Independent Review of Wagering in NSW

- a framework for future growth and
Sustainability of the NSW Racing Industry.

A Response to the March 2008 Issues Paper

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A Response submitted on behalf of the NSW Greyhound Breeders, Owners & Trainers' Association Limited.

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Company Profile

The NSW GBOTA is the largest greyhound racing provider in Australia. Based in NSW, it conducts greyhound racing at the following venues:

- Wentworth Park
- Gosford
- Bulli
- Lismore
- Maitland
- Bathurst
- Temora
- Gunnedah
- Appin

The NSW Greyhound Industry will conduct 750 TAB meetings in 2008/2009. Of this total 340 will be conducted by the NSW GBOTA.

The NSW GBOTA has a critical reliance on wagering earnings. In 2006/2007, 79.72% of total revenue was generated from wagering activities.

Growth in wagering earnings has, however, not kept pace with operating costs. As a consequence, the NSW GBOTA has undertaken significant re-structuring in recent years so as to ensure financial sustainability and enlarge its capacity to improve prizemoney returns to participants.

- Merged its Orange and Bathurst operations and developed TAB racing –as opposed to only non-TAB racing – at Bathurst.

- Formed a single racing entity at Bulli – previously a dual greyhound club venue – increasing race meetings management from 16 meetings to 56 annually.

• Formed a single racing entity at Wentworth Park – previously a dual club venue – increasing race meeting management from 52 meetings a year to 104 meetings a year.

• In conjunction with GRNSW, it has undertaken – or is in the process of undertaking major capital upgrades at its Wentworth Park, Gosford, Lismore, Bulli and Bathurst facilities.

Whilst the above initiatives have contributed to improve economies of scale and increased potential for secondary income, the NSW GBOTA will continue to rely heavily on wagering performance with regard to future growth.

Apart from its racing operations, the NSW GBOTA also undertakes a representative role on behalf of the greyhound breeders, owners and trainers. Its role as a participant representative commenced in 1939 and remains substantially unchanged to this day.

The NSW GBOTA has approximately 1300 members State-wide. Members are assigned to 30 branches which meet monthly and progress formal motions in support of local and wider industry initiatives.

The NSW GBOTA's membership remains a robust and successful point of influence over major industry decisions.

Introduction

The NSW GBOTA notes that GRNSW has made a submission on behalf of the NSW Greyhound Industry, the recommendations and supplementary information within which are supported by the NSW GBOTA.

The Cameron Review of Wagering seeks to review the status and realities of the current wagering framework in NSW and aims to ultimately propose an alternative which will better structure the NSW Racing Industry for future growth and sustainability.

The NSW GBOTA submission, therefore, seeks to re-inforce the critical issues that fundamentally must be considered and accommodated in the future framework.

Critical Issues

1. Leakage of NSW Wagering Investment

a. Overview

It is clear that leakage of wagering turnover from NSW to other jurisdictions is the single most significant concern before the NSW Racing Industry. The Cameron Review speculates that the current level of NSW based investments with Northern

Territory based Corporate Bookmakers could be as high as $524m annually, amounting to a $21m a year reduction in revenue to the NSW Racing Industry if such turnover had been retained with the NSW TAB.

In addition, it seems apparent that NSW based wagering customers are being incentivised to wager with Interstate TABs. Betfair sits as further emerging wagering option.

The nationalizing, and ultimately, the globalizing of the wagering market will not now reverse. The challenge before the NSW Racing Industry is to develop a wagering framework that (a) reverses the current leakage trends and (b)properly ensures appropriate commercial returns flow from all wagering operators operating on NSW racing.

b. Recommended Actions

(i) Race Fields Legislation

The passing of Race Fields Legislation by the NSW Government is a totally appropriate philosophical and commercial reaction to the reality of the modern wagering market. Put simply, it means that any wagering operator – subject to minimum turnover bands being met – will make an appropriate return to the provider of the racing product. This is unquestionably fair and sits comfortably with accepted commercial logic.

The NSW GBOTA accepts that Race Field Legislation may be subject to legal challenge. There is no philosophical argument in favour of those that choose to challenge the legislation and, assuming the racing codes are fair with their fee structures, no sustainable commercial argument… more likely a simple desire to continue current freeloading.

Some commentators have been quick to criticize the NSW approach on the basis that, as a ‘net importer', the NSW industry may in fact be negatively effected by the aforementioned view. However, this would only represent a continuation of the current protectionist mind set. The product from each State should live or die on its appeal. This reality will lead to increased focus on customer needs and free market where the most appealing product will generate the greatest customer support.

ii. Merging of NSW and Victorian Pools

The NSW GBOTA supports the merging of the NSW and Victorian totalisator pools. Such a move would increase the attractiveness of the pool to high valued customers and discourage the splitting of high end investment between various TAB pools.

Serious consideration will need to be granted to the ongoing appropriateness of minor TAB operators pooling with the merged NSW/Victorian pool, given the potential for the minor operators to incentivise high valued NSW investment into the ‘super pool' via a minor pool on a rebate basis.

iii. Exploitation of TAB Odds by Corporate Bookmakers.

There is no doubt that the massive growth in market share enjoyed by the Corporate Bookmakers is directly related to the fact that they have been able to offer TAB odds.

The Corporate Bookmakers incur none of the costs associated with the production of the odds and currently return nothing to the Racing Industry.

The Corporate Bookmakers have been prevented from advertising in NSW, but internet publicity has enabled them to promote their ‘product' very effectively, particularly to the serious and high valued customer base.

Because of their lower overheads, Corporate Bookmakers will continue to operate with a distinct advantage over the NSW TAB, utilising a product (TAB odds) generated by the body with which they compete. Commercially perverse.

