STAKESMONEY AVAILABLE TO THE TASMANIAN RACING INDUSTRY

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For the TRC, TTC and the HGRC

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REPORT ON STAKESMONEY AVAILABLE TO THE TASMANIAN RACING INDUSTRY

EXECUTIVE SUMMARY

This report identifies the outcome for stakesmoney in each code if all the Point of Consumption Tax (POCT) revenue received by Tasracing is allocated to stakesmoney and not applied to cover administration costs. The report concludes that with this revenue together with increases in stakesmoney to meet the Government's 16% target (promised at the 2018 election) *the industry would not need to ask for additional funding from the Government in 2020/21 to 2021/2*2

Stakesmoney is the key driver of growth in racing industry and if it is increased on the basis set out in this report there will be significant flow on effects to add to the $103 million it currently injects into the economy and the 5,500 direct and indirect jobs it supports in Tasmania[1]. In this context, the current business model has not worked to maximise the industry's economic impact since the establishment of Tasracing, for example:

- Maintenance of the real value stakesmoney at 2008/09 levels was guaranteed under the Funding Deed of 2009. Had this been observed the industry would be some $6 million better off.
- In 2010/11 prizemoney and industry funding accounted for 63% of total expenditure by 2018/19 this had reduced to 53% meaning an additional $9 million was potentially available for stakesmoney. It now costs $1.40 per $1 dollar spent on racing.
- The claim is made that stakesmoney has increased in 2018/19 by 4.4% and a further 1.35% in 2019/20, for a total increase of 5.8%. These figures are for the item Code Allocations. Stakesmoney per se has not increased since January 2018.

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If the only additional increase to the 3% announced for 2020/21 is from the balance of $1.1 million of POCT revenue from 2019/20 (out of a total of $1.8 million), the thoroughbred code minimum stakes of $17,000 would become $18790; for the harness code races staked at $10,,000, $8100 and $5500 would become $10649, $8749 and $6149; for the greyhound code races staked at $2100 would increase to $2315 (10.3%) and those at $2810 would increase to $3025. Industry expectations are for the full amount of its share of revenue from the POCT to be added to stakesmoney and not allocated to administration costs, to provide an estimated at $1.8 million in 2019/20 and $4 million in each of the next two years[2].

If the election policy of a 16% increase in stakesmoney in the life of the current Parliament is achieved (a commitment made before the POCT was considered) a further $2.407 million would be available in 2020/21 adding a further $2397 for thoroughbreds, $869 for Harness and $289 for Greyhounds. This could be achieved through cost savings and a faster return of Racefields Revenue from the Covid19 shutdown.

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[1] Point of Consumption Tax, Press Release, Peter Gutwein, Premier of Tasmania and Jane Howlett, Minister for Racing, 9 February, 2020.

[2] Op cit.

On a per race basis if both of the foregoing increases were to apply this would mean in 2020/21 (acknowledging each code would allocate the increases to best suit its racing programmes):

- A $17,000 thoroughbred race would run for $24985.
- Harness stakes of $10,000, $8100 and $5500 would run for $12960, $11060 and $8460.
- Greyhounds would run for between $3084 and $3794.

The importance of the industry succeeding in its objective of seeking the above total increase in stakesmoney is to arrest, and perhaps turn around, some alarming statistics in the scale of the industry, specifically (noting Racefields Fees are critically dependent upon both the size and quality of the Tasmanian Racing product and the time at which it is broadcast) for example:
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- Between 2011/12 and 2018/19 the number of horses in the thoroughbred code fell by 22% and Harness by 39%. From 2014 to 2019 the number of locally bred greyhound pups fell from 636 to 189 (70%)
- the key statistic of field sizes is now approaching <u>a critical point</u>; thoroughbreds are down to 9 horses on average and harness 9.8. Greyhounds remain at 7.8. Fields of 10-12 horses and 8 greyhounds are required to maximise Racefields Fees.
- In terms of supply from the local breeding industry, noting about half of the animals bred do not race, the numbers of horses being produced, against wastage rates of some 55% for thoroughbreds and 49% harness, are below replacement levels and greyhound litter numbers are now alarmingly low.

The Corporate Plan for Tasracing for 2018-2022, issued in August 2016, does not identify any policies which specifically address these problems. Under the legislation establishing Tasracing is obligated to consult with the racing clubs and code associations to develop this Plan annually. This does not appear to be the case. In this respect the report found:

- Projecting Tasracing's finances for 2020/21 and 2021/22 suggests the profitability of the company is marginal. This should concern the racing industry in terms of its capacity to allocate all new revenue to stakesmoney noting it has already required a stakesmoney reset to improve its financial performance.

- In the period 2010/11 -2018/19 the trend in the cost of administering racing has increased to where it now equates to $1.40 per dollar of stakesmoney and other costs to run racing.

- It would seem appropriate that some publicly available benchmark or target level of costs for administering racing be agreed and reported against publicly by Tasracing together with the amount actually paid out as stakesmoney in lieu of subsuming this in the item Code Allocations.

- Based on the findings in this report it is recommended the industry pursue with the Government those recommendations in the report of the Racing Industry Working Group (2015) dealing with the administration of racing in Tasmania that have never been actioned.

REPORT ON STAKESMONEY AVAILABLE TO THE TASMANIAN RACING INDUSTRY

The level of stakesmoney is the key driver of activity in the racing industry. This is supported by academic and industry research which has consistently reached this conclusion. For example, the respected USA academics Neibergs and Thalheimer [3] identify that it generates positive economic incentives for all its sectors and, in particular, it has the greatest impact on the supply of foals[4], and Craft[5] who concluded that an increase in the aggregate purse (stakesmoney) will expand horse production.

Support for increasing stakesmoney by 16% in the life of this Parliament is an Election Policy of the Liberal Party released prior to the 2018 State election noting that the possibility of a new tax on wagering, the Point of Consumption Tax, was not supported at that time.

