report, in order to assist the clubs in driving on-course participation.

Whilst RWWA has made a sizeable capital works contribution in the year just past, particularly the Cannington redevelopment project for greyhound racing (\$13M) and the installation of the Pro-Ride synthetic thoroughbred training track at Ascot (\$4M), it is important to note that RWWA cannot fund the full extent of racing industry infrastructure requirements in the future and further support from the Government must be sought to address important funding for WA race clubs. Compliance with Occupational Health and Safety is essential for both racing and training facilities and a key platform for maintaining the highest level of integrity.

The clubs currently have the following funding mechanisms available to them to undertake capital infrastructure projects:

- Racecourse Infrastructure Grants Programme;
- Royalties for Regions; and
- RWWA Funded Grants.

The following sub-sections detail the different Grant programmes.

### **Racecourse Infrastructure Grants Programme (RIGP)**

The Minister for Racing and Gaming announced a State Government funding commitment of \$13M over five-years (2010-15), on a partnership basis for racecourse infrastructure in July 2010. 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.

Race clubs, official training centres and allied bodies across the State are entitled to make application for funding under the new Racecourse Infrastructure Grants Programme (RIGP). In past years the Government's Grant Fund was available only for country and regional racecourse rehabilitation; however RIGP funding will apply to all venues, including the metropolitan region.

Since its introduction 166 projects throughout the State have been completed as a result of this funding support. Major initiatives include the construction of the Bunbury Trotting Club's trackside restaurant, refurbishment of the Mandurah Greyhound Track public facilities, Pinjarra Park Race Club's kitchen/cafe improvements, grandstand roof replacement, requisite hydraulic works, replacement of the Gloucester Park semaphore board, Bunbury Turf Club's patron facilities improvements and construction of raceday stalls, major renovation of the Broome Turf Club's racetrack, upgrade of the Kalgoorlie Race Club electrical system, Geraldton Turf Club's kitchen and ablutions renovations, roll out of steward tower replacements at Bunbury Turf Club, Narrogin, Northam Race Club, Albany Race Club, Esperance Bay Turf Club, Mt Barker Turf Club as well as minor works across all codes and regions addressing OHS and animal welfare requirements.

As of March 2015, 211 grant proposals with a total cost of \$21.2M have been approved or committed in principle, of which \$10.8M is funded through RIGP. Out of the full \$13M of RIGP funding, \$2.2M remains to be committed or approved in principle by the end of June 2015 with all projects to be completed and acquitted during the 2015-16 financial period. While no funding beyond 2014-15 is included in the SDP financials, RWWA is confident that the program will continue beyond 2014-15 with the amount to be confirmed before the start of 2015-16.

### **Royalties for Regions (RfR)**

A Royalties for Regions (RfR) funding boost of \$6.6M over three years, to supplement the Racecourse Infrastructure Grants Program, was announced in December 2012.

The funding boost is provided to racing clubs in regional Western Australia, with access to funding that will enable them to undertake and complete infrastructure projects that are critical to the ongoing operation of those clubs in tandem with the RIGP funding.

Projects are evaluated on the basis of the strategic needs of the race clubs with particular consideration being given to OHS issues, licensing requirements and patron amenity that will promote and maintain industry sustainability.

As of March 2015, 104 Royalties for Regions supplementary grants have been approved or committed to 'in principle' to a value of \$3.6M from a total project cost of \$8.8M. The remaining \$3M will be approved or committed in principle by the end of June 2015 with all projects to be completed and acquitted during the 2015-16 financial period.

The major regional projects include the York Race Club's construction of the raceday and public amenities, steward tower replacement programme across most regions, refurbishment of the

Mandurah Greyhound Track public facilities, electrical upgrade at Kalgoorlie Boulder Race Club and further rollout of plastic running rail to York Race Club and Esperance bay Turf Club.

Each Regional Development Commission area has benefited from the grant funding allocation, the major recipients being the Wheatbelt, Goldfields Esperance, Great Southern, South West and Peel regions.

While no funding commitments from Department of Regional Development (DRD) have been included in the SDP beyond 2014-15, RWWA is confident that ongoing discussions with the DRD will result in new funding allocations from 2015-16.

### **RWWA Funded Grants**

RWWA has continued to assist those clubs with projects valued outside of the funding guidelines of the RIGP and Royalties for Regions.

The major projects completed within 2014-15 include the reconstruction of the synthetic race training surface at Ascot Racecourse totalling \$4M, the winter racing requirements for Pinjarra Race Club including the rebuild of the Pinjarra straight course and facility works for the tote area, patron area, formalised carpark and drainage totalling \$1M. \$13M has also been allocated for the development of a new Greyhound racing circuit and ancillary facilities at Cannington.