The issue requires further consideration and scope should exist for a further financial arrangements to apply between the Corporate Bookmakers and the NSW TAB (in turn benefitting the NSW Racing Industry) for this right.

(iv) Breaking down the Shackles.

The barriers which currently exist regarding a free wagering market in NSW needs to be assessed.

NSW TAB needs to be placed on a level footing with the Corporate Bookmakers. It should be able to offer fixed odds betting on all events up to the jump, it should be able to offer betting services on 24 hours basis and it should be able to provide credit betting to approved customers.

NSW bookmakers also need improved operating freedom. Internet betting to the jump should be provided and NSW bookmakers should be permitted to take phone and internet bets on a 24 hour basis. The NSW GBOTA does not, however, see the need to support NSW bookmakers being able to accept bets from non-racecourse venues and the provision of totalisator odds services should not be permitted unless suitable commercial arrangements with NSW TAB and, in turn, the Racing Industry are made.

2. Intercode Arrangements

The NSW Racing Industry cannot seriously suggest wagering reform without addressing the completely non-competitive and therefore, protectionist, Inter-code arrangements currently in place.

The Inter-code arrangements are based on fixed percentages of 70% (thoroughbred racing), 17% (harness racing) and 13% (greyhound racing) with regard to TAB distributions made to the NSW Racing Industry. The arrangements have been in place since 1998 and, since this time, market share performance has changed dramatically.

GRNSW has produced data which confirms that the NSW Greyhound Industry has cross subsidised the thoroughbred and harness codes by $92m during the past ten years if a performance based model vs. the fixed percentage model had applied.

The unemotive and rational assessment of the fixed distribution model must be that it is outdated and fails to encourage and reward innovation, creativity and discourages growth strategies.

Participants consistently compare NSW with Victoria. Victoria, across each of the codes, is considered the market leader.

Whilst favourable funding arrangements have contributed to the reality, so has the code to code competition that has been driven by Victoria having a Distribution Scheme which has a significant component dedicated to rewarding performance.

Recommendations

i. The Inter-code arrangements should be re-assessed immediately. The fixed odds distribution model should be replaced by a model which has regard for code performance and promotes excellence.

ii. The inter-code arrangements should be subject to an ongoing formal review process every five years.

3. Competitive Disadvantage with Victoria

The Cameron Review confirms that the Victorian Racing Industry has a superior arrangement with TABCorp, courtesy of a Government supported benefit whereby it receives a share of Gaming profits generated by TABCorp. In effect, this has meant that (in 2006/2007) the Victorian Racing Industry received a distribution equal to 7.4% of the Victorian TAB turnover, while NSW received a distribution equal to 4.8% of the NSW TAB turnover.

The superior arrangement in place in Victoria has, and will continue to make it difficult for NSW to compete with Victoria, leading to further erosion of participation viability and Industry downsizing.

Recommendation

NSW Government needs to recognise the competitive disadvantage that the NSW Racing Industry trades under with regard to Victoria. Wagering taxation reform remains an essential future consideration.

4. Racetrack Provision

(a) Overview

The NSW Racing Industry continues to support racetracks on and above commercially viable numbers. This will continue to be a significant issue going forward.

By comparison with their Interstate counter-parts, NSW tracks are under-utilised for racing and some regions are possibly over-serviced. The NSW Racing Industry, particularly the Greyhound Industry, has a high reliance on volunteers and the Occupational Health and Safety demands will continue to grow.

It is reasonable to conclude that aging facilities, the sustainability of ongoing voluntary contributions and the financial cost of increasing Occupational Health and Safety will ensure that the level of racetrack supply and racetrack usage will remain critical to future considerations.

b. Recommendations

i. Inter-code distribution arrangements to be reviewed so as to enable commercial adjustments that in turn encourage tracks to be used more often and for Non-TAB meetings to be converted to TAB meetings.

ii. That, where possible, tracks in close proximity be incentivised to merge.

iii. That, where a community need for a racetrack to remain is evident, then a form of Government subsidisation be considered.

5. Wagering Delivery

a. Overview

The delivery of wagering services both off-course and on-course requires consideration.

The shift form TAB agencies to PUBTABs has resulted in inconsistent service levels, largely uncontrolled by NSW TAB. Variations in levels of customer service, form provision and volume of broadcasts are evident and are serving as a turnoff for current wagering customers and a deterrent for potential customers.

In addition, there remains insufficient wagering incentive at on-course level. Clubs remain reliant on on-course activity and the development of an on-course wagering incentive would seem justified.

b. Recommendations

i. That NSW TAB re-assess its off-course face to face delivery with a view to improving service consistency and satisfying customer demands.

ii. That an on-course wagering incentive be provided via increased dividends. Possibly connected to wagering taxation reform.

6. Administration

a. Overview

The NSW Racing Industry needs to remain vigilant in the consideration of administration inefficiencies. The GRNSW submission indicates that prizemoney growth has been outstripped by administration cost increases.

b. Recommendations

i. That the benefits of club mergers and 'super clubs' be further considered.

ii. That centralization of back office functions be encouraged.

iii. That co-operative funding arrangements be considered for macro marketing and other common benefit initiatives.

Conclusion

The NSW GBOTA believes that the NSW Racing Industry is at a cross road. It cannot continue with its current framework given the national wagering market in which it now inescapably operates.

The future framework needs to be underpinned by a modern commercial approach. Arrangements need to be put in place where users NSW racing information make an appropriate contribution to the cost incurred by the providers.

The trading arrangements between States should be on a purely commercial basis and the individual codes in NSW must be incentivised to innovate, promote and grow by the introduction of a performance based Inter-code distribution system.

The benefits of code by code and State by State competition coupled with a less shackled wagering industry are viewed as essential for future sustainability.