1. Terms of Reference

This report seeks to address the following terms of reference:

1. To identify the trends in the distribution of stakesmoney to the Tasmanian Racing Industry since the inception of the Funding Deed (1 June 2009) which established the promise to the industry that this would be maintained in real terms at the level paid to the industry in each year using the level paid in 2008-09 as the base year, clause 4.2 (b),

2. To identify the trends in the distribution of stakesmoney to the Tasmanian Racing Industry (TRI) and the cost of administering racing through Tasracing Pty Ltd since 2010/11, the first full year of operation clear of a financial relationship with TOTE Tasmania and subsidies for establishment costs.

3. To project forward financial estimates to identify the capacity of Tasracing to implement the Government's 2018 election promise of a 4% annual increase in stakesmoney over the life of the government for a minimum increase of 16% in this period, and,

4. In the context of the findings in 1 to 3 identify the recommendations which address the governance of the TRI that remain to be actioned from the findings of the Tasmanian Racing Industry Working Group which was established in 2015 to report to the then Minister for Racing on ways to help the industry grow and achieve sustainability.

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[3] Neibergs J S and Thalheimer R, '1997, 'Price Expectations and Supply Response in the Thoroughbred Yearling market', Journal of Agricultural and Applied Economics, vol. 29, no 2, pp 419-35
[4] Neibergs J S and Thalheimer R, 1999, 'An Economic Analysis of the Effectiveness of Thoroughbred Breeder/Owner Incentive Policies', Journal of Agricultural and Applied Economics, vol. 31, no. 3, pp 581-2
[5] Craft R K 1996, ''An Economic Analysis of Thoroughbred Racehorse Markets'', PHD Thesis, University of California.

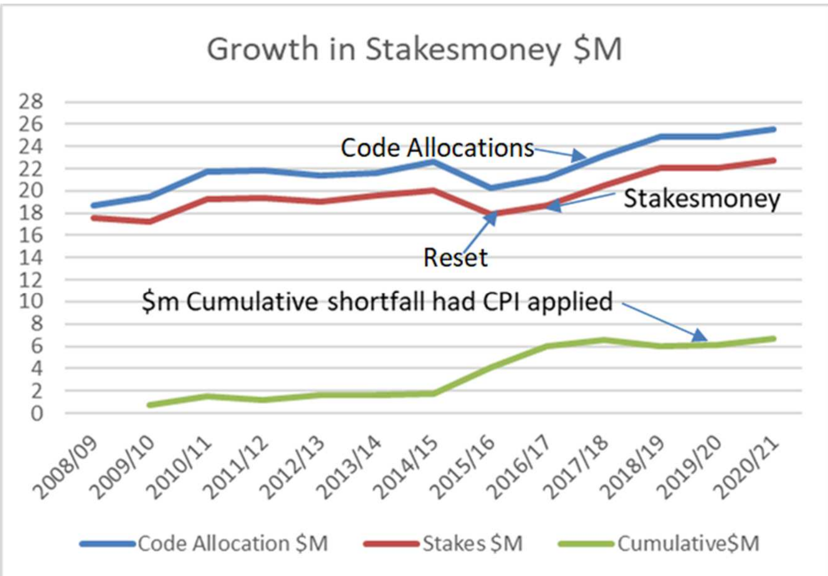
2. Maintenance of the real value of stakesmoney

Clause 4.2 (b) of the Funding Deed entered into in 2009 by the Tasmanian Racing Board (representing the Tasmanian Racing Industry) and the then government, provided as follows: -

"If the TRB does not maintain the level of stakes money paid to the industry each year in real terms, using the stakes money paid in 2008/09 as the base year" the government under this clause could withhold the whole or part of any payment due to the TRB under the Deed.

***The foregoing was the expectation of the wider TRI that was the quid pro quo for supporting the sale of TOTE Tasmania**.*

While it is acknowledged Clause 4.2(b) was unilaterally removed by the then government at the time of the so called stakes reset, Table 1 (page 6), and its graphical presentation below, is included to indicate that had the clause been adhered to, such that stakesmoney increased in each year to maintain its real value as at 2008/09, the level to be paid in 2017/18 (the last year stakesmoney was increased) would have been some $6.58 million greater in real terms. With an increase in 2020/21 of 3%, if all of this were to be allocated to stakesmoney, the real terms gap would still be $6.710 million. In this respect the 3% increase approved for 2020/21, provided it is all allocated to stakesmoney, is below the CPI for the period since the last increase of 5.4%.



3. Trends in the Costs of Administering Racing

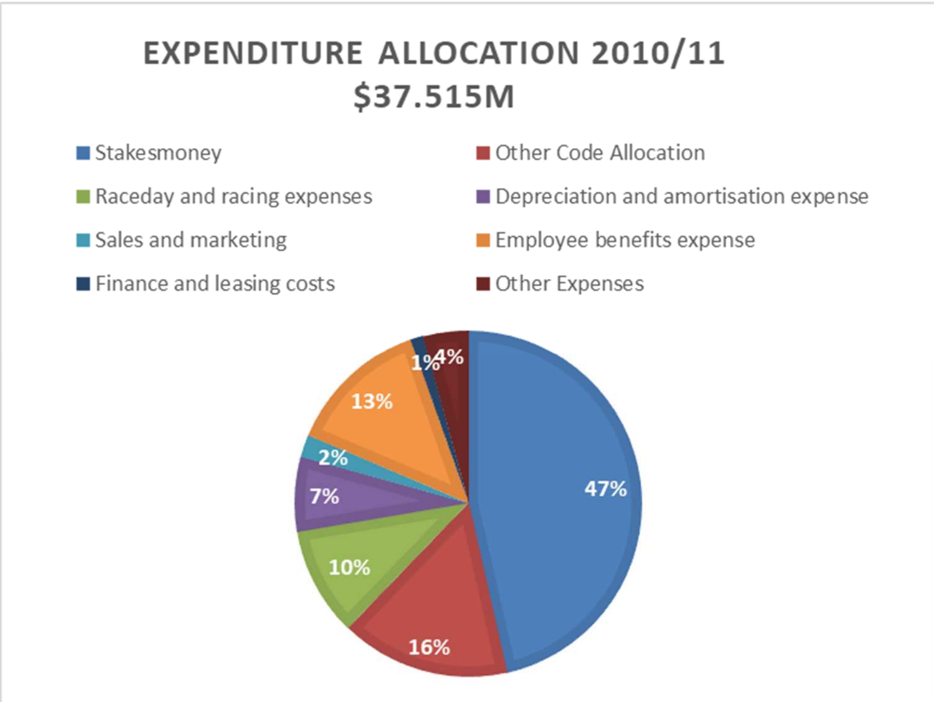
Table 1, which is based on a mixture of publicly available data complemented by estimates for figures which are not reported, principally what is paid in stakesmoney, illustrates the actual growth in revenue and expenditure since 2010/11. This was the first year after the removal of funding from TOTE Tasmania and support for establishment costs paid in 2009/10 and recognised as income in that year. In terms of comparison of like with like this table identifies the trend in the operating profitability of Tasracing noting in 2010/11 it returned an operating loss of $3.608 million while in 2018/19 the reported loss was $2.370. This was distorted by the item "Other Comprehensive Income", the result of an increase in the actuarial valuation of the obligations of the company for employee superannuation. When this is excluded the operating result was a loss of $0.609 million.