RWWA has allocated an amount of \$5.7M in 2015-16 including a contribution towards a new irrigation system at Belmont (\$1.2M), a marquee at Cannington (\$0.9M) to complement the new race track completed in the 2014-15 financial, a contribution towards a new vision system at Perth Racing (\$0.9M), Racing Marketing Grants (\$1M), essential infrastructure grants (\$0.5M) as well as a contribution to Gloucester Park towards marketing the Inter Dominion.

In the years following 2015-16 an amount of \$1M has been included for racing marketing together with an amount of \$0.5M for essential infrastructure requirements.

# DISTRIBUTION OF FUNDS

**Table 1: Racing Industry Distributions for 2015-16**

Racing Industry distributions are made up of RWWA profits / retained earnings and government grants received through Western Australia Race Fields Legislation.

Section 77 (2) c of the Racing and Wagering Act 2003 requires RWWA to disclose the proportions of industry distributions to the classes of racing clubs as shown in the following table.

Track Class	Thoroughbreds		Harness		Greyhounds	
	(\$000's)	% of Code	(\$000's)	% of Code	(\$000's)	% of Code
Metropolitan	47,884	58.8%	19,921	57.3%	9,654	55.0%
Country	32,756	40.2%	14,482	41.7%	7,886	45.0%
RWWA *	842	1.0%	350	1.0%	0	0.0%
<b>Grand Total</b>	<b>81,482</b>	<b>100.0%</b>	<b>34,752</b>	<b>100.0%</b>	<b>17,540</b>	<b>100.0%</b>

\* Represents distributions which by their nature cannot be separated by location

**Table 2: Sports Distributions for 2015-16**

<b>Sports Distribution (\$000's)</b>	<b>4,194</b>
as a percentage of Sports MAT	20.50%

**Table 3: Racing Distribution Funding for 2015-16**

Section 77 (2) d(a) of the Racing and Wagering Act 2003, requires RWWA to disclose the proportions in which the grant income from Racefields revenue will be distributed to the classes of racing clubs as shown in the following table.

Distribution Funding Source	(\$000's)	Thoroughbreds	Harness	Greyhounds	Total
Racefields Grants Income		25,415	10,650	5,586	41,651
Wagering Revenue		56,067	24,102	11,954	92,123
<b>Total Racing Distributions</b>		<b>81,482</b>	<b>34,752</b>	<b>17,540</b>	<b>133,774</b>
Racefields revenue code allocation %		61.02%	25.57%	13.41%	100.00%

## KEY PERFORMANCE INDICATORS

Key Performance Indicators	2015/16
Number of bets processed (% Change from prior year)	3.80%
Distribution to Racing and Sports (\$000)	137,967
Distribution to Racing and Sports (% Change from prior year)	5.39%
Number of staff (FTE)	365
Return on Assets (%)	87.04%
Return on Assets (% Change from prior year)	3.36%
Primary Betting System availability (%)	99.96%
Primary Betting System availability (% Change from prior year)	0.00%

## ACCOUNTING POLICIES

Policies adopted in the preparation of the accounts for the period of this Statement of Corporate intent are consistent with the Accounting policies outlined in RWWA's Annual Report.

## REPORTING REQUIREMENTS

RWWA undertakes financial reporting of its business activities in accordance with the requirements of the *Financial Management Act 2006* ("the Act") and *Treasurer's Instructions*. RWWA also provides information for regulatory and monitoring purposes to the Gaming and Wagering Commission and other government agencies as required. RWWA also provides information to the Minister for Racing and Gaming and to Parliament when requested.

The Act also requires RWWA to produce an annual report comprising a report on the operations of the organisation, performance indicators and financial statements.

In addition to the above legislation, RWWA in the performance of its function, must and will comply with any other legislated reporting requirements.

RWWA is also required to provide information to State Treasury under the *Government Financial Responsibility Act 2000*.

-...End...-



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## Industry group backs TAB sale

Gareth Parker - The West Australian on November 11, 2016, 12:25 am



Chairman Michael Grant.

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**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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Horrific stabbing attack on mum



Top cop tells jail bosses: stop riots



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Higher tower to go ahead



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**

**Drivers on notice after reveller caught five times the limit**



**TAFE fee rise reduced to spur training**



**Death knell for Bell tolled in February**



**Aussies Born in 1941-1981 Eligible for Paid Survey**



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**Unions boss denies Western Power super fund conflict**



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Mum starved unwanted baby to death, court told

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.



70% Of Aussies Considering Dropping Health Cover

A staggering 70% of Aussies have considered ditching or downgrading their health insurance in the last year due to affordability concerns. Learn more.

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Wildcats turmoil: Another loss and star player injured

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.



12/2/2016

Industry group backs TAB sale - The West Australian

### 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

Lead levels in tap water at the \$1.2 billion Perth Children's Hospital remain above Australian standards and the source is yet to be found.



