



PRODUCTIVITY COMMISSION

DRAFT REPORT INTO GAMBLING

OCTOBER 2009

RESPONSE OF HARNESS RACING VICTORIA

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INTRODUCTION

- i) Harness Racing Victoria (HRV) commends the Productivity Commission on its Draft Report which is predominantly supported by HRV. We appreciate the opportunity to respond to specific and relevant sections of the Report.
- ii) HRV is aware that Harness Racing Australia (HRA) is making a response to the Draft Report and we fully support, as a member body of the HRA, the submission made by them.

CORRECTIONS TO FACTUAL INACCURACIES

HRV would like to point out factual inaccuracies which are contained in the Draft Report which relate specifically to HRV and believe require correction.

- i) *Table 13.2 - "Industry agreements with TABs and product fees under race field legislation"*

This table requires two corrections:

- Under the heading "*Harness*" and subheading "*Vic*" the table specifies that the product fee under race field legislation for all wagering operators is 0.66% of net customer winnings. This is not correct. The approved charge under race field legislation by HRV is presently 1.5% of turnover. The fee of 0.66% of net customer winnings relates only to one wagering service provider (Betfair) which is a very small proportion of the total product fees.
- Under the heading "*TAB and racing industry fund arrangements*" the Vic fees are specified as 18.8% of net revenue and 25% of net profit. There is a third component, not listed, being a program fee which was \$85.2m in the 2008/09 financial year.

- ii) *13.3 - A national funding model for racing and wagering in Australia*

Turnover or Gross Revenue?

The final dot point at the base of page 13.27 says;

*"Gross revenue is the preferred base of online wagering operators, such as Betfair (2009) and Betchoice (sub. 258, p.2) as well as **all** (emphasis added) racing codes in Victoria, South Australia and Tasmania."*

This is not the case for the harness racing code in Victoria. HRV is totally opposed to the gross revenue model. HRV charges on the basis of turnover.

CHARGING METHOD

In reference to the national funding model, HRV does not wish to commit to a national levy and HRV supports a model whereby the levy is determined by each state and each code.

It is the view of HRV that each code should be free to choose the method by which it charges a wagering service provider for its product.

The Racing Industry is the provider of the racing product, with the wagering service provider being the retailer to the consumer (the punter). A consistent fee should be charged to wagering service providers by the code controlling body but the fee for the product and the way it is charged (whether it be by turnover or revenue) should be the decision of the creator and supplier of the product.

The levy should represent the utilisation of the wagering producer by the wagering service provider. It is HRV's contention that the fee for utilisation is best measured by turnover, and HRV levies its charges accordingly.

DRAFT REPORT SECTION 13.3

In section 13.3, discussing the funding model, there are two alternatives suggested for the levy, turnover and revenue.

HRV would like to focus its submission on this section of the Draft Report as it is critical to the future funding and competitiveness of the racing and wagering industries into the future. In particular, the basis and quantum of product fees to the racing industry.

The Draft Report contemplates and compares the turnover and gross revenue bases. HRV would like to draw attention to a specific paragraph on page 13.27:

"The two potential bases (turnover or gross revenue) have a proportionate relationship, bound by the take out rate of each operator."

In note 15 a formula is provided:

"That is $GR = T\beta$ where $GR =$ gross revenue, and $T =$ turnover and $\beta =$ take out rate".

It is HRV's view that the concept of take out rate only applies to totalisators or pari-mutuel wagering. It applies where a set percentage is 'taken out' of the pool before the dividend is calculated. In the case of Fixed Odds betting, which applies to the majority of corporate bookmakers, revenue is the hold amount which is the result of turnover less dividends paid to successful customers.

The Draft Report on page 13.28 “*Dealing with uncertainty*” states;

“Gross margins are likely to be more volatile than turnover reflecting changes in competition and cost pressure”.

It is HRV’s view there is a third and critical impact on volatility of revenue, that being the bookmaker’s book management skills to generate adequate revenue. This is a very important and relevant factor in HRV’s submission when considering a turnover versus revenue model.

This point is further emphasised in the paragraph at the base of page 13.29:

“However as some have pointed out...it appears that this ruling would equally apply to product fees based on turnover. This is unsurprising as, for a given take out rate there is a fixed ratio between turnover and gross profit. Indeed, the proportional relationship between the two means that the complexity of defining a formula based payment will generally be common to both, and the administrative advantages arising from the use of turnover are likely to be small.”

Again HRV takes issue with this proposition in that there is no specified ‘take out’ rate for bookmakers. It is purely a hold rate based on the performance of the bookmaker in managing his book and in these circumstances the product provider is exposed to serious financial risk and the financial security of its business is exposed to the skill of the bookmaker to manage his business.

It is HRV’s contention that the ‘right way’ to charge for the utilisation of racing product provided by HRV is a fee based on turnover. The gross profit earned by the bookmaker is then determined after paying the fee for the product and the dividends back to the consumer (punter). The competition impact is still evident. The competition takes place after the charging of the payment for the utilisation of the product which is common to the supply of all goods and services in an open market.

THE APPROPRIATE FUNDING MODEL FOR THE AUSTRALIAN RACING AND WAGERING INDUSTRY

A chart is provided as an attachment (**Attachment 1**) to this paper on the above subject.

The chart reflects the flow from the Primary Producers (stakeholders) to the Product Suppliers (the racing industry) to the Retailer (wagering service providers) to the Consumers (punters). The costs of the primary producer are significant and they require some degree of certainty in respect of their income to justify their continued investment in the racing industry.

The racing industry provides the product for utilisation by the wagering service providers. The fee needs to reflect this utilisation, whether it be based on either revenue or turnover. It is HRV’s clear view that turnover is the most suitable measure to reflect wagering service provider for payment for the product.

The wagering service provider then interacts with its consumers. They can provide the most competitive prices by the management of their 'hold rate' (in the case of bookmakers) and the 'take out' rate (in the case of totalisators).

It is also HRV's submission that wagering service providers should pay a wagering tax on a consistent basis so that there is uniformity of taxation across Australia.

It is important to note that the consumer of the racing product is not just the punter. It is true the punter is an important part of the funding of the racing industry but the racing industry is obligated to provide significant infrastructure not only to put on the product but to cater for the racing public. There are a considerable number of consumers who go to the races but do not bet.

It is unrealistic to compare racing to other forms of gambling, e.g., gaming machines, as racing is not purely for gambling. Racing is also for visual entertainment as well as being important for the social fabric, particularly in regional areas of the states. At HRV we have a shining example of such, with the recent opening of the \$45 million Melton Complex which is an entertainment venue for many local families including children to attend racing. Therefore racing has a broader range of consumers than other gambling products. In regional areas racing tends to be the central point of local communities, therefore very important for the social fabric of the local community.

DRAFT FINDING 13.5

We note that the Draft Report challenges the need for retail exclusivity for the TAB.

HRV submits that the Victorian retailing network is not only the best in Australia but probably the best in the world. HRV contends that there is no evidence to suggest that consumers are not happy with the existing retail network in Victoria.

Some factors that we would like to bring to the Commission's attention are that:

- i) Retail is an expensive distribution channel;
- ii) Retail provides a different wagering experience compared to internet and telephone in that it is in the company of others in a social environment;
- iii) Retail is an expensive channel for a wagering operator which requires significant economies of scale especially in a pari-mutuel totalisator situation where the punter requires large pools to be into.

It is HRV's submission that for the benefit of the consumer the retail network be left as it is in Victoria.

The Appropriate Funding Model for the Racing/Wagering Industry