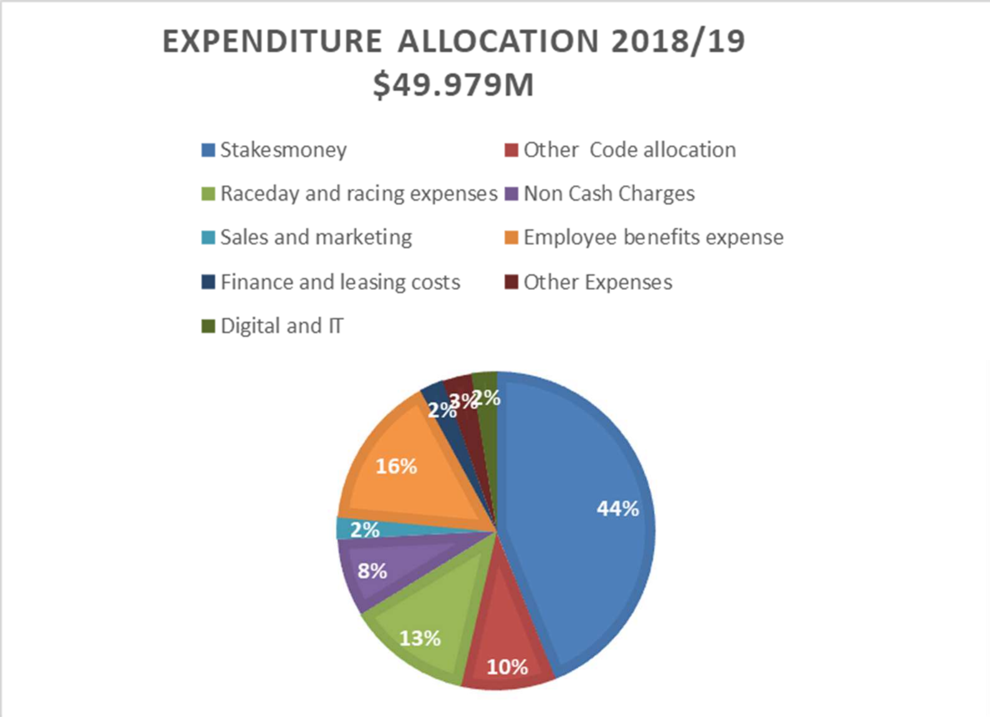
The major contribution to the improved financial performance is the result of Racing Revenue increasing to $17.3 million primarily as a result of the introduction of Racefields Fees during 2010/11. This has been the most significant improvement in the capacity of Tasracing to distribute funding to the TRI and or cover other items of expenditure.

Table 1			
	2010/11	**2018/19**	
	$M	**$M**	**% Growth**
Racing Revenue	3.300	17.276	424.00
Funding Deed Revenue	27.510	31.376	14.05
Interest Income	0.938	0.718	-3.40
Other income	2.159		
Impairment reversal			
TOTAL	**33.907**	49.370	**45.60**
Expenses			
Stakesmoney from Code Allocation	17.420	21.970	26.12
Other costs from Code Allocation	4.930	4.820	-2.30
Raceday and racing expenses	3.799	6.312	66.15
Depreciation and amortisation expense	2.603	3.970	52.50
Sales and marketing	0.782	1.137	45.40
Employee benefits expense	4.961	7.835	57.93
Finance and leasing costs	0.461	1.229	166.60
Other Expenses	1.562	1.484	-5.00
Digit & IT		1.222	
	37.515	**49.979**	**33.20**
Operating Loss	**-3.610**	**-0.609**	

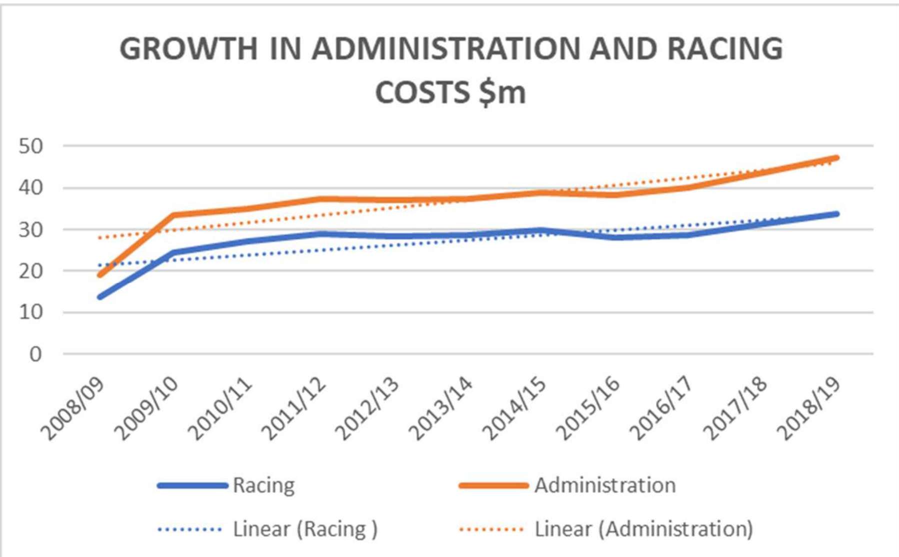
The two charts below show Table 1 in a graphical form to illustrate the way in which decisions taken by Tasracing to allocate expenditure has varied in the eight year. The result is that the relative proportion of expenditure allocated to the Code Allocations (stakesmoney and other costs from the code allocations) has declined significantly, by 9%. In broad terms the difference of some 9% has been taken up by a 3% increase in Employee Benefits (reflecting a near 58% increase), Raceday Expenditure 3%, Digital and IT expenditure 2% and Finance and Leasing costs. While sales and marketing absorbed 2% in both years the actual amount spent increased by 45.4%, Digital and IT expenditure was not identified as a separate expenditure item in 2010/11.