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Three people taken into custody after attack on security guard



Motorcyclist suffers serious injuries after crashing into car in Adelaide



Mother fights for life after stabbing attack in Perth





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

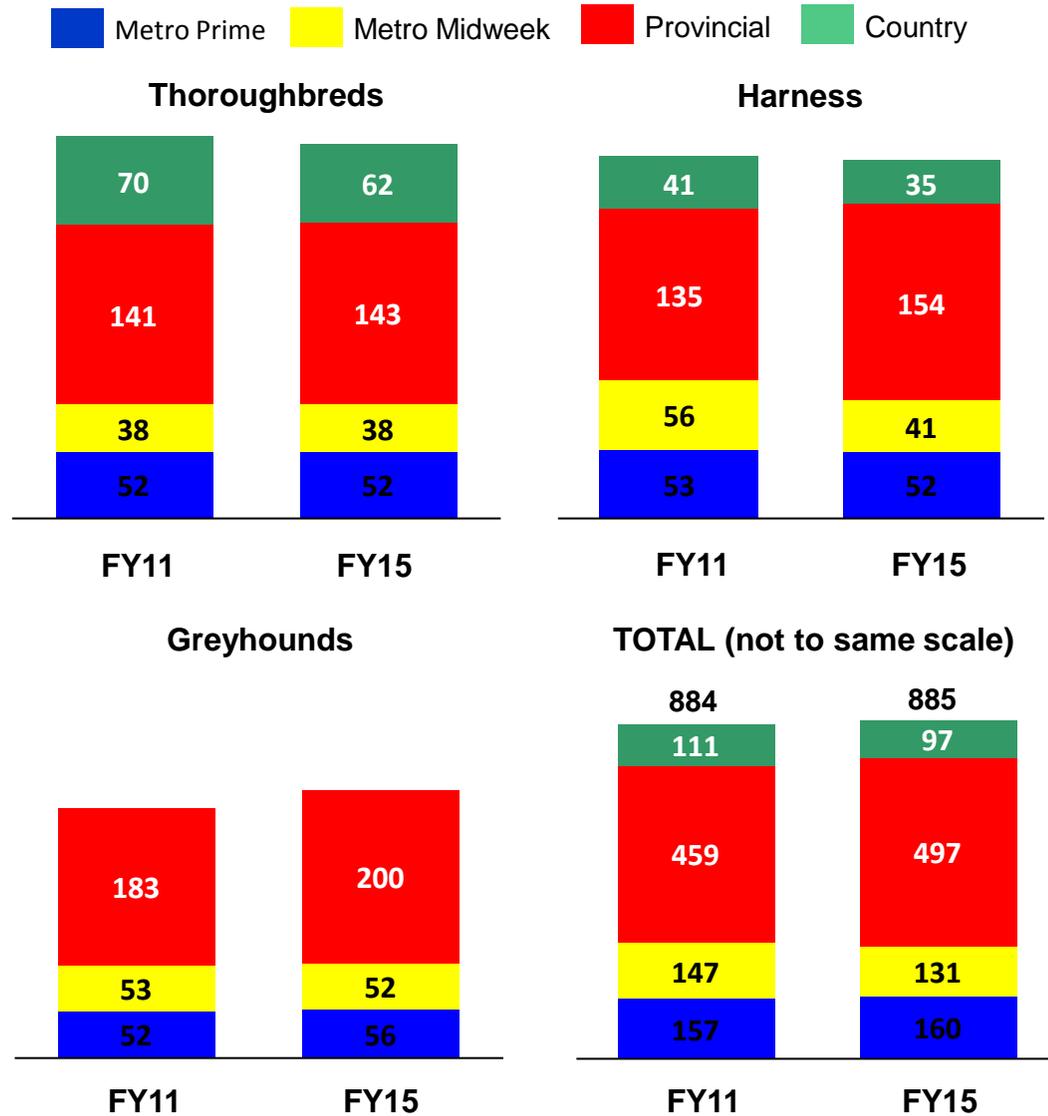
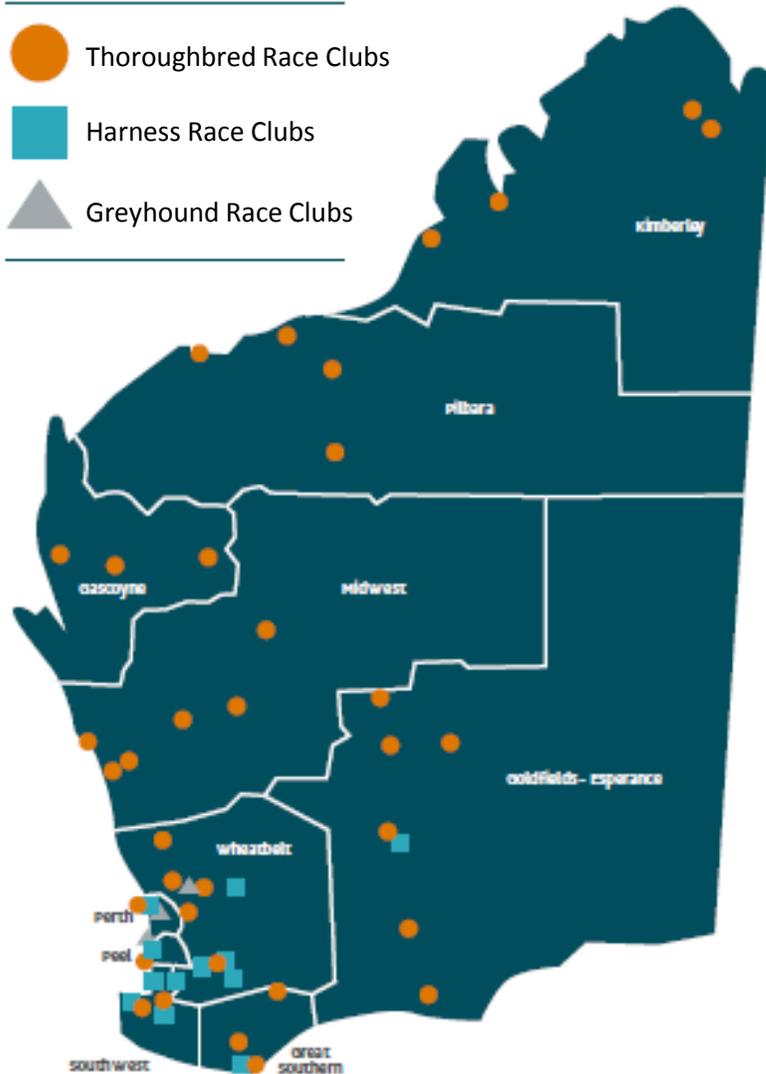
## The Racing Industry's position

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

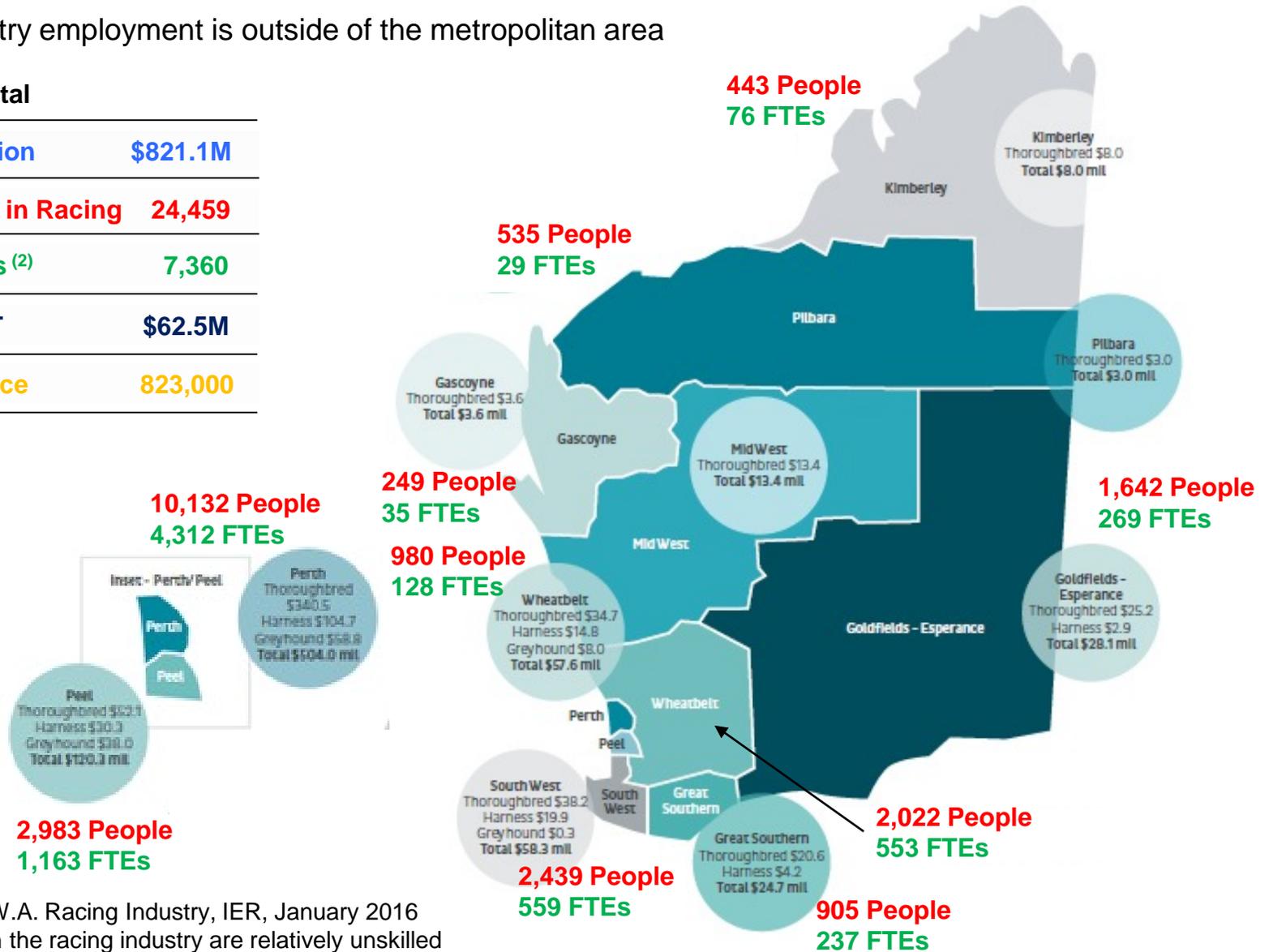


# Racing is important to WA as it provides a total economic contribution of \$821.1M each year <sup>(1)</sup>

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>



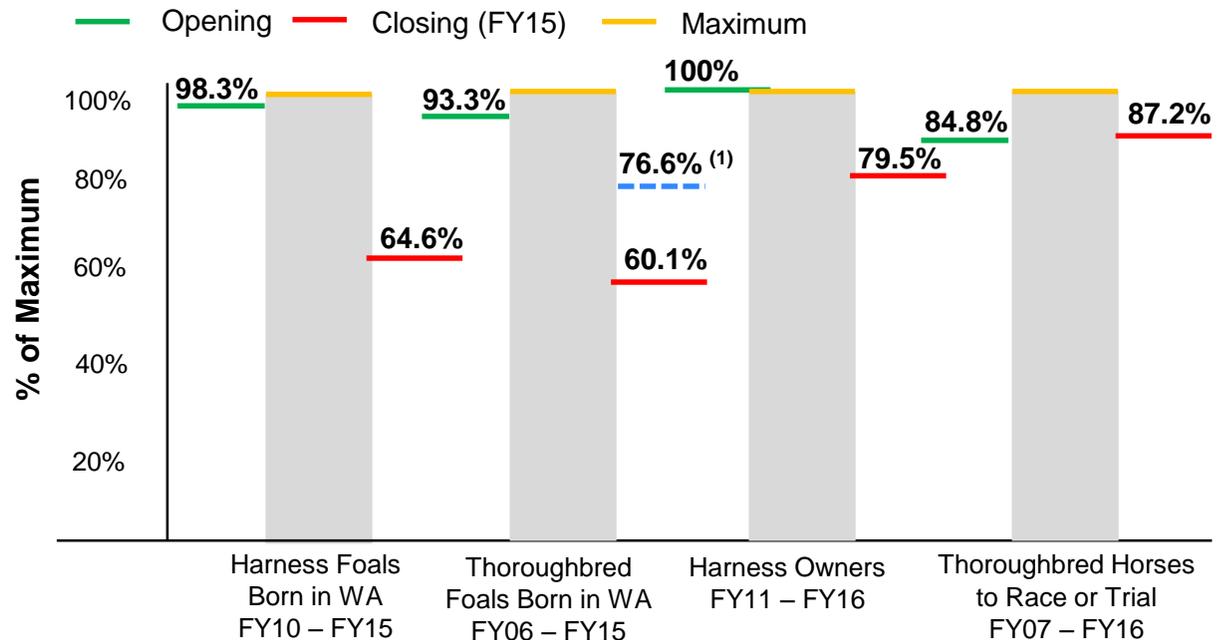
(1) Size and Scope of the W.A. Racing Industry, IER, January 2016  
 (2) Many of the FTEs within the racing industry are relatively unskilled