In summary, total revenue has increased by 45.6% while expenditure has increased by 33.2%. However, stakesmoney has increased by only 26% and together with the balance of Code Allocations now represents some 54% of total costs compared with 63% in 2010/11. Expressed in terms of the dollar difference had this same percentage applied in 2018/19 a further $9 million would have been available to be paid to TRI participants.





It can be seen from the following chart that the trend in the cost of administering racing (excluding non-cash charges such as depreciation) as opposed to the actual costs of racing (stakesmoney, the balance of Code Allocation and raceday and racing expenses) has diverged in recent years. In 2010/11 administration costs accounted for the equivalent of 22.2% of racing costs but by 2018/19 this had increased to 29.8%. In 2018/19 it costs $1.40 per $1 dollar spent on racing.



Currently there is no means for the racing participants to be assured that administration costs are kept to a minimum. A maximum percentage for administration costs to racing costs should be agreed with the stakeholder ministers, and advised publicly, so there is some discipline on the Board and Management to control the growth in what are effectively, the overhead costs of running the racing industry. It is understood this is the case in Victoria for at least one code of racing.

Based on a split between the three codes, using the Code Allocation distribution for 2018/19 of 55% to thoroughbreds, 26% to harness and 19% to greyhounds, as reported in the Annual Report of Tasracing for 2018/19, the following would in theory have been available to the industry as additional stakesmoney:

Thoroughbreds	$5.0 million
Harness	$2.3 million
Greyhounds	$1.7 million
Total	$9.0 million

To highlight the importance of the decisions taken on the distribution of Tasracing's additional revenue had this funding been available to the codes on a per race basis this would have amounted to some additional $8951 for thoroughbreds, $3245 for harness and $1079 for greyhounds.

In terms of benchmarks the codes generally compare what they race for in Tasmania against similar races in Victoria or South Australia. Had these additional amounts been added to stakesmoney over the eight years analysed above the level of stakesmoney in fiscal 2018/19 the resulting stakesmoney levels would have provided a reasonable base on which to build going forward if the promised 16% stakes increase is paid (excluding POCT).

To put this into perspective for the thoroughbred code races currently run for $17,000 in stakesmoney, with $10625 paid to the winner (63%) could be increase to $25951 (53%), with $16849 for the winner.

For the Harness code adding $3245 per race to races currently run for stakesmoney of $10,000, $8100 and $5500 in Tasmania would provide levels of $13245, $11345 and $8745.

For the Greyhound code adding $1079 would take the current stakes per race to $3179 from $2100 for the Maiden class races and to $3889 for Invitation FTA G1-2m and G2—3, the highest rated local races of $2810.

As it appears the recently announced 3% increase in stakesmoney is to be funded from the first half year of revenue from the POCT, now estimated at $1.8 million for 2019/20, this would amount to some $660,000 leaving a balance of $1.1miliion which the industry would expect to be passed onto Tasracing (as noted in Table 3 below) and accounted for in 2018/19 (as accrued revenue) and then to be allocated fully to stakesmoney. This would provide on a race by race basis an additional $1094 for the thoroughbred code, $397 for the Harness code and $132 for the Greyhound code.

Alternatively, provided the supply of horses was sufficient to hold up average starters per race to between 10 and 12 for horse races and 8 for the greyhounds, the number of races could be increased by allocating some, or all, of the additional stakesmoney as another alternative to increasing the level of stakes on existing races. This would have the added advantage of offering more races on which wagering could take place thereby increasing Racefields Fees and to a lesser extent POCT.

4. Financial Projections – The capacity to Increase Stakesmoney

Some recent public claims have been made to the effect that stakesmoney has increased by 6% compounded. This could not be verified by analysis of the actual and forecast figures for this item of expenditure for the two years ending 2018/19. Further, the claim by the Minister for Racing at a press conference on 12 June, 2020 that there has been a 5.8% increase in stakesmoney in the life of this Parliament is not the case.

Rather, these claims apply to the total amounts included as Code Allocations not stakesmoney. It is the case that the expenditure item Code Allocations has increased by these amounts as a result of increasing the allocation of funding to a number of items other than stakesmoney. These items include travel subsidies for jockeys, workers compensation costs (noting insurance is accounted for as Other Costs), breeders subsidies and animal welfare (the two largest contributors in 2018/19), and driving fees including superannuation. It would appear that the correct figure for the Code Allocations stakes increases is 6% in 2018/19 and 2.0% in 2019/20 of which the stakesmoney increase budgeted was 3.3% and 1.5% respectively. However, participants report that there has been no increase in the latter since January 2018. That is, there has been no increase in stakesmoney for over the two years ending June 2020 during which time the CPI has increased by 5.4%. Accordingly, the increase of 3% announced by the Minister for Racing on 12 June, 2020 will not, of itself, compensate for maintaining the real level of stakesmoney as at the time of the last increase in January 2018.

Consistent with this observation, and noting the decline in the real value of stakesmoney as set out in Section 2, it appears that a tactic that has been used to limit the impact of increases in stakesmoney on total costs is to delay the increases to later in the financial year rather than introduce them from the start of the respective racing seasons, as is expected by racing participants. That is, the outcome appears more about improving the reported financial operating result.

By way of addressing the future financial capacity of Tasracing to meet the election promise of a 4% annual increase in stakesmoney over the life of the current government, for an overall increase of 16% since fiscal 2018, Table 2 indicates the outcome if the 3% increase were to be applied in 2020/21 to stakesmoney per se with a further 4% in 2021/22, that is, with no catch up and with no increase in stakesmoney since January 2018.