# 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

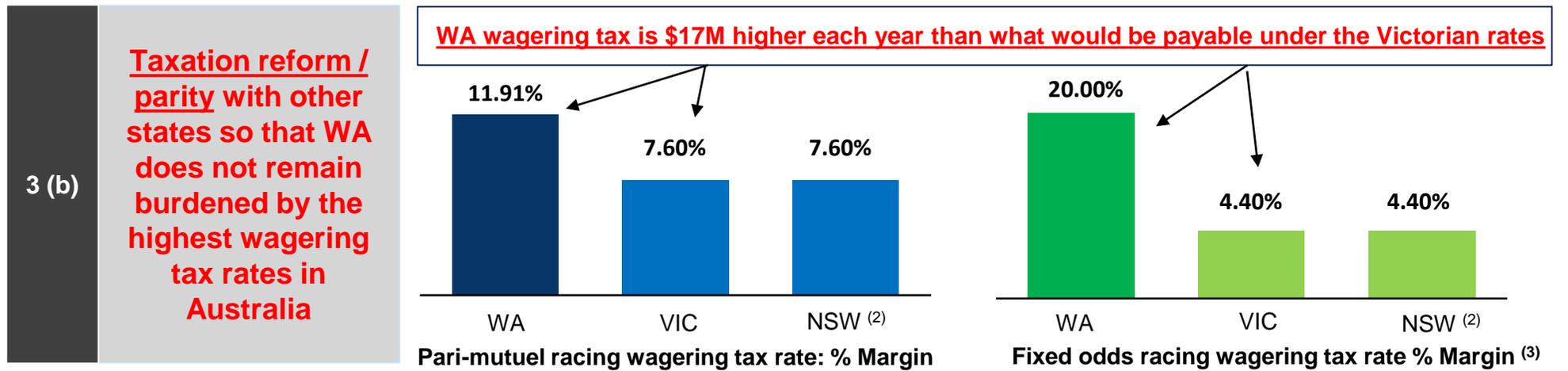
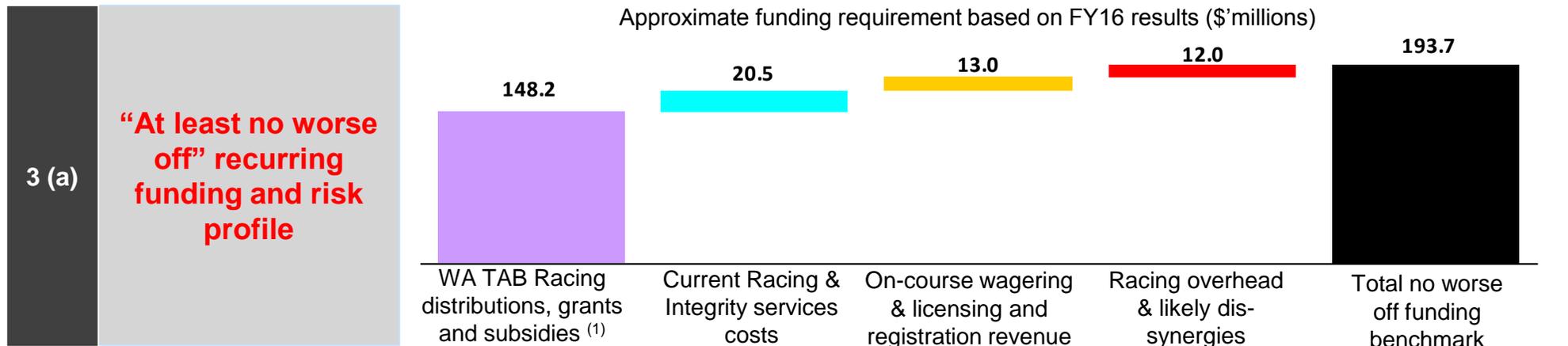
**Guiding consideration of the WA racing industry in relation to its position on post-privatisation funding arrangements**

**“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>
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<p><b><u>Counterfactual:</u></b> In the event the proposed privatisation of the WA TAB does not proceed</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>
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# 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**

# 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.

# Tabcorp

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Website [www.tabcorp.com.au](http://www.tabcorp.com.au)

19 October 2016

To: Australian Securities Exchange  
Market Announcements Office  
20 Bridge Street  
Sydney NSW 2000

## TABCORP / TATTS PRESENTATION

Attached is a copy of the presentation in relation to the recommended combination of Tabcorp Holdings Limited and Tatts Group Limited which was announced today.



Fiona Mead  
**Company Secretary (subject to approval)**

Enc.

For personal use only

# 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

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:

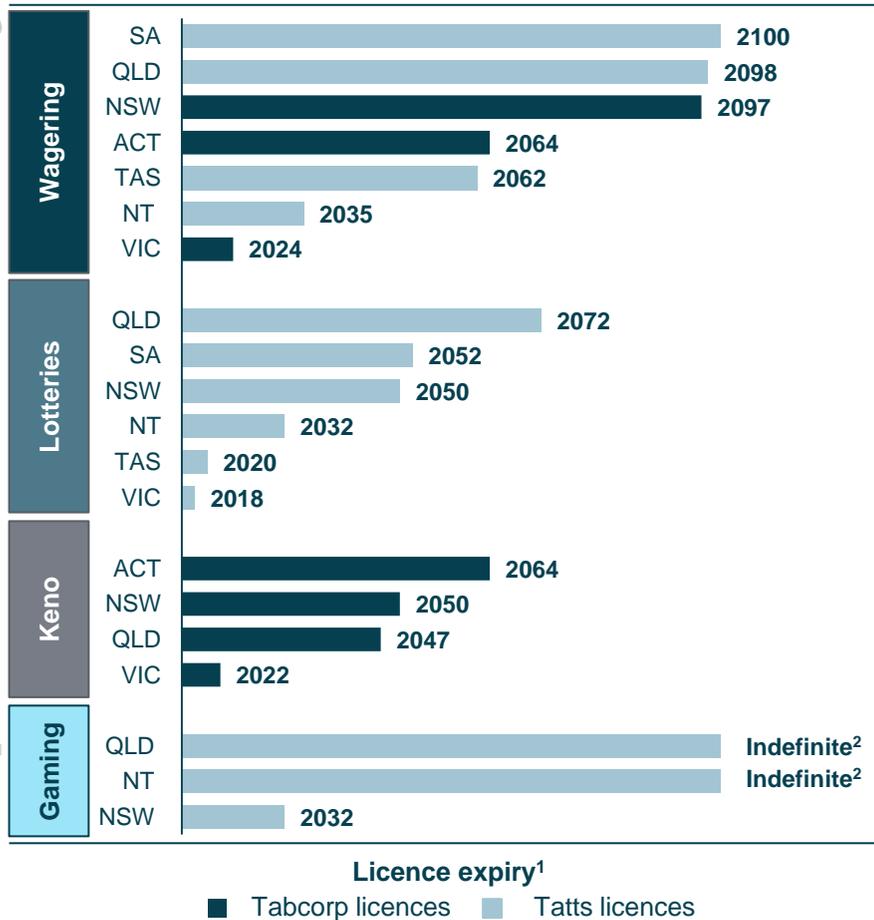
1 Based on the closing share prices of Tabcorp and Tatts as at 17 October 2016, being the last trading day prior to the announcement of the Transaction

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



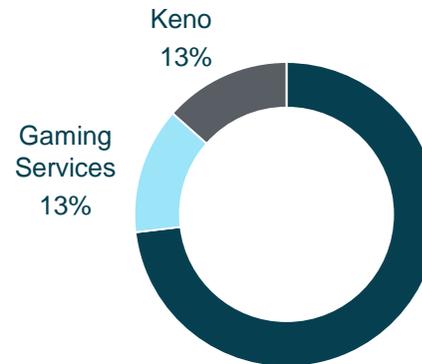
Source: Company filings

Notes:

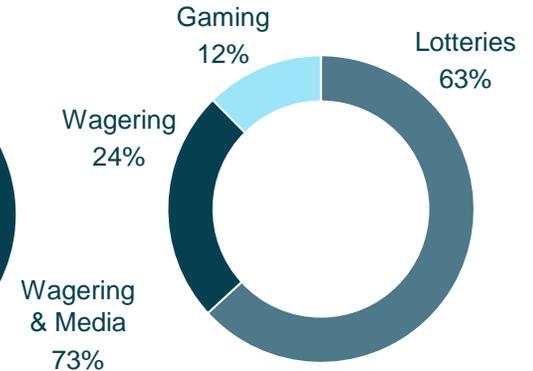
1 Tatts' NT Wagering licence expires in 2035, Tabcorp's NT Wagering licence in 2020; some licences (e.g. Tabcorp's VIC Wagering, Tatts' TAS Wagering) have renewal options post expiry; Tatts' SA Lotteries licence includes SA Keno; both Tatts and Tabcorp are accredited gaming operators in Australia

2 Indefinite rolling renewal capability

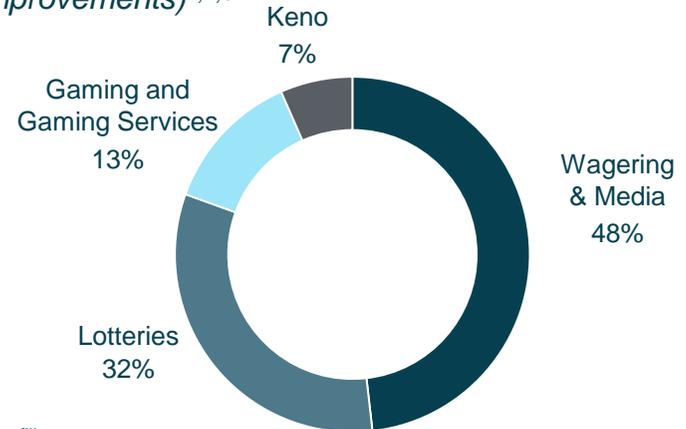
FY 2016 EBITDA—Tabcorp<sup>1,2</sup>



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

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# 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