Table 2				
	$m	$m	$m	$m
	2018/19	**2019/20**	**2020/21**	**2021/22**
Revenue and Other Income				
Point of Consumption Tax			4.00	4.00
Racefields Fees	15.141	10.290	12.86	15.41
Racing Revenue Other	2.135	2.585	2.585	2.585
Funding Deed revenue	31.376	31.440	32.230	33.040
Interest Income	0.718	0.195	0.195	0.195
Other income				
Impairment reversal				
TOTAL	**49.370**	**44.510**	**51.870**	**55.230**
Expenses				
Stakesmoney and Industry Funding	26.789	26.789	27.860	28.970
Raceday and racing expenses	6.312	6.312	6.470	6.630
Depreciation and amortisation expense	3.970	4.460	5.950	5.950
Impairment expense				
Expenses for obsolete property, plant and equipment	1.173			
Sales and marketing	1.137	1.137	1.137	1.137
Employee benefits expense	7.835	8.029	8.190	8.350
Finance and leasing costs	1.229	0.965	0.965	0.965
Commission Expense				
Other Expenses	2.706	2.706	2.706	2.706
TOTAL	**51.152**	**50.398**	**53.278**	**54.708**
Profit before tax	**-1.782**	**-5.890**	**-1.410**	**0.522**
Income tax expense				
Profit for the year as reported (after tax)	-1.782	-5.890		

The key assumptions which are used in the above projections (which includes POCT revenue of $4 million a year) are listed in the Appendix 1.

However, in an attempt to put into perspective, the possible financial results for Tasracing in the next two years Table 3 below incorporates some possible funding scenarios. Based on these projections it is likely Tasracing will not have the financial capacity to fund stakesmoney increases totalling 16% in the remaining two years of this Parliament without a reduction in administration costs, or if this were not to occur, a major increase in funding from the Government. To offset these actions, it is important that it receives $4 million in each of the next two years from the POCT and that Racefields Revenue recovers more quickly than assumed in Table 2.

Further, as a result of the significant drain on its cash reserves, because of the funding of the Elwick track upgrade from internally generated funds, and with financial results as forecast in

Table 2, there is the potential that Tasracing will face a shortfall of internally generated funds to meet its day to day requirements. No allowance has been made for the costs of borrowing to shore up its working capital if this were to eventuate. This situation would be exacerbated if debt and interest is to be paid in these two years in lieu of a government subsidy as applied in the past.

However, given there will have been no increase in stakesmoney in 2019/20, and in terms of the quantum of any future increase (taking into account the 3% announced for 2020/21), it is worth noting the CEO of Tasracing, on radio station RSN on 9 June, 2020, when asked about possible future stakesmoney increases commented that the company would maintain stakesmoney going forward.[6]

Table 3: Adjusted forward financial forecasts

	2019/20	**2020/21**	**2021/22**
	$m	$m	$m
As forecast above	-5.890	-1.141	+0.522
POCT (1)	+1.800		
Increase Stakes 8% (2)		-2.407	-0.363
Adjusted Result	-4.090	-3.548	+0.159
Impairment Charge Elwick 50% (3)	-3.125	-3.125	
Potential Reported Result	-7.215	-6.673	+.0.159
Covid19 Rescue Package (6)		+3.790	
Adjusted Result		-2.883	

Notes:
(1) Assumes POCT estimated at $4 million paid for half-year and taken to account in 2019/20

(2) Estimates in Table 2 include 4% in 2020/21 and 2021/22 but to achieve a 16% increase in stakes in the life of this government an 8% catchup would be required in 2020/21 followed by a slight increase in the 4% already included in 2021/22 and for the increases to be paid for a full financial year, delayed introduction will reduce the losses as forecast.

(3) The increase in stakes in (2) above could be financed by cost reduction in administration, perhaps by outsourcing some functions to the racing clubs, and or, by Racefields Fees returning to previous levels at a faster rate than assumed in Table 2.

[6] Interview with Paul Eriksson, Racing Pulse, RSN, by Michael Felgate, 9 June, 2020

(4) Assumes because of the revenue outlook post Covid19,and excluding revenue under the Funding Deed and POCT revenue (which in the main is not bet on Tasmanian racing product), an impairment charge based on the investment of $12.5 million in the Elwick upgrade will need to be taken through the accounts and this is included at 50% but could be higher or lower

(5) The reported results do not include any estimate for changes in the actuarial calculation of the Staff Superannuation benefits taken through the accounts after the operating result is struck.

(6) Assumes government compensates for loss of Racefields Fees due to covid19 shutdown

The following table sets out the potential stakesmoney increases which would be available in 2020/21 if the election promise of 4% annually to total 16% by 2022 were to be paid together with allocation of Point of Consumption Tax (POCT) at the rate of $1.8 million from revenue collected in 2019/20 and the budgeted amount of $4 million is collected in 2020/21. Clearly each code would determine how the increases would be applied to their race programmes but for the sake of demonstrating the potential for increase stakes per race the figures are based on the total races each code presented in 2018/19 as shown in Table 5 and the code allocations of 55%, 26% and 19% for thoroughbreds, harness and greyhounds respectively.

Table 4 STAKESMONEY INCREASES POTENTIAL 2020/21

Code	Thoroughbreds	Harness	Greyhounds
Base	17000	10000	2100
Election 16%	2397	869	289
Sub-total	**19397**	**10869**	**2389**
POCT $1.8m	1790	649	216
Sub-total	**21187**	**11518**	**2605**
POCT $4m	3798	1442	479
TOTAL	**24985**	**12960**	**3084**
Base		8100	2810
TOTAL		**11060**	**3794**
Base		5500	
TOTAL		**8460**	

By way of comparison to the benchmarks, if all of the above increases were allocated to stakesmoney the thoroughbred code races now at $17000 would increase to $24985. Adding only the additional amount potentially available from the first $1.8 million of POCT revenue would leave this figure at $18790.

For the Harness code races staked at $10,000 would run for $12960 (30%), those at $8100 would go to $11060 (37%) and the $5500 races to $8460 (54%). However, adding in the POCT revenue of $1.8 million only would lift the stakesmoney to only $10649, $8749 and $6149 respectively.

For the Greyhound Code, the current stakes per race for the Maiden Class races would go from $2100 to $3084 (47%) and to $3794 (35%) for Invitation FTA G1-2m and G2—3, the highest locally rated races at $2810. Adding an additional $132 of the $1.8 million POCT revenue would only lift the stakes levels per race to $2315 and $3025 respectively.

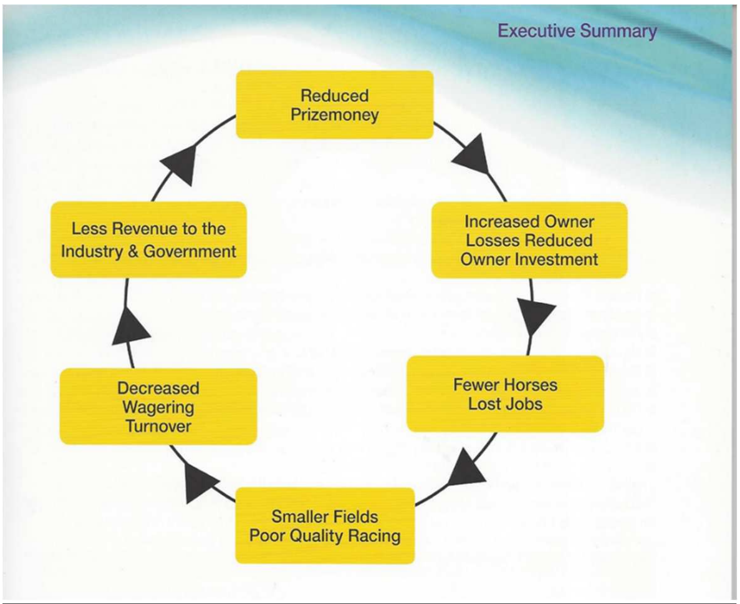
The above figures do not include any amount for a rescue package to cover an estimated loss of around $3.790 million of revenue from Racefields Fees while the industry was shutdown. If this were allocated to Tasracing on the basis it was all to be allocated to stakesmoney this would mean and additional $3769 for thoroughbreds, $1367 for harness and $454 for greyhounds. However, given the operating result forecast for 2020/21 in Tables 2 and 3 above it is likely that this amount would not be available for this use.

<u>Conclusion</u>

The foregoing suggests that the capacity of Tasracing to fund even a full 16% increase in stakesmoney to cover the period from fiscal 2018, will be difficult to achieve without reducing administration costs and Racefields Revenue returning to past levels sooner that estimated in Table 2. In this context Section 5 indicates some movements in key statistics which relate to the scale of the industry and which are alarming in terms of their implication for the long-term future of the TRI.

5. Reduced Stakesmoney - Fewer Horses and Lost Jobs

The graphic below highlights the key linkages in the economics of the racing industry, in particular the criticality of the level of stakesmoney available to the participants that race their horses and greyhounds.

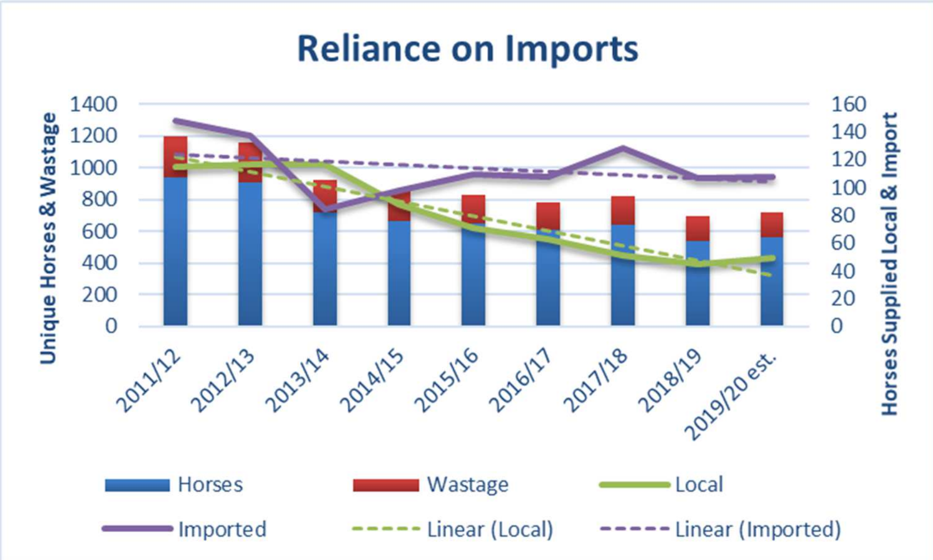


The level of employment generated by the racing industry has fallen since the establishment of Tasracing. Evidence for this is that in October 2007 the consulting firm Economic and Market Advisers (EMDA), in a report to TOTE Tasmania titled "Economic Impact of the Tasmanian Racing Industry", estimated that the industry generated (full-time and part-time) 2467 FTE jobs from ongoing operations and with volunteers added the total increased to 2890 FTE. In 2014 the consulting firm IER, in a report to Tasracing titled the "Size and Scope of the Tasmanian Racing Industry" (using 2011/12 data), identified the directly employed number had fallen by 117FTE to 2350 (-18.7%). While acknowledging these reports were prepared by different companies, nevertheless the trend in the numbers is clear and they provide a warning of further job losses if stakesmoney is not increased substantially noting it had declined by some 7% in real terms between 2008/09 and 2011/12.

In terms of the scale of racing in Tasmania the trends are also negative. There has been a significant shortfall of locally bred horses in the Thoroughbred and Harness codes suggesting that going forward with wastage rates of 54.6% and 48.7% respectively[7] (i.e. going to stud, euthanised and other causes). With about only 50% of foals making it to the racetrack, unless this issue is addressed by increasing stakesmoney and other forms of support for breeders, it will be difficult to maintain field sizes for these codes from locally bred horses. In this respect owners and breeders' incentive schemes are regarded as a partial solution only and insufficient on their own to turn these figures around.

[7] Thomson PC, Hayek AR, Jones B, McGreevy PD, "Number; causes and destinations of horses leaving the Australian Thoroughbred and Standardbred racing industries

In the period 2011/12 to 2018/19 the number of individual horses racing in the thoroughbred code declined by 22% from 1077 to 837. In the Harness code the reduction is far more dramatic where the number of horses fell from 886 to 541 (39%). The following chart illustrates the problem facing Tasracing from the decline in horses being bred locally for the Harness code (the trendlines are shown as dotted lines in the chart).



To put these trends into context it should be noted the number of starters per horse race needed to maximise wagering revenue is 10 to 12. On this basis the thoroughbred code, with some 8% less races, is already down to a dangerously low average of 9 starters per race while Harness is at 9.8 but this is because this code has also lost 2.3% of its races. Reducing the number of races is masking the true trends in this context in both codes.

The impact on greyhound numbers of new regulations introduced to limit the size of litters is yet to be dimensioned fully but they are expected to result in a significant drop in locally bred dogs. In 2014 there were 110 litters producing 636 pups compared to 37 producing 189 pups that were registered in 2019 a decline of 70%. With 800 greyhounds required in each year this situation is regarded by participants in the greyhound code as a catastrophic decline and it is made worse by the Greyhound code not having access to any breeding incentive scheme as applies in the two horse codes[8]. In the past 50% of greyhounds racing were bred in Tasmania. As with the two horse codes only 50%-60% of pups reared will make it to the racetrack.

Further to reinforce the above problem facing the TRI, as can be seen from Table 1, revenue from Racefields Fees have increased significantly since being introduced in 2010/11. However, increases in the level of the fees has contributed a significant proportion to this result suggesting that there is not much scope in future to increase Racefields Revenue other than through increasing both the size and quality of the racing fields. In this respect the following figures further illustrates what has happened.

[8] Discussion Paper-Tasmanian Greyhound Racing Point of Consumption Tax, Friday 6/12/19, Graeme Barber, Chair GOTBA (Tas).

Table 5	Racing Statistics 2008/09-2018/19			
		2008/09	2018/19	% Change
Thoroughbreds	Meetings	73	72	-1.4
	Races Held	600	553	-7.8
	Starters	6255	4976	-20.5
	Ave Field size	10.4	9	
Harness	Meetings	85	90	5.8
	Races Held	738	721	-2.3
	Starters	6814	7050	3.5
	Ave Field size	9.2	9.8	
Greyhounds	Meetings	155	157	1.3
	Races Held	1547	1585	2.5
	Starters	12025	12339	2.6
	Ave Field size	7.8	7.8	
Source Annual Report Tasracing 2018/19				

Any continuation of the trend to reduce races and or average field sizes as a result of participants reacting adversely to Tasracing or the government not meeting the promised stakesmoney targets can be expected to impact the level of Racefields Fees.

6. Recommendations from the Racing Industry Working Group

As noted in the more detailed discussion in Appendix 2, and having regard to the details in the foregoing sections, it is the case that, as concluded by the Legislative Council Inquiry and through observations made by the Auditor General as set out in Appendix 2, Tasracing's capacity to operate on a profitable basis under the current business model for governing the Tasmanian Racing Industry must be questioned. Further, in terms of its fulfilment of its statutory obligations, the decisions taken by the Board and Management as to how additional revenue from Racefields Fees (and now the POCT revenue) is distributed raises questions of governance on behalf of the racing industry's participants with respect to applying this revenue to generate growth in the scale of the industry.

That is, a situation has developed where it appears the priority in distributing increased revenue has been to allocate it to areas of the company's expenditure other than stakesmoney per se, primarily in favour of the areas of employment, marketing and IT. The focus to-date does not therefore favour those participants who benefit directly from stakesmoney which has fallen in real terms since 2008/09 and in this context the modest increase of 3% to take effect in 2020/21 has not corrected this situation as it does not cover the CPI increase since the last increase in January 2018.

Having regard to the above outcome it is worth noting that Tasracing's Board is obligated under the company's enabling legislation to consult with each racing club and racing industry associations in developing the Board's corporate plan[9]. However, it appears this has not been undertaken to the extent where industry participants, through their representatives, are provided regularly with the opportunity to establish positive targets for the size and scope of their industry as opposed to growing the administration structure. Indeed, the current Corporate Plan which appears to have been published in, and not updated since, August 2018, does not focus on targets for the scale of the industry per se but rather it contains generalised statements of intention supported by an overall increase in stakesmoney but not readily relatable to the promised 16% increase in the period it covers.

Against the foregoing conclusions it is therefore interesting to note the following are the relevant recommendations from the Racing Industry Working Group set up by the then Minister in 2015 to identify what was needed to grow the industry in a sustainable way. These have, as yet, not been implemented since the government received its report in 2015 which suggests this is a matter to address urgently with the current Minister for Racing.

Recommendation (6) An independent review be conducted into the operation of all Tasracing controlled racing and training facilities including Tasracing raceday commitments. The primary focus of the review should be on staff cost efficiencies and may require work value assessments.

Recommendation (9) A proportion of race field fee revenue should be strategically invested in the future of the TRI. At present, due to current funding arrangements, Tasracing is forced to utilise much of this valuable revenue stream for operational rather than strategic initiatives to grow the industry.

Recommendation (10) Consideration should be given to reviewing the governance structure of Tasracing with a focus on identifying the most appropriate model to accord with the size and scope of the TRI. Alternative considered by the Working Group included moving to a smaller, fully independent Board supported by three Code Strategic Committees.

[9] Racing (Tasracing Pty Ltd) Act 2009 Clause 13 (2)

Appendix 1

FINANCIAL PROJECTIONS 2018/19- 2021/22- ASSUMPTIONS

Table 2				
	$m	$m	$m	$m
	2018/19	**2019/20**	**2020/21**	**2021/22**
Revenue and Other Income				
Point of Consumption Tax			4.00	4.00
Racefields Fees	15.141	10.290	12.86	15.41
Racing Revenue Other	2.585	2.585	2.585	2.585
Funding Deed revenue	31.376	31.440	32.230	33.040
Interest Income	0.718	0.195	0.195	0.195
Other income				
Impairment reversal				
TOTAL	**49.370**	**44.510**	**51.870**	**55.230**
Expenses				
Stakesmoney and Industry Funding	26.789	26.789	27.860	28.970
Raceday and racing expenses	6.312	6.312	6.470	6.630
Depreciation and amortisation expense	3.970	4.460	5.950	5.950
Impairment expense				
Expenses for obsolete property, plant and equipment	1.173			
Sales and marketing	1.137	1.137	1.137	1.137
Employee benefits expense	7.835	8.029	8.190	8.350
Finance and leasing costs	1.229	0.965	0.965	0.965
Commission Expense				
Other Expenses	2.706	2.706	2.706	2.706
TOTAL	**51.152**	**50.398**	**53.278**	**54.708**
Profit before tax	**-1.782**	**-5.890**	**-1.410**	**0.522**
Income tax expense				
Profit for the year as reported (after tax)	-1.782	-5.890		

Assumptions

- Point of Consumption Tax – Nil 2019/20 (accounted for in Table 3), $4 million in 2020/21 and 2021/21
- Racefields Fees – 14% below budget first half of 2019/20 then Covid19 impact for three months at an average monthly rate of $1.26 million then to increase by 25% in 2020/21 20% in 2021/22

- Racing Revenue Other – No change
- No rescue package to offset loss of Racefields Revenue
- The industry Covid19 compensation package for 2019/20 of $1.35 million was absorbed fully by payments to participants
- Interest – 2% excludes reduction in cash reserves to fund capex or operating losses
- Stakesmoney – No increase in 2019/20, then 3% in 2020/21 and 4% in 2021/22
- Raceday expenses – Increase at 2.5% annual
- Depreciation etc. – Elwick added from 1 January, 2020
- Sales and Marketing and Finance and Leasing – No change
- Employee benefits -Increase 2% annual

Appendix 2

SOME OBSERVATIONS ONTASRACING'S COMPANY STATUS

It is relevant to note that the profitability of Tasracing, which is **structured as a company,** requires the Auditor General to accept annually that the company meets the categorisation of a "going concern". (The going concern assumption is **a basic underlying assumption** of **accounting**. For a company to be a going concern, it must be able to continue operating long enough to carry out its commitments, obligations, objectives, and so on. In other words, the company will not have to liquidate or be forced out of business).

It is clear from the published financial results and forward projections thereof that Tasracing's financial status is border-line at best in terms of the above definition. Indeed, if the annual interest rate subsidy is removed from the revenue figures to 2018/19 it is arguable whether it has ever traded in the black. It appears to have maintained its status as a going concern as a result of a letter of comfort having been issued by the Government, despite consistent public statements in the past it will not increase funding to Tasracing,

In terms of whether a company status is justified for Tasracing, it is also interesting to note that in 2012 a Legislative Council Inquiry into The Performance of Tasracing[10] the relevant Committee found as follows. "Finding number 21-The viability of the model of funding for Tasracing was of primary concern to the Committee due to the reliance on Government funding by way of the funding deed. Finding number 22 -Tasracing has no expectation of becoming profitable or of generating their own revenue to meet operational costs in the foreseeable future, having reported total comprehensive losses for the last two financial years and expecting accounting losses in their five-year financial projections for each of the financial years. The Committee noted the Auditor General had also raised questions about the financial viability of the model". [11]

These ominous projections, as provided to the Legislative Council Committee, were largely achieved with operating losses being reported in each year up until the so called "stakes reset" in 2015 which allowed a modest operating profit of $0.640 million in 2015/16 and $0.372 million in 2017/17 before returning to operating losses in the next two years. However, if the Government support for the interest payments on its debt to the government (a subsidy) is taken out of the revenue figures the company has not traded in profit since it was established. This is despite the significant growth in Racefields Fees which commenced in 2010/11 (noting a decreasing proportion of expenditure has been allocate to stakesmoney).

[10] Inquiry into the Performance of Tasracing, Legislative Council, Government Administration Committee "A", 2012

[11] Auditor General Report, Volume 3-Government Business Enterprises, State Owned Companies and Superannuation Funds, 2009-10

In this respect a key issue to note is that the growth in Racefields Fees has been from both the increase in the volume of racing on which the fees are applied (as it generates wagering turnover) and from increases in the rate at which the fees applied to the wagering operators. Overall the growth in Racefields Fees to 2018/19 has been significant and provided Tasracing with access to a source of revenue with continued growth prospects provided the scale and quality of racing holds up.

That is, wagering turnover depends on the number of races being broadcast (which has declined by some 8% for the main revenue generator, thoroughbreds), the quality of those races and the times/dates on which they run (the latter largely decided by Sky Channel). The situation with respect to the numbers of horses and greyhounds being bred locally relative to the reduction annually due to wastage and the restrictions on the number of greyhounds allowed to be bred suggests that the TRI faces a crisis in the longer term which suggests the business model for administering racing needs to be reviewed in line with the recommendations of the Racing Industry Working Group.

However, the financial projections indicate it is critical to the financial viability of Tasracing under the current business model that the Government honours its public undertaking to distribute the $4 million annually of the Point of Consumption Tax (POCT) to Tasracing, ideally this would be quarantined for stakesmoney. The POCT was introduced in January 2020, and it was the expectation of the racing industry that Tasracing would receive $2 million in 2019/20. The most optimistic outcomes for the profitability of Tasracing in this paper have included the full $4 million for the 2020/21 and 2021/22 financial years. In this respect it is understood the projected revenue to be earned from this new tax is coming in in line with the expectation of a first year of revenue of $12 million.

Further In terms of Tasracing's future financial capacity it should be noted that the POCT as introduced is levied on all wagers by Tasmanian residents only and on all races on which they bet so that the amount collected on Tasmanian racing will, not of itself, contribute to the majority of the taxation. This means that Tasracing should be less exposed to the POCT than it is to Racefields Fees. The importance of this tax when considered in conjunction with the capacity to grow Racefields Fees is therefore that it provides Tasracing, and through it the wider TRI, with a substantial source of new revenue with the prospect of growth into the future.

Also, it is worth noting that if the tax were to be applied to all persons placing bets while in Tasmania (which is technically feasible) this has the potential to prove a further boost to both the Government and Tasracing's finances. It would be unwise of the Government to ignore this added financial capacity.