## Geographic reach

Business	Key brands	Geographic reach								
		VIC	NSW	ACT	QLD	SA	TAS	NT	WA	Intl.
Wagering	   <small>BACKED BY TABCORP</small> 	✓	✓	✓	✓	✓	✓	✓		✓
Lotteries	    	✓	✓	✓	✓	✓	✓	✓		
Keno		✓	✓	✓	✓	✓				
Gaming and Gaming Services	  <small>TABCORP GAMING SOLUTIONS</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:

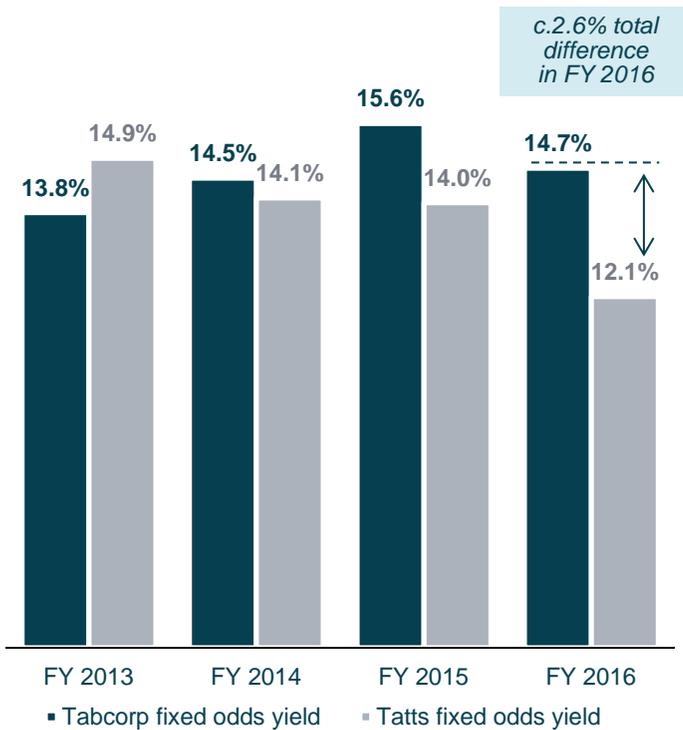
<sup>1</sup> Based on the closing share prices of Tabcorp and Tatts as at 17 October 2016, being the last trading day prior to the announcement of the Transaction and based on Bloomberg consensus FY 2017 EBITDA estimates as at 18 October 2016, implying an EV/EBITDA multiple for Tabcorp of 9.1x, Tatts of 12.4x and an implied weighted average for the Combined Group of 10.7x

# Summary of wagering performance optimisation under the TAB brand

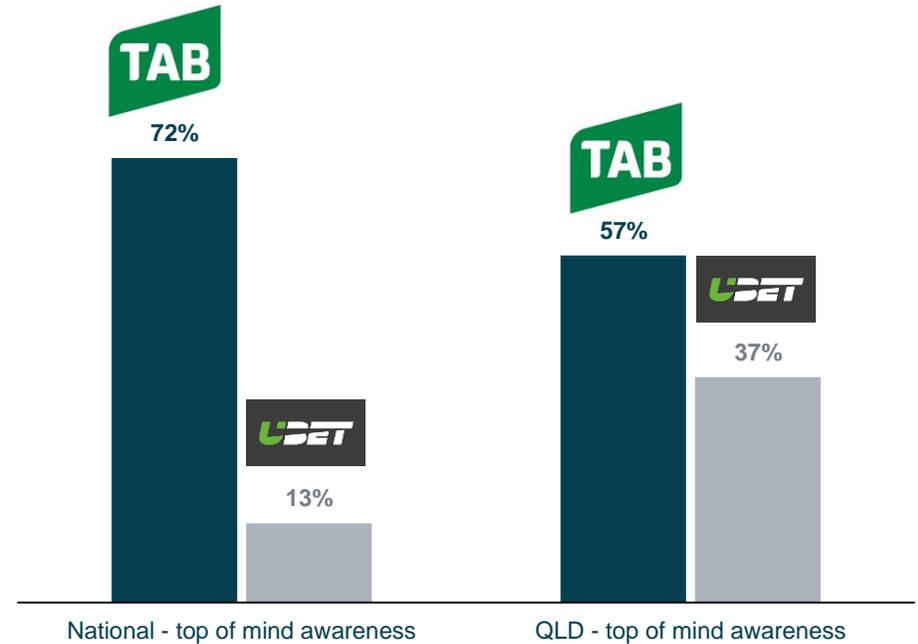
The Combined Group is expected to benefit from Tabcorp's fixed odds yield management capability and market leading TAB brand and product offering

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

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# 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

	 TattsGroup	 